IEnova®
INFRAESTRUCTURA ENERGÉTICA
Una empresa de Sempra

FACING THE FUTURE

2018

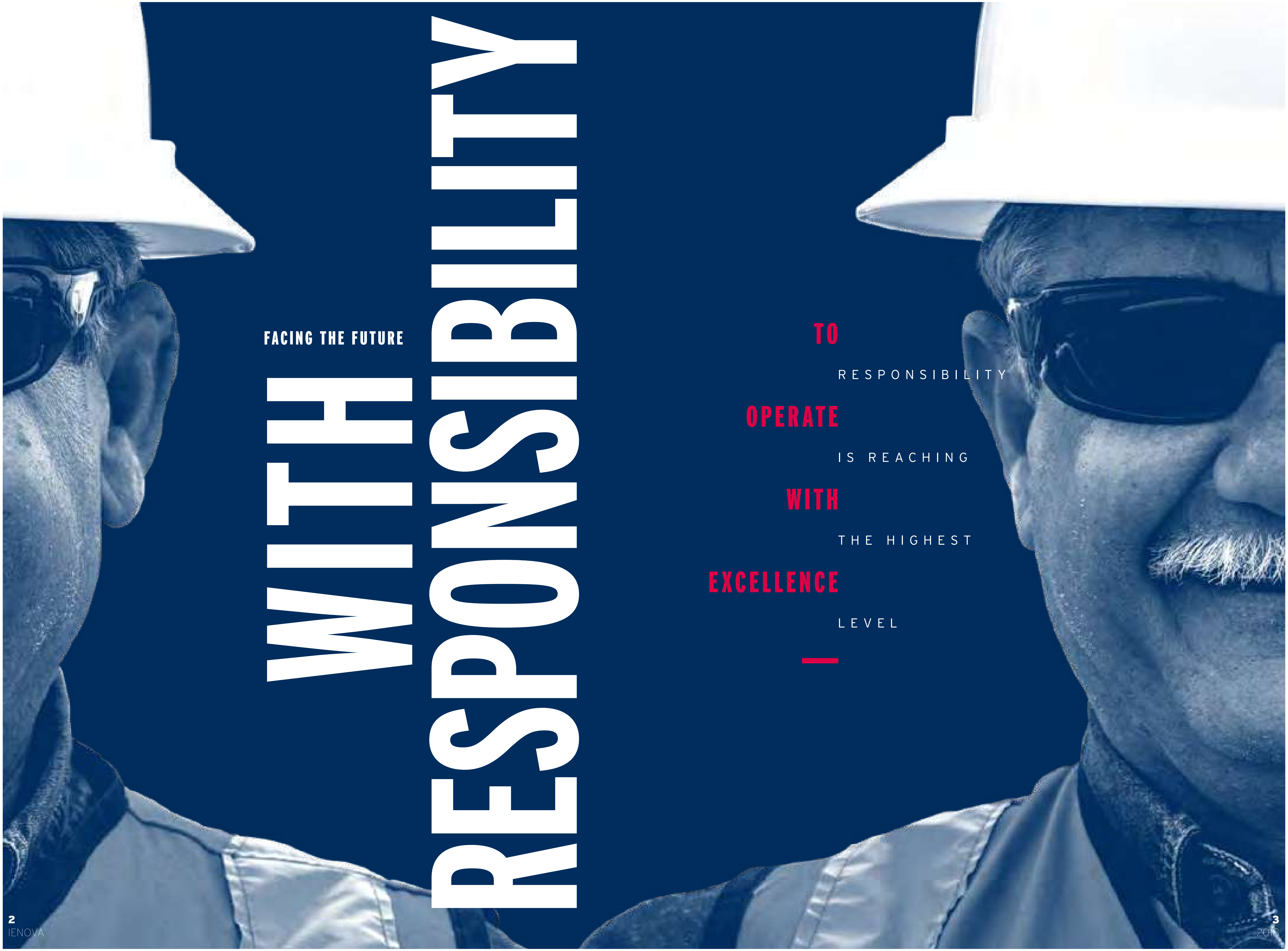
SUSTAINABILITY + FINANCIAL REPORT

FACING THE FUTURE

WITH VISION

TO PROMOTE THE COUNTRY'S DEVELOPMENT

VISION MEANS PROJECTING INTO THE FUTURE TO IMPACT OUR SURROUNDINGS



FACING THE FUTURE

WITH RESPONSIBILITY

TO

RESPONSIBILITY

OPERATE

IS REACHING

WITH

THE HIGHEST

EXCELLENCE

LEVEL

FACING THE FUTURE WITH INNOVATION

TO

INNOVATION

PROMOTE

IS TO

GROWTH

COLLABORATE

RESPONSIBLY TO

BENEFIT SOCIETY

CONTENT

Ventika Wind Farm

WE ARE

IENOVA

IENOVA DEVELOPS, BUILDS, AND OPERATES ENERGY INFRASTRUCTURE PROJECTS IN MEXICO. AT YEAR-END 2018, IENOVA'S TOTAL ASSETS WERE VALUED AT USD$8.769 BILLION INCLUDING PROJECTS IN OPERATION AND UNDER CONSTRUCTION, ACQUISITIONS, AND JOINT VENTURES. WE ARE THE FIRST ENERGY COMPANY TO BE LISTED ON THE MEXICAN STOCK EXCHANGE

OUR

VALUES

[102-16]

DO THE RIGHT THING
We are guided by our ethics, our focus on safety, and our willingness to stand for what is right.

CHAMPION PEOPLE
We invest people and value diversity and inclusion because it elevates performance and helps us partner responsibly.

SHAPE THE FUTURE
We are forward thinkers who innovate and collaborate with stakeholders to make a positive difference.

OUR VISION is to be the leading energy infrastructure company in Mexico that contributes to the country's sustainable development.

OUR MISSION is to develop, build, and operate energy infrastructure which foster´s Mexico growth in a framework of ethics, safety, respect, and commitment to our employees, the environment, the communities to which we belong, our customers, and shareholders.

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND EXECUTIVE CHAIRMAN OF IENOVA

IENOVA IS A PROUDLY MEXICAN COMPANY THAT FOR MORE THAN 22 YEARS HAS CONTRIBUTED IN AN ETHICAL AND SUSTAINABLE MANNER TO THE DEVELOPMENT OF OUR COUNTRY AND ITS PEOPLE

The infrastructure we build and operate is essential to promoting growth and bringing better living conditions to Mexicans. Our efforts to provide safe, efficient energy at competitive prices enable thousands of people to have a better quality of life and access to higher levels of well-being and progress.

Every day, in all that we do, we conduct ourselves within a framework of ethics, based on the best corporate governance practices, and in a manner that is respectful to the environment and the communities to which we belong. In so doing, we are creating value for our customers, employees, partners, shareholders, and society as a whole.

Sustainability is rooted in everything we do; we act responsibly in every situation and we take concrete actions for those in the greatest need. During 2018, we invested close to USD$6 million in communities, the environment, health and safety, and compliance.

IEnova has a talented team with deep experience. I wish to thank and acknowledge the great effort they make each and every day, as well as their dedication and adherence to our mission, vision, and values. Our Board members, partners, and shareholders are important sources of motivation and support. Before them, we affirm IEnova's commitment to continue generating value with purpose and responsibility.

I see a promising future for IEnova. We have the experience, high regard, and ideal team to continue writing a success story, guided by our ongoing purpose of contributing to the development, prosperity, and energy security of our country.

Today, as has been for more than two decades, IEnova is Energy for Mexico.

CARLOS RUIZ SACRISTÁN
Chairman of the Board of Directors
and Executive Chairman
Infraestructura Energética Nova, S.A.B. de C.V.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

DURING 2018 OUR ATTENTION CONTINUED TO BE FOCUSED ON CONTRIBUTING TO THE SUSTAINABLE DEVELOPMENT OF MEXICO, WHICH HAS BEEN IENOVA'S GOAL SINCE OUR FOUNDING 22 YEARS AGO.

SUPPORTED BY THE EFFORT OF OUR MORE THAN 1,000 EMPLOYEES, TODAY WE BUILD AND OPERATE ENERGY INFRASTRUCTURE IN 17 MEXICAN STATES, PROVIDING ACCESS TO ENERGY TO THOUSANDS OF CONSUMERS IN A SAFE, CONTINUOUS, AND EFFICIENT MANNER.

WE EXCEEDED OUR ESTABLISHED GOALS BY LEVERAGING THE OPPORTUNITIES THAT THE DYNAMIC ENERGY MARKET OFFERED IN MEXICO

[102-14]

In 2018 we made a capital investment of more than USD$631 million in achieving growth based on the expansion and diversification of our portfolio. IEnova's total assets at year-end 2018 were valued at USD$8.769 billion.

We exceeded our financial goals with solid results. Adjusted EBITDA for the year was USD$876 million, representing a 16% increase with respect to 2017.

During the year, we focused on the execution of several construction projects, which are increasingly complex. Furthermore, we set the basis to begin new renewable energy, refined products storage, and liquefied natural gas projects.

In relation to our new business lines, we are currently building three terminals for the receipt, storage, and delivery of refined products in the new port of Veracruz, the vicinity of Mexico City, and the state of Puebla. In addition, we have signed contracts to build another three terminals: in Ensenada, in Topolobampo, and in Manzanillo.

In renewable energy, at the beginning of the year we announced the development of a new solar park in the state of Sonora known as Don Diego Solar, through which we will supply clean energy at competitive prices to several private companies seeking to decrease their environmental footprint. This project complements our renewable energy portfolio that also includes three other solar parks and two wind farms.

We are also in the advanced stages of the development of a natural gas liquefaction project at Energía Costa Azul (ECA). The geographic location of this asset will allow us to cover the needs of isolated populations in the states of Baja California and Baja California Sur and generate economic benefits for the region, in addition to supplying the export market.

Every day we strengthen our commitment to social responsibility and our contribution to the Sustainable Development Goals of the United Nations. Accordingly, we develop the energy infrastructure the country requires, and we support the communities with which we have established relationships. On the basis of this level of commitment, we implement measures to contribute to protect the environment and biodiversity in the places where our assets are located.

USD$**5.73** MILLION

INVESTED IN 2018 IN COMMUNITY, ENVIRONMENT, HEALTH AND SAFETY, AND COMPLIANCE

Our social commitment to communities is evidenced by our Social Management System. We have several social investment mechanisms in place, including Fundación IEnova, trusts, and direct project support. Since 2015, our social works contributions have been in excess of 10 million dollars.

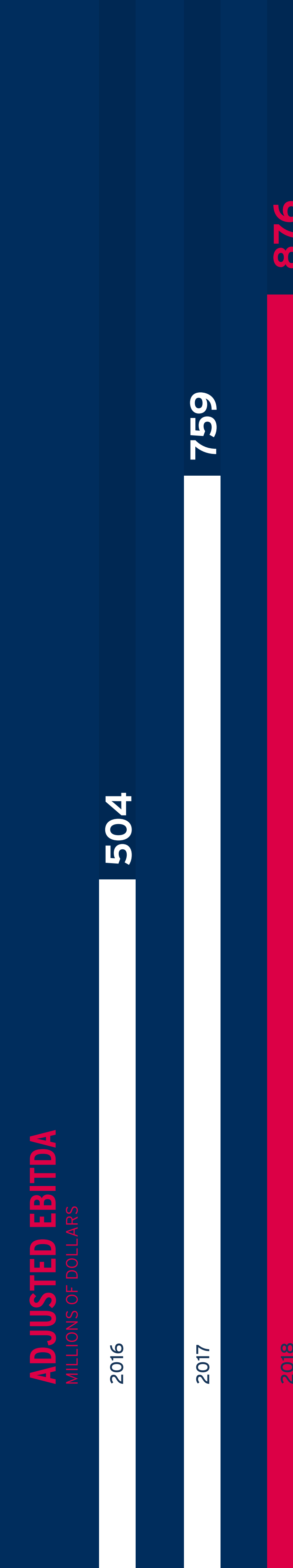
To our employees, who are our most important asset, we offer an optimal work environment in which respect is the rule and in which they have the tools they require to grow both personally and professionally. As a result of our efforts, for the fifth consecutive year we received the Great Place to Work certification and we continue to be included in the institute's ranking of the best companies to work for in Mexico.

In mid-2018 the Board of Directors announced an internal restructuring, which will allow us to both seize future opportunities as well as face potential challenges. It is an honor for me to serve as IEnova's Chief Executive Officer since September 2018.

I wish to thank our Chairman of the Board of Directors and Executive Chairman of IEnova, Carlos Ruiz Sacristán, the management team, and all of IEnova's employees for their support during this transition. I also wish to acknowledge their continued commitment to operate this great company on a firm basis of ethics, high performance, safety, and respect.

In this Report we have described in detail our achievements for the year. We will continue to work tirelessly to successfully conclude the projects we currently have under way and to contribute to the sustainable development of our country.

TANIA ORTIZ MENA
Chief Executive Officer
Infraestructura Energética Nova, S.A.B. de C.V.



IENOVA IN MEXICO

WITH A 22-YEAR HISTORY, IENOVA IS THE MOST IMPORTANT PRIVATE MEXICAN COMPANY IN THE COUNTRY'S ENERGY SECTOR

1995-2000

- The natural gas sector's legal framework was amended
- Enova de México, now IEnova, was established
- ECOGAS Mexicali, ECOGAS Chihuahua, ECOGAS La Laguna-Durango, and Transportadora de Gas Natural de Baja California (TGN)

2001-2005

- Rosarito Pipeline (GR) and Termoeléctrica de Mexicali (TDM)

2006-2010

- LNG storage terminal Energía Costa Azul (ECA)
- Acquisition of the El Paso assets: Naco compression station and a 50% stake in Gasoductos de Chihuahua

2011-2015

- USD$408.3 million debt placement and USD$598.8 million share issue
- Inclusion of the IEnova shares in the IPC Mexican Stock Index
- Beginning of operations of the LPG Storage Terminal in Guadalajara, Los Ramones I, the Sásabe-Puerto Libertad and Puerto Libertad-Guaymas phases of the first segment of the Sonora Pipeline, Energía Sierra Juárez wind park, Ethane Pipeline
- Inclusion of IEnova in the Sustainable Index of the Mexican Stock Exchange
- First Great Place to Work certification and first Socially Responsible Company Award
- Creation and beginning of operations of Fundación IEnova, A.C.

