

# 2016

THE

# VALUE

OF

# ENERGY



SUSTAINABILITY REPORT  
+ FINANCIAL REPORT

# WE

## MISSION

To develop, build, and operate energy infrastructure, contributing to the development of Mexico and creating value for our shareholders, within a framework of ethics, safety, respect, and commitment to our employees, the environment, and the communities to which we belong.

## VISION

To be a leading energy infrastructure company in Mexico that contributes to promoting the country's growth, competitiveness, and sustainable development.

## VALUES [102-16]

### ETHICAL

#### DO THE RIGHT THING

- Act with honesty and integrity
- Be open and fair
- Keep our commitments
- Earn people's trust

### RESPECTFUL

#### PEOPLE MATTER

- Listen, communicate clearly, be candid
- Embrace diversity of people and perspective
- Contribute individually, succeed as a team
- Treat safety as a way of life

### HIGH-PERFORMING

#### DELIVER OUTSTANDING RESULTS

- Set tough goals and achieve them, act with urgency
- Reward superior performance, acknowledge successes
- Learn and improve
- Be accountable

### FORWARD-LOOKING

#### SHAPE THE FUTURE

- Think strategically and critically
- Anticipate market needs
- Actively pursue and create opportunities
- Implement with discipline, manage risks

### RESPONSIBLE PARTNER

#### CREATE POSITIVE RELATIONSHIPS

- Engage others, seek feedback, collaborate
- Support our communities
- Be a responsible environmental steward
- Do what we say we'll do

# ARE



IENOVA DEVELOPS, BUILDS, AND OPERATES ENERGY INFRASTRUCTURE PROJECTS IN MEXICO. WE PARTICIPATE IN SEVERAL BUSINESS LINES IN THE ENERGY SECTOR'S VALUE CHAIN THAT ARE OPEN TO PRIVATE INVESTMENT. SINCE WE FIRST BEGAN OPERATING, WE HAVE INVESTED MORE THAN USD\$7 BILLION, INCLUDING PROJECTS IN OPERATION AND UNDER CONSTRUCTION, ACQUISITIONS, AND INVESTMENTS THROUGH JOINT VENTURES WITH DIFFERENT PARTNERS. WE ARE ONE OF THE LARGEST PRIVATE ENERGY COMPANIES IN THE COUNTRY, AND THE FIRST ENERGY INFRASTRUCTURE COMPANY TO BE LISTED ON THE MEXICAN STOCK EXCHANGE.

“2016...a year of extraordinary achievements”



## PILLARS FOR ACTION

### ECONOMIC

- Maximizing shareholder value
- Using resources efficiently
- Comprehensive risk management
- Ensuring the integrity of our assets
- Operational availability and reliability
- Customer satisfaction

### SOCIAL

- Comprehensive professional and personal growth
- Diversity and inclusion
- Economic and community development
- Health and safety
- Social management

### ENVIRONMENTAL

- Clean and efficient energy
- Environmental culture
- Comprehensive management of waste and emissions
- Biodiversity



# GASODUCTOS

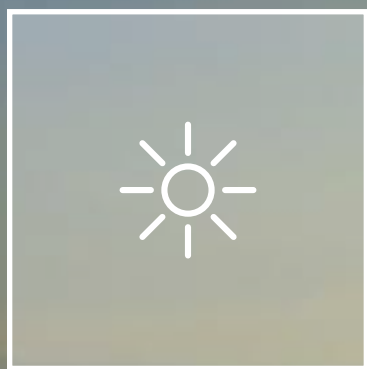
## DE CHIHUAHUA





# SOLAR

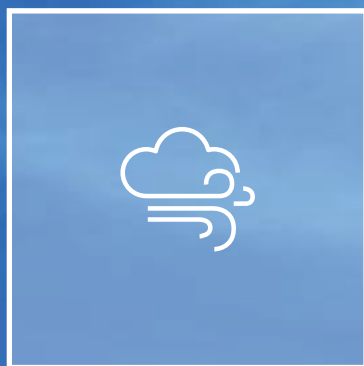
## PARKS





# VENTIKA

WIND FARM





# MARINE

## PIPELINE





# THANK YOU

## TEAM





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Los Ramones Compression Station





## MESSAGE FROM THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

[102-14, 102-15, 102-1, 102-5]

**In 2016 we celebrated the first 20 years of IEnova with extraordinary achievements.**

We leveraged the experience and abilities of our great team to strengthen our presence in sectors where we are currently leaders. We also successfully participated for the first time in new businesses.

We invested USD\$1.9 billion: a figure that represents almost one-third of the USD\$7 billion we have invested over our 20-year history.

We secured partial financing of our investments by carrying out a successful equity follow-on offering for USD\$1.6 billion.

In terms of our growth, in 2016 we acquired 50% of Gasoductos de Chihuahua, for USD\$1.1 billion, plus existing debt. With this transaction, we obtained full ownership of six assets that we formerly operated in a joint venture with Pemex, making us the largest private natural gas transporter in Mexico.

We also strengthened our commitment to renewable energies by winning the auction to build and operate two solar parks: Rumorosa Solar, in the state of Baja California, and Tepezalá II Solar, in Aguascalientes. For the first time, we will be participants in the generation of solar energy.

Also in the renewable energies segment, we purchased the Ventika wind farm, located in the state of Nuevo León, for USD\$435 million plus existing debt. With a 252 MW capacity, Ventika is currently considered to be one of the largest wind farms in Mexico and Latin America.



In addition, in a joint venture with TransCanada, we won a bid to build the Sur de Texas-Tuxpan marine pipeline, one of the most important energy infrastructure projects awarded in recent years in our country and the first private marine gas pipeline in Mexico.

Sustainability is at the heart of our business strategy. It includes efforts that contribute to improving the quality of life of our employees and the communities to which we belong. Further, during the construction and operation of our assets, we implement projects aimed at conserving natural resources and protecting biodiversity. With such actions, we reiterate our commitment to the UN's Global Compact and its Sustainable Development Goals.

2016 constituted the first complete cycle of operations for Fundación IEnova. With its allocated budget of USD\$500 thousand it supported 19 projects related to education, environment, vulnerable groups, and community services projects.

As a result of our actions focused on sustainability, we improved our position in the Sustainability Index of the Mexican Stock Exchange. In addition, for the third consecutive year, we obtained the Socially Responsible Company Award.

Thanks to the efforts of our entire team, we were certified for the third consecutive year as a Great Place to Work. In addition, we were ranked 50<sup>th</sup> among the best companies in terms of Diversity and Inclusion. We are convinced that it is vital for our employees to be able to work in an environment that is conducive to their personal and professional growth.

It is with great pride that we share herein our achievements for 2016. They are the result of our company's business vision since it was founded. IEnova: A history of success.



**Carlos Ruiz Sacristán**  
Chairman of the Board and Chief Executive Officer  
Infraestructura Energética Nova, S.A.B. de C.V.

**IENOVA:**  
A HISTORY  
OF SUCCESS



# IENOVA

## IN MEXICO

[102-12]

In 2016, IEnova celebrated its 20<sup>th</sup> anniversary. Today we are positioned as a leading company in the energy sector in Mexico.

This was an extraordinary year during which we acquired Gasoductos de Chihuahua and the Ventika wind farm. In addition, we were awarded contracts to participate for the first time ever in two solar energy projects and to build our first marine pipeline.

1995

- The natural gas sector's legal framework is reformed

1996

- Enova de México, now IEnova, was established
- ECOGAS Mexicali

1997

- ECOGAS Chihuahua

1999

- ECOGAS La Laguna-Durango

2000

- Transportadora de Gas Natural de Baja California (TGN)

2002

- Gasoducto Rosarito (GR)

2003

- Termoeléctrica de Mexicali (TDM)

2008

- LNG storage terminal, Energía Costa Azul (ECA)



# IENOVA

## IN MEXICO

In 2016, we carried out a successful equity follow-on offering for USD\$1.6 billion.

Furthermore, we improved our position in the Sustainability Index of the Mexican Stock Exchange as well as our ranking among the companies assessed by the Great Place to Work Institute.

**The history of IEnova in Mexico is a history of success.**

2010

- Acquisition of the El Paso assets: Naco compression station and a 50% stake in Gasoductos de Chihuahua

2012

- Signing of the Ethane Pipeline contract
- Award and signing of the Sonora pipeline contract

2013

- USD\$408.3 million debt placement
- USD\$598.8 million share issue
- Inclusion of the IEnova shares in the IPC Index of the Mexican Stock Exchange
- Beginning of operations of the LPG Storage Terminal in Guadalajara

2014

- Inclusion of IEnova in the Sustainability Index of the Mexican Stock Exchange
- 50/50 joint venture with InterGen in the Energía Sierra Juárez wind farm
- Beginning of operations of Los Ramones I Pipeline and the Sásabe-Puerto Libertad phase of the first segment of the Sonora Pipeline
- Award and signing of the Ojinaga-El Encino Pipeline contract
- Great Place to Work Certification
- Socially Responsible Company Award

2015

- Beginning of operations of the Energía Sierra Juárez wind farm
- Beginning of operations of the Ethane Pipeline
- Beginning of operations of the Puerto Libertad-Guaymas phase of the first segment of the Sonora Pipeline
- Award and signing of the San Isidro-Samalayuca Pipeline contract
- Announcement of the agreement to acquire the Pemex stake in Gasoductos de Chihuahua
- Creation and beginning of operations of Fundación IEnova, A.C.

2016

- Beginning of operations of the Ramones Norte Pipeline
- Award of the Ramal Empalme Pipeline
- Award of the Sur de Texas-Tuxpan Marine Pipeline (joint venture with TransCanada)
- Acquisition of the Pemex TRI stake in Gasoductos de Chihuahua
- Award and signing of the contract for two renewable energy projects, Rumorosa Solar and Tepezalá II Solar
- IEnova equity follow-on offering
- Acquisition of the Ventika wind farm

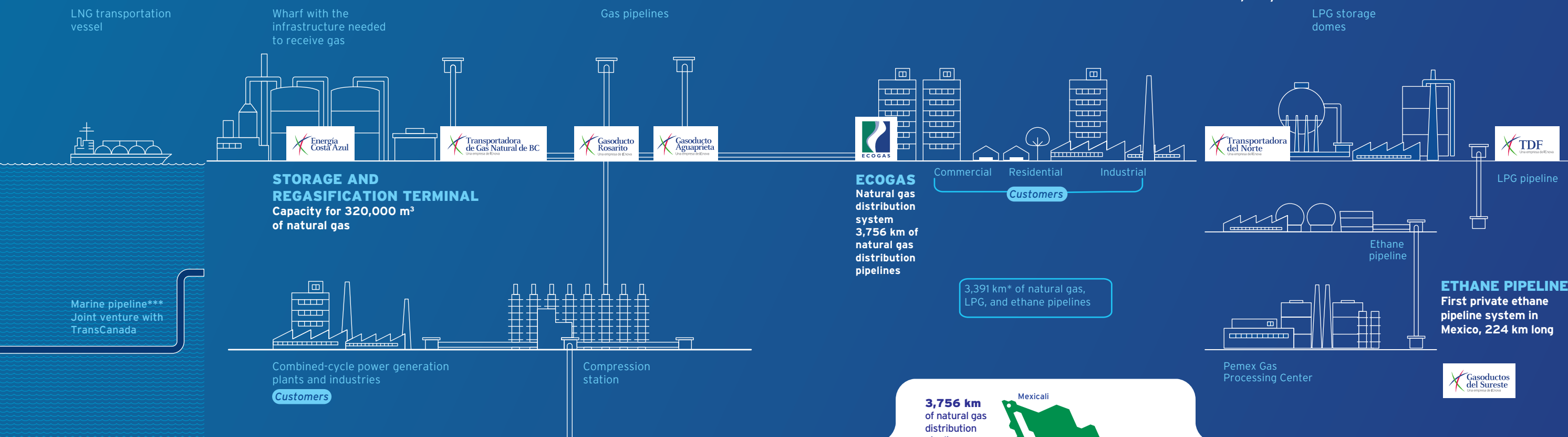


# OUR ACTIVITIES

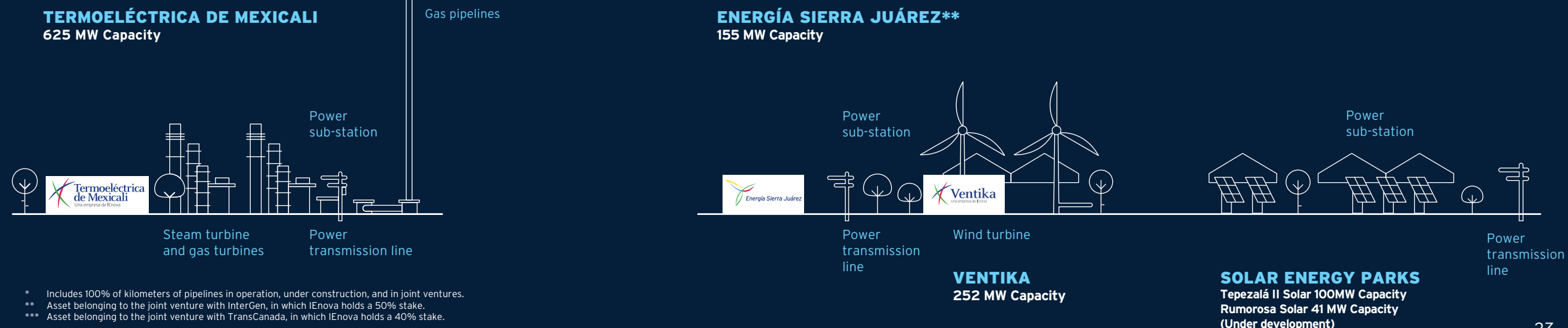
[102-6, OG3]

In 2016, we acquired the Pemex TRI stake in Gasoductos de Chihuahua, increasing our ownership interest from 50 to 100%. This transaction includes six assets: the Los Ramones I, San Fernando, and Samalayuca Pipelines, the TDF LPG Pipeline, the LPG Terminal in Guadalajara, and the Ethane Pipeline. We also purchased Ventika, one of the largest wind farms in Mexico.

## GAS SEGMENT



## ELECTRICITY SEGMENT



\* Includes 100% of kilometers of pipelines in operation, under construction, and in joint ventures.  
\*\* Asset belonging to the joint venture with InterGen, in which IEnova holds a 50% stake.  
\*\*\* Asset belonging to the joint venture with TransCanada, in which IEnova holds a 40% stake.

BUSINESS  
SEGMENTS

[102-2, 102-4, 102-10, 102-46, OG3]

We included in our assets the totality of Gasoductos de Chihuahua—a company in which we previously had a 50% stake through a joint venture with Pemex TRI—and the Ventika wind farm. With these acquisitions, we strengthened our presence in the renewable energy segment.

ASSETS IN OPERATION

GAS

PIPELINES

SONORA PIPELINE (SÁSABE-GUAYMAS SEGMENT)	505 km
ROSARITO PIPELINE (GR)	302 km
TRANSPORTADORA DE GAS NATURAL DE BAJA CALIFORNIA (TGN)	45 km
AGUAPRIETA PIPELINE (GAP)	13 km
NACO COMPRESSION STATION	14,340 hp
LOS RAMONES I PIPELINE	116 km
SAN FERNANDO PIPELINE	114 km
SAMALAYUCA PIPELINE	37 km
TDF LPG PIPELINE	190 km
ETHANE PIPELINE	224 km
RAMONES NORTE PIPELINE*	452 km

STORAGE

STORAGE IN TERMINAL DE GAS LP DE GUADALAJARA*	80,000 bl
NATURAL GAS STORAGE AND REGASIFICATION TERMINAL, ENERGÍA COSTA AZUL (ECA)	320,000 m³

DISTRIBUTION

ECOGAS (NATURAL GAS DISTRIBUTION PIPELINE)	119,341 customers 3,756 km
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ELECTRICITY

GENERATION

TERMOELÉCTRICA DE MEXICALI (TDM)	625 MW
47-TURBINE ENERGÍA SIERRA JUÁREZ (ESJ)**	155 MW
84-TURBINE VENTIKA***	252 MW

\* Asset belonging to the joint venture with Pemex and other institutional investors, in which IEnova holds an indirect 25% stake.  
\*\* Asset belonging to the joint venture with InterGen, in which IEnova holds a 50% stake.  
\*\*\* Asset belonging to the joint venture with TransCanada, in which IEnova holds a 40% stake.  
\*\*\*\* Asset belonging to the joint venture with Trina Solar, in which IEnova holds a 90% stake.

PROJECTS UNDER CONSTRUCTION  
AND IN DEVELOPMENT

[102-10, OG3]

GAS

PIPELINES

SONORA PIPELINE (GUAYMAS-EL ORO SEGMENT) 330 km 30 inches in diameter Capacity for 510 mcf	<ul style="list-style-type: none"><li>Natural gas pipeline made up of two inter-connected segments, located in the Mexican states of Sonora and Sinaloa.</li><li>Currently 330 km of the Guaymas-El Oro phase are under construction.</li><li>It is estimated that the whole pipeline will be operational by the second quarter of 2017.</li></ul>
OJINAGA-EL ENCINO PIPELINE 220 km 42 inches in diameter Capacity for 1,356 mcf	<ul style="list-style-type: none"><li>Natural gas pipeline that runs from Ojinaga to El Encino, in the state of Chihuahua.</li><li>It is estimated that it will be operational in the second quarter of 2017.</li></ul>
SAN ISIDRO-SAMALAYUCA PIPELINE 23 km 42/36 inches in diameter Capacity for 1,135 mcf	<ul style="list-style-type: none"><li>Natural gas pipeline that runs from San Isidro to Samalayuca, in the state of Chihuahua.</li><li>It is estimated that it will be operational in the second quarter of 2017.</li></ul>
SUR DE TEXAS-TUXPAN*** 800 km 42 inches in diameter Capacity for 2,600 mcf	<ul style="list-style-type: none"><li>Marine and ground pipeline in the Gulf of Mexico, that runs from Southern Texas to Tuxpan, in the state of Veracruz.</li><li>It is estimated that it will be operational in the first quarter of 2018.</li></ul>
RAMAL EMPALME 20 km 30 inches in diameter Capacity for 226 mcf	<ul style="list-style-type: none"><li>Pipeline branch that will inter-connect with the Sonora Pipeline.</li><li>It is estimated that it will be operational in the second quarter of 2017.</li></ul>

POWER

RUMOROSA SOLAR 41 MW	<ul style="list-style-type: none"><li>Solar energy park located near the Energía Sierra Juárez wind farm in the municipality of La Rumorosa.</li><li>It is estimated that it will be operational in the second quarter of 2019.</li></ul>
TEPEZALÁ II SOLAR**** 100 MW	<ul style="list-style-type: none"><li>Solar energy park located in the state of Aguascalientes.</li><li>It is estimated that it will be operational in the second quarter of 2019.</li></ul>



# OUR ASSETS





# WE ARE A SUSTAINABLE COMPANY

At IEnova, we are convinced that sustainability must be at the heart of our strategy. Only then will we be able to offer our customers the service and quality they require, maintain our growth rate, adequately protect the environment, and contribute to the development of the communities to which we belong.





# PILLARS FOR ACTION

OUR SUSTAINABILITY POLICY IS FOUNDED ON A CULTURE OF ETHICS AND GOOD CORPORATE GOVERNANCE. IT IS BASED ON THREE PILLARS: ECONOMIC, SOCIAL, AND ENVIRONMENTAL. WE INCLUDE IN OUR SUSTAINABLE PRACTICES ACTIONS FOCUSED ON MEETING THE NEEDS OF OUR SHAREHOLDERS, EMPLOYEES, CUSTOMERS, AND COMMUNITIES. WE ALSO STRIVE TO ENSURE AT ALL COSTS THE INTEGRITY OF OUR OPERATIONS AND TO PROTECT THE NATURAL RESOURCES WE USE IN OUR PROCESSES.

## ECONOMIC

- Maximizing shareholder value
- Using resources efficiently
- Comprehensive risk management
- Ensuring the integrity of our assets
- Operational availability and reliability
- Customer satisfaction



## SOCIAL

- Comprehensive professional and personal growth
- Diversity and inclusion
- Economic and community development
- Health and safety
- Social management



## ENVIRONMENTAL

- Clean and efficient energy
- Environmental culture
- Comprehensive management of waste and emissions
- Biodiversity







# SUSTAINABILITY

[102-46, 102-19]

In 2016 we implemented several changes aimed at strengthening the way in which we manage our sustainability efforts, including the following:

- 1. **Sustainability Policy:** We reviewed our policy in order to redefine its goals, scope, and responsibilities.
- 2. **Social Management System:** We initiated the development of a system that will allow us to standardize and monitor our efforts to benefit the communities to which we belong. We expect to begin implementing this system in several of our assets in 2017.

In addition, we restructured the Sustainability Committee to involve more of our top management. We are convinced that including sustainability in the strategic planning process at IEnova and in the way we manage economic, environmental, and social risks is key to our operation.

The Committee is chaired by our Chief Corporate Affairs & HR Officer and includes the following IEnova executives:

- Chief Development Officer
- Chief Engineering & Construction Officer
- Chief Operating Officer
- Chief Legal Counsel
- Senior Vice President Strategic Planning
- Vice President Financial
- Vice President Controller
- Director of Human Capital
- Director of Regulation and Compliance
- Director of External Affairs and Sustainability
- Manager of Auditing
- Manager of Sustainability

We also increased the number of commissions in the Sustainability Committee, to the following:

- 1. **Human Capital:** in charge of issues such as the comprehensive professional and personal development of our employees, as well as all efforts related to diversity and inclusion.
- 2. **Social Management:** addresses economic and community development as well as our engagement with society.
- 3. **Environment, Health and Safety, and Supply Chain:** includes aspects such as clean and efficient energy, environmental stewardship, comprehensive management of waste and emissions, protecting biodiversity, the efficient use of resources, the health and safety of our employees at our operations, as well as economic and community development.



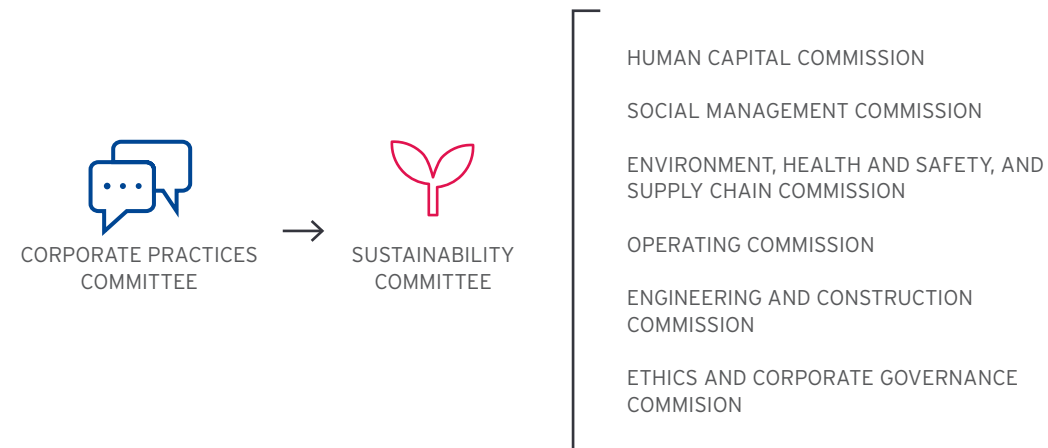
4. **Operations:** deals with the integrity and reliability of our operations, the efficient use of resources, and customer satisfaction.
5. **Engineering and Construction:** oversees the integrity of the assets and ensures construction is done sustainably.
6. **Ethics and Corporate Governance:** strives to strengthen a culture of ethics and corporate governance.

The functions of the Sustainability Committee include: approving IEnova's sustainability strategy and ensuring that it is correctly executed; making sure that the Sustainability Commissions carry out their duties; monitoring IEnova's inclusion in the Sustainability Index of the Mexican Stock Exchange; reviewing and approving the content of the Sustainability Report; and promoting compliance with the sustainability policy among all IEnova employees.

The Sustainability Committee is a branch of the Corporate Practices Committee, to which it reports on the results of all sustainability efforts. It meets at least twice a year.

## SUSTAINABILITY MANAGEMENT STRUCTURE

[102-18, 102-32, 102-33]



The IEnova Sustainability Policy, in Spanish, is available to view and download at: <http://ienova.com.mx/pdf/Politica-de-Sustentabilidad.pdf>

## SUSTAINABILITY MODEL

LPG Terminal at Guadalajara



### OUR MAIN STAKEHOLDERS ARE:

[102-40]

- HUMAN CAPITAL
- COMMUNITY
- SHAREHOLDERS AND INVESTORS
- STRATEGIC PARTNERS
- SUPPLIERS
- CUSTOMERS
- CONSUMERS
- COMMUNICATIONS MEDIA
- GOVERNMENT AUTHORITIES AND REGULATORS
- CIVIL ORGANIZATIONS AND NGOS



# STAKEHOLDERS

[102-40, 102-42, 102-43]

In order to adequately manage our sustainability efforts, we work to establish a good relationship with our stakeholders and to understand what issues worry them most and the best way to address them. To this end, we maintain open communication channels.

## STAKEHOLDERS AND COMMUNICATION CHANNELS

COMMUNICATION CHANNELS	1 HUMAN CAPITAL	2 SHAREHOLDERS AND INVESTORS	3 CUSTOMERS AND CONSUMERS	4 SUPPLIERS	5 GOVERNMENT AUTHORITIES AND REGULATORS	6 COMMUNITY	7 COMMUNICATIONS MEDIA	8 CIVIL ORGANIZATIONS AND NGOS	9 STRATEGIC PARTNERS
LIVE MEETINGS	+	+	+	+	+	+	+	+	+
WORK ENVIRONMENT SURVEYS	+								
REPORTING CHANNELS/HELPLINE	○	○	○	○	○	○	○	○	○
SHAREHOLDERS MEETING		□							
CUSTOMER SATISFACTION SURVEYS			□						
ADDRESSING INTERNAL AND EXTERNAL INQUIRIES	+	+	+	+	+	+	+	+	+
WEBSITE	○	○	○	○	○	○	○	○	○
INTRANET	○								
SUSTAINABILITY REPORT	□	□	□	□	□	□	□	□	□
ANNUAL REPORT TO THE MEXICAN STOCK EXCHANGE	□	□	□	□	□	□	□	□	□
QUARTERLY FINANCIAL REPORT	△	△	△	△	△	△	△	△	△
INTERNAL NEWSLETTERS	+								
ISSUING RELEVANT EVENTS	+	+	+	+	+	+	+	+	+
REVIEW OF THE COLLECTIVE BARGAINING CONTRACT	□				□				
SURVEYS	+		+			+			
GUIDED VISITS TO INDUSTRIAL FACILITIES	+	+	+	+	+	+	+	+	+
FUNDACIÓN IENOVA	+	+			+	+	+	+	+
GRIEVANCE MECHANISM						○		○	



## EXPECTATIONS

## CURRENT RESPONSE MEASURES

[102-44]

<b>HUMAN CAPITAL</b>	TRAINING AND DEVELOPMENT, EDUCATION, REMUNERATION, QUALITY OF LIFE AT THE WORKPLACE	Participate in the Great Place to Work Institute's work environment survey. Continue with training plans to obtain the "Certification in the IEnova Leadership Standard". Continue annual reviews of the benefits package and ensure it continues to be at competitive levels for the industry. Continue with employee development programs.
<b>SHAREHOLDERS AND INVESTORS</b>	GROWTH, PROFITABILITY, DEVELOPMENT, SUSTAINABILITY	Continue to be listed in the IPC and Sustainability Indexes of the Mexican Stock Exchange. Manage information constantly through our Investor Relations division.
<b>CUSTOMERS AND CONSUMERS</b>	HIGH-QUALITY SERVICE, SAFETY, PRICES	Conduct customer satisfaction surveys for the Pipelines and Distribution operating units. Obtain a score of more than 90% on these surveys.
<b>SUPPLIERS</b>	DEVELOPMENT, COMMERCIAL CONDITIONS, LONG-TERM RELATIONSHIPS	Apply minimum sustainability criteria requirements surveys with key IEnova suppliers. Organize the first "IEnova and its suppliers working together in favor of sustainability in the supply chain" event. Communicate to key suppliers the sustainability requirements established in the Procurement Policy and distribute the Sustainability Report.
<b>GOVERNMENT AUTHORITIES AND REGULATORS</b>	COMPLIANCE WITH THE LAW AND REGULATIONS, DEVELOPMENT, SUSTAINABILITY	Certify or re-certify 100% of our assets under ASEA's or SEMARNAT's Environmental Quality and Clean Industry standards. Rigorously comply with all regulations applicable to our operating assets and our projects currently under construction. Participate in business-related associations.
<b>COMMUNITY</b>	SAFETY AND SOCIAL DEVELOPMENT	Have programs in place to help the communities in which we operate. Strengthen the corporate volunteers program. Ensure safe operations. Respect traditions of indigenous populations. Operate Fundación IEnova
<b>COMMUNICATIONS MEDIA</b>	TIMELY INFORMATION	Offer updated information through different channels.
<b>CIVIL ORGANIZATIONS AND NGOS</b>	DEVELOPMENT, SUSTAINABILITY, REGULATORY COMPLIANCE	Respect traditions of indigenous populations. Maintain efficient operations of the company's Trusts. Operate Fundación IEnova Ensure regulatory compliance at all IEnova operations.
<b>STRATEGIC PARTNERS</b>	GROWTH, SUSTAINABILITY, OPERATING EFFICIENCY	Promote and comply with best corporate governance practices.

To identify the needs of the communities in which we operate or where we are currently building a new asset, we carried out the following activities:

- Drafted the Baseline Social Analysis, Stakeholders Plan, and Social Investment Plan for Energía Sierra Juárez. Additionally, we implemented the grievance mechanism, (*Mecanismo de Atención a la Comunidad*, MAC) which is available at: <http://www.energiasj.com/comunicacion.html>
- A MAC is currently being drafted for Termoeléctrica de Mexicali and Energía Costa Azul, and will be implemented during 2017.
- In addition, in 2016 we surveyed 89 key suppliers on their practices related to sustainability, environment, health and safety, human capital, ethics and corruption, as well as on their understanding of IEnova's sustainability-related practices.



Compression station at the San Isidro-Samalayuca Pipeline



# MATERIALITY

[102-42, 102-46, 102-47, 102-48, 102-49, 102-51, 103-1, 103-2, 103-3]

As part of the process for updating our materiality assessment, in 2016 we interviewed twelve top IEnova executives who are involved with our sustainability strategy and with managing the company. We performed a qualitative and quantitative analysis of all divisions in the business—corporate, storage, pipelines, natural gas distribution, and power generation facilities—reviewing internal processes from the economic, environmental, and social perspective.

In order to include the point of view of our stakeholders in this assessment, for the third consecutive year we performed surveys to measure satisfaction levels among our natural gas Distribution and Pipelines customers. We also applied the questionnaire provided by the Great Place to Work Institute (GPTW) in Mexico, which measures work environment satisfaction. The results for both efforts were positive.

In the customer survey, satisfaction levels were above the prior year, with a score of 9.2 points for Distribution customers and 9.7 in Pipelines. In the GPTW questionnaire, employee satisfaction levels were also above last year’s measurement, allowing us to maintain our certification and to be included in the list of the top 100 companies to work for in Mexico, ranking 52<sup>nd</sup>.

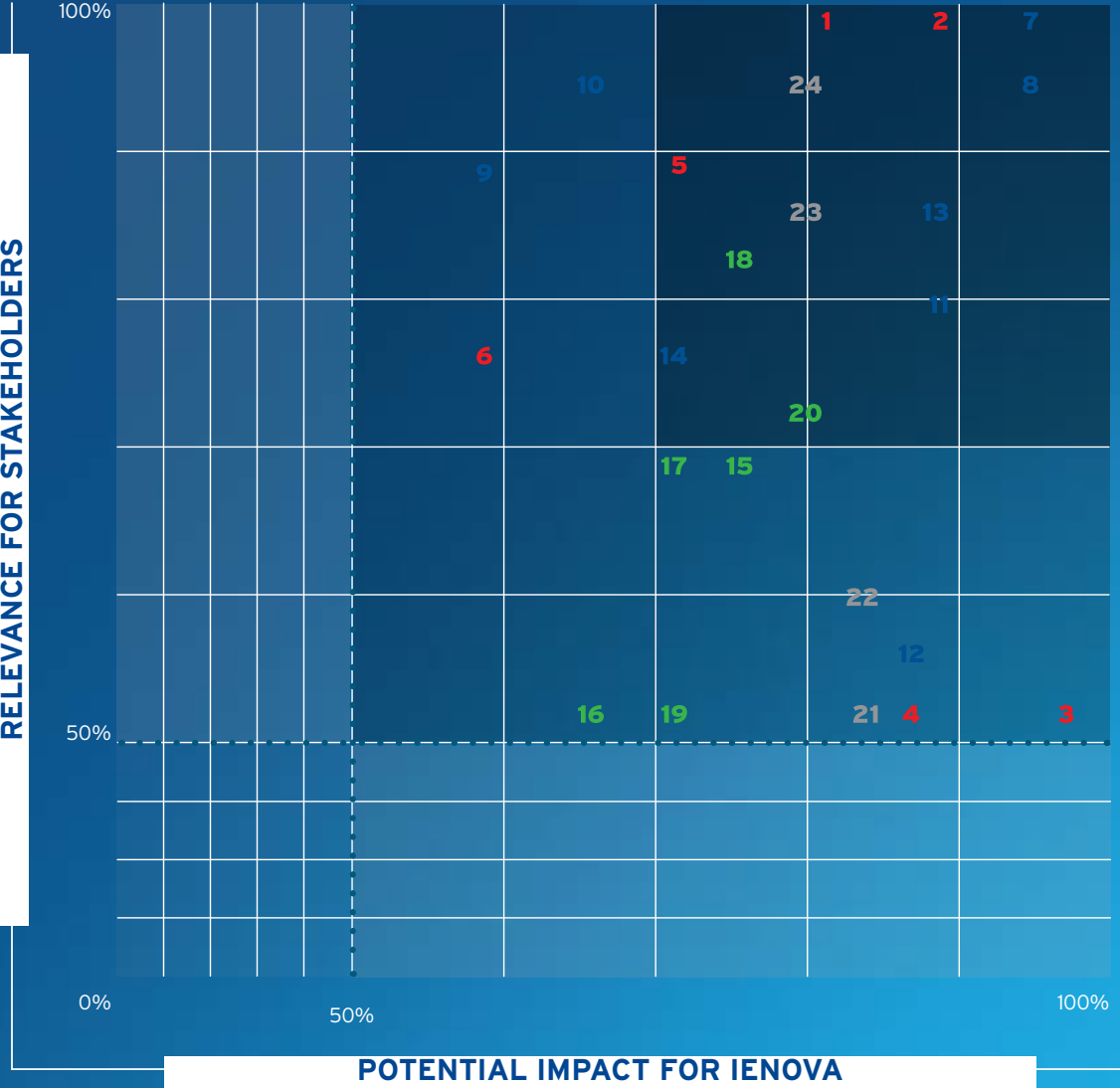
We also analyzed press coverage of our company, to identify which are the most relevant topics for the media. During the year there were almost double the number of stories published as compared to the previous year, with the vast majority being positive. IEnova’s achievements reflected well in the media.

At the end of this process, we confirmed that the material issues identified in our materiality assessment remain valid, although with some variations in the level of relevance. These variations are shown in our updated materiality matrix. The analysis helped us identify the most relevant issues for IEnova and our stakeholders. These were classified in one of the three levels identified in our Materiality Matrix.

Each of these material aspects has been classified under its corresponding Economic, Social, Environmental, or Governance pillar. With this we strive to ensure that our sustainability model is aligned with IEnova’s strategy.

# MATERIALITY MATRIX

[102-47]



- ECONOMIC**
- 1 Customer experience and satisfaction
  - 2 Product and service quality
  - 3 Business diversification
  - 4 Integration of the operations of new businesses
  - 5 Developing the value chain
  - 6 Brand value and recognition

- SOCIAL**
- 7 Managing safety at operations
  - 8 Training and development
  - 9 Media communications and presence
  - 10 Grievance mechanisms
  - 11 Labor standards (Human Capital)
  - 12 Standardization of the work culture
  - 13 Society and community
  - 14 Healthcare

- ENVIRONMENTAL**
- 15 Environmental data systems
  - 16 Climate change strategy
  - 17 Strategy for natural resources management
  - 18 Operations and environment
  - 19 Certifications
  - 20 Biodiversity (flora and fauna)

- GOVERNANCE**
- 21 Strategy
  - 22 Laws and regulations
  - 23 Corporate ethics and corporate governance
  - 24 Risk management

Topics that are a priority for stakeholders, with  $\geq 70\%$  relevance. In the content of the Report we describe the actions we have implemented to address them.





## SUSTAINABILITY PROGRESS AND CHALLENGES

[103-1, 103-2, 103-3]

In 2016 we worked to reach our goals under the three pillars of our sustainability strategy. Following is a summary of our progress and new goals for 2017.





# SUSTAINABILITY PROGRESS AND CHALLENGES

## RISK MANAGEMENT AND CORPORATE GOVERNANCE

	2016	2017
RISK MANAGEMENT	<ul style="list-style-type: none"> <li>★ Strengthen the risk culture in IEnova by complying with the guidelines established in our Risk Management policy.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the risk culture in the company by complying with the guidelines established in our Risk Management policy.</li> </ul>
CORPORATE ETHICS	<ul style="list-style-type: none"> <li>★ Draft and publish the "Ethics Guidelines for Suppliers".</li> <li>★ Review our Code of Ethics annually and update, as needed.</li> </ul>	<ul style="list-style-type: none"> <li>⊕ Train suppliers in corporate ethics issues by participating in the "IEnova and its suppliers working together in favor of sustainability in the supply chain".</li> <li>⊕ Prepare the Manual on the new National Anti-Corruption System in Mexico.</li> <li>⊕ Train those groups of employees who interact with public officials.</li> </ul>
GOVERNMENT RELATIONS	<ul style="list-style-type: none"> <li>★ Submit our Communication on Progress (COP) to the United Nations Global Compact.</li> </ul>	<ul style="list-style-type: none"> <li>Submit our Communication on Progress (COP) to the United Nations Global Compact.</li> </ul>

## ECONOMIC PILLAR

	2016	2017
CUSTOMER SATISFACTION	<ul style="list-style-type: none"> <li>★ Obtain a satisfaction level of at least 90% in the annual natural gas Distribution and Pipelines customer satisfaction survey.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain our score in the annual Distribution and Pipelines customer satisfaction survey.</li> </ul>
SUPPLY CHAIN	<ul style="list-style-type: none"> <li>★ Reinforce with our key suppliers our communication efforts on the sustainability requirements established in our Procurement Policy.</li> <li>★ Perform essential sustainability criteria requirements surveys with key IEnova suppliers.</li> <li>★ Organize the first "IEnova and its suppliers working together in favor of sustainability in the supply chain" event.</li> </ul>	<ul style="list-style-type: none"> <li>Reinforce with our key suppliers our communication efforts on the sustainability requirements established in our Procurement Policy.</li> <li>⊕ Carry out the first "IEnova and its suppliers working together in favor of sustainability in the supply chain" event.</li> </ul>

- ★ REACHED
- ⌛ FIRST STAGE ACCOMPLISHED, IN PROGRESS 2017
- ⊕ NEW 2017 CHALLENGE

## HEALTH AND SAFETY

2016	2017
<ul style="list-style-type: none"> <li>★ Strengthen the implementation of the Health and Safety Management System, with new elements for Dangerous Fauna and Safety in Handling Electricity</li> <li>★ Review the Health and Safety Principles Manual.</li> <li>★ On April 28, carry out events to commemorate the World Day for Safety and Health at the Workplace, promoted by the International Labour Organisation.</li> <li>★ Obtain or maintain the Safe Company certificate offered by the Mexican Ministry of Labor and Social Welfare (STPS) at all our operating units during the first 12 months after they begin to operate.</li> <li>★ Reach the established performance goals related to our accident rate: Total Recordable Incident Rate (TRIR): 2.29; Lost Time Accident Rate (LTAR): 1.73</li> <li>★ Maintain the OHSAS 18001 certificate at Energía Costa Azul.</li> <li>★ Obtain comprehensive certification (ISO 9001, ISO 14001, and OHSAS 18001) in Pipelines.</li> </ul>	<ul style="list-style-type: none"> <li>⊕ Implement a new tool to measure the incidence of vehicular accidents.</li> <li>⊕ Distribute the Manual on Health and Safety Principles for Building Pipelines.</li> <li>Obtain or maintain the Safe Company certificate offered by the Mexican Ministry of Labor and Social Welfare (STPS) at all our operating units during the first 12 months after they begin to operate.</li> <li>Reach the established performance goals in accident rate: Total Recordable Incident Rate (TRIR): 2.19; Lost Time Accident Rate (LTAR) 1.66</li> <li>Maintain the OHSAS 18001 certificate at Energía Costa Azul.</li> <li>Maintain comprehensive certification (ISO 9001, ISO 14001, and OHSAS 18001) in Pipelines.</li> <li>⊕ Update Health and Safety Guidelines to be included in new or renewed contracts.</li> </ul>

## EMPLOYEES

2016	2017
<ul style="list-style-type: none"> <li>★ Continue the "Certification in the IEnova Leadership Standard" program. Subjects: teamwork, feedback, managing change, and emotional intelligence.</li> <li>★ Improve our score in the Great Place to Work survey with respect to 2015.</li> <li>⌚ Develop a social management system that complies with the requirements of the Mexican legislation currently in force and international best practices.</li> <li>★ Execute the 2016 budget for Fundación IEnova with projects aligned with the Foundation's pillars.</li> <li>★ Increase social and volunteer programs that are consistent with IEnova's sustainability pillars through Fundación IEnova.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain the Great Place to Work certification.</li> <li>⊕ Include new employees in the High Potential Program.</li> <li>⊕ Optimize benefits program based on employee needs.</li> <li>⊕ Develop an e-learning platform that will include development, diversity, and respect issues.</li> <li>⊕ Begin to gradually implement the social management system at the IEnova assets.</li> <li>⊕ Determine the grievance mechanism that will be used at all IEnova's operating and administrative units and begin gradual implementation during the second half of 2017.</li> <li>Execute the 2017 budget for Fundación IEnova with projects aligned with the foundation's pillars.</li> <li>Maintain social and volunteer programs that are consistent with IEnova's sustainability pillars through Fundación IEnova.</li> </ul>

## COMMUNITY RELATIONS



## ENVIRONMENT

2016

- ☆ Analyze how we handle and manage hazardous and non-hazardous waste.
- ☆ Draft the Operation Efficiency Program establishing the elements that need to be developed to define efficiency goals for water and energy.
- ☆ Continue the Sustainable Office program at all operating units.
- ☆ Obtain or maintain the Clean Industry or Environmental Quality certificate offered by the Mexican Environmental Protection Agency (PROFEPA) at all our operating units during the first 12 months after they begin to operate.
- ☆ Obtain the comprehensive certification (ISO 9001, ISO 14001, and OHSAS 18001) in the Sonora Pipeline project currently under construction.
- ☆ Define the strategy for the conservation of natural resources in the operating units.
- ⌂ Define IEnova's Climate Change Strategy.

2017

- ⊕ Implement the Strategy for Managing and Using Waste.
- ⊕ Implement the Sustainable Office Program at all operating units recently acquired by IEnova and in those over which IEnova has operating control.
- Obtain or maintain the Clean Industry or Environmental Quality certificate offered by the Mexican Environmental Protection Agency (PROFEPA) at all our operating units during the first 12 months after they begin to operate.
- Maintain the comprehensive certification (ISO 9001, ISO 14001, and OHSAS 18001) in the Sonora Pipeline project currently under construction.
- ⊕ Draft a short-, medium-, and long-term implementation program derived from the strategy to preserve natural resources.
- ⊕ Draft a short-, medium-, and long-term implementation program derived from the Climate Change strategy.





# WE CREATE

## VALUE

**877**  
IENOVA  
EMPLOYEES

**37%**  
MORE EMPLOYEES  
THAN IN 2015

**100%**  
ASSETS IN OPERATION  
WITH THE SAFE COMPANY  
SELF-MANAGING HEALTH  
AND SAFETY IN THE  
WORKPLACE PROGRAM

**100%**  
OF EMPLOYEES RECEIVE  
AN ANNUAL PERFORMANCE  
EVALUATION

**23,123 +10%**  
TRAINING HOURS  
VS 2015

**USD\$1.9  
BILLION**  
TOTAL INVESTMENT  
IN 2016

**USD\$5  
MILLION**  
INVESTMENTS IN  
COMMUNITY\*\*,  
ENVIRONMENT, SAFETY,  
HEALTH, AND COMPLIANCE

**100%**  
ASSETS IN OPERATION  
CERTIFIED OR IN THE  
PROCESS OF BEING  
CERTIFIED IN  
ENVIRONMENTAL  
QUALITY OR CLEAN  
INDUSTRY

**3,391 KM\***  
OF NATURAL GAS, LPG,  
AND ETHANE PIPELINES

**407 MW**  
CAPACITY TO  
GENERATE WIND  
POWER

**3,756 KM**  
OF PIPELINES TO  
DISTRIBUTE  
NATURAL GAS

**119,341**  
NATURAL GAS  
DISTRIBUTION  
CUSTOMERS

\* Includes 100% of kilometers of pipelines in operation, under construction, and in joint ventures.  
\*\* Investments in the community includes the budget for Fundación IEnova and for Trusts: Ensenada, Sonora, Ojinaga-El Encino, San Isidro-Samalayuca, as well as Los Ramones I Pipeline and Ethane Pipeline.





# RISK MANAGEMENT AND CORPORATE GOVERNANCE

We have a system in place to identify, assess, analyze, and mitigate potential risks, and we operate based on the best practices in corporate governance.



# COMPREHENSIVE RISK MANAGEMENT SYSTEM

[102-11]

Our comprehensive risk management system includes an inventory of economic, social, and environmental risks classified on the basis of their potential impact and probability of occurrence. Risk management is central to the business strategy. Our operations are all subject to strict regulations that we rigorously adhere to.



RISK  
MANAGEMENT

[102-11, 102-29, 102-31]

Risk Management and the Risk Committee are the two divisions within IEnova in charge of operating the Comprehensive Risk Management System. They are guided by principles such as independence, risk culture, defining the risk appetite, transparency, and continuous improvement.

Our Risk Manager oversees these issues and makes quarterly reports to the Risk Committee the goals reached and the most relevant findings.

The Risk Committee establishes the guidelines for managing the Risk Management System and determines the functions, responsibilities, processes, policies, and procedures needed to carry out this task. This Committee also makes an annual review of the Risk Management Policy and reports to the Board of Directors, which advises top management on the measures that need to be implemented to mitigate identified risks.

RISK CATEGORIES  
AND DESCRIPTIONS

[102-11]

At IEnova we divide the risks we are exposed to into four categories, and we take the necessary measures to mitigate them.

STRATEGIC RISKS	Risks derived from decisions and strategy Risks related with the locations in which we operate and our mergers and acquisitions Potential capital risks Integration risks Risks derived from our ability to offer adequate products and services to our customers
FINANCIAL AND REPORTING RISKS	Risks associated with the financial situation Risks associated with the Treasury Risks associated with financial flows Risks associated with internal and external financial reports
OPERATING RISKS	Risk of losses due to operating errors Risk caused by human error Risk due to inefficient or badly designed processes Risk of a system failure Risk of incorrect behavior (including criminal activities)
COMPLIANCE RISKS	Risks derived from violations or non-compliance with the laws, norms, regulations, and internal practices that affect the reputation or value of the company Risk of having to pay fines Risk of having to pay damages Risk from the nullification of contracts Environmental and social risks

In addition, in compliance with what has been established by the corresponding authorities, we have insurance policies that protect the totality of our assets and offer coverage on goods, civil responsibility, interruptions in operations, terrorist acts and sabotage, and environmental responsibility, among others.





# CORPORATE ETHICS

[102-25, 102-16, 102-17, 205-1, 205-2]

Our ethics and values framework establishes the guidelines for the behavior we expect from our Board members, employees, and suppliers. Additionally, we have a Corporate Ethics Division in charge of:



COMMUNICATING CORPORATE ETHICS AND ANTICORRUPTION ISSUES



OFFERING EMPLOYEES A PLACE WHERE THEY CAN MAKE THEIR COMPLAINTS AND BE CERTAIN THAT THOSE COMPLAINTS WILL BE ADDRESSED WITH NO REPRISAL



TRAINING



FOLLOWING-UP ON THE 2015-2017 CORPORATE ETHICS WORK PLAN



CONTRIBUTING TO MAKING IENOVA A LEADING COMPANY ON CORPORATE ETHICS ISSUES

At IEnova we are obliged to comply with all applicable national and foreign anti-corruption and anti-bribery laws, including the Mexican Federal Anti-Corruption Law in Public Hiring (*Ley Federal Anticorrupción en Contrataciones Públicas*), the Foreign Corrupt Practices Act (FCPA), and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

In 2016, we published our new Code of Ethics that includes 23 integrity standards. All employees must read, sign, and comply with these standards. The Code is available to view and download at <http://ienova.com.mx/english/pdf/codigo-de-etica.pdf>.

Based on our policy of zero tolerance for ethics breaches, we ensure the confidentiality and impartiality of our helpline, which is managed by a third-party. During 2016, there were 20 cases reported on our *IEnova Contigo* helpline that were addressed and resolved in a timely manner based on our policies.

Furthermore, we require all our suppliers to be familiar with and sign our Guidelines for Supplier Behavior that address issues such as compliance with laws and regulations, business gifts and presents, how to use the IEnova assets, protecting the environment, sustainability, health and safety, the confidentiality and protection of all information, and conflicts of interest.

WE OFFER ALL OUR EMPLOYEES THE FOLLOWING REPORTING CHANNELS 24/7:



IENOVA CONTIGO HELPLINE

**01800-062-2107**



CONFIDENTIAL E-MAIL

**IEnova@lineadedenuncia.com**



IENOVA WEBSITE

**[lineadedenuncia.com/IEnova](http://lineadedenuncia.com/IEnova)**



SEMPRA ETHICS AND COMPLIANCE HELPLINE

**01800-241-5689**



SEMPRA WEBSITE

**<https://iwf.tnwgrc.com>**



# CORPORATE GOVERNANCE

[102-17]

Our Corporate Governance practices comply with laws applicable to public companies listed on the Mexican Stock Exchange, with the regulations of the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, CNBV), and with the recommendations of the Code for Best Corporate Practices established by the Entrepreneurial Coordinating Council (*Consejo Coordinador Empresarial*, CCE) in Mexico.

We are the only energy infrastructure company to be listed on the Mexican Stock Exchange, as well as the only one included in its Sustainability Index, ranking ninth among the 80 companies assessed for inclusion and with scores above the national average in every category.

# BOARD OF DIRECTORS

[102-18, 102-22, 102-23, 102-24, 102-25, 102-28, 102-32, 405-1]

The IEnova Board of Directors includes eleven permanent members, four of whom are independent, in accordance with the terms of the Mexican Securities Law (*Ley del Mercado de Valores*). Carlos Ruiz Sacristán serves as Chairman of the Board of Directors and CEO of IEnova.

Every one of the Directors have proven experience and an excellent reputation in different areas of expertise, including the energy sector, finances, foreign relations, public policy, and infrastructure. With their global view of the industry, Board members review the business' plans and performance, evaluate comprehensive risk management, approve succession plans, establish corporate governance guidelines, and analyze progress in sustainability.

As of this date, the Board of Directors includes the following members:

Carlos Ruiz Sacristán	Chairman
Jeffrey S. Davidow	Independent Director
Aarón Dychter Poltolarek	Independent Director
Alberto Mulás Alonso	Independent Director
José Julián Sidaoui Dib	Independent Director
Joseph A. Householder	Director
Jeffrey W. Martin	Director
Martha B. Wyrsh	Director
Dennis V. Arriola	Director
Kevin C. Sagara	Director
Trevor I. Mihalik	Director
Raúl Farías Reyes	Secretary, not a member of the Board
René Buentello Carbonell	Pro-Tem Secretary, not a member of the Board
Rodrigo Cortina Cortina	Pro-Tem Secretary, not a member of the Board

As established by the General Shareholders Meeting held on April 28, 2017.





# CORPORATE PRACTICES COMMITTEE

[102-23, 102-24,102-28]

The Corporate Practices Committee assists the Board in preparing the reports on the financial and accounting guidelines and the reports for the annual shareholders meeting; advises the Board of Directors on the appointment of the Chief Executive Officer and other senior management and in defining their responsibilities and remunerations; requests the opinions and recommendations of independent experts; provides its opinions regarding transactions with related parties; and convenes meetings of the shareholders.

Jeffrey S. Davidow	Chairman*
Aarón Dychter Poltolarek	Director*
Joseph A. Householder	Director
Alberto Mulás Alonso	Director*
José Julián Sidaoui Dib	Director*

\*Independent Director in accordance with the terms of the Mexican Securities Law.

Among other functions, the Corporate Practices Committee is responsible for conducting an annual review of the performance of the Board of Directors and for making the necessary decisions to ensure that IEnova continues to be listed on the Sustainability Index of the Mexican Stock Exchange. To this end, the Sustainability Committee reports quarterly to the Corporate Practices Committee, which subsequently informs the Board of Directors about the activities and results on sustainability issues.

80%  
OF THE MEMBERS OF THE CORPORATE PRACTICES COMMITTEE ARE INDEPENDENT

# AUDIT COMMITTEE

[102-23,102-24,102-28]

The Audit Committee reports on internal controls and recommendations; informs on irregularities; oversees the work of the external auditors and analyzes their reports and the financial statements of the company; assists the Board in preparing the reports on operations; receives and analyzes proposals and comments made by shareholders, Board members, key executives, external auditors, or third parties; convenes shareholders meetings; and supervises transactions with related parties to ensure they comply with the law.

The Committee includes all the independent members of the Board.

Aarón Dychter Poltolarek	Chairman*
Jeffrey S. Davidow	Director*
Alberto Mulás Alonso	Director*
José Julián Sidaoui Dib	Director*

\*Independent Director in accordance with the terms of the Mexican Securities Law.





## ETHICS COMMITTEE

[102-16, 102-57]

We also have an Ethics Committee in which senior executives of the company participate. The Committee reports to the Audit Committee of the Board of Directors and reviews complaints of alleged violations of the Code of Ethics, conducts the necessary investigations, and determines a plan of action based on the findings, all within a maximum 30-day period.

Pursuant to our goal of being recognized as a leading company in both national and international discussions on anti-corruption and corporate ethics issues, we, among other activities, coordinated postgraduate courses of study in Government and Corporate Ethics, Anti-Corruption, and Prevention of Conflicts of Interest for the Escuela Libre de Derecho; organized the Forum on Corporate Ethics for the Energy Sector, also done in collaboration with the Escuela Libre de Derecho, which involved public officials and the private sector.

In the international arena, we participated in organizing the First Seminar to Fight Corruption in the Business Sector, in which the Secretary General of the Organization of American States and other top government and business representatives from all over the world took part. We also collaborated in coordinating the UN's International Anti-Corruption Day, in which many Mexican authorities participated.

We also chair the Corporate Ethics and Anti-Corruption Commission of the American Chamber of Commerce, Mexico Chapter (AmCham) and the National Anti-Corruption Commission of Coparmex, the Mexican employer's confederation.



GOVERNMENT  
**RELATIONS**  
[102-13]

IEnova is subject to the regulation and supervision of several Mexican governmental agencies, including the following: Ministry of Energy (SE); Ministry of the Environment and Natural Resources (SEMARNAT); Ministry of Labor (STPS); Energy Regulatory Commission (CRE); National Safety, Energy and and Environmental Agency (ASEA); and the National Center for the Control of Energy (CENACE). We strictly adhere to all norms, laws, and regulations applicable to our operation and we maintain a good, open, and transparent relationship with governmental bodies.