2016

- Beginning of operations of the Los Ramones Norte Pipeline
- Award of the Ramal-Empalme Pipeline
- Award of the Southern 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 Solar
- IEnova equity follow-on offering
- Acquisition of the Ventika wind farm

2017

- Beginning of operations of the Guaymas-El Oro segment of the Sonora Pipeline
- Beginning of operations of the San Isidro-Samalayuca Pipeline
- Beginning of operations of the Ojinaga-El Encino Pipeline
- Beginning of operations of Ramal Empalme
- Acquisition of the 25% Pemex stake in the Los Ramones Norte project
- Signing with DeAcero of the first energy supply contract between a private generator and an industrial client
- Award of the contract to build a marine terminal for the receipt, storage, and delivery of refined products in the new port of Veracruz, as well as two land terminals in Puebla and in the vicinity of Mexico City
- International senior note offering for USD$840 million

2018

- Announcement of the Baja Refinados project to develop a marine terminal for the receipt, storage, and delivery of refined products in Ensenada, Baja California
- Award of the contract to build and operate a terminal for the receipt, storage, and delivery of refined products and other fluids in Topolobampo, Sinaloa
- Organizational restructuring which appointed Carlos Ruiz Sacristán as Chairman of the Board of Directors and Executive Chairman of IEnova and Tania Ortiz Mena as Chief Executive Officer of IEnova
- Signing with Trafigura an acquisition and partnership contract to develop a marine terminal for the receipt, storage, and delivery of refined products in Manzanillo, Colima
- Signing with Liverpool, Scotiabank, and Minera Autlán of long-term solar energy purchase agreements
- Signing with Total, Mitsui, and Tokyo Gas three preliminary agreements for the ECA LNG natural gas liquefaction project

OUR

ACTIVITIES

[102-4, 102-6]

GAS SEGMENT

STORAGE AND REGASIFICATION TERMINAL
Capacity for 320,000 m^3
of natural gas

Gas pipelines

Energía Costa Azul

Transportadora de Gas Natural de BC

Gasoducto Rosarito

Gasoducto Aguaprieta

Marine pipeline***

STORAGE TERMINALS
TOTAL: 6,880,000 bl
Veracruz 2.1 mbl
Puebla 650,000 bl
Valle de México 650,000 bl
Baja Refinados 1 mbl
Tobolobampo 1 mbl
Manzanillo 1.48 mbl
(Under development)

Gas pipelines

ECOGAS
Natural gas distribution system

ECOGAS

Commercial

Residential

Industrial

CUSTOMERS

MEXICALI

CHIHUAHUA

LA LAGUNA-DURANGO

3,947 km
OF NATURAL GAS DISTRIBUTION PIPELINES

122,896
CUSTOMERS

8
CITIES

3
GEOGRAPHICAL AREAS

3,391 km*
OF NATURAL GAS, LPG, AND ETHANE PIPELINES

LPG TERMINAL IN GUADALAJARA
Capacity for 80,000 bl of LPG

Transportadora del Norte

TDF

LPG transportation system

ETHANE PIPELINE

Gasoductos del Sureste

Pemex Gas Processing Center

POWER SEGMENT

Compression station

TERMOELÉCTRICA DE MEXICALI
625 MW Capacity

Termoeléctrica de Mexicali

ENERGÍA SIERRA JUÁREZ**
155 MW Capacity

Energía Sierra Juárez

VENTIKA
252 MW Capacity

Ventika

EXPANSION OF ENERGÍA SIERRA JUÁREZ
108 MW Capacity
(Under development)

SOLAR ENERGY PARKS
Pima Solar 110 MW_{AC}
(In operation)
Tepezalá Solar****100 MW_{AC}
Rumorosa Solar 41 MW_{AC}
Don Diego Solar 125 MW_{AC}
(Under construction)

* Includes 100% of kilometers of pipelines in operation, under construction, and in joint ventures.
** Asset belonging to the joint venture with Actis, 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.

SEGMENTS

BUSINESS

[102-2, 102-6, 102-10, OG3]

ASSETS IN OPERATION

GAS

PIPELINES

ROSARITO PIPELINE (GR)
302 km

TRANSPORTADORA DE GAS NATURAL DE BAJA CALIFORNIA (TGN)
45 km

SONORA PIPELINE (SÁSABE-GUAYMAS SEGMENT)
505 km

SONORA PIPELINE (GUAYMAS-EL ORO SEGMENT)
330 km

RAMAL EMPALME
20 km

AGUAPRIETA PIPELINE (GAP)
13 km

NACO COMPRESSION STATION
14,340 HP

LOS RAMONES I PIPELINE
116 km

LOS RAMONES NORTE PIPELINE*
452 km

TDF LPG TRANSPORTATION SYSTEM
190 km

SAMALAYUCA PIPELINE
37 km

OJINAGA–EL ENCINO PIPELINE
220 km

SAN ISIDRO-SAMALAYUCA PIPELINE
23 km

SAN FERNANDO PIPELINE
114 km

ETHANE PIPELINE
224 km

STORAGE

LPG STORAGE TERMINAL IN GUADALAJARA
80,000 bl

NATURAL GAS STORAGE AND REGASIFICATION TERMINAL, ENERGÍA COSTA AZUL (ECA)
320,000 m^3

DISTRIBUTION

ECOGAS (NATURAL GAS DISTRIBUTION PIPELINES)
122,896 CUSTOMERS
3,947 km

POWER

GENERATION

TERMOELÉCTRICA DE MEXICALI (TDM)
625 MW

ENERGÍA SIERRA JUÁREZ (ESJ)** 47 WIND TURBINES
155 MW

VENTIKA 84 WIND TURBINES
252 MW

PIMA SOLAR***
110 MW_{AC}

* Asset belonging to the joint venture with BlackRock, in which IEnova holds a 50% stake.
** Asset belonging to the joint venture with Actis, in which IEnova holds a 50% stake.
*** Asset that began operating during the first quarter of 2019.

PROJECTS UNDER CONSTRUCTION AND IN DEVELOPMENT

[102-10, OG3]

GAS

PIPELINES

SOUTH OF TEXAS-TUXPAN*	800 km 2,600 mcfd 42 inches in diameter	• Marine and ground pipeline in the Gulf of Mexico, that runs from Southern Texas to Tuxpan, in the state of Veracruz. • It is estimated that it will be operational in the second quarter of 2019.

STORAGE

GOLFO-CENTRO STORAGE TERMINALS	VERACRUZ 2.1 mbl PUEBLA 650,000 bl VALLE DE MÉXICO 650,000 bl	• Marine terminal for the receipt, storage, and delivery of refined products in the new port of Veracruz, as well two land terminals being built in the state of Puebla and in the vicinity of Mexico City. • It is estimated that all terminals will be operational in the fourth quarter of 2019 and first quarter of 2020.
BAJA REFINADOS STORAGE TERMINAL	1 mbl	• Marine terminal for the receipt, storage, and delivery of refined products in the state of Baja California. • It is estimated that it will be operational in the fourth quarter of 2020.
TOPOLOBAMPO STORAGE TERMINAL	1 mbl	• Terminal for the receipt, storage, and delivery of refined products in Topolobampo, Sinaloa. • It is estimated that it will be operational in the fourth quarter of 2020.
MANZANILLO STORAGE TERMINAL**	1.48 mbl	• Marine terminal for the receipt, storage, and delivery of refined products in Manzanillo, Colima. • It is estimated that it will be operational in the fourth quarter of 2020.

POWER

GENERATION

RUMOROSA SOLAR	41 MW_{AC}	• Solar energy park located near the Energía Sierra Juárez wind farm in the municipality of La Rumorosa. • It is estimated that it will be operational in the first quarter of 2019.
TEPEZALÁ SOLAR***	100 MW_{AC}	• Solar energy park located in the state of Aguascalientes. • It is estimated that it will be operational in the second quarter of 2019.
DON DIEGO	125 MW_{AC}	• Solar energy park located in the state of Sonora. • It is estimated that it will be operational in the fourth quarter of 2019.
ENERGÍA SIERRA JUÁREZ (ESJ) Expansion	108 MW	• Expansion of the Energía Sierra Juárez wind farm located in the Sierra de Juárez mountain range, in the municipality of Tecate, Baja California. • It is estimated that it will be operational in the fourth quarter of 2020.

* Asset belonging to the joint venture with TransCanada, in which IEnova holds a 40% stake.
** Asset belonging to the joint venture with Trafigura, in which IEnova holds a 51% stake.
*** Asset belonging to the joint venture with Trina, in which IEnova holds a 90% stake.

ASSETS

IENOVA

[102-4, 102-6]

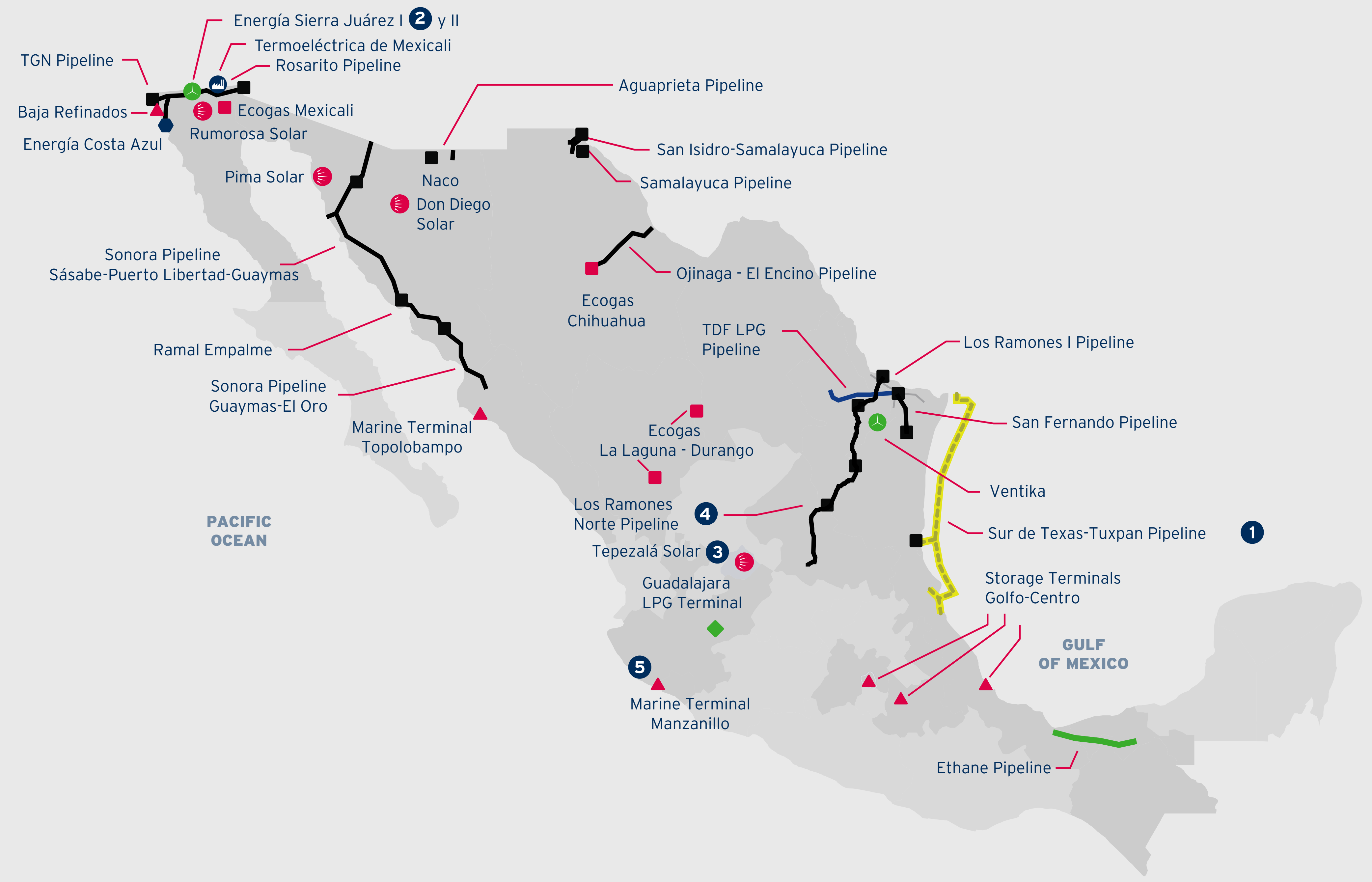
- Gas Distribution
- LNG Terminal
- LPG Terminal
- Storage Terminals
- Gas Generation
- Wind Generation
- Solar Generation
- Compressor Station

- Gas Pipeline In Operation
- LPG Pipeline In Operation
- Ethane Pipeline In Operation
- Sur de Texas - Tuxpan Pipeline (In Construction)