As members of the energy sector, we participate in the following Associations and Chambers:

- American Chamber of Commerce, Mexico Chapter (AMCHAM)
- Asociación Chihuahuense de Administración de Personal (ACAP)
- Asociación Mexicana de Energía (AME)
- Asociación Mexicana de Energía Eólica (AMDEE)
- Asociación Mexicana de Energía Solar Fotovoltaica (ASOLMEX)
- Asociación Mexicana de Gas Natural (AMGN)
- Asociación Mexicana en Dirección de Recursos Humanos (AMEDIRH)
- Barra Mexicana Colegio de Abogados (BMA)
- Cámara Nacional de la Industria de la Transformación de Chihuahua, Gómez Palacio, Torreón, Ensenada y Mexicali (Canacindra)
- Colegio de Contadores Públicos de México
- Colegio de Ingenieros Civiles de Chihuahua (CICCH)
- Comisión de Promoción Económica de Ensenada (COPREEN)
- Comisión de Promoción Económica de Tecate (COPRETEC)
- Confederación Patronal de la República Mexicana of Ensenada, Hermosillo, Mexicali and Mexico City (Coparmex)
- Consejo de Desarrollo Económico, Mexicali
- Instituto Mexicano de Auditores Internos (IMAI)
- Instituto Mexicano de Ejecutivos de Finanzas (IMEF)
- World Energy Council, Mexico Chapter (WECMEX)

Throughout the year, we either obtained or maintained important certifications and awards:

Certifications and Awards	
Sustainability Index	IEnova
Great Place to Work (GPTW)	IEnova
Socially Responsible Company (ESR)	IEnova
ISO 9001	ECOGAS
ISO 9001, ISO 14001 and OHSAS 18001	Pipelines
ISO 9001, ISO 14001 and OHSAS 18001	Pipelines (Project Sonora Pipeline)
ISO 9001, ISO 14001 and OHSAS 18001	Energía Costa Azul (ECA)



IEnova's Mexico City Corporate Headquarters



BOARD OF  
**DIRECTORS**



CARLOS RUIZ  
SACRISTÁN  
**CHAIRMAN**



JEFFREY S.  
DAVIDOW  
**INDEPENDENT  
DIRECTOR**



AARÓN DYCHTER  
POLTOLAREK  
**INDEPENDENT  
DIRECTOR**



ALBERTO MULÁS  
ALONSO  
**INDEPENDENT  
DIRECTOR**



JOSÉ JULIÁN  
SIDAUI DIB  
**INDEPENDENT  
DIRECTOR**



JOSEPH A.  
HOUSEHOLDER  
**DIRECTOR**



JEFFREY W.  
MARTIN  
**DIRECTOR**



MARTHA B.  
WYRSH  
**DIRECTOR**



DENNIS V.  
ARRIOLA  
**DIRECTOR**



KEVIN C.  
SAGARA  
**DIRECTOR**



TREVOR I.  
MIHALIK  
**DIRECTOR**



# SENIOR MANAGEMENT



ARTURO INFANZÓN  
FAVELA  
**CHIEF FINANCIAL  
OFFICER**



RENÉ BUENTELLO  
CARBONELL  
**CHIEF LEGAL  
COUNSEL**



TANIA ORTIZ MENA  
LÓPEZ NEGRETE  
**CHIEF  
DEVELOPMENT  
OFFICER**



GERARDO  
DE SANTIAGO TONA  
**SENIOR VICE  
PRESIDENT STRATEGIC  
PLANNING**



JUANCHO  
EEKHOUT  
**VICE PRESIDENT  
DEVELOPMENT**



CARLOS BARAJAS  
SANDOVAL  
**CHIEF OPERATING  
OFFICER**



JESÚS CÓRDOBA  
DOMÍNGUEZ  
**CHIEF ENGINEERING  
& CONSTRUCTION  
OFFICER**



JUAN RODRÍGUEZ  
CASTAÑEDA  
**CHIEF CORPORATE  
AFFAIRS & HR  
OFFICER**



JORGE MOLINA  
CASELLAS  
**VICE PRESIDENT  
COMMERCIAL**



MANUELA MOLINA  
PERALTA  
**VICE PRESIDENT  
FINANCIAL**



ROBERTO RUBIO  
MACÍAS  
**VICE PRESIDENT  
CONTROLLER**

To read the biographies of the IEnova Senior Management, please visit our 2016 Annual Report:  
[https://www.bmv.com.mx/docspub/infoanua/infoanua\\_747948\\_2016\\_1.pdf](https://www.bmv.com.mx/docspub/infoanua/infoanua_747948_2016_1.pdf)





# ECONOMIC PILLAR



We spark progress in Mexico through investments that contribute to different production sectors and to national and regional development.

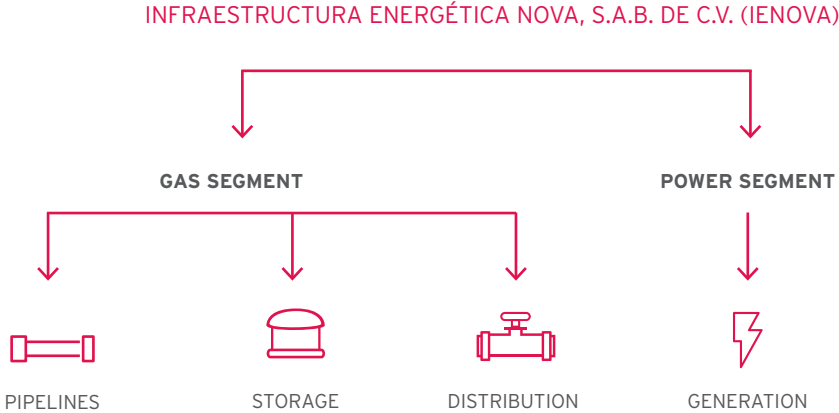


We operate in two key segments of the energy sector: Gas and Power.

In the Gas segment we have companies engaged in pipeline-transportation and storage services for natural gas, LPG, and ethane as well as others engaged in storage of liquefied natural gas, LPG, and the distribution of natural gas.

In the Power segment, we generate electric power through a combined-cycle plant fueled with natural-gas and through two wind farms. In addition, we will soon begin construction on two solar energy parks that will start operating in 2019.

CORPORATE  
**STRUCTURE**  
[102-7, 102-45]





# INVESTMENT IN 2016 USD\$1.9\* BILLION

## SUSTAINABILITY



DEMAND FOR GOODS  
AND SERVICES



VALUE CHAIN

- Materials
- Technology
- Services



DEVELOPMENT OF THE INDUSTRY

- Construction industry
- Steel industry
- Engineering services



JOB CREATION



TAXES



PUBLIC INVESTMENT



SOCIAL WELLBEING

## PROFITABILITY

\*Includes capital expenditures for USD\$316 million, investments in joint ventures for USD\$100 million, the acquisition of the remaining 50% of Gasoductos de Chihuahua and the Ventika acquisition for USD\$1.5 billion.

# ECONOMIC BENEFIT

[102-6, 102-9, 203-2, 204-1]

Our trajectory and expertise allow us to grow our business in those segments where we already have a presence and, at the same time, to leverage the new opportunities that arise from the continued opening of the energy sector.

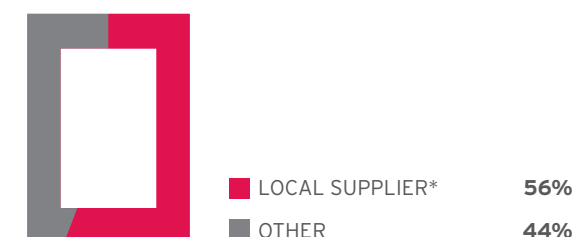
In 2016 we made investments in excess of USD\$1.9 billion. With these investments, we not only contribute to the fast-growing energy industry, but we also benefit other sectors of the economy, including the construction and steel industries and engineering services. Likewise, we create new direct and indirect jobs, offer specialized training to our employees, purchase goods and services, and pay taxes.

During the year our workforce grew 37%, from 639 employees in 2015 to 877 at end of 2016. The increase was mainly due to our purchase of Gasoductos de Chihuahua. We also generated 8,800 indirect jobs in projects we had under construction.

# DISTRIBUTION OF THE IENOVA SUPPLIERS

[204-1]

At IEnova we prefer to source and buy needed goods from local suppliers and do so whenever circumstances allow. In 2016, 56% of our products were sourced in Mexico.



\*Local refers to sourced in Mexico.

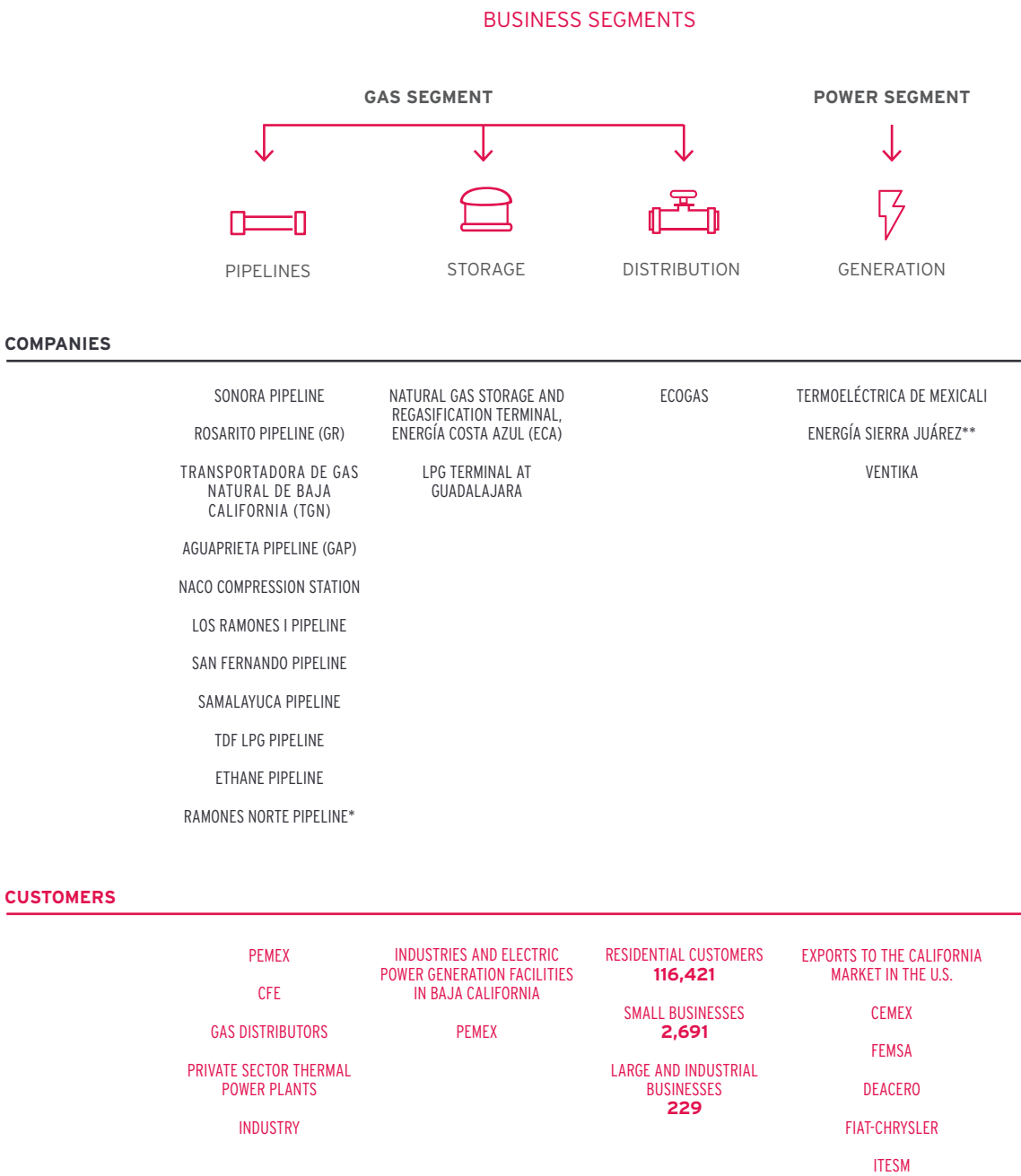


# WE VALUE OUR CUSTOMERS

[102-6]

At IEnova we consider it vitally important to offer excellent service to our customers. We assess customer satisfaction with our natural gas distribution companies and pipelines through annual surveys as well as in-person meetings. We also have a team specialized in customer service.

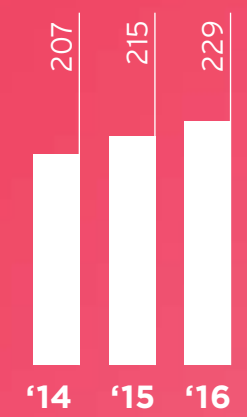
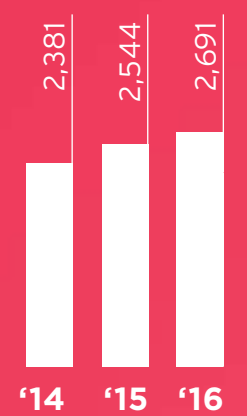
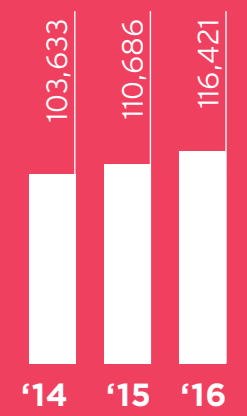
In the Gas segment we operate pipelines and offer storage, and distribution services, and, in the Power segment, we offer electric power generation services.



\* Asset belonging to the joint venture with Pemex and other institutional investors, in which IEnova holds an indirect 25% stake.  
 \*\* Asset belonging to the joint venture with InterGen, in which IEnova holds a 50% stake.



# ECOGAS CUSTOMERS



# QUALITY MANAGEMENT SYSTEM [416-2]

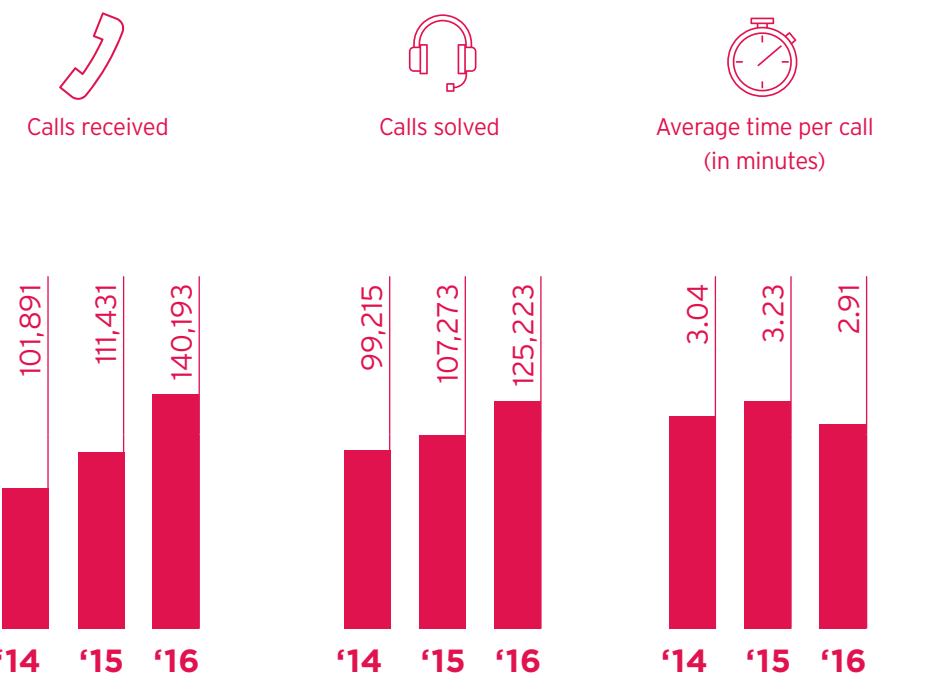
We operate based on a steadfast commitment to offer our customers the highest quality products, offering them excellent service.

For seven years we have used the IEnova Quality-Control System in the seven cities where we offer natural gas distribution services through ECOGAS, and we comply with the ISO 9001:2008 standards, ensuring the quality of the service we offer our customers.

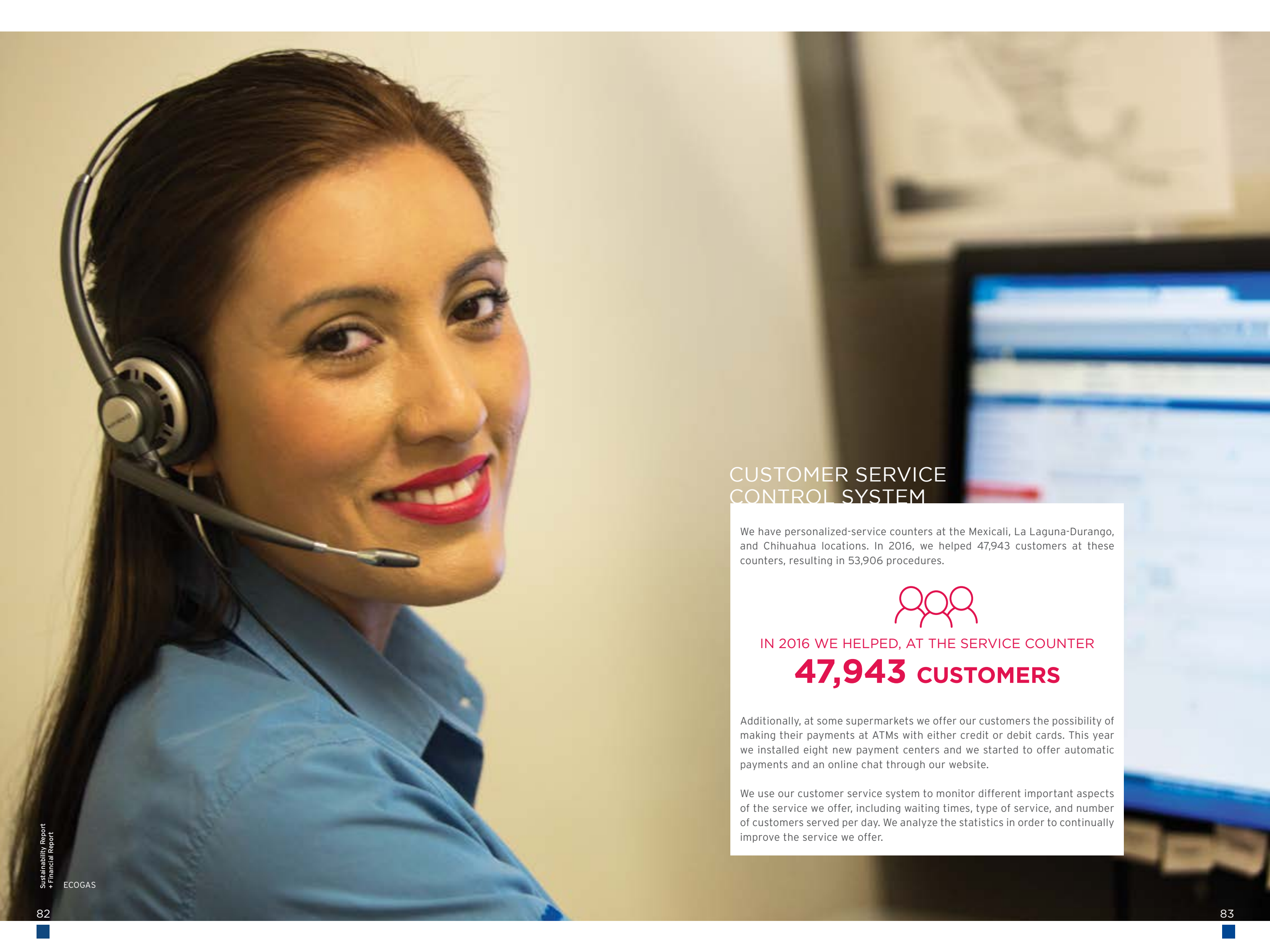
# CALL CENTER

We operate a call center in the city of Chihuahua that serves all our ECOGAS customers. In 2016, we handled an average of 10,435 calls a month. The main reasons for the calls were to verify an appointment, request reinstatement of a suspended service or an extension on a payment past due, to inform the company when a payment was made, or to make a complaint. All were handled in a timely manner.

One of the tasks of our Customer Service division is to respond immediately to emergency calls to ensure the safety of the community. After resolving an emergency, we always test our facilities to determine the integrity of the pipeline. In addition, we operate with the commitment to respond to routine calls within a maximum of ten days, and we follow-up on all requests from our customers.







## CUSTOMER SERVICE CONTROL SYSTEM

We have personalized-service counters at the Mexicali, La Laguna-Durango, and Chihuahua locations. In 2016, we helped 47,943 customers at these counters, resulting in 53,906 procedures.



IN 2016 WE HELPED, AT THE SERVICE COUNTER

**47,943 CUSTOMERS**

Additionally, at some supermarkets we offer our customers the possibility of making their payments at ATMs with either credit or debit cards. This year we installed eight new payment centers and we started to offer automatic payments and an online chat through our website.

We use our customer service system to monitor different important aspects of the service we offer, including waiting times, type of service, and number of customers served per day. We analyze the statistics in order to continually improve the service we offer.





LPG Terminal at Guadalajara

## CUSTOMER SATISFACTION

[102-43, 102-44]

An external specialty consulting firm conducts satisfaction surveys with our natural gas Distribution and Pipelines customers.

At ECOGAS we conducted the survey for the fifth consecutive year with our residential customers in the cities of Mexicali, Torreón, Gómez Palacio, and Chihuahua. Satisfaction levels in aspects such as quality of the service, the characteristics of the information we share with them, and the training our employees receive, among many others, show that our efforts have rendered good results, with an average score of 9.2 points out of 10, and above both our score for the prior year and our proposed goal.

For the third year we surveyed our natural gas Pipelines customers. Results were also above the established goal, with a satisfaction level with the service we offer of 9.7 points out of a possible 10.

## ADVERTISING AND FIDELITY PROGRAMS

At ECOGAS we offer advertising and fidelity programs with the dual objective of keeping our current customers and of inviting others to hire us.

Our *iPaga a tiempo y gana!*, (Pay on Time and Win) program, for example, rewards prompt payments. We also have seasonal campaigns, such as *Verano Gratis* (Free Summer), that offers a month of free-of-charge service to customers who recommend us to new housing developments, and the *Programa Invernal* (Winter Program) that offers our customers incentives and rewards late in the year. We also offer our support to customers who require a line of credit in order to split payments in two installments.



# OPERATIONAL INTEGRITY AND RELIABILITY

[OG13]

Because IEnova's work ethic is centered on the safety and integrity of our assets and operations, we start managing both aspects at the design stage of a project, and continue to do so throughout the entire operating cycle, which includes construction, maintenance, operating the infrastructure, the work methodology, and offering the service to the end customer.

# INTEGRITY MANAGEMENT PROGRAM

Our Integrity Management Program (IMP) employs a specially-designed software that constantly analyzes our operation, allowing us to control every aspect needed to ensure normal operations.

In Pipelines and Distribution, in the Gas Segment, 100% of our pipelines operate the Integrity Management Program and the following steps are taken to ensure that our infrastructure and operations are performing adequately:

- Inspecting natural gas pipeline systems.
- Assessing the indicators obtained from the inspections.
- Cataloguing the indicators.
- Evaluating results of the cataloging.
- Classifying them by defect and severity.
- Determining the integrity of the pipeline.
- Monitoring operating parameters in real time and permanently.
- Monitoring alarms constantly.
- Addressing detected problems in a timely manner.

Our IMP complies with all norms and regulations in force in Mexico and the US, and includes five plans that apply to different aspects of the operation:

INTEGRITY MANAGEMENT PLAN	PERFORMANCE PLAN	COMMUNICATIONS PLAN	MANAGING CHANGE PLAN	QUALITY CONTROL PLAN
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Given the success of this program, our goal is to apply it at all our assets over the course of the following years.



# SCADA SYSTEM

With our Supervisory Control and Data Acquisition (SCADA) system we can supervise, control, and collect the necessary data to monitor field devices, in real time and remotely, and it makes it easier for us to provide feedback and manage our operating units.

We use SCADA or similar systems in different aspects of our operations, in both the Gas and Power segments:

- Natural gas pipelines
- Receiving and discharging liquefied natural gas (LNG)
- Storing liquefied natural gas (LNG)
- Regasifying natural gas
- Distributing natural gas
- Generating electric power

## GENERATED AND DISTRIBUTED ECONOMIC VALUE<sup>1</sup>

[201-1, 307-1]

At IEnova we strive to generate value sustainably, contributing to the development of our own industry and that of other sectors with which we interact.

FIGURES IN THOUSANDS OF USD\$	2014	2015	2016
ECONOMIC VALUE GENERATED			
A) REVENUES	822,796	671,703	717,894
B) INTEREST INCOME	3,299	6,743	6,269
C) INCOME FROM ASSET SALES	25,900	0	0
D) DIRECT ECONOMIC VALUE GENERATED (A+B+C)	851,995	678,446	724,163
ECONOMIC VALUE DISTRIBUTED			
E) OPERATING COSTS <sup>2</sup>	541,682	390,810	342,543
F) SHAREHOLDERS <sup>3</sup>	164,000	170,000	140,000
G) TAXES AND DUTIES PAID	137,886	62,557	95,025
H) INVESTMENTS IN THE COMMUNITY <sup>4</sup> , ENVIRONMENT SAFETY, HEALTH, AND COMPLIANCE	4,606	5,434	5,086
I) ECONOMIC VALUE DISTRIBUTED (E+F+G+H)	848,174	628,801	582,654
ECONOMIC VALUE RETAINED (D-I)	3,821	49,645	141,509

1 This table was drafted based on the Global Reporting Initiative guidelines.  
2 Operating Costs excluding depreciation includes employee salaries and benefits.  
3 Only includes dividends paid.  
4 Investments in the community includes the budget for Fundación IEnova and for Trusts: Ensenada, Sonora, Ojinaga-EI Encino, San Isidro-Samalayuca and the Los Ramones I Pipeline and Ethane Pipeline.







# SO CIAL PILLAR



We create value for the communities where we operate; we design programs that contribute to their wellbeing, and we foster the growth of our employees with training, health and safety, and diversity and inclusion efforts, among others.

During this extraordinary year for IEnova, we are particularly proud of having created 37% more direct jobs, up from the 639 jobs of 2015 to 877 at year-end 2016. We were able to incorporate the Gasoductos de Chihuahua employees into the IEnova workforce efficiently, granting them working conditions that are similar or better than what they had prior to integration.

Our employees span several generations, including people with vast experience in the energy industry and young graduates who appreciate the opportunity of belonging to a company such as IEnova. Because we value diversity and consider that it fosters creativity and innovation, we make no distinctions for age, gender, sexual orientation, political affiliation or religious beliefs. 26% of our employees are women, and many of them occupy middle- and top-management positions.

IEnova employees enjoy the opportunity for personal and professional growth in a pleasant work environment where they have the tools and training they need to fulfill their duties. In 2016 our total voluntary turnover rate was only 6%.

DISTRIBUTION OF EMPLOYEES  
BY CATEGORY

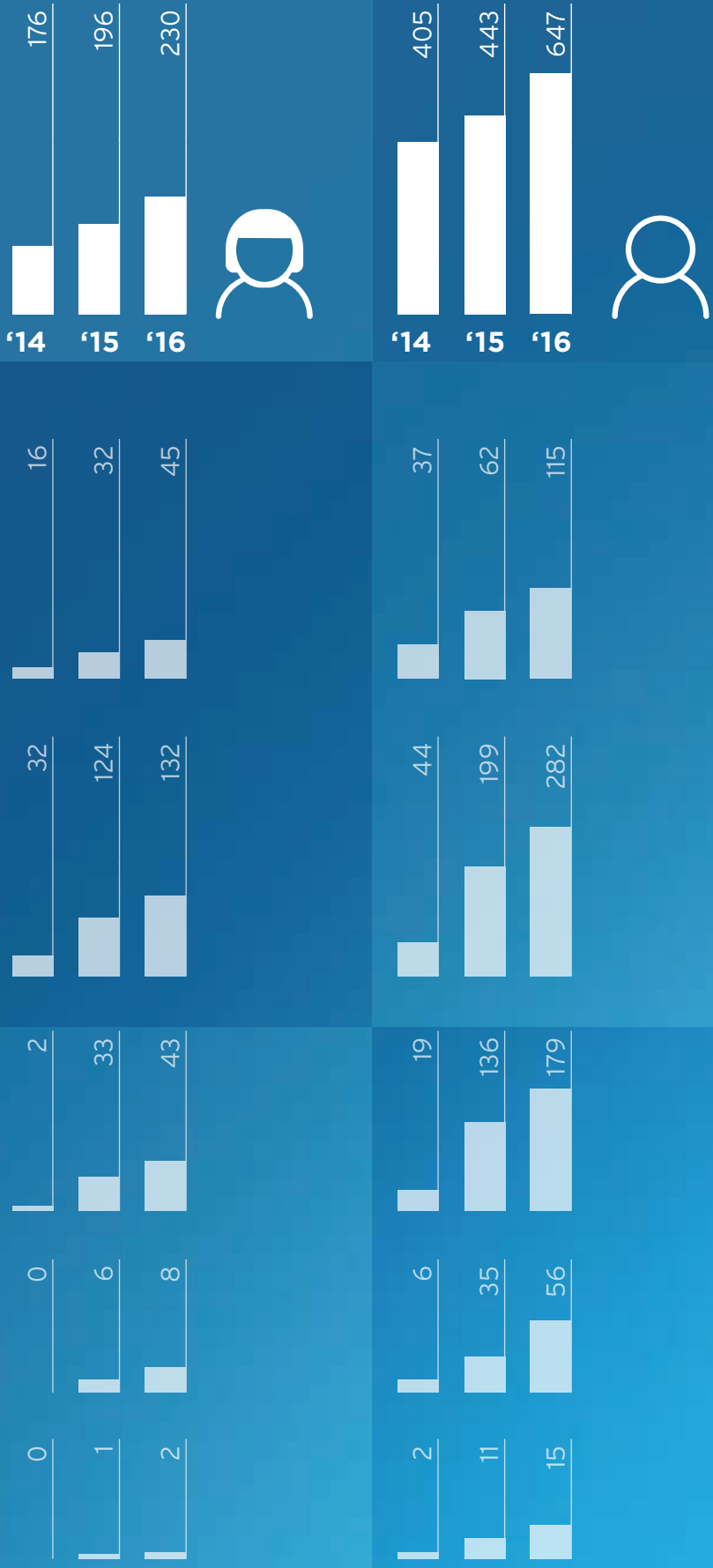
	2014	2015	2016
PRESIDENT AND VICE PRESIDENTS	8	8	12
DIRECTORS	13	16	19
MANAGERS	66	66	95
STAFF AND ADMINISTRATIVE	494	549	751
TOTAL	581	639	877

DISTRIBUTION  
OF EXECUTIVES

	2014		2015		2016	
	M	F	M	F	M	F
PRESIDENT AND VICE PRESIDENTS	6	2	6	2	10	2
DIRECTORS	9	4	12	4	13	6
MANAGERS	52	14	51	15	68	27
TOTAL	67	20	69	21	91	35

DISTRIBUTION OF  
EMPLOYEES BY  
GENDER AND AGE

TOTAL  
EMPLOYEES  
877  
VS. 639 IN 2015

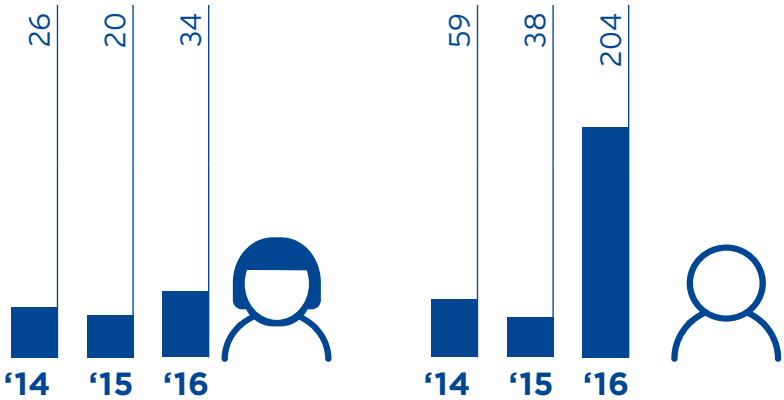






### DISTRIBUTION OF NEW JOBS

TOTAL NEW EMPLOYEES  
**238**  
VS. 58 IN 2015



Of the total number of employees, 97% are Mexican. We favor hiring people who live in the same geographic region where our operating unit is located.

### LOCAL JOBS CREATED\*

	2014		2015		2016	
	LOCAL	TOTAL	LOCAL	TOTAL	LOCAL	TOTAL
VICE PRESIDENTS	8	8	8	8	11	12
DIRECTORS	11	13	14	16	14	19
MANAGERS	61	66	62	66	90	96
STAFF AND ADMINISTRATIVE	491	494	546	549	740	750
<b>TOTAL</b>	<b>571</b>	<b>581</b>	<b>630</b>	<b>639</b>	<b>855</b>	<b>877</b>

\*Local refers to sourced in Mexico.





IEnova's Monterrey Headquarters

# COMPREHENSIVE TRAINING AND DEVELOPMENT

[102-8, 103-2, 404-1, 404-2, 404-3]

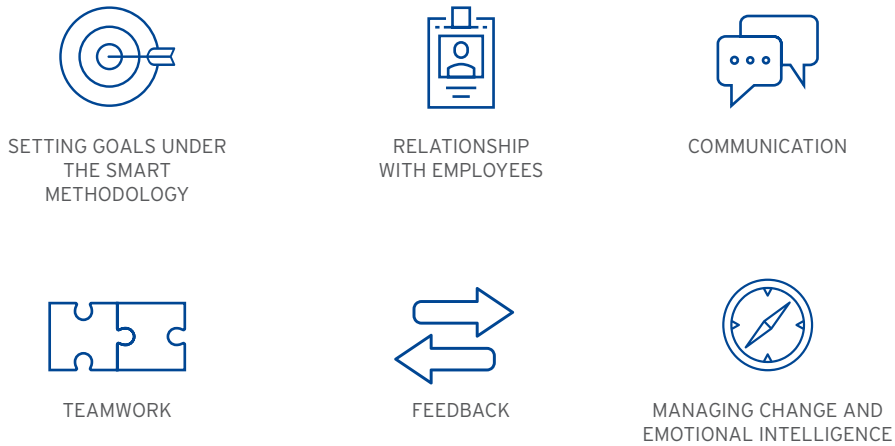
Because we view talent as a strategic asset that generates competitive advantages, we offer a variety of training programs.

Our IEnova Operating Training Program provides paid energy-sector-specific training for three months for young technicians who have recently graduated from technical schools and universities. The program has been very successful both for IEnova—which hires a high percentage of the graduates—and for the students.

In 2016 the third generation of 30 technical operators graduated, including five women who are now part of the IEnova operating team. As a result of the success of this program and the growing need for specialized technicians, in 2017 we plan to begin offering the course twice a year.

We also developed the program known as the “Certification in the IEnova Leadership Standard”, a specialized two-year training that is part of our Development Model. The program is obligatory for those employees who manage teams. Certification is also a pre-requisite for anyone aspiring to a promotion within the company.

The training includes six modules:



The last three modules were taught during 2016, and the first generation of almost 150 employees graduated this year. We are currently developing a plan that will allow us to extend the range of subjects included in the program in the near future and we also plan to offer it online.

To prepare the future leaders of the organization, we offer a two-year training program to 16 high-potential employees selected through a rigorous evaluation process. The program includes executive training (finance, communication skills, project assessment), the development of a project, the support of company Vice President as mentor, as well as a specific incentives plan. All participants are evaluated at the end of the first year and a determination is made as to whether they should remain in the program.



We offer our Vice Presidents and Directors an executive training program that includes seminars given by institutions such as the Instituto Mexicano de Ejecutivos de Finanzas, the Great Place to Work Institute, and the Instituto Tecnológico Autónomo de México (ITAM), as well as specialists within IEnova. The program addresses several topics, including:

- Finances for non-financial executives
- Effective communication skills
- Project assessment and evaluation
- Energy-sector regulation (to be offered in 2017)
- The art of public speaking (to be offered in 2017)

In addition, we do a 360° evaluation of 100% of our employees who supervise staff. With this confidential assessment, we can analyze from the point of view of superiors, peers, other employees, and one’s self, the abilities and competencies demonstrated in daily work activities, such as communication skills, teamwork, planning, and organization, among others.

This year we offered 23,123 hours of live or online training, including the programs described above and other specific courses depending on the area and function, for an average of a little over 31 hours of training per employee.

HOURS OF TRAINING

[404-1]

	2014		2015		2016	
	M	F	M	F	M	F
EXECUTIVES AND MANAGERS	986	341	1,181	484	2,046	607
SPECIALISTS	9,991	2,194	13,407	3,869	1,172	443
OTHER EMPLOYEES	1,822	1,057	1,302	696	16,230	2,625
TOTAL	12,859	3,592	15,890	5,048	19,448	3,675



+10% TRAINING  
HOURS  
VS. 2015



Energía Costa Azul



USD\$760.6  
THOUSAND INVESTED  
IN TRAINING

## PROFESSIONAL GROWTH

In 2016 we registered an unprecedented growth in the number of employees. This growth, in addition to the opening of the energy sector, makes it imperative for us to offer our employees an ever-wider range of options for professional development, including the opportunity to participate in interesting projects.

In collaboration with the Human Capital team, IEnova leaders are firmly committed to motivating their team members to follow through on their career plans. As part of this commitment, we determine specific growth plans for each employee and we promote cross-training (employees who receive training for other positions in their division to acquire new knowledge and continue to grow professionally).

We also have succession plans in place for Vice President and Director positions, based on a methodology that analyzes the ideal competencies and leadership styles needed to ensure that both the IEnova culture and values endure, and even strengthen.

On the other hand, for upcoming generations we offer a Professionals in Development plan that seeks to create a pool of young employees eager to develop a deeper understanding of the energy industry and to gain from the experience of a management team with an exemplary track record.

These students participate in a standard recruiting process. At the end of the training period, participants in the program are evaluated as potential IEnova employees.

In order to contribute to the professional growth of our employees, we designed a corporate communications plan known as *IEnova Somos Todos* (We Are All IEnova) to foster a sense of unity among all our subsidiaries. The campaign includes periodic meetings during which area leaders share with their collaborators the status of projects they are working on, operating results, and assignment of responsibilities.

In 2016, the IEnova Somos Todos program was also in charge of drafting the *IEnova al Día* (IEnova Up To Date) newsletter on the most relevant company information. We also developed a campaign to celebrate IEnova's 20<sup>th</sup> Anniversary and highlighted the history and accomplishments of our company.

In addition, we implemented the Fueling Our Future (FOF) program aimed at optimizing processes and gain efficiencies throughout the organization.







# BENEFITS

[201-3, 401-2]

For the past four years, we have hired an independent consulting firm to do compensation research and assess our competitive position. Results consistently show that the compensation package and benefits we offer our employees are above the national average.

In late 2016, we began using a robust platform known as *Mi Espacio* (My Space) that includes information pertaining to each employee's compensation, as well as other issues such as training programs, benefits, and evaluation results. Through this platform, using any device connected to the internet, employees can access their own information at any time.

At the beginning of each year, we perform a salary-planning process to determine raises and bonuses for each employee, taking into consideration their annual performance evaluation, as well as the company's financial and operational results.

This year we strengthened the employee benefits package with two main measures:

- 1.Vacation pay was increased from 25 to 55% of the vacation days allocated to each employee, which for all levels is more than what is established by law.
- 2.Christmas bonus was increased from the prior 25 to 30 days' pay.

The benefits we offer our employees, beyond what is established by law, are proof of our commitment to their wellbeing. The following are among the most relevant:

- Major health insurance for employees and their family members.
- Minor health insurance
- Life insurance
- Sefore* retirement plan for pension, death, and total and permanent disability
- Savings fund
- Performance bonus
- Short-term bonus
- Long-term bonus
- Vacation pay
- Electronic food coupons
- Company car for Vice Presidents and Directors
- Medical check-ups for Vice Presidents and Directors
- School and professional growth scholarships
- Retention and attraction bonuses
- High-potential recognition program
- Additional vacation days to those established by law
- 30-day Christmas bonus
- Complementary disability compensation, additional to Social Security
- Flexible medical benefits



In flexible medical benefits, we now offer the following options: dental coverage, life insurance, life insurance for spouses, medical insurance for pets, medical appointments plan, funeral expenses insurance, and cancer diagnosis. We also offer the option of purchasing car insurance at preferential rates.

In 2016, we implemented a project to measure the “emotional salary”: those benefits we offer our employees that do not necessarily have a monetary value.

This task will be carried out in three stages:



ANALYSIS OF THE EFFICIENCY  
OF RETRIBUTION



ANALYSIS OF THE VALUE  
PLACED ON THE BENEFIT AND  
RETURN ON INVESTMENT



DEVELOPING A TOTAL  
COMPENSATION WEBSITE  
AND THE EMOTIONAL  
SALARY BRAND

In late 2016, we concluded the first stage with a detailed analysis of all the measures included in the emotional salary, determining which apply to each group of employees.

In 2016, we implemented an email campaign detailing the benefits we offer our employees. The purpose of this campaign is for employees to take advantage of all that IEnova offers them.

Staff hired for specific projects have the same benefits as permanent employees, except a retirement plan, since this is a long-term benefit.

We are convinced that our work culture helps our employees to carry out their duties in an environment where they can grow to their full potential. They also have the tools they need to do their jobs and to find a good life and work balance with the company's support.





# DIVERSITY AND INCLUSION

[412-2]

Respect is a key value of our culture that seeks to achieve an environment of equality in which diversity is promoted with equal opportunities for all, without distinction based on gender, race, age, religious beliefs, political doctrine, social or physical conditions, or sexual orientation. We strictly adhere to all applicable regulations in terms of legality and the respect for human rights, and we operate based on our Code of Ethics.

Additionally, we have policies in place that promote inclusion and diversity, including the following:

- Health care coverage for same-sex partners
- Coverage for illnesses such as HIV, with no waiting period
- Coverage for pregnancy, with no waiting period

As proof of our commitment to these good practices, in 2016 IEnova was ranked 50<sup>th</sup> on the top 100 companies in Mexico with the best gender equality and diversity policies.

We also have a Development, Equality, and Diversity Committee in which several top executives in the company participate, and whose main responsibilities are to:

- Promote measures to encourage a culture of equality and diversity among all members of the organization.
- Verify that we carry out programs to promote strengthening competencies for personal growth, favoring the comprehensive development of employees.
- Ensure that there are policies and procedures in the company that take into consideration the issues of diversity, equality, and inclusion.
- Validate that internal promotions are carried out in a framework of equality and transparency.
- Promote causes related to diversity, equality, and inclusion in the community.
- Validate that we have the annual budget required to carry out the projects specified by the Committee.
- Generate the guidelines and approve the general strategy for equality, diversity, and development at IEnova, aligned with the strategy and IEnova's sustainability pillars.



## HEALTH AND **SAFETY**

[103-2, 403-1]

The goal of our Health and Safety management system is to make sure that our employees are able to carry out their duties under safe working conditions.

At IEnova we comply with the strictest safety regulations, such as the Official Mexican Standards, the Federal Labor Law, the Social Security Law, and all regulations applicable to our company. In addition, we also adhere at all times to our Manual for Managing the Health and Safety System, our Internal Labor Bylaws, our Code of Ethics, and all policies and procedures developed specifically to achieve a zero-accidents operation, in a work environment in which health and safety play a key role. To maintain or even improve our health and safety standards, we implement a series of world-class preventive measures.

As a result of the fast pace at which we are building the Sonora, Ojinaga-El Encino, and San Isidro-Samalayuca pipelines, in addition to the inclusion of Gasoductos de Chihuahua into our operation in September 2016, the number of hours worked reached record highs for the company, up from 4.09 million in 2015 to 7.8 million hours worked in 2016. In terms of Health and Safety, this increase entailed additional responsibility, since each hour worked is, by definition, a moment of exposure during which we need to be vigilant and to apply controls.

All companies that require certification because of the characteristics of their operation are either already certified or in the process of being certified under Occupational Health and Safety Assessment Series (OHSAS 18001).

Two years ago we designed a unique proactive indicator in which we describe 24 elements that need to be evaluated at all our operating units as part of our Health and Safety Management System.

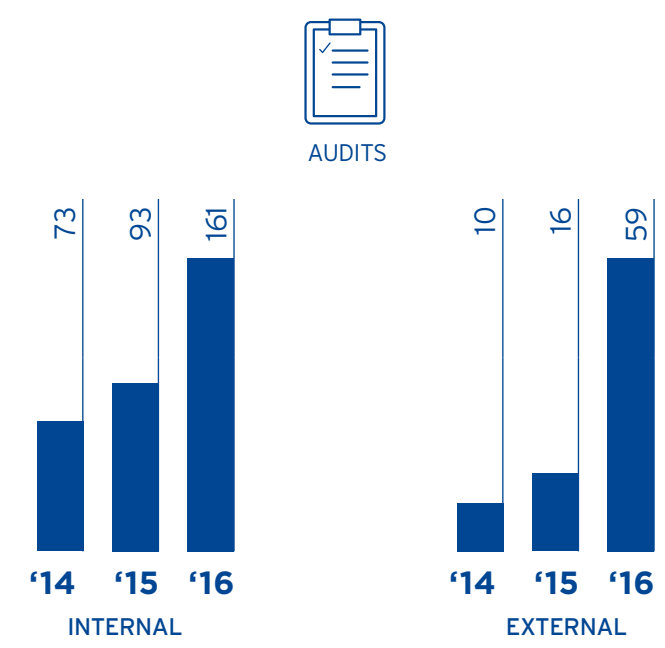
In 2016, we included two new elements in the system: Wellness, based on our conviction that personal wellbeing results in better job performance, and Dangerous Fauna, aimed at making sure our employees know what to do if they come into contact with an animal or insect that could endanger their lives.

We also continued applying the cross-verification process through which an employee—who may or may not belong to the Health and Safety division—verifies compliance at a business unit other than his own.





We also employ our Health and Safety Principles to Save Your Life Manual that includes measures to prevent incidents in twelve areas, such as using personal protection gear, the incident reporting procedure, and the correct way to work with electricity, machinery, vehicles, and at high altitudes, among others. In 2016, 519 employees participated in the Health and Safety committees and work teams. To oversee the implementation of the Health and Safety Management System, we doubled the number of audits carried out during the year, compared to the previous year.



To strengthen our culture of prevention, in 2016 we offered 19,469 hours of training in Health and Safety through 259 courses on different issues, including safety when dealing with fire and when working with electricity, storing and handling hazardous materials, and emergency response, among others.

As part of our efforts in Health and Safety, the IEnova Operations Committee includes these issues in its agenda. In addition, each of our operating units has the following:

- A Safety and Hygiene Commission
- A *Champions* team to monitor the activities of the Health and Safety Management System
- Preventive and emergency brigades
- Specialists in health and safety

We implement different initiatives such as the *Health and Safety Employee of the Month* award, the *Family Day* aimed at getting our employees to replicate the company's good practices at home, the drawing contest *Safety and My Family*, among others.

To strengthen our occupational health culture, at all our business units we give lectures on issues such as prevention and health care, and hold vaccine campaigns against illnesses such as tetanus and influenza. We also perform medical tests on personnel who require them due to the risks implied in performing their duties. At some of our operating units we have an onsite doctor's office, a morning exercise program called *Pausa por la Salud* (Take a Break for Health), and sports activities.



# PERFORMANCE IN SAFETY

[403-2, 403-3]

All our operating units comply with the requirements of the comprehensive evaluations done by the Mexican Department of Labor and Social Welfare (STPS) in order to be certified under its Self-Management Safe Company Program in Health and Safety at the Workplace (PASST).

We have voluntarily opted to continue to be part of this program and our goal is to include all our assets before they have been operating for 12 months. For those assets already operational, our goal is to maintain or surpass their current level, with level 3 being the highest achievable level.

In 2016, three of our facilities were evaluated under the comprehensive PASST self-management program. We also included a new asset into the program, Energía Sierra Juárez (ESJ). Currently, two of our facilities are at level 1 (TDM, GR), three have a level 2 score (ECA, IGM, ECOGAS Chihuahua), and another 3 have obtained the level 3 grade (TGN, ECOGAS Mexicali and ECOGAS La Laguna-Durango).

Our Total Recordable Incidents Rate (TRIR) was 0.77, our Lost Time Accidents Rated (LTAR) reached 0.28, both at levels below the prior year and surpassing the goals we had set for 2016. For next year, our goals will be a stricter 2.19 in TRIR and 1.66 LTAR.

## ACCIDENT RATE

	2014	2015	2016
WORK-RELATED FATALITIES <sup>1</sup>	0	0	0
TOTAL RECORDABLE INCIDENT RATE (TRIR) <sup>2</sup>	1.40	1.27	0.77
LOST TIME ACCIDENT RATE (LTAR) <sup>3</sup>	0.87	0.59	0.28

1 The accident rate does not consider first aid or events with no injuries; at-risk staff includes IEnova employees as well as personnel from contractor companies at our facilities or rights of way: Accident Rate = (Number of accidents x 200,000 ) / hours worked.

2 TRIR = Total Recordable Incident Rate. We include injuries and work-related illnesses beyond first aid (i.e. recordable incidents) whether they resulted in lost days or not, based on the definition of the US government's Occupational Safety and Health Administration.

3 LTAR = Lost Time Accident Rate. Includes recordable accidents that resulted in lost work days.

When we start to build a new project, we apply a rigorous criteria to select our partnering contractors, all of whom must sign a contract committing to meet our Health and Safety requirements, which include the following, to name a few:

- Complete our safety induction course.
- Have procedures and permits in place to perform high-risk tasks.
- Conduct periodic field inspections and random breathalyzer and drug testing.

Finally, since we operate in compliance with the General Civil Protection Law and we promote a culture of prevention in case of risks or hazards resulting from natural or human-induced disasters, in 2016 we carried out 58 drills at our operating units, for a 305% increase with respect to the previous year.



OUR  
2017  
GOAL

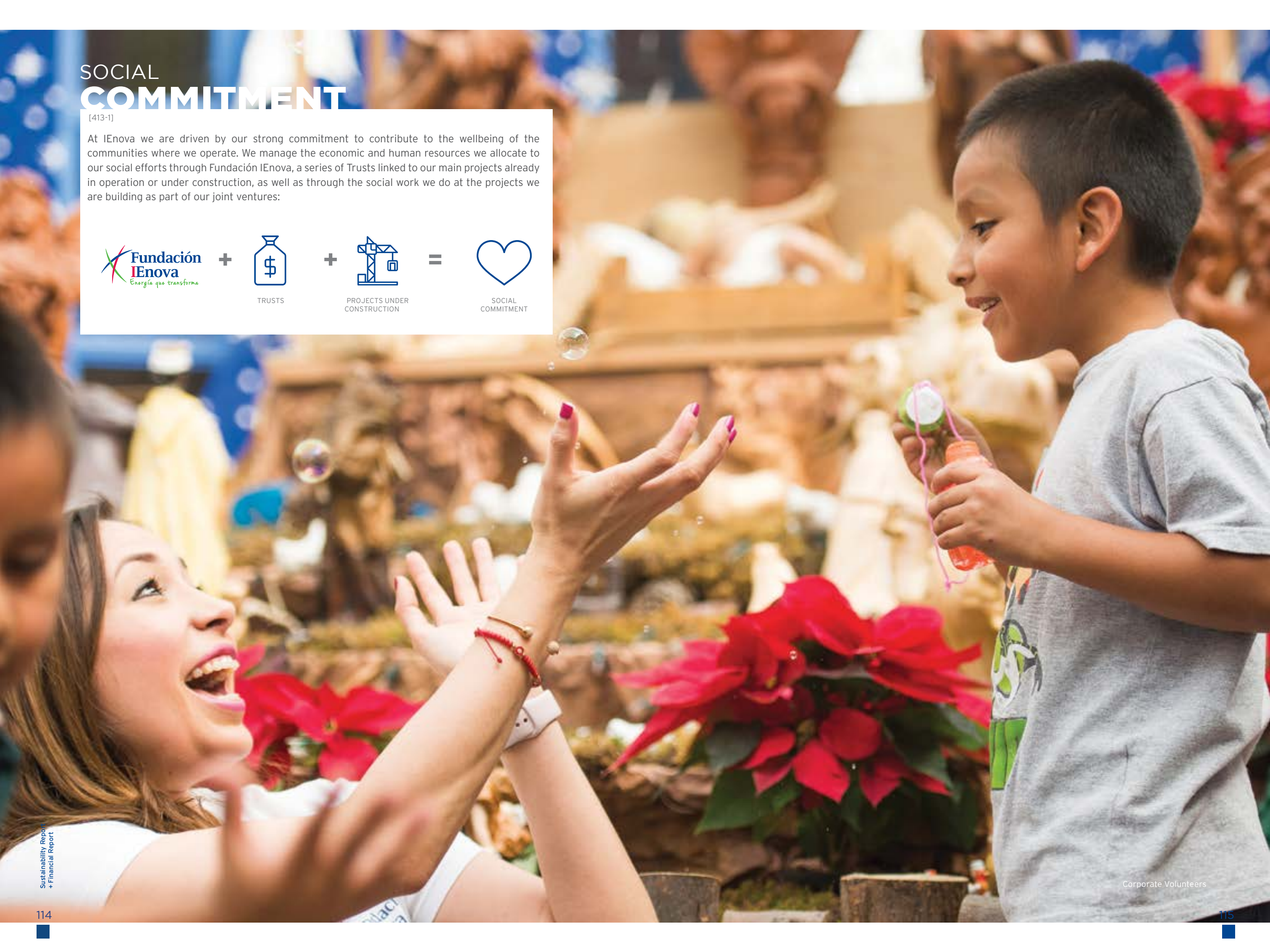
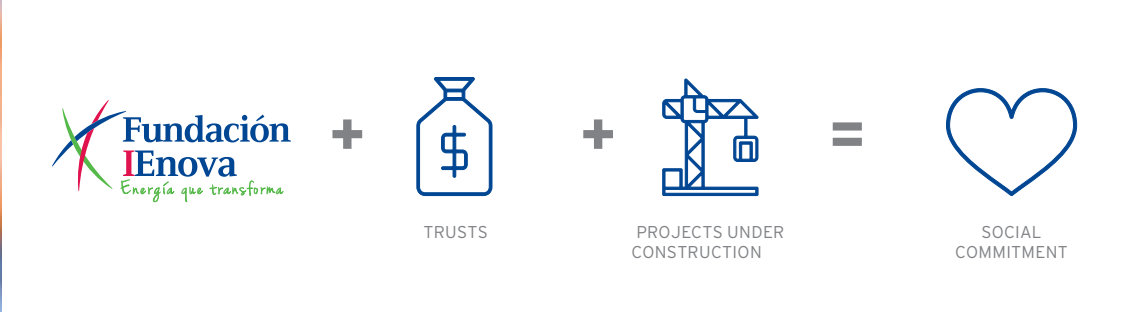
2.19  
TOTAL RECORDABLE INCIDENT RATE  
(TRIR)  
1.66  
LOST TIME ACCIDENT RATE (LTAR)



# SOCIAL COMMITMENT

[413-1]

At IEnova we are driven by our strong commitment to contribute to the wellbeing of the communities where we operate. We manage the economic and human resources we allocate to our social efforts through Fundación IEnova, a series of Trusts linked to our main projects already in operation or under construction, as well as through the social work we do at the projects we are building as part of our joint ventures:





# FUNDACIÓN IENOVA

Created in 2015, Fundación IEnova operates with the goal of strengthening the impact of the economic and human resources we invest in the communities in which we operate and to which we belong.

Fundación IEnova is a second-tier foundation duly authorized by the Mexican Internal Revenue Service (*Servicio de Administración Tributaria, SAT*) to make donations and economic contributions.