JV ASSETS

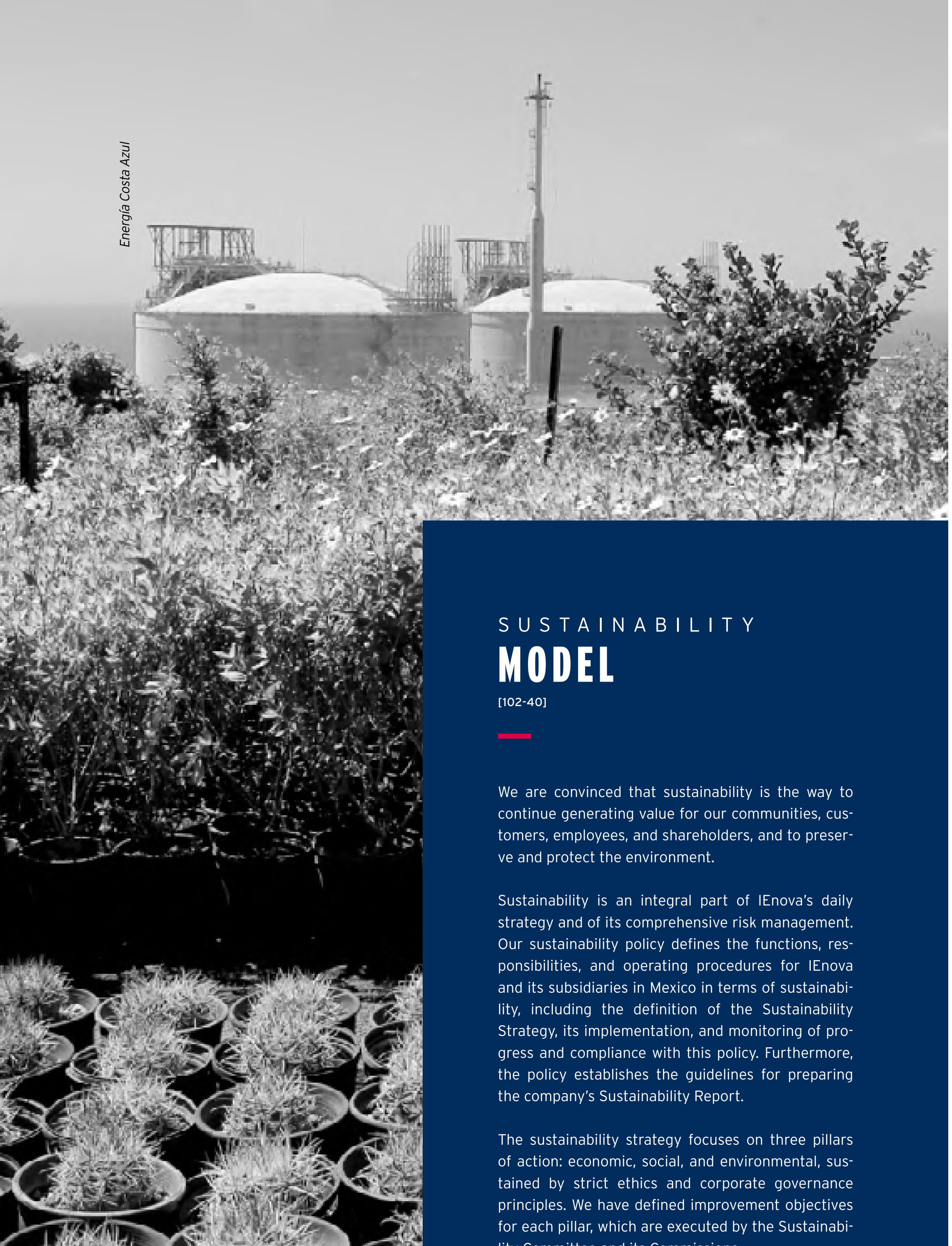
1. TransCanada
2. Actis
3. Trina Solar
4. BlackRock
5. Trafigura

Includes 100% of joint ventures



WE ARE A SUSTAINABLE COMPANY

AT IENOVA WE ARE COMMITTED TO CONTRIBUTING TO AND PROMOTING MEXICO'S DEVELOPMENT, COMPETITIVENESS, AND SUSTAINABLE GROWTH



Energía Costa Azul

SUSTAINABILITY
MODEL

[102-40]

We are convinced that sustainability is the way to continue generating value for our communities, customers, employees, and shareholders, and to preserve and protect the environment.

Sustainability is an integral part of IEnova's daily strategy and of its comprehensive risk management. Our sustainability policy defines the functions, responsibilities, and operating procedures for IEnova and its subsidiaries in Mexico in terms of sustainability, including the definition of the Sustainability Strategy, its implementation, and monitoring of progress and compliance with this policy. Furthermore, the policy establishes the guidelines for preparing the company's Sustainability Report.

The sustainability strategy focuses on three pillars of action: economic, social, and environmental, sustained by strict ethics and corporate governance principles. We have defined improvement objectives for each pillar, which are executed by the Sustainability Committee and its Commissions.

HEALTH AND SAFETY

COMPREHENSIVE PROFESSIONAL AND PERSONAL GROWTH

DIVERSITY AND INCLUSION

ECONOMIC AND COMMUNITY DEVELOPMENT

SOCIAL MANAGEMENT

ENVIRONMENTAL CULTURE

COMPREHENSIVE MANAGEMENT OF WASTE AND EMISSIONS

BIODIVERSITY

CLEAN AND EFFICIENT ENERGY

MAXIMIZING SHAREHOLDER VALUE

INTEGRITY OF THE ASSETS

OPERATIONAL AVAILABILITY AND RELIABILITY

USING RESOURCES EFFICIENTLY

CUSTOMER SATISFACTION

COMPREHENSIVE RISK MANAGEMENT

S U S T A I N A B I L I T Y

MANAGEMENT

[102-19, 102-20, 102-31, 102-32, 102-33]

At IEnova, sustainability is a priority objective of the Board of Directors and the Chief Executive Officer that permeates the entire company in order to ensure that it is truly integrated into the business strategy and forms part of the daily operation of the company. To implement the sustainability strategy, and to monitor, identify, and manage economic, environmental, and social risks, we rely on our Sustainability Committee.

The Sustainability Committee stems from the Corporate Practices Committee of the Board of Directors, to which it periodically reports its results. The functions of the Committee include approving the sustainability strategy; 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 ensuring that all IEnova employees have knowledge of and comply with the sustainability policy.

It is chaired by our Chief Corporate Affairs Officer, and includes the following IEnova executives:

- Chief Financial Officer
- General Counsel and Chief Compliance Officer
- Chief Corporate Affairs Officer
- Chief Engineering & Construction Officer
- Chief Power & Storage Operating Officer
- Chief Natural Gas Operating Officer
- Chief Development Officer
- Vice President Controller
- Director of Human Capital
- Director of External Affairs and Sustainability
- Manager of Auditing
- Manager of Sustainability

In 2018 we restructured the Committee seeking to focus our efforts on the most relevant issues for IEnova and our stakeholders. It currently includes seven commissions:

C O R P O R A T E
PRACTICES COMMITTEE

SUSTAINABILITY COMMITTEE
Chaired by the Chief Corporate Affairs Officer

ETHICS AND CORPORATE GOVERNANCE COMMISSION
Chaired by the General Counsel and Chief Compliance Officer

ENVIRONMENT AND HEALTH AND SAFETY COMMISSION
Chaired by the General Counsel and Chief Compliance Officer

HUMAN CAPITAL COMMISSION
Chaired by the Chief Corporate Affairs Officer

SOCIAL MANAGEMENT AND SUPPLY CHAIN COMMISSION
Chaired by the Chief Corporate Affairs Officer

ENGINEERING & CONSTRUCTION COMMISSION
Chaired by the Chief Engineering & Construction Officer

POWER & STORAGE OPERATIONS COMMISSION
Chaired by the Chief Power& Storage Operating Officer

NATURAL GAS OPERATIONS COMMISSION
Chaired by the Chief Natural Gas Operating Officer

Always striving for continuous improvement, the actions implemented by the commissions enabled us to be included for the fifth consecutive year in the Sustainability Index of the Mexican Stock Exchange, obtaining a score 43% higher than the one achieved in 2014 when we were evaluated for the first time.

In 2018 we were included for the first time in the FTSE4Good Index Series of the London Stock Exchange. This index recognizes companies that prove, based on public information, their commitment to operating in alignment with the highest environmental, social, and corporate governance standards.

Additionally, the Centro Latinoamericano de Responsabilidad Social (Latin American Social Responsibility Center) of the Anáhuac University in Mexico City granted IEnova the CLARES Social Responsibility Award. With this award the University recognizes institutions that show exceptional performance and social commitment and serve as an example for present and future generations.

We also obtained for the fifth consecutive time the Great Place to Work certification and the Socially Responsible Company (ESR) award granted by the Mexican Center for Philanthropy (Cemefi).

For the third time we were included in the responsible companies in Mexico ranking published by *Expansión* magazine.

STAKEHOLDERS

[102-40, 102-43, 102-46]

● PERMANENT ■ ANNUAL ▲ QUARTERLY ✚ AS REQUIRED

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
In-person 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	✚								
Notification of relevant events	✚	✚	✚	✚	✚	✚	✚	✚	✚
Review of the collective bargaining contract	■				■				
Surveys	✚		■			✚			
Guided visits to industrial facilities	✚	✚	✚	✚	✚	✚	✚	✚	✚
Fundación IEnova	✚	✚			✚	✚	✚	✚	✚
Grievance mechanism (MAC)						●		●	

The frequency of contact with our stakeholders depends on the characteristics of each individual case. The measures we implement to address their expectations and strengthen our relationship with them depend on their needs.

[102-44]

In 2018 we continued implementing the corporate Social Management System through which we coordinate and monitor the efforts we carry out in the communities with which we interact. Through our Grievance Mechanism known as MAC—our most effective two-way communications channel—we address the concerns, complaints, or suggestions of our communities.

Additionally, we have produced MAC communications materials in native languages in order to communicate with the indigenous communities living in areas where we have projects. We train employees and contractors involved in the projects to ensure that the system is implemented and maintained during the construction process and for the rest of the life of the project.

Each stakeholder has a series of expectations they communicate to us via the various channels they have. We make a continuous effort to meet their expectations and develop synergies. The following are among the response measures currently in progress:

EXPECTATIONS	CURRENT RESPONSE MEASURES* [102-40, 102-44]
HUMAN CAPITAL Training and development, education, remuneration, quality of life at the workplace	• Participate in the Great Place to Work Institute's work environment survey. • Offer the "Certification in the IEnova Leadership Standard" for new employees under the online platform known as *Mi Desarrollo* (My Development). • Offer a training program based on categories and levels to promote personal and professional growth. • Continue annual reviews of the benefits package and ensure it continues to be at competitive levels for the industry.
SHAREHOLDERS AND INVESTORS 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.
CUSTOMERS AND CONSUMERS High-quality service, safety, prices	• Continue to conduct annual customer satisfaction surveys for the natural gas Pipelines and Distribution operating units, and in our wind farms (ESJ and Ventika). • Obtain a score above 90% in these surveys.
SUPPLIERS Development, commercial conditions, long-term relationships	• Draft a development plan with suppliers and continue to perform surveys among key suppliers on essential sustainability issues. • Communicate to key suppliers the sustainability requirements established in the Procurement Policy and distribute the Sustainability Report.
GOVERNMENT AUTHORITIES AND REGULATORS Compliance with the law and regulations, development, sustainability	• Ensure that all operating assets are either certified, or in the process of being certified, under ASEA's or Semarnat's Environmental Quality or Clean Industry standards. • Comply rigorously with all regulations applicable to our operating assets and our projects under construction. • Participate in business-related associations.
COMMUNITY Safety and social development	• Have social investment programs in place to help the communities to which we belong. • Strengthen the corporate volunteers program. • Ensure safe operations. • Respect traditions of indigenous populations. • Operate Fundación IEnova increasing its presence in those states where the company currently has assets. • Operate the Social Management System.
COMMUNICATIONS MEDIA Timely information	• Offer updated and timely information through different channels and means of communication.
CIVIL ORGANIZATIONS AND NGOS Development, sustainability, regulatory compliance	• Respect traditions of indigenous populations. • Maintain efficient operations of the company's current Trusts. • Operate Fundación IEnova, expanding its presence in those states where the company currently has assets. • Operate the Social Management System. • Ensure regulatory compliance at every IEnova operation.
STRATEGIC PARTNERS Growth, sustainability, operating efficiency	• Promote and comply with best corporate governance practices.

* For more information, please view the Progress and Challenges sections (pages 62, 90, 154, 200)

MATERIALITY

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

In 2018, in order to update our materiality assessment we interviewed 12 IEnova executives who participate in the implementation of the company's business strategy.

To include the point of view of our stakeholders in the analysis, we rely on various tools such as the customer satisfaction surveys we conduct with our natural gas Distribution and Transportation customers. We once again asked employees to answer the questionnaire designed by the Great Place to Work (GPTW) Institute in Mexico in order to assess satisfaction with their work environment. Results in all three surveys were very positive, as they have been in the past.