## PILLARS FOR ACTION

We focus on supporting those projects that most require our collaboration, that bring the greatest benefits to the community in the mid- and long-term, and that are also congruent with the four pillars on which the activities of the Foundation are based:



EDUCATION



ENVIRONMENT



VULNERABLE  
GROUPS



COMMUNITY  
SERVICES

Through the Foundation we support non-profit organizations that are SAT-approved and whose activities align with the social goals described in its bylaws.

Fundación IEnova designed an assessment methodology to structure the way in which we evaluate projects and organizations. Our management team adheres to this methodology when selecting the organizations that will receive donations from us. In addition to transparency in the donation process, this enables us to maximize the impact of the allocated resources.

Fundación IEnova is supervised by an Advisory Committee and a Managing Board. The Advisory Committee includes company Vice Presidents and is chaired by IEnova's Chief Executive Officer and Chairman of the Board. The Managing Board is made up of employees and is chaired by the Chief Corporate Affairs & HR Officer. In addition, IEnova's internal auditor reviews the way in which Fundación IEnova is operated.





# MANAGEMENT STRUCTURE FOR FUNDACIÓN IENOVA

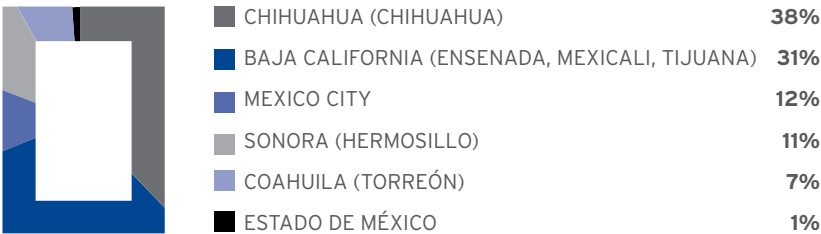
[103-2]



The Fundación IEnova management team submits a list of pre-selected projects to the Managing Board for final approval. Projects approved by the Managing Board are then submitted to the Advisory Committee which, in turn, meets to assess and approve the projects and organizations chosen to receive the donations. It also evaluates the results of the projects, supervises the performance of the Managing Board, and evaluates how Fundación IEnova is being managed.Prior to handing over the resources, we carry out an anti-corruption practices authorization process in accordance to the Foreign Corrupt Practices Act (FCPA), the Corporate Ethics Policy, and the Anti-Corruption Procedure for Donations, Memberships, and Improvements at IEnova, implemented by the Corporate Ethics area.

The selected charities must submit quarterly reports as well as the supporting documentation needed to verify compliance with the established timetable and conditions. In 2016, Fundación IEnova was allocated a budget of USD\$500 thousand. With these resources, it supported 12 organizations with 19 projects in ten cities in six Mexican states.

## DONATIONS BY STATE IN 2016



Since 2015, as part of our partnership with the Fundación para la Protección de la Niñez, I.A.P., an organization dedicated to helping vulnerable groups all over Mexico, we have adopted six foster homes for children living in vulnerable conditions in localities where IEnova has operations, such as Hermosillo, Mexicali, Ensenada, Torreón, Chihuahua, and Mexico City. Through the development of infrastructure-improvement projects we seek to contribute to changing the conditions in which these children live and increase their opportunities for a better life.

# 2016 DONATIONS BY ACTION PILLAR

## USD\$500 THOUSAND

### EDUCATION



28%

Promesa Educativa para México, A.C.  
Fundación UABC, A.C.  
Asociación Mexicana pro Colegios del Mundo Unido, A.C.  
Instituto Educativo del Noroeste, A.C. (CETYS)

### ENVIRONMENT



13%

Fundación para los niños de las Californias/Hospital Infantil las Californias, I.B.P.  
Reforestamos México, A.C.

### VULNERABLE GROUPS



40%

Fundación del Empresariado Chihuahuense, A.C. (FECHAC)  
Fundación Merced Coahuila, A.C.  
Fundación del Empresariado Sonorense, A.C. (FESAC)  
Casa Hogar del Anciano de Ensenada, A.C.  
Fundación para la Protección de la Niñez, I.A.P.

### COMMUNITY SERVICES



19%

Fundación del Empresariado Chihuahuense, A.C. (FECHAC)  
Cruz Roja Mexicana, I.A.P.  
Fundación del Empresariado Sonorense, A.C. (FESAC)





## CORPORATE VOLUNTEERS

Our corporate volunteers are an integral part of Fundación IEnova. We encourage our employees to participate in social commitment events.

In 2016, we held 14 volunteer events through which we supported the following projects:

**Escuela + Sonrisas (school + smiles):** a drive to collect school supplies for donation to foster homes, benefiting approximately 190 children in six cities.

**Árbol de la Sonrisa (tree of smiles):** a drive to collect toys, clothes, and shoes for donation to foster homes, benefiting approximately 230 children in seven cities.

**Reforestation Program in the foothills of the Nevado de Toluca volcano:** we adopted a half-hectare to plant 500 trees, 65 employees and their families participated.



**+1,000 PEOPLE**  
BENEFITED BY OUR CORPORATE  
VOLUNTEERS PROGRAM IN 2015 AND 2016

The 2015-2016 Results for Fundación IEnova are available to view and download at: <http://ienova.com.mx/sustentabilidad-informes-politicas.html>





## TRUSTS

[203-1]

### ENSENADA

In 2004, we constituted the Ensenada Trust during the Energía Costa Azul (ECA) construction process. This trust is made up of a Technical Committee and an Advisory Board and of distinguished citizens of the health, private, academic, economic development, and conservation sectors from the city of Ensenada. The city's Mayor and IEnova representatives also participate.

For the constitution of the Trust, IEnova contributed USD\$7 million to be allocated to academic, equipment, infrastructure, public safety, and environmental projects in Ensenada.

In 2016, we invested USD\$133.2 thousand to build a food warehouse for the municipal DIF (Family Protection Agency), and to draft the executive plan to rehabilitate the electric installation of the Riviera Civic and Cultural Center.

From the date it was constituted and as of December 31<sup>st</sup> 2016, we have supported 22 projects and invested USD\$3.3 million in medical equipment, infrastructure works, and in education and municipal services, sports, and public safety, benefiting the approximately 486,000 people who live in Ensenada.

### SONORA

We constituted the Sonora Trust in 2012. Representatives from the Federal Electricity Commission (CFE), the state government of Sonora, and IEnova participate in a Technical Committee that reviews all applications for public works.

In 2016, we invested USD\$630.5 thousand in rehabilitation works at sports and community facilities, in materials and equipment donations to the Naco Red Cross and Fire Departments, and in the Yaqui community known as Vicam. Additionally, in the municipality of Puerto Libertad, in Sonora, we finished the Plaza Los Pinos social and tourist center.

From the date it was constituted and as of December 31<sup>st</sup> 2016, the Trust has granted its support to 42 projects and invested USD\$1.67 million in nine municipalities in the state of Sonora, benefiting an estimated 817,485 people.

### OJINAGA-EL ENCINO

We constituted the Ojinaga-El Encino Trust in 2015. Representatives from the Federal Electricity Commission (CFE), the state government of Chihuahua, and IEnova participate in it.

In 2016, which was the first year during which this trust made any investments, we invested USD\$1.03 million in six projects that included installing lighting, paving with asphalt, donating cement for building roads, supplying solar pumping equipment and blankets for the family protection agency, DIF, in the municipality of Chihuahua.





#### SAN ISIDRO-SAMALAYUCA

We constituted the San Isidro-Samalayuca Trust in 2015. Representatives from the Federal Electricity Commission (CFE), the state government of Chihuahua, and IEnova participate in it.

In 2016, which was the first year during which this trust made any investments, we invested USD\$229.3 thousand in four projects that included installing lighting, donating an ambulance, and works at sports facilities in the San Isidro *ejido* (or common land).

#### ETHANE PIPELINE

At our Ethane Pipeline project, we made two types of investments in social works. On the one hand, we collaborated with the municipal governments through which the project passes and, on the other, we helped the communities directly.

In 2016, we invested USD\$749 thousand in works to restore the asphalt pavement and to remodel a multi-use hall, which we did in collaboration with several counties in the state of Tabasco. Further, as part of the work we do in direct collaboration with the communities themselves, we contributed to road works in different locations in the state of Chiapas. With these works we benefited 6,990 people through nine donations.

Since 2013, when construction began, to December 31<sup>st</sup> 2016, we had invested USD\$6.3 million benefiting 89,848 people in several municipalities in the states of Veracruz, Chiapas, and Tabasco.

## PROJECTS UNDER CONSTRUCTION OF ASSETS BELONGING TO JOINT VENTURES

To make good on the social commitment we have established with the communities neighboring our operations, we also make social investments through the projects we build as part of our joint ventures with other companies.

#### LOS RAMONES I

The Los Ramones I Pipeline crosses five counties in the states of Tamaulipas and Nuevo León.

During 2016, we made some adjustments to the rehabilitation work we had done to the Praxedis hall, in the municipality of Camargo, in the state of Tamaulipas.

From the date we began construction and as of December 31<sup>st</sup> 2016, we have invested USD\$1 million in social works.

**USD\$2.8\*** MILLION  
IN DONATIONS TO SOCIAL  
WORKS IN 2016

\* Includes investments in social works made by the Trusts: Ensenada, Sonora, Ojinaga-El Encino, San Isidro-Samalayuca, as well as Los Ramones I Pipeline and the Ethane Pipeline.





# ENVIRONMENTAL PILLAR




We operate our businesses in a socially responsible manner, and we strictly adhere to the environmental regulations applicable to our business segments.




# MANAGING SUSTAINABLE RESOURCES AND ENVIRONMENTAL IMPACT

[103-2b, 103-2c]


At IEnova we are convinced that we must respect and protect the environment. Consequently, we operate our business in a socially responsible manner, strictly adhere to all environmental regulations, and we base our work on the actions we have defined in the environmental pillar of our sustainability strategy:




PRODUCE CLEAN AND EFFICIENT ENERGY



DEVELOP AN ENVIRONMENTAL CULTURE



MANAGE OUR WASTE AND EMISSIONS IN A COMPREHENSIVE WAY



PROTECT BIODIVERSITY

## OUR ENVIRONMENTAL POLICY

We operate on the basis of a series of environmental management systems that set the guidelines we need to follow during the development, construction, and operation stages of our assets. These systems comply with the parameters established by the ISO 14001:2004 environmental management standard. To this end, we have designed formats and procedures to identify and control environmental aspects, hazardous and non-hazardous waste, compliance with the law, and the protection of flora and fauna, among others.

We follow best practices in the industry and adhere to all applicable environmental laws, regulations, and norms. We respect the terms and conditions established by the Mexican Ministry of the Environment and Natural Resources (SEMARNAT) and by the National Safety, Energy, and Environmental Agency (ASEA) for our environmental permits and authorizations.

To improve our management practices, in 2016 we designed an Environmental Information System to collect and process data on waste, emissions, the use and discharge of water, and energy consumption of all our assets. With this new system, we will be able to establish the baseline we require to set our future efficiency goals, standardize methodologies for calculating and recording data at all our subsidiaries, and to generate, verify, and update information throughout the year. It will also allow us to comply more expeditiously with all applicable corporate and legal requirements. We will implement the system gradually starting in 2017.



Sonora Pipeline





+119,000 customers benefited



Wind power is a clean energy that does not produce pollutant gas air emissions

## IENOVA'S ENVIRONMENTAL ADVANTAGE



Most IEnova's economic activities employ natural gas



↓ 20% carbon dioxide (CO<sub>2</sub>) emissions, compared to using fossil fuels

Additionally, we currently have a first draft of our proposed Climate Change Strategy that will allow us to contribute to reaching the country's goals for reducing greenhouse gas emissions and generating energy from clean and renewable sources. If approved by the Sustainability Committee, we will gradually implement this Strategy starting in 2017.

On the other hand, we are committed to obtain either the Clean Industry or Environmental Quality certifications issued by SEMARNAT or ASEA. We have adopted the practice of obtaining these certifications within 12 months after an asset begins to operate. The Energía Sierra Juárez wind farm, for example, has already been certified as a Clean Industry. The Aguaprieta Pipeline and ECOGAS, our natural gas distribution company, were both recertified as Clean Industry in 2016.

In addition, we have taken the necessary measures to have the authorized organisms certify our operating units in ISO 14001:2004. Energía Sierra Juárez and Termoeléctrica de Mexicali are both in the process of implementing a comprehensive ISO 9001, ISO 14001, and OHSAS 18001 system. The Rosarito and Aguaprieta pipelines, and the Guaymas-El Oro segment of the Sonora project—which is currently under construction—have already been ISO 14001:2004 certified for environmental management.

We employ procedures in our operations that are aimed at protecting the environment. In the Gas segment, we mostly store, transport, and distribute natural gas, an environmentally-friendly hydrocarbon, which is neither toxic nor corrosive, is 40% lighter than air, and whose combustion generates low emissions of NO<sub>x</sub>, SO<sub>x</sub> y CO. By developing the natural gas infrastructure, which grants access to this low-carbon fuel to more users, we help Mexico comply with its global mitigation commitments.

We generate electricity at Termoeléctrica de Mexicali, a combined-cycle natural-gas-fired plant that surpasses emissions standards applicable in both Mexico and the US. We also generate clean energy at our joint venture with InterGen, Energía Sierra Juárez, the first cross-border wind farm between Mexico and the US that started operating in 2015 and, during this first phase, has a capacity to produce 155 MW.

Furthermore, at year-end 2016, we increased our renewable energy portfolio. First, when we were awarded two solar energy projects: Rumorosa Solar, in the state of Baja California, and Tepezalá II Solar, in Aguascalientes. We expect these two projects to start operating in 2019. And, secondly, by purchasing the Ventika wind farm, located in the state of Nuevo León. Because of its 252 MW-capacity, this is currently considered to be one of the largest wind farms in Mexico and Latin America.





Energía Sierra Juárez

# EMISSIONS

[305-1, 305-2, 305-5, 305-7]

At IEnova we employ state-of-the-art technology to continually monitor and record emissions produced at our operating units. In 2016, we revised our methodology to calculate direct and indirect emissions in order to ensure that all our subsidiaries are complying with the guidelines of the General Climate Change Law and its Bylaws, in the terms of the National Emissions Registry and its corresponding Agreements. This meant we had to review the emission factors that were previously in use, and the way in which we calculate CH<sub>4</sub> and N<sub>2</sub>O emissions from mobile sources, among other emissions.

Energía Costa Azul (ECA) and Termoeléctrica de Mexicali (TDM), both of which use natural gas turbines to generate electric power, require the most stringent monitoring. We employ a system to control and monitor emissions, a catalytic reduction module to decrease the discharge of carbon monoxide (CO), and a Selective Catalytic System (SCR) to control nitrogen oxides (NOx). With this, we are able to ensure that air emissions at these facilities are continually at levels below what the norm establishes

Because of the nature of their processes, we do not generate significant air emissions in our Distribution and Pipelines businesses. At ECOGAS most emissions are generated by the automobiles our salesforce and operations and maintenance staff use to do their jobs. It is worth mentioning that all our vehicles comply with the requirements of the Mexican verification program.

## REPORT ON IENOVA'S AIR EMISSIONS\*

[305-1, 305-2]

### AMOUNT IN METRIC TONS OF CO<sub>2</sub>e

TYPE OF EMISSIONS	2014	2015	2016
DIRECT EMISSIONS	1,588,486	1,796,662**	1,383,174
INDIRECT EMISSIONS	2,434	3,827	5,430
TOTAL EMISSIONS	1,590,920	1,800,489	1,388,604

\* The majority of emissions are generated by ECA and TDM.  
\*\*This figure differs from what we published in our 2015 Sustainability Report because, in order to comply with the guidelines of the National Emissions Registry, we used different emissions factors than we had in prior years. We calculated CH<sub>4</sub> and N<sub>2</sub>O emissions that had not been estimated for mobile sources, as well as other types of emissions. We ratified CO<sub>2</sub>e conversions, as specified in the Agreements issued by the authority. As a result, we calculated the data for both 2015 and 2016 using the new methodology.

## EMISSIONS OF DISTRIBUTION CUSTOMERS FROM THE USE OF OUR PRODUCTS

[305-3]

TYPE OF EMISSIONS	GAS EMISSIONS	AMOUNT IN METRIC TONS OF CO <sub>2</sub> e		
		2014	2015	2016
OTHER*	NATURAL GAS SOLD TO CUSTOMERS	1,421,083	1,518,265	1,748,349

The majority of emissions are generated by our customers when they use the natural gas we distribute to them.

\*This figure differs from what we published in our 2015 Sustainability Report because, in order to comply with the guidelines of the Bylaws of the General Climate Change Law with regards to the National Emissions Registry, we used different emissions factors than we had in prior years and we ratified CO<sub>2</sub>e conversions, as specified in the Agreements issued by the authority. As a result, we calculated the data for 2014, 2015, and 2016 using the new methodology.





# WASTE GENERATION AND MANAGEMENT

[301-2, 306-2, 306-3]

ECA and TDM employ the strictest waste management programs because they are the sites that generate the largest amount of waste. Since our goal is to employ resources and manage waste in a responsible manner, we work with authorized companies to adequately dispose of waste. When the physical and chemical nature of the waste allows, we collaborate with suppliers that either recycle or reuse waste instead of disposing of it in land fields. Both ECA and TDM are registered as generators of waste that requires special handling in Baja California.

We measure and record the way in which we manage waste. At both companies, we have preventive and correction programs in place to minimize risks and operation failures and to ensure the integrity and reliability of our operations.

Resulting from our waste management practices, in 2016 we had no reports of accidental leaks. This year we recycled 18 tons of hazardous waste and 36 tons of non-hazardous waste.

## REPORT ON IENOVA'S TOTAL WASTE GENERATION AND MANAGEMENT\*

[306-2]

TYPE OF WASTE	DISPOSAL	AMOUNT (METRIC TONS)		
		2014	2015	2016
HAZARDOUS WASTE	WASTE CONFINED IN CONTROLLED DEPOSITS	11	9	9
	INCINERATED WASTE	2	3	0
	WASTE RECYCLED BY ANOTHER COMPANY (RECOVERY OF WASTE OIL AND TRANSFORMED ENERGY)	8	7	18
	<b>TOTAL HAZARDOUS WASTE</b>	<b>22**</b>	<b>19***</b>	<b>27****</b>
NON-HAZARDOUS WASTE	NON-HAZARDOUS WASTE AND BYPRODUCTS	10,982	7,956	7,447
	WASTE CONFINED IN CONTROLLED DEPOSITS	10,943	7,921	7,412
	WASTE RECYCLED BY ANOTHER COMPANY	39	35	36

\* The majority of waste is generated by ECA and TDM.

\*\* 21.70, rounded up to 22

\*\*\* 19.36 rounded down to 19

\*\*\*\* 26.88 rounded up to 27

Since we registered an increase in our waste in 2016, we designed a strategy to reduce waste and identify the techniques we need to employ. In addition, we will reinforce supervision of preventive maintenance procedures and ensure that reduction techniques are being executed correctly.

2016 was the first whole year of operations of our Energía Sierra Juárez wind farm, which started operating in 2015. Of the total waste generated at this facility, 59% is reused in the process to generate electric power, 37% is recycled (recovery of waste oil), and 4% is disposed of in confined deposits.



# WATER

[303-1, 303-2, 303-3, 306-1]

Due to the nature of our processes, IEnova's efforts to reuse, save, and recycle the water we use are primordially focused on ECA and TDM, our most water-intensive operating units.

At ECA we use water exclusively for the heating process required to produce a phase change in natural gas, which means the liquid never comes in contact with any materials. Additionally, 99% of the water used at this company—the IEnova facility that uses the most water—is extracted from the ocean and returned to the original source, always strictly complying with the specifications described in this operation's environmental permits. The other 1% is wastewater that we treat in a plant that cleans it before it is discharged into the ocean.

An accredited laboratory analyzes the ocean water surrounding our ECA facility, ensuring that the physical and chemical characteristics of our discharge water are maintained and that we fully comply with the conditions established in our discharge permits and with the authorized contaminant limits established by the regulations.

On the other hand, at TDM we use demineralized water to produce the steam needed to move the turbine and for the cooling system. All the water used for TDM's processes is municipal wastewater from the Zaragoza oxidation lagoon, in Mexicali.

Wastewater is treated to eliminate organic contaminants and mineral salts by employing different processes. TDM's wastewater treatment plant can process a volume of 920m³/h. The majority of the treated water is used in the cooling systems, and the rest for producing steam, among other uses. The water that is treated at TDM is used several times by purging it in the heat recovery process and in the cooling towers, before being discharged. Purged water is discharged into a branch of the Río Nuevo, in compliance with our discharge permit and the NOM-001-SEMARNAT-1996 norm.

TDM uses state-of-the-art environmental technologies that comply with or even surpass all applicable norms in Mexico and in the state of California, making it one of the cleanest natural-gas-fired power plants among those supervised by the Western Electricity Coordinating Council, WECC.

## REPORT ON IENOVA'S TOTAL WATER DISCHARGE\*

[306-1]

TYPE OF DISCHARGE	AMOUNT (M³)		
	2014	2015	2016
WATER DISCHARGED INTO MUNICIPAL TREATMENT PLANTS	6,722	4,803	4,952
WATER DISCHARGED TO OTHER SOURCES	1,320,301	1,622,572	1,892,004
WATER DISCHARGED TO THE OCEAN	2,081	2,088	2,104
<b>TOTAL WATER DISCHARGED</b>	<b>1,324,942</b>	<b>1,629,463</b>	<b>1,899,060</b>
WATER RETURNED TO ITS ORIGINAL EXTRACTION SOURCE IN THE SAME OR BETTER CONDITIONS	101,977,222	93,746,404	74,543,748**

\* The majority of water is used by ECA and TDM.  
\*\*Total water discharged 74,545,852 m³. Water returned to the source from which it was extracted in the same or better conditions: 74,543,748 m³ (water discharged minus the amount of water treated by the wastewater treatment plant).

## REPORT ON IENOVA'S TOTAL WATER BY TYPE OF EXTRACTION SOURCE

[303-1]

TOTAL WATER WITHDRAWAL BY SOURCE	AMOUNT (M³)		
	2014	2015	2016
GROUND WATER	4,016	2,320	3,010
MUNICIPAL WASTEWATER	5,660,211	5,846,377	4,973,429
MUNICIPAL WATER	4,696	4,669	5,954
WATER OBTAINED FROM OTHER SOURCES (OCEAN WATER)	101,979,303	93,804,173	74,672,817
<b>TOTAL WATER EXTRACTED</b>	<b>107,648,226</b>	<b>99,657,539</b>	<b>79,655,210</b>



# CONSERVATION OF BIODIVERSITY

[304-1, 304-2, 304-3]

At IEnova, we have developed several programs aimed at conserving biodiversity. With some variations dependent on the applicable environmental regulation, the characteristics of the project, and the affected ecosystem, these programs prioritize those issues to which each business unit can make the largest contribution, and are divided into two types of efforts:



FLORA RESTORATION, CONSERVATION  
AND COMPENSATION



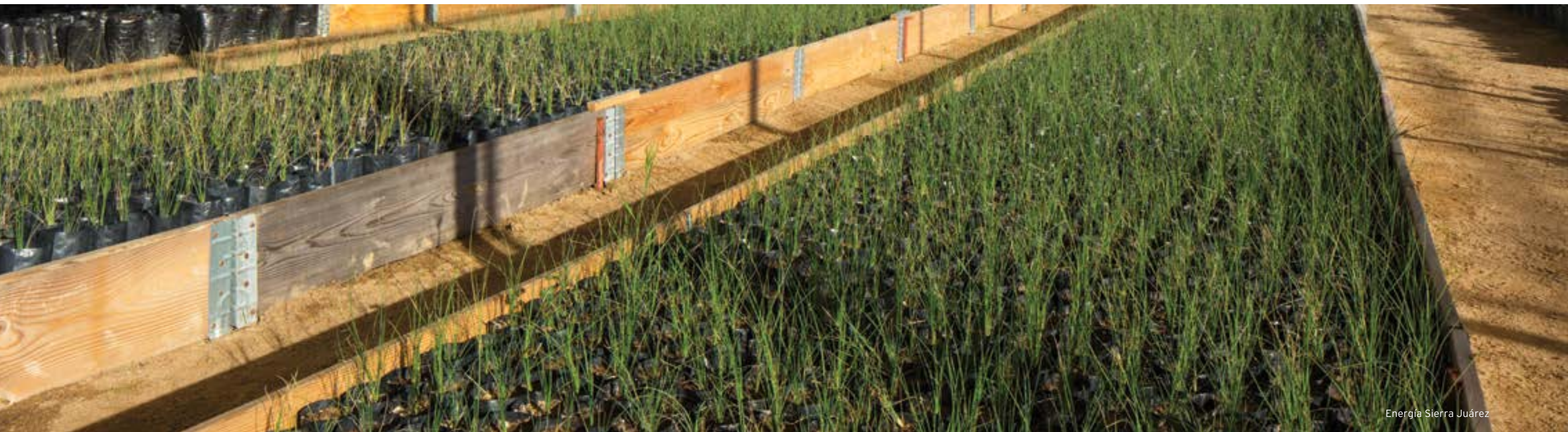
PROTECTION AND RESCUE  
OF WILDLIFE

We use those programs centered on conserving biodiversity to strictly comply with the guidelines of the authorizations issued in favor of IEnova. As a good practice within our company, we have voluntarily continued to implement some of the programs with which we contribute to preserving natural resources.

In 2016 we designed our Strategy for the Conservation of Natural Resources. It describes the general principles needed to foster a culture of environmental stewardship and the correct way to handle natural resources so that, when carrying out our activities, the allocated investments contribute to maximizing the expected results.







Energía Sierra Juárez

## FLORA RESTORATION AND COMPENSATION

The nurseries we have installed in areas neighboring our construction sites and that we have maintained, on occasions for more than 10 years, are among the flagship IEnova programs to protect and compensate flora. They are used to protect and produce, in a controlled environment, and, then, replant, on the affected strip of land, specimens of different species of the native plants we find when we first arrive at a specific site.

Due to considerable investments we make in these efforts and to our close collaboration with our suppliers, we have gained considerable experience in handling endemic species of flora.

We have rescue, restoration, compensation, and conservation programs in place that include, to a greater or lesser degree depending on the program, the following activities:

- Installing nurseries to produce, in a controlled environment, specimens of different species of plants native to the region in which a given project is built.
- Rescuing endemic and at-risk species.
- Acquiring and germinating seeds through collectors certified by the National Forest Commission (CONAFOR).
- Reforesting affected areas with endemic species.
- Installing drip irrigation systems.
- Monitoring the results of habitat restoration results periodically.

The ECA Rescue, Protection, and Conservation Program is a good example of our best practices. Although our environmental permits and authorizations stipulated that we only had to maintain it during five years, we have continued to operate this program for ten years now.

We are currently still producing native plants at the nursery, particularly those requiring more maintenance, care, propagation, and production efforts. These include the *ferocatus viridescens*, deemed to be an at-risk species by the NOM-059 SEMARNAT-2010 norm, and other endemic plants such as the coastal bush (*agave shawii*) and the *malosma laurina* and *euphorbia misera* bushes, among others.

In addition, we carried out habitat maintenance, propagation, and landscaping efforts, consisting basically of weed control. As it has over the past three years, in 2016 the program focused basically on maintaining the plants produced in the nursery, with total 49,049 seedlings of 19 species of coastal bushes. Additionally, the survival rate for the *ferocatus viridescens* in the restoration area was 88%, above both the 2015 rate and the goal of the program, which was estimated at 70%.

All evidence indicates that the program has been very positive, since diversity values for the species are similar, and in some cases even slightly higher, than the measurement we took at the beginning of the program, and the species balance is better.



### RESCUE AND RESTORATION PROGRAMS IN FORCE AT YEAR-END 2016

INITIAL DATE	PROGRAM
2016	SAN ISIDRO - SAMALAYUCA PIPELINE; FLORA RESCUE AND RELOCATION PROGRAM
2016	OJINAGA - EL ENCINO PIPELINE: FLORA PROTECTION AND CONSERVATION PROGRAM
2013	SONORA PIPELINE: FLORA RESCUE AND RELOCATION, ENVIRONMENTAL AWARENESS, SOIL CONSERVATION, AND REVEGETATION
2008	RESTORATION OF THE ECOSYSTEMS AFFECTED BY THE CONSTRUCTION OF THE EXPANSION OF THE ROSARITO PIPELINE PROJECT
2006	RESCUE, REPLANTING, AND PROTECTION OF ENDEMIC AND AT-RISK PLANTS FROM THE EXPANSION OF THE ROSARITO PIPELINE
2003	PROTECTION OF THE DESERT IRONWOOD DURING THE CONSTRUCTION PROCESS OF TDM

### COMPENSATION AND CONSERVATION PROGRAMS IN FORCE AT YEAR-END 2016

INITIAL DATE	PROGRAM
2011	PROGRAM TO REFOREST THE <i>pinus jeffreyi</i> AT SIERRA JUÁREZ, BAJA CALIFORNIA DURING CONSTRUCTION OF THE ROSARITO PIPELINE
2009	PROGRAM TO REFOREST THE <i>prosopis juliflora shrub</i> IN THE AREAS IMPACTED BY THE CONSTRUCTION OF THE COMPRESSION STATION OF THE ROSARITO PIPELINE
2009	PROGRAM TO REFOREST THE <i>prosopis juliflora</i> AND <i>prosopis chilensis</i> IN AREAS IMPACTED BY THE CONSTRUCTION OF THE ROSARITO PIPELINE PROJECT
2006	PLAN TO RESCUE AND PRESERVE THE FLORA AT ENERGÍA COSTA AZUL (ECA)

In 2016, we faced the need to integrate the environmental programs of the assets belonging to Gasoductos de Chihuahua into our own rescue and conservation programs. We expect that by 2017 we will be able to adapt the programs to the best practices we implement at all our IEnova assets.





## PROTECTION AND RESCUE OF WILDLIFE

Before we start developing any project, we perform the necessary assessments to measure its potential impact on the ecosystem during the construction, operation, and maintenance phases. Prior to beginning to build a project, we determine and suggest to the authorities the measures we need to implement to protect the habitat and species of wildlife found in the area. We do this in order to fulfill our commitment to conserving the environment based on our practices, which are often stricter than what the environmental legislation stipulates.

Among these efforts, our Marine Mammals Monitoring Program (MMMP) is particularly relevant. We established this program in 2003, before we started building our liquefied natural gas terminal, Energía Costa Azul, in collaboration with the Ensenada Center for Scientific Investigation and University Studies (CICESE), the Autonomous University of Baja California (UABC), and other experts.

ECA is located in an area adjacent to the migratory route of the gray whale, where there is also an important presence of other species of marine mammals. We continue to operate the Marine Mammals Monitoring Program, which renders the data required to protect species in the region, particularly the gray whale, and to study their migration patterns, and ensure their free path.

The MMMP's activities include taking periodic measurements of several environmental indicators to confirm that we have not affected the behavior of marine mammals in the area. In 2016, we registered the presence of ten species, with the majority of sightings reporting gray whales, sea lions, and humpback whales. We have historic records for 15 species of mammals, and sightings vary from year to year.

In addition, surrounding our natural gas pipelines we implement fauna rescue and relocation programs to identify the species living along the right of way. We also establish programs to protect and relocate the identified fauna to a safe place. We train the staff who will be in charge of caring for the rescued wildlife.





# PROGRAM TO RESCUE, PROTECT, AND PRESERVE BENTHONIC FAUNA

Before construction on our ECA facility began, we started implementing a program to rescue, transplant, sow, and monitor organisms of high commercial and ecological value. We carry out this program in collaboration with local fishermen and scientists of the Autonomous University of Baja California. With this program, the organisms have continued to register the same sequence of changes to their population structure that they would have had if ECA had not been built on that location. Further, by introducing new young specimens, we contribute to conserving the species and to offsetting natural mortality rates.

When construction of this plant began, we rescued more than 900,000 relevant marine organisms, including different species of sea urchins, and sea cucumbers and snails. Since then, twice a year we monitor the protected organisms. We have found that survival rates for the transplanted populations, in particular the red sea urchin (*S. franciscanus*) and the purple sea urchin (*S. purpuratus*), are higher than 99%. The training on sustainable harvesting techniques that we offered local fishermen is a strong driver behind this program's success.

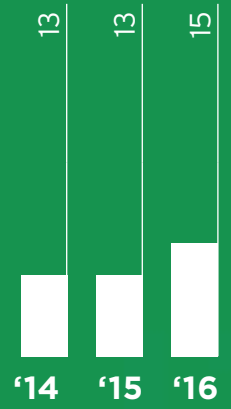
# PROJECTS UNDER CONSTRUCTION

As has already been explained, we have programs in place aimed at protecting and conserving the environment and the species of flora and fauna that we find at our construction sites. Before starting to build, we perform several activities, including the following:

- Capture the wildlife we find in the area, to relocate all specimens to nearby places where they can live under conditions that are similar to those of their original habitat, but under safe conditions.
- Identify and rescue species of flora to collect and keep them in a nursery built by us in the affected strip of land.
- Reintroduce the species of fauna and flora into their place of origin, when construction work is done.
- Carry out a reinforced re-vegetation process that consists of sowing seeds of the species of flora found along the whole affected strip of land.
- Perform maintenance tasks, which include irrigation, applying fertilizers, and monitoring the area to determine survival rates.

We have reintroduced 78,464 species of flora along the right of way of the Sonora Pipeline: 25,260 along the first 220 km of the Sásabe-Puerto Libertad segment, and another 53,204 along the 331 km of the Guaymas-El Oro segment; in both cases survival rates are approximately 91%. Additionally, in our nurseries we are holding another 19,138 specimens corresponding to the 294 km of the Puerto Libertad-Guaymas segment, with a 98% survival rate.

# PLAN TO RESCUE, PROTECT, AND PRESERVE FLORA AND FAUNA



**28,203**  
SPECIMENS OF SPECIES  
USED FOR PROPAGATING  
FLORA SINCE 2012



Inventory of nursery-produced plants







Los Ramones Compression Station

Furthermore, on the right of way of the pipeline we rescued and relocated 83 specimens of 27 species of wildlife. Because we use species-specific techniques to capture them, we were able to set the specimens free on the same day that they were captured in forest areas that are very similar to the area they were rescued from.

At the San Isidro-Samalayuca Pipeline, we implemented a program to rescue and relocate flora to forest lands during the site preparation, clearing, and cutting phases. As part of this process, we identified the specimens that could be rescued as established in the guidelines of the NOM-059-SEMARNAT-2010 as well as other ecologically relevant species. On the right of way, we rescued 849 specimens corresponding to 5 species of flora, and in the agricultural plot where the Samalayuca monitoring, regulation, and control station will be located, we rescued and relocated a *yucca elata* specimen. The rescued specimens were relocated to adjacent forest lands offering the same natural conditions of the areas from where they were extracted.

Also on the right of way of the pipeline, we rescued and relocated 68 specimens of 23 species of wildlife, and 134 specimens of 15 in the Samalayuca station. All the specimens were set free on the same day that they were captured, in forest areas that are very similar to the area they were rescued from.

In the Ojinaga-El Encino Pipeline we rescued more than 16,000 specimens of 37 species of flora, with a survival rate of 97% at year-end. The rescued plants were relocated in two Wild Flora Confinement Areas that we periodically service and where they will remain until they are relocated to restored areas to be determined when construction is done.

As part of the fauna rescue and relocation program, and as a result of the studies we have performed, we counted 1,124 specimens of fauna including those that were identified, dispelled, captured, or relocated. On the right of way, we rescued and relocated 202 specimens of 51 species of wildlife. All specimens were set free in forest areas that are very similar to the area they were rescued from.

## ASSETS BELONGING TO JOINT VENTURES

[304-1, 304-2, 304-3]

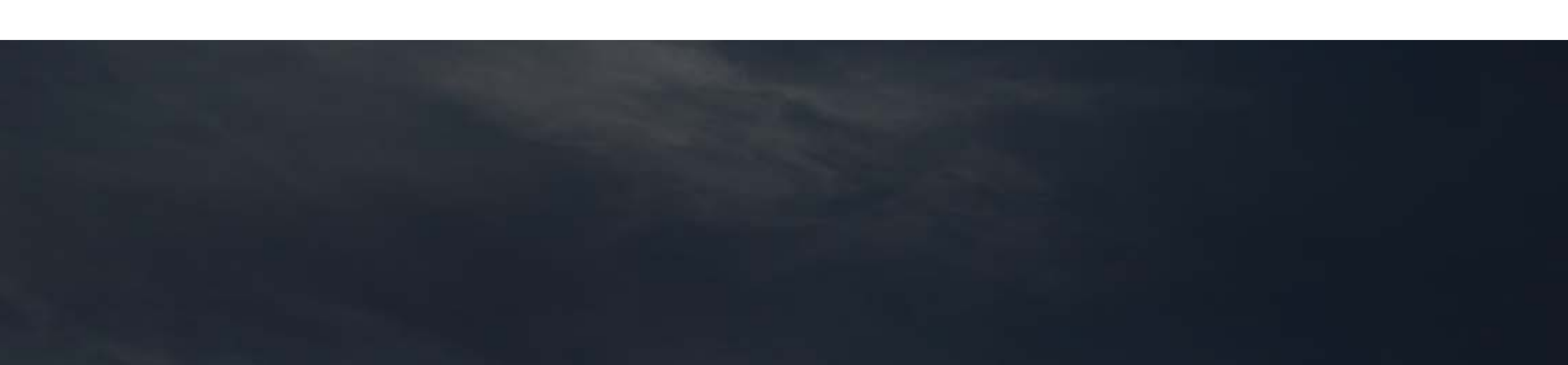
We make good on our word of preserving biodiversity at the site of our assets by extending our commitment to those assets we develop in collaboration with other companies, such as: Energía Sierra Juárez, the Los Ramones I and Ramones Norte pipelines, and the Ethane Pipeline.

Prior to beginning construction of these pipelines, we determined that their paths have no impact on natural protected areas or areas considered to have a high biodiversity.

Energía Sierra Juárez is a wind farm located on the Sierra de Juárez mountain range, in the municipality of Tecate, in Baja California. It is the first cross-border wind energy project between Mexico and the US, and it connects with the San Diego Gas and Electric (SDG&E) system, in California.

Before we started to build the facility, we performed an assessment of the local flora and fauna to list the species under certain degrees of protection, in accordance to the NOM-059 SEMARNAT-2010 norm.





Given its magnitude, this project required an investment of approximately USD\$318 million. Currently it can produce 155 MW of energy by means of 47 wind turbines, and it already has the necessary permits to expand its capacity in the future to up to 1,200 MW. The local environmental and flora and fauna protection programs are particularly important, and over the next five years we expect to perform the following activities:

- Maintain a permanent revegetation program.
- Produce or acquire reforestation plants and maintain the nursery (collecting seeds, producing long-life-cycle plants).
- Reforest more than 400 hectares.
- Install soil rehabilitation and protection systems, including terraces and trenches to avoid erosion.
- Maintain and protect reforested areas.
- Perform periodic environmental monitoring.

In addition, we implement an important program in collaboration with the San Diego Zoo, through which we study, among other things, the flight patterns and territories of the California Condors and the Golden Eagles that inhabit the border between Mexico and the US, and we identify a diversity of birds and bats. Among other data, we estimate the risk of collision with the wind turbines and power lines, and the measures we can implement to minimize them.

Since 2013, the Ecological Institute of Jalapa (INECOL) in Veracruz, studies the birds and bats in the area. In 2016, we recorded the presence of 83 bird species, identifying 2,153 specimens. According to the guidelines of the Mexican norm, only two of the species we identified are catalogued as at-risk: the sharp-shinned hawk (*accipiter striatus*), that is subject to special protection, and the Mexican falcon (*falco mexicanus*), an at-risk species.

We also implement a Plan for Environmental Management and Monitoring to follow-up on the mitigation measures implemented in the project. Prior to and during construction, we complied with the conditions established by the Environmental Impact Authorization the authority gave us for this project. Now that we are in the operating phase, this program has migrated to an Environmental Management System, aligned with ISO 14001 that is currently in the process of implementation.

At the Los Ramones I Pipeline, as part of the flora and fauna samplings that we performed before starting construction, we found 23 species of flora and 43 species of fauna, of which four of flora and five of fauna are under some degree of protection, in accordance to the NOM-059 SEMARNAT-2010 norm.



The rescued flora specimens are being kept in two storage centers that were set up by the project where they are being maintained and conserved. At year-end 2016, we started monitoring the survival rates, health, and strength of the rescued flora in an effort to corroborate that survival rates continue to be around 80%.

In the Ethane Pipeline, whose three segments cross the states of Veracruz, Chiapas, and Tabasco, we identified 71 species of fauna and rescued 517 specimens, particularly during the weeding phase. 23 of the species identified are under some degree of protection, in accordance to the NOM-059-SEMARNAT-2010 norm.

In 2016, we maintained and relocated 375 specimens of flora belonging to the 12 species we rescued during 2015, of which four are under some degree of protection. The relocation areas were selected based on the conditions and specifications they offer for their growth and survival. Orchids, for example, were relocated to trees that home species akin to the flora that grows in the mid semi-evergreen forests.

At the Ramones Norte Pipeline, in 2016 we operated a program in collaboration with the School of Forest Sciences of the Autonomous University of Nuevo León (UANL). Flora rescued during the construction phase, is currently being kept at seven storage facilities set up for the project in the states of Nuevo León, Tamaulipas, and San Luis Potosí through which the pipeline runs. We are holding 180,709 specimens of 43 species of flora, out of which 17 are under some degree of protection, and we have maintained survival rates at the 80% mark established by the General Law for Sustainable Forest Development.

At the Los Ramones I and Ramones Norte pipelines, and in the Ethane Pipeline, we started a work program to adapt their flora and fauna rescue, relocation, protection, and conservation programs to IEnova's best practices. We expect that this process will be finished in 2017.







# THE CHALLENGES AHEAD

AT IENOVA WE SEE THE FUTURE FOUNDATION WE NEED TO FACE ANY OF SUCCESS. WE ARE COMMITTED TO:

WITH OPTIMISM. WE HAVE THE STRONG CHALLENGE AND CONTINUE OUR STORY



ECONOMIC

- Be increasingly efficient.
- Maximize value for our shareholders.
- Leverage new investment opportunities.
- Maintain our leadership while facing growing competition in the industry.

SOCIAL

- Comply with our commitments with the communities neighboring our operations.
- Attract, develop, and retain specialized employees at all levels.
- Maintain the exemplary record we are known for in health and safety.
- Work constantly to achieve our zero-accidents goal.

ENVIRONMENTAL

- Improve efficiencies in water and energy consumption.
- Strengthen our waste and emissions management programs.
- Maintain our programs to protect flora and fauna in locations where we operate.
- Create awareness among our employees and communities about the importance of preserving natural resources.



## Independent assurance report on the 2016 Sustainable Report to Infraestructura Energética Nova, S.A.B. de C.V., to the Management of IEnova

### Responsibilities of IEnova and independent reviewer

The Management of IEnova is responsible for the elaboration of the 2016 Sustainable Report (SR) for the period from January 1<sup>st</sup> to December 31<sup>st</sup>, 2016, as well as its content ensuring to define, adapt and maintain the management systems and internal control from which the information is obtained, and which are also free of material misstatement due to fraud or error. Our responsibility is to issue an independent report based on the procedures applied during our review.

This report has been prepared exclusively in the interest of IEnova in accordance with the terms of our agreement letter dated January 20<sup>th</sup>, 2017, therefore we don't assume any responsibility to third parties and is not intended to be nor should it be used by someone other than the Management of IEnova.

### Scope of our work

The scope of our assurance was limited, and is substantially lower than a reasonable assurance work, therefore the security provided is also lower. This report in no case can be understood as an audit report.

We conducted the 2016 SR review under the following conditions and/or criteria:

- The adaptation of the 2016 SR contents to the *Sustainability Reporting Standards Guidelines of the Global Reporting Initiative (GRI)*, to the Disclosure Sectors (GRI) version G4 of Oil and Gas and according to the materiality study provided by IEnova.
- The review of the *GRI Standards* contents in accordance with the Core option and specified in the GRI Content Index of the 2016 SR and the performance indicators of the Disclosure Sector.
- The data consistency between the information contained in the 2016 SR with supporting evidence provided by management.

We have complied with the independence and ethics requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) based on integrity, objectivity, professional competence and due care, confidentiality and professional behavior principles.

### Assurance standards and procedures

We have performed our work in accordance with the International Auditing Standard ISAE 3000 Revised Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Boards (IAASB) of International Federation of Accountants (IFAC).

Our review work included the formulation of questions to the management as well as different areas of IEnova that have participated in the elaboration of the 2016 SR and the application of certain analytical and sample screening tests procedures that are described below.

- Meetings with staff of IEnova to learn the principles, systems and applied management approaches.
- Analysis of the process to collect, validate and consolidate the data presented in the 2016 SR.
- Analysis of scope, relevance and integrity of the information included in the 2016 SR in terms of the understanding of IEnova and of the requirements that stakeholders have identified as material aspects.
- Selected sample review from the evidence that supports the information included on the 2016 SR.
- Quality assurance by an independent partner of the project that verifies consistency between this report and the proposal, as well as work process quality and deliverables.

The following table details the revised contents according with the *Sustainability Reporting Standards Guideline* and the performance indicators of the version G4 of Oil and Gas Disclosure Sector:

SRS-102-8	SRS-102-42	SRS-103-1	SRS-302-1	SRS-305-2	SRS-403-2
SRS-102-16	SRS-102-43	SRS-103-2	SRS-303-1	SRS-306-2	SRS-404-1
SRS-102-17	SRS-102-44	SRS-201-1	SRS-304-1	SRS-306-3	SRS-406-1
SRS-102-40	SRS-102-46	SRS-203-1	SRS-304-2	SRS-307-1	SRS-413-1
SRS-102-41	SRS-102-47	SRS-205-2	SRS-305-1	SRS-401-2	OG13

These indicators were selected for the independent review in accordance with the following criteria:

- Materiality of IEnova referred in the 2016 SR.
- Information included in the 2016 SR.
- Information provided during the meetings with the interviewed staff.
- Review of the evidence provided by IEnova staff of this project.

### Conclusion

Based on our work described in this report, the performed procedures and the evidence obtained, nothing comes to our attention that could make us believe that the indicators and contents reviewed in the 2016 SR contains significant errors or has not been prepared in accordance with the Core option established in the GRI 101: FOUNDATION 2016 of the *Sustainability Reporting Standards*. For those *GRI Standards* contents and indicators of the Disclosure Sector where IEnova didn't report in quantitative terms (numeric) the independent reviewer reviewed the qualitative information, which includes procedures, policies, evidence of the activities performed, among others.

### Action alternatives

Additionally we present the most significant action alternatives for future development of SR, which do not alter the conclusions expressed in this report:

- Strengthen the internal management system to compile, analyze and review the SR information through the communication with the data owners and the development of internal tools that allow to apply methodologies and procedures to manage the information for the material indicators.
- Enhance the contents of the SR of IEnova according with the *GRI Standards Guidelines* in order to promote the information transparency.

Galaz, Yamazaki, Ruiz Urquiza, S.C.  
Member of Deloitte Touche Tohmatsu Limited

  
Rocío Canal Garrido  
Partner  
May 30<sup>th</sup>, 2017



GRI CONTENT INDEX



STANDARD NUMBER	DISCLOSURE	PAGE OR DIRECT RESPONSE	OMISSIONS	NDEPENDENT ASSURANCE
GRI 102 GENERAL DISCLOSURES				
102-1	Name of the organization	Infraestructura Energética Nova S.A.B. de C.V. (IEnova)		
102-2	Activities, brands, products, and services	24		
102-3	Location of headquarters	Mexico City		
102-4	Location of operations	22, 26		
102-5	Ownership and legal form	IEnova is a public stock corporation with variable capital (S.A.B. de C.V.) established under the laws of Mexico.		
102-6	Markets served	22-26, 77, 78		
102-7	Scale of the organization	74		
102-8	Information on employees and other workers	92-99		Yes, page 156
102-9	Supply chain	76-78		
102-10	Significant changes to the organization and its supply chain	24		
102-11	Precautionary principle or approach	56, 57		
102-12	External initiatives	Inside front cover page, 324		
102-13	Membership of associations	66, 67		
102-14	Statement from senior decision-maker	15, 16		
102-15	Key impacts, risks, and opportunities	15, 16, 56-57		
102-16	Values, principles, standards and norms of behavior	58, 65, Inside front cover page		Yes, page 156
102-17	Mechanisms for advice and concerns about ethics	58, 59, 65		Yes, page 156
102-18	Governance structure	60-63 <a href="https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf">https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf</a> page 204-212		
102-19	Delegating authority	33-34		

STANDARD NUMBER	DISCLOSURE	PAGE OR DIRECT RESPONSE	OMISSIONS	NDEPENDENT ASSURANCE
102-20	Executive-level responsibility for economic, environmental and social topics	33-34 The Chief Corporate Affairs & HR Officer chairs the Sustainability Committee, which in turn reports to the highest governance body, as per its bylaws.		
102-22	Composition of the highest governance body and its committees	60, 61 <a href="https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf">https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf</a> page 204-212		
102-23	Chair of the highest governance body	60, 61 Carlos Ruiz Sacristán serves as Chairman of the Board of Directors and CEO of IEnova.		
102-24	Nominating and selecting the highest governance body	61 <a href="https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf">https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf</a> page 204-212		
102-25	Conflicts of interest	58, 59, 61 <a href="https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf">https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf</a> page 204-212		
102-26	Role of the highest governance body in setting purpose, values, and strategy	IEnova Bylaws <a href="http://media.corporateir.net/media_files/IROL/25/251830/cg/ESTATUTOS%20IENOVA%20FINAL%202016.pdf">http://media.corporateir.net/media_files/IROL/25/251830/cg/ESTATUTOS%20IENOVA%20FINAL%202016.pdf</a>		
102-28	Evaluating the highest governance body's performance	60-64 The members of the Board of Directors annually evaluate their performance.		
102-29	Identifying and managing economic, environmental, and social impacts	56, 57 <a href="https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf">https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf</a> page 204-212		
102-30	Effectiveness of risk management processes	IEnova Bylaws <a href="http://media.corporateir.net/media_files/IROL/25/251830/cg/ESTATUTOS%20IENOVA%20FINAL%202016.pdf">http://media.corporateir.net/media_files/IROL/25/251830/cg/ESTATUTOS%20IENOVA%20FINAL%202016.pdf</a>		
102-31	Review of economic, environmental, and social topics	33, 34, 56, 62		
102-32	Highest governance body's role in sustainability reporting	33, 34, 62		
102-33	Communicating critical concerns	34		
102-35	Remuneration policies	<a href="https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf">https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf</a> page 213		
102-36	Process for determining remuneration	<a href="https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf">https://www.bmv.com.m/docs-pub/infoanua/infoanua_747948_2016_1.pdf</a> page 213		
102-40	List of stakeholder groups	35, 36, 37		Yes, page 156
102-41	Collective bargaining agreements	3.4% of our employees are unionized		Yes, page 156



STANDARD NUMBER	DISCLOSURE	PAGE OR DIRECT RESPONSE	OMISSIONS	NDEPENDENT ASSURANCE
102-42	Identifying and selecting stakeholders	36, 37, 40 The IEnova Model to Manage Stakeholders is a process in which the members of the Sustainability Committee participate. The model is reviewed annually to ensure that the most relevant stakeholders are included in the company's sustainability strategy. The members also monitor compliance with the annual goals of the Sustainability Commissions, including addressing those expectations that have been deemed a priority. For more information, please view our Sustainability Policy at: <a href="http://ienova.com.mx/sustentabilidad/informes-politicas.html">http:// ienova.com.mx/sustentabilidad/informes-politicas.html</a>		Yes, page 156
102-43	Approach to stakeholder engagement	36, 37		Yes, page 156
102-44	Key topics and concerns raised	38		Yes, page 156
102-45	Entities included in the consolidated financial statements	74, inside front cover page The data published refers to the Gas and Power business segments in which IEnova participates through companies that offer natural gas, LPG, and ethane transportation and storage services, as well as storage for liquefied natural gas; companies that distribute natural gas; and companies that produce electricity. Within the Gas segment, unless otherwise specified, the consolidated performance data for IEnova does not include information on the assets belonging to Gasoductos de Chihuahua, a company in which, in September 2016, we purchased the 50% share we didn't previously own from Pemex Transformación Industrial (TRI). In the Power segment, the Report does include data on Energía Sierra Juárez, a cross-border wind farm that we built and now operate as part of our joint venture with InterGen, in which we have a 50% stake. The Report does not include data on our Ventika wind farm, which we acquired in December 2016.		
102-46	Defining report content and topic Boundaries	24, 33, 40		Yes, page 156
102-47	List of material topics	41		Yes, page 156
102-48	Restatements of information	40 A footnote has been used in cases where there were restatement exists.		
102-49	Changes in reporting	324, About this Report.		
102-50	Reporting period	324, About this Report		
102-51	Date of most recent report	The last report was published on May 31 <sup>st</sup> 2016, and it covered the period between January 1 <sup>st</sup> and December 31 <sup>st</sup> 2015		
102-52	Reporting cycle	The report has been published annually for the past four years. 324, About this Report		
102-53	Contact point for questions regarding the report	Corporate Headquarters Paseo de la Reforma 342, Piso 24 Colonia Juárez Delegación Cuauhtémoc Ciudad de México, 06600 Phone (5255) 91380100		

STANDARD NUMBER	DISCLOSURE	PAGE OR DIRECT RESPONSE	OMISSIONS	NDEPENDENT ASSURANCE
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: essential option. 324, About this Report		
102-56	External assurance	156, 324, About this Report		
GRI 103 MANAGEMENT APPROACH				
103-1	Explanation of the material topic and its Boundary	33, 36, 40, 41, 324		Yes, page 156
103-2	The management approach and its components	40-49, 96, 108, 118, 128		Yes, page 156

TOPIC-SPECIFIC STANDARDS																
GRI 200 ECONOMIC																
201-1	Direct economic value generated and distributed	88		Yes, page 156												
201-3	Defined benefit plan obligations and other retirement plans	102-105														
201-4	Financial assistance received from government	The company received no financial assistance from government.														
203-1	Infrastructure investments and services supported	123-125 We currently monitor the results from social projects. We will work on defining the mechanisms that will allow us to measure the impact of our social programs in the mid-term. Today, charities benefited by Fundación IEnova submit quarterly reports as well as the supporting documentation needed to verify how the resources granted are being managed.		Yes, page 156												
203-2	Significant indirect economic impacts	76, 77														
204-1	Proportion of spending on local suppliers.	77														
205-1	Operations assessed for risks related to corruption	58														
205-2	Communication and training about anti-corruption policies and procedures	58, 59, 65 IEnova's Corporate Ethics Policy establishes that only those employees who have direct or indirect contact with authorities need to be certified in anti-corruption. In 2016, 100% of the employees who were identified as having this kind of contact received the corresponding training. <table><tr><th>CATEGORY</th><th>NUMBER OF EMPLOYEES</th></tr><tr><td>Vice Presidents</td><td>10</td></tr><tr><td>Directors</td><td>18</td></tr><tr><td>Managers</td><td>79</td></tr><tr><td>Staff and administrative</td><td>315</td></tr><tr><td>Total</td><td>422</td></tr></table>	CATEGORY	NUMBER OF EMPLOYEES	Vice Presidents	10	Directors	18	Managers	79	Staff and administrative	315	Total	422		Yes, page 156
CATEGORY	NUMBER OF EMPLOYEES															
Vice Presidents	10															
Directors	18															
Managers	79															
Staff and administrative	315															
Total	422															
205-3	Confirmed incidents of corruption and actions taken	There were no corruption incidents during the year.														
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	There were no claims regarding anticompetitive behavior.														





STANDARD NUMBER	DISCLOSURE	PAGE OR DIRECT RESPONSE	OMISSIONS	NDEPENDENT ASSURANCE
GRI 300 ENVIRONMENTAL				
302-1	Energy consumption within the organization	21,093,521.95 MMBTU (22,254.84 Terajoules) (99.05% from gas natural, 0.09% from gasoline and diesel, 0.87% from electric power, 0.0002% from LPG).		Yes, page 156
303-1	Water withdrawal by source	136, 137		Yes, page 156
303-2	Water sources significantly affected by withdrawal of water	136		
303-3	Water recycled and reused	136		
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	138, 139 None of our operations are located on protected areas. However, as a good practice, we develop programs to protect, compensate, and reforest flora, and to protect and rescue wildlife.		Yes, page 156
304-2	Significant impacts of activities, products, and services on biodiversity	138, 139, 149-152 None of our operations are located in protected areas. However, we develop programs to protect, compensate, and reforest flora, and to protect and rescue wildlife.		Yes, page 156
304-3	Habitats protected or restored	138-146		
305-1	Direct (Scope 1) GHG emissions	132, 133		Yes, page 156
305-2	Energy indirect (Scope 2) GHG emissions	132, 133		Yes, page 156
305-3	Other indirect (Scope 3) GHG emissions	132, 133		
305-5	Reduction of GHG emissions	132		
305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	132, 133		
306-1	Water discharge by quality and destination	136, 137		
306-2	Waste by type and disposal method	134, 135		Yes, page 156
306-3	Significant spills	134 There were no significant spills. Based on the criteria established by PROFEPA (Criteria for classifying environmental emergencies in member organizations of the National Environmental Audit Program), an event can be classified as minor if the volume spilled is less than 1m³		Yes, page 156
307-1	Non-compliance with environmental laws and regulations	There were no significant fines or sanctions for non-compliance with laws and regulations.		Yes, page 156

STANDARD NUMBER	DISCLOSURE	PAGE OR DIRECT RESPONSE	OMISSIONS	NDEPENDENT ASSURANCE
GRI 400 SOCIAL				
401-1	New employee hires and employee turnover		92 We do not report a break-down by region. Reason for the omission: All information is consolidated for IEnova not by operating unit.	
401-2	Benefits provided for full-time employees that are not provided to temporary or part-time employees	102-105		Yes, page 156
403-1	Workers representation in formal joint management-worker health and safety committees	111		
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	112, 113	Because of its relevance to our business, we report indicators based on the definition of the US government's Occupational Safety and Health Administration.	Yes, page 156
403-3	Workers with high incidence or high risk of diseases related to their occupation	112		
404-1	Average hours of training per year per employee	98, 99		Yes, page 156
404-2	Programs for upgrading employee skills and transition assistance programs	96, 97, 100		
404-3	Percentage of employees receiving regular performance and career development reviews	98		
405-1	Diversity of governance bodies and employees	61-63, 68-71, 92-95		
406-1	Incidents of discrimination and corrective actions taken	During 2016 there were no discrimination cases reported on the IEnova helpline.		Yes, page 156
408-1	Operations and suppliers at significant risk for incidents of child labor	There were no potential risks of incidents of child labor identified by the operation.		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	There were no potential risks of incidents of forced labor identified by the operation		
410-1	Security personnel trained in human rights policies or procedures	All corporate safety agents that offer their services to the IEnova companies are trained in human rights as part of their general training.		
411-1	Incidents of violations involving rights of indigenous peoples	There were no incidents of violations involving rights of indigenous peoples.		
412-2	Employee training on human rights policies and procedures	106, 107		





STANDARD NUMBER	DISCLOSURE	PAGE OR DIRECT RESPONSE	OMISSIONS	NDEPENDENT ASSURANCE
413-1	Operations with local community engagement, impact assessments, and development programs	114, 118, 123, 124 We currently monitor the results from social projects. We will work on defining the mechanisms that will allow us to measure the impact of our social programs in the mid-term. Today, charities benefited by Fundación IEnova submit quarterly reports as well as the supporting documentation needed to verify how the resources granted are being managed.		Yes, page 156
415-1	Political contributions	There were no financial or in-kind contributions made to any political parties.		
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	81		
417-2	Incidents of non-compliance concerning product and service information and labeling	There were no incidents of non-compliance concerning product and service information and labeling in 2016.		
419-1	Non-compliance with laws and regulations in the social and economic area	There were no significant fines or sanctions for non-compliance with laws and regulations.		
SECTOR SUPPLEMENT INDICATORS				
OG2	Total amount invested in renewable energy	<a href="https://www.bmv.com.m/docspub/infoanua/infoanua_747948_2016_1.pdf">https://www.bmv.com.m/docspub/infoanua/infoanua_747948_2016_1.pdf</a>  page 17  Energía Sierra Juárez (ESJ) is a wind farm located in Baja California, whose initial phase implied a total investment of approximately USD\$318 million.  Ventika, one of the largest wind farms in Mexico, located in the state of Nuevo León. We paid USD\$434.7 million for this asset.  IEnova will develop, build and operate the solar parks Tepezalá II Solar and Rumorosa Solar, with a 100 MW and 41 MW capacity, respectively. Total investment in these parks is estimated at USD\$150 million.		
OG3	Total amount of renewable energy generated by source.	24, 25 <a href="https://www.bmv.com.m/docspub/infoanua/infoanua_747948_2016_1.pdf">https://www.bmv.com.m/docspub/infoanua/infoanua_747948_2016_1.pdf</a> page 17		
OG4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored.	138, 139		
OG13	Number of process safety events, by business activity.	85, 86		Yes, page 156

# GLOBAL COMPACT

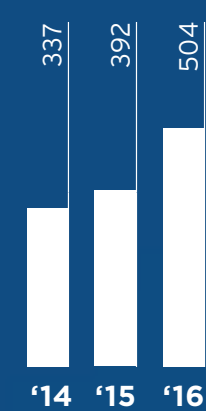


TOPIC	PRINCIPLES OF THE GLOBAL COMPACT	GRI STANDARD NUMBER	RELATED SUSTAINABLE DEVELOPMENT GOALS
HUMAN RIGHTS	1. Businesses should support and respect the protection of internationally proclaimed human rights; and	412-2, 410-1, 411-1, 103-2, 413-1	4
	2. Businesses should make sure that they are not complicit in human rights abuses.	412-2, 406-1, 407-1, 408-1, 409-1, 410-1, 411-1, 412-1, 414-1, 414-2, 103-2	
LABOR STANDARDS	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	102-41	5, 8
	4. Businesses should uphold the elimination of all forms of forced and compulsory labor.	409-1	
	5. Businesses should uphold the effective abolition of child labor.	408-1	
	6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.	102-8, 401-1, 401-2, 404-1, 404-3, 406-1	
ENVIRONMENT	7. Businesses should support a precautionary approach to environmental challenges.	302-1, 303-1, 305-1, 305-2, 305-3, 305-7	14, 15
	8. Businesses should undertake initiatives to promote greater environmental responsibility.	301-2, 302-1, 303-1 a 303-3, 304-1 a 304-3, 305-1 a 305-5, 305-7, 306-1 a 306-3, 307-1	
	9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	302-1, 305-5	
ANTI-CORRUPTION	10. Businesses should work against corruption in all its forms, including extortion and bribery.	102-16, 102-17, 205-1 a 205-3, 415-1	16



# FINANCIAL HIGHLIGHTS

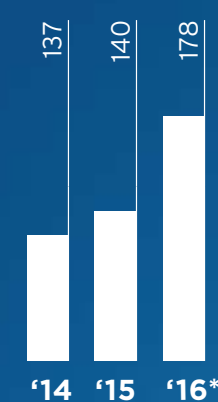
ADJUSTED EBITDA



CAPITAL INVESTMENT



NET INCOME



PROPERTY, PLANT AND EQUIPMENT



\*Excludes the one-time non-cash effects of the USD\$673.1 million impact related to the remeasurement to fair value of our previously held 50 percent interest in Gasoductos de Chihuahua and the after-tax impairment charge of USD\$95.8 million related to Termoeléctrica de Mexicali power plant.

### EBITDA AND ADJUSTED EBITDA

We present “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.

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

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

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





# MANAGEMENT'S DISCUSSION AND ANALYSIS FOR 2016 RESULTS

Mexico City, February 21, 2017. Infraestructura Energética Nova, S.A.B. de C.V. (BMV: IENOVA) is reporting unaudited fourth quarter 2016 results. IEnova focuses on the development, construction and operation of large energy infrastructure projects in Mexico. Our operations in Mexico range across several business lines including natural gas, liquefied natural gas and liquefied petroleum gas transportation and storage, ethane transportation, natural gas distribution and electricity generation.

Amounts are presented in U.S. dollars, the functional currency of the company, unless otherwise noted, and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## EXECUTIVE SUMMARY, FULL YEAR 2016 COMPARED TO FULL YEAR 2015

- In 2016, Adjusted EBITDA increased 29 percent to USD\$504.0 million, compared with USD\$391.8 million in 2015. The increase was mainly due to the acquisition of the remaining 50 percent of Gasoductos de Chihuahua, income related to the Sonora pipeline Guaymas - El Oro segment and the start of operations of the Los Ramones Norte pipeline in February 2016.
- Excluding one-time non-cash effects of the USD\$673.1 million impact related to the remeasurement to fair value of our previously held 50 percent interest in Gasoductos de Chihuahua and the after-tax impairment charge of USD\$95.8 million related to Termoeléctrica de Mexicali power plant, in 2016 profit was USD\$177.6 million, compared with USD\$140.2 million in 2015. The increase is mainly due to the acquisition of the remaining 50 percent of Gasoductos de Chihuahua, income related to Sonora pipeline Guaymas - El Oro segment and mark-to-market losses on an interest rate swap in 2015, partially offset by higher income tax expense, losses from discontinued operations, higher depreciation and finance cost due to the acquisition of the remaining 50 percent of Gasoductos de Chihuahua and the acquisition of Ventika.
- In 2016, revenues were USD\$717.9 million, compared with USD\$613.0 million in 2015. For both periods, the increase was mainly due to revenues related to the acquisition of the remaining 50 percent of Gasoductos de Chihuahua and income related to Sonora pipeline Guaymas - El Oro segment.
- IEnova executed the following transactions in 2016 for a total value of USD\$5.5 billion:

Two natural gas transportation services agreements with the Comisión Federal de Electricidad: (i) Empalme Lateral, a 20-kilometer pipeline, for a 21-year term and transportation capacity of 226 million cubic feet per day of natural gas, and (ii) South Texas - Tuxpan, an 800-kilometer pipeline of natural gas, for a 25-year term and transportation capacity of 2.6 billion cubic feet per day of natural gas; this project was awarded to Infraestructura Marina del Golfo ("IMG"), our joint venture formed with TransCanada Corporation ("TransCanada"), in which IEnova has 40-percent interest and TransCanada owns the remaining 60-percent interest. These projects have an estimated cost of USD\$2.1 billion, from which USD\$860.0 million is related to IEnova participation.

Two solar energy projects were awarded to IEnova in an auction conducted by Centro Nacional de Control de Energía. The projects, La Rumorosa Solar Complex and the Tepezalá II Solar Complex, have long-term contracts with Comisión Federal de Electricidad for 15-year renewable energy and 20-year clean energy certificate agreements. La Rumorosa Solar complex is a 41-MW photovoltaic project located in Baja California. The Tepezalá II Solar complex is a 100-MW photovoltaic project located in Aguascalientes and will be developed in a partnership with Trina Solar, who will have a 10 percent stake in this project. The projects have an estimated cost of USD\$150.0 million and operations are expected to begin in the first half of 2019.

The acquisition of Gasoductos de Chihuahua on September 26, 2016 from Pemex Transformación Industrial. We paid USD\$1.14 billion in cash plus the assumption of outstanding debt. As a result of the acquisition, we increased our ownership in Gasoductos de Chihuahua from 50 percent to 100 percent.

On October 13, 2016, IEnova priced a follow-on offering of its common stock at Pesos \$80.00 per share. The initial purchasers in the International Offering and the underwriters in the Mexican Offering were granted a 30-day option to purchase additional common shares at the global offering price, less the underwriting discount, to cover over-allotments. These options were exercised on October 17, 2016. After the offerings, including the issuance of shares pursuant to the exercise of the over-allotment options, the aggregate shares of common stock sold in the offerings totaled 380,000,000. After the follow-on equity offering and over-allotment options exercised, the free float represented approximately 33 percent of IENOVA's outstanding ownership interest. Total proceeds from the common stock follow-on offering, net of expenses, were USD\$1.57 billion.

Our five-year revolving credit facility was increased from USD\$600.0 million to USD\$1.17 billion in November 2016, and the syndicate of banks increased from five to eight lenders.

The acquisition of the Ventika wind farm closed on December 14, 2016. Ventika, located in Nuevo Leon, is the largest wind generation complex in Mexico, with a capacity of 252 MW. The project's commercial operations started in April 2016. We paid USD\$434.7 million including shareholders' debt purchase by USD\$125.0 million plus the assumption of outstanding bank debt, and we used funds from our common stock follow-on offering and our revolving credit facility.



The following tables set forth our results as of and for the three months ended December 31, 2016 and 2015 and the full year of 2016 and 2015.

## I) RESULTS OF OPERATIONS

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT		YEAR ENDED DECEMBER 31,	
(THOUSANDS OF USD\$)	2016	2015	
REVENUES	\$ 717,894	\$ 613,041	
COST OF REVENUES	(237,789)	(257,226)	
OPERATING, ADMINISTRATIVE AND OTHER EXPENSES	(104,754)	(81,857)	
DEPRECIATION AND AMORTIZATION	(64,384)	(52,470)	
FINANCING COST, NET	(14,567)	(3,158)	
OTHER GAINS (LOSSES), NET	2,168	(11,426)	
REMEASUREMENT OF EQUITY METHOD INVESTMENT	673,071	-	
<b>PROFIT BEFORE INCOME TAX AND SHARE OF PROFITS FROM JOINT VENTURES</b>	<b>971,639</b>	<b>206,904</b>	
INCOME TAX EXPENSE	(147,158)	(94,237)	
SHARE OF PROFITS FROM JOINT VENTURES, NET OF INCOME TAX	42,841	42,319	
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>	<b>867,322</b>	<b>154,986</b>	
LOSS FOR THE PERIOD FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX <sup>1</sup>	(112,332)	(14,797)	
<b>PROFIT FOR THE PERIOD</b>	<b>\$ 754,990</b>	<b>\$ 140,189</b>	

<sup>1</sup> The Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the fourth quarter of 2016 and 2015 and the full year of 2016 and 2015 are presented in the Condensed Consolidated Statements of Profit as discontinued operations.

### SEGMENT INFORMATION

Segment information is presented after eliminating inter-company transactions.

PROFIT (LOSS) BEFORE INCOME TAX AND SHARE OF PROFITS FROM JOINT VENTURES		YEAR ENDED DECEMBER 31,	
(THOUSANDS OF US\$)	2016	2015	
GAS SEGMENT	\$ 1,009,953	\$ 245,151	
POWER SEGMENT	(1,120)	-	
CORPORATE	<b>\$ 971,639</b>	<b>\$ 206,904</b>	

### GAS SEGMENT

In 2016, Gas segment profit before income tax and share of profits from joint venture was USD\$1,010.0 million, compared to USD\$245.2 million in 2015. The increase of USD\$764.8 million is mainly due to the one-time non-cash impact of USD\$673.1 million related to the remeasurement to fair value of our previously held 50 percent interest in Gasoductos de Chihuahua, profit before income tax and share of profits from joint venture of USD\$54.4 million in Gasoductos de Chihuahua, and USD\$32.1 million of income related to the Sonora pipeline Guaymas - El Oro segment.

### POWER SEGMENT

In 2016, Power segment loss before income tax and share of profits from joint venture, was USD\$1.1 million. The loss was mainly due to wind seasonality from the inclusion of 17 days of operation. Ventika was acquired on December 14, 2016.

Wind generation facilities produce energy depending on the local wind climate. According to the wind assessment study, the wind seasonality for the Nuevo Leon region, where Ventika is located, is estimated to have high wind from March to August and low wind from September to February.

### CORPORATE

In 2016, corporate loss before income tax was USD\$37.2 million compared to USD\$38.2 million in 2015.

REVENUES		YEAR ENDED DECEMBER 31,	
(THOUSANDS OF USD\$, EXCEPT PRICE PER MMBTU <sup>2</sup> )	2016	2015	
GAS SEGMENT	\$ 712,327	\$ 611,275	
POWER SEGMENT	2,930	-	
CORPORATE	<b>\$ 717,894</b>	<b>\$ 613,041</b>	
NATURAL GAS WEIGHTED AVERAGE			
PRICE USD PER MMBTU	2.73	2.86	

<sup>2</sup> MMBtu: Million British thermal units (of natural gas)

### GAS SEGMENT

In 2016, Gas segment revenues were USD\$712.3 million, compared with USD\$611.3 million in 2015. The increase of USD\$101.0 million is mainly due to:

USD\$79.4 million in revenues related to the acquisition of the remaining 50 percent of Gasoductos de Chihuahua starting September 26, 2016, and  
USD\$32.1 million in income related to the Sonora pipeline Guaymas - El Oro segment, partially offset by:  
USD\$7.9 million from lower weighted average price of natural gas.

### POWER SEGMENT

In 2016, Power segment revenues were USD\$2.9 million. These revenues are related to 17 days of operation of Ventika, which was acquired on December 14, 2016.

COST OF REVENUES		YEAR ENDED DECEMBER 31,	
(THOUSANDS OF USD\$, EXCEPT COST PER MMBTU)	2016	2015	
GAS SEGMENT	\$ 237,621	\$ 257,226	
POWER SEGMENT	168	-	
	<b>\$ 237,789</b>	<b>\$ 257,226</b>	
NATURAL GAS WEIGHTED AVERAGE			
COST USD PER MMBTU	<b>2.60</b>	<b>2.77</b>	

In 2016, Gas segment cost of revenues was USD\$237.6 million, compared with USD\$257.2 million for 2015. The decrease of USD\$19.6 million is mainly due to the lower weighted average price of natural gas.



OPERATING, ADMINISTRATIVE AND OTHER EXPENSES

In 2016, operating, administrative, and other expenses were USD\$104.8 million, compared with USD\$81.9 million for 2015. The increase of USD\$22.9 million was mainly due to the acquisition of the remaining 50 percent of Gasoductos de Chihuahua.

DEPRECIATION AND AMORTIZATION

In 2016, depreciation and amortization was USD\$64.4 million, compared with USD\$52.5 million for 2015. The increase of USD\$11.9 million was mainly due to the acquisition of the remaining 50 percent of Gasoductos de Chihuahua and Ventika acquisition in December 2016.

FINANCING COST, NET

In 2016, net financing cost was USD\$14.6 million, compared with USD\$3.2 million for 2015. The change of USD\$11.4 million is mainly due to increased interest expense related to the acquisition of the remaining 50 percent of Gasoductos de Chihuahua and the acquisition of Ventika.

OTHER GAINS (LOSSES), NET

In 2016, other gains, net, were USD\$2.2 million, compared with other losses, net, of USD\$11.4 million in 2015. The change of USD\$13.6 million is mainly due to foreign exchange impacts and mark-to-market losses on an interest rate swap in 2015. This derivative instrument was terminated in September 2015.

REMEASUREMENT OF EQUITY METHOD INVESTMENT

The non-cash impact of USD\$673.1 million is related to the remeasurement to fair value of our previously held 50-percent interest in Gasoductos de Chihuahua.

INCOME TAX EXPENSE

In 2016, income tax expense was USD\$147.2 million compared with USD\$94.2 million in 2015. The variance of USD\$53.0 million is primarily due to higher earnings before taxes and the effect of the deferred income tax balance from the fluctuation in the tax basis of property, plant, and equipment at 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, and the effect of inflation on monetary assets and liabilities, partially offset by currency exchange rate movements at period end on monetary assets and liabilities.

SHARE OF PROFITS FROM JOINT VENTURES, NET OF INCOME TAX

In 2016, our share of profits from joint ventures, net of income tax, was USD\$42.8 million, compared with USD\$42.3 million in 2015. The increase of USD\$0.5 million is mainly due to Los Ramones Norte pipeline start of operations, partially offset by the acquisition of the remaining 50 percent of Gasoductos de Chihuahua.

LOSS FOR THE PERIOD FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX

In February 2016, the Board of Directors approved a plan to market and sell the Termoeléctrica de Mexicali power plant. Accordingly, its financial results for the three-month period ended December 31, 2016 and 2015 and the full year 2016 and 2015, are presented in the Condensed Consolidated Statements of Profit as discontinued operations, net of tax.

In 2016, the loss from discontinued operations, net of income tax, was USD\$112.3 million, compared with a loss of USD\$14.8 million in the 2015. The increase of USD\$97.5 million is due to the adjustment to the carrying value of Termoeléctrica de Mexicali power plant, a non-cash impairment charge.

EBITDA AND ADJUSTED EBITDA

We present “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.

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

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

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

(THOUSANDS OF USD\$)	YEAR ENDED DECEMBER 31,	
	2016	2015
GAS SEGMENT	\$ 373,881	\$ 274,343
POWER SEGMENT	2,169	-
CORPORATE	(699)	(385)
EBITDA	\$ 375,351	\$ 273,958
JV EBITDA ADJUSTMENT	130,084	110,921
DISCONTINUED OPERATION EBITDA ADJUSTMENT	(1,414)	6,935
ADJUSTED EBITDA	504,021	391,814



## RECONCILIATION OF PROFIT FOR THE PERIOD TO EBITDA AND ADJUSTED EBITDA

(THOUSANDS OF USD\$)	YEAR ENDED DECEMBER 31,	
	2016	2015
<b>EBITDA RECONCILIATION</b>		
PROFIT FOR THE PERIOD	\$ 754,990	\$ 140,189
DEPRECIATION AND AMORTIZATION	64,384	52,470
FINANCING COST, NET	14,567	3,158
OTHER (GAINS) LOSSES, NET	(2,168)	11,426
INCOME TAX EXPENSE	147,158	94,237
SHARE OF PROFITS FROM JOINT VENTURES, NET OF INCOME TAX	(42,481)	(42,319)
LOSS FOR THE PERIOD FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX	112,332	14,797
REMEASUREMENT OF EQUITY METHOD INVESTMENT	(673,071)	-
<b>(1) EBITDA</b>	<b>\$ 375,351</b>	<b>\$ 273,958</b>
<b>JV EBITDA ADJUSTMENT RECONCILIATION</b>		
PROFIT FOR THE PERIOD	\$ 42,841	\$ 42,319
DEPRECIATION AND AMORTIZATION	13,907	13,952
FINANCING COST, NET	32,194	20,480
OTHER LOSSES (GAINS), NET	4,433	(859)
INCOME TAX EXPENSE	36,709	35,029
<b>(2) JV EBITDA ADJUSTMENT</b>	<b>130,084</b>	<b>110,921</b>
<b>DISCONTINUED OPERATION EBITDA ADJUSTMENT RECONCILIATION</b>		
LOSS FOR THE PERIOD	\$ (112,332)	\$ (14,797)
DEPRECIATION AND AMORTIZATION	2,222	15,210
FINANCING COST, NET	229	202
OTHER LOSSES (GAINS), NET	1,396	151
INCOME TAX EXPENSE (BENEFIT)	(29,809)	6,169
IMPAIRMENT CHARGE	136,880	-
<b>(3) DISCONTINUED OPERATION EBITDA ADJUSTMENT</b>	<b>\$ (1,414)</b>	<b>\$ 6,935</b>
<b>(1+2+3) ADJUSTED EBITDA</b>	<b>\$ 504,021</b>	<b>\$ 391,814</b>

## II) FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(THOUSANDS OF US\$)	YEAR ENDED DECEMBER 31,	
	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 24,918	\$ 40,377
SHORT-TERM INVESTMENTS	80	20,068
TRADE AND OTHER RECEIVABLES, NET	100,886	53,728
ASSETS HELD FOR SALE	191,287	-
OTHER CURRENT ASSETS <sup>(1)</sup>	127,769	111,156
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 444,940</b>	<b>\$ 225,329</b>
<b>NON-CURRENT ASSETS</b>		
DUE FROM UNCONSOLIDATED AFFILIATES	104,352	111,766
FINANCE LEASE RECEIVABLES	950,311	14,510
DEFERRED INCOME TAX ASSETS	75,999	78,965
INVESTMENTS IN JOINT VENTURES	125,355	440,105
GOODWILL	1,651,780	25,654
PROPERTY, PLANT AND EQUIPMENT, NET	3,614,085	2,595,840
OTHER NON-CURRENT ASSETS <sup>(2)</sup>	160,126	14,913
<b>TOTAL NON-CURRENT ASSETS</b>	<b>6,682,008</b>	<b>3,281,753</b>
<b>TOTAL ASSETS</b>	<b>\$ 7,126,948</b>	<b>\$ 3,507,082</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
SHORT-TERM DEBT	\$ 493,571	\$ 88,507
DUE TO UNCONSOLIDATED AFFILIATES	260,914	352,650
LIABILITIES HELD FOR SALE	35,451	-
OTHER CURRENT LIABILITIES <sup>(3)</sup>	181,738	102,184
<b>TOTAL CURRENT LIABILITIES</b>	<b>971,674</b>	<b>543,341</b>
<b>NON-CURRENT LIABILITIES</b>		
LONG-TERM DEBT	1,039,804	299,925
DUE TO UNCONSOLIDATED AFFILIATES	3,080	38,460
DEFERRED INCOME TAX LIABILITIES	489,607	261,294
OTHER NON-CURRENT LIABILITIES <sup>(4)</sup>	272,472	184,198
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>1,804,963</b>	<b>783,877</b>
<b>TOTAL LIABILITIES</b>	<b>2,776,637</b>	<b>1,327,218</b>
<b>STOCKHOLDERS' EQUITY</b>		
COMMON STOCK	963,272	762,949
ADDITIONAL PAID-IN CAPITAL	2,351,801	973,953
ACCUMULATED OTHER COMPREHENSIVE LOSS	(126,658)	(103,944)
RETAINED EARNINGS	1,161,896	546,906
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>4,350,311</b>	<b>2,179,864</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 7,126,948</b>	<b>\$ 3,507,082</b>

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

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

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

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



## LIQUIDITY AND CAPITAL RESOURCES

We are a holding company. As a result, our ability to meet our obligations and to fund our capital needs depends on our ongoing ability to generate cash from operations, the terms of our financing arrangements, and our access to capital markets.

### SOURCES AND USES OF CASH

YEAR ENDED  
DECEMBER 31,

(THOUSANDS OF USD\$)	2016	2015
<b>CASH AND CASH EQUIVALENTS AT PERIOD BEGINNING</b>	\$ 40,377	\$ 83,637
NET CASH PROVIDED BY OPERATING ACTIVITIES	240,732	168,179
NET CASH USED IN INVESTING ACTIVITIES	(1,848,876)	(248,796)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<b>1,605,461</b>	<b>41,892</b>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(12,342)	(4,535)
<b>CASH AND CASH EQUIVALENTS</b>	<b>25,352</b>	<b>40,377</b>
CASH AND CASH EQUIVALENTS FROM ASSETS HELD FOR SALE	<b>(434)</b>	-
<b>CASH AND CASH EQUIVALENTS AT PERIOD END</b>	<b>\$ 24,918</b>	<b>\$ 40,377</b>

### OPERATING ACTIVITIES

In 2016, net cash provided by operating activities increased to USD\$240.7 million, compared to USD\$168.2 million in 2015, mainly due to working capital changes, partially offset by higher paid income taxes.

### INVESTING ACTIVITIES

In 2016, net cash used in investing activities was USD\$1,848.9 million, due to the acquisition of Gasoductos de Chihuahua by USD\$1,077.6 million, net of cash available at the date of acquisition; and Ventika acquisition using USD\$434.7 million, net of cash available at closing date, including shareholders' debt purchase by USD\$125.0 million; capital expenditures of USD\$315.8 million for our Ojinaga, Sonora and San Isidro pipeline projects, and the investment of USD\$100.5 million in IMG; partially offset by restricted cash of USD\$46.8 million, related to bank debt of Ventika and Gasoductos de Chihuahua; decrease in short-term investments of USD\$20.0 million, and repayment of loans from unconsolidated affiliates of USD\$8.3 million.

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

## FINANCING ACTIVITIES

In 2016, net cash provided by financing activities was USD\$1,605.5 million, mainly due to USD\$1,567.7 million proceeds from the common stock follow-on offering, net of expenses, USD\$1,240.0 million in loans from unconsolidated affiliates and USD\$805.0 million from borrowings against credit facilities, partially offset by USD\$1,369.6 million repayment of unconsolidated affiliate loans, USD\$459.5 million repayment of bank loans, a dividend payment of USD\$140.0 million, and interest paid of USD\$35.8 million.

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

## III) INTERNAL CONTROLS

Our management is responsible for maintaining a system of internal control over financial reporting. This system gives our shareholders reasonable assurance that our transactions are executed and maintained in accordance with the guidelines set forth by our management and that our financial records are reliable as a basis for preparing our financial statements.

The system of internal control over financial reporting is supported by ongoing audits, the results of which are reported to management throughout the year. In addition, we maintain reliable databases and have modern and efficient systems designed to generate key financial information.

# FINANCIAL RESULTS

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

Consolidated Financial Statements  
for the years ended December 31, 2016,  
2015 and 2014 and Independent  
Auditor's Report Dated February 21, 2017





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## Independent Auditors' Report to the Board of Directors and Stockholders of Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries

### Opinion

We have audited the accompanying consolidated financial statements of Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (the "Company" or "IEnova"), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of profit, profit and other comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries as of December 31, 2016, 2015 and 2014, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the codes of ethics issued by the International Ethics Standards Board for Accountants and the Mexican Institute of Public Accountants, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Business acquisitions

As described in Note 11.1 to the consolidated financial statements, on September 26, 2016, IEnova acquired the remaining equity in Gasoductos de Chihuahua. Transaction price was \$1,143.8 million, resulting in the recognition of goodwill of \$1,497.0 million and a re-measurement gain of \$673.1 million as of December 31, 2016. Also, as described in Note 11.2 to the consolidated financial statements, on December 14, 2016, IEnova acquired 100% of the equity interests in the Ventika. Transaction price was \$434.7 million resulting in the recognition of goodwill of \$129.1 million.



We performed risk assessment procedures that included the understanding of the business rationale of the acquisition, the design and implementation of controls established by management over the acquisitions and the evaluation of risk of fraud. The most relevant risks identified were as follows:

- Risks that the Company incorrectly determined the fair values of property, plant and equipment or intangible assets, resulting in an inappropriate determination of goodwill which is not amortized but subject to impairment tests.
- We tested the operating effectiveness of controls established by management addressing these risks and performed substantive testing including, among other: the review of documentation of judgements made by management as assisted by its external advisors; review of relevant contracts, permits and regulations and supplemented with inquiries with operating personnel of the Company to gain a better understanding of the regulatory environment; performed procedures to test the determination of fair values; and performed internal consultations with valuation and industry specialist as needed.
- Risk that current or deferred taxes resulting from the acquisition, if any, were not properly reflected in the financial statements.
- We tested the operating effectiveness of controls established by management addressing this risk and reviewed management's determination of current and deferred taxes. In our testing we involved our tax specialists as necessary.
- Risks that the accounting model used for contracts acquired is incorrect, for example as it relates to the determination of contracts containing leases or derivatives.
- We tested the operating effectiveness of controls established by management addressing this risk and reviewed management's documentation, challenging critical judgements.

#### Valuation of Assets held for sale

As described in Note 12 to the consolidated financial statements, in February 2016, the management of the Company approved a plan to market and sell its subsidiary Termoelectrica de Mexicali, S. de R. L. de C. V. The assets and liabilities, were presented as assets held for sale and liabilities held for sale and its results were presented within discontinued operations. Under International Financial Reporting Standards, an entity shall measure non-current assets classified as held for sale at the lower of its carrying amount and fair value less costs to sell. During the third quarter the Company determined that fair value less costs to sell was less than the carrying amount recognizing an impairment loss of \$136.8 million with a deferred tax benefit of \$47.8 million.

We addressed the risks that impairment was recorded in the appropriate period and for the correct amount. We tested the operating effectiveness of controls established by management. We also challenged management's judgements and the estimate of fair value; recalculated the impairment amounts and tax effects; and, reviewed the appropriate presentation and disclosure in the financial statements.

#### Other Information

Management is responsible for the other information. The other information comprises information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We do not report anything related to the other information.

#### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

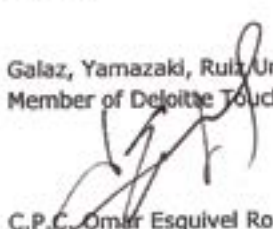
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Other matter**

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S. C.  
Member of Deloitte Touche Tohmatsu Limited

  
C.P.C. Omar Esquivel Romero  
Mexico City, Mexico  
February 21, 2017

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

Consolidated Statements of Financial Position

(In thousands of U. S. Dollars)

Assets	Notes	December 31, 2016	December 31, 2015	December 31, 2014
Current assets:				
Cash and cash equivalents	4, 24	\$ 24,918	\$ 40,377	\$ 83,637
Short-term investments	24	80	20,068	30,020
Trade and other receivables, net	5, 24	100,886	53,728	66,401
Due from unconsolidated affiliates	6, 24	12,976	27,608	26,601
Finance lease receivables	8, 24	7,155	-	-
Income taxes receivable	25	6,390	16,226	34,297
Natural gas inventories	7	6,083	4,628	9,375
Derivative financial instruments	24	6,913	1,926	4,709
Value added tax receivable		27,600	46,807	30,797
Carbon allowances	20	-	5,385	29,864
Other assets	9	9,289	8,576	9,918
Restricted cash	4	51,363	-	-
Assets held for sale	12	191,287	-	-
Total current assets		444,940	225,329	325,619
Non-current assets:				
Due from unconsolidated affiliates	6, 24	104,352	111,766	146,775
Derivative financial instruments	24	1,127	-	-
Finance lease receivables	8, 24	950,311	14,510	14,621
Deferred income tax assets	25	75,999	78,965	85,758
Investments in joint ventures	10	125,355	440,105	401,538
Carbon allowances	20	-	12,975	229
Other assets	9	4,855	1,938	2,285
Property, plant and equipment, net	14, 28	3,614,085	2,595,840	2,377,739
Intangible assets	15	154,144	-	-
Goodwill	13	1,651,780	25,654	25,654
Total non-current assets		6,682,008	3,281,753	3,054,599
Total Assets		\$ 7,126,948	\$ 3,507,082	\$ 3,380,218

Liabilities and Stockholders' Equity	Notes	December 31, 2016	December 31, 2015	December 31, 2014
Current liabilities:				
Short-term debt	21, 24	\$ 493,571	\$ 88,507	\$ 195,089
Trade and other payables	16, 24	94,566	43,849	59,575
Due to unconsolidated affiliates	6, 24	260,914	352,650	14,405
Income tax liabilities	25	13,322	14,095	18,022
Derivative financial instruments	24	10,310	-	6,808
Other financial liabilities	18, 24	5,877	6,444	7,223
Provisions	22	930	1,293	1,619
Other taxes payable		27,872	13,881	11,247
Carbon allowances	20	-	5,385	29,864
Other liabilities	19	28,861	17,237	23,698
Liabilities held for sale	12	35,451	-	-
Total current liabilities		971,674	543,341	367,550
Non-current liabilities:				
Long-term debt	23, 24	1,039,804	299,925	350,638
Due to unconsolidated affiliates	6, 24	3,080	38,460	38,460
Deferred income tax liabilities	25	489,607	261,294	232,538
Carbon allowances	20	-	12,611	-
Provisions	22	51,035	34,236	38,250
Derivative financial instruments	24	215,851	133,056	100,449
Employee benefits	17	5,586	4,295	3,045
Total non-current liabilities		1,804,963	783,877	763,380
Total liabilities		2,776,637	1,327,218	1,130,930
Stockholders' equity:				
Common stock	26	963,272	762,949	762,949
Additional paid-in capital	26	2,351,801	973,953	973,953
Accumulated other comprehensive loss		(126,658)	(103,944)	(64,331)
Retained earnings		1,161,896	546,906	576,717
Total equity attributable to owners of the Company		4,350,311	2,179,864	2,249,288
Commitments and contingencies	35, 36			
Events after the reporting period	38			
Total liabilities and equity		\$ 7,126,948	\$ 3,507,082	\$ 3,380,218

See accompanying notes to the consolidated financial statements.



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

Consolidated Statements of Profit

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

	Notes	Year ended December 31,		
		2016 (Note 1, 12)	2015 (Note 1, 12)	2014 (Note 1, 12)
Revenues	24, 28	\$ 717,894	\$ 613,041	\$ 738,830
Cost of revenues		(237,789)	(257,226)	(409,635)
Operating, administrative and other expenses	30	(104,754)	(81,857)	(78,658)
Depreciation and amortization	14, 28, 33	(64,384)	(52,470)	(46,728)
Interest income	28, 29	6,269	6,701	3,187
Finance (costs) income	28, 32	(20,836)	(9,859)	1,379
Other gains and (losses), net	31	2,168	(11,426)	4,059
Remeasurement of equity method investment	11	673,071	-	-
Profit before income tax and share of profits of joint ventures		971,639	206,904	212,434
Income tax expense	25, 28	(147,158)	(94,237)	(102,856)
Share of profits of joint ventures, net of income tax	10, 28	42,841	42,319	23,346
Profit for the period from continuing operations		\$ 867,322	\$ 154,986	\$ 132,924
Discontinued operation: (Loss) gain for the period from discontinued operations, net of income tax	12	(112,332)	(14,797)	4,010
Profit for the year	28	\$ 754,990	\$ 140,189	\$ 136,934
Earnings per share:				
From continuing and discontinued operations:				
Basic and diluted earnings per share	12, 34	\$ 0.61	\$ 0.12	\$ 0.12
From continuing operations:				
Basic and diluted earnings per share	34	\$ 0.70	\$ 0.13	\$ 0.12

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Profit and Other Comprehensive Income

(In thousands of U. S. Dollars)

	Notes	Year ended December 31,		
		2016	2015	2014
Profit for the year	34	\$ 754,990	\$ 140,189	\$ 136,934
Other comprehensive income (loss):				
Items that will not be reclassified to profit or (loss):				
Actuarial gains (loss) on defined benefits plans	17	1,765	(1,793)	357
Deferred income tax related to components of other comprehensive income		(530)	538	(107)
Total items that will not be reclassified to profit		1,235	(1,255)	250
Items that may be subsequently reclassified to profit or (loss):				
Loss on valuation of financial derivative instruments held for hedging purposes		(17,112)	(6,604)	(1,822)
Deferred income tax on the loss on valuation of financial derivative instruments held for hedging purposes		5,133	1,981	547
Gain (loss) on valuation of derivative financial instruments held for hedging purposes of joint ventures		35,308	(5,362)	(19,936)
Deferred income tax on the gain (loss) on valuation for hedging purposes at joint ventures of financial derivative instruments held		(10,592)	1,608	5,981
Exchange differences on translation of foreign operations		(36,686)	(29,981)	(25,078)
Total items that may be subsequently reclassified to profit or loss		(23,949)	(38,358)	(40,308)
Other comprehensive loss for the year		(22,714)	(39,613)	(40,058)
Total comprehensive income for the year		\$ 732,276	\$ 100,576	\$ 96,876

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

(In thousands of U. S. Dollars)

	Notes	Common shares	Additional paid-in capital	Other comprehensive loss	Retained earnings	Total
Balance as of December 31, 2014		\$ 762,949	\$ 973,953	\$ (64,331)	\$ 576,717	\$ 2,249,288
Profit for the year		-	-	-	140,189	140,189
Loss on valuation of financial derivatives held for hedging purposes, net of income tax		-	-	(8,377)	-	(8,377)
Actuarial loss on defined benefits plans, net of income tax		-	-	(1,255)	-	(1,255)
Exchange differences on translation of foreign operations		-	-	(29,981)	-	(29,981)
Total comprehensive income for the year		-	-	(39,613)	140,189	100,576
Dividends paid	27	-	-	-	(170,000)	(170,000)
Balance as of December 31, 2015		<u>\$ 762,949</u>	<u>\$ 973,953</u>	<u>\$ (103,944)</u>	<u>\$ 546,906</u>	<u>\$ 2,179,864</u>
Profit for the year		-	-	-	754,990	754,990
Loss on valuation of financial derivatives held for hedging purposes, net of income tax		-	-	(11,979)	-	(11,979)
Actuarial gain on defined benefits plans, net income tax		-	-	1,235	-	1,235
Gain on valuation of financial derivatives held for hedging purposes of joint venture, net of income tax		-	-	24,716	-	24,716
Exchange differences on translation of foreign operations		-	-	(36,686)	-	(36,686)
Total comprehensive income for the year		-	-	(22,714)	754,990	732,276
Issuance of share, net	26	200,323	1,377,848	-	-	1,578,171
Dividends paid	27	-	-	-	(140,000)	(140,000)
Balance as of December 31, 2016		<u>\$ 963,272</u>	<u>\$ 2,351,801</u>	<u>\$ (126,658)</u>	<u>\$ 1,161,896</u>	<u>\$ 4,350,311</u>

See accompanying notes to the consolidated financial statements.



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

Consolidated Statements of Cash Flows

(In thousands of U. S. Dollars)

	Notes	Year Ended december 31,		
		2016	2015	2014
Cash flows from operating activities:				
Profit for the year	28, 34	\$ 754,990	\$ 140,189	\$ 136,934
Adjustments for:				
Income tax expense	25, 28	117,349	100,406	111,283
Share of profit of joint ventures, net of income tax	10, 28	(42,841)	(42,319)	(23,346)
Finance costs (income)	28, 32	21,092	10,103	(1,143)
Interest income	28, 29	(6,294)	(6,743)	(3,299)
(Loss) gain on disposal of property, plant and equipment		(4,233)	3,601	624
Impairment loss (gain) recognized on trade receivables		46	30	(8)
Impairment property plant and equipment		136,880	-	-
Remeasurement of equity method investment		(673,071)	-	-
Gain on sale of equity interest in subsidiary		-	-	(18,824)
Depreciation and amortization	14, 28, 33	66,606	67,682	61,943
Net foreign exchange (gain) loss		(4,652)	(8,548)	9,057
(Gain) loss on valuation of derivative financial instruments		(21,001)	690	4,045
		<u>344,871</u>	<u>265,091</u>	<u>277,266</u>
Movements in working capital:				
Decrease (increase) in trade and other receivables, net		6,175	11,776	(4,020)
(Increase) decrease in natural gas inventories		(1,455)	4,747	(5,539)
Decrease in other assets		18,398	3,615	14,308
(Decrease) increase in trade and other payables		(45,302)	(17,081)	49,393
Increase (decrease) in provisions		16,249	(3,791)	(19,873)
Increase (decrease) in other liabilities		20,348	(33,638)	17,895
Cash generated from operations		<u>359,284</u>	<u>230,719</u>	<u>329,430</u>
Income taxes paid		<u>(118,552)</u>	<u>(62,540)</u>	<u>(166,213)</u>
Net cash provided by operating activities		<u>240,732</u>	<u>168,179</u>	<u>163,217</u>

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

Consolidated Statements of Cash Flows

(In thousands of U. S. Dollars)

	Notes	Year Ended december 31,		
		2016	2015	2014
Cash flows from investing activities:				
Acquisition of subsidiary, net of cash acquired	11	(1,512,248)	-	24,411
Investment in joint ventures	10	(100,477)	-	-
Interest received		3,875	1,047	4
Acquisitions of property, plant and equipment	14	(315,810)	(300,090)	(325,484)
Loans to unconsolidated affiliates		685	(1,301)	(162,823)
Receipts of loans to unconsolidated affiliates		8,262	41,596	18,921
Restricted cash		46,849	-	-
Short-term investments		<u>19,988</u>	<u>9,952</u>	<u>177,007</u>
Net cash used in investing activities		<u>(1,848,876)</u>	<u>(248,796)</u>	<u>(267,964)</u>
Cash flows from financing activities:				
Issuance shares in follow-on		1,602,586	-	-
Shares issuance cost		(34,877)	-	-
Interest paid		(35,785)	(20,172)	(18,872)
Proceeds from loans from unconsolidated affiliates	6	1,240,000	339,600	146
Repayment of loans from unconsolidated affiliates	6	(1,369,600)	-	(583)
Payments on bank credit lines		(459,463)	(600,094)	-
Proceeds from bank credit lines		805,000	495,094	278,432
Debt issuance cost		(2,400)	(2,536)	(11,184)
Dividends paid	27	<u>(140,000)</u>	<u>(170,000)</u>	<u>(164,000)</u>
Net cash provided by financing activities		<u>1,605,461</u>	<u>41,892</u>	<u>83,939</u>
Net decrease in cash and cash equivalents		<u>(2,683)</u>	<u>(38,725)</u>	<u>(20,808)</u>
Cash and cash equivalents at the beginning of the year		40,377	83,637	103,880
Cash and cash equivalent from assets held for sale	12	(434)	-	-
Effects of exchange rate changes on cash and cash equivalents		<u>(12,342)</u>	<u>(4,535)</u>	<u>565</u>
Cash and cash equivalents at the end of the year		<u>\$ 24,918</u>	<u>\$ 40,377</u>	<u>\$ 83,637</u>

See accompanying notes to the consolidated financial statements.

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

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2016, 2015 and 2014

(In thousands of U. S. Dollars, except where otherwise stated)

## I. General information and relevant events

### 1.1. General information

Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (collectively, the "Company" or "IEnova") are located and incorporated in México. Their parent and ultimate holding company is Sempra Energy (the "Parent") located and incorporated in the United States of America ("U. S."). The address of their registered offices and principal places of business are disclosed in Note 40.

### 1.2. Relevant events

#### 1.2.1. Credit agreements

On August 21, 2015, IEnova as a debtor, entered into a revolving credit line of up to \$400.0 million with a syndicate group of four banks including, Banco Santander, (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, Bank of Tokyo Mitsubishi, The Bank of Nova Scotia and Sumitomo Mitsui Banking Corporation ("SMBC"). The revolving credit has the following characteristics:

- U.S. Dollar-denominated.
- Twelve month term, with an option to extend up to five years.
- Financing to repay and cancel the previous loans contracted in 2014 with Banco Santander (México), S. A., Institución de Banca Múltiple and SMBC, as well as to finance working capital and for general corporate purposes.

#### Restructuring of credit agreement and new credit agreement

On December 22, 2015 the Company entered into an amended agreement, in connection with the existing unsecured revolving credit agreement with Banco Nacional de México, SMBC, as Administrative Agent, and the financial institutions party thereto, as Lenders, (the "Credit Agreement") whereby it agreed to increase the amount of the line of credit under the Credit Agreement to a maximum aggregate in the amount of \$600.0 million from the previously authorized maximum in the amount of \$400.0 million. Please refer to Note 21.

On November 3, 2016, the Company entered into a second amendment agreement, in connection to the revolving credit mentioned above, in which Bank of America, N. A. ("BoFA"), BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer ("BBVA") and Mizuho Bank, LTD ("Mizuho"), joined as new lenders and with the existing lenders whereby agreed to increase the amount of the credit line under the Credit Agreement to a maximum aggregate in the amount of \$1,170.0 million approximately from the previously authorized maximum of \$600.0 million.

On December 30, 2016 a portion of this revolving credit was paid in the amount of \$ 200.0 million.

#### 1.2.2. Plan to market and sell TDM

In February 2016, the Company's management approved a plan to market and sell Termoelectrica de Mexicali, S. de R. L. de C. V. and subsidiaries ("TDM"), a 625-megawatts ("MW") natural gas-fired power plant located in Mexicali, Baja California, México.

As a result of the foregoing events, the assets and liabilities of TDM were presented as assets held for sale and liabilities held for sale, in the Consolidated Statement of Financial Position as of December 31, 2016; the results of these companies are also presented within discontinued operations in the Consolidated Statements of Profit, which were retrospectively adjusted. Please refer to Note 12.

#### 1.2.3. Purchase agreement of remaining interest in GdC from Petroleos Mexicanos

On July 31, 2015, the Company announced an agreement with Petroleos Mexicanos ("Pemex") to purchase Pemex's 50 percent equity interest in Gasoductos de Chihuahua, S. de R. L. de C. V. ("GdC") in the amount of \$1.325 billion. The assets involved in the acquisition include three natural gas pipelines; one ethane pipeline; one liquid petroleum gas ("LPG") pipeline; and one LPG storage terminal. Under the terms of the agreement, Pemex and IEnova will maintain their existing partnership in the Los Ramones II Norte pipeline project through the project holding company, Ductos Energéticos del Norte, S. de R. L. de C. V. ("DEN").

On September 14, 2015 the Ordinary and Extraordinary Shareholders' Meeting approved the purchase of Pemex's 50 percent equity interest hold in GdC.

#### Resolution from COFECE in connection with purchase agreement of remaining interest in GdC from Pemex

In December 2015, Comisión Federal de Competencia Económica ("COFECE") objected to the transaction to purchase Pemex's interest in GdC as proposed. The parties restructured the transaction so that Pemex could proceed in accordance with the COFECE ruling.

#### GdC acquisition

In July 2016, IEnova announced it had reached an agreement with Pemex Transformación Industrial ("Pemex TRI") to restructure the transaction to purchase Pemex's interest in GdC that was objected by the COFECE in December 2015. This agreement allowed i) Pemex TRI to satisfy the conditions imposed by the former COFECE in connection with its indirect participation in the assets known as Gasoducto San Fernando and LPG Ducto TDF and ii) IEnova to acquire Pemex TRI participation in GdC once such conditions were satisfied.

On September 21, 2016, COFECE authorized IEnova's acquisition of 50 percent of the equity of GdC ("GdC acquisition"), owned by Pemex TRI.

On September 26, 2016, GdC's acquisition was completed through IEnova Gasoductos Holding, S. de R. L. de C. V., ("IGH") a subsidiary of IEnova; therefore, the Company now holds 100 percent of GdC's shares. The final price of the transaction was \$1,077.6 million, net of cash acquired. GdC's joint venture with Pemex TRI remains after the acquisition, as originally contracted, each holding 50 percent of the shares in DEN. Through DEN, IEnova and Pemex TRI will preserve their energy infrastructure joint venture of the construction of the Los Ramones Norte pipeline and potentially develop new projects. Please refer to Note 1.2.4 for financing transaction.

GdC has been included in the Company's Consolidated Financial Statements since the acquisition date (September 26, 2016). Please refer to Note 11.1.



#### 1.2.4. Bridge loan for GdC acquisition

- a. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of \$800.0 million with Semptra Global ("SEG"). The loan has the following characteristics:
- U.S. Dollar-denominated.
  - Two-month term.
  - Use to finance the acquisition of GdC.

In October 2016, the Company repaid this Bridge Loan.

- b. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount \$350.0 million with Semco Holdco, S. de R. L. de C. V. ("Semco"). The loan has the following characteristics:
- U.S. Dollar-denominated.
  - Two-month term.
  - Use to finance the acquisition of GdC.

In October 2016, Semco bought IEnova's shares from the common stock follow-on equity offering ("Global offering"). Semco acquired 83,125,000 shares, at a value per share of \$80.0 Mexican Pesos, the total amount of this transaction amounted to approximately \$350.0 million, equivalent to the amount of this loan, therefore Semco relieved IEnova from the payment obligation of the loan as settlement for shares.

#### 1.2.5. Follow-on equity offering

On October 13, 2016, the Company carried out a Global Offering. The Company issued 380,000,000 shares of common stock at \$80.0 Mexican Pesos per share. After the Global offering, the additional and over-allotment option was exercised, the free float represented approximately 33.57 percent of IEnova's outstanding ownership interest.

Total capital raised, net of expenses and the corresponding taxes, was \$29,941.0 million Mexican Pesos (approximately \$1.57 billion of US Dollars), the proceeds were used to repay the bridge loan to its affiliate Semptra Global, used to purchase the remaining 50 percent of GdC from Pemex TRI, to fund a portion of the acquisition of the Ventika wind-farm and to fund capital expenditures and general corporate purposes. Please refer to Note 26.

As a result of the Global Offering, the Company raised \$30,400 million Mexican Pesos, and the issuance costs amounted to \$459,313.3 Mexican Pesos. Please refer to Note 26.

The Company in order to complete the transaction mentioned in Note 1.2.3., entered into four forward exchange rate contracts with a maturity date in October 2016. The effect of these forwards was \$3.4 million, and was recognized in the Consolidated Statement of Profit within other gains and losses.

#### 1.2.6. Purchase agreement of wind farm Ventika

On September 2, 2016, IEnova agreed to acquire Fistera Energy Netherlands III, B. V., Fistera Energy Netherlands, IV B. V., Fistera Energy Mexico III, S. de R. L. de C. V., Fistera 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 Fistera Energy and Cementos Mexicanos, S. A. de C. V. The construction was completed in December 2015 and commercial operations started in April 2016.

This transaction was approved in an Extraordinary Shareholders' Meeting on October 7, 2016.

In December 2016, the COFECE authorized the acquisition of 100 percent of the equity interests in Ventika. The transaction was completed on December 14, 2016 through Controladora Sierra Juárez, S. de R. L. de C. V. ("CSJ") a subsidiary of IEnova. The final price of the transaction was \$434.7 million, plus the assumption of outstanding debt of \$485.3 million.

The loans fully mature in March 2032, and bear interest equal to a fixed base rate or London Interbank Offered Rate ("LIBOR") plus a spread of 3.03 percent to 3.93 percent, which varies over the term of the loans. To moderate exposure to interest rate and associated cash flow variability, Ventika entered into floating-to-fixed interest rate swaps to have almost 92 percent of the full amount of the loans fixed.

Ventika has been included in the Consolidated Financial Statements since the acquisition date (December 14, 2016). Please refer to Note 11.2.

#### 1.2.7. Financing with unconsolidated affiliates

- a. In March 2015, IEnova entered into two related party revolving credit facilities for \$90.0 million with Inversiones Semptra Latin America Limitada ("ISLA") and \$30.0 million with Inversiones Semptra Limitada ("ISL"). The revolving credit facilities have the following characteristics:

- U.S. Dollar-denominated.
- Nine month term, with the option to be extended up to four years. At the year-end 2016 the term was renegotiated until December 2017.
- Financing to cover working capital needs and general corporate purposes.

- b. On December 22, 2015, IEnova entered into a related party revolving credit facility in the amount of \$219.6 million with Semptra Energy Holding XI B.V. ("SEH"). The revolving credit facility has the following characteristics:

- U.S. Dollar-denominated.
- Twelve-month term.
- Financing to cover working capital needs and general corporate purposes.

On August 1<sup>st</sup>, 2016 the Company repaid \$120.5 million of this credit facility, including corresponding interest. In October 2016, with the proceeds from the Global Offering, the outstanding balance of \$99.5 million was paid in full by the Company.

- c. On December 27, 2016, IEnova entered into two related parties revolving credit facilities for \$20.0 million with Peruvian Opportunity Company S. A. C. ("POC") and \$70.0 million with ISLA. The credit facilities have the following characteristics:

- U.S. Dollar-denominated.
- Twelve-month term, with an option to be extended up to four years.
- Financing to cover working capital needs and general corporate purposes.

### 1.2.8. Projects under development

#### a. Los Ramones

##### i. Los Ramones I

In January 2013, Pemex announced that the first phase of the Los Ramones pipeline project was assigned to and would be developed by IEnova's joint venture with Pemex (Please refer to Note 10). The project is a 114 Kilometers (Km) natural gas pipeline (Los Ramones I) with two compression stations, from the northern portion of the state of Tamaulipas bordering the United States to Los Ramones in the Mexican state of Nuevo León. The capacity is fully contracted under a 25-year transportation services agreement with Pemex denominated in Mexican Pesos, with a contract rate based on the U.S. Dollar investment, adjusted annually for inflation and fluctuation of the exchange rate. The pipeline portion of the project began operations at the end of 2014. The compressor stations started operation at the end of 2015. The pipeline capacity is 2.1 billion of cubic feet per day ("CFPD").

##### ii. Los Ramones Norte

On March 12, 2014, GdC, entered into a partnership agreement with TAG Pipelines, S. de R. L. de C. V. ("TAG Pipelines", an affiliate of Mex Gas International, Pemex Gas y Petroquímica Básica ("PGPB's") subsidiary, establishing the terms and conditions to jointly operate TAG Norte, S. de R. L. de C. V. ("TAG Norte").