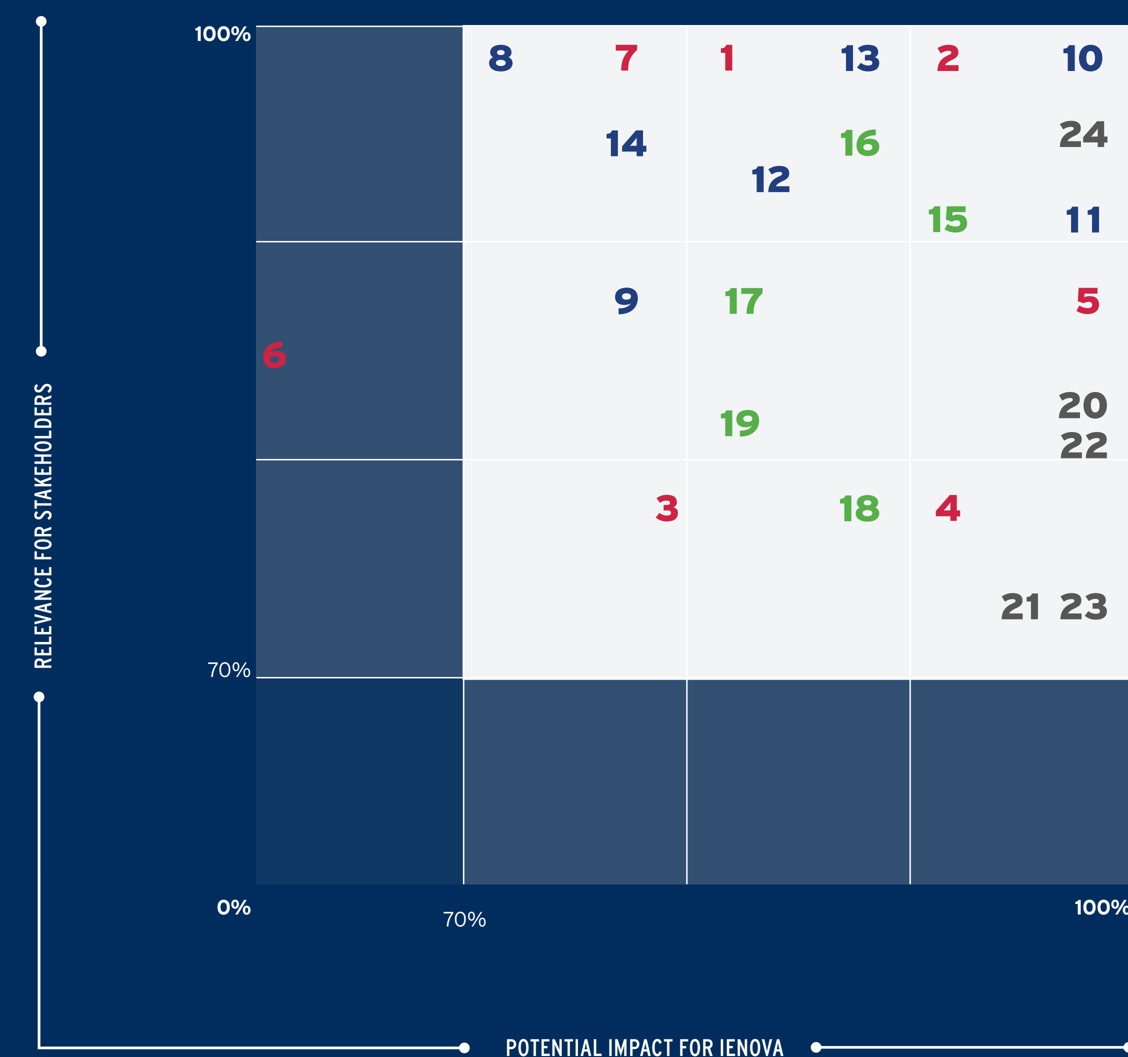
In the customer survey, satisfaction levels were high, with a score of 9.3 points for Distribution customers and 9.4 in Pipelines (out of 10 possible points). The GPTW questionnaire showed employee satisfaction levels above last year's measurement. Based on these results, we were able to maintain the GPTW certification and were once again ranked among the top 100 companies to work for in Mexico.

In the media, 70% of the stories on IEnova were positive. Financial and operating results, new projects, and the internal restructuring received positive media coverage.

All these evaluation efforts confirmed that the topics we had identified as material during prior years continue to be relevant, with some variations in degree. These variations are reflected on the updated materiality matrix. In 2019 we will perform an in-depth review of our materiality assessment in order to identify relevant variations for our company.

Material topics have been classified in their corresponding economic, social, environmental, or corporate governance pillar, thus ensuring that our sustainability model is aligned with IEnova's strategy.

MATERIALITY MATRIX



ECONOMIC
1. Customer experience and satisfaction*
2. Service quality*
3. Diversification of the service portfolio
4. Business strategy
5. Managing safety at operations*
6. Developing the supply chain
7. Job creation

SOCIAL
8. Grievance Mechanism*
9. Communication with suppliers*
10. Social commitment to communities
11. Occupational health and safety
12. Communication and engagement with stakeholders
13. Attracting, developing, and retaining talent*
14. Labor standards (Human Capital)

ENVIRONMENTAL
15. Environmental Management System*
16. Eco-efficiency in operations*
17. Climate Change
18. Certifications
19. Biodiversity (flora and fauna)*

CORPORATE GOVERNANCE
20. Corporate governance / organizational structure
21. Laws and regulations*
22. Corporate ethics and transparency*
23. Comprehensive risk management system*
24. Strengthening government relations

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

WE CREATE VALUE

USD$8.769
BILLION
IN TOTAL ASSETS AS OF 2018

+122,000
CUSTOMERS


San Isidro Compression Station

1,035	11%	43,769	100%	3,391km	3,947km	1,516MW	USD$5.73
EMPLOYEES	MORE EMPLOYEES THAN IN 2017	TRAINING HOURS +17% VS. 2017	OF EMPLOYEES RECEIVE AN ANNUAL PERFORMANCE EVALUATION	OF NATURAL GAS, LPG, AND ETHANE PIPELINES*	OF PIPELINES TO DISTRIBUTE NATURAL GAS	CAPACITY TO GENERATE ELECTRICITY**	MILLION INVESTMENTS IN COMMUNITY, ENVIRONMENT, HEALTH AND SAFETY, AND COMPLIANCE***

* Includes 100% of kilometers of pipelines in operation, under construction, and in joint ventures.

** Includes the capacity for generating electricity of the assets in operation as well as projects under construction and in development.

*** Investments in the community includes donations granted by Fundación IEnova, the social works of the Ethane Pipeline, Energía Sierra Juárez, and the Los Ramones Norte Pipeline, as well as contributions from the following Trusts: Ensenada, Sonora, Ojinaga-El Encino, and San Isidro-Samalayuca.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

WE ARE THE FIRST ENERGY INFRASTRUCTURE COMPANY TO BE LISTED ON THE MEXICAN STOCK EXCHANGE AND THE ONLY ONE INCLUDED IN ITS SUSTAINABILITY INDEX, WITH SCORES ABOVE THE NATIONAL AVERAGE IN EVERY CATEGORY

CORPORATE
GOVERNANCE

[102-18, 102-22, 102-23, 102-24, 102-25, 102-26, 102-28, 405-1]

The IEnova Board of Directors and its committees, as well as the Chief Executive Officer, are in charge of managing the company based on the Company Bylaws[1], all applicable regulations of the Mexican Stock Exchange, the provisions of the Mexican Banking and Securities Commission, as well as the recommendations of the Code for Best Corporate Practices established by the Mexican entrepreneurial council known as *Consejo Coordinador Empresarial*.

To address the recommendations of our evaluators, in September 2018, based on best practices in corporate governance, we carried out an organizational restructuring with the main goal of dividing the functions of Chairman of the Board of Directors and Chief Executive Officer.

As a result of this restructuring, Carlos Ruiz Sacristán was named Chairman of the Board of Directors and Executive Chairman of IEnova and Tania Ortiz Mena López Negrete was appointed Chief Executive Officer of IEnova.

In addition, we created two Executive Vice President positions to head our Power & Storage and Natural Gas divisions.

Another best practice we began implementing in early 2018 is to make available to our Shareholders, at the same time we convene them to the meeting, the information relevant to the issues that will be discussed during the Shareholders Meeting. In the same vein and at the request of our independent Board Members, we created the position of Manager for Corporate Liaison in charge of supporting our Board members in matters of compliance and decision-making.

Mexico City Corporate Headquarters, New York Life Building

[1]https://www.bmv.com.mx/docs-pub/compulsa/compulsa_756709_2020_1.pdf

BOARD OF DIRECTORS

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

The IEnova Board of Directors includes 13 permanent members, of whom four are independent directors in accordance to the terms of the Mexican Securities Law *(Ley del Mercado de Valores)*.

Our directors have proven experience and an excellent reputation in different areas of expertise. With their global view of the industry and the business environment, they review the business's plans and performance, evaluate comprehensive risk management, approve succession plans, establish corporate governance guidelines, and analyze progress in sustainability.

As established by the General Shareholders Meeting held on April 30, 2019, the Board of Directors includes the following members:

Carlos Ruiz Sacristán	**Chairman**
José Julián Sidaoui Dib	Independent Director
Jeffrey S. Davidow	Independent Director
Aarón Dychter Poltolarek	Independent Director
Alberto Mulás Alonso	Independent Director
Joseph A. Householder	Director
Erbin Brian Keith	Director
Peter Ronan Wall	Director
Faisel Hussain Kahn	Director
Dennis Victor Arriola	Director
Justin C. Bird	Director
Tania Ortiz Mena López Negrete	Director
Erle Allen Nye Jr.	Director
Rodrigo Cortina Cortina	Secretary, not a member of the Board Management

Mexico City Corporate Headquarters, New York Life Building

Ventika Wind Farm

CORPORATE PRACTICES COMMITTEE

[102-18, 102-22, 102-28, 102-32, 102-35, 102-36]

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 remuneration; requests the opinions and recommendations of independent experts; provides its opinion regarding transactions with related parties; and convenes meetings of the shareholders.

80% of this Committee are independent directors.

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 operates in a sustainable manner. To this end, the Sustainability Committee reports quarterly to the Corporate Practices Committee, which subsequently informs the Board of Directors on the progress made and the challenges faced on sustainability issues.

AUDIT COMMITTEE

[102-18, 102-22, 102-25, 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 and activities; receives and analyzes the 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 to the terms of the Mexican Securities Law.

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

We view corporate ethics as both a personal and institutional responsibility. To promote it, we have a Code of Ethics, an Ethics Committee that reports to the Audit Committee of the Board of Directors, and Guidelines for Supplier Conduct.

The Corporate Ethics Division is in charge of ensuring that all IEnova employees, Board members, and suppliers conduct themselves in accordance with our company's values. To achieve this, it carries out the following:

COMMUNICATES
CORPORATE ETHICS AND ANTICORRUPTION ISSUES

FOLLOWS-UP
ON THE CORPORATE ETHICS WORK PLAN

OFFERS
EMPLOYEES A PLACE WHERE THEY CAN MAKE THEIR COMPLAINTS AND BE CERTAIN THAT THOSE COMPLAINTS WILL BE ADDRESSED WITHOUT REPRISAL

OFFERS
TRAINING ON THESE ISSUES

CONTRIBUTES
TO MAKING IENOVA A LEADING COMPANY ON CORPORATE ETHICS ISSUES

We comply with all national and foreign anti-corruption and anti-bribery laws including, among others, the following:

- Mexican Federal Anti-Corruption Law in Public Hiring *(Ley Federal Anticorrupción en Contrataciones Públicas de México)*
- Mexican Federal Law for Preventing and Identifying Operations made with Illicit Resources *(Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita)*
- Federal Penal Code for Mexico *(Código Penal Federal de México)*
- Universal Declaration of Human Rights
- UN Convention Against Corruption
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
- The 1977 Foreign Corrupt Practices Act (FCPA)

[102-16, 102-17, 205-2]
In 2018 we updated our Code of Ethics to better reflect the new General Law on Public Administration Responsibilities *(Ley General de Responsabilidades Administrativas)* in addition to reinforcing actions related to the National Anti-Corruption System *(Sistema Nacional Anticorrupción)*. We also added two integrity standards to the Code, one related to managing information and the other referring to media relations and social networks.


Mexico City Corporate Headquarters, New York Life Building

WE COMPLY WITH ALL NATIONAL AND FOREIGN ANTI-CORRUPTION AND ANTI-BRIBERY LAWS

We give all employees at all our facilities the Training on Corporate Ethics course, which includes the issue of conflicts of interest. The goal of this training is for all employees to be familiar with and understand the significance and scope of our Code of Ethics, as well as their obligation to notify of any suspected violations of the code, and our anti-corruption practices. At year-end, 68% of our employees had taken the course; the goal is for 100% of employees to have taken it by the first quarter of 2019.

The Code of Ethics, which all employees are obligated to read, sign, and comply with, is available to view and download, in Spanish and English, at: *http://ienova.com.mx/pdf/english/Code_Ethics_Ienova_2019.pdf*

We offer the following reporting channels to all our employees 24/7:

IENOVA CONTIGO HELPLINE
01-800-062-2107

CONFIDENTIAL E-MAIL
IEnova@lineadedenuncia.com

IENOVA WEBSITE
https://www.lineadedenuncia.com/ienova/

SEMPRA ENERGY'S ETHICS & COMPLIANCE HELPLINE
01-800-241-5689
https://iwf.tnwgrc.com/Sempra

To ensure confidentiality and impartiality, the *IEnova Contigo* helpline is managed by a third-party. We have zero tolerance for ethics breaches; non-compliance is punished with measures that can include firing an employee, regardless of level. During 2018, 14 cases were addressed and resolved in a timely manner based on our policies.

Late in the year, we launched the "I Am in Compliance" program in response to the need to use a friendly and interactive tool to reinforce concepts of great relevance such as ethics, anti-corruption, and compliance with all applicable laws and regulations. The program will be progressively communicated to all operating units throughout 2019.

We continue to work on positioning IEnova as a leading company in the national discussion on anti-corruption issues. In 2018 we published a book entitled *Conceptos Fundamentales del Conflicto de Interés* (Key Concepts on Conflicts of Interest) in collaboration with the Mexican Ministry of Public Service *(Secretaría de la Función Pública)*. Furthermore, for the fourth year, we coordinated, in collaboration with the *Escuela Libre de Derecho*, the postgraduate course on Government and Corporate Ethics, Anti-Corruption, and Prevention of Conflicts of Interest, attended by high-level representatives of the public and private sectors.

We require all suppliers to acknowledge with and sign our Guidelines for Supplier Conduct that address issues such as compliance with applicable laws and regulations, business gifts and courtesies, use of IEnova assets, protection of the environment and sustainability, health and safety, the confidentiality and protection of all information, and conflicts of interest, among other topics.

Mexico City Corporate Headquarters, New York Life Building

Mexico City Corporate Headquarters, New York Life Building

ETHICS COMMITTEE

[102-17]

The Ethics Committee, which reports to the Audit Committee of the Board of Directors, is chaired by our General Counsel and Chief Compliance Officer. IEnova's Internal Auditor serves as the Secretary and is responsible for presenting the cases received through various channels to the Ethics Committee and for following-up on and recording all complaints received, as well as the minutes of the Committee's sessions. Additionally, it makes a quarterly summarized report to the Audit Committee on the complaints received and how they were handled.

The Ethics Committee 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 the following timeframe:

- Designation for investigation, 2 days.
- Investigation of the report and recommendations, 21 days. For cases that require more time, authorization of the Chairman of the Ethics Committee must be obtained.
- Authorization to close the case, and follow-up, maximum 15 days.

For more information on how the Ethics Committee works, please review our Code of Ethics at

http://ienova.com.mx/pdf/english/Code_Ethics_Ienova_2019.pdf

FOR US, CORPORATE ETHICS ARE BOTH A PERSONAL AND AN INSTITUTIONAL RESPONSIBILITY

RISK
MANAGEMENT
[102-11, 102-15, 102-29, 102-30, 102-31, 103-2]

Risk management at IEnova is headed by the Chief Financial Officer, to whom the Risk Director reports. The following are among the Risk Director's main responsibilities:

- Promote awareness across the company about potential risks.
- Measure, manage, report, and monitor risks identified by different work teams.

To this end, we promote a Comprehensive Risk Management culture based on the following principles:

- Independence
- Risk culture
- Definition of the risk appetite
- Transparency
- Continuous improvement

As part of this process, we hold regular meetings with the relevant executives and employees who identify and inform on particular risks.

Additionally, we have a Risks Committee that meets quarterly to identify the most critical risks and assess the effectiveness of mitigation measures and remediation plans. We operate based on our Risk Management Policy, which is revised by the Committee annually.

The Board of Directors plays a key role in the definition of the risk appetite and the establishment of clear goals including risk tolerance levels and the corresponding mitigation measures. The Audit Committee informs the Board of Directors once a year on the results of IEnova's risk management.

At all our operations we rigorously adhere to the strict regulations to which we are subject. In addition, we have a series of insurance policies that protect the totality of our assets and construction projects and offer coverage on assets, civil responsibility, interruptions in the business, terrorist acts and sabotage, and environmental responsibility, among others.


Mexico City Corporate Headquarters, Omega Building

RISK CATEGORIES AND DESCRIPTIONS
[102-11, 102-15, 102-29, 102-31]

WE DIVIDE POTENTIAL RISKS INTO FOUR CATEGORIES:	
STRATEGIC	• Risks derived from decisions and strategy • Risks related with the locations in which we operate and 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 associated with the financial situation • Risks associated with accounting • Risks associated with financial flows • Risks associated with internal and external financial reports
OPERATING	• Risks of losses due to operating errors • Risks caused by human error • Risks due to inefficient or badly designed processes • Risk of a system failure • Risks of incorrect behavior (including criminal activities)
COMPLIANCE	• 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 nullification of contracts • Environmental and social risks

Mexico City Corporate Headquarters, New York Life Building

GOVERNMENT
RELATIONS

[102-13]

IEnova is subject to the regulation and supervision of several government institutions including the Mexican Ministry of Energy (SE), the Ministry of the Environment and Natural Resources (Semarnat), the Ministry of Labor (STPS), the Energy Regulatory Commission (CRE), the National Agency for Safety, Energy, and the Environment (ASEA), and the National Center for the Control of Energy (CENACE), among others. We strictly adhere to all norms, laws, and regulations applicable to our operation and we maintain an open and transparent relationship with regulators and authorities.

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

- American Chamber of Commerce of Mexico (AMCHAM)
- Asociación Mexicana de Energía (AME)
- Asociación Mexicana de Energía Eólica (AMDEE)
- Asociación Mexicana de Energía Fotovoltaica (ASOLMEX)
- Asociación Mexicana de Gas Natural (AMGN)
- Asociación Nacional de Abogados de Empresa, Colegio de Abogados (ANADE)
- Barra Mexicana, Colegio de Abogados
- Cámara Nacional de la Industria de la Transformación (Canacintra) for Chihuahua, Ensenada, Gómez Palacio, Mexicali, Tecate, and Torreón
- Centro Mexicano para la Filantropía (Cemefi)
- Comisión de Promoción Económica de Ensenada
- Comisión de Promoción Económica de Tecate
- Confederación Patronal de la República Mexicana (Coparmex) at the national level and for Ensenada, Hermosillo, and Mexicali
- Consejo de Desarrollo Económico de Mexicali
- Instituto Mexicano de Contadores Públicos (IMCP)
- Instituto Mexicano de Ejecutivos de Finanzas (IMEF)
- RedEAmérica México
- United Nations Global Compact
- World Energy Council (WEC)

C E R T I F I C A T I O N S

AND AWARDS

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

S&P/BMV Index IPC Index of the Mexican Stock Exchange Sustainability Index of the Mexican Stock Exchange Great Place to Work (GPTW) Socially Responsible Company (ESR) Award CLARES award for Corporate Social Responsibility granted by the Anáhuac University FTSE4Good Sustainability Index Expansion magazine's ranking of the Top 500 Most Important Companies in Mexico Top 10 on the Corporate Integrity Ranking carried out by *Transparencia Mexicana, Mexicanos Contra la Corrupción y la Impunidad*, and by Expansión magazine	**IEnova**
ISO 9001, ISO 14001, and OHSAS 18001	Energía Sierra Juárez (ESJ) Energía Costa Azul (ECA) ECOGAS México IEnova (design, engineering, construction, and commissioning of infrastructure project in refined products and renewable energy systems for the energy sector) Termoeléctrica de Mexicali (TDM) Transporte Oeste Rosarito Pipeline (GR) Transportadora de Gas Natural de Baja California (TGN) IEnova Gasoductos México (IGM) Aguaprieta Pipeline
ISO 9001, ISO 14001, ISO 22301-2012, and OHSAS 18001	Energía Costa Azul (ECA)
Responsible Family Company	Servicios Energía Costa Azul Servicios DGN de Chihuahua (Mexicali) Servicios DGN de Chihuahua (Torreón) Servicios DGN de Chihuahua (Chihuahua) Servicios Termoeléctrica de Mexicali
Safe Company Certificate, Occupational Health and Safety Self-Management Program (PASST) of the Ministry of Labor and Social Welfare (STPS)	Termoeléctrica de Mexicali (TDM) - Level I DEN - Dr. Arroyo Compression Station—Level I GDN - Los Ramones Compression Station—Level I DEN - Villagrán Compression Station—Level I GDN - Frontera Compression Station—Level I ECOGAS Chihuahua - Level II IEnova Gasoductos México (IGM)—Level II Energía Costa Azul (ECA) - Level III ECOGAS La Laguna-Durango - Level III ECOGAS Mexicali - Level III Transportadora de Gas Natural (TGN) - Level III
Clean Industry or Environmental Quality certifications issued by Semarnat or ASEA	Rosarito Pipeline (GR) Transportadora de Gas Natural de Baja California (TGN) Naco Compression Station ECOGAS Mexicali Termoeléctrica de Mexicali TDF LPG Pipeline Transportadora del Norte (TDN) Energía Sierra Juárez

San Isidro Compression Station

CARLOS RUIZ SACRISTÁN
Chairman

JOSÉ JULIÁN SIDAOUI DIB
Independent Director

JEFFREY S. DAVIDOW
Independent Director

AARÓN DYCHTER POLTOLAREK
Independent Director

ALBERTO MULÁS ALONSO
Independent Director

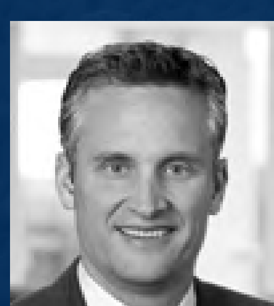
JOSEPH A. HOUSEHOLDER
Director

ERBIN BRIAN KEITH
Director

PETER RONAN WALL
Director

FAISEL HUSSAIN KAHN
Director

DENNIS VICTOR ARRIOLA
Director



JUSTIN C. BIRD
Director

TANIA ORTIZ MENA LÓPEZ NEGRETE
Director

ERLE ALLEN NYE JR.
Director

BOARD OF DIRECTORS

To read the biographies of the Board of Directors please review our 2018 Annual Report available at:
http://phx.corporate-ir.net/phoenix.zhtml?c=251832&p=quarterlyearnings

CARLOS RUIZ SACRISTÁN
Chairman of the Board of Directors and Executive Chairman of IEnova

TANIA ORTIZ MENA LÓPEZ NEGRETE
Chief Executive Officer

MANUELA "NELLY" MOLINA PERALTA
Chief Financial Officer

RENÉ BUENTELLO CARBONELL
General Counsel and Chief Compliance Officer

ABRAHAM ZAMORA TORRES
Chief Corporate Affairs Officer

JESÚS CÓRDOBA DOMÍNGUEZ
Chief Engineering & Construction Officer

CARLOS BARAJAS SANDOVAL
Chief Power & Storage Operating Officer

JUAN RODRÍGUEZ CASTAÑEDA
Chief Natural Gas Operating Officer

JUANCHO EEKHOUT SMITH
Chief Development Officer

ROBERTO RUBIO MACÍAS
Vice President Controller

JORGE MOLINA CASELLAS
Vice President Commercial

SENIOR
MANAGEMENT

To read the biographies of the IEnova Senior Management, please visit our website at http://ienova.com.mx/equipo.php

[102-44, 102-46]

CORPORATE GOVERNANCE AND RISK MANAGEMENT

2018 PROGRESS AND 2019 CHALLENGES

Throughout 2018 we carried out several initiatives in order to meet the challenges established in the IEnova sustainability strategy and to address those issues that are most relevant to our stakeholders. Here is a summary of the progress we have made and the new challenges we have set for 2019.

2018 PROGRESS	2019 CHALLENGES
CORPORATE ETHICS	
✔ Review the Code of Ethics and policies to update them based on the National Anti-Corruption System and the responsibilities of the business sector.	
✔ Train IEnova employees on issues related to Code of Ethics, internal policies, anti-corruption, corporate ethics, FCPA, sexual and work-related harassment, conflicts of interest, 1-800 anonymous reporting helpline, and human rights.	◷ Train all the IEnova business units on issues related to Code of Ethics, internal policies, anti-corruption, corporate ethics, FCPA, sexual and work-related harassment, conflicts of interest, 1-800 anonymous reporting helpline, and human rights.
✔ Implement the "I Am Compliance" campaign.	
	✚ Draft and communicate a Human Rights Policy that reflects IEnova's commitment to protecting human rights.
GOVERNMENT RELATIONS	
✔ Submit the Communication on Progress (COP) to the UN Global Compact on time.	◷ Submit our fourth Communication on Progress (COP) to the UN Global Compact on time.

Mexico City Corporate Headquarters, New York Life Building

✔ REACHED

◷ IN PROGRESS

✚ NEW CHALLENGE

WE PROMOTE SEVERAL PRODUCTIVE SECTORS, THUS CONTRIBUTING TO THE DEVELOPMENT OF OUR COUNTRY

WE GENERATE VALUE

AND CONTRIBUTE TO THE COUNTRY'S DEVELOPMENT

ECONOMIC PILLAR

ECONOMIC PILLAR

IN NUMBERS

INVESTMENT
IN COMMUNITY, ENVIRONMENT, HEALTH AND SAFETY, AND COMPLIANCE

USD$5.73 MILLION

INVESTMENT
IN RENEWABLE ENERGY TO DATE

USD$1.537 BILLION

ECOGAS
CUSTOMERS

122,896

IN TOTAL
ASSETS AS OF 2018

USD$8.769 BILLION

ADJUSTED
EBITDA

USD$876 MILLION

San Isidro Compression Station

CORPORATE
STRUCTURE

[102-45]

In order to stay one step ahead of the changes in the dynamic energy sector, we operate based on a solid business model that can adapt to changing market conditions and strong sustainability principles. This enables us to not only maintain the company's operating capacity but to strengthen our participation in new businesses and establish a relationship with new customers.

Our operation focuses on two key segments in the energy sector: Gas and Power.

In the Gas Segment we offer transportation and storage services for natural gas, LPG, and ethane, and we distribute natural gas.

In this segment we have diversified our operations to include the construction of three refined products storage projects, a marine terminal for the receipt, storage, and delivery of refined products in the port of Veracruz, as well as two land terminals in Puebla and the vicinity of Mexico City. Additionally, we are developing another three terminals in Ensenada, Topolobampo, and Manzanillo. With these facilities we will serve clients such as BP, Trafigura, Chevron, Valero Energy, and Marathon.

Furthermore, we are developing an important natural gas liquefaction project at Energía Costa Azul, whose geographic location allows us to serve the export market and also supply natural gas to people living in Mexico in the states of Baja California and Baja California Sur.

In the Power Segment we operate a natural-gas-fired combined-cycle plant and two wind farms. In addition, over the course of the year we built two new solar parks, Pima Solar and Rumorosa Solar. Pima Solar began operating during the first quarter of 2019; Rumorosa Solar will start operations in the second quarter of 2019. We also have two additional solar energy parks currently under construction: Tepezalá Solar and Don Diego. In parallel, we have continued working on the expansion of our Energía Sierra Juárez wind farm. With these facilities we will be able to supply clean energy at competitive prices to companies such as DeAcero, Liverpool, Scotiabank, and Minera Autlán.

OUR OPERATION CENTERS ON TWO KEY SEGMENTS IN THE ENERGY SECTOR: GAS AND POWER

IENOVA

GAS SEGMENT

POWER SEGMENT

ECONOMIC

BENEFIT

[102-6, 102-7, 102-9, 203-2]

1,035
EMPLOYEES
11%
VS 2017

2,360
INDIRECT JOBS AT OUR PROJECTS UNDER CONSTRUCTION AND IN DEVELOPMENT

Our business model has enabled us to achieve continuous growth in traditional segments of the energy sector and to enter other segments, all of which has contributed to our ability to promote growth and competitiveness in our country.

In the 22 years IEnova has been operating in Mexico, the total value of its assets is USD$8.769 billion, thus contributing to the growth of several sectors in the economy with which we have a commercial relationship. These include the construction, cement, and industrial maintenance, as well as industries that produce value-added products and equipment, particularly the steel industry. We also contribute to companies that offer engineering services, consulting, specialized studies, physical and industrial safety, logistics, customs offices, and technology developers and integrators. At the same time, we benefit the suppliers of the goods and services we consume at all locations where we are present.