TAG Norte will develop the Los Ramones Norte project, which consists of a 440 Km pipeline system and two compression stations between the municipality of Los Ramones, Nuevo León and San Luis Potosí, with an investment of approximately \$1.3 to \$1.5 billion.

TAG Norte concurrently entered into an integrated transportation service of natural gas agreement with PGPB for all the capacity of the Los Ramones Norte system, with a 25-year term from the date of commercial operation. The pipeline capacity is 1.4 billion of CFPD.

In February 2016, Los Ramones Norte project began commercial operations.

##### *Incorporation of new Partners in TAG Norte Holding, S. de R. L. de C. V. (Joint Venture)*

On March 26, 2015, Pemex, through its affiliate P.M.I. Holdings, B. V. ("PMI"), announced the execution of an agreement with BlackRock and First Reserve in which BlackRock and First Reserve acquired a combined interest of 45-percent of TAG Norte Holding, S. de R. L. de C. V. ("TAG Norte Holding"). GdC, a subsidiary of IEnova, holds a 50 percent interest in TAG Norte Holding which constructed the project known as Los Ramones Norte.

#### b. Energía Sierra Juárez

##### i. Sale of 50 percent of the ESJ project

On April 18, 2014, the Company, through its subsidiary CSJ, entered into a purchase and sale agreement with InterGen International N. V. ("InterGen") with respect to the 50 percent of the membership interests of Energía Sierra Juárez, S. de R. L. de C. V.'s ("ESJ") equity (Company responsible for the ESJ project). This transaction was completed on July 16, 2014. The Company recognizes ESJ as an investment in joint venture and accounts for its ownership share by the equity method. Please refer to Note 10.2 for more details of this transaction.

##### ii. Project Financing Agreement for the ESJ project

On June 12, 2014, ESJ entered into a project financing agreement for \$239.8 million with a term of 18 years after the date of commencement of commercial operation in June 2015. The financing includes the granting of certain guarantees in favor of lenders and providers of coverage. Please refer to Note 10.2a for more details of the project financing.

##### iii. Financing of project's value added tax

On June 12, 2014, ESJ entered into a current account simple loan contract with Santander for an amount of up to \$455.0 million Pesos (approximately \$35.0 million U.S. Dollars historical) to finance the value added tax ("VAT") of the ESJ project. Please refer to Note 10.2c for more details.

##### iv. Beginning of commercial operation of the ESJ project

In April 2015, Phase I of the Energía Sierra Juárez wind project, operated by ESJ, began commercial operations in Tecate, Baja California, México. Phase I of the project is the Company's 50 percent joint venture with InterGen N. V. and has a 155 MW capacity.

#### c. Sonora pipeline

In October 2012, Gasoductos de Aguaprieta, S. de R. L. de C. V. ("GAP") was awarded two contracts by the Comisión Federal de Electricidad ("CFE") with two contracts to build and operate an approximately 835 Km natural gas pipeline network connecting the Northwestern Mexican states of Sonora and Sinaloa ("Northwest gas pipeline", also known as the "Sonora Pipeline") to the U.S. interstate pipeline. The Sonora pipeline is comprised of two segments; the first one (Sasabe - Guaymas), has an approximate length of 505 Km, 36-inch diameter pipeline with 770 million cubic feet per day ("Mmcfd") of transportation capacity; and the second one (Guaymas - El Oro), has an approximate length of 330 Km, and 30-inch pipeline with 510 Mmcfd of transportation capacity.

On August 18, 2014, CFE granted a compliance certification for the 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), were put into operation in the third quarter of 2015. The second segment (Guaymas - El Oro) is estimated to be put into operation in the second quarter of 2017. The Company estimates the total cost of the Sonora pipeline will be approximately \$1.0 billion. The capacity of the Sonora pipeline is contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

#### d. Ojinaga - El Encino project

In December 2014, GAP, entered into the Ojinaga pipeline natural gas transportation services agreement with the CFE, which has a term of 25 years. The CFE contracted 100 percent of the transportation capacity of the Ojinaga pipeline, equal to 1.4 billion CFPD. GAP will be responsible for the development, construction and operation of the 42-inch pipeline, with a length of approximately 205 Km and estimated cost of \$300.0 million, which is expected to begin operations in the first half of 2017.



*e. San Isidro - Samalayuca project*

During 2015, the Company, through its 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 Mmcfd of natural gas. The system will supply natural gas to the Norte III Combined Cycle Power Plant and will interconnect with the following systems: Gasoductos de Chihuahua, Tarahumara Pipeline and the Samalayuca-Sásabe pipeline. The estimated investment is \$108.0 million and the project is expected to begin operations in the first quarter of 2017. The contract maturity with CFE will be for 25 years.

*f. Liquefaction project*

During March 2015, the Company, together with its affiliate IEnova Marketing, S. de R. L. de C.V. ("IEnova Marketing" formerly, IEnova LNG, S. de R. L. de C. V., announced the execution of a "Memorandum of Understanding" ("Memorandum") with a subsidiary of Pemex, for collaboration in the development of a natural gas liquefaction project at Energía Costa Azul, S. de R. L. de C. V. ("ECA"). ECA is a subsidiary of IEnova and is a liquefied natural gas ("LNG") receipt, storage and regasification facility, located in Ensenada, Baja California, Mexico. The Memorandum defines partner participation in the liquefaction project, including the development, structuring and the terms under which Pemex may become a client and/or investor.

*g. Ramal Empalme pipeline project*

In May 2016, IEnova entered into a natural gas transportation service agreement with CFE for a 21 year term, denominated in U.S. Dollars, for 100 percent of the transportation capacity of the Ramal Empalme pipeline, equal to 226 mmcfd of natural gas. The Company will be responsible for the development, construction and operation of the 20 Km pipeline which is expected to begin operations in the first half of 2017.

*h. Marine pipeline*

In June 2016, Infraestructura Marina del Golfo, S. de R. L. de C. V. ("IMG"), the joint venture formed between IEnova and TransCanada Corporation ("TransCanada"), whereby TransCanada has 60 percent interest in the partnership and IEnova owns the remaining 40 percent interest, resulted the winner of a bidding process and entered into a 25-year natural gas transportation service agreement with the CFE, in connection with the bid issued by CFE for the South Texas - Tuxpan pipeline. IMG shall be responsible for the development, construction, and operation of the 42-inch pipeline, with a capacity of 2.6 billion CFPD and a length of approximately 800 Km. The project will require an investment of approximately \$2.1 billion and is expected to begin operations in the last quarter of 2018. Please refer Note 10.3.

*i. La Rumorosa Solar Project and Tepezalá II Solar Project*

On September 28, 2016, the Company was declared winner of two solar projects, bided by Centro Nacional de Control de Energía ("CENACE"), La Rumorosa Solar Complex ("La Rumorosa") and Tepezalá II Solar Complex ("Tepezalá II") with an approximate capacity of 41 MW, located in Baja California, Mexico and 100 MW capacity, located in Aguascalientes, Mexico, respectively. The Tepezalá II project will be developed and constructed in collaboration with Trina Solar who will have a 10 percent stake in this project.

The Company, through its subsidiaries will be responsible for the development, construction, operation and maintenance of these projects, including the permits, rights, financing and land acquisition. The estimated investment for these projects is \$150.0 million and the beginning of commercial operations is expected to occur in the second quarter of 2019.

*1.2.9. Other Financing*

- i.* In June 2014, IEnova entered into an agreement for a \$200.0 million, U.S. Dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender is Santander. As of December 31, 2014, IEnova had \$145.0 million of outstanding borrowings supported by the facility, and available unused balance credit line was \$55.0 million.
- ii.* In August 2014, IEnova entered into an agreement for a \$100.0 million, U.S. Dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender is SMBC. As of December 31, 2014, IEnova had \$51.0 million of outstanding borrowings supported by the facility, and available unused balance on the credit line was \$49.0 million.

*1.2.10. Others matters*

*a. Payment of financial derivatives held for hedging purposes*

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings. In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. As of December 31, 2014, there was one remaining interest rate swap agreement under which IEnova received a variable interest rate (three-month LIBOR) and paid a fixed interest rate of 5 percent. The original terms of the swap expire on December 15, 2027. On September 16, 2015, the Company, through an early termination clause, made a payment in the amount of \$29.8 million and as a result, such derivative was cancelled.

*b. Energy Reforms*

On December 20, 2013, México's president enacted constitutional reform with respect to laws governing the energy sector which was approved by the national congress and the majority of state congresses. The Reform modifies Articles 25, 27 and 28 of the Mexican Constitution, allowing for private investment in the following areas: exploration and production of hydrocarbons, petrochemicals, refining, transportation, storage and distribution of petroleum products and power transmission and distribution. On August 11, 2014, the secondary legislation derived from the reform was enacted and on October 31, 2014, its most relevant regulations were published in the Federal Official Gazette. 2015 and 2016 witnessed the implementation of the Reform since particular regulation (General Administrative Procedures) regarding natural gas, electricity, renewables and liquids were issued by the Energy Regulatory Commission. Centro Nacional de Control del Gas Natural ("CENAGAS") and Centro Nacional de Control de Energía ("CENACE") started functioning as the Independent System Operators of the natural gas and national electricity systems (Sistrangas and National Electrical System), and Pemex and Comisión Federal de Electricidad ("CFE") had important corporate restructures.

*1.3. Activities*

The Company operates in the energy sector. The Company is organized in two separately managed reportable segments, Gas and Power. Amounts labeled as Corporate consist of parent company activities at IEnova (Please refer to Note 28).



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

The Power segment owns and operates a natural gas fired power plant that includes two gas turbines and one steam turbine, and holds an interest in a renewable energy project in a joint venture in Baja California, Mexico, using wind resources to serve a customer in the U. S. (Please refer to Note 1.2.8.)

According to the relevant event mentioned in Note 1.2.3. and 1.2.6., the Company has the following new activities:

- i) Operation of five natural gas compression stations, one propane system in the states of Chihuahua, Nuevo León and Tamaulipas; and one storage station in the state of Jalisco, Mexico.
- ii) A plant in Zapotlanejo, Jalisco, Mexico where the Company renders transportation and storage of LPG services.
- iii) Transportation of ethane gas, in the states of Tabasco, Chiapas and Veracruz, Mexico.
- iv) Operation of a wind farm with a capacity of 252 MW, located in the state of Nuevo León, Mexico.

The Company obtained the corresponding authorization from the Comisión Reguladora de Energía ("CRE") in order to perform these activities.

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

#### 1.3.1. Gas segment

The Company's subsidiaries included in this reportable segment are:

- a. Ecogas México, S. de R. L. de C. V. ("ECO") is engaged in the distribution and sale of natural gas for industrial, residential and commercial use in three local distribution zones: Mexicali (serving the city of Mexicali), Chihuahua (serving the cities of Chihuahua, Delicias, Cuauhtémoc and Anáhuac) and La Laguna-Durango (serving the cities of Torreón, Gómez Palacio, Lerdo and Durango).

During 1996, 1997 and 1999, the CRE, granted ECO the first natural gas distribution permits for the local distribution zones of Mexicali, Baja California, Chihuahua, Chihuahua and La Laguna-Durango, under which ECO receives, transports, delivers and sells natural gas through a pipeline system.

In May 2009, the CRE approved the third five-year plan to ECO for the local distribution zones of Chihuahua, Chihuahua and Mexicali, Baja California, and in June 2010 for the local distribution zone of La Laguna-Durango. Additionally, in 2010, the CRE authorized an adjustment to authorized tariffs to be applied in the five-year plan for the local distribution zones of Chihuahua, Chihuahua and La Laguna-Durango. The five-year plans do not include commitments regarding the minimum number of customers. As of December 31, 2016, 2015 and 2014, ECO had over 119,000, 113,000 and 106,000 customers, respectively.

- b. PE International Canada, S. de R. L. de C. V. ("PEI") is a subholding company of the group.
- c. Servicios DGN de Chihuahua, S. A. de C. V. ("SDGN") provides administrative, and operational services to other subsidiaries of the group.
- d. Gasoducto Rosarito, S. de R. L. de C. V. ("GRO") render services of transportation of natural gas, serving the energy requirements of Baja California, México. GRO operates the Gasoducto system comprised of three natural gas pipelines (*Rosarito Mainline*, *LNG Spur* and *Yuma Lateral*) and one 30,000 horse power ("HP") compression station located in Baja California, México. The total length of GRO system is approximately 302 Km. The system begins at the interconnection with the El Paso Natural Gas Co. pipeline near Ehrenberg, Arizona, U. S. ("North Baja Pipeline"), and ends in southern Tijuana Baja California at the interconnection with the Transportadora de Gas Natural de Baja California, S. de R. L. de C. V. ("TGN", a subsidiary company) pipeline. The Mexican portion of the pipeline begins at the interconnection in Algodones with the North Baja Pipeline and travels through Mexicali and Tecate, ending at the interconnection with TGN. These three pipelines operate under one transportation permit issued by the CRE.

*Rosarito Mainline:* This system was originally placed in service in August 2002 to supply natural gas from the U.S. to several power plants and industrial customers in the Baja California, México market. This system is a 30-inch diameter pipeline with a length of approximately 225 Km and a designed transportation capacity of 534 Mmcfd.

*LNG Spur:* This system was completed in May 2008 and transports natural gas to the Rosarito Mainline for delivery to power plants to the Baja California market. This system is a 42-inch diameter pipeline with a length of approximately 72 Km and a designed transportation capacity of 2,600 Mmcfd.

*Yuma Lateral:* This system was the latest addition to the GRO transportation system and was placed in service in March 2010 to transport natural gas to the Arizona border. This system is a 12-inch diameter pipeline with a length of approximately 5 Km and a designed transportation capacity of 190 Mmcfd.

- e. TGN is engaged in the transportation of natural gas in accordance with a permit issued by the CRE, through a 45 Km, 30-inch pipeline with a designed transportation capacity of 940 Mmcfd as permitted by the CRE. TGN interconnects with the GRO pipeline system in the Tijuana, Baja California, México, area and extends north to interconnect with the San Diego Gas & Electric Company ("SDG&E", an unconsolidated affiliate in the U. S.) system at the Otay Mesa International border and southwest to the CFE's 600 MW Presidente Juárez Power Plant in Rosarito, Baja California, México. The TGN pipeline system was placed in service in June 2000. A 19 Km expansion to the TGN system began operations in May 2008.
- f. IEnova Gasoductos México, S. de R. L. de C. V. ("IEnova Gasoductos México") is engaged in the acquisition and subscription of any kind of participation in the capital stock of a variety of companies; its subsidiaries are engaged in the compression, storage and transportation of natural and propane gas as well as in rendering all kind of services related to such activities, including the coordination, consulting and supervision of construction and development of energy infrastructure projects.

Sempre Compresión México, S. de R. L. de C. V. ("SCM") was incorporated on August 8, 2003, as a result of a spin-off of El Paso Energy Marketing de México, S de R. L. de C. V. ("EPEMM"). It is primarily engaged in the compression of natural gas using compression equipment located in Naco, Sonora (also referred to as the Naco Compression Station).

In 2001, SCM entered into an agreement with PGPB to provide natural gas compression services for a 20-year period. The term of the agreement may be extended up to five additional years by mutual agreement between CM and PGPB.



In 2014, SCM was merged with IEnova Gasoductos México subsisting this last company.

- g. GAP (formerly El Paso Gas Transmission de México, S. de R. L. de C. V.), a subsidiary of IEnova Gasoductos México, was incorporated on July 4, 2001 and commenced operations on November 20, 2002. GAP is primarily engaged in the transportation of natural gas.

On July 19, 2002, GAP obtained its natural gas transportation permit from the CRE. The term of the permit is for 30 years and is renewable every 15 years.

On June 28, 2002, GAP entered into a 25-year gas transportation agreement with EPEMM, a related party until April 2010. The pipeline starts at the border of Arizona, U. S., and extends to the power plant called "Naco-Nogales", which is owned by Power and Energy Naco Nogales, S. A. de C. V., located in Agua Prieta, Sonora, México.

Currently, GAP is also in charge of the construction and operation of the Sonora Pipeline, Ojinaga – El Encino pipeline and the San Isidro – Samalayuca. (Please refer to Note 1.2.8. subsection c, d, and e).

- h. IGH is engaged in the acquisition and subscription of any participation in the share capital of various companies.

On April 30, 2010, IGH acquired a 50 percent equity interest in GdC, a jointly controlled Company with PGPB.

On September 26, 2016, IGH acquired the remaining 50 percent of interest in GdC, therefore, it now holds 100-percent of GdC's shares.

- i. IEnova, S. de R. L. de C. V. is engaged in providing administrative and operating services to other subsidiaries in the group.

During 2015, this entity has been liquidated.

- j. ECA, owns and operates a LNG regasification and storage facility ("LNG Terminal") in Ensenada, Baja California, México.

During 2007, ECA obtained all necessary operating permits from Mexican regulatory agencies and operations commenced in May 2008.

In December 2009, ECA completed the construction of a nitrogen injection facility to allow customers to deliver LNG with a greater range of gross heating value. The nitrogen injection facility produces nitrogen that can be mixed with natural gas when it is necessary to lower the heating content to meet pipeline gas quality standards in México and the U. S.

ECA entered into a 20-year firm storage service agreement with Sempra LNG International, LLC ("SLNGI", a related party in the U.S.) through IEnova Marketing for which SLNGI is committed to lease 50 percent of the total storage capacity of the LNG Terminal. The agreement commenced in May 2008 after the LNG Terminal was placed in service. In April 2009, the shipper assigned the remaining contracted storage capacity to other independent third parties.

- k. IEnova Marketing provides LNG services related to the purchase and sale of LNG and natural gas. In May 2008, IEnova Marketing began operating jointly with ECA. Up to that date, the activities of IEnova Marketing were primarily focused on obtaining necessary permits.

In November 2009, IEnova Marketing entered into an agreement with SLNGI, whereby SLNGI agreed to deliver and sell LNG cargoes to IEnova Marketing from startup date of the LNG Terminal. Accordingly, IEnova Marketing entered into transportation and storage capacity service agreements to commercialize the LNG.

Thereafter, on January 1, 2013, SLNGI and IEnova Marketing entered into a LNG sale and purchase, transportation and supply agreement expiring on August 20, 2029. The minimum annual quantity committed for delivery is 188 million British Thermal Units ("MmBtus"). Under the terms of the agreement, SLNGI will be responsible for the transportation to the receiving terminal of all quantities of LNG sold and delivered from the delivery point to the receiving terminal and, in the other hand; IEnova Marketing will take LNG in order to meet its purchase commitments.

As of September 30, 2014, the agreement between IEnova Marketing and JP Morgan Ventures Energy Corp ("JPM") concluded and a new agreement for gas rendered. Please refer to Note 24.11.4.

- l. GdC is engaged in providing natural gas and LPG transportation services through Gasoductos de Tamaulipas, S de R. L. de C. V. ("GdT"), Gasoducto del Noroeste, S. de R. L. de C.V. ("GDN") and TDF, S. de R. L. de C.V. ("TDF"), respectively, it also stores gas for the supply of LPG, through Transportadora del Norte SH, S. de R. L. de C. V. ("TDN", TDF's holding company). These activities are regulated by the CRE. GdC is also engaged as well in the ethane gas transportation service through Gasoductos del Sureste, S. de R. L. de C. V. ("GDS").

GdC has to follow the rulings authorized by the CRE. Those contain among other things, general service provision conditions for the service supply, tariff limits, the approved maximum revenues and the route followed by the gas pipeline proposed by the companies. The construction program and established investments in each permit must have been developed by GdC. In addition, the rulings require that a review of the maximum revenue be performed every five years to make any adjustments required regarding revenue and the related tariffs.

On July 15, 1997, the CRE issued a ruling granting GdC permit to transport natural gas for a period of 30 years. The permit may be renewed for additional periods of 15 years; also the ruling authorized GdC to construct the Samalayuca Pipeline, which has been operating since 1997. In addition, on October 15, 2001, the CRE issued a ruling authorizing GdC to construct the compression station Gloria a Dios, which was completed and commenced operations during 2001.

On September 12, 2002, the CRE issued a ruling granting GdT permit to transport natural gas for a 30 years period. The permit may be renewed for additional periods of 15 years; also the ruling authorized GdT to construct the San Fernando Pipeline, which commenced operations during 2003.

On October 3, 2006, the CRE issued a ruling granting TDF, the operating subsidiary of TDN permit to transport LPG for a 30 year period. The permit may be renewed for additional periods of 15 years.

On February 13, 2012, the CRE issued a ruling granting TDF, permit to store LPG through a LPG supply plant permit for a 30 year period. The permit may be renewed for additional periods of 15 years.

On April 18 2013, the CRE issued a ruling granting TAG Pipelines, permit to transport natural gas, on May 23, 2013, transferred from TAG to GDN, the ruling for a 30 years period beginning on the commercial operation date.

### 1.3.2. Power segment

The Company's subsidiaries included in this reportable segment are:

- a. TDM are engaged in the generation and sale of electricity. In August 2001, TDM received a favorable resolution by the CRE to generate and export electricity.

On January 1, 2013 (with an effective date of January 1, 2012), Sempra Generation ("SGEN") and TDM entered into a new commercial agreement, for which TDM delivers all of its power output directly to the California's Independent System Operator power grid ("CAISO") in the U. S. at the México border, and SGEN provides marketing, scheduling and dispatch services for TDM.

- b. In October 2013, ESJ began the construction on the 155-MW first phase of the wind generation project, which is fully contracted by SDG&E and started operations in June 2015. The ESJ project is designed to provide up to 1,200 MW of capacity if fully developed. In June 2014, the ESJ wind project entered into an 18-year, \$240.0 million loan to finance the construction project and withdrew \$82.0 million under the loan agreement. The loan agreement also provides for a \$31.7 million letter of credit facility. ESJ also entered into a separate Mexican Peso-denominated credit facility for up to \$35.0 million U.S. Dollar equivalent to fund the VAT of the project. (Please refer to Note 10.2.)
- c. Ventika's operation of a wind farm with a capacity of 252 MW.

### 1.3.3. Corporate segment

The Corporate Segment holds interests in pipeline, transportation, distribution, regasification, natural gas sale, and power generation operations in México.

- a. Sempra Servicios Energéticos, S. de R. L. de C. V. ("SSE") is a holding company that invests in affiliated companies in the electricity and natural gas industries.
- b. Fundación IEnova, A. C., was established as a non-profit organization.

## 2. Significant accounting policies

### 2.1. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### 2.2. Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis, except for certain financial instruments, related to business combination that are measured at revalued amounts of fair values at the end of reporting period, as explained in the accounting policies below. (Please refer to Note 11).

#### a. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

#### b. Fair value

Fair value ("FV") is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

## 2.3. Consolidation of Financial Statements

### 2.3.1 Consolidation basis

The Consolidated Financial Statements of IEnova incorporate the Financial Statements of all entities where it maintains control (its subsidiaries). An investor controls an investee if and only if the investor has all of the following elements:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the investor's returns.

The Company reassesses whether or not controls an entity if the facts and circumstances indicate that there are changes to one or more of the three control elements that were listed above.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the accounting policies.

All intercompany transactions, balances, equity, income and expenses are eliminated in full on consolidation.

IEnova's equity ownership in subsidiaries for the years ended December 31, 2016 is as follows.

Company	Ownership percentage 2016
<i>Gas Segment:</i>	
Ecogas México, S. de R. L. de C. V.	100.00
PE International Canadá, S. de R. L. de C. V.	98.99
Servicios DGN de Chihuahua, S. A. de C. V.	100.00
Gasoducto Rosarito, S. de R. L. de C. V.	100.00
Transportadora de Gas Natural de Baja California, S. de R. L. de C. V.	100.00
IEnova Gasoductos México, S. de R. L. de C. V.	100.00
Sempra Compresión México, S. de R. L. de C. V. (Merged in 2014 with IEnova Gasoductos México)	100.00
Gasoducto de Aguaprieta, S. de R. L. de C. V.	100.00
IEnova Gasoductos Holding, S. de R. L. de C. V.	100.00
IEnova, S. de R. L. de C. V.	100.00
Energía Costa Azul, S. de R. L. de C. V. and Subsidiary IEnova Marketing, S. de R. L. de C. V.	100.00
(formerly IEnova LNG, S. de R. L. de C. V.)	100.00
Ductos e Infraestructura Marina, S. de R. L. de C. V.	100.00
IEnova Gas, S. de R. L. de C. V.	100.00



<i>Company</i>	<i>Ownership percentage 2016</i>
Gasoductos de Chihuahua, S. de R. L. de C. V.	
Gasoductos de Tamaulipas, S. de R. L. de C. V.	100.00
Gasoductos del Noroeste, S. de R. L. de C. V.	100.00
Transportadora del Norte SH, S. de R. L. de C. V.	100.00
TDF, S. de R. L. de C. V.	100.00
Ductos y Energéticos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos Servicios Subholding, S. de R. L. de C. V.	100.00
Gasoductos Ingeniería, S. de R. L. de C. V.	100.00
Gasoductos Servicios Corporativos, S. de R. L. de C. V.	100.00
Gasoductos Servicios Corporativos y de Administración, S. de R. L. de C. V.	100.00
<i>Power segment:</i>	
Termoeléctrica de Mexicali, S. de R. L. de C. V. and Subsidiary	100.00
Controladora Sierra Juárez, S. de R. L. de C. V.	100.00
Fisterra Energy Netherlands III B.V.	100.00
Fisterra Energy Netherlands IV B.V.	100.00
Fisterra Energy México III, S. de R. L. de C. V.	100.00
Fisterra Energy México IV, S. de R. L. de C. V.	100.00
Ventika, S.A.P.I. de C. V.	100.00
Ventika II, S.A.P.I. de C. V.	100.00
<i>Corporate segment:</i>	
Semprea Servicios Energéticos, S. de R. L. de C. V.	99.87
Fundación IEnova, A. C.	100.00

As further described in Note 10.2, on July 16, 2014 CSJ sold 50 percent of the social parts in its indirect subsidiary ESJ; accordingly, the assets and liabilities of ESJ were derecognized and beginning on that date the investment is recorded using the equity method.

As described in Note 10.4, On September 26, 2016, a joint venture partner contributed cash representing 50 percent of the equity interest in DEN, therefore, beginning on that date the investment is recorded using the equity method.

## 2.4. *Classification of costs and expenses*

The costs and expenses are presented according to their function because this is the practice of the industry in which the Company operates.

## 2.5. *Cash and cash equivalents*

Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments that are highly liquid and easily convertible into cash, mature within three months as of their acquisition date, and are subject to low risk of material changes in value. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in the Consolidated Statements of Profit.

## 2.6. *Restricted cash*

Restricted cash comprises the amounts of cash of escrows used by the Company to make payments of certain operating costs, which are guaranteed until the completion of the projects. It also comprises the restricted cash under the project financing structure.

## 2.7. *Short-term investments*

Short-term investments consist mainly in money market funds, highly liquid and easily convertible into cash, maturing within three months as of their acquisition date, which are subject to immaterial value change risks and are maintained for purposes other than operation.

## 2.8. *Natural gas inventories*

Liquefied natural gas inventory is recorded at the lower of cost or net realizable value. Costs of inventories are determined on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to sell.

## 2.9. *Leasing*

2.9.1. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the benefits. All other leases are classified as operating leases.

### 2.9.2. *The Company as lessor*

Amounts payable by lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is distributed in the accounting periods to reflect a constant periodic rate of return on the net investment of the Company with respect to leases.

The rental income under operating leases is recognized using the straight-line method over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and is recognized using the straight-line method over the lease term.

### 2.9.3. *Company as lessee*

The assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease, or if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statements of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they can be directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's accounting policy for borrowing costs (Please refer to Note 2.18). Contingent rents are recognized as expenses in the periods in which they are incurred.

Rent payments under operating leases are expensed using the straight-line method during the period corresponding to lease more representative unless another systematic basis of assessment to reflect the pattern of the benefits of leasing for the user more accurately. Contingent rents are recognized as expenses in the periods in which they are incurred.

In the event that income incentives received for holding operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight line basis unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed online.



## 2.10. Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company reports its interests in joint venture using the equity method.

The results, assets and liabilities of the joint venture are incorporated in these Consolidated Financial Statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*. Under the equity method, an investment in a joint venture is initially recognized in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income ("OCI") of the joint venture. When the Company's share of losses of a joint venture exceeds the Company's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint venture), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Company's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit in the year in which the investment is acquired.

The requirements of IAS 39, *Financial instruments: recognition and measurement*, are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Company retains an interest in the former joint venture and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Company accounts for all amounts previously recognized in OCI in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in OCI by that joint venture would be reclassified to profit on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit (as a reclassification adjustment) when the equity method is discontinued.

The Company continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Company reduces its ownership interest in a joint venture but the Company continues to use the equity method, the Company reclassifies to profit the proportion of the gain or loss that had previously been recognized in OCI regarding that reduction in ownership interest if that gain or loss would be reclassified to profit on the disposal of the related assets or liabilities.

When the Company conducts transactions with joint ventures, non-realized profit and losses are eliminated at the Company's ownership percentage in the joint venture.

## 2.11. Business combination

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

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share based payments*. At the acquisition date the Company does not have share-based payments associated with acquired businesses; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

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

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



The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit.

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

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

## 2.12. Goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, on October 1, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the Consolidated Statement of Profit. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit on disposal.

## 2.13. Carbon allowances

The Company has elected to account for carbon allowances, or emission allowances, ("CAs") under the inventory model, whereby CAs are measured at a weighted-average cost. CAs allocated by a regulatory body will have a zero cost basis, CAs purchased at auction or from other market participants are recorded at their purchase price, and CAs acquired when the Company elects to physically settle carbon futures are recorded based on the settlement price. The weighted-average cost of CAs consumed (i.e., carbon emitted while power is generated) is charged to cost of revenue of each reporting period. The CAs' carrying value is evaluated under the "lower of cost or net realizable value" approach. The CAs inventory is classified as other current assets or other non-current assets if it is expected to surrender the inventory within the term greater than one year beginning at the Consolidated Statements of Financial Position date. The CAs' cash inflows and outflows are classified as an operating activity in the Consolidated Statements of Cash Flows. (Please refer Note 20).

## 2.14. Property, plant and equipment

Property, plant and equipment are presented in the Consolidated Statements of Financial Position and recorded at acquisition cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Acquisition costs include labor, material costs and construction service agreements.

The Company recognizes decommissioning liabilities for the present value of liabilities of future costs expected to be incurred when assets are retired from service, if the retirement process is legally required and if a reasonable estimate of fair value can be made.

Property, plant and equipment include major expenditures for improvements and replacements parts, which extend useful lives or increase capacity. Routine maintenance costs are expensed as incurred.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land is not depreciated. The buildings, equipment and other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized to write-off the cost of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit.

## 2.15. Intangible assets

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## 2.16. Impairment of tangible and intangible assets (other than goodwill)

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.



Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit.

When non-current assets and disposal groups are classified as held for sale, they are required to be measured at the lower of their carrying amount and fair value less costs to sell. The comparison of carrying amount and fair value less costs to sell is carried out at each reporting date while it continues to meet the held for sale criteria. As described in Note 12, an impairment loss related has been recognized related to TDM in the Consolidated Statements of Profit.

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

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

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Company discontinues the use of the equity method at the time of disposal when the disposal results in the Company losing significant influence over the associate or joint.

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

#### **2.18. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that the Company generally borrows funds and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs it incurred during that period. For a relationship designated as cash flow hedging, none of the effects of the derivative are included in capitalized interest.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit in the period in which they are incurred.

#### **2.19. Employee benefits**

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

For defined benefit retirement plans, which include pension plans as well as its seniority premium benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting year. The remeasurements company include the actuarial gains and losses and the effect of the changes on the floor of the asset (if applicable), are immediately recognized in the Consolidated Statement of Financial Position charged to the credit that is recognized in the Consolidated Statements of Profit and OCI in the period in which they are incurred. The remeasurements recognized in OCI items are not reclassified to profit and loss. The Company presents service costs within administrative and other expenses in the Consolidated Statements of Profit. The Company presents net interest cost within finance costs in the Consolidated Statements of Profit. The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the present value of the defined benefit obligation as of the end of each reporting year.

*Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU")*

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.



Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to the reporting date.

#### *Statutory employee profit sharing*

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses and cost of sales line item in the Consolidated Statement of Profit and Other Comprehensive Income.

As result of the 2014 Income Tax Law, as of December 31, 2016 and 2015, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

### **2.20. Provisions**

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **2.21. Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit.

#### *2.21.1. Amortized cost*

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### *2.21.2. Fair value*

Fair value is defined in subparagraph b of Note 2.2.

### **2.22. Financial assets**

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss' "FVTPL", investments preserved at maturity financial assets 'available for sale' ("AFS") and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at initial recognition. All purchases or sales of financial assets made routinely identified and removed based on the trade date. Purchases or sales regularly are those purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or custom in that market.

#### *2.22.1. Effective interest rate method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating the interest income or interest cost during the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and basis points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) during the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition.

#### *2.22.2. Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if, certain conditions are met. The Company has not designated any financial assets as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the cost of revenues and in other gains and losses line items in the Consolidated Statements of Profit. Fair value is determined in the manner described in Note 2.2b.

#### *2.22.3. Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. The Company does not hold any held-to-maturity financial assets.

#### 2.22.4. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and amounts due from unconsolidated affiliates) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### 2.22.5. *Impairment of financial assets*

Financial assets are subject to impairment tests at the end of each reporting period. It is considered that financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Non-payment of interest or principal;
- It is probable that the borrower will enter bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, except for accounts receivable where the carrying amount is reduced through an account of allowance for doubtful accounts. When a receivable is uncollectible, it is removed from the estimate. Subsequent recoveries of amounts previously written off become claims against the estimate. Changes in the carrying amount of the allowance account are recognized in the Consolidated Statement of Profit.

When non-current assets and disposal groups are classified as held for sale, they are required to be measured at the lower of their carrying amount and fair value less costs to sell. The comparison of carrying amount and fair value less costs to sell is carried out at each reporting date while it continues to meet the held for sale criteria. As described in Note 12, an impairment loss has been recognized related to TDM in the Consolidated Statements of Profit.

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

#### 2.22.6. *Derecognition of financial assets*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

If a financial asset is derecognized, the difference between the book value of the asset and the compensation received is recognized in the Consolidated Statements of Profit.

#### 2.23. *Financial liabilities and equity instruments*

##### 2.23.1. *Classification as debt or equity*

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### 2.23.2. *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### 2.23.3. *Financial liabilities*

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

##### 2.23.3.1. *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired mainly for the purpose of repurchasing it in the near term; or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of making profits in the short term; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if, certain conditions are met. The Company has not designated any financial liabilities as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the Consolidated Statements of Profit. Fair value is determined as described in Note 24.

##### 2.23.3.2. *Other financial liabilities*

Other financial liabilities (including borrowings, due to unconsolidated affiliates, trade payables and customers deposits) are subsequently measured at amortized cost using the effective interest method.



#### 2.23.3.3. *Derecognition of financial liabilities*

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit.

#### 2.24. *Derivative financial instruments*

The Company enters into derivative financial instruments to reduce its exposure to risks. These instruments are negotiated with institutions of recognized financial strength and when trading limits have been established for each institution. The Company's policy is to carry out transactions with derivative financial instruments for the purpose of offsetting its exposure to such risks through risk management. Further details of derivative financial instruments are disclosed in Note 24.

The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at fair value on the Consolidated Statements of Financial Position, regardless of its intent for holding them.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss in the same line as the hedged item affects profit or loss for derivatives that are economic hedges.

##### 2.24.1. *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

##### 2.24.2. *Own use exemption*

Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the "own use" (or "normal purchase or sale") exemption. Under this scope exemption, ordinary physical supply arrangements are excluded from derivative accounting treatment.

#### 2.25. *Hedge accounting*

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivative with respect to foreign currency risk, either as fair value hedges, cash flow hedges, or hedges of a net investment in a transaction foreign. The hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

For its hedging instruments, the Company documents the relationship between the hedging instrument and the hedged item at the inception of the hedge relationship, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

#### 2.25.1. *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit.

Amounts previously recognized in OCI and accumulated in equity are reclassified to profit in the years when the hedged item is recognized in profit, in the same line of the Consolidated Statements of Profit as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in OCI and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit.

#### 2.25.2. *Fair value hedges*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the profit or loss consolidated statements of related to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

#### 2.26. *Taxation*

Income Tax (IT or "ISR by the initials in Spanish") expense represents the sum of the current and deferred tax.

##### 2.26.1. *Current tax*

Current income tax is recognized in the results of the year in which is incurred.

##### 2.26.2. *Deferred taxes*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The management of the Company reviewed the Company's investment property portfolios and concluded that none of the Company's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, management has determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Company has not recognized any deferred taxes on changes in fair value of the investment properties as the Company is not subject to any income taxes on the fair value changes of the investment properties on disposal.

#### Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### Tax on assets

The tax on assets ("IMPAC" for its name in Spanish) expected to be recoverable is recorded as a tax credit and is presented in the balance sheet in the deferred taxes line item.

## 2.27. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, VAT.

### 2.27.1. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rights of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and,
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

The following revenue streams related to the sale of goods are recognized in accordance with the previous accounting policy as disclosed in more detail below:

- Sales of natural gas and the related costs are recognized upon the transfer of title, which coincides with the physical delivery of natural gas to customers; and,
- Power generation revenues are recognized when generated power is delivered.

### 2.27.2. Rendering of services

Revenues from service contracts are recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Service fees included in the price of the products sold are recognized by reference to the proportion of the total cost of the service provided for the product sold; and,
- Revenue from contracts is recognized based on the rates provided to the extent incurred in working hours and direct costs.

The following revenue streams related to the rendering of services are recognized in accordance with the previous accounting policy as disclosed in more detail below:

- Storage and regasification capacity are recognized based on reservation and usage fees under terminal capacity agreements and nitrogen injection service agreements;
- Revenues and related costs from natural gas distribution are recognized when the distribution services are rendered;
- Revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for natural gas; and,
- Revenues and costs related to administrative and other services are recognized when such services are rendered according to the related service contracts.

### 2.27.3. Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.



#### 2.27.4. Rental income

The Company's policy for recognition of revenue from finance leases is described in Note 2.9.2.

#### 2.28. Foreign currencies

The Company's functional currency is the U.S. Dollar, except for ECO, PEI and SDGN in its Gas segment, and Fundación IEnova in the corporate segment, which is the Mexican Peso.

In preparing the Financial Statements of each individual subsidiary of the Company, transactions in currencies other than the subsidiaries functional currency (U.S. Dollar or Mexican Peso) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in OCI and reclassified from equity to profit on repayment of the monetary items.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Company's subsidiaries with Mexican peso functional currency are translated into U.S. Dollars (the Company's reporting currency) using exchange rates prevailing at the end of each reporting period.

Profit amounts are translated at the rate of the transaction date, unless there are significant currency fluctuations during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other items of comprehensive income and accumulated in equity.

On the disposal of an operation with a Mexican Peso functional currency all of the exchange differences accumulated in equity related to the disposed operation that are attributable to the owners of the Company are reclassified to profit.

### 3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the accounting policies of the Company, management must make judgments, estimates and assumptions about the carrying amounts of assets and liabilities in the Financial Statements. The estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the change affects both the current period and to subsequent periods.

### 3.1. Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see Note 3.2 below), that Company's management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the Consolidated Financial Statements.

#### 3.1.1. Finance lease of natural gas compression station

Management has determined that certain arrangements should be accounted for as a finance lease as the present value of the minimum lease payments at inception date of the arrangement amounted to substantially all of the fair value of the compression station as of such date. Details of the finance lease asset are included in Note 8.

#### 3.1.2. Regulatory accounting

Rate regulation is the setting, by regulatory bodies or governments of prices that can be charged to customers for services or products through regulations, often where an entity has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2016, 2015 and 2014, there is no explicit guidance under IFRS regarding whether entities operating in rate-regulated environments should recognize assets and liabilities arising from the effects of rate regulation. Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP") provide specific guidance on this matter.

The IFRS Interpretations Committee ("IFRIC") has previously commented that the U.S. GAAP recognition criteria pertaining to rate-regulated accounting are not consistent with IFRS. The IASB, issued IFRS 14, *Regulatory deferral accounts* on January 30, 2014, as a part of its project on this matter, however, such standard is not applicable to the Company as it is not a first-time adopter of IFRS. As a result, the Company does not recognize rate-regulated assets or liabilities in its Consolidated Financial Statements. Management will continue to monitor the status of future deliberations by the IASB and IFRIC as it relates to this matter and its potential impact on the Company's Consolidated Financial Statements.

#### 3.1.3. Contingencies

The Company accrues losses for the estimated impacts of various matters, situations or circumstances involving uncertain outcomes. For loss contingencies, the Company accrues for the loss if an event has occurred on or before the date of the Consolidated Statements of Financial Position. The Company does not accrue contingencies that might result in gains. The Company continuously assesses contingencies for litigation claims, environmental remediation and other events.

#### 3.1.4. Own use exemption

IAS 39 contains a scope exemption from derivative accounting treatment for physical delivery contracts of a non-financial item for an entity's own use. The scope exemption is meant to apply to ordinary physical supply arrangements. However, the standard also seeks to identify contracts which are not used for operational purposes as derivative instruments. If a non-financial item can be settled net either in cash or another financial instrument, or by exchange of financial instruments, it must be accounted for as a financial instrument.

There are various ways in which a contract can be settled net. Management applies judgment in assessing whether, among others, past practices of net settling similar contracts or of taking delivery and selling the item within a short period; or, the commodity is readily convertible to cash, would lead to net settlement. Management analyzes each of its physical delivery contracts of nonfinancial items for determining if they are within the own use exemption from derivative accounting treatment.

### 3.1.5. Determining whether an arrangement contains a lease

The Company evaluates if an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a series of payments should be accounted for as a lease. The Company's management uses its judgment to determine, whether, based on facts and circumstances existing at the inception of the contract, it is remote that parties other than the purchaser will take more than an insignificant amount of the output of the related asset.

### 3.1.6. Classification of its joint arrangements

Interests in associates and the joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profits and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

## 3.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities presented in the Company's Consolidated Statements of Financial Position.

### 3.2.1. Estimated useful lives of property, plant and equipment

As described in Note 2.14., the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Please refer to Note 14.1. for useful lives of property, plant and equipment.

### 3.2.2. Impairment of long-lived assets (goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment testing is performed on an annual basis.

### 3.2.3. Asset decommissioning obligation

The estimated cost of decommissioning at the end of the useful lives of the Company's long-lived assets is reviewed periodically and is based on estimates at the date of the Consolidated Statements of Financial Position of the present value of future costs expected to be incurred when assets are retired from service as required by law or per its contractual obligations. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the long-lived assets, but are currently anticipated to be between 25 to 50 years. The Company uses its long-term "borrowing cost" rate as the discount rate for calculating its provision related to its decommissioning liabilities, which is the 30-year borrowing cost for companies in its industry with similar credit ratings, as measured by Bloomberg.

### 3.2.4. Valuation of financial instruments (fair value measurement)

As described in Note 24, the Company uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Please refer to Note 24 for detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

### 3.2.5. Allowance for doubtful accounts

The methodology for determining the allowance for doubtful accounts on trade and other receivables is set out in Note 5. The estimates and assumptions used to determine the allowance are reviewed periodically. Although the provisions recognized are considered appropriate, changes in economic conditions could lead to changes in the allowance and, therefore, impact profit.

### 3.2.6. Recoverability of deferred tax assets

As mentioned in Note 25, the Company has accumulated tax loss carryforward benefits, for which an evaluation of recoverability is performed on an annual basis.

The use of estimates and assumptions are particularly important in the recognition of deferred income tax assets.

### 3.2.7. Measurement of defined benefit obligations: key actuarial assumptions

As described in Note 17, the Company uses actuarial valuations that include inputs that are based on published statistic and mortality tables. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the benefit obligations.

### 3.2.8. Key sources of estimation uncertainty for GdC

#### Selected Valuation Methodology.

GdC is a regulated business that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

### 3.2.9. Key sources of estimation uncertainty for Ventika

#### Selected Valuation Methodology.

Based on the nature of the power facility and generally accepted industry practice, we relied on the Income Approach, specifically the Discounted Cash Flow ("DCF") method.

Associated intangibles such as rights of way / easements are embedded in the value of the property plant and equipment.

While the Cost Approach was not relied upon to derive our fair value estimate, provided the Income Approach being the preferred approach to valuing an operational wind power facility, it was considered for corroboratory purposes in relation to our fair value estimate derived utilizing the Income Approach. It is noted that our derived fair value estimate embeds a developer margin (i.e., margin above the cost to develop/construct the power project) that is within the reasonable range of developer margins expected for this type of power facility and at the stage of development associated with Ventika (i.e., recently entering commercial operation).

In addition to what is described above, the Company used different estimates relating to operating statistics, revenues, operating expenses and cash flow items.



#### 4. Cash and cash equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash and banks and investments in instruments in the money market funds, net of bank overdrafts. Cash and cash equivalents at end of year as shown in the cash flow statement can be reconciled to the related items in the Consolidated Statement of Financial Position as follows:

	12/31/16	12/31/15	12/31/14
Cash and bank balances	\$ 24,918	\$ 32,177	\$ 42,844
Short term investments classified as cash equivalents	-	8,200	40,793
	<u>\$ 24,918</u>	<u>\$ 40,377</u>	<u>\$ 83,637</u>

As of December 31, 2016, the Company maintained \$51,363 restricted cash as a current asset to make payments of certain operating costs for the execution of projects.

#### 5. Trade and other receivables, net

	12/31/16	12/31/15	12/31/14
Trade receivables	\$ 90,523	\$ 32,895	\$ 47,340
Allowance for doubtful accounts (a)	<u>(101)</u>	<u>(147)</u>	<u>(194)</u>
	90,422	32,748	47,146
Other receivables	<u>10,464</u>	<u>20,980</u>	<u>19,255</u>
	<u>\$ 100,886</u>	<u>\$ 53,728</u>	<u>\$ 66,401</u>

(a) For the Gas segment, ECO, has recognized an allowance for doubtful accounts of 80-percent against all receivables outstanding between 180 and 269 days and 100-percent against all receivables outstanding over 270 days, based on historical experience. Allowances for doubtful accounts are recognized against trade receivables for customers whose outstanding balances are outstanding between 30 and 179 days when such receivables are estimated not to be recoverable based on an analysis of the customers' financial position.

For all the other companies within the Gas segment and for the Power segment, the average credit period on trade receivables is 30 days.

Trade receivables disclosed above include amounts (see below for aging analysis) that are past due at the end of the reporting year for which the Company has not recognized an allowance for doubtful debts because the amounts are still considered recoverable.

##### 5.1. Age of receivables that are past due but not impaired

	12/31/16	12/31/15	12/31/14
31-120 days	\$ 35	\$ 12	\$ 12
121-180 days	7	5	7
181-270 days	<u>3</u>	<u>2</u>	<u>4</u>
Total	<u>\$ 45</u>	<u>\$ 19</u>	<u>\$ 23</u>
Average age (days)	<u>30</u>	<u>29</u>	<u>36</u>

##### 5.2. Movement in the allowance for doubtful accounts

	12/31/16	12/31/15	12/31/14
Balance as of beginning of the year	\$ (147)	\$ (194)	\$ (202)
Impairment losses recognized on receivables	(46)	(30)	(78)
Amounts written off during the year as uncollectible	65	48	63
Foreign exchange translation gains	<u>27</u>	<u>29</u>	<u>23</u>
Balance as of end of the year	<u>\$ (101)</u>	<u>\$ (147)</u>	<u>\$ (194)</u>

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. See Note 24.9. for more details of the Company's credit risk management and concentration of credit risk assessment.

##### 5.3. Age of impaired trade receivables

	12/31/16	12/31/15	12/31/14
181-270 days	\$ (10)	\$ (9)	\$ (15)
Over 270 days	<u>(91)</u>	<u>(138)</u>	<u>(179)</u>
Total	<u>\$ (101)</u>	<u>\$ (147)</u>	<u>\$ (194)</u>

#### 6. Transaction and balances with unconsolidated affiliates

Balances and transactions between IEnova and its subsidiaries have been eliminated upon consolidation and are not disclosed in this note, except for those transactions between continued and discontinued operations.

Transactions between continued and discontinued operations are eliminated in consolidation. Any profit made from sales to external parties by the discontinued operations are presented outside continuing operations. Accordingly, the Consolidated Statements of Profit present revenues from continuing operations as follows:

	Revenues / Cost of revenues		
	Year ended		
	12/31/16	12/31/15	12/31/14
Effects of continuing operation with GRO and IEnova Marketing	\$ 61,382	\$ 84,838	\$ 140,697

## 6.1. Trading transactions

During the years ended December 31, 2016, 2015 and 2014, the Company entered into the following transactions with unconsolidated affiliates as part of ongoing operations:

	Revenues		
	Year ended		
	12/31/16	12/31/15	12/31/14
Sempra LNG International Holdings, LLC ("SLNGIH")	\$ 101,998	51,683	-
Discontinued operation – SGEN	101,130	143,073	222,471
Sempra LNG ECA Liquefaction, LLC ("SLNGEL")	2,026	1,676	-
Sempra International, LLC ("Sempra International")	1,746	1,711	1,739
Servicios ESJ, S. de R. L. de C. V. ("SESJ")	890	98	-
Discontinued operation – SESJ	353	428	-
ESJ	94	-	-
Discontinued operation – Sempra Gas & Power Marketing, LLC ("SG&PM")	62	-	-
Southern California Gas Company ("SoCalGas")	12	-	9
Sempra LNG International, LLC ("SLNGI")	-	49,138	90,871

	Cost of revenue, administrative and other expenses		
	Year ended		
	12/31/16	12/31/15	12/31/14
SLNGI	\$ 178,145	\$ 190,519	\$ 335,025
Discontinued operations – SGEN	22,152	27,634	21,315
Sempra International	8,301	5,822	7,311
Sempra U.S. Gas & Power, LLC ("USGP")	6,930	6,709	7,106
SGEN	3,183	4,380	10,387
SG&PM	3,102	-	-
SoCal Gas	1,450	1,031	1,074
Discontinued operation – SG&PM	1,022	-	-
Sempra Midstream, Inc. ("Sempra Midstream")	688	746	448
Sempra Services Company, S. de R. L. de C. V. ("Sempra Services Company")*	-	128	985
Sempra Servicios México, S. de R. L. de C. V. ("Sempra Servicios México") *	-	-	517

\* On December 15, 2015, these companies were liquidated.

	Interest income		
	Year ended		
	12/31/16	12/31/15	12/31/14
DEN	\$ 4,082	\$ 4,638	\$ 1,828
ESJ	1,122	1,450	826
Discontinued operations - SGEN	24	11	-
Sempra Servicios México *	-	2	-
Sempra Services Company *	-	-	3

	Finance costs		
	Year ended		
	12/31/16	12/31/15	12/31/14
ISLA	\$ 1,618	\$ 1,455	\$ -
Sempra Oil Trading Suisse ("SOT Suisse")	1,363	1,448	1,480
SEH	1,236	47	-
SEG	831	-	-
ISL	534	485	-
Semco	364	-	-
DEN	46	-	-
POC	4	-	-
SGEN	-	-	4

\* On December 2015, these companies were liquidated.

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

	Amounts due from unconsolidated affiliates		
	As of		
	12/31/16	12/31/15	12/31/14
SLNGIH	\$ 6,456	\$ 9,685	\$ -
DEN	5,754	-	-
ESJ	539	51	690
SESJ	174	138	626
SLNGEL	53	668	-
SGEN *	-	17,066	23,949
Sempra International	-	-	1,336
	<u>\$ 12,976</u>	<u>\$ 27,608</u>	<u>\$ 26,601</u>

\* As of December 31, 2016, the amount was reclassified to assets held for sale.



	Amounts due to unconsolidated affiliates		
	12/31/16	As of 12/31/15	12/31/14
ISLA (i)	\$ 160,091	\$ 90,000	\$ -
SOT Suisse (iv)	38,460	-	-
ISL (i)	30,025	30,000	-
POC (ii)	20,004	-	-
SLNGI	11,135	12,220	14,228
Sempra International	582	470	-
SG&PM	491	-	-
SoCalGas	120	-	77
Sempra Midstream	6	-	-
SEH (iii)	-	219,600	-
SGEN	-	360	9
Sempra Services Company	-	-	85
Sempra Servicios México	-	-	6
	<u>\$ 260,914</u>	<u>\$ 352,650</u>	<u>\$ 14,405</u>

- (i) On March 2, 2015, IEnova entered into a \$90.0 million and a \$30.0 million of U.S. Dollar-denominated credit facilities with ISLA and ISL, respectively, to finance working capital and for general corporate purposes. The agreements are a nine month terms, with an option to be extended for up to four years. Interest is payable on a quarterly basis at 1.98 percent of outstanding balances. In December 2016 and 2015, the Company signed an addendum modifying the initial contracts and the new characteristics are: the note term is extended and is due and payable in full on December 15, 2017. The interest rate applicable shall be computed each calendar quarter at the rate of 1.75 percent per annum.

On December 27, 2016, IEnova entered into a \$70.0 million U.S. Dollar-denominated affiliate revolving credit facility with ISLA, to finance working capital and for general corporate purposes. The credit is a twelve month term, with an option to extend for up to four years. Interest of the outstanding balance is payable on a quarterly basis at rate of 1.75 percent per annum.

- (ii) On December 27, 2016, IEnova entered into a \$20.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit is for twelve month term, with an option to extend up to four years. Interest of the outstanding balance is payable on a quarterly basis at a rate of 1.75 percent per annum.

- (iii) On December 22, 2015, IEnova entered into a \$219.6 million of U.S. Dollar-denominated credit facility with SEH, to finance working capital and for general corporate purposes. The term of the agreement is for twelve months. Interest is payable on a quarterly basis at three-month LIBOR plus 0.17 percent of outstanding balances. On August 1, 2016, the Company paid \$120.5 million, which includes the corresponding interest (Please refer to Note 18). In October 2016, with the proceeds from the Global Offering, the outstanding balance of \$99.5 million was paid in full by the Company.

On September 26, 2016, IEnova entered into a \$800.0 million of U.S. Dollar-denominated loan with SEG, to finance GdC's acquisition. The agreement is for two months term. Interest is payable on a monthly basis at LIBOR plus 110 basis point of outstanding balances. In October 2016, with the proceeds from the Global Offering, the Company repaid this loan including the corresponding interests.

On September 26, 2016, IEnova entered into a \$350.0 million of loan with Semco, to finance GdC's acquisition. The agreement was for two month term. Interest was payable on a monthly basis at LIBOR plus 110 basis point of outstanding balances. (Please refer to Note 18).

- (iv) During 2016, the Company paid interest in the amount of \$1.3 million, \$1.4 million and \$1.4 million respectively. The loan mature in March 2017 and bear variable interest based on U. S. Treasury mid-term applicable federal rate plus 200 basis points ("bps") (an average annual rate of 3.58 percent, 3.64 percent and 3.66 percent in 2016, 2015 and 2014, respectively).

Transactions with unconsolidated affiliates during 2016, 2015 and 2014 have been carried out in accordance with applicable transfer pricing requirements, as of December 31, 2016, and as of the date of this report, the nature and amount of transactions are consistent with previous years. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expenses have been recognized in the current or prior periods for bad or doubtful debts regarding the amounts owed by unconsolidated affiliates.

Included in the operational transactions are administrative services from affiliates of \$8.3 million, \$5.9 million and \$8.0 million for the years ended December 31, 2016, 2015 and 2014, respectively, which were collected and paid, and have been properly distributed to the segments incurring those costs.

#### 6.2. Loans to unconsolidated affiliates

	As of		
	12/31/16	12/31/15	12/31/14
DEN	\$ 90,045	\$ 85,963	\$ 123,867
ESJ	14,307	25,142	22,693
SGEN *	-	661	115
Sempra Servicios México	-	-	100
	<u>\$ 104,352</u>	<u>\$ 111,766</u>	<u>\$ 146,775</u>

\* As of December 31, 2016, the amount was reclassified to assets held for sale.