We are also an excellent source of employment. During the year, our workforce grew more than 10%, from 930 employees in 2017 to 1,035 at the end of 2018. We also generated 2,360 indirect jobs through our projects under construction

THE TOTAL VALUE OF THE IENOVA ASSETS GREW MORE THAN USD$605 MILLION, UP FROM USD$8.164 BILLION IN 2017 TO USD$8.769 BILLION AT YEAR-END 2018*

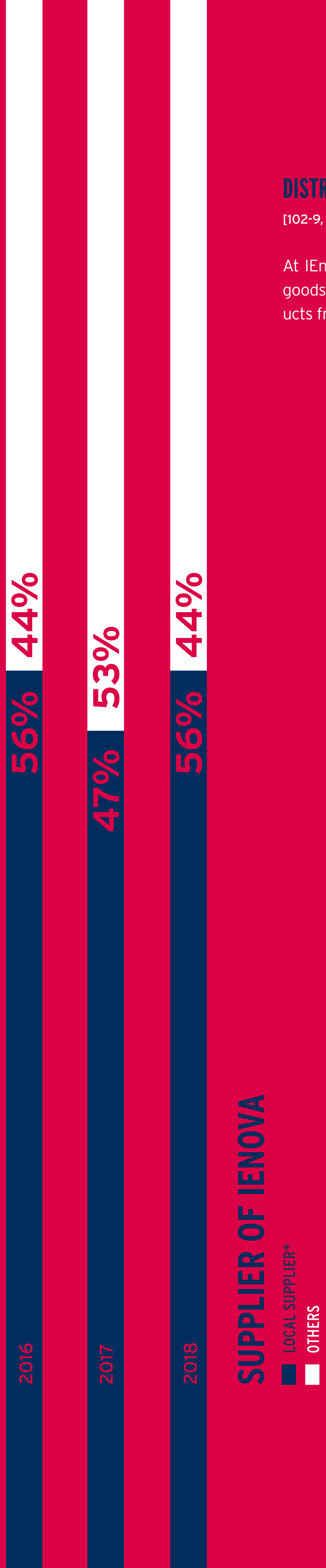
* Based on the Consolidated Financial Statements for the years ending on December 31st, 2018, 2017, and 2016 and on the independent auditors' report dated February 19th, 2019, included in the back of this report.

DISTRIBUTION OF THE IENOVA SUPPLIERS

[102-9, 204-1, 414-1]

At IEnova we give preference to local suppliers for the acquisition of the goods we require in our operations. In 2018, we acquired 56% of our products from companies in the regions where our operations are located.

SUPPLIER OF IENOVA



* Local refers to sourced in Mexico.

Algodones Compression Station

WE VALUE AND SERVE

OUR CUSTOMERS

[102-6, 102-43, 102-44, 103-2, 103-3]

Excellent service is a top priority for us, therefore we have a specialized customer service team. To measure satisfaction levels, for the seventh consecutive year we collaborated with a market research company to survey a representative sample of our residential, commercial and industrial Distribution customers, and, for the fourth time, we did the same with our Transportation customers.

Our Distribution service—which we offer through ECOGAS—obtained a score of 9.3, out of a possible 10 points. The score for our natural gas Pipelines service was 9.4.

BUSINESS SEGMENTS

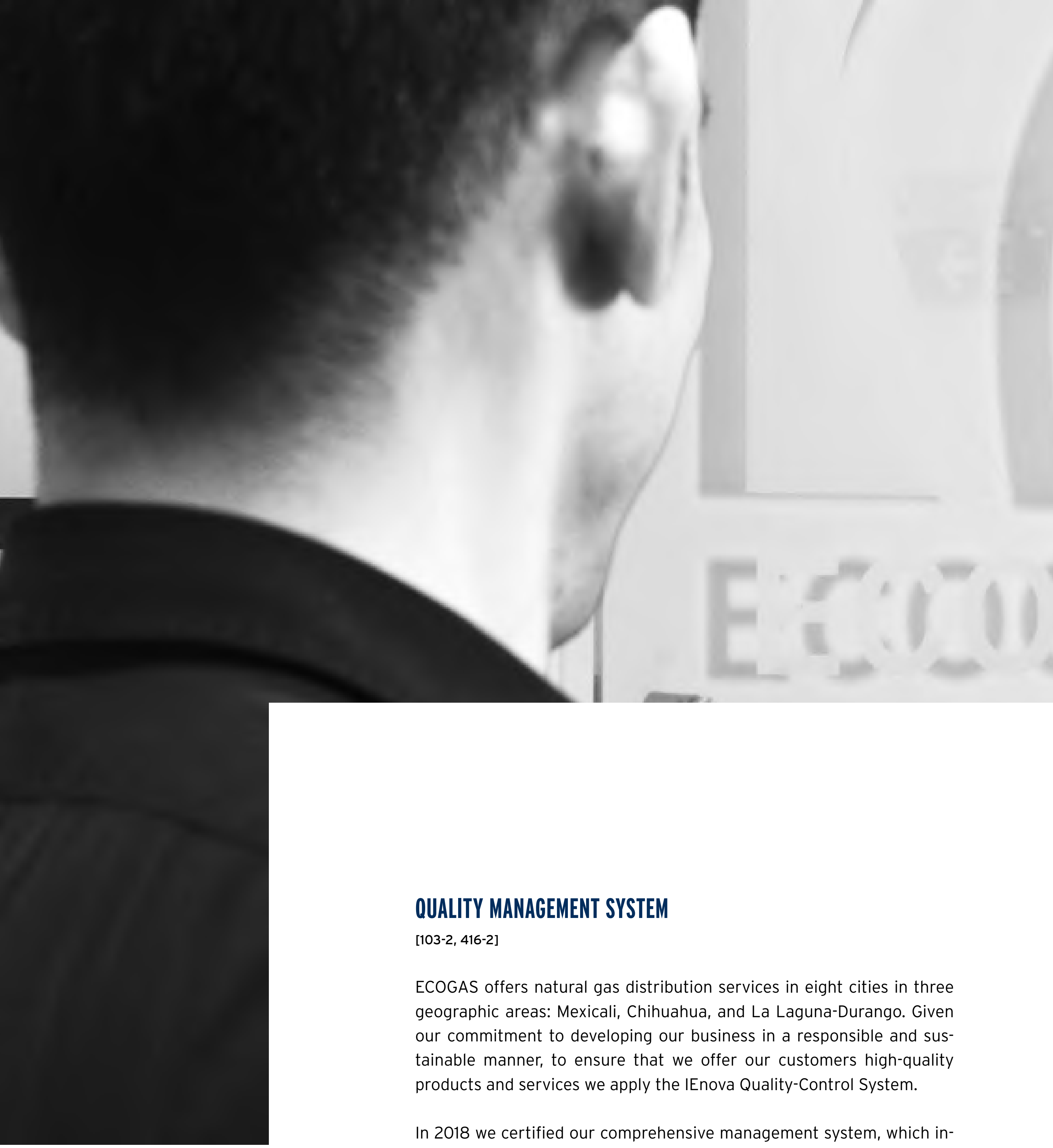
GAS SEGMENT			POWER SEGMENT
ASSETS			
PIPELINES	STORAGE	DISTRIBUTION	POWER
ROSARITO PIPELINE (GR)	NATURAL GAS STORAGE AND REGASIFICATION TERMINAL, ENERGÍA COSTA AZUL (ECA)	ECOGAS	TERMOELÉCTRICA DE MEXICALI
TRANSPORTADORA DE GAS NATURAL DE BAJA CALIFORNIA (TGN)	LPG TERMINAL IN GUADALAJARA		ENERGÍA SIERRA JUÁREZ**
SONORA PIPELINE (SÁSABE-GUAYMAS SEGMENT)	GOLFO-CENTRO STORAGE TERMINALS		VENTIKA
SONORA PIPELINE (GUAYMAS-EL ORO SEGMENT)	TDF LPG TRANSPORTATION SYSTEM		
RAMAL EMPALME			
AGUAPRIETA PIPELINE (GAP)			
NACO COMPRESSION STATION			
LOS RAMONES I PIPELINE			
LOS RAMONES NORTE PIPELINE*			
SAMALAYUCA PIPELINE			
OJINAGA-EL ENCINO PIPELINE			
SAN ISIDRO-SAMALAYUCA PIPELINE			
SAN FERNANDO PIPELINE			
ETHANE PIPELINE			
CUSTOMERS			
PEMEX	INDUSTRIES AND POWER GENERATION PLANTS IN BAJA CALIFORNIA	RESIDENTIAL CUSTOMERS 119,413	EXPORTS TO THE CALIFORNIA MARKET IN THE US
CFE	PEMEX	SMALL BUSINESSES 3,308	CEMEX
GAS DISTRIBUTORS	VALERO ENERGY	LARGE AND INDUSTRIAL BUSINESSES 175	FEMSA
PRIVATE SECTOR THERMAL POWER PLANTS	SHELL		DEACERO
INDUSTRIALES	GAZPROM		FIAT-CHRYSLER
CENEGAS	IENOVA MARKETING MÉXICO		ITESM
SHELL	BP		LIVERPOOL
IENOVA MARKETING MÉXICO	TRAFIGURA		SCOTIABANK
ACTIS	CHEVRON		MINERA AUTLÁN
	MARATHON		

* Asset belonging to the joint venture with BlackRock, in which IEnova holds a 50% stake.
** Asset belonging to the joint venture with Actis, in which IEnova holds a 50% stake.

ECOGAS CUSTOMERS

	2016	2017	2018
Residential customers	116,421	117,363	119,413
Small businesses	2,691	2,821	3,308
Large and industrial businesses	229	285	175
	119,341	120,469	122,896

Note: Derived from resolution RES/995/2015 based on which the Energy Regulating Commission (CRE) issued new general administrative dispositions referring to the protection of end customers who consume less than 5,000 GJ a year—classified as low-consumption end users, or UFBCs in Spanish—we modified our own classification. Starting in our 2018 report, only UFBCs are included as small businesses. Accordingly, end users who consume more than 5,000 GJ a year—known as UFACs in Spanish—are included in our Large and Industrial Businesses category.



DURING 2018, 29,508 CUSTOMERS CHOSE TO USE OUR ELECTRONIC INVOICES

QUALITY MANAGEMENT SYSTEM

[103-2, 416-2]

ECOGAS offers natural gas distribution services in eight cities in three geographic areas: Mexicali, Chihuahua, and La Laguna-Durango. Given our commitment to developing our business in a responsible and sustainable manner, to ensure that we offer our customers high-quality products and services we apply the IEnova Quality-Control System.

In 2018 we certified our comprehensive management system, which includes compliance with ISO 9001, ISO 14001, and OHSAS 18001.

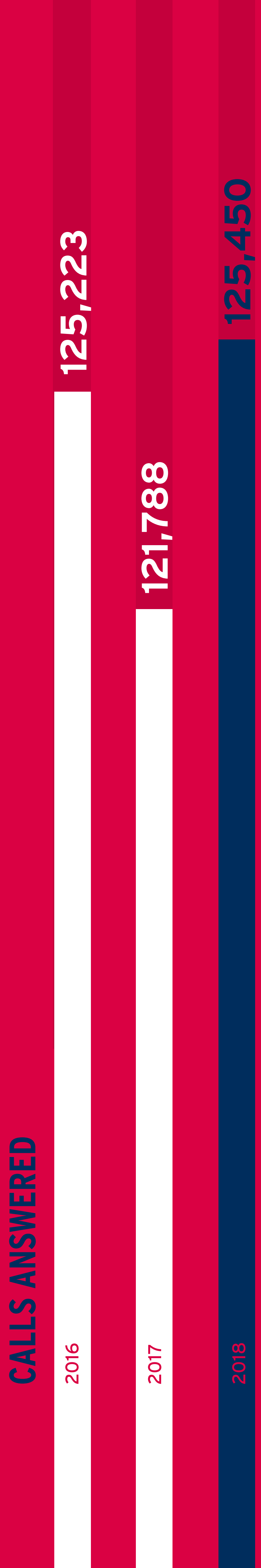
We have a team of employees assigned to maintain constant communication with our customers. At our call center, located in the city of Chihuahua, we managed an average of 10,454 calls a month. Emergency calls are immediately handled by our Customer Service division, thus ensuring the safety of the community. However, the majority of calls concern routine issues.

CUSTOMER SERVICE CONTROL SYSTEM

[103-2]

In 2018, we served 56,906 customers at our service counters and handled 63,372 procedures.

Striving to increase customer satisfaction, in 2018 we launched the ECOGAS mobile app through which our customers can make payments, check balances, make emergency calls, locate the closest office or ATM, and compare prices. This year we also started offering paperless receipts and digital consultations, invoicing, and payments. In addition, our customers can pay their due payments at more than 3,000 Oxxo stores.



56,906 CUSTOMERS SERVED

AT THE ECOGAS COUNTERS

THE SAFETY AND INTEGRITY OF OUR ASSETS AND OPERATIONS ARE AT THE CENTER OF THE IENOVA WORK CULTURE

CUSTOMER SERVICE THROUGH OUR CALL CENTER

CATEGORY	2016	2017	2018
Calls received	140,193	135,913	138,560
Calls answered	125,223	121,788	125,450
Average time per call (in minutes)	2.91	3.18	3.68

ECOGAS

PROMOTION AND FIDELITY PROGRAMS

To promote customer loyalty, increase satisfaction, and sign new service contracts, this year we launched new promotion and fidelity programs in addition to maintaining programs we have been operating for several years such as the *¡Paga a tiempo y gana!* (Pay on Time and Win) program and the seasonal campaigns offering special prices in summer and winter.

Among this year's programs, the most relevant are the *Buen Fin* sale (the Mexican equivalent to Black Friday), aimed at getting new residential and commercial customers; the *Conversiones y dictamen* (Conversions and ruling) program, focused on commercial customers to whom we offer a discount bonus; and the *Domicíliate y gana* (Choose automatic credit card payments and win) that offers a one-month discount to customers who choose to charge their monthly fees automatically to a credit card. We also offer financing to cover residential connection costs and a program allowing a period of months with no interest when paying past due bills with a credit card.

OPERATIONAL INTEGRITY AND RELIABILITY

[OG13]

The safety and integrity of our assets and operations are the core of the IEnova work culture.

Integrity management at our assets is based on the strictest codes and standards in the industry. We apply it in an integrated manner throughout the entire cycle of our work methodology, starting at the conceptual stage of a given project, following with construction, maintenance, and operation phases, all the way until the service is offered to the final consumer.

INTEGRITY MANAGEMENT PROGRAM

As part of our Integrity Management Program (IMP) we use a specially-designed software that enables us to optimize our working methods, identify areas for improvement, and maintain strict control over every aspect required to ensure normal operations. We do this in compliance with all applicable laws and regulations in both Mexico and the US.

In 2018, we received the NACE International* award for leadership in integrity and corrosion management in the industry and in Latin America. IEnova obtained satisfactory results at the level of industries in countries such as the US and Canada.

In the Gas Segment, we use the IMP in 100% of our natural gas pipelines. We carry out the following steps to ensure adequate operations:

- Draft annual risk-based integrity programs
- Select areas that require direct inspections
- Classify defects based on severity
- Select repair methods based on international standards
- Quantify risks continually with dynamic segmentation
- Monitor operating parameters in real time and permanently
- Monitor alarms constantly
- Address detected problems in a timely manner
- Offer continuous training to operators

SCADA SYSTEM

The Supervisory Control and Data Acquisition (SCADA) system allows us to supervise, control, and collect data needed to monitor devices remotely and in real time using state-of-the-art technology that facilitates feedback and efficient management.

In both the Gas and Electricity segments, we use SCADA or similar systems to monitor various aspects of our operations, including:

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

* The National Association of Corrosion Engineers, now NACE International, is among the top industry corrosion and integrity companies worldwide. It develops standards and norms for our sector and certifies and qualifies professionals all over the world.

In 2017 and 2018 NACE implemented its first *IMPACT Study Background* that assesses the economic impact of corrosion and integrity management in different industries, including technical, operational, and economic comparisons between several countries.

IN 2018 WE RECEIVED THE NACE INTERNATIONAL* AWARD FOR LEADERSHIP IN INTEGRITY AND CORROSION MANAGEMENT IN THE INDUSTRY AND IN LATIN AMERICA

Mexico City Corporate Headquarters, Omega Building

GENERATED AND

DISTRIBUTED ECONOMIC VALUE[I]

[201-1]

We generate value in a sustainable. way We contribute to the development of our own industry and to that of other sectors with which we interact.

FIGURES IN THOUSANDS OF USD$

	2016	2017	2018
ECONOMIC VALUE GENERATED			
a) Revenues	767,089[V]	1,222,905[V]	1,368,555
b) Interest Income	6,294	22,808	27,449
c) Income from Asset Sales	0	0	0
d) Direct Economic Value Generated (a+b+c)	773,383	1,245,713	1,396,004
ECONOMIC VALUE DISTRIBUTED			
e) Operating Costs[II]	393,155	534,828	600,310
f) Shareholders[III]	140,000	200,000	210,000
g) Taxes and Duties Paid	95,025	115,013	57,090
h) Investments in the Community, Environment Safety, Health, and Compliance[IV]	5,086	5,751	5,734
i) Economic Value Distributed (e+f+g+h)	633,266	855,592	873,134
ECONOMIC VALUE RETAINED (d-i)	140,117	390,121	522,870

I. This table was drafted based on the Sustainability Reporting Standards Guidelines of the Global Reporting Initiative (GRI).
II. Operating Costs excluding depreciation, includes employee salaries and benefits.
III. Only includes dividends paid.
IV. Investments in the community includes donations granted by Fundación IEnova, the social works of the Ethane Pipeline, Energía Sierra Juárez, and the Los Ramones Norte Pipeline, as well as contributions from the following Trusts: Ensenada, Sonora, Ojinaga-El Encino, and San Isidro-Samalayuca.
V. Results for 2016 and 2017 have been reformulated to include Termoeléctrica de Mexicali in the continuing operations of the Consolidated Profit Balance Sheet as a result of the company's management decision during the second quarter of 2018 to cancel the process to sell it.
de la compañía de suspender el proceso de venta en el segundo trimestre de 2018.

Turbines at the Algodones Compression Station

OUR
STORIES

CONTRIBUTING TO SUSTAINABLE GROWTH

IS PART OF
OUR VISION;
IT IS HOW WE
ANTICIPATE THE
FUTURE

WE ARE

RENEWABLE

COMMITTED TO THE

ENERGY PORTFOLIO:

DEVELOPMENT OF

OUR WIND FARMS AND

RENEWABLE ENERGY

SOLAR ENERGY PARKS

IN MEXICO

USD$1.537

BILLION INVESTED IN PROJECTS IN OPERATION AND UNDER CONSTRUCTION AND IN DEVELOPMENT

2,200

INDIRECT JOBS CREATED

80%

OF OUR WORK FORCE DURING CONSTRUCTION IS LOCAL

891MW

GENERATION CAPACITY

BEING A LEADING ENERGY INFRASTRUCTURE COMPANY IN MEXICO THAT CONTRIBUTES TO THE COUNTRY'S SUSTAINABLE DEVELOPMENT REQUIRES THAT WE REMAIN IN THE FRONTLINE.

We contribute to generating a positive change in the sector by being visionary and anticipating market needs. Accordingly, we have developed a portfolio of clean energy projects that has enabled us not only to diversify our business, but also to contribute to preserving the environment and to provide a social benefit.

Pima Solar Park

WE CONTRIBUTE TO GENERATING A POSITIVE CHANGE IN THE SECTOR

Started in 2014, our **Portfolio of Renewable Energy Projects** currently includes two wind farms that are already operating—Energía Sierra Juárez and Ventika—as well as four solar energy parks. Of these, Pima Solar, in the state of Sonora, started operating during the first quarter of 2019, and Rumorosa Solar, in Baja California, will begin operations during the second quarter of 2019. The other two, Tepezalá, in Aguascalientes, and Don Diego, in Sonora, are under construction and will begin operations during 2019. We are also carrying out the works to expand Energía Sierra Juárez.

From the point of view of the business, our portfolio of renewable energy projects consists of long-term contracts through which we will supply clean energy at affordable prices to several private companies striving to decrease their environmental footprint.

In addition to the considerable benefit of generating energy that produces no air emissions, with our portfolio of renewable energy projects we contribute to protecting the environment in other ways. As we do at all our projects during the construction phase, at our solar energy parks and wind farms we implement programs for the protection and conservation of local flora and fauna. Among other activities, these include protecting and producing plants at nurseries installed at our construction sites that will later be used in reforestation and maintenance efforts.

These projects also offer a substantial social benefit. Given that renewable energy parks require extensive plots of land, often times the projects are developed on communal lands, or *ejidos*. To this end, at IEnova we sign long-term contracts with the communal landowners through which we offer to make annual payments for leasing their land for the duration of the project, which can vary between 15 and more than 25 years.

This framework is beneficial to the landowners since we guarantee a constant and secure income equal to or higher than what they would have obtained from working the land during those years. By leasing their land, the landowners are free to look for additional sources of income. We also carry out social works at every project, depending on the specific needs of each community.

During the construction process, we generate a considerable economic benefit for the local community by hiring suppliers and workers in areas neighboring the project, creating, depending on the project, up to 800 direct well-paid jobs that offer the benefits stipulated by law; on average, 80% of these jobs are filled by local workers.

Since 2014—the year during which construction on Energía Sierra Juárez began—to date, we have estimated an investment of USD$1.537 billion in projects in operation and under construction and in development. Additionally, we have created close to 2,200 indirect jobs in the localities of the projects.

At IEnova we maintain our commitment to not only operate in a responsible manner those assets that are currently included in the Portfolio of Renewable Energy Projects, but also to continue investing resources and talent in these and other innovative projects. We are certain that in doing so we will contribute to position Mexico as a leader in the generation of clean energy worldwide, leveraging the advantages that its territory and people offer.

ECONOMIC PILLAR

[102-44, 103-1, 103-2]

2018 PROGRESS AND 2019 CHALLENGES

Throughout 2018 we carried out several initiatives in order to meet the challenges established in the IEnova sustainability strategy and to address those issues that are most relevant to our stakeholders. Here is a summary of the progress we have made and the new challenges we have set for 2019.

2018 PROGRESS	2019 CHALLENGES
CUSTOMER SATISFACTION	
✔ Conduct annual customer satisfaction survey of Distribution (ECOGAS) and obtain a minimum score of 91%.	◷ Conduct annual customer satisfaction survey of Distribution (ECOGAS) and obtain a minimum score of 91%.
✔ Maintain a score on the annual Pipelines customer satisfaction survey of more than 90%.	◷ Maintain a score on the annual Pipelines customer satisfaction survey of more than 90%.
	+ Conduct annual customer satisfaction survey of Generation (at Energía Sierra Juárez and Ventika) and obtain a minimum score of 90%.
	+ Launch the *Cuida y administra tu consumo* (Care for and manage your consumption) program for existing customers, by installing 1,200 smart meters.
SUPPLY CHAIN	
✔ Communicate electronically to our key suppliers the sustainability requirements established in our Procurement Policy.	◷ Reinforce digital communication with our key suppliers on the sustainability requirements established in our Procurement Policy.
✔ Inform IEnova suppliers when the 2017 Sustainability Report is published.	◷ Inform IEnova suppliers when the 2018 Sustainability Report and the Guidelines for Supplier Behavior are published.
✔ Perform essential sustainability criteria requirements surveys with key or critical IEnova suppliers.	+ Monitor corrective actions implemented by key suppliers as a result of the sustainability criteria survey applied in 2018.
	+ Update and communicate sustainability criteria in the procedure to evaluate critical suppliers on sustainability issues.
	+ Draft a supplier development plan (phase I).

✔ REACHED

◷ IN PROGRESS

+ NEW CHALLENGE

WE IMPACT OUR COMMUNITY

BY DEVELOPING THE BEST TALENT

SOCIAL PILLAR

OUR HUMAN CAPITAL STRATEGY, BEST KNOWN AS THE IENOVA CULTURE, CREATES WORKING CONDITIONS THAT CONTRIBUTE TO A WELL-BALANCED LIFE

SOCIAL PILLAR IN NUMBERS

EMPLOYEES

1,035

TRAINING HOURS

43,769

INVESTMENT IN TRAINING

USD$1.1 MILLION

DRILLS

85 +102% VS 2017

CONTRIBUTIONS IN SOCIAL WORKS

USD$1.85 MILLION

Office at the San Isidro Compression Station

HUMAN

CAPITAL

[102-8, 103-1, 103-2, 401-1, 405-1]

The IEnova Culture is the basis of our Human Capital strategy. It focuses on offering our employees—who are our most valuable asset—a work environment in which they can grow professionally and personally. The culture is founded on policies that adhere to a strict framework of justice, equality, and inclusion. Likewise, we promote our corporate values: "Do the right thing, champion people, shape the future".

We also provide the tools and training our employees require to perform their jobs, strengthen their skills, or work on areas of opportunity.

The effectiveness of this work culture is reflected in the higher score we obtained in the certification process carried out by the Great Place to Work Institute. Results of this survey once again show an increase in employee satisfaction in relation to the work experience IEnova offers. We placed 17th in the Top 100 Best Place to Work in Mexico ranking, five places up from the previous year.

WE PROVIDE OUR EMPLOYEES WITH THE TOOLS AND TRAINING THEY NEED TO PERFORM THEIR JOBS AND DEVELOP THEIR POTENTIAL

Great Place To Work®

5 ANNUAL CERTIFICATIONS

IENOVA CULTURE

Do the right thing — Champion people — Shape the future

Mexico City Corporate Headquarters, New York Life Building

TALENT MANAGEMENT

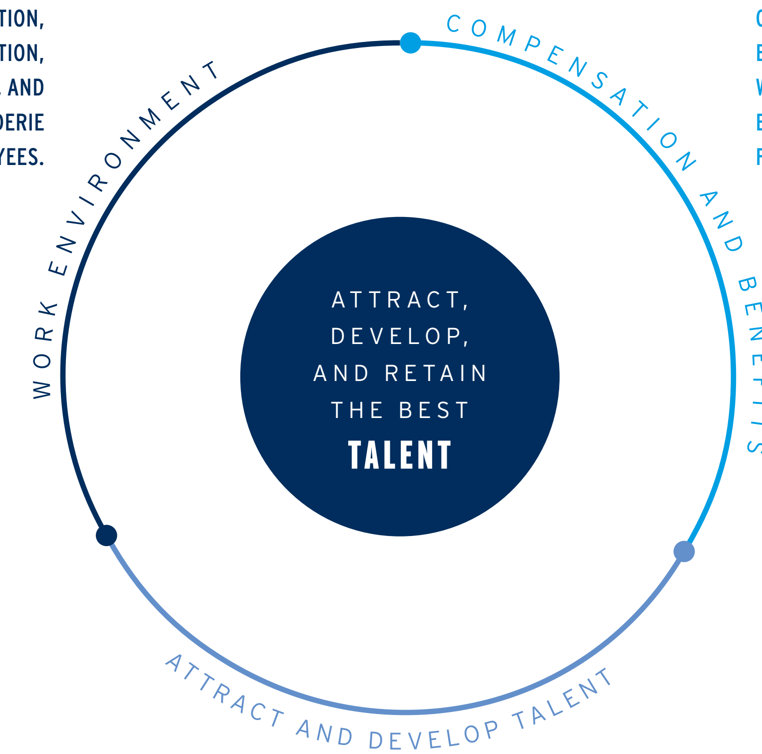
[102-8]

The Human Capital strategy, whose central purpose is to attract, develop, and retain the best talent, is comprised of three basic pillars, each with a specific goal. In the pillar focused on attracting and developing talent, we employ innovative tools as well as training experiences and development programs focused on strengthening competencies. The work environment pillar seeks to encourage friendship, pride, respect, equality, and leadership. Finally, in terms of compensation and benefits, our goal is to offer competitive salaries and to protect the health and well-being of our employees and their families.

DESIGN ACTIVITIES THAT PROMOTE INTEGRATION, COMMUNICATION, TRUST, AND CAMARADERIE AMONG EMPLOYEES.

OFFER A COMPETITIVE COMPENSATION THAT EXCEEDS THE MARKET AVERAGE.

OFFER BENEFITS THAT ENSURE THE HEALTH AND WELL-BEING OF OUR EMPLOYEES AND THEIR FAMILIES.



USE INNOVATIVE TOOLS TO ATTRACT THE BEST TALENT.

OFFER SPECIALIZED TRAINING OPTIONS TO DEVELOP PROFESSIONAL COMPETENCIES.