#### 6.3. Loans from unconsolidated affiliates

	As of		
	12/31/16	12/31/15	12/31/14
DEN	\$ 3,080	\$ -	\$ -
SOT Suisse *	-	38,460	38,460
	<u>\$ 3,080</u>	<u>\$ 38,460</u>	<u>\$ 38,460</u>

\* This amount was reclassified in 2016 to current liabilities.

#### 6.4. Compensation of key management personnel

Total compensation paid to key management personal was \$5.0 million, \$8.8 million and \$6.5 million, for the years ended December 31, 2016, 2015 and 2014, respectively.

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

#### 7. Natural gas inventories

	As of		
	12/31/16	12/31/15	12/31/14
Liquefied natural gas	\$ 6,083	\$ 4,628	\$ 9,375

The cost of inventories recognized within cost of revenues was \$164,405, \$190,172 and \$327,110 for the years ended December 31, 2016, 2015 and 2014, respectively.

The cost of revenues recognized as expense was \$0.0 million, \$0.0 million and \$1.0 million for years ended December 31, 2016, 2015 and 2014, respectively, due to write-downs of inventory to net realizable value. Write-downs have been reversed as a result of increased sales prices in certain markets in all periods presented in the Consolidated Financial Statements.

## 8. Finance leases

### 8.1. Finance lease receivable – Natural Gas Compression Plant

	12/31/16	As of 12/31/15	12/31/14
Current finance lease receivables	\$ 219	\$ 156	\$ 111
Non-current finance lease receivables	<u>14,135</u>	<u>14,354</u>	<u>14,510</u>
	<u>\$ 14,354</u>	<u>\$ 14,510</u>	<u>\$ 14,621</u>

#### Leasing arrangements.

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

#### 8.1.1. Amounts receivable under finance leases

	Minimum lease payments			Present value of minimum lease payments		
	12/31/16	As of 12/31/15	12/31/14	12/31/16	As of 12/31/15	12/31/14
Not later than one year	\$ 5,136	\$ 5,137	\$ 5,136	\$ 219	\$ 156	\$ 111
Later than one year and not later than five years	22,458	22,458	22,458	3,403	2,422	1,116
More than five years	<u>24,395</u>	<u>29,531</u>	<u>34,667</u>	<u>10,732</u>	<u>11,932</u>	<u>13,394</u>
	51,989	57,126	62,261	14,354	14,510	14,621
Less: unearned finance income	<u>(37,635)</u>	<u>(42,616)</u>	<u>(47,640)</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Present value of minimum lease payments receivable	<u>14,354</u>	<u>14,510</u>	<u>14,621</u>	<u>14,354</u>	<u>14,510</u>	<u>14,621</u>
	<u>\$ 14,354</u>	<u>\$ 14,510</u>	<u>\$ 14,621</u>	<u>\$ 14,354</u>	<u>\$ 14,510</u>	<u>\$ 14,621</u>

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

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

The average effective interest rate contracted is approximately 34.48 percent per annum for 2016, 2015 and 2014. The receivable under finance lease balance as of December 31, 2016, 2015 and 2014, is neither past due nor impaired.

### 8.2. Finance lease receivable – Los Ramones I

	As of 12/31/16
Current finance lease receivables	\$ 3,383
Non-current finance lease receivables	<u>571,070</u>
	<u>\$ 574,453</u>

#### Leasing arrangements.

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

#### 8.2.1. Amounts receivable under finance leases

	Minimum lease Payments As of 12/31/16	Present of minimum lease payments As of 12/31/16
Not later than one year	\$ 3,384	\$ 3,384
Later than one year and not later than five years	430,496	23,997
More than five years	<u>984,650</u>	<u>547,072</u>
	1,418,530	574,453
Less: unearned finance income	<u>(844,077)</u>	<u>n/a</u>
Present value of minimum lease payments receivable	<u>574,453</u>	<u>574,453</u>
	<u>\$ 574,453</u>	<u>\$ 574,453</u>

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

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

The average effective interest rate contracted is approximately 15.17 percent per annum for 2016. The receivable under finance lease balance as of December 31, 2016 is neither past due nor impaired.

### 8.3. Finance lease receivable – Ethane Pipeline

	As of 12/31/16
Current finance lease receivables	\$ 3,553
Non-current finance lease receivables	<u>365,106</u>
	<u>\$ 368,659</u>

#### Leasing arrangements.

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

The transportation system refers to:

Segment I. Transports ethane from Ethylene Complex XXI (Braskem-IDES) to Cangrejera, through a 20 inches pipeline of 4 Km. The term of the finance lease is 20.5 years. The average effective interest rate contracted is approximately 16.0 percent in 2016.

Segment II. Transports ethane from Nuevo Pemex to Cactus (Chiapas) through a 16 inches pipeline of 15 Km and Cactus to the Ethylene XXI Complex (Braskem-IDES) through a 24 inch pipeline of 133.5 Km. The term of the finance lease is 20.5 years. The average effective interest rate contracted is approximately 14.0 percent in 2016.



Segment III. Transports ethane liquid from Ciudad Pemex to Nuevo Pemex (Tabasco) through a 20 inch pipeline of 73.5 Km. The term of the finance lease is 21 years. The average effective interest rate contracted is approximately 14 percent in 2016.

The breakdown of this finance lease is as follows.

Segment I	\$ 31,951
Segment II	187,936
Segment III	148,772
Total	<u>\$ 368,659</u>

#### 8.3.1. Amounts receivable under finance leases

	Minimum lease Payments As of 12/31/16	Present of minimum lease payments As of 12/31/16
Not later than one year	\$ 55,976	\$ 3,553
Later than one year and not later than five years	268,951	28,779
More than five years	<u>439,651</u>	<u>336,327</u>
	764,578	368,659
Less: unearned finance income	<u>(395,919)</u>	<u>n/a</u>
Present value of minimum lease payments receivable	\$ <u>368,659</u>	\$ <u>368,659</u>

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

The receivable under finance lease balance as of December 31, 2016, is neither past due nor impaired.

#### 9. Other assets

	12/31/16	As of 12/31/15	12/31/14
Prepayments	\$ 9,495	\$ 5,782	\$ 5,629
Pipeline interconnection rights	1,792	1,938	2,285
IMPAC recoverable	1,698	2,450	3,429
Land leases	839	101	54
Natural gas imbalance	<u>320</u>	<u>243</u>	<u>806</u>
	<u>\$ 14,144</u>	<u>\$ 10,514</u>	<u>\$ 12,203</u>
Current	\$ 9,289	\$ 8,576	\$ 9,918
Non – current	<u>4,855</u>	<u>1,938</u>	<u>2,285</u>
	<u>\$ 14,144</u>	<u>\$ 10,514</u>	<u>\$ 12,203</u>

#### 10. Investment in joint ventures

##### 10.1. GdC

Until September 26, 2016, the Company owned a 50.0 percent interest in GdC, a joint venture with Pemex TRI (Please refer to Note 11). GdC operates three natural gas pipelines, five natural gas compression stations, one propane system in Mexico and one ethane pipeline, in the states of Chiapas, Chihuahua, Nuevo León, Tabasco, Tamaulipas and Veracruz and one propane gas storage facility in the state of Jalisco, Mexico.

Beginning on September 27, 2016, the Company fully consolidated GdC. As of September 26, 2016, there have been no other changes in the Company's ownership or voting rights in this joint venture.

GdC's Condensed Consolidated Financial Statements and the Company's equity method investment are summarized as follows.

	12/31/15	12/31/14
Cash and cash equivalents	\$ 22,080	\$ 74,931
Short-term investments	10,780	58,233
Other assets	<u>55,383</u>	<u>94,086</u>
Current assets	<u>88,243</u>	<u>227,250</u>
Finance lease receivables	952,201	346,314
Property, plant and equipment, net	320,079	673,714
Investments in joint venture	131,338	140,160
Other assets	1,727	413
Deferred income tax asset	<u>12,314</u>	<u>359</u>
Non-current assets	<u>1,417,659</u>	<u>1,160,960</u>
Total assets	<u>\$ 1,505,902</u>	<u>\$ 1,388,210</u>
Current liabilities	\$ 133,730	\$ 31,201
Non-current liabilities	<u>662,307</u>	<u>724,810</u>
Total liabilities	<u>796,037</u>	<u>756,011</u>
Total members' equity	<u>\$ 709,865</u>	<u>\$ 632,199</u>
Share of members' equity	\$ 354,933	\$ 316,100
Goodwill	<u>64,943</u>	<u>64,943</u>
Carrying amount investment in GdC	<u>\$ 419,876</u>	<u>\$ 381,043</u>

	Period ended 09/26/16	Year ended 12/31/15	Year ended 12/31/14
Revenues	\$ 199,996	\$ 249,424	\$ 496,789
Operating, administrative and other expenses	(60,174)	(66,539)	(368,802)
Finance cost	(20,989)	(28,673)	(26,973)
Income tax expense	(53,409)	(64,307)	(42,456)
Share of profit (loss) of joint venture, net of income tax	<u>15,417</u>	<u>(6,936)</u>	<u>(9,019)</u>
Profit for the period / years	<u>\$ 80,841</u>	<u>\$ 82,969</u>	<u>\$ 49,539</u>
Share of profits of GdC	<u>\$ 40,421</u>	<u>\$ 41,485</u>	<u>\$ 24,770</u>

- a) *Credit agreement.* On December 5, 2013, GdC entered into a credit agreement for \$490.0 million with BBVA Bancomer, Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, Bank of Tokyo Mitsubishi UFJ, Ltd., Mizuho and Norddeutsche Landesbank ("NORD / LB"), for the purpose of funding the Los Ramones I pipeline project. The funding is contracted for a term of 13.5 years, with quarterly principal payments, bearing interest at the 90 day LIBOR plus 200 to 275 basis points. This funding is guaranteed by collection rights of certain GdC projects. Borrowings under the facility began in 2014. As of December 31, 2016, GdC has \$370.0 million of outstanding borrowings.

On January 22, 2014, GdC entered into an interest rate swap for hedging the interest rate risk on the total of the credit agreement mentioned above, exchanging the LIBOR for a fix rate of 2.63 percent.

- b) *Regular investment contribution to TAG.* TAG is owned by GdC through its subsidiary, DEN, and partners, TETL JV Mexico Norte, S. de R. L. de C. V. and TAG Pipeline Norte. As of December 31, 2016, the contributions are as follows:

	As of 12/31/16
Pemex TRI *	\$ 90,045
IEnova *	90,045
	<u>\$ 180,090</u>

\* Includes interests.

Under the terms of the contract, the contributions made in 2014, are presented as loans to DEN. As of December 31, 2016 and 2015, amounts outstanding have generated interest of \$4.0 million and \$4.6 million respectively (Please refer to Note 6.2.).

- c) On December 19, 2014, TAG Norte Holding entered into a loan as a debtor, signing a promissory note in favor of Santander, the amount of such loan is of \$1.3 million approximately (including a LC facility for Debt Service Reserve). In addition TAG Norte Holding entered into a derivative instrument in order to hedge the interest rate risk.
- d) In December 2015, TAG Pipelines, Norte contracted derivative instruments in order to hedge the risk of exchange rate changes. TAG Pipeline Norte entered into forward contracts with five banks to exchange pesos for dollars of a portion of the projects revenues for 2016; maturing through 2016 and in the first quarter of 2017. Additionally, in September 2016, TAG Pipeline Norte entered into forward contracts to exchange pesos for dollars of a portion of the projects' revenues for 2017; maturing through 2017 and in the first quarter of 2018.

## 10.2. ESJ

On July 16, 2014, CSJ, a subsidiary of IEnova, completed the sale of a 50-percent interest in the first phase of ESJ to a wholly owned subsidiary of InterGen N. V. ("InterGen"). The net cash received by this transaction was \$25.9 million. The retained interest in ESJ was recorded at its fair value of \$25.9 million as a non-cash transaction. The net gain for the sale of ESJ shares was \$18.8 million after income tax, included within the other gains (losses) line item in the Consolidated Statements of Profit.

ESJ started operations in June 2015.

As of December 31, 2016, the Company's remaining 50-percent interest in ESJ is accounted for under the equity method. ESJ Condensed Consolidated Financial Statements and the Company's equity method investment are summarized as follows:

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
Cash and cash equivalents	\$ 9,601	\$ 12,930	\$ 4,784
Other assets	15,201	21,937	6,339
Current assets	<u>24,802</u>	<u>34,867</u>	<u>11,123</u>
Property, plant and equipment, net	264,468	276,352	258,885
Other assets	2,650	12,347	10,189
Deferred income tax	5,413	6,534	7,914
Non-current assets	<u>272,531</u>	<u>295,233</u>	<u>276,988</u>
Total assets	<u>\$ 297,333</u>	<u>\$ 330,100</u>	<u>\$ 288,111</u>
Current liabilities	\$ 17,777	\$ 7,248	\$ 11,815
Non-current liabilities	255,070	306,635	259,548
Total liabilities	<u>272,847</u>	<u>313,883</u>	<u>271,363</u>
Total members' equity	<u>\$ 24,486</u>	<u>\$ 16,217</u>	<u>\$ 16,748</u>
Share of members' equity	\$ 12,243	\$ 8,108	\$ 8,374
Goodwill	<u>12,121</u>	<u>12,121</u>	<u>12,121</u>
Carrying amount of investment in ESJ	<u>\$ 24,364</u>	<u>\$ 20,229</u>	<u>\$ 20,495</u>

ESJ's Condensed Consolidated Statement of Profit is as follows:

	Year ended 12/31/16	Year ended 12/31/15	For the period of 07/16/2014 to 12/31/14
Revenues	\$ 44,283	\$ 29,227	\$ -
Operating, administrative and other expenses	(20,773)	(13,491)	(571)
Other gain, net	221	-	-
Finance (cost) income, net	(16,731)	(9,426)	67
Income tax expenses	<u>(1,886)</u>	<u>(4,642)</u>	<u>(2,343)</u>
Profit (loss) for the year / period	<u>\$ 5,114</u>	<u>\$ 1,668</u>	<u>\$ (2,847)</u>
Share of profits (loss) of ESJ	<u>\$ 2,557</u>	<u>\$ 834</u>	<u>\$ (1,424)</u>



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

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

Years	LIBOR applicable margin
June 2014 – June 2015	2.375%
June 2015 – June 2019	2.375%
June 2019 – June 2023	2.625%
June 2023 – June 2027	2.875%
June 2027 – June 2031	3.125%
June 2031 – June 2033	3.375%

As per the financing agreement, the ability to make withdrawals ended on the term conversion date June 30, 2015. ESJ made total accumulated withdrawals from the credit facility in the amount of \$239.8 million. The debt outstanding is \$227.5 million and the breakdown is as follows:

	Debt balance
MIZUHO	\$ 51,069
NAFINSA	37,141
NORD/LB	51,069
NADB	37,141
SMBC	51,069
	<u>\$ 227,489</u>

- b) *Interest rate swaps.* To partially mitigate its exposure to interest rate changes associated with the term loan, ESJ entered into floating-to-fixed interest rate swaps for 90-percent of the ESJ project financing loan amount. There are three outstanding interest rate swaps with Mizuho, SMBC and NORD/LB, each one with a trade date of June 12, 2014 and an effective date of June 30, 2015, the date of conversion to a term loan. The terms of the interest rate swaps were constructed to match the critical terms of the interest payments. The swaps are accounted for as cash flow hedges.
- c) *Financing of the project's VAT with Santander.* On June 12, 2014, ESJ entered into a line of credit with Santander and on February 23, 2015 there was an amendment to increase the line for up to \$501.0 million Mexican Pesos (approximately \$35.0 million historical U.S. Dollar equivalent). Interest on each withdrawal will be accrued at the Mexican Interbank Interest Rate ("TIIE") plus 145 basis points payable on a semi-annual basis. The credit line under this contract will be used to finance the VAT on the ESJ project. As of December 23, 2015, ESJ had withdrawn \$472.6 million Mexican Pesos of this credit line. On December 23, 2015 ESJ repaid and canceled the total credit facility.
- d) *Other disclosures.* The member's agreement provides certain restrictions and benefits to the sale of the membership interest in ESJ. The agreement establishes that capital calls that are to be contributed on a pro rata basis by the members. CSJ and its joint venture partner have provided guarantees of payment of amounts due by ESJ and its subsidiaries under the wind turbine supply agreement with Vestas WTG México, S. A. de C. V. The guarantees are immaterial as of December 31, 2016, 2015 and 2014.

### 10.3. IMG

In June 2016, IMG, the joint venture formed between IEnova and TransCanada, whereby TransCanada has 60 percent interest in the partnership and IEnova owns the remaining 40 percent interest.

As of December 31, 2016, the Company's interest in IMG is accounted for under the equity method. IMG Condensed Consolidated Financial Statements and the Company's equity method investment is summarized as follows:

	12/31/16
Cash and cash equivalents	\$ 128,110
Other assets	<u>12,947</u>
Total current assets	<u>141,057</u>
Total non-current assets	<u>135,494</u>
Total assets	<u>\$ 276,551</u>
Current liabilities	\$ 27,916
Non-current liabilities	<u>2,678</u>
Total liabilities	<u>\$ 30,594</u>
Total members' equity	<u>\$ 245,957</u>
Share of members' equity and carrying amount of investment in IMG	<u>\$ 98,383</u>
	12/31/16
Operating, administrative and other expenses	\$ (1,646)
Finance income, net	(467)
Income tax expense	<u>(3,122)</u>
Loss for the period	<u>\$ (5,235)</u>
Share of losses of IMG	<u>\$ (2,094)</u>

- a) *Project financing for the IMG*

As of now, the project resources for the design and construction of the marine pipeline have been funded with capital contributions of its members.

### 10.4. DEN

DEN is a joint venture formed between IEnova and Pemex TRI in which the Company owns 50-percent equity interest. (Please refer to Note 1.2.3.)

As of December 31, 2016, the Company's remaining 50 percent interest in DEN is accounted for under the equity method. DEN's Condensed Consolidated Financial Statements and the Company's equity method investment is summarized as follows:

	As of 12/31/16
Cash and cash equivalents	\$ 8,819
Due from unconsolidated affiliates	4,012
Other assets	4,278
Total current assets	<u>17,109</u>
Investments in joint venture	155,327
Deferred income tax	17,364
Other assets	1,461
Property, plant and equipment, net	228
Total non-current assets	<u>174,380</u>
Total assets	<u>\$ 191,489</u>
Current liabilities	\$ 646
Non-current liabilities	<u>185,627</u>
Total liabilities	<u>\$ 186,273</u>
Total members' equity	<u>\$ 5,216</u>
Share of members' equity and carrying amount of investment in DEN	<u>\$ 2,608</u>
	For the period from 09/26/16 to 12/31/16
Revenues	\$ 5,623
Operating, administrative and other expenses	(5,310)
Other losses	(341)
Finance cost, net	(2,126)
Income tax benefit	3,464
Share of profit of joint ventures, net of income tax	<u>2,604</u>
Profit for the period	<u>\$ 3,914</u>
Share of profits of DEN	<u>\$ 1,957</u>

TAG Holding, together with TAG Pipeline Norte a joint venture between DEN and an affiliate of Pemex, and a consortium comprised of BlackRock and First Reserve, own Los Ramones Norte pipeline, which began operations in February 2016.

a) *TAG Project financing*

On December 19, 2014, TAG Norte Holding, (subsidiary of DEN), entered into a credit contract with Santander (as lender, administrative agent and collateral agent), with the purpose of financing the engineering, procurement, construction and commissioning of the gas pipeline. During 2016 and 2015, there were amendments to the credit in order to include additional banks as part of the credit. The total amount of the credit is \$1,276.2 million, divided in tranches: i) long tranche, up to \$701.9 million, ii) short tranche up to \$511.8 million and iii) the letter of credit tranche for debt service reserve up to \$62.5 million.

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

Years	Applicable margin (basis points)
1 <sup>st</sup> disbursement- System (Commercial Operation Date)	250
0 - 4	265
5 - 9	300
10 - 14	325
15 - 18.5	350

As of December 31, 2016, the total outstanding loan is \$1,214.4 million, with its respective maturities. TAG Norte Holding hedged a portion of the loans tied to the interest rate risk through an interest rate swap, by changing the variable rate for a fixed rate.

The loans mentioned above contain restrictive covenants, which require the Company to maintain certain financial ratios and limits dividend payments, loans and obtaining of additional financing. TAG Norte Holding met such covenants as of December 31, 2016.

Long-term debt due dates are as follows:

Year	Amount
2017	\$ 88.4
2018	58.9
2019	58.9
2020	58.9
Thereafter	949.3
Total	<u>\$ 1,214.4</u>

*Debt for financing value-added tax.* On December 19, 2014, TAG Pipeline Norte signed a credit agreement for financing VAT with Santander. The amount of the credit line is \$3,680.9 million Mexican Pesos. As of December 31, 2016, dispositions of \$3,660.0 million Mexican Pesos were taken from the credit line and advance payments were made for \$3,399.0 million Mexican Pesos.

## 11. Business combinations

### 11.1. GdC

On September 26, 2016, IEnova acquired the remaining 50 percent of the shares of GdC at a value of \$1,143.8 million as mentioned in note 1.2.3., which was recorded using the acquisition method as it obtained control over GdC as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

#### a. *Subsidiaries acquired*

Entity	Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
Gasoductos de Chihuahua S. de R. L. de C. V. and subsidiaries	Operation of natural gas compression station	September 26, 2016	50%	\$1,143,834

GdC was acquired to continue the expansion of the Company.



**b. Consideration transferred**

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "Operating, administrative and other expenses" in the Consolidated Statements of Profit and Other Comprehensive Income.

**c. Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions**

	GdC As of 9/26/16
Fair value of business combination:	
Cash consideration (fair value of total consideration)	\$ 1,143,834
Total fair value of business combination	<u>\$ 2,287,668</u>
Cash and cash equivalents	66,250
Trade and other receivables	66,739
Finance lease receivables	945,104
Property, plant and equipment, net	309,186
Other assets	933
Current liabilities	(112,980)
Non-current liabilities (1)	<u>(484,572)</u>
Total identifiable, net assets	<u>790,660</u>
Goodwill	<u>\$ 1,497,008</u>

(1) Includes \$364.0 million related to bank loans.

The initial accounting for the acquisition of GdC has only been provisionally determined at the end of the reporting period.

None of the goodwill is expected to be deductible for tax purposes.

**Key sources of estimation uncertainty**

*Selected Valuation Methodology:*

GdC is a regulated business, that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

**d. Net cash flow from acquisition of subsidiaries**

	As of 09/26/2016
Consideration paid in cash	\$ 1,143,834
Less: balances of cash and cash equivalents acquired	<u>(66,250)</u>
Consideration paid in cash, net	<u>\$ 1,077,584</u>

**e. Impact of acquisitions on the results of the period**

The results at the acquisition date, includes a gain of \$673.1 million for the excess of the acquisition-date fair value of IEnova's previously held equity interest in GdC over the carrying value of that interest, included as Remeasurement of Equity Method Investment on the Consolidated Statements of Profit. Please refer to Exhibit A "Proforma additional information"

**11.2. Ventika**

On December 14, 2016, IEnova acquired the 100 percent of the shares of Ventika at a value of \$434.7 million as mentioned in Note 1.2.6., which was recorded using the acquisition method as it obtained control over Ventika as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

**a. Subsidiaries acquired**

Entity	Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
Ventika	Wind Farm	December 14, 2016	100%	\$434,688

Ventika was acquired to continue the expansion of the Company.

**b. Consideration transferred**

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "Operating, administrative and other expenses" in the Consolidated Statements of Profit and Other Comprehensive Income.

**c. Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions**

	Ventika As of 12/14/16
Fair value of business combination:	
Cash consideration (fair value of total consideration)	\$ 309,724
Total fair value of business combination	<u>\$ 309,724</u>
Cash and cash equivalents	24
Restricted cash	68,299
Trade and other receivables	14,939
Property, plant and equipment, net	673,410
Intangible assets	154,144
Other assets	37,527
Current liabilities	(145,912)
Non-current liabilities	<u>(621,825)</u>
Total identifiable, net assets	<u>180,606</u>
Goodwill	<u>\$ 129,118</u>

The initial accounting for the acquisition of Ventika has only been provisionally determined at the end of the reporting period.

None of the goodwill is expected to be deductible for tax purposes.

## Key sources of estimation uncertainty

### Selected Valuation Methodology.

- Based on the nature of the power facility and generally accepted industry practice, we relied on the Income Approach, specifically the DCF method.
- Associated intangibles such as rights of way / easements are embedded in the value of the Property Plant and Equipment.
- While the Cost Approach was not relied upon to derive our fair value estimate, provided the income approach being the preferred approach to valuing an operational wind power facility, it was considered for corroboratory purposes in relation to our fair value estimate derived utilizing the Income Approach. It is noted that our derived fair value estimate embeds a developer margin (i.e., margin above the cost to develop/construct the power project) that is within the reasonable range of developer margins expected for this type of power facility and at the stage of development associated with Ventika (i.e., recently entering commercial operation).

In addition to what is described above, the Company used different estimates relating to operating statistics, revenues, operating expenses and cash flow items.

### d. Net cash flow from acquisition of subsidiaries

	As of 12/15/16
Consideration paid in cash	\$ 434,688
Less: balances of cash and cash equivalents acquired	(24)
Consideration paid in cash, net	\$ 434,664

Please to refer Exhibit A "Proforma additional information"

## 12. Assets classified as held for sale and discontinued operations

- a. As mentioned in Note 1.2.2., the Company's management approved a plan to market and sell TDM, a 625 MW natural gas-fired power plant located in Mexicali, Baja California, Mexico. As of March 31, 2016, the assets and liabilities were classified under current assets and liabilities as held for sale. The results of TDM are presented within discontinued operations.
- b. Details of the discontinued operations are provided as follows:

TDM is a part of the Power Segment; its Consolidated Financial Statements are summarized as follows:

	12/31/16	12/31/15	12/31/14
Revenues	\$ 101,547	\$ 143,500	\$ 224,663
Cost of revenues	(85,446)	(114,209)	(174,360)
Operating, administrative and other expenses	(17,515)	(22,354)	(19,726)
Depreciation and amortization	(2,222)	(15,212)	(15,215)
Impairment	(136,880)	-	-
Interest income, net	25	42	112
Finance costs	(254)	(244)	(236)
Other losses, net	(1,396)	(151)	(2,801)
Income tax benefit (expense)*	29,809	(6,169)	(8,427)
(Loss) income for the year	\$ (112,332)	\$ (14,797)	\$ 4,010

\* As of December 31, 2016, the Company recorded a deferred tax expense in the amount of \$6.8 million, to recognize the difference between book value and tax basis, as a result of the decision to classify TDM as a held for sale. This effect is shown in the Consolidated Statements of Profit in the line of item "Loss for the period from discontinued operations, net of income tax".

	12/31/16	12/31/15	12/31/14
Loss per share:			
Losses per share from discontinued operations:			
Basic and diluted (loss) earnings per share	\$ (0.09)	\$ (0.01)	\$ 0.01

Assets and liabilities held for sale corresponding to TDM are as follows:

	12/31/16
Cash and cash equivalents	\$ 434
Other assets	32,813
Total current assets	33,247
Property, plant and equipment, net (1)	134,633
Carbon allowance	22,089
Other assets	1,125
Deferred income tax assets	193
Total non-current assets	158,040
Total assets	\$ 191,287
Current liabilities	\$ 7,974
Non-current liabilities	27,477
Total liabilities	\$ 35,451

- (1) As a result of the allocation in assets held for sale property, made during this year, the Company carried out a review of the recoverable amount of these assets. The review led to the recognition of an after-tax impairment loss of \$89.0 million which has been recognized in the Consolidated Statements of Profit. The Company also estimated the fair value less costs of disposal of property, plant and equipment, which is based on the recent market prices of assets with similar age and obsolescence. Impairment assessment was performed in 2015; however, there was no impairment indicator.

	As of 12/31/16
Cash flows from discontinued operations:	
Net cash flows used by operating activities	\$ (868)
Net cash flows used in investing activities	(2,198)
Net cash outflows used in financing activities	(256)
Net cash outflows	\$ (3,322)

## 13. Goodwill

	12/31/16	12/31/15	12/31/14
Cost	\$ 1,651,780	\$ 25,654	\$ 25,654

There are no accumulated impairment losses.



The breakdown of goodwill is as follows:

Company	Amount
GDC	\$ 1,497,008
Ventika	129,118
Initial goodwill	<u>25,654</u>
Total	\$ <u>1,651,780</u>

*Allocation of goodwill to cash-generating units*

Goodwill has been allocated for impairment testing purposes to IEnova Gasoductos México's cash-generating unit, which is included in the Gas segment.

The recoverable amount of this cash-generating unit is determined based on a 10-year DCF analysis of IEnova Gasoductos México's projected results. The DCF for 2016, 2015 and 2014, was calculated based on a long-term unlevered cash flow forecast using a discount rate of 9.0%, which was the same rate used at the acquisition date.

There are no significant changes in IEnova Gasoductos México's operations that would indicate potential impairment since acquisition, including the following: a) its financial results have been consistent with management's initial projections, b) the changes on the macroeconomic indicators may have not had adverse effect on the Company's operations (i.e. risk free rates are unchanged or lower than acquisition date and the change of Sovereign average rating from BBB to BBB+ for México), c) changes in the regulatory environment have not had adverse effect on the Company's operations and, d) there have been no significant changes in workforce, strategy, market trends or impacts due to recent acquisitions/integrations.

Although, the Company's management believes the current discount rate may be lower as market rates have declined since the acquisition, the discount rate used as of the acquisition date was deemed to be a reasonable rate for goodwill impairment testing purposes.

**14. Property, plant and equipment, net**

	12/31/16	As of 12/31/15	12/31/14
<i>Carrying amounts of:</i>			
Buildings and plants	\$ 3,110,525	\$ 2,586,775	\$ 2,287,706
Equipment	96,017	86,965	64,572
Other assets	<u>59,670</u>	<u>38,843</u>	<u>32,948</u>
	3,266,212	2,712,583	2,385,226
Accumulated depreciation and amortization	<u>(433,074)</u>	<u>(557,563)</u>	<u>(497,686)</u>
Land	82,404	76,524	74,988
Properties under construction	<u>698,543</u>	<u>364,296</u>	<u>415,211</u>
	<u>\$ 3,614,085</u>	<u>\$ 2,595,840</u>	<u>\$ 2,377,739</u>

Cost	Land	Buildings and plants	Equipment	Properties under construction	Other assets	Total
Balance as of January 1, 2014	74,421	2,077,478	52,960	423,989	27,032	2,655,880
Additions	571	221,938	11,841	120,269	8,424	363,043
Disposals	-	(7,908)	-	(128,848)	(1,241)	(137,997)
Effect of foreign currency translation	(4)	(14,292)	(229)	(199)	(1,267)	(15,991)
Revisions and additions to decommissioning liability	-	10,490	-	-	-	10,490
Balance as of December 31, 2014	74,988	2,287,706	64,572	415,211	32,948	2,875,425
Additions	1,542	332,691	22,697	(50,048)	8,764	315,646
Disposals	-	(2,738)	-	-	(1,317)	(4,055)
Effect of foreign currency translation	(6)	(25,275)	(304)	(867)	(1,552)	(28,004)
Revisions and additions to decommissioning liability	-	(5,609)	-	-	-	(5,609)
Balance as of December 31, 2015	76,524	2,586,775	86,965	364,296	38,843	3,153,403
Assets held for sale	(674)	(436,077)	(7,525)	(533)	(2,935)	(447,744)
Additions	282	15,523	17,085	332,682	17,386	382,958
Business combination GdC	6,026	296,520	-	-	8,750	311,296
Business combination Ventika	252	673,531	-	-	-	673,783
Disposals	-	(1,021)	(164)	-	(738)	(1,923)
Effect of foreign currency translation	(6)	(26,882)	(344)	(724)	(1,636)	(29,592)
Revisions and additions to decommissioning liability	-	4,978	-	-	-	4,978
Balance as of December 31, 2016	<u>\$ 82,404</u>	<u>\$ 3,113,347</u>	<u>\$ 96,017</u>	<u>\$ 695,721</u>	<u>\$ 59,670</u>	<u>\$ 4,047,159</u>
<b>Accumulated depreciation</b>						
Balance as of January 1, 2014	-	(417,564)	(7,077)	-	(17,402)	(442,043)
Eliminated on disposals of assets	-	244	-	-	817	1,061
Depreciation expense	-	(56,571)	(1,043)	-	(4,178)	(61,792)
Effect of foreign currency translation	-	5,113	27	-	882	6,022
Other	-	-	(452)	-	(482)	(934)
Balance as of December 31, 2014	-	(468,778)	(8,545)	-	(20,363)	(497,686)
Eliminated on disposals of assets	-	870	(599)	-	183	454
Depreciation expense	-	(62,203)	(1,635)	-	(3,844)	(67,682)
Effect of foreign currency translation	-	6,269	173	-	909	7,351
Balance as of December 31, 2015	-	(523,842)	(10,606)	-	(23,115)	\$ (557,563)
Assets held for sale	-	178,795	-	-	1,622	180,417
Eliminated on disposals of assets	-	271	111	-	270	652
Depreciation expense	-	(57,741)	(2,241)	-	(3,468)	(63,450)
Effect of foreign currency translation	-	6,732	186	-	886	7,804
Other	-	(934)	-	-	-	(934)
Balance as of December 31, 2016	<u>\$ -</u>	<u>\$ (396,719)</u>	<u>\$ (12,550)</u>	<u>\$ -</u>	<u>\$ (23,805)</u>	<u>\$ (433,074)</u>



ECA acquired 19,452,209 square meters of land of which 627,614 were used for the construction of the LNG Terminal. The remaining land is used as buffer and access zones in accordance with the authorization issued by the Mexican Natural Resources and Environmental Ministry (Secretaría de Medio Ambiente y Recursos Naturales, "SEMARNAT" by its initials in Spanish).

The additions to property, plant and equipment during 2016, 2015 and 2014, are comprised mainly of additions to construction in process. The Sásabe-Puerto Libertad section of the Sonora pipeline began operations in October 2014. The first segment was completed in stages, with Puerto Libertad section completed in the fourth quarter of 2014 and the final section completed in August 2015. The capacity is fully contracted by the CFE under two 25-year contracts denominated in U. S. Dollars, in addition to related to Sonora Pipeline and ESJ Wind projects, (see subparagraph c of Note 1.2.8.). As of December 31, 2016, 2015 and 2014 additions of property, plant and equipment that were not paid, amount to \$49.8 million, \$5.2 million and \$27.0 million, respectively.

**Borrowing cost.** The Company capitalized borrowing costs on qualifying assets of \$14.8, \$15.1 and \$21.0 for the years ended December 31, 2016, 2015 and 2014, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization were 3.33 percent, 3.47 percent, respectively, for the periods ended December 31, 2016, 2015 and 2014 respectively.

#### 14.1. Useful lives of property, plant and equipment

Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	Years
Buildings	40
Plant and equipment for LNG storage, regasification and nitrogen injection facility <sup>1</sup>	5-45
Plant and equipment for Wind Power Generation Facilities	20
Pipelines system for transportation and distribution of natural gas <sup>1</sup>	34-50
Plant and equipment for generation of electricity <sup>1</sup>	37
Fiber optic network <sup>1</sup>	5-20
Leasehold improvements <sup>2</sup>	3-10
Machinery and other equipment <sup>2</sup>	3-10
Other assets <sup>2</sup>	3-20

<sup>1</sup> Useful lives related to plant and equipment category

<sup>2</sup> Useful lives related to other assets category

#### 15. Other intangible assets

##### Carrying amounts of:

Renewable transmission rights \$ 154,144

This amount corresponds to the renewable transmission and consumption rights associated with projects approved under the preexisting self-supply renewable program.

#### 16. Trade and other payables

	12/31/16	12/31/15	12/31/14
Trade payables	\$ 93,731	\$ 43,830	\$ 41,436
Other miscellaneous payables	835	19	38
Trading financial instrument payable (a)	-	-	18,101
	<u>\$ 94,566</u>	<u>\$ 43,849</u>	<u>\$ 59,575</u>

The average credit period on purchases of goods and services is between 15 to 30 days. No interest has been charged on trade payables. The Company has policies in place to ensure that all payables are paid within the pre-agreed credit terms.

#### Trading financial instruments

In 2014 the Company entered into a derivative financial instrument agreement to hedge the volatility of the fluctuation of the Mexican Peso relative to the U. S. Dollar. Certain monetary assets and liabilities of the Company were denominated in U. S. Dollars (functional currency); however, they were remeasured in Mexican Pesos throughout the year for Mexican tax purposes. The remeasurement of these assets and liabilities gives rise to foreign currency gains and losses for Mexican tax purposes. Such derivative financial instrument was terminated in 2014.

#### 17. Employee benefits

##### 17.1. Defined contribution component

The Company provides a defined contribution plan for all permanent full-time employees in México. Employees that leave the Company obtain the capital accumulated with the contributions according to the following vesting schedule: a) Basic Contribution: 100 percent immediately for the capital accumulated. b) Additional Contribution: for the capital accumulated the vesting rates are: 100 percent in case of death or disability, and in case of voluntary termination according with the Company policy.

##### 17.2. Defined benefit component

The Company also provides defined benefit plans for all permanent full-time employees of its subsidiaries in México. Under the plans, the employees are entitled to retirement benefits varying between 55 percent and 100 percent of their final salary upon reaching the retirement age of 65. No other post-retirement benefits are provided to these employees.

##### 17.3. Seniority premium benefits

The Company provides seniority premium benefits, which consist of a lump sum payment of 12 days of wages per each year worked, calculated using the employee's most recent salary, not to exceed twice the minimum wage established by law.

##### 17.3.1. Costs and obligations for post-employment and other long-term employee benefits

The principal assumptions used for the purposes of the actuarial valuations were as follows.

	Valuation at		
	12/31/16	12/31/15	12/31/14
Discount rates	8.00%	8.00%	8.25%
Expected rates of salary increase	4.75%	4.75%	4.75%
Long-term expected inflation	3.75%	3.75%	3.75%
Exchange rate	\$ 19.72	\$ 17.20	\$ 14.72

Amounts recognized within current earnings and OCI as well as benefits paid with respect to the Company's post-employment and other long-term employee benefits were as follows.

	12/31/16	12/31/15	12/31/14
Current service cost recognized in administrative and other expenses	\$ 646	\$ 531	\$ 381
Interest on obligation recognized in finance costs	345	321	209
Actuarial (losses) gain recognized in OCI	1,765	(1,793)	357

The amount included in the Consolidated Statements of Financial Position arising from the Company's obligation related to its defined benefit plans, and changes in the present value of the defined benefit obligation in the current year, were as follows:

	12/31/16	12/31/15	12/31/14
Opening defined benefit obligation	\$ 4,295	\$ 3,045	\$ 2,684
Current service cost	585	531	381
Interest cost (benefit)	309	321	(50)
Actuarial loss (gain)	435	(655)	357
Exchange differences on plans maintained by Mexican peso functional currency entities	-	1,102	(294)
Payment	115		
Benefits paid	(153)	(49)	(33)
Ending defined benefit obligation	\$ 5,586	\$ 4,295	\$ 3,045

#### 18. Other financial liabilities

	12/31/16	12/31/15	12/31/14
Accrued interest payable (a)	\$ 4,855	\$ 5,661	\$ 6,561
Customer deposits	1,022	783	662
	\$ 5,877	\$ 6,444	\$ 7,223

(a) Balance represents accrued interest payable on long-term debt (Please refer to Note 23).

#### 19. Other liabilities

	12/31/16	12/31/15	12/31/14
Wages and benefits payable	\$ 14,995	\$ 12,482	\$ 11,964
Other current liabilities	13,866	4,755	11,734
	\$ 28,861	\$ 17,237	\$ 23,698

#### 20. Carbon allowances

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

The Company records carbon allowances at the lower of weighted average cost or market value, and includes them as current or non-current on the Statements of Financial Position based on the dates that they are required to be surrendered. The Company measures the compliance of the obligation, which is based on emissions, at the carrying value of allowances held plus the fair value of additional allowances necessary to satisfy the obligation. The Company derecognizes the assets and liabilities from the Consolidated Statements of Financial Position as the allowances are surrendered. Please refer to Note 12.

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

	12/31/16	Year ended 12/31/15	12/31/14
<b>Assets:</b>			
Current	\$ -	\$ 5,385	\$ 29,864
Non-current	-	12,975	229
	\$ -	\$ 18,360	\$ 30,093
<b>Liabilities</b>			
Current	\$ -	\$ 5,385	\$ 29,864
Non-current	-	12,611	-
	\$ -	\$ 17,996	\$ 29,864

#### 21. Short-term debt

As of December 31, 2016, 2015 and 2014, within other financial liabilities short-term debt includes the following:

	12/31/16	12/31/15	12/31/14
Credit agreement (a)	\$ 446,034	\$ 91,374	\$ 51,020
Current portion of GdC's Bank Loan (b)	38,682	-	-
Current portion of Ventika Bank Loan (c)	13,482	-	-
Santander (d)	-	-	145,346
	498,198	91,374	196,366
Borrowing costs	(4,627)	(2,867)	(1,277)
	\$ 493,571	\$ 88,507	\$ 195,089

(a) *Credit agreement.* On August 21, 2015, the Company entered into an agreement for a \$400.0 million, U.S. Dollar-denominated, five-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lenders are Banco Nacional de Mexico, S. A. Integrante de Grupo Financiero Banamex, SMBC, Santander, The Bank of Tokyo-Mitsubishi UFJ, LTD., and The Bank of Nova Scotia.



Credit facility with SMBC. On August 25, 2014, the Company entered into an agreement for a \$100.0 million, U.S. dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender is Sumitomo Mitsui Banking Corporation. Interest accrues based on the 3-month LIBOR plus 105 basis points. During July, 2015 the Company withdrew \$34.0 million. On August 24, 2015 the Company decided to repay the total credit facility and cancelled this credit facility.

Interest accrues based on the 3-month LIBOR plus 90 basis points. As of December 23, 2015, IEnova had \$310.0 million of outstanding borrowings supported by the facility. On December 22, 2015, the Company renegotiated the credit line of agreement for an amount up to \$600.0 million, U.S. Dollar-denominated. On December 23, 2015 the Company decided to repay \$219.0 million (principal) of such credit facility.

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

On November 3, 2016 the Company renegotiated the credit line of such credit agreement for an amount up to \$1,170.0 million, U.S. Dollar-denominated on December 30 2016, a portion of this revolving credit was repaid in the amount of \$200.0 million. As of December 31 2016, the available unused credit portion is \$724.0 million.

- (b) Please refer to Note 10.1.
- (c) *Financing of project's value added tax* - On April 8, 2014, Ventika and Ventika II entered into a line of credit with Nacional Financiera, S. N. C. Institución de Banca de Desarrollo ("NAFIN") and Banco Nacional de Comercio Exterior, S. N. C. Institución de Banca de Desarrollo ("BANCOMEX"), as lenders. On December 17 2015, there was an amendment to increase the line for up to \$569.4 million Mexican Pesos and \$713.3 million Mexican Pesos, respectively. Interest will be accrued at the TIIE plus 250 basis points payable on a quarterly basis. The credit line under this contracts will be used to finance the VAT on the Ventika projects. In 2016, the Company decided to repay and accordingly canceled the total credit facility.
- (d) Credit facility with Santander. On June 19, 2014, the Company entered into an agreement for a \$200.0 million, U.S. Dollar- denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender Santander. Interest accrued base on the 3- month LIBOR plus 105 basis points. During July and August 2015, the Company withdrew \$76.0 million and \$25.0 million respectively. On August 26, 2015, the Company decided to repay the total credit facility. As a result, transaction cost were recorded in the Consolidated Statements of Profit.

## 22. Provisions

	12/31/16	12/31/15	12/31/14
Decommissioning liabilities (a)	\$ 41,618	\$ 34,236	\$ 38,250
Other (b)	<u>10,347</u>	<u>1,293</u>	<u>1,619</u>
	<u>\$ 51,965</u>	<u>\$ 35,529</u>	<u>\$ 39,869</u>
Current	\$ 930	\$ 1,293	\$ 1,619
Non-current	<u>51,035</u>	<u>34,236</u>	<u>38,250</u>
Total provisions	<u>\$ 51,965</u>	<u>\$ 35,529</u>	<u>\$ 39,869</u>

	Asset retirement obligations	Others	Total
Balance as of January 1, 2014	\$ 26,430	\$ 1,945	\$ 28,375
Additional provisions recognized	1,330	-	1,330
Payments and other decreases in provisions recognized	-	(326)	(326)
Unwinding of discount and effect of changes in the discount rate	<u>10,490</u>	<u>-</u>	<u>10,490</u>
Balance as of December 31, 2014	38,250	1,619	39,869
Additional provisions recognized	1,596	-	1,596
Payments and other decreases in provisions recognized	-	(326)	(326)
Unwinding of discount and effect of changes in the discount rate	<u>(5,610)</u>	<u>-</u>	<u>(5,610)</u>
Balance as of December 31, 2015	\$ 34,236	\$ 1,293	\$ 35,529
Additional provisions recognized	1,715	9,380	11,095
Increase financial cost	1,735	-	1,735
Payments and other decreases in provisions recognized	-	(326)	(326)
Unwinding of discount and effect of changes in the discount rate	<u>3,932</u>	<u>-</u>	<u>3,932</u>
Balance as of December 31, 2016	<u>\$ 41,618</u>	<u>\$ 10,347</u>	<u>\$ 51,965</u>

- (a) For long-lived assets, the Company recognized decommissioning liabilities for the present value of future costs expected to be incurred when assets are withdrawn from service, if the Company has a legal or constructive obligation and if the Company can make a reasonable estimate of that obligation. The discount rates used by the Company were 4.54 percent, 4.66 percent and 4.14 percent at December 2016, 2015 and 2014, respectively.
- (b) The balance of other provisions include a liability arising from an onerous contract representing the present value of future losses that the Company expects to incur under one of their service contracts. Because the related asset is operating below full capacity, management of the Company utilized a present value model to determine the provision utilizing a discount rate of 10 percent.

## 23. Long-term debt

- a. On February 14, 2013, the Company entered into two public debt issuances of Certificados Bursátiles "CEBURES" or debt securities as follows:
- The first placement was for \$306.2 million (\$3.9 billion of historical Mexican Pesos) bearing interest at a rate of 6.30 percent, with semi-annual payment of interest, maturing in 2023.
  - The second placement was for \$102.1 million (\$1.3 billion of historical Mexican Pesos) bearing interest at variable rate based on TIIE plus 30 basis points, with monthly payments of interest, maturing in 2018. The average rate as of December 31, 2016, was 4.64 percent.

As of December 31, 2016, 2015 and 2014, long-term debt includes:

	12/31/16	12/31/15	12/31/14
Santander -Ventika (d)	\$ 472,781	\$ -	\$ -
Bancomer - GdC (c)	317,279	-	-
CEBURES fixed rate (a)	188,734	226,659	264,981
CEBURES variable rate (b)	<u>62,911</u>	<u>75,553</u>	<u>88,327</u>
	1,041,705	302,212	353,308
Debt issuance costs	<u>(1,901)</u>	<u>(2,287)</u>	<u>(2,670)</u>
	<u>\$ 1,039,804</u>	<u>\$ 299,925</u>	<u>\$ 350,638</u>

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:

- 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.
- For the debt maturing in 2018, the Company swapped variable rate in Mexican Pesos for a fixed rate in U.S. Dollars, exchanging principal and interest payments. The weighted average interest rate, in U.S. Dollars for this swap was 2.65 percent.

The swaps' total notional value is \$408.3 million (\$5.2 billion historical Mexican Pesos). These contracts have been designated as cash flow hedges.

c. Please refer Note 10.1(a).

In such credit, GdC was defined as debtor, TDF together with GdT were assigned as guarantors and collaterals through the cession of the collections rights from their portfolio of projects integrated by GdC, TDF and GdT as source of payment for the credit.

Covenants arising from the credit require for following:

Maintain a minimum member's equity during the term of the loan, in the amount indicated:

GdC	\$	450,000
GdT		130,000
TDF		90,000

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

At the date of the Consolidated Financial Statements, the Company has complied with these obligations.

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

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

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

The breakdown of the debt is as follows:

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

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

## 24. Financial instruments

### 24.1. Capital management

Decisions on capital management for IEnova are made by directors of the Parent and IEnova's key executives. The Parent's risk management committee reviews the capital structure of the Company at its regular sessions. As of December 31, 2014, projects were funded through the resources obtained from the CEBURES and Initial Public Offering ("IPO"). The Company expects its cash flows from operations to fund a substantial portion of future capital expenditures and dividends. (Please refer to Note 1.2.5.)

The Company is subject to externally imposed capital requirements for its regulated subsidiaries in the gas segment. According to applicable regulations the subsidiaries need to include in their bylaws the requirement to have a minimum fixed capital, without withdrawal rights, equivalent to ten percent of their investment.

Also, the Company has a commitment with the Mexican regulator for capital contributions based on invested capital for its LNG terminal. As of December 31, 2016, 2015 and 2014, the Company had complied with the above requirements.



## 24.2. Categories of financial instruments

	12/31/16	12/31/15	12/31/14
<b>Financial assets</b>			
Cash and cash equivalents	\$ 24,918	\$ 40,377	\$ 83,637
Short term investment	80	20,068	30,020
Restricted cash	51,363	-	-
FVTPL			
Held for trading	8,120	21,994	34,729
Amortized cost			
Loans and receivables	218,214	193,102	239,777
Financial leasing	957,466	14,510	14,621
<b>Financial liabilities</b>			
FVTPL			
Held for trading	\$ 226,161	\$ 133,056	\$ 107,257
Amortized cost	1,897,812	829,835	665,390

## 24.3. Financial risk management objectives

The activities carried out by the Company may expose it to financial risk, including market risk, which encompasses foreign exchange, interest rate and commodity price risks, credit risk and liquidity risk. The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program. The Company may use derivative and non-derivative financial instruments to hedge against some exposures to financial risks embedded in assets and liabilities on the Consolidated Statements of Financial Position or off-balance sheet risks (firm commitments and highly probable forecasted transactions). Both financial risk management and the use of derivative and non-derivative financial instruments are governed by Company policies.

The Company identifies, assesses, monitors and centrally manages the financial risks of its operating subsidiaries through written policies that establish limits associated with specific risks including guidelines for permissible losses, guidelines for determining when the use of certain derivative financial instruments are appropriate and within policy guidelines, guidelines for when instruments can be designated as hedges, and guidelines for when derivative instruments do not qualify for hedge accounting but can qualify as held-for-trading, which is the case for derivative financial instruments. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

## 24.4. Market risk

Market risk is the risk of erosion of the Company's cash flows, earnings, asset values and equity due to adverse changes in market prices and interest and foreign currency rates.

The Company has policies governing its market risk management and trading activities. The Parent's senior officers are members of committees that establish policies, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with the Company's stated energy risk management and trading policies. These activities include, but are not limited to, daily monitoring of market positions that create credit, liquidity and market risk. The respective oversight organizations and committees are independent from the energy procurement departments.

The Company enters into a variety of derivative financial instruments to manage its exposure to commodity price, interest rate and foreign currency exchange rate risks, including:

- Interest rate swaps to mitigate the risk of rising interest rates or foreign currencies under which certain liabilities are denominated (and its related tax impacts); and
- Commodity price contracts to hedge the volatility in the prices and basis of natural gas.

There has been no material change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

## 24.5. Value at Risk ("VaR") analysis

The VaR measure estimates the potential loss in pre-tax profit, under normal market conditions, over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Along with other tools, the Company uses VaR to measure its exposure to market risk primarily associated with commodity derivative instruments that the Company holds. The Company uses historical volatilities and correlations between instruments and positions in the calculations.

The Company uses a one-day holding period and a 95 percent confidence interval in its VaR calculations. The one-day 95 percent VaR number reflects the 95 percent probability that the daily loss will not exceed the reported VaR.

The variance-covariance approach was used to calculate the VaR values.

VaR History (95%, one day) by risk type	12/31/16	Year ended 12/31/15	12/31/14
Interest rate swap	\$ 4,025	\$ 3,761	\$ 4,606
Total VaR exposure	\$ 3,824	\$ 3,573	\$ 4,376

VaR is a statistical estimate of how much a portfolio may lose in the given time horizon for the given confidence interval. By using a VaR with a 95% confidence interval, the potential losses above that percentile are not considered; by using historical data possible adverse extreme movements might not be captured, since these did not occur during the time period considered in the calculations; and there is no guarantee that the actual losses will not exceed the calculated VaR.

While VaR captures the Company's daily exposure to commodity and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in commodity prices and interest rates over a year. Details of sensitivity analysis for foreign currency risk are set out in Note 24.7.

## 24.6. Commodity price risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. The Company's various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas markets. The Company's policy is to manage this risk within a framework that considers the unique market and operating and regulatory environments of each subsidiary.

The Company is generally exposed to commodity price risk, indirectly through its LNG, natural gas pipeline and storage, and power generating assets. The Company may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indexes, but may also include fixed price purchases and sales of commodities. Refer to Note 24.5.

#### 24.7. Foreign currency risk management

The Company has investments in entities whose functional currency is not the U. S. Dollar; additionally, it also has balances in Mexican Pesos held by its U.S. Dollar functional currency subsidiaries, exposing the Company to currency fluctuations.

The Company's primary objective in reducing foreign currency risk is to preserve the economic value of the investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations.

As mentioned above, the Company enters into transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency-denominated financial assets and financial liabilities, in relation to its subsidiaries' functional currencies, at the end of the reporting period are as follows:

	Financial assets		
	12/31/16	12/31/15	12/31/14
U. S. Dollar functional currency subsidiaries	\$ 171,462	\$ 159,824	\$ 174,435
Mexican Peso functional currency subsidiaries	19,900	30,110	26,011
	Financial liabilities		
	12/31/16	12/31/15	12/31/14
U. S. Dollar functional currency subsidiaries	\$ 779,000	\$ 585,062	\$ 593,099
Mexican Peso functional currency subsidiaries	34,012	31,713	37,531

For the Company's U.S. Dollar functional currency subsidiaries their Mexican Peso balances include: bank accounts and short-term investments, VAT, IT and Flat Tax (IETU by initials in Spanish) receivables or payables, prepaid expenses, guarantee deposits, long-term debt, trade accounts payable and other tax withholdings.

For the Company's Mexican peso functional currency subsidiaries, their U.S. Dollar balances include: bank accounts, intercompany loans, trade accounts payable and provisions.

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

	12/31/16	12/31/15	12/31/14	02/21/2017
One U.S. Dollar	\$ 20.6640	\$ 17.2065	\$ 14.7180	\$ 20.4526

#### 24.7.1. Foreign currency sensitivity analysis

The Company's account balances disclosed in Note 24.7. are exposed to the Mexican Peso for its U.S. Dollar functional currency subsidiaries and to the U.S. Dollar for its Mexican Peso functional currency subsidiaries.

The following table details the Company's profit and OCI sensitivity to a 10% increase and decrease in the U.S. Dollar against the Mexican Peso. The sensitivity rate used to report foreign currency risk internally to key Company's management is 10 percent, which represents management's benchmark of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 percent change in foreign currency rates. The sensitivity analysis includes intercompany loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

A negative number below indicates a decrease in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso for U.S. Dollar functional currency subsidiaries. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be positive.

For U.S. Dollar functional currency entities, the sensitivity analysis to changes in the Mexican Peso to U. S. Dollar exchange rate is determined on a pre-tax basis due to the complexity of determining the tax impacts (tax laws recognize taxable or deductible exchange gains and losses based on the U.S. Dollar monetary position, regardless of the functional currency).

For Mexican Peso functional currency subsidiaries, a positive number below indicates an increase in profit or equity where the U.S. Dollar strengthens 10 percent against the Mexican Peso. For a 10 percent weakening of the U.S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	U.S. Dollar functional currency			Mexican Peso functional currency		
	2016	2015	2014	2016	2015	2014
Profit (i)	\$ 38,662	\$ 27,061	\$ 17,623	\$ 898	\$ 94	\$ -
OCI	-	-	-	(9,486)	(5,692)	(4,731)

(i) This is mainly attributable to the exposure to outstanding Mexican Peso receivables in the U.S. Dollar functional currency subsidiaries at the end of each reporting period.

The U.S. Dollars functional currency subsidiaries sensitivity to foreign currency has increased during the years ended December 31, 2016, 2015 and 2014 mainly due to income tax payments.

The Mexican Peso functional currency subsidiaries sensitivity to foreign currency has decreased during the years ended December 31, 2016, 2015 and 2014 mainly due to lower intercompany loans with unconsolidated affiliates.

#### 24.8. Interest rate risk management

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of \$450.0 million from third parties for ECA, which were designated as cash flow hedges. In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. Accordingly, a cash flow hedge gain of \$30.0 million was reclassified from OCI in members' equity to current earnings, and changes in the fair value of these instruments were recognized in current earnings prospectively within other gains and losses line item. As of December 31, 2014, there was one remaining interest-rate swap agreement with a notional amount of \$151,232 in under which IEnova received a variable interest rate (three-month LIBOR) and 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 cancelled. The one-year VaR information related to the interest rate swap is included in Note 24.5.

#### 24.8.1. Interest rate swaps contracts entered into by the Company's joint ventures

The joint venture with PGPB entered into a swap contract to convert its variable interest rate debt, which matured on October 15, 2013, to a fixed interest rate. The notional value as of October 15, 2013 amounted to \$13.5 million, hedging the entire outstanding debt with the commercial bank, and the maturity date coincided with that of the debt. The interest was recorded in the gas pipeline construction cost during the construction period, and as part of the financial costs in the joint venture's individual statements of profit and loss as of the commercial startup date (Please refer to Note 23).

Additionally, as described in Note 10.2 (b) the joint venture with InterGen entered into a swap contract that effectively hedges the interest rate risk due to variable rate financings.

The fair value of derivative instruments is based on the market values in place as of the date of the Consolidated Financial Statements, which impacts investment in joint venture with a debit to current earnings.

The Company's management considers the results of the sensitivity analysis for these derivatives to be immaterial.

#### 24.9. Credit risk management

Credit risk is the risk of loss that would be incurred as a result of nonperformance of the Company's counterparties contractual obligations. The Company monitors credit risk through a credit-approval process and the assignment and monitoring of credit limits. The Company establishes these credit limits based on risk and return considerations under terms customary for the industry.

As with market risk, the Company has policies and procedures to manage credit risk, which are tailored for each business segment, administered by each subsidiary's respective departments and overseen by their management.

In ECO, depending on the type of service requested by the customer, different criteria are applied as follows:

Minor customers (residential customers for household consumption):

- Copy of official identification;
- Proof of residence or power of attorney from landlord, in case of rental residences;
- Personal references, (which are confirmed); and,
- Registration with tax agency for commercial customers with minor consumption

Major customers (customers for industrial and commercial consumption):

- Power of attorney;
- Legal representative official identification;
- Copy of articles of incorporation;
- Proof of address; and,
- Depending on consumption volume, a guarantee is required, which could include letter of credit, cash deposit, or promissory notes among others.

The oversight includes a monthly review of 100% of the balances of major customers by the credit and collection department, to make sure that payments are made on a timely manner and to ensure that they are in compliance with the agreed terms of their contract.

The Company believes that it has allocated adequate reserves for counterparty's nonperformance.

For all other entities of the Gas and Power segments, when the Company's development projects become operational, they rely significantly on the ability of their suppliers to perform on long-term agreements and on the ability to enforce contract terms in the event of nonperformance.

Also, the factors that the Company considers in evaluating a development project include negotiating customer and supplier agreements and, therefore, rely on these agreements for future performance.

#### 24.9.1. Concentration of credit risk

GRO and TGN conduct their businesses based upon ongoing evaluations of their customers' financial conditions and certain guarantees, except when such clients qualify for credit based on their long-term debt credit ratings issued by "Standard & Poors" or other credit rating agency in the U. S. or Canada.

GRO's management believes that the risk arising from its concentration of credit is mitigated since all customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected.

TGN provides transportation services mainly to one sole customer. TGN's management believes that a concentration of credit risk is mitigated since its customer pays on a monthly basis, otherwise service can be suspended until due amounts are collected.

IEnova Marketing sells natural gas and provides transportation services to three customers. IEnova Marketing's management believes that although a potential concentration of credit risk is present, this risk is mitigated since one of its customers is a governmental entity and another is a related party. Additionally, all customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected.

ECA provides LNG storage and regasification services to IEnova Marketing and two other third parties. ECA's management believes that although a concentration of credit risk may exist, this risk is mitigated based on the creditworthiness of its customers and the related party nature of one of its contractual arrangements.

GAP provides transportation services mainly to one sole customer. GAP's management believes that its credit risk is mitigated since the customers is a governmental entity with high credit rating and pays on a monthly basis.

Following is a table that shows the Company's revenue concentration by customer:

	Segment	12/31/16	12/31/15	12/31/14
Customer 1	Gas	\$ 223,882	\$ 197,559	\$ 242,581
Customer 2 *	Power	-	83,667	138,505
Customer 3	Gas	88,646	89,037	91,625
Customer 4	Gas	101,999	51,683	-
Customer 5	Gas	-	49,138	90,871
Customer 6	Gas	61,416	-	-
Customer 7	Gas	35,838	-	-
Customer 8	Gas	79,389	-	-
Customer 9	Gas	3,594	-	-
Others **		123,130	141,957	175,248
		<u>\$ 717,894</u>	<u>\$ 613,041</u>	<u>\$ 738,830</u>

\* Please refer to Note 12.

\*\* Within others, there are no customers with revenue concentration greater than 10% percent.

As mentioned above, all major customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected, and as a result, the Company's management does not estimate the Company is exposed to significant credit risks.

The Company's maximum credit risk exposure as of December 31, 2016, 2015 and 2014, was \$190.2 million, \$172.2 million and \$234.6 million, respectively.

#### 24.10. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Parent's directors and IEnova's key executives, who have established an appropriate liquidity risk management framework for management of the Company's funding and liquidity management requirements. As of December 31, 2016, projects were funded with resources obtained from the Global Offering (Note 1.2.5.), unconsolidated affiliates loans and bank financing. The Company's current liabilities exceed its current assets mainly due to loan from unconsolidated affiliates and short-term debt. As explained in Note 21, the Company has \$724.0 million of unused lines of credits with banks and \$368.0 million available approximately under the current authorized CEBURES program at the Mexican Stock Exchange.

##### 24.10.1. Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on contractual maturity, which is the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate	Less than 1 year	1-3 years	3-5 years	5+ years	Total
<b>December 31, 2016</b>						
Variable interest rate from banks (SMBC)		\$ 442,560	\$ -	\$ -	\$ -	\$ 442,560
Variable interest rate of long-term debt (Note 23)	4.14	2,512	57,613	-	-	60,125
Fixed interest rate of long-term debt (Note 23)	6.30	12,055	36,166	24,111	177,769	250,101
Variable interest rate loan from banks (Ventika)	5.59	38,767	75,855	50,570	645,630	810,822
Variable interest rate loan from banks (GdC)	4.63	53,576	44,682	29,788	361,961	490,007
		<u>\$ 549,470</u>	<u>\$ 214,316</u>	<u>\$ 104,469</u>	<u>\$ 1,185,360</u>	<u>\$ 2,053,615</u>
<b>December 31, 2015</b>						
Non-interest bearing		\$ 19,494	\$ -	\$ -	\$ -	\$ 19,494
Variable interest rate loans from unconsolidated affiliates	1.75	122,129	-	-	-	122,129
Variable interest rate loan from unconsolidated affiliates	1.54	223,029	-	-	-	223,029
Variable interest rate short term debt (Note 19)	1.28	92,523	-	-	-	92,523
Variable interest rate of long-term debt (Note 21)	4.52	3,439	6,879	6,879	85,610	102,807
Fixed interest rate of long-term debt (Note 21)	6.3	14,368	28,736	226,480	-	269,584
Variable interest rate loan from SOT Suisse	3.28	1,285	2,570	33,599	-	37,454
		<u>\$ 476,267</u>	<u>\$ 38,185</u>	<u>\$ 266,958</u>	<u>\$ 85,610</u>	<u>\$ 867,020</u>

	Weighted average effective interest rate	Less than 1 year	1-3 years	3-5 years	5+ years	Total
<b>December 31, 2014</b>						
Non-interest bearing	-	\$ 76,717	\$ -	\$ -	\$ -	\$ 76,717
Variable interest rate short term debt (Note 19)	1.28	198,944	-	-	-	198,944
Variable interest rate of long-term debt (Note 21)	4.52	4,021	8,042	8,042	104,107	124,212
Fixed interest rate of long-term debt (Note 21)	6.30	16,798	33,596	33,596	247,976	331,966
Variable interest rate loan from SOT Suisse	3.28	1,279	2,558	34,721	-	38,558
		<u>\$ 297,759</u>	<u>\$ 44,196</u>	<u>\$ 76,359</u>	<u>\$ 352,083</u>	<u>\$ 770,397</u>

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
<b>December 31, 2016</b>					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	\$ (3,848)	\$ (54,361)	\$ (13,089)	\$ (146,824)	\$ (218,212)
	<u>\$ (3,848)</u>	<u>\$ (54,361)</u>	<u>\$ (13,089)</u>	<u>\$ (146,824)</u>	<u>\$ (218,212)</u>
<b>December 31, 2015</b>					
Net settled:					
- Interest rate swaps, exchange rate	\$ 2,062	\$ (27,032)	\$ (1,661)	\$ (106,759)	\$ (133,390)
	<u>\$ 2,062</u>	<u>\$ (27,032)</u>	<u>\$ (1,661)</u>	<u>\$ (106,759)</u>	<u>\$ (133,390)</u>
<b>December 31, 2014</b>					
Net settled:					
- Interest rate swaps, exchange rate	\$ (6,415)	\$ 7,258	\$ (3,748)	\$ 76,795	\$ 73,890
- Interest rate swaps	6,808	8,827	5,455	8,271	29,361
	<u>\$ 393</u>	<u>\$ 16,085</u>	<u>\$ 1,707</u>	<u>\$ 85,066</u>	<u>\$ 103,251</u>



## 24.11. Fair value of financial instruments

### 24.11.1. Fair value of financial instruments carried at amortized cost

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

	12/31/16		12/31/15		12/31/14	
	Carrying amount	Fair value	Carrying amount	Fair Value	Carrying amount	Fair value
<b>Financial assets</b>						
Financial lease receivables	\$ 957,466	\$ 995,096	\$ 14,510	\$ 57,125	\$ 14,621	\$ 47,640
<b>Financial liabilities</b>						
Financial liabilities held at amortized cost:						
- Loans from banks long-term	790,060	678,649	-	-	-	-
- Short-term debt (not traded in stock exchange)	493,571	487,252	88,507	90,035	195,089	193,119
- Long-term debt (traded in stock exchange)	249,744	232,812	299,925	289,955	350,638	343,584
- Loans from unconsolidated affiliates (not traded in stock exchange)	248,580	245,255	339,600	334,431	-	-
- Loans from unconsolidated affiliates (not traded in stock exchange)	3,080	3,080	38,460	37,704	38,460	37,207

### 24.11.2. Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair value of finance lease receivables is determined by calculating the present value of the minimum lease payments, including the contract extension period, using the discount rate that represents the Company's internal rate of return on capital investments.
- The Company determined the fair value of its long-term debt using prices quoted on recognized markets.
- For financial liabilities other than long-term debt, the Company determined the fair value of its financial liabilities carried at amortized cost by determining their present value as of each period end. The risk free interest rate used to discount to present value is adjusted to reflect the Company's own credit risk.
- The fair value of commodity and other derivative positions, which include interest rate swaps, are determined using market participant assumptions to price these derivatives. Market participants' assumptions include those about risk, and the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable.

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

Finance lease receivables. The fair value of finance lease receivables is estimated to be \$995.1 million \$57.1 million and \$47.6 million as of December 31, 2016, 2015 and 2014 respectively, using the risk-free interest rate adjusted to reflect the Company's own credit risk.

### 24.11.3. Fair value measurements recognized in the Consolidated Statements of Financial Position.

The Company applies recurring fair value measurements to certain assets and liabilities. "Fair value" is defined in subparagraph b of Note 2.2b.

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (no observable indicators).

The Company's assets and liabilities that were accounted for at fair value on a recurring basis as listed in the table below are classified as Level 1 and 2 within the fair value hierarchy:

	12/31/16	12/31/15	12/31/14
<b>Financial assets at FVTPL</b>			
Short-term investments (Level 1)	\$ 51,443	\$ 20,068	\$ 30,020
Derivative financial assets (Level 2)	\$ 8,040	\$ 1,926	\$ 4,709
<b>Financial liabilities at FVTPL</b>			
Derivative financial liabilities (Level 2)	\$ 226,161	\$ 133,056	\$ 107,257

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

#### 24.11.4. Commodities and other derivative positions

The Company enters into derivative financial instrument agreements to hedge the volatility of its income tax impact attributable to the fluctuation of the Mexican Peso relative to the U.S. Dollar. Certain monetary assets and liabilities of the Company are denominated in U.S. Dollars (functional currency); however, they are remeasured in Mexican Pesos throughout the year for Mexican tax purposes. The remeasurement of these assets and liabilities gives rise to foreign currency gains and losses for Mexican tax purposes and impacts the Mexican income tax liability.

On May 26, 2006, Sempra LNG entered into a natural gas sales and purchase agreement with RBS Sempra Commodities, LLP ("RBS"), an unconsolidated related party who later novated the contract to J.P. Morgan Ventures Energy Corp. ("JPM") in connection with a sale of assets to JPM, who in turn entered into another agreement with TDM to facilitate the sale and purchase transactions between Sempra LNG and TDM. The agreement includes the nomination and scheduling service of monthly natural gas quantities to be delivered to TDM by Sempra LNG from September 2009 through September 2014 with a notional amount of 70,000 million MMBtus per day. In the agreement between JPM and TDM, settlement is based on the Southern California Index ("SOCAL Index") price. In the agreement between JPM and Sempra LNG, settlement is based on the SOCAL Index price minus a discount. These agreements were recorded as derivatives at fair value.

ECO uses forward purchase agreements to manage the price risk associated with anticipated future purchases of natural gas on behalf of its customers: industrial, commercial and residential. As of December 31, 2013, the notional amounts of the outstanding positions with industrial customers were 6,000 MBtu which were realized through 2014. No derivative financial instrument is recognized on the residential customer's part since there is no contractual right or obligation with them for future gains or losses. This contract expired in 2014, therefore there is no notional for 2015.

The Company recognized the change in fair value and the settlements in the "cost of revenue" line item within the Consolidated Statements of Profit.

## 25. Income taxes

The Company is subject to ISR. The rate of current income is 30%.

### 25.1. Income taxes recognized in the consolidated statements of profit:

	12/31/16	12/31/15	12/31/14
<b>Current income tax:</b>			
ISR	\$ (100,036)	\$ (73,704)	\$ (69,897)
IETU-IMPAC	-	(226)	-
	<u>(100,036)</u>	<u>(73,930)</u>	<u>(69,897)</u>
<b>Deferred Income tax:</b>			
Deferred income tax	<u>(47,122)</u>	<u>(20,307)</u>	<u>(32,959)</u>
Total taxes in the consolidated statements of profit	<u>\$ (147,158)</u>	<u>\$ (94,237)</u>	<u>\$ (102,856)</u>

Income tax expense is reconciled with the profit before tax as follows:

	12/31/16	12/31/15	12/31/14
Profit before income taxes	\$ 971,639	\$ 206,904	\$ 212,434
Income tax expense calculated at 30%	(291,492)	(62,071)	(63,730)
Effects of foreign exchange rate	38,750	27,340	(2,618)
Non-deductible expenses	(2,456)	(1,368)	(952)
Effect of unused tax losses not recognized as deferred income tax asset	(23)	(22)	(58)
Effects of inflation adjustment	(8,889)	(2,930)	(3,273)
Effect of exchange rate and inflation on the tax bases of property, plant and equipment	(83,055)	(55,188)	(35,273)
Effect of the remeasurement of equity method investment	201,921	-	-
Non-taxable income	917	328	307
Effects of sale of subsidiary	-	-	3,365
Other	<u>(2,831)</u>	<u>(326)</u>	<u>(624)</u>
Expense for income taxes recognized in the statement of profit	<u>\$ (147,158)</u>	<u>\$ (94,237)</u>	<u>\$ (102,856)</u>

### 25.2. Income tax recognized directly in common stock and OCI

	12/31/16	12/31/15	12/31/14
Recognized directly in common stock:			
Issuance of ordinary shares under IPO	\$ 10,463	\$ 7,388	\$ 7,388
Recognized directly in OCI:			
Tax on financial instruments valuation held for hedging purposes	<u>(5,393)</u>	<u>4,127</u>	<u>6,528</u>
Total of income tax recognized directly in common stock and OCI	<u>\$ 5,070</u>	<u>\$ 11,515</u>	<u>\$ 13,916</u>



### 25.3. Deferred income tax assets and liabilities balances

The following is the analysis of deferred income tax assets (liabilities) presented in the Consolidated Statements of Financial Position:

	12/31/16	12/31/15	12/31/14
<b>Deferred income tax assets:</b>			
Benefit of tax-loss carry forwards for recovering income taxes paid in previous years	\$ 251,621	\$ 132,973	\$ 83,931
Accrued expenses and provisions	28,940	17,182	24,838
Effect of business combination IEnova Gasoductos México	1,550	1,648	1,746
Employee benefits	4,835	4,245	4,106
Asset from dividends not distributed from net income tax account ("CUFIN", by its initials in Spanish)	-	1,277	14,592
Inventories	3,861	1,839	3,733
Allowance for doubtful accounts	123	171	214
Deferred income tax assets for issuance of ordinary shares under IPO and follow on	17,851	7,388	7,388
Deferred income tax asset regarding financial instruments valuation held for hedging purposes	19,899	8,042	6,061
Others	(1,720)	(631)	638
Total deferred income tax assets	326,960	174,134	147,247
Deconsolidation effect (a)	(250,961)	(95,169)	(61,489)
Deferred income tax asset	\$ 75,999	\$ 78,965	\$ 85,758
<b>Deferred income tax liabilities:</b>			
Property, plant and equipment	\$ (340,451)	\$ (340,549)	\$ (277,756)
Finance leases	(287,240)	(4,353)	(4,386)
Effect of fair value assets and intangible of Ventika	(88,355)	-	-
Prepaid expenses	(11,263)	(4,629)	(5,896)
Other	(13,259)	(6,932)	(5,989)
Total deferred income tax liabilities	(740,568)	(356,463)	(294,027)
Deconsolidation effect (a)	250,961	95,169	61,489
Deferred income tax liabilities	\$ (489,607)	\$ (261,294)	\$ (232,538)

- (a) The effects of tax deconsolidation in deferred income tax are presented to reflect that the Company no longer has the right to offset income taxes of its subsidiaries and, therefore, they are presented separately in the Consolidated Statement of Financial Position as of December 31, 2016, 2015 and 2014.

### 25.4. Deferred income tax in the Consolidated Statements of Financial Position

The following is an analysis of the deferred tax assets (liabilities) included in the Consolidated Statements of Financial Position:

	12/31/16	12/31/15	12/31/14
Assets	\$ 75,999	\$ 78,965	\$ 85,758
Liabilities	(489,607)	(261,294)	(232,538)
	\$ (413,608)	\$ (182,329)	\$ (146,780)

Deferred tax assets have been recognized for tax-loss carryforwards and the IMPAC paid which provide for future tax benefits in the form of future deductible amounts and tax credits, respectively, and can be realized subject to compliance with certain requirements. Expiration dates and restated amounts as of December 31, 2016, are as follows:

Years	Tax-Loss Carryforwards	IMPAC Recoverable
2017	\$ 343	\$ 36
2018	1,463	36
2019	1,426	170
2020	1,387	170
2021	10,974	170
2022	4,105	170
2023	45,400	170
2024	175,350	170
2025	286,966	170
2026	311,322	170
Thereafter	-	265
	\$ 838,736	\$ 1,697

In determining the deferred income tax as described above, the effects of tax-loss carryforwards and IMPAC paid recoverable were included for \$251,620 and \$1,697, respectively.

### 25.5. Current tax receivable and payable

	12/31/16	12/31/15	12/31/14
<b>Current tax assets:</b>			
ISR receivable	\$ 6,390	\$ 16,226	\$ 34,297
<b>Current tax liabilities:</b>			
ISR payable	\$ (13,322)	\$ (14,095)	\$ (18,022)

### 26. Stockholders' equity

	12/31/16	12/31/15	12/31/14
Common stock	\$ 963,272	\$ 762,949	\$ 762,949
Additional paid-in equity	2,351,801	973,953	973,953
	\$ 3,315,073	\$ 1,736,902	\$ 1,736,902

**26.1. Issued member's equity is comprised as follows:**

Company stockholder's	Number of social parts	For the year ended at December 31, 2015, 2014 (Mexican Pesos)			Total Social parts
		Fixed social parts	Variable social parts	Total	
Semco Holdco, S. de R.L. de C. V.	935,913,312	50,000	9,359,083,120	9,359,133,120	\$ 618,752
Private investors	<u>218,110,500</u>	<u>-</u>	<u>2,181,105,008</u>	<u>2,181,105,008</u>	<u>144,197</u>
	<u>1,154,023,812</u>	<u>50,000</u>	<u>11,540,188,128</u>	<u>11,540,238,128</u>	<u>\$ 762,949</u>

Pursuant to a resolution of the general ordinary members' meeting on February 15, 2013, member's equity increase was approved at \$1.00 Peso per share, which was subscribed and paid by BVXI an unconsolidated affiliate, increasing the value of its social part; also, Company's name change from Sempra México, S. de R. L. de C. V. to "Sociedad Anónima de Capital Variable" ("S. A. de C. V.", Public limited Company) was approved. As a result of such resolution, the change of social parts for shares was performed; as of February 15, 2013, the distribution of such shares was as follows:

Shareholders name	Shares		Total
	Class I	Class II	
Sempra Energy Holdings XI, B.V.	4,990	935,908,312	935,913,302
Sempra Energy Holdings IX, B.V.	<u>10</u>	<u>-</u>	<u>10</u>
	<u>5,000</u>	<u>935,908,312</u>	<u>935,913,312</u>

Shareholders' equity consists of nominative shares with no-par value. The theoretical value per share is \$10.00 Pesos. The Class I and II represent the fixed and the variable part of shareholders' equity, respectively. Variable capital may be increased without limitation.

On March 6, 2013, BV11 subscribed for a capital increase in Semco (a subsidiary of Sempra Energy), agreeing to pay for such capital increase through a contribution of IEnova's shares in an amount to be determined based on the price per share in the Global Offering, and subject to the shares being duly registered with the Mexican National Securities Registry ("RNV", by its initials in Spanish). On March 21, 2013, the effective date of the Global Offering and registration of IEnova's shares with the RNV, Semco acquired 100-percent of the Shares of BV11 pursuant to the above described terms; therefore, beginning on this date, Semco was the new Parent Company of IEnova.

On March 21, 2013, the Company carried out a Global Offering of shares. Through such Global Offering, the Company issued 189,661,305 shares at a placement price of \$34.00 Pesos per share; such offering included an over-allotment option up to 28,449,196 shares. The amount of this Global Offering was \$520,707 (\$6,448.4 million Pesos).

In connection with the Global Offering, on March 27, 2013, the underwriters in México and abroad exercised the over-allotment option. The amount of over-allotment was \$78,106 (\$967 million Pesos), related to 28,449,196 shares at the placement price of \$34.00 Pesos per share.

On September 14, 2015, the Ordinary and Extraordinary Shareholders' Meeting approved the proposal of an equity offering through a combined global offering which consists of a public offering in Mexico to the general public and a concurrent international offering as defined by Rule 144A and in Regulation S, under the United States Securities Act of 1933.

In addition an equity increase was approved for up to \$3.3 billion Mexican Pesos in Ordinary and Extraordinary Shareholders' Meetings; of which 330 million ordinary shares were issued. As of December 31, 2015, such shares have not been subscribed nor paid, and therefore no impacts have been reflected in the Consolidated Financial Statements.

**26.2. Global Offering**

On October 13, 2016, the Company carried out a Global Offering. The Company issued 380,000,000 shares of common stock at \$80.0 Mexican Pesos per share. After the Global Offering, the additional and over-allotment option was exercised, the free float represented approximately 33.57 percent of IEnova's outstanding ownership interest.

Total capital raised, net of expense, was approximately \$1.56 billion U. S. Dollars. As a result of the Global Offering, the Company raised \$30,400 million Mexican pesos, net of issuance costs for \$459.3 million Mexican Pesos (\$34.8 million U. S. Dollars). Subsequent to the Company's Global Offering, subscribed and paid common stock of IEnova is represented by a total of 1,534,023,812 shares.

Company stockholder's	Number of social parts	For the year ended December 31, 2016 (Mexican Pesos)			Total Social parts
		Fixed social parts	Variable social parts	Total	
Semco Holdco, S. de R.L. de C. V.	1,019,038,312	50,000	16,009,083,120	16,009,133,120	\$ 751,825
Private investors	<u>514,985,500</u>	<u>-</u>	<u>25,931,105,000</u>	<u>25,931,105,000</u>	<u>211,447</u>
	<u>1,534,023,812</u>	<u>50,000</u>	<u>41,940,188,120</u>	<u>41,940,238,120</u>	<u>\$ 963,272</u>

**27. Declared dividends**

During 2016, 2015 and 2014, pursuant to the resolution of Extraordinary Stockholders' Meetings, payments of dividends in cash were approved, to be paid from retained CUFIN balances. Under Mexican tax regulation, dividends paid from CUFIN balances are not taxed, dividends were declared and paid, for the following amounts:

Meeting date	Amount
August 9, 2016 (*)	\$ 140,000
July 28, 2015	\$ 170,000
July 22, 2014	\$ 164,000

(\*) Dividends were paid on August 9, 2016.

**27.1. Dividends per share**

	Cents per share for year ended		
	12/31/16	12/31/15	12/31/14
IEnova	\$ 0.11	\$ 0.15	\$ 0.14



## 28. Segment information

### 28.1. Products and services from which reportable segments derive their revenues

Information reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Company's reportable segments under IFRS 8, *Operating Segments*, are described and presented in Note 1.3.

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

### 28.2. Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment:

	12/31/16	Segment revenue 12/31/15	12/31/14
Gas:			
Revenues from customers	\$ 610,329	\$ 425,618	\$ 507,312
Revenues from unconsolidated affiliates	101,998	100,821	90,871
Intersegment sales	182,542	339,850	301,870
Power:			
Revenues from customers	2,930	-	-
Corporate:			
Allocation of professional services with unconsolidated affiliates	2,637	1,766	2,142
Intersegment professional services	29,484	35,527	27,468
	929,920	903,582	929,663
Intersegment adjustment and eliminations	(212,026)	(290,541)	(190,833)
Total segment revenues	\$ 717,894	\$ 613,041	\$ 738,830
	12/31/16	Segment profit 12/31/15	12/31/14
Gas	\$ 919,219	\$ 185,313	\$ 167,331
Power *	(111,749)	(10,626)	22,400
Corporate	(52,480)	(34,498)	(52,797)
Total segment profit	\$ 754,990	\$ 140,189	\$ 136,934

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 2. Segment profit represents the profit earned by each segment. This is the measure reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance.

### 28.3. Assets and liabilities by segment

	12/31/16	12/31/15	12/31/14
Assets by segment:			
Gas	\$ 5,716,175	\$ 2,916,917	\$ 2,684,488
Power	1,241,689	382,763	417,601
Corporate	169,084	207,402	278,129
Consolidated total assets	\$ 7,126,948	\$ 3,507,082	\$ 3,380,218
Liabilities by segment:			
Gas	\$ 983,424	\$ 346,106	\$ 334,572
Power	641,479	66,493	76,076
Corporate	1,151,734	914,619	720,282
Consolidated total liabilities	\$ 2,776,637	\$ 1,327,218	\$ 1,130,930

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

- All assets are allocated to reportable segments. Goodwill is allocated to reportable segments as described in Note 13, and
- All liabilities are allocated to reportable segments.

### 28.4. Other information by segment

	Property, plant and equipment			Accumulated depreciation		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Gas	\$ 3,354,683	\$ 2,687,691	\$ 2,414,223	\$ (424,639)	\$ (370,690)	\$ (326,875)
Power	677,440	450,665	447,038	(1,807)	(180,461)	(165,795)
Corporate	16,121	15,048	14,165	(7,783)	(6,413)	(5,017)
	\$ 4,048,314	\$ 3,153,404	\$ 2,875,426	\$ (434,229)	\$ (557,564)	\$ (497,686)
	Depreciation and amortization			Additions to property, plant and equipment		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Gas	\$ 60,703	\$ 50,909	\$ 45,403	\$ 692,853	\$ 308,138	\$ 291,424
Power	2,134	45	19	673,808	6,436	70,611
Corporate	1,547	1,516	1,306	1,376	1,072	1,008
	\$ 64,384	\$ 52,470	\$ 46,728	\$ 1,368,037	\$ 315,646	\$ 363,043
	Interest income			Finance (cost) income		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Gas	\$ 959	\$ 562	\$ 529	\$ 23,144	\$ 22,856	\$ 30,322
Power	1,151	1,451	705	(1,286)	219	1,418
Corporate	4,159	4,688	1,953	(42,694)	(32,934)	(30,361)
	\$ 6,269	\$ 6,701	\$ 3,187	\$ (20,836)	\$ (9,859)	\$ 1,379
	Share of profits (loss) of joint ventures			Income tax (expense) benefit		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Gas	\$ 40,284	\$ 41,485	\$ 24,769	\$ (132,952)	\$ (99,988)	\$ (87,581)
Power	2,557	834	(1,423)	1,077	2,002	(505)
Corporate	-	-	-	(15,283)	3,749	(14,770)
	\$ 42,841	\$ 42,319	\$ 23,346	\$ (147,158)	\$ (94,237)	\$ (102,856)

## 28.5. Revenue by type of product or services

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

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Sale of natural gas	\$ 199,126	\$ 224,143	\$ 368,452
Other operating revenues (a)	157,515	118,315	110,389
Transportation	171,459	95,520	56,915
Storage and regasification capacity	97,168	93,652	93,744
Natural gas distribution	89,722	81,411	109,330
Power generation	2,904	-	-
	<u>\$ 717,894</u>	<u>\$ 613,041</u>	<u>\$ 738,830</u>

### Other operating revenues

- (a) IEnova Marketing received payments from SLNGI and SLNGIH related to the losses and obligations incurred in the amount of \$102.0 million, \$101.0 million and \$90.8 million for the year ended December 31, 2016, 2015 and 2014, respectively; such balances are presented within the revenues line item in the Consolidated Statements of Profit.

## 29. Interest income

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Interest income:			
Bank investments	\$ 1,071	\$ 610	\$ 648
Unconsolidated affiliates	<u>5,198</u>	<u>6,091</u>	<u>2,539</u>
	<u>\$ 6,269</u>	<u>\$ 6,701</u>	<u>\$ 3,187</u>

The following is an analysis of interest income by category of asset.

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Held-to-maturity investments	\$ 1,071	\$ 610	\$ 648
Loans and receivables (including cash and bank balances)	<u>5,198</u>	<u>6,091</u>	<u>2,539</u>
	<u>\$ 6,269</u>	<u>\$ 6,701</u>	<u>\$ 3,187</u>

## 30. Operating, administrative and other expenses

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Employee benefits expenses	\$ 50,957	\$ 42,904	\$ 30,856
Purchased materials	5,936	7,484	6,360
Purchased services	38,565	25,195	20,630
Outside services and others	<u>9,296</u>	<u>6,274</u>	<u>20,812</u>
	<u>\$ 104,754</u>	<u>\$ 81,857</u>	<u>\$ 78,658</u>

Outside services and others include charges related to leases of land and buildings with lease terms between five and ten years. Operating lease contracts greater than five years includes review periods of five years to rent.

The Company does not have an option to purchase the leased land at the end of the leasing periods.

## 31. Other gains and (losses)

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Net foreign exchange losses	\$ 6,295	\$ (6,709)	\$ (5,360)
Gain on sale of equity interest in subsidiary	-	-	18,735
Net (loss) arising on financial liabilities classified as held for trading (a) in 2015 and 2014, respectively	(3,477)	(5,663)	(12,424)
Other (losses) gains	<u>(650)</u>	<u>946</u>	<u>3,108</u>
	<u>\$ 2,168</u>	<u>\$ (11,426)</u>	<u>\$ 4,059</u>

- (a) The amount represents a change in fair value arising from the interest-rate swap (see Note 23) and the related settlements.

## 32. Finance (costs) income, net

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Interest on loans from unconsolidated affiliates	\$ (17,268)	\$ (3,215)	\$ (151)
Decommissioning liabilities accretion expense	(1,431)	(1,354)	(1,099)
Interest of long-term loan	(13,149)	(18,367)	(16,363)
Capitalized interest (a)	14,876	14,881	19,575
Other finance costs	<u>(3,864)</u>	<u>(1,804)</u>	<u>(583)</u>
	<u>\$ (20,836)</u>	<u>\$ (9,859)</u>	<u>\$ 1,379</u>

- (a) Please refer to Note 14, for the capitalized interest on qualified assets.

## 33. Depreciation and amortization

	12/31/16 (Note 12)	12/31/15 (Note 12)	12/31/14 (Note 12)
Depreciation of property, plant and equipment	\$ 63,269	\$ 51,680	\$ 46,184
Amortization of other assets	<u>1,115</u>	<u>790</u>	<u>544</u>
Total depreciation and amortization expense	<u>\$ 64,384</u>	<u>\$ 52,470</u>	<u>\$ 46,728</u>

## 34. Basic and diluted earnings per share from continued and discontinuing operation

	12/31/16	12/31/15	12/31/14
From continuing operation			
Basic and diluted earnings per share in U.S. Dollar	<u>\$ 0.70</u>	<u>\$ 0.13</u>	<u>\$ 0.12</u>
From continuing and discontinued operation			
Basic and diluted earnings per share in U.S. Dollar	<u>\$ 0.61</u>	<u>\$ 0.12</u>	<u>\$ 0.12</u>



### 34.1. Earnings used in the calculation of basic and diluted earnings per share

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

	12/31/16	12/31/15	12/31/14
Earnings from continuing operations used in the calculation of basic and diluted earnings per share	\$ 867,322	\$ 154,986	\$ 132,924
Earnings from continuing and discontinued operations used in the calculation of basic and diluted earnings per share	\$ 754,990	\$ 140,189	\$ 136,934
Weighted average number of shares for the purposes of basic and diluted earnings per share	1,235,758,229	1,154,023,812	1,154,023,812

The Company does not have potentially dilutive shares.

## 35. Commitments

### 35.1. Sale commitments

- GRO has entered into firm transportation service agreements ("FTSAs") with eight customers. Under the FTSAs, the Company is committed to provide firm natural gas transportation service up to certain daily quantities of natural gas, defined as Maximum Daily Quantities ("MDQ") measured in dekatherms per day ("Dth/d"). The FTSAs establish a transportation service rate which can be a conventional rate or a regulated rate. Such rates are applied to customers' reserved daily transportation capacity. Conventional rates typically remain fixed during the term of the contract. The regulated rates are adjusted annually for inflation and other factors per regulations and the CRE authorization. The range of effective periods and the agreed-upon MDQ for each agreement described above are from five to 25 years and from 800 to 1,307,000 Dth/d, respectively.
- 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.
- ECA has a contract to sell 50 percent of the LNG Terminal's capacity to a third party for 20 years commencing in May 2008. As of April 2009, the customer assigned a portion of its contracted capacity to another independent third party.
- ECA built a nitrogen facility to provide nitrogen injection services to agreed storage capacity parties. Agreement terms were embedded into the LNG Terminal's FTSAs with same period term of 20 year.
- GAP entered into a 25 year capacity contract with CFE corresponding to segment Sásabe Guaymas, which started operations in December 2014 and has a capacity of 793,100 Dth/d.

### 35.2. Purchase commitments

- TDM signed a five year contract for the sale of natural gas with RBS Semptra Energy Trading México, S. de R. L. de C. V., related party, starting on September 1, 2009. As of May 1, 2011, the contract was assigned JPM. TDM is obligated to buy and JPM is obligated to supply a daily volume, not less than the minimum amount (70,000 MBtu per day) and not more than the maximum amount (105,000 MBtu per day).

During 2014, payments under the contract were \$119.6 million. The contract ended in September 2014.

- Through an agreement which assigned rights and obligations from Rumorosa Wind Energy, S. de R. L. de C. V. to ESJ, ESJ has acquired the rights to a 30-year land lease agreement with the Ejido Jacume to use the land for generating and transmitting electricity using wind turbines. The agreement can be extended for additional 30-years, and includes a four year grace period starting with the beginning of excavation for turbine foundations. If commercial generation of wind power is successfully developed, ESJ will pay a leasing fee to Ejido Jacume equal to 4 percent of gross revenues from the sale of electricity for the duration of the agreement.
- ESJ, Ejido Cordillera La Molina and Parque Eólico La Rumorosa, S. A. de C. V. entered into a land lease agreement under which ESJ acquired rights to use land for generating and transmitting electricity using wind turbines. ESJ is obligated to make quarterly payments of \$30.0 during the first five years or until the start of commercial operations. In addition, \$1,500.0 is due at the beginning of excavation for turbine foundations for the first block with a capacity not greater than 250 MW, and \$300.0 is due at the beginning of excavation for turbine foundations for each additional block of 100 MW. If commercial generation of wind power is successfully developed, ESJ will also pay a leasing fee equal to 3 percent of gross revenues from the sale of electricity for the first 20 years, increasing to 4 percent thereafter. Company's management believes all costs and expenses related to this agreement have been properly recognized within administrative and other expenses in these Consolidated Financial Statements.

During 2016, 2015 and 2014, payments under the agreement were \$120.0, \$1,158.0 and \$144.0 respectively. Future contractual cash payments are as follows:

Year	Amounts
2017	\$ 120
2018	120
2019	120
Thereafter	2,160
	<u>\$ 2,520</u>

- ESJH and Ejido de Sierra Juarez entered into a land lease agreement under which ESJH acquired rights to use land for generating and transmitting electricity using wind turbines. ESJH is obligated to make quarterly payments of \$74.0 during the first 10 years or until the start of commercial operations. In addition, \$294.0 is due at the beginning of excavation for turbine foundations for the first block with a capacity not greater than 100 MW, and \$71.0 is due at the beginning of excavation for turbine foundations for each additional block of 100 MW. If commercial generation of wind power is successfully developed, ESJH will also pay a leasing fee equal to the greater of \$75.0 or 3.5 percent of gross revenues from the sale of electricity for the remainder of the term.

During 2016, 2015 and 2014, payments under the agreements were \$308.0, \$283.0 and \$294.0 respectively. Future contractual cash payments are as follows:

Years	Amounts
2017	\$ 294
2018	294
2019	294
Thereafter	<u>294</u>
	<u>\$ 1,176</u>

- e. The Company leases the building space of its administrative offices in the cities of Tijuana, Mexicali, Chihuahua, Durango, and México City. During 2016, 2015 and 2014, the rent expense amounted to \$4,192.0, \$2,254.0 and \$2,477.0, respectively.

The leases expire in 2016 through 2021 and establish the following future contractual payments:

Years	Amounts
2017	\$ 4,460
2018	2,852
Thereafter	<u>1,816</u>
	<u>\$ 9,128</u>

- f. During 2003, TDM entered into a long term services agreement ("LTSA") with a third party, which covers certain periodic maintenance, including replacement parts for power generation turbines. The term of the agreement is based on turbine usage, which TDM estimates to be approximately 15 years.

Payments under the agreement consist of a fixed fee of \$24.0 per month, plus a variable escalation percentage and a variable fee based upon unit run-hours and starts.

The fixed monthly fee payments are expensed as incurred. The variable payments are classified as prepayments on the statements of financial position and are capitalized as property, plant and equipment if they relate to the replacement of major components, or expensed when such payments occur. While some services are provided ratably throughout the year, the primary cost driver is planned outages at the facility. Variable payments are subject to fluctuations based on the timing and scope of the services being provided.

During 2016, 2015 and 2014 fixed payments, under the LTSA, were \$497.0, \$299.0 and \$397.0, respectively; variable payments under such LTSA were \$6,101.0, \$3,838.0 and \$5,168.0, respectively.

Future contractual cash payments under the LTSA are as follows:

Years	Amounts
2017	\$ 397
2018	397
2019	397
Thereafter	<u>794</u>
	<u>\$ 1,985</u>

- g. ECA entered into a service agreement with Turbinas Solar, S. A. de C. V. ("Turbinas Solar") which provides extended service and maintenance for five gas turbines. As of April, 2014 Turbinas Solar assigned this agreement to Servicios de Turbinas Solar, S. A. de C. V. The agreement establishes two main types of services: a monthly fee covers operational support and extended product warranty for \$124,401.0 and a variable cost based on turbine usage, expensed as incurred, for major turbine maintenance, that will be capitalized and amortized over a five-year period based on its estimated useful life. The term of the agreement is 60 months starting from the date of first beneficial use. During 2013, the Company renegotiated the agreement-terms until 2018.

During 2016, 2015 and 2014, payments under the agreement were \$3,599.0, \$1,826.0 and \$1,560.0, respectively. Future contractual cash payments are as follows:

Years	Amounts
2017	\$ 4,800
2018	<u>441</u>
	<u>\$ 5,241</u>

- h. ECA entered into various technical service and maintenance agreements with third parties. During 2016, 2015 and 2014, payments under such agreements were \$11,578.0, \$8,965.0 and \$5,237.0, respectively. Future contractual cash payments of such commitments are as follows.

Years	Amounts
2017	\$ 5,660
2018	1,808
2019	1,200
Thereafter	<u>19,200</u>
	<u>\$ 27,868</u>

- i. On January 1, 2013 (with effective date on January 1, 2012), SGEN and TDM entered into an schedule coordination, energy management and related services agreement, with term of 5 years (with possibility to extend the term one more year), for which TDM will continue to deliver all of its power output directly to the CAISO and SGEN provides marketing, scheduling, and dispatch services for TDM, among others. On December 1<sup>st</sup>, 2016 this contract was assigned to Sempra Gas & Power Managment LLC.

During 2016, 2015 and 2014, payments under the agreement were \$5,529.0 and \$4,707.0 and \$5,004.0 respectively. Future contractual cash payments are as follows:

Years	Amounts
2017	\$ 2,296
2018	<u>2,021</u>
	<u>\$ 4,317</u>



- j. *International public tender LPI-001/12 and LPI-002/2012 convened by the CFE to enter into contracts for the provision of gas transmission services.*

In October 2012, GAP was awarded by the CFE with two contracts to build and operate an approximately 835 Km (500 miles) natural gas pipeline network connecting the northwestern Mexican states of Sonora and Sinaloa ("Northwest gas pipeline", also known as the "Sonora Pipeline") to the U.S. interstate pipeline. The Northwest gas pipeline will comprised of two segments; the first one is for an approximate length of 505 Km, 36-inch diameter pipeline with 770 Mmcfd of transportation capacity; and the second one, is for an approximate length of 330 Km, 30-inch pipeline with 510 Mmcfd of transportation capacity. The estimated price per Mmcfd is approximately \$250.0. The Company estimates the total cost of the Northwest gas pipeline will be \$1.0 billion, approximately, and be completed by August 2016. The capacity of the Northwest gas pipeline is fully contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

In order to ensure compliance, during the construction stage and up to the scheduled date of commercial operation of the Northwest gas pipeline, GAP issued 2 irrevocable standby credit letters, for \$90.0 million and \$65.0 million with CFE as beneficiary, with term of one year, which can be extended automatically for annual periods until November 30, 2039 and until October 31, 2041, respectively.

- k. In order to carry out the construction of the Sonora pipeline project, the Company has entered into gas supply contracts with several suppliers:
- On November 20, 2012, GAP signed a contract with Stupp Corporation (a division of Stupp Bros., Inc.); the work took place in several stages with a completion date on August, 2015. The contract value was \$155.3 million; in this transaction Sempra Energy was the guarantor to Stupp Corporation, for the total value of the contract, less the amounts paid by GAP.
  - On February 1, 2013, GAP held a contract with Tuberías Procarsa, S. A. de C. V.; the work took place in several stages with a completion date in first quarter of 2016. The supply contract value was \$53.9 million and as a guarantee of compliance, GAP issued an irrevocable standby letter of credit for \$28.5 million regarding the 47 percent in advance of the contract plus VAT, with a maturity date of May 14, 2013.
- l. During November and December, 2012, the Company entered into trust agreements with the Governments of the Mexican States of Sonora and Sinaloa, for a total of \$87.8 million, that were paid in full by the Company. These contracts were entered into in order to comply with the bidding rules of the CFE's tender for the construction and operation of Northwest gas pipeline. The trust assets will cover the costs and expenses of real estate rights, permits and studies required for the construction and operation of the Northwest gas pipeline.
- m. On January 1, 2013, the Company entered into an Information Technology Services Agreement with Sempra U.S. Gas & Power (a related party in U.S.). Pursuant to this agreement, Sempra U.S. Gas & Power will provide certain software and information technology services, including software, support and security services. The Company pays an approximate annual rate of \$6.8 million. This agreement has an initial term of five years.
- n. On February 28, 2013, the Company entered into a Management, Technical and Advisory Services Agreement with Sempra International (a related party in U.S.); pursuant to which Sempra International (directly or through affiliates) will provide with certain support services. The Company paid \$8.3 million, \$5.8 million, \$7.3 million for 2016, 2015 and 2014, respectively.

- o. ECO entered into purchase agreement of natural gas contract with British Petroleum from February 1, 2015 to January 31, 2017 for 14,000 MBtu daily. In 2016, the contract changed from British Petroleum to Ienova Marketing (consolidated affiliate).

- p. *Sonora Pipeline.* According to the turnkey contract with GDI SICIM Pipeline (GSP) for the construction of the Sonora project, GSP is committed to complete the construction works according to the technical specifications indicated in the tender and the natural gas transportation service contracts between GAP and CFE, complying with GAP's schedule and construction plan; with proven and fully operating facilities. The project construction materials will be supplied by GAP; also, GAP will be responsible for obtaining the rights of ways required for the construction and operation of the gas pipeline network.

The construction of the project will include two segments; the first one will have a length of approximately 505 Km, diameter of 36 inches a transportation capacity of 770 Mmcfd; and the second one, will have a length of approximately 330 Km, diameter of 30 inches and a transportation capacity of 510 Mmcfd. The construction of the first segment started on the execution of the contract and was concluded in the fourth quarter of 2014, approximately; the second segment commenced in September 2013 and was concluded June, 2015. The construction of the second segment will conclude in the second quarter of 2017, approximately.

The contract price for the construction of the second segment will be \$228.0 million until termination.

- q. *Ojinaga - El Encino.* In December 2014, GAP entered into the Ojinaga pipeline natural gas transportation services agreement with the CFE which has a term of 25 years. The CFE contracted 100 percent of the transportation capacity of the Ojinaga pipeline, equal to 1.4 billion CFPD.

- In order to ensure compliance, during the construction stage and up to the scheduled date of commercial operation of the Ojinaga - El Encino pipeline, GAP issued an irrevocable standby credit letter, for \$90.0 million with CFE as beneficiary, with term of one year, which can be extended automatically for annual periods until March 29, 2042.
- During March 2015, the Company entered into trust agreements with the Government of the Mexican State of Chihuahua, for a total of \$7.9 million of which the Company paid advances of \$5.8 and 4.6 million, respectively. These contracts were entered into in order to comply with the bidding rules of the CFE's tender for the construction and operation of gas pipeline.
- On February 9, 2015, GAP held a contract with Tuberías Procarsa, S. A. de C. V. The supply contract value is \$62.0 million.
- According to the turnkey contract with Bonatti S.A.P. for the construction of the Ojinaga - El Encino project, Bonatti S.A.P. is committed to complete the construction works according to the technical specifications indicated in the tender and the natural gas transportation service contracts between GAP and CFE, complying with GAP's schedule and construction plan; with proven and fully operating facilities. The project construction materials will be supplied by GAP; also, GAP will be responsible for obtaining the rights of ways required for the construction and operation of the gas pipeline network. The contract price for the construction will be \$101.0 million until termination.



- r. *San Isidro - Samalayuca*. During 2015, GAP, was declared winner of the CFE tender for a Natural Gas Transportation Contract through a pipeline from San Isidro to Samalayuca in the State of Chihuahua. Such project consists of a header facility with a capacity of 3 CFPD and a 23 Km pipeline.
- In order to ensure compliance, during the construction stage and up to the scheduled date of commercial operation of the San Isidro - Samalayuca pipeline, GAP issued an irrevocable standby credit letter, for \$20.0 million with CFE as beneficiary, with term of one year, which can be extended automatically for annual periods until January 30, 2042.
  - During August, 2015, the Company entered into trust agreements with the Governments of the Mexican State of Chihuahua, for a total of \$2.7 million, for such trust agreement, and for which the Company paid advances of \$5.5 million and \$0.2 million in 2016 and 2015, respectively. These contracts were entered into in order to comply with the bidding rules of the CFE's tender for the construction and operation of gas pipeline.
  - During August 2015, the Company entered into a turnkey contract for the solar turbines of the project. The value is \$32.0 million until termination.
- s. On January 27, 2016, GAP entered into a contract with Daewoo International Mexico S.A. de C.V., for pipeline supply. The contract price is \$21.5 million, divided in \$12.5 million for the El Encino project and \$9.0 million for the San Isidro - Samalayuca project.
- t. On March 18, 2016, GAP entered into a construction contract for a station to measure, regulate and control with Constructora Makro, S.A. de C.V.. The contract price is \$22 million for the San Isidro - Samalayuca project.
- u. On May 19, 2016, GAP entered into a construction contract with Grupo Desarrollo Infraestructura, S.A. de C.V., for the San Isidro - Samalayuca project. The contract price is \$9.0 million.
- v. *ESJ*. According to Wind Turbine Supply and Warranty Agreement, for developing the first phase of the Energía Sierra Juárez, project, the contracting parties agreed: (i) ESJ, ESJ Turbinas and ESJ Turbinas II will acquire from Vestas, jointly, 47 wind turbines, as well as the option to acquire 5 more turbines, (ii) IEnova will act as the guarantor of the obligations of ESJ Turbinas and ESJ Turbinas II under the supply contract, and (iii) Vestas will provide maintenance services to wind turbines to ESJ.
- The supply contract price is \$159.0 million.
- w. On July 10, 2013, regarding the development of first phase of the Energía Sierra Juárez project, ESJ, ESJ Turbinas, ESJ Turbinas II and Anemo Energy, S. de R. L. de C. V. ("Anemo Energy") entered into an Engineering, Procurement and Construction Agreement. Under the terms of the agreement, Anemo Energy will provide technical assistance, engineering services, construction management for the completion of a wind-powered electric generating facility with a maximum capacity from approximately 156 to 174 MW.
- The contract price is \$73.7 million.
- x. On August 27, 2015 IEnova Marketing entered into a contract with SGEN, for providing natural gas with maximum contract quantity of 8,100 MBtu and a minimum corresponding to 50 percent of the maximum quantity, the monthly price will be the quotient resulting from the monthly index divided by 1 minus the charge for fuel, transportation and \$0.035/MBtu from September 1, 2015 until August 31, 2018.

- y. On August 20, 2015 IEnova Marketing entered into a contract with Igasamex Bajío S. de R.L. de C.V., for providing natural gas with maximum contract quantity of 8,100 MBtu and a minimum corresponding to 50 percent of the maximum quantity, the monthly price will be the quotient resulting from the monthly index divided by 1 minus the charge for fuel, transportation and \$0.07/MBtu from September 1, 2015 until August 31, 2018.
- z. On July 1, 2015 IEnova Marketing entered into a contract with SLNGIH, to transfer 65 percent of profits and losses under the deed of indemnity until August 30, 2029.

*Other commitments-*

- aa. As mentioned in Note 10.1, the Company made capital increase contributions to TAG Holding.
- bb. As mentioned in Note 10.2, the Company has signed a bank loan, which is guaranteed by the ESJ project.

New commitments from business combinations, mentioned in Note 11, are shown as follows:

*GdC's commitments-*

- a. On February 15, 2001, GdC entered with CFE a contract to increase the maximum daily capacity of natural gas transportation to Chihuahua, by adding a natural gas compression system. The contract term is 20 years, commencing on November 12, 2001 (date of commencement of commercial operation of the station), with the right of renewal for additional five years. The maximum daily capacity covered by this contract is 60 million cubic feet per day.
- b. On October 22, 2014, GdC entered into a natural gas transportation services contract, under the TF-1 firm transport service scheme with CFE for a firm base reserved capacity of 100 million cubic feet per day with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.
- c. On October 22, 2014, GdC entered into an agreement to provide natural gas transmission service under the TI-1 interruptible transport service scheme to CFE for an interruptible capacity of 72 million cubic feet per day with a regulated rate. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.
- d. On October 31, 2014, GdC entered into a natural gas transportation services contract, under the TI-2 interruptible transport service scheme with CFE for an interruptible capacity of 50 million cubic feet per day with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.
- e. On September 28, 2016, GdC entered into a fifth natural gas transportation services amending agreement, under the TF-1 firm transport service scheme with PGPB signed on December 11, 2009, for a firm base reserved capacity of 40 million cubic feet per day with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.
- f. On September 28, 2016, GdC entered into a fifth natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with PGPB signed on December 11, 2009 for an interruptible capacity of 80 million cubic feet per day with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.



- g. On September 28, 2016, GdC entered into a fifth natural gas transportation services amending agreement, under the TI-2 interruptible transport service scheme with PGPB signed on December 11, 2009 for a interruptible capacity of 80 million cubic feet per day with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year periods. The agreement is currently in effect with Pemex TRI.
- h. On December 16, 2014, GdC entered into a second natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with Energía Chihuahua signed on December 21, 2012 for an interruptible capacity of 80 million cubic feet per day. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.
- i. GDT executed a natural gas compression and transport service contract with PGPB. Such contract was signed on December 19, 2001, and stipulates a capacity of 1,000, million cubic feet of natural gas. The contract provides for a conventional rate as established in the natural gas regulations of the CRE. The contract duration is 20 years, computed as of November 12, 2003 (the starting date of commercial operations). On January 1, 2016, this agreement was transferred to CENACE.
- j. On May 2, 2002, GdT entered into an agreement with PGPB, through which it receives Operation and Maintenance ("O&M") services for natural gas transportation system. This agreement expires 20 years from the computed as the starting date of commercial operation. On January 1, 2016, this agreement was transferred to CENACE.
- k. On December 5, 2012, GdT entered into an agreement with PGPB through which it receives compression services based on interruptible by PGPB to GDT, on investment of \$4.6 million will be used for the rehabilitation of compression station 19 and PGPB reinstate costs in 75 percent and only paid 25 percent to PGPB. On January 1, 2016 this agreement was transferred to National Center of the Control Natural Gas.
- l. On December 15, 2005, TdF entered into a LPG transport service contract with PGPB, under firm base capacity reserved of 4,470 million cubic meters per day equivalent to 30,000 barrels per day. This agreement expires 20 after from the commercial operational date. The agreement is currently in effect with Pemex TRI.
- m. On December 15, 2005, TDF entered into an agreement with PGPB, through which it receives O&M services for liquid gas transport system. This agreement expires 20 years after the commercial operational date. The agreement is currently in effect with Pemex Logística.
- n. On February 17, 2012, GdC signed a service contract to LPG storage with PGPB. This contract provides base storage capacity reserved of 4,470 cubic meters per day equivalent to 30,000 barrels per day. The contract term is 15 years with a conventional rate, which represents the regulated by the CRE minus 1.2 percent. This contract was given in all rights and obligations, together with all attachments to Transportadora del Norte SH, by signing an amendment agreement dated on June 18, 2012, between GdC, Transportadora del Norte SH and PGPB. The agreement is currently in effect with Pemex TRI.
- o. On February 21, 2012, TDN entered into an agreement with PGPB, through which it provides operation and maintenance services for the LPG transportation services. This agreement expires 20 years after the commercial operational date. This agreement is currently in effect with Pemex Logística.
- p. On December 13, 2012, GdS entered into an ethane gas transportation services contract with PGPB. The contract duration is 21 years with a conventional rate. The contract is under the firm transport service scheme for a firm base reserved capacity of: Segment I Cangrejera – Complejo Etileno XXI 33,000 BPD, Segment I Complejo Etileno XXI – Cangrejera 29,500 BPD, Segment II Nuevo Pemex – Km3 66,000 BPD, Segment II Cactus – Km 3 38,000 BPD, Segment II Km 3 – Complejo Etileno XXI 95,500 BPD and Segment III Cd. Pemex – Nuevo Pemex 105,600 BPD. The contract is currently in effect with Pemex TRI.

- q. On April 16, 2014, GDS entered into an agreement with PGPB, through which it provides operation and maintenance services for the Ethane gas transportation services. This agreement expires in 20.5 years after the first segment commercial operational date. This agreement is currently in effect with Pemex Logística.
- r. On July 19, 2013, GdN entered into an agreement to provide natural gas transportation services to PGPB. The agreement has a term of 25 years from the date of commercial operation of the system with a regulated rate. This contract is under scheme firm transport capacity reserved of 2,100 Mcfd. This contract was transferred to CENACE on January 1, 2016.
- s. On December 15, 2014, DEN celebrated an agreement with TAG Pipelines Norte to provide O&M services. This agreement expires in 25 years from the pipeline commercial operations.
- t. On January 1, 2016, DEN celebrated an agreement with TAG Pipelines Norte to provide commercial services for a period equal Natural Gas Transport Permit G/335/TRA/2014 in favor of TAG Pipelines Norte, starting from the firm contract date.

*Ventika's commitments-*

- a. During 2014, Ventika and Ventika II entered into a 10-20 year contract with their customer's shareholders to sell 100-percent of the renewable energy produced from the wind energy project. Such agreement commenced in April 2016 once the Ventika's started commercial operations.
- b. Ventika and Ventika II have acquired the rights to a 20-year land lease agreement to use land for generating and transmitting electricity using wind turbines. The agreement can be extended by another 20-year term. Ventika and Ventika II expects to pay \$205.0 annually for the land lease.
- c. On June 3, 2013, Ventika and Ventika II entered into 5-year O&M agreement with Acciona Energia Servicios Mexico, S. de R. L. de C. V. ("Acciona") which commenced after the commissioning of the last wind turbine units, and covers operation, service and maintenance activities. The agreements can be extended by another 20-year term. Payments under the agreement consist of annual fixed fees as follow:

Scope	Currency	Annual fixed fees	
		Ventika	Ventika II
Wind turbine	USD	\$ 2,299	\$ 2,299
Balance of plant	USD	533	533
Security costs	MXP	7,960	7,960
Environmental works	MXP	3,015	3,015

- d. On April 8, 2014, Ventika and Ventika II entered into a 5-year asset management services agreements with Cemex, S. A. B. de C. V. Payments under the agreement consist of an annual fixed fee plus a variable administration commission.

Future expected payments for Ventika and Ventika II are as follows:

Year	Amounts
2017	\$ 1,337
2018	1,370
2019	<u>468</u>
	<u>\$ 3,175</u>

## 36. Contingencies

### 36.1. Matters related with tax authorities

Additional income taxes payable could arise in transactions with nonresident unconsolidated affiliates if the Mexican Tax Authority (Servicio de Administración Tributaria, "SAT" by its initials in Spanish), during a review, believes that prices and amounts used by the Company are not similar to those used with or between independent parties in comparable transactions.

#### *Judicial, administrative or arbitral proceedings*

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

#### *Matters on ECA*

- a. *Motions for review (recurso de revisión) against MIA of the ECA Terminal, filed by Castro, Valdez y Palafox.* In May 2003, Hiram Castro Cruz and Roberto Valdéz Castañeda ("Castro and Valdez"), jointly, and Mónica Fabiola Palafox ("Palafox"), acting individually filed motions for review before the Ministry of the Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales, SEMARNAT*) to challenge the issuance of the MIA to the ECA Terminal granted in April 2003, based on allegations similar to IVG's allegations. SEMARNAT dismissed the motions and the plaintiffs filed before the Federal Court of Tax and Administrative Justice (*Tribunal Federal de Justicia Fiscal y Administrativa, TFJFA*), in Mexico city, motions for annulment against the respective rulings. In January 2006 and May 2013, the TFJFA issued the judgments declaring null and void the rulings through which SEMARNAT dismissed the motions for annulment ordering SEMARNAT to issue new rulings in the terms set forth in such judgments. In the case of Castro and Valdéz, SEMARNAT admitted the motion and in January 2012 it issued a resolution ratifying the validity of the MIA. In March 2012, Valdéz filed before the TFJFA a motion for annulment against the ruling issued by SEMARNAT and ECA filed before the Collegiate Circuit Court for the Federal District, a motion against the ruling whereby the TFJFA ordered the admittance of the motion filed by Valdez. In the case of Palafox, SEMARNAT has not issued its resolution on the MIA yet. The management of the Company deems that the claims of Castro, Valdéz and Palafox are unfounded.

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

- b. *Motion for annulment against ECA's port concession, filed by Inmuebles Vista Golf ("IVG").* In January 2005, IVG filed before the Ministry of Communications and Transport (*Secretaría de Comunicaciones y Transportes, "SCT"*) a motion for annulment regarding ECA's port concession, which authorizes ECA to use the national port facilities for its maritime operations. IVG argued that the SCT should have applied certain environmental requirements regarding the authorization of the port concession to ECA and that the activities performed by ECA's Terminal are not attributable to the SCT, as well as that ECA did not perform any environmental risk assessment and that the SEMARNAT amended the MIA without notifying such circumstance to the SCT. In March 2005, the SCT dismissed such motion and IVG filed before the TFJFA in Mexico City a motion for annulment against the respective ruling. In March 2010, the TFJFA issued a judgment declaring null and void the ruling whereby the SCT dismissed the motion for review and ordering the latter to admit such motion. In May 2011, the SCT issued a new agreement dismissing the motion once again. In August 2011, IVG filed a second motion for annulment before the TFJFA, confirming its previous arguments and arguing, besides, that the SCT is not empowered to issue the ruling. ECA challenged the ruling whereby the TFJFA admitted the second motion for annulment based on the fact that IVG's claims were resolved during the previous motion. In June 2012, the TFJFA agreed with such argument and dismissed the second motion for annulment filed by IVG. IVG filed a constitutional claim (*amparo*) before the Federal Courts, against the last ruling of the TFJFA. The answer to such claim was made by the Company on August 27, 2012. The SCT and ECA's Terminal answered such claim. During 2013, IVG filed a constitutional claim before the Federal Courts, against the dismissal of the motion before the TFJFA, protection which was granted reversing the dismissal of the motion for annulment. The motion for annulment is pending and therein both the SCT and the ECA Terminal have already answered the claim.

As to the motion for revocation (*recurso de revocación*) against the port concession granted to ECA before the Ministry of Communications and Transport ("SCT"), regarding the port concession for purposes of its maritime operations, we report the following:

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

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

- c. *Motion for review against MIA of ECA's Terminal, filed by Inmuebles Baja Pacífico, S.A. de C.V. ("IBP").* In 2006, IBP started an action / "popular claim" before the Federal Attorney General Office of Environmental Protection (*Procuraduría Federal de Protección al Ambiente, "PROFEPA"*) arguing that the conditions and relief measures set forth in the authorization of environmental impact would be insufficient and that the operation of ECA's Terminal would cause a damage to the environment, seeking, among others, the order to amend or annul the referred Authorization in the Subject of Environmental Impact. The proceedings ended in 2006 in favor of ECA. IBP filed a motion for review against such ruling, resolving it grounded and ordering the issuance of a new resolution assessing the evidence of IBP and resolving on the compliance of the environmental legislation.



In compliance to the rulings in the motion for review, PROFEPA performed inspections on ECA's Terminal and it determined that its operations comply with the determinants and relief measures imposed in the authorization in the subject of environmental impact and they do not cause damage to the environment. Such resolution was challenged by IBP through the proceeding for annulment (*juicio de nulidad*) before the Federal Court of Tax and Administrative Justice ("TFJFA"), which in August 2013 declared the nullity of the challenged resolution considering that the authority did not ground duly its territorial competence and it ordered PROFEPA to issue a new resolution considering the evidence delivered by IBP setting forth why they would be insufficient to prove the breach of the applicable legislation. Against TFJFA's ruling, both IPB and ECA filed constitutional trials, respectively, which were resolved in February 2015 determining to dismiss the constitutional claim brought by IPB and grant protection to ECA under the consideration that IBP lacks of *standing*/legal interest to challenge through proceeding for annulment the resolution of the popular claim, ordering the TJFFA the issuance of a new resolution in congruence.

In such circumstances, and given the resolution in the constitutional trial, in July 2015 the TFJFA issued a new resolution dismissing IBP's proceeding. In November 2015, the TFJFA determined that its judgment of July 2015 was definitive, being fully concluded in favor of ECA.

- d. *Constitutional Claim filed by Ramón Eugenio Sánchez Ritchie ("Sánchez Ritchie")*. In June 2010, Sánchez Ritchie filed a constitutional claim in the Collegiate District Court of the State of Baja California, Mexico, challenging the validity of all the permits and authorizations related to the construction and operation of ECA's Terminal. The motion of Sánchez Ritchie named as defendants 17 governmental agencies, including SEMARNAT, the Regulating Energy Commission (*Comisión Reguladora de Energía, CRE*) and the Municipality of Ensenada, among others. Although the first permits of ECA's Terminal were issued more than six years before its filing, Sánchez Ritchie claims that the operation of ECA's Terminal would impair its rights as alleged owner of the property adjacent to ECA's Terminal (which is disputed by ECA) and that ECA's permits were granted in breach of its rights. Sánchez Ritchie claims the payment of damages and the order to the defendant authorities to revoke the permits for ECA's Terminal. On June 17, 2010, the District Court issued an interim judgment ordering the different authorities to suspend ECA's permits, but such provisional order was revoked by the Circuit Court on June 24, 2010 before the governmental authorities answered. Each one of the governmental authorities named in the constitutional claim denied the charges and affirmed the validity of their respective permits and authorizations. The allegations hearing of Sánchez Ritchie has been adjourned due to the filing of many remedies and other procedural acts. In May 2012, the case was submitted to the Collegiate District Court of Tijuana and an issuance date of the interim judgment regarding the admissibility of the constitutional claim has not been set. The Company deems that the claims of Sánchez Ritchie are unfounded.

The constitutional hearing in the issue was held on December 8, 2014.

On February 16, 2015, the Third District Court in the subject of constitutional trial and federal trials in the State of Baja California issued a resolution whereby it dismissed the constitutional trial. Ramón Eugenio Sánchez Ritchie filed a direct constitutional claim and it is pending of resolution in the First Collegiate Court. In September 2016, the Collegiate Court resolved the matter definitively, confirming the decision of the District Judge in favor of ECA.

- e. *Municipal claim filed by Sánchez Ritchie*. In February 2011, Sánchez Ritchie filed a complaint before the Directorate of Urban Control (*Dirección de Control Urbano, DCU*) of the Municipality of Ensenada, in Baja California, Mexico, arguing the invalidity of the zoning and construction permits granted to ECA's Terminal in 2003 and 2004, respectively. Although the Municipality had ratified the validity of the permits in its answer to the constitutional claim of Sánchez Ritchie described above, shortly after receiving the complaint, the DCU issued an order of temporary closing and immediate cessation of operations. The actions of the authorities of the state and federal government prevented the interruption of the operations of the terminal, while ECA filed an answer to the administrative complaint before the DCU as well as a constitutional claim before the Collegiate District Court in Ensenada. In March 2011, the District Court granted the suspension of the closing order until the resolution of ECA's constitutional claim, which was confirmed by the Collegiate Circuit Courts in Mexicali. As informed on April 28, 2014, on such date the Municipality of Ensenada declared itself incompetent to deal with, transact, continue with the transaction and, at the time, resolve the proceedings started in 2011 by Ramón Eugenio Sánchez Ritchie. Therein, the authority resolved to rescind the acts in the administrative proceedings, including the closing order, ordering to close the file as a fully and duly concluded issue. The referred memorandum was eventually challenged before an Administrative Court by Sánchez Ritchie, which was resolved favorably to the interests of ECA. The resolution mentioned above was not challenged because the issue was fully concluded and the judgment in favor of ECA is, in consequence, definitive.

- f. *Saloman Arya Furst and Abraham Hanono Raffoul* filed before the Unitary Agrarian District Court of Ensenada a claim against the Ministry of Agrarian Reform (*Secretaría de la Reforma Agraria*), ECA and other 20 defendants. The purpose of such claim is to procure a declaration of nullity of the property rights granted by the National Agrarian Registry regarding some plots of land where ECA's Terminal is located, as well as the return of another plot which allegedly is located in the same place, based on the argument that the property titles issued in favor of the ECA's former owners were issued improperly and without considering the existing property rights of such immovable property. In September 2011 was held a definitive hearing on the subject, where the plaintiffs offered evidence to extend their claim. The judge did not admit the evidence, and before issuing the judgment, the plaintiffs filed a constitutional claim against the refusal of the judge to the admittance of the evidence. The action of the judge is suspended by the constitutional claim, and, the constitutional trial cannot continue until the Court serves notice of the civil claim to the other defendants, which has not happened. The Company deems that the claim is ungrounded.

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



- g. Criminal Investigation. In May 2009, Sánchez Ritchie filed before the Attorney General Office of Ensenada a criminal complaint arguing that “Semptra’s affiliates”, several employees of ECA’s Terminal and several former employees of such Office committed the crime of procedural fraud as to a criminal complaint filed by ECA, which owns ECA’s Terminal against Sánchez Ritchie in 2006 as part of the conflict related to the possession of an immovable property adjacent to ECA’s Terminal, which is property of the Company. In September 2006, ECA accused Sánchez Ritchie of the crime of dispossession for having trespassed ECA’s immovable property. As part of such proceedings, the public prosecutor issued a provisional order to remove Sánchez Ritchie from the immovable property. In the criminal complaints filed in 2009, Sánchez Ritchie argued that ECA and the other defendants provided false information to obtain such order. The public prosecutor responsible of the case determined that there was not enough evidence to prosecute the defendants and closed the investigation; and in March 2011, the criminal court of Tijuana ratified the withdrawal of the action. In September 2011, Sánchez Ritchie filed a constitutional claim against the respective ruling before the Collegiate District Court of Ensenada. The hearing to analyze the substantive aspects of the constitutional claim was held in March 2012 and in July 2012 the judge granted the protection regarding the omission in the study, by the criminal judge, of certain evidence and arguments submitted by Sánchez Ritchie. The district judge ordered the criminal judge to issue a new resolution considering such issues. ECA’s Terminal appealed the resolution in the Federal Circuit Court, which as of December 31, 2015 had not issued a ruling on the matter. On October 19, 2016, the District Judge dismissed the amparo suit filed by Sanchez Ritchie. This resolution caused a state of affairs and the judgment was filed as a closed case.
- h. Motion for review against the authorizaion of environmental impact for ECA’s Terminal, filed by Inmuebles Vista Golf. In May 2003, Inmuebles Vista Golf, S.A. de C.V. filed before SEMARNAT a motion for review against the resolution issued by such authority in April 2003, whereby it granted to the Company the authorization of environmental impact for ECA’s Terminal. Inmuebles Vista Golf argues that SEMARNAT did not give the necessary notices and did not abide by the applicable proceedings to grant such authorization; that the activities of ECA’s Terminal are of industrial nature and, therefore, they do not meet the provisions in the Regional Development Program of the Coastal Corridor Tijuana-Rosario-Ensenada (known as COCOTREN); and that the conditions and relief measures set forth in the authorization were insufficient. In August 2003, SEMARNAT dismissed such motion and in December 2003 Inmuebles Vista Golf filed before the TFJFA, in Mexico City, a proceeding for annulment against the respective ruling. In April 2005, the TFJFA issued a ruling declaring the nullity of the respective ruling, therefore SEMARNAT continued the motion for review and in July 2006 resolved it confirming the validity and legality of the authorization of environmental impact. In October 2006, Inmuebles Vista Golf filed before the TFJFA, in Mexico City, a proceeding for annulment against SEMARNAT’s respective resolution. In December 2010, TFJA confirmed the validity and legality of the resolution through which SEMARNAT confirmed the validity and legality of the authorization of environmental impact. Against TFJFA’s resolution, Inmuebles Vista Golf filed a direct constitutional trial before the Collegiate Circuit Court in the Federal District. The constitutional trial was resolved through resolution of April 2012, whereby was granted the protection for the TFJFA to assess all the evidence provided by the parties, specifically the expert evidence in trial. In August 2012, the TFJFA issued a new ruling ratifying once again the validity of the authorization of environmental impact and the sufficiency of the conditions and relief measures to prevent the damages to the environment set forth therein. Inmuebles Vista Golf filed a new constitutional claim against the judgment of August 2012 of the TFJFA, on the other hand, ECA filed an adjacent constitutional claim. In May 2013, the First Chamber of the Supreme Court of Justice of the Nation decided to intervene in the constitutional claim filed by Inmuebles Vista Golf. In a public hearing held on February 7, 2014, the First Chamber of the Supreme Court of Justice of the Nation resolved to “dismiss the constitutional trial and leave the adjacent constitutional claim without subject”, therefore the affair is fully concluded in favor of ECA.

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

#### Affairs on ESJ

- (a) In November 2011, *Terra Peninsular, A.C.* (“TP”), an environmental organization, filed before the TFJFA of Mexico City a motion for review against the resolution whereby SEMARNAT granted to ESJ the authorization of environmental impact for the construction and operation of ESJ wind farm. TP argues that it did not receive notice of such resolution; and that the MIA was not assessed pursuant to the applicable legislation, since otherwise, SEMARNAT would have denied such authorization. However, TP does not specify the laws or regulations that were not duly applied. Besides of the foregoing, TP argues that the different stages of the project should require independent authorizations; and that the granting of a conditional authorization for the development of future states which have not been fully defined is insufficient to protect the environment. The TFJFA denied the suspension order requested by TP, but admitted the claim. ESJ and SEMARNAT filed their respective answers to the claim in June 2012, arguing that the motion filed by TP is untimely and that the MIA was duly granted. The judge has admitted the experts brought by the parties and ESJ’s and SEMARNAT’s experts have submitted their expert opinions. Once TP submits its expert opinion, the judge shall determine the trial within 15 days. The request filed by TP for the final suspension is also pending. The management of the Company deems that TP’s claims are unfounded.

The operations of ECA’s Terminal, TDM’s plant and ESJ’s wind farm have not been affected as a result of the proceedings described above and they continue operating normally during the process thereof. However, if any of such proceedings was resolved unfavorably for the Company, the operations of ECA’s Terminal and/or TDM’s generating plant might be affected adversely and significantly, which in turn might have a significant adverse effect on the activities, perspectives, the financial position, the operation results and the cash flows of the Company.

Except for the affairs stated above, neither the Company nor its assets are subject to any other legal action different from those arisen in the normal course of business.

### **37. Application of new and revised International Financial Reporting Standards**

- a. *Application of new and revised International Financing Reporting Standards (“IFRSs” or “IAS”) and interpretations that are mandatorily effective for the current year*

In the current year, the Company has applied a number of amendments to IFRSs and new Interpretation issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2016.

#### **IFRS 14, Regulatory Deferral Accounts**

IFRS 14, “Regulatory Deferral Accounts”, was issued in January 2014 and applies to annual reporting periods beginning on or after 1 January 2016, earlier application is permitted. The standard specifies the financial reporting requirements for ‘regulatory deferral account balances’ that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. It permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for ‘regulatory deferral account balances’ in accordance with its previous GAAP.



Upon application of this amendment, the Company did not have significant impacts.

#### **Amendments to IAS 16 and IAS 38, *Property, Plant and Equipment and Intangible Assets***

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets", clarify that "the use of revenue-based methods to calculate the depreciation or amortization of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset." The amendments are effective prospectively for annual reporting periods beginning on or after January 1, 2016, earlier application is permitted.

Upon application of this amendment, the Company did not have significant impacts.

#### **Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in associates and joint ventures***

Amendments to IAS 28 require that gains and losses resulting from transactions between an entity and its associate or joint venture relate only to assets that do not constitute a business. As well, a new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognized in full in the investor's Financial Statements. Additionally an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

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

Upon application of this amendment, the Company did not have significant impacts.

#### **Amendments to IAS 27, *Separate Financial Statements***

Amendments to IAS 27, "Separate Financial Statements", were issued in August 2014 and apply to annual reporting periods beginning on or after January 1, 2016, with earlier application being permitted. The standard reinstates the equity method (as described in IAS 28 "Investments in associates and Joint Ventures") as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate Financial Statements. The amendment continues the allowance to account such investments in separate Financial Statements at cost or in accordance with IFRS 9 "Financial Instruments" (or IAS 39 "Financial Instruments: Recognition and Measurement" for entities that have not yet adopted IFRS 9). The chosen accounting option must be applied by category of investments. Finally, the amendments are to be applied retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Upon application of this amendment, the Company did not have significant impacts.

#### **Amendments to IFRS 11, *Joint Arrangements***

Amendments to IFRS 11 "Joint Arrangements", issued in May 2014, require the acquirer of an interest in a joint operation whose activity constitutes a business as defined in IFRS 3 *Business Combinations*, to apply all accounting principles on the basis of the business combinations guidance in IFRS 3 and other IFRSs, except for those who conflict with IFRS 11 guidance. Additionally, they require disclosing information applicable to business combinations and apply to initial acquisition as well as to the acquisition of an additional interest in a joint operation.

These amendments are effective prospectively for annual reporting periods beginning on or after January 1, 2016, earlier application is permitted. The amounts recognized in previous acquisitions of interests in joints operation should not be adjusted.

Upon application of this amendment, the Company did not have significant impacts.

#### **Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment Entities: Applying the Consolidation Exception***

The amendments confirm that the exemption from preparing consolidated Financial Statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. Also, the amendments considers that a subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity. On the other hand, they consider that when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. Finally, an investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

Upon application of this amendment, the Company did not have significant impacts.

#### **Amendments to IAS 1, *Disclosure Initiative***

The amendments include changes regarding materiality, clarifying that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the Financial Statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply. Regarding the statement of financial position and statement of profit and loss and other comprehensive income, the amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss. As well, regarding the notes to the Financial Statements, the amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

Upon application of this amendment, the Company did not have significant impacts.

#### **Annual Improvements 2012-2014 Cycle**

Annual Improvements 2012-2014 Cycle makes amendments to the following standards: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which adds specific guidance for cases in which (1) an entity reclassifies an asset from "held for sale" to "held for distribution" or vice versa and (2) cases in which held-for-distribution accounting is discontinued; IFRS 7 *Financial Instruments: Disclosures* clarifying (1) whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and (2) the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim Financial Statements; IAS 19 *Employee Benefits* indicating that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid; and IAS 34 *Interim Financial Reporting* clarifying the meaning of 'elsewhere in the interim report' and requires a cross-reference in such reports.



b. ***New and revised IFRSs in issue but not yet effective***

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9, *Financial Instruments* (2)  
IFRS 15, *Revenue from Contracts with Customers* (2)  
IFRS 16, *Leases* (3)  
Amendments to IAS 12, *Income Taxes* (1)  
Amendments to IAS 7, *Disclosure Initiative* (1)  
Amendments to IFRS 4, *Insurance Contracts* (2)

- (1) Effective for annual periods beginning on or after January 1, 2017
- (2) Effective for annual periods beginning on or after January 1, 2018
- (3) Effective for annual periods beginning on or after January 1, 2019

***IFRS 9, Financial Instruments***

IFRS 9, "Financial Instruments" issued in July 2014, is the replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018, with early adoption being permitted. IFRS 9 (2014) does not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this face of the project was separated from the IFRS 9 project.

IFRS 9 (2014) is a complete standard that includes the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. Regarding the new measurement category of FVTOCI, it will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

The Company is in the process of determining the potential impacts that will derive from the adoption of this standard in its Consolidated Financial Statements.

***IFRS 15, Revenue from Contracts with Customers***

IFRS 15, "Revenue from Contracts with Customers", was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2018, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time.

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. Also, an entity needs to disclose sufficient information to enable users of Financial Statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company is in the process of determining the potential impacts that will derive from the adoption of this standard in its Consolidated Financial Statements.

***IFRS 16, Leases***

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

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

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

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

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

The Company is in the process of determining the potential impacts that will derive from the adoption of this standard in its Consolidated Financial Statements.

***Amendments to IAS 12, Income Taxes***

Amendments to IAS 12 Income Taxes, clarify that unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. Additionally, they specify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and when comparing deductible temporary differences with future taxable profits, these exclude tax deductions resulting from the reversal of those deductible temporary differences. These amendments are effective for annual periods beginning on January 1, 2017 with retrospective application, although earlier application is permitted.

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

***Amendments to IAS 7, Disclosure Initiative***

The amendments to IAS 7 Statement of Cash Flows, require that the following changes in liabilities arising from financing activities are disclosed separately from changes in other assets and liabilities: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.



Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition.

These amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted, and entities need not provide comparative information when they first apply them.

The Company does not expect significant impacts from the adoption of these amendments in its Consolidated Financial Statements.

#### **Amendments to IFRS 4, Insurance Contracts**

The amendments address concerns about the different effective dates of IFRS 9 and the IASB's forthcoming insurance contracts standard, which is expected to be issued as IFRS 17 in March 2017. The amendments provide two approaches:

- (i) **Overlay approach** — Permits entities that issue insurance contracts within the scope of IFRS 4 to reclassify — from profit or loss to other comprehensive income — some of the income or expenses arising from designated financial assets. An entity would apply the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9.
- (ii) **Deferral approach** — Temporary exemption from applying IFRS 9 for entities whose predominant activity is to issue contracts within the scope of IFRS 4. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018.

The Company is in the process of determining the potential impacts that will derive from the adoption of this standard in its Consolidated Financial Statements.

These amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted, and entities are permitted to stop applying either approach before applying the new insurance contracts standard.

#### **38. Events after reporting date**

**Withdrawal of credit line.** On January 12, 2017, regarding the credit line mentioned in Note 23a, the Company withdrew \$70.0 million, such credit line to be used for working capital and general corporate purposes.

#### **39. Approval of Financial Statements**

The accompanying Consolidated Financial Statements were authorized for issuance on February 21, 2017, by Arturo Infanzón Favela, Executive Vice President of Operations and Finance, and subject to the approval of the Management Board and the ordinary shareholders of the Company, who may be modified in accordance with the provisions of the General Law of Commercial.

#### **40. Registered offices**

- Paseo de la Reforma No. 342 Piso 24  
Torre New York Life  
Col. Juárez, C.P. 06600  
Mexico, D. F.
- Campos Eliseos No. 345 Piso 4  
Torre Omega  
Col. Chapultepec Polanco C.P. 11550  
Mexico, D. F.
- Carretera Escénica Tijuana – Ensenada Km. 81.2  
Col. El Sauzal, C. P. 22760  
Ensenada, B.C.
- Carretera Mexicali Tijuana Km. 14.5  
Col. Sonora, C. P. 21210  
Mexicali, B.C.
- Avenida Tecnológico No. 4505  
Col. Granjas, C. P. 31160  
Chihuahua, Chih.
- Boulevard Francisco Eusebio Kino No. 309  
Piso 10, Col. Country Club  
Hermosillo, Sonora
- Carretera Federal Cuota 15D, KM 461 820,  
San Román Corralillos, CP 45464  
Guadalajara, Jalisco
- Avenida Constitución Poniente No. 444  
Col. Monterrey Centro C. P. 64000  
Monterrey, Nuevo León

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

**Pro forma Combined Statements of Financial Position**

As December 31, 2015  
(In thousands of US dollars)

“Pro forma additional information”

	As of December 31, 2015					
	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (Note 2(1))	Gasoductos de Chihuahua, S. de R. L. de C. V. and Subsidiaries (Note 2(2))	Fisterra Energy Netherlands III and Fisterra Energy Netherlands IV and Subsidiaries (Note 2(3))	Pro Forma Adjustments (Note 3)	Notes	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries Pro Forma
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 40,377	\$ 22,080	\$ 12,136	\$ 205,203		\$ 279,796
Short-term investments	20,068	10,780	-	-		30,848
Trade and other receivable, net	53,728	40,376	7,008	-		101,112
Due from unconsolidated affiliates	27,608	-	-	(936)	a	26,672
Income tax receivable	16,226	-	-	-		16,226
Natural gas inventories	4,628	-	-	-		4,628
Derivative financial instruments	1,926	-	-	-		1,926
Value added tax receivable	46,807	4,494	3,437	(107)	a	54,631
Carbon allowances	5,385	-	-	-		5,385
Other assets	8,576	10,513	-	(34)	a	19,055
Total current assets	225,329	88,243	22,581	204,126		540,279
Non-current assets:						
Due from unconsolidated affiliates	111,766	-	-	-		111,766
Finance lease receivables	14,510	952,201	-	-		966,711
Deferred income tax assets	78,965	12,314	7,168	(11,757)	a	86,690
Investment in joint ventures	440,105	131,338	-	(564,682)	a, d	6,761
Goodwill	25,654	-	-	1,626,126	b	1,651,780
Property, plant and equipment, net	2,595,840	320,079	519,901	100,531	a	3,536,351
Carbon allowances	12,975	-	-	-		12,975
Intangible assets	-	-	-	154,144	3b	154,144
Other assets	1,938	1,727	-	-		3,665
Total non-current assets	3,281,753	1,417,659	527,069	1,304,362		6,530,843
Total assets	\$ 3,507,082	\$ 1,505,902	\$ 549,650	\$ 1,508,488		\$ 7,071,122



As of December 31, 2015

## Liabilities and Stockholders' Equity

	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (Note 2(1))	Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries (Note 2(2))	Fisterra Energy Netherlands III and Fisterra Energy Netherlands IV and Subsidiaries (Note 2(3))	Pro Forma Adjustments (Note 3)	Notes	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries Pro Forma
Current liabilities:						
Short-term debt	\$ 88,507	\$ 35,169	\$ 2,141	\$ -		\$ 125,817
Trade and other payables	43,849	91,056	31,958	(49)	a	166,814
Due to unconsolidated affiliates	352,650	-	6,595	(6,595)	a	352,650
Income tax liabilities	14,095	-	58	-		14,153
Derivative financial instruments	-	7,505	2,624	-		10,129
Other financial liabilities	6,444	-	-	-		6,444
Provisions	1,293	-	-	-		1,293
Other taxes payable	13,881	-	-	-		13,881
Carbon allowances	5,385	-	-	-		5,385
Other liabilities	17,237	-	-	-		17,237
Total current liabilities	543,341	133,730	43,376	(6,644)		713,803
Non-current liabilities:						
Long-term debt	299,925	359,278	363,330	133,785	a	1,156,318
Due to unconsolidated affiliates	38,460	180,209	98,239	(270,995)	a	45,913
Deferred income tax liabilities	261,294	107,773	-	76,465		445,532
Carbon allowances	12,611	-	-	-		12,611
Provisions	34,236	4,833	-	-		39,069
Derivative financial instruments	133,056	9,151	14,650	-		156,857
Employee benefits	4,295	1,063	-	-		5,358
Total non-current liabilities	783,877	662,307	476,219	(60,745)		1,861,658
Total liabilities	1,327,218	796,037	519,595	(67,389)		2,575,461
Stockholders' Equity:						
Common stock	762,949	88,642	38,914	72,767	c	963,272
Additional paid-in capital	973,953	-	-	1,377,848	c	2,351,801
Accumulated other comprehensive income	(103,944)	(25,331)	(12,091)	31,710	c	(109,656)
Retained earnings	546,906	646,554	3,232	93,552	c	1,290,244
Total equity	2,179,864	709,865	30,055	1,575,877		4,495,661
Total equity and liabilities	\$ 3,507,082	\$ 1,505,902	\$ 549,650	\$ 1,508,488		\$ 7,071,122

See accompanying notes to the pro forma combined financial statements.

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

### Pro forma Combined Statements of Profit

For the year ended December 31, 2015  
(In thousands of US dollars)

	For the year ended December 31, 2015					
	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries (Note 2(1))	Gasoductos de Chihuahua, S. de R.L. de C.V. and Subsidiaries (Note 2(2))	Fisterra Energy Netherlands III and Fisterra Energy Netherlands IV and Subsidiaries (Note 2(3))	Pro Forma Adjustments (Note 3)	Notes	Infraestructura Energética Nova, S. A. B. de C. V. and Subsidiaries Pro Forma
Revenues	\$ 613,041	\$ 144,358	\$ -	\$ (3,396)	a	\$ 754,003
Finance lease revenue	-	105,066	-	-		105,066
Cost of revenues	(257,226)	(28,677)	-	606	a	(285,297)
Operating, administrative and other expenses	(81,857)	(18,506)	(48)	1,584	a	(98,827)
Depreciation and amortization	(52,470)	(19,354)	-	(7,707)		(79,531)
Interest income	6,701	-	20	(1,539)	a	5,182
Finance (costs) income	(9,859)	(22,525)	279	5,812	a	(26,293)
Other (losses) gain, net	(11,426)	(6,150)	1,413	(46)	a	(16,209)
Remeasurement of equity method investment	-	-	-	762,790	d	762,790
Profit before income tax and share of profits of joint ventures	206,904	154,212	1,664	758,104		1,120,884
Income tax (expense) benefit	(94,237)	(64,307)	3,198	(3,151)	a	(158,497)
Share of profits of joint ventures, net of income tax	42,319	(6,936)	-	(37,907)	a	(2,524)
Profit for the year from continuing operations	\$ 154,986	\$ 82,969	\$ 4,862	\$ 717,046		\$ 959,863
Loss for the year from discontinued operations, net of income tax	(14,797)	-	-	-		(14,797)
Profit for the year	\$ 140,189	\$ 82,969	\$ 4,862	\$ 717,046		\$ 945,066

See accompanying notes to the pro forma combined financial statements.

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

# Notes to the Pro Forma Combined Financial Statements

As of December 31, 2015, and for the year ended December 31, 2015  
(In thousands of US dollars)

### 1. Activities

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

The Company operates in the energy sector, develops, owns and operates, or holds interests in, natural gas and propane pipelines and liquefied petroleum gas storage facilities and engages in the transportation and distribution and sale of natural gas in the states of Baja California, Sonora, Sinaloa, Coahuila, Chihuahua, Durango, Tamaulipas, Nuevo León and Jalisco, México. It also owns and operates a liquefied natural gas ("LNG") terminal in Baja California, México for importing, storing and regasifying LNG and owns and operates a natural gas fired power plant that includes two gas turbines and one steam turbine, and hold interests in a joint venture in Baja California, México, using wind resources to serve clients in the U.S.

#### Description of the GDC Acquisition

The transaction involves the acquisition (the "GDC Acquisition") by IEnova Gasoductos Holding, S. de R. L. de C. V., a subsidiary of the Company, of the remaining equity interest in Gasoductos de Chihuahua, S. de R. L. de C. V. ("GDC") which was held by Pemex Transformación Industrial ("Pemex TRI"). Upon consummation of the GDC Acquisition, the Company hold, indirectly, 100 percent of the equity interests in GDC; provided, however that the Company and Pemex TRI have agreed that the Company, through GDC, and Pemex TRI hold a 50 percent equity interest in GDC's current subsidiary Ductos y Energéticos del Norte, S. de R. L. de C. V. ("DEN"). Through DEN, the Company and Pemex TRI will preserve their energy infrastructure joint venture for the purpose of the construction of the Los Ramones Norte pipeline and the potential development of new projects.

The purchase price for the GDC Acquisition was \$1,143.8 million, plus the assumption of indebtedness.

#### Description of the financing of the GDC Acquisition

The Company financed the GDC Acquisition with the proceeds of a bridge loan obtained from affiliates of the Parent ("the Bridge Loan"). The Company paid the Bridge Loan with the proceeds of the issuance and sale of additional equity securities (the "Bridge Refinancing"); as a result, and because the amount of interest expense de minimis for the periods presented, no debt or interest expense is shown in the Pro Forma Combined Financial Statements in connection with the GDC Acquisition.

#### Description of the Ventika Acquisition

The transaction involves the acquisition (the "Ventika Acquisition") by Controladora Sierra Juárez, S. de R. L. de C. V., a subsidiary of the Company, of 100 percent of the equity interests of Fistera Energy Netherlands III, B. V., Fistera Energy Netherlands, IV B. V., Fistera Energy Mexico III, S. de R. L. de C. V. and Fistera Energy Mexico IV, S. de R. L. de C. V., and thereby through such acquisition 100 percent of the equity interests (other than certain shares that have neither voting nor economic rights) of Ventika, S. A. P. I. de C. V., and Ventika II, S. A. P. I. de C. V. (collectively "Ventika"), from Fistera Energy, a portfolio company of Blackstone Energy Partners, and minority equity holders, Ventika, S. A. P. I. de C. V. and Ventika II, S. A. P. I. de C. V. own two adjacent wind farms with a total capacity of 252 MW, located in the northeastern state of Nuevo Leon, Mexico, which were acquired by the Company as part of the Ventika Acquisition.

The estimated purchase price for the Ventika Acquisition is \$415.0 million, which includes estimated cash and cash equivalents of \$40.0 million but does not include the assumption of approximately \$477.0 million of indebtedness, in each case generated by the operation of the Ventika wind farm facilities as of the closing date of the Ventika Acquisition. The estimated purchase price was also subject to certain customary post-closing adjustments based upon the actual cash, indebtedness and working capital of the Ventika business at the closing of the Ventika Acquisition set forth in the acquisition agreement. The enterprise value of the Ventika business is approximately \$852.0 million.

#### Description of the financing of the Ventika Acquisition

The Company financed the Ventika Acquisition with both borrowings under its revolving credit facility and the follow on equity offering.

### 2. Basis for presentation of the Pro forma Combined Financial Statements

The accounting policies applied in the preparation of the pro forma combined financial information comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The pro forma combined statements of financial position and the accompanying pro forma combined statements of profit income have been prepared based on assumptions that the Company's management believes are appropriate in the current circumstances, taking into account the fact that the Company is in the process of determining the fair value of the net assets acquired in the GDC Acquisition and the Ventika Acquisition, as discussed in more detail below.

The pro forma combined financial statements include the pro forma combined statements of financial position as of December 31, 2015 and the pro forma combined statements of profit for the year ended December 31, 2015.

The pro forma combined financial statements present the financial information of the Company as if the GDC Acquisition and the Ventika Acquisition had occurred (i) with respect to the pro forma combined statements of financial position as December 31, 2015, and (ii) with respect to the pro forma combined statements of profit On January 1, 2015.

Accordingly, the accompanying pro forma combined financial information was compiled using the following information:

- (1) The annual audited consolidated statement of financial position and profit or loss and other comprehensive income of the Company as of and for the year ended December 31, 2015, prepared in accordance with IFRS.
- (2) The annual audited consolidated statement of financial position and profit or loss and other comprehensive income of GDC as of and for the year ended December 31, 2015, prepared in accordance with Accounting Principles Generally Accepted in the United States as reconciled to IFRS.
- (3) The annual audited combined statement of financial position and profit or loss and other comprehensive income of Ventika as of and for the year ended December 31, 2015, prepared in accordance with IFRS.



### 3. Pro forma adjustments

Pro forma adjustments as of December 31, 2015, included in the accompanying pro forma combined statements of financial position, and for the year ended as of December 31, 2015, included in the pro forma combined statements of profit as described below, represent the GDC Acquisition and Ventika Acquisition as well as the expected Bridge Refinancing, the expected offering of the Company's Class II common stock and a draw under the Company's revolving credit facility to fund approximately half of the Ventika Acquisition. No interest expense has been included in the pro forma combined financial statements with respect to the Bridge Loan, as it is expected that the Bridge Refinancing will be made in the near term (and the interest expense related to the Bridge Loan de minimis for the periods presented).

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

In order to present the effects of the GDC Acquisition and the Ventika Acquisition in the pro forma combined financial statements, management applied certain pro forma adjustments to the historical figures of the acquired companies. The GDC Acquisition and Ventika Acquisition have been completed, the Company recognized both acquisitions as an acquisition of a business, applying the accounting requirements of IFRS 3, *Business Combinations*, to its financial information. The Company will have twelve months from the applicable acquisition date to finalize purchase accounting and thus the values assigned to the acquired net assets in these pro forma combined financial statements are subject to change. The pro forma adjustments reflect the effects of acquisition accounting under IFRS as of the dates previously established and are as follows:

#### *Adjustments to the pro forma combined statements of financial position as of December 31, 2015 and adjustments to the pro forma combined statements of profit for the year ended December 31, 2015:*

The pro forma combined statements of financial position as of December 31, 2015 have been adjusted to reflect the preliminary allocation of: (i) the purchase price of the identifiable net assets of GDC and Ventika; (ii) the goodwill recognized as the excess of the consideration transferred in cash in the GDC Acquisition and the Ventika Acquisition as well as the remeasurement to fair value of the previously held 50 percent interest in GDC by the Company; and (iii) the consummation of the Bridge Refinancing. The purchase price allocation in the pro forma combined statements of financial position as of December 31, 2015 is based upon the total consideration detailed below:

The preliminary purchase price allocation presented below has been prepared only for purposes of the pro forma combined financial statements. A complete and final purchase price allocation will be performed once the GDC Acquisition and the Ventika Acquisition are consummated and the Company acquires control over GDC and Ventika.

#### **Preliminary recognized amounts of identifiable assets acquired and liabilities assumed of GDC:**

	As of December 31, 2015
Current assets	\$ 85,878
Non-current assets, mainly property, plant and equipment, net	1,274,355
Current and long - term liabilities	(542,438)
Total identifiable net assets	817,795
DEN's Stockholders' equity (a)	(27,137)

Goodwill recognized in accordance with the pro forma purchase price allocation	1,497,008
Fair value of previously held interest	(1,143,833)
Total consideration transferred	\$ 1,143,833

#### **Preliminary recognized amounts of identifiable assets acquired and liabilities assumed of Ventika:**

	As of December 31, 2015
Current assets	\$ 22,581
Non-current assets, mainly property, plant and equipment, net	527,069
Current and long - term liabilities	(522,746)
Total identifiable net assets	26,904
Debt cancellation	104,834
Intangible assets (b)	154,144
Goodwill recognized in accordance with the pro forma purchase price allocation	129,118
Total consideration transferred	\$ 415,000

The Ventika Acquisition involves assumption of approximately \$477.0 million of indebtedness, with the remainder of the indebtedness eliminated as pro forma adjustments.

- a. Pursuant to the terms of the GDC acquisition agreement, DEN, a subsidiary of GDC, will not be acquired by the Company. Therefore, the pro forma adjustments exclude the assets and liabilities related to DEN. The Company will retain a 50 percent joint venture investment in DEN after the GDC Acquisition.

DEN statements of financial position and Statements of profit or loss and other comprehensive income are as follows:

#### **Statements of financial position**

	As of December 31, 2015
Cash and cash equivalents	\$ 1,287
Due from unconsolidated affiliates	936
Value added tax recoverable	107
Other assets	34
Investment in Los Ramones Norte project, joint venture	131,338
Property, plant and equipment, net	209
Deferred income tax assets	11,757
Total assets	145,668
Trade and other payables	49
Due to unconsolidated affiliates	172,756
Total liabilities	172,805

Common stock	200
Accumulated other comprehensive income	(13,907)
Retained earnings	<u>(13,430)</u>
Total Equity	(27,137)

#### Statements of profit or loss and other comprehensive income

	Year ended December 31, 2015
Revenues	\$ 3,396
Cost of revenues	(606)
Operating, administrative and other expenses	(1,584)
Depreciation and amortization	-
Interest income	1,539
Finance costs	(8,989)
Other gains, net	46
Income tax benefit	6,416
Share of profits of joint ventures, net of income tax	<u>(6,936)</u>
Loss for the year	(6,718)
Accumulated other comprehensive loss related to gain on valuation of derivative financial instruments held for hedging purposes	31,754
Accumulated other comprehensive income related to deferred income tax on the gain on valuation of derivative financial instruments held for hedging purposes	<u>(9,526)</u>
Other comprehensive income for the period	<u>22,228</u>
Total comprehensive income for the period	<u>\$ 15,510</u>

- b. Goodwill and intangible shown in the pro forma combined statements of financial position corresponds to the excess of the consideration transferred from the GDC Acquisition and the Ventika Acquisition, and the remeasurement to fair value of the Company's previously held 50 percent equity interest in GDC over the fair value of the net assets acquired. Net assets acquired are estimated as of December 31, 2015 and are subject to adjustment upon completion of the GDC Acquisition and the Ventika Acquisition and during the subsequent 12-month measurement period permitted by IFRS 3.
- c. The effect on stockholders' equity is \$1,575,877, for the year indicated below, including the elimination of GDC and Ventika stockholders' equity upon consolidation (but excluding DEN), as follows:

Stockholder's equity	As of December 31, 2015
Capital stock	\$ 72,767
Additional paid-in capital	1,377,848
Accumulated other comprehensive income	31,710
Retained earnings	<u>93,552</u>
Total pro forma adjustments	<u>\$ 1,575,877</u>

The additional paid-in capital shown above assumes net proceeds from an offering of the Company's

Class II common stock in the amount of \$1,578,171.

- d. Remeasurement of equity method investment in the GDC Acquisition was estimated as follows:

Item	As of January 1, 2015
Cash paid in acquisition	\$ 1,143,833
Less book value of investment in joint venture	<u>(381,043)</u>
Remeasurement gain of equity method investment	<u>\$ 762,790</u>

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquired entity at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss and other comprehensive income, in accordance with IFRS 3.

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# GLOSSARY



**ACRONYMS**

<b>ASEA</b>	NATIONAL SAFETY, ENERGY, AND ENVIRONMENTAL AGENCY
<b>BMV</b>	MEXICAN STOCK EXCHANGE
<b>CEMEFI</b>	MEXICAN CENTER FOR PHILANTHROPY
<b>CENACE</b>	NATIONAL CENTER FOR CONTROLLING ENERGY
<b>CFE</b>	FEDERAL ELECTRICITY COMMISSION
<b>CICESE</b>	ENSENADA CENTER FOR SCIENTIFIC INVESTIGATION AND UNIVERSITY STUDIES
<b>COSO</b>	COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION
<b>EBITDA</b>	EARNINGS BEFORE TAXES, DEPRECIATION, AND AMORTIZATION
<b>ECA</b>	ENERGÍA COSTA AZUL S. DE R.L. DE C.V., LNG STORAGE AND REGASIFICATION TERMINAL
<b>ECOGAS</b>	ECOGAS MÉXICO, S. DE R.L. DE C.V., THE NATURAL GAS DISTRIBUTION BUSINESS
<b>ERM</b>	ENTERPRISE RISK MANAGEMENT
<b>ESJ</b>	THE 155 MW WIND FARM LOCATED AT LA RUMOROSA, IN THE MEXICAN STATE OF BAJA CALIFORNIA
<b>FCPA</b>	FOREIGN CORRUPT PRACTICES ACT
<b>GAP</b>	AGUAPRIETA PIPELINE
<b>GPTW</b>	GREAT PLACE TO WORK (PROGRAM THAT RANKS THE BEST COMPANIES TO WORK AT)
<b>GR</b>	ROSARITO PIPELINE
<b>GW</b>	GIGA-WATTS
<b>GWH</b>	GIGA-WATTS HOUR
<b>HP</b>	HORSE POWER
<b>IENOVA</b>	INFRAESTRUCTURA ENERGÉTICA NOVA S.A.B. DE C.V.
<b>INECOL</b>	ECOLOGY INSTITUTE
<b>IPC</b>	IPC INDEX OF THE MEXICAN STOCK EXCHANGE
<b>ISO</b>	INTERNATIONAL ORGANIZATION FOR STANDARDIZATION
<b>ISR</b>	INCOME TAX
<b>JV</b>	JOINT VENTURE
<b>KM</b>	KILOMETER
<b>KW</b>	KILOWATTS
<b>KWH</b>	KILOWATTS-HOUR
<b>LNG</b>	LIQUEFIED NATURAL GAS
<b>LP GAS</b>	LIQUEFIED PETROLEUM GAS
<b>LTAR</b>	LOST TIME ACCIDENT RATE
<b>MCFD</b>	MILLIONS OF CUBIC FEET DAILY
<b>MMMP</b>	MARINE MAMMALS MONITORING PROGRAM
<b>MW</b>	MEGAWATTS



<b>NOM</b>	OFFICIAL MEXICAN STANDARD
<b>OECD</b>	ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
<b>OHSAS</b>	OCCUPATIONAL HEALTH AND SAFETY ASSESSMENT SERIES
<b>PEMEX</b>	PETRÓLEOS MEXICANOS
<b>PEMEX TRI</b>	PEMEX TRANSFORMACIÓN INDUSTRIAL (TRI), FORMERLY KNOWN AS PEMEX GAS Y PETROQUÍMICA BÁSICA, IS THE STATE PRODUCTION COMPANY, A SUBSIDIARY OF PEMEX
<b>PROFECO</b>	FEDERAL CONSUMER PROTECTION AGENCY
<b>PROFEPA</b>	FEDERAL ENVIRONMENTAL PROTECTION AGENCY
<b>SCADA</b>	SUPERVISORY CONTROL AND DATA ACQUISITION
<b>SCR</b>	SELECTIVE CATALYTIC REDUCTION
<b>SEMARNAT</b>	MEXICAN MINISTRY OF THE ENVIRONMENT AND NATURAL RESOURCES
<b>SEMPRA ENERGY</b>	THE INDIRECT CONTROLLING SHAREHOLDER OF IENOVA; A COMPANY INCORPORATED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, IN THE US
<b>STPS</b>	MEXICAN MINISTRY OF LABOR AND SOCIAL WELFARE
<b>TDM</b>	TERMOELÉCTRICA DE MEXICALI, S. DE R.L. DE C.V., IENOVA'S POWER PLANT.
<b>TGN</b>	TRANSPORTADORA DE GAS NATURAL DE BAJA CALIFORNIA, S. DE R.L., ONE OF IENOVA'S NATURAL GAS PIPELINES
<b>TRIR</b>	TOTAL RECORDABLE INCIDENT RATE
<b>UABC</b>	AUTONOMOUS UNIVERSITY OF BAJA CALIFORNIA
<b>USD\$</b>	US DOLLARS
<b>VAT</b>	VALUE ADDED TAX
<b>VENTIKA</b>	252 MW WIND FARM LOCATED IN THE STATE OF NUEVO LEÓN

CHEMICAL  
FORMULAS

<b>CH<sub>4</sub></b>	METHANE
<b>CO</b>	CARBON MONOXIDE
<b>CO<sub>2</sub></b>	CARBON DIOXIDE
<b>CO<sub>2</sub>e</b>	CARBON DIOXIDE EQUIVALENT (A MEASUREMENT USED TO COMPARE SEVERAL GREENHOUSE GAS EMISSIONS BASED ON THEIR GLOBAL WARMING POTENTIAL)
<b>N<sub>2</sub>O</b>	NITROGEN OXIDE
<b>NO<sub>x</sub></b>	(APPLIES TO VARIOUS COMPOUNDS FORMED BY OXYGEN AND NITROGEN)
<b>SO<sub>x</sub></b>	SULFUR OXIDES (APPLIES TO VARIOUS COMPOUNDS FORMED BY OXYGEN AND SULFUR)

GLOSSARY

<b>CARBON DIOXIDE EQUIVALENT</b>	UNIVERSAL MEASUREMENT USED TO INDICATE THE EFFECT ON GLOBAL WARMING OF EACH OF THE GREENHOUSE GAS EMISSIONS
<b>BENTHONIC FAUNA</b>	A GROUP OF ORGANISMS THAT LIVE ON SEA BEDS
<b>INVOLUNTARY TURNOVER RATE</b>	(NUMBER OF HIRES IN A YEAR - NUMBER OF INVOLUNTARY CUTS IN A YEAR) / TOTAL NUMBER OF EMPLOYEES.
<b>TOTAL TURNOVER RATE</b>	(NUMBER OF HIRES IN A YEAR - NUMBER OF VOLUNTARY AND INVOLUNTARY CUTS IN A YEAR) / TOTAL NUMBER OF EMPLOYEES.
<b>VOLUNTARY TURNOVER RATE</b>	(NUMBER OF HIRES IN A YEAR - NUMBER OF VOLUNTARY CUTS IN A YEAR) / TOTAL NUMBER OF EMPLOYEES.
<b>THE CLIMATE REGISTRY</b>	NGO IN THE US THAT MEASURES AND VERIFIES INTERNATIONAL CARBON STANDARDS.
<b>OPERATING UNIT</b>	REFERS TO IENOVA'S COMPANIES OPERATING IN THE GAS AND ELECTRICITY BUSINESS SEGMENTS.



# ABOUT THIS REPORT

[102-12, 102-45, 103-1, 102-49, 102-50, 102-52, 102-54, 102-55, 102-56]

This is the fourth Sustainability Report published by IEnova. In it we describe in detail our company's performance during 2016, including our accomplishments and the challenges we faced concerning economic, social, and environmental issues. For the second time, the Report includes the company's financial highlights.

This Sustainability Report + Financial Report summarizes the information pertaining to our Gas and Power business segments, including companies that offer natural gas, LPG, and ethane pipelines and storage services, as well as liquefied natural gas storage; companies that distribute natural gas; and our combined-cycle plant and wind parks, which generate electricity.

In drafting this Report, for the first time we followed the new Global Reporting Initiative (GRI) methodology known as the GRI Sustainability Reporting Standards, in accordance with the "Core" option.

The information included in this Report covers the period between January 1<sup>st</sup> and December 31<sup>st</sup> 2016. It employs the information contained in our databases and the analyses carried out by each of the companies that make up IEnova.

The issues identified in our 2014 materiality assessment continue to be relevant for both IEnova and our stakeholders. Following the new GRI Standards, we report on the information pertaining to the indicators related to our material aspects and boundaries, as well as on those that we consider to be most relevant to our stakeholders. We obtained the GRI Materiality Disclosures Service mark for the third consecutive year. Our methodology is described in the chapter entitled "We are a Sustainable

Company." In addition, throughout the Report we describe the formulas used to calculate the indicators and we specify the operating units for which we are reporting the information. We have also clearly identified any changes in our metrics with respect to information reported in prior years.

Within the Gas segment, unless otherwise specified, the consolidated performance data for IEnova does not include information on the assets belonging to Gasoductos de Chihuahua, a company from which, in September 2016, we purchased the 50% share we didn't previously own from Pemex Transformación Industrial (TRI). In the Power segment, the Report does include data on Energía Sierra Juárez, a cross-border wind farm that we built and now operate as part of our joint venture with InterGen, in which we have a 50% stake. The Report does not include data on our Ventika wind farm, which we acquired in December 2016.

For the third consecutive year, Deloitte, as an independent third-party, reviewed 30 material indicators included in this Sustainability Report.

As a signatory of the UN Global Compact since 2015, this Report constitutes IEnova's second Communication on Progress (COP). We also include herein the progress we have made in terms of the Compact's ten principles and our contribution to the UN Sustainable Development Goals (SDGs).

We thank you for your interest in our company. We are certain the Report contains enough detailed information about IEnova's social responsibility performance. This 2016 Sustainability Report + Financial Report is available to view and download on our website: [www.ienova.com.mx](http://www.ienova.com.mx).

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The Report is a translation from the original version in Spanish. In case of discrepancy, the Spanish version prevails.



[www.ienova.com.mx](http://www.ienova.com.mx)