CREATE DEVELOPMENT PROGRAMS TO PROMOTE GROWTH OPPORTUNITIES WITHIN THE COMPANY.

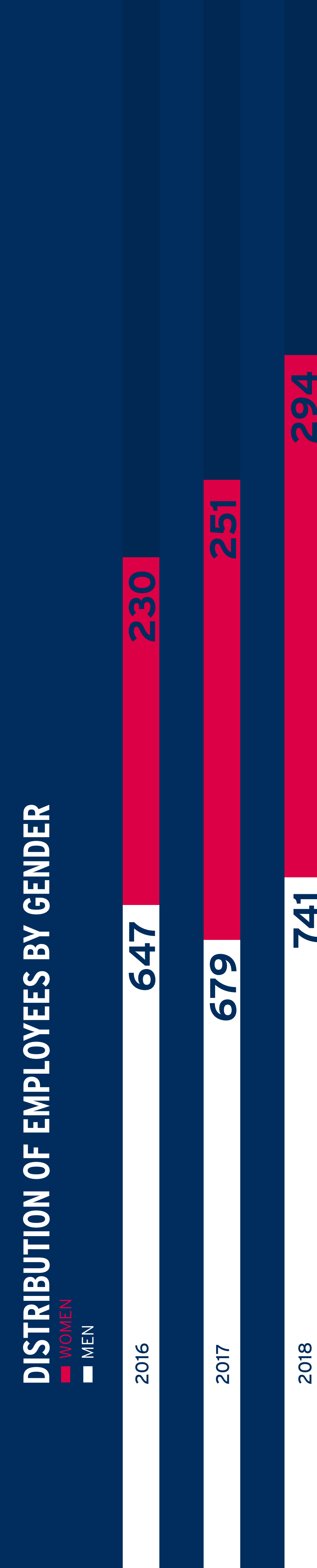
We comply with our commitment to contribute to the development of our country by applying a local hiring policy at all our operations, whenever circumstances allow. Currently, 99% of our employees are Mexican, and 28% are women. Additionally, 60% of our employees are younger than 40 years old, which compels us to adapt certain work methodologies in order to remain at the forefront with the technological tools required to attract, retain, and develop this important segment of the population.

In 2018, our workforce grew 11%— from 930 employees to 1,035—with a voluntary turnover rate of 4.5%, which represents a reduction of 8.5% with respect to the previous year.

The growth in the number of employees over the past few years has driven us to migrate several administrative processes to modern technological platforms that will enable us to manage our Human Capital in a more efficient manner.

During 2018, and specifically in the recruitment process, we developed the capacity to conduct video-interviews for the pre-selection of candidates to fill a vacancy within our company given that some positions attract as many as 300 applicants. We will begin to implement this tool in 2019.


Mexico City Corporate Headquarters, New York Life Building



99%

OF OUR EMPLOYEES ARE MEXICAN,
AND **28% ARE WOMEN**

[102-8, 405-1]

DISTRIBUTION OF EMPLOYEES BY CATEGORY

	2016	2017	2018
President and Vice Presidents	12	12	11
Directors	19	23	27
Managers	96	116	143
Administrative and technical	750	779	854
TOTAL	877	930	1,035

DISTRIBUTION OF EXECUTIVES

	2016		2017		2018	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
President and Vice Presidents	10	2	10	2	9	2
Directors	13	6	17	6	18	9
Managers	68	27	83	33	105	38
TOTAL	91	35	110	41	132	49

LOCAL JOBS CREATED*

	2016		2017		2018	
CATEGORY	LOCAL	TOTAL	LOCAL	TOTAL	LOCAL	TOTAL
President and Vice Presidents	11	12	11	12	10	11
Directors	14	19	20	23	24	27
Managers	90	96	108	116	137	143
Administrative and technical	740	750	770	779	851	854
TOTAL	855	877	909	930	1,022	1,035

* Local refers to people born in Mexico or who have the legal right (either because they have obtained citizenship or hold a permanent visa) to live in Mexico.

COMPREHENSIVE DEVELOPMENT AND TRAINING

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

As Human Capital, we constantly adapt our programs and initiatives not only to changes in our sector, but also to our own growth. To this end, we are continually evaluating the initiatives we have implemented over the past few years in order to either strengthen or transform them, or to develop new specialized programs.

For example, intense activity in the number of projects that were under construction in 2018 presents us with important challenges in terms of the training our employees need to be able to build and operate assets that are different from anything we have done in the past and to ensure the mobility of the teams required to begin operating assets in new locations. To address this circumstance, we designed courses focused on project management, solar energy operations, safety in handling liquids and electricity, and marketing, among others.

During 2018, in collaboration with the Great Place to Work Institute we offered a workshop for our directors, managers, department heads, and supervisors to reinforce our corporate value of Respect. Additionally, we launched the *¡Día de la aceptación en IEnova!* (Acceptance Day at IEnova!)

In 2018, we also maintained the online *Certification in the IEnova Leadership Standard* training module. The goal of this course is to certify new employees and those who are promoted to positions with greater leadership requirements.

Likewise, we continued to reinforce the e-learning platform known as *Mi Desarrollo* (My Development), which now includes, in addition to the health and safety courses it already offered, new training options on topics such as leadership and human development. The platform also includes training for institutional issues such as our procurement policy and manuals for tools used in our daily activities.

We also developed a succession plan methodology for Vice President and Director positions. It analyzes the ideal competencies and leadership styles needed to ensure that both the IEnova culture and values endure, and even strengthen, as we move forward.

USD$1.1 MILLION
INVESTED IN TRAINING

43,769 TRAINING HOURS OFFERED, A 17% INCREASE VS 2017


San Isidro Compression Station

To design personalized development plans, 100% of our employees receive an annual performance evaluation that includes a feedback session with their managers. In addition, every two years we carry out a 360o evaluation—including everyone from department heads to directors—that consists of analyzing strengths and areas where there is room for improvement from the point of view of their managers, peers, and reporting staff.

With these and other specific initiatives depending on the division and function, this year we offered 43,769 hours of training—of which approximately 17% were provided online—for an average of a little over 41 hours per employee

TRAINING HOURS BY CATEGORY
[404-1]

	2016		2017		2018	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
Executives and managers	2,046	607	1,659	581	3,161	1,291
Specialists	1,172	443	1,469	2,845	2,413	1,743
Other employees	16,230	2,625	26,230	4,758	28,989	6,172
TOTAL	19,448	3,675	29,358	8,184	34,563	9,206

Training is offered based on the requirements of the job, with no distinctions for gender.

On the other hand, in order to promote companionship between employees from all our assets, who often do not know each other personally, this year we developed an interactive game in which participants had to fulfill weekly challenges to obtain 'likes' and virtual coins with which they were able to build a virtual office. Employee participation was 85%, considerably above the level expected by the game developers, and feedback was very positive.

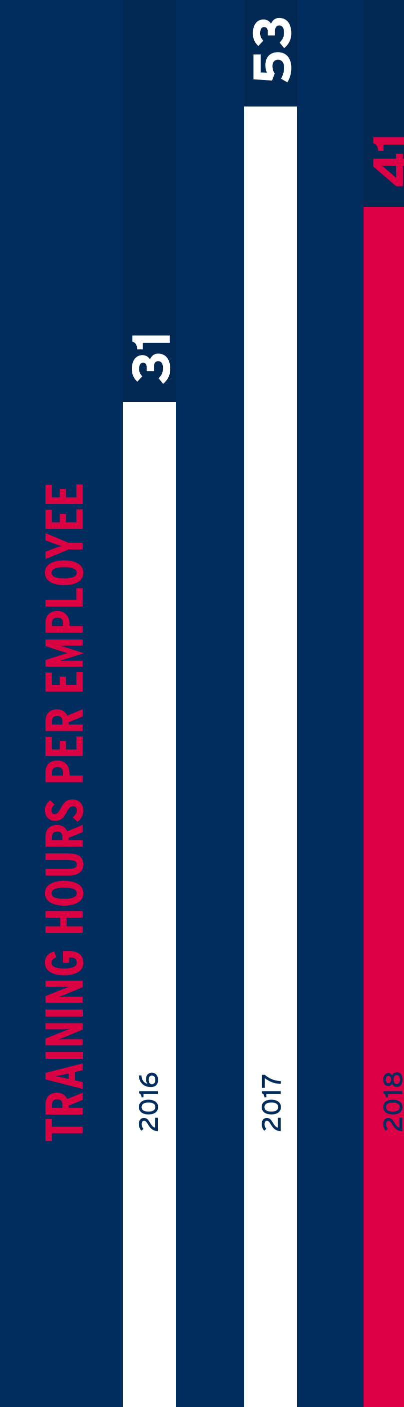
Aiming to strengthen employee relationships, as well as a sense of social responsibility, the Human Capital team organized a very successful activity in close collaboration with Fundación IEnova. The activity, which was part of our *Team Building* integration events, consisted of employees assembling 83 wheelchairs that were later donated to children and elderly people in 10 cities around Mexico where we have a presence.

Lastly, to promote communication among all company divisions, for several years we have been implementing a corporate communications plan known as *IEnova Somos Todos* (We are All IEnova) that, among other things, includes an e-newsletter with relevant company information, *IEnova al Día* (IEnova Up to Date).

Monterrey Office

41 HOURS

TRAINING PER EMPLOYEE



BENEFITS

[201-3, 401-2, 401-3]

We believe that a company's work culture can encourage employees to reach their full potential, therefore, at IEnova we seek to create conditions that lead to a good work-life balance and we offer a compensation and benefits plan above the industry average.

Based on our holistic view of our people, since 2017 we have been working on the emotional salary concept, which refers to the benefits our employees receive in addition to a competitive salary. One of the goals of this concept is to tailor the benefits we offer to the specific needs of each employee.

The research on the emotional salary enabled us to understand first-hand what our employees are thinking and feeling in relation to their compensation package, not only in economic terms but also in terms of what is important to each of them.

The study included three phases:

- Analysis of the efficiency of retribution
- Analysis of the value placed on the benefit and return on investment
- Development of a website where employees can visualize their total compensation and the emotional salary brand

This year the benefits package we offer our employees included a particularly notable innovation in our maternity and paternity benefits. To develop the program we first carried out an in-depth analysis of what other companies traditionally offer their employees, and we improved on that.

Based on the results of the study, in addition to the six weeks of leave prior to and the six weeks after the birth of the child that are guaranteed by the Federal Labor Law, we offer our female employees the opportunity to work from home for a period of up to 10 weeks, and we give them another four weeks during which they can work part-time while still receiving their full salary. If the responsibilities of the position allow it, these periods can be accumulated.

Those employees whose functions don't allow them to work remotely can accumulate the 14 weeks of this benefit in a part-time framework. For cases in which the newborn requires special care, the mother can ask for an additional unpaid leave of between one and three months.

When we consider that almost 70% of the women who work in IEnova are younger than 40 years of age, this constitutes a very relevant benefit.

Complementing these efforts, and in compliance with our diversity, inclusion, and family-oriented policies, we extend these benefits to couples adopting a child, including same-sex couples when our employee is the primary care person for the child. Furthermore, fathers of a newborn receive five additional paid paternity leave days, in addition to the five established by law.

San Isidro Compression Station

AT IENOVA WE STRIVE TO CREATE CONDITIONS THAT ARE CONDUCIVE TO A WORK-LIFE BALANCE

Monterrey Office

Beyond specific benefits for new parents, all employees receive a compensation and benefits package in addition to what is stipulated by law that can include the following, with variations depending on each employee's position within the company:

- 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-performance recognition program
- Vacation days in addition to those established by law
- 30-day Christmas bonus
- Education protection plan
- Complementary disability compensation, additional to Social Security
- Flexible medical insurance benefits (*bIEnestar Flex*)
- Employee Support Program (PAE)

This year we started implementing a wellness program we call *bIEnestar Flex* that allows employees to pick and choose certain benefits and remunerations based on their priorities. The following are among the plans employees can tailor to their own needs:

- Life insurance for up to an additional 24 months of salary
- Major health insurance, with coverage depending on life stage and needs
- Life insurance for spouse, with the option of determining the amount of the policy
- Dental plan
- Plan covering doctor appointments
- Compensation for serious illness diagnosis
- Compensation for cancer diagnosis
- Medical insurance for parents
- Funeral expenses
- Insurance for pets
- Education protection plan

Our goal as we move forward is to include an increasing number of employee benefits in the flexible plan.

In 2018, we also offered for the first time a mid-term savings plan to which employees can make voluntary contributions. The plan complements the savings fund and Sefore retirement plan that were already available to our employees. At the end of a previously stipulated period, interests on the contributions will be distributed among all participants. In addition, the system offers the opportunity for employees to ask for a loan with favorable conditions.

Moreover, we maintain our recognition and retention platform known as *Compensación y Bienestar* (Compensation and Well-being) that provides a detailed description of all the benefits granted to each employee, beyond their salaries and performance bonuses. The information is also available on a mobile app.

Transformers at the Ventika Wind Farm

DIVERSITY AND INCLUSION

[412-2]

IEnova seeks to provide a work environment that promotes diversity with equal opportunities for all. We make no distinctions based on gender, race, age, religious beliefs, political doctrine, social and physical conditions, or sexual orientation. We operate based on our Code of Ethics, to which all employees are committed. Additionally, we strictly adhere to national and foreign standards related to legality and the respect for human rights. We are also signatories of the principles of the UN Global Compact.

To this end, our employees' major medical health insurance policies, for example, contain inclusion and diversity clauses such as:

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

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 that take into consideration the issues of diversity, equality, and inclusion.
- Validate that internal promotions are carried out with equality and transparency.
- Promote causes related to diversity, equality, and inclusion.
- 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 pillars for action.

As part of our efforts in this area, in collaboration with the Great Place to Work Institute, this year we offered a workshop for directors, managers, department heads, and supervisors on the topic of respect, focused on diversity and inclusion.

RESPECT, DIVERSITY, AND INCLUSION ARE ALL PART OF THE IENOVA CULTURE

HEALTH
AND SAFETY

[103-2, 403-1]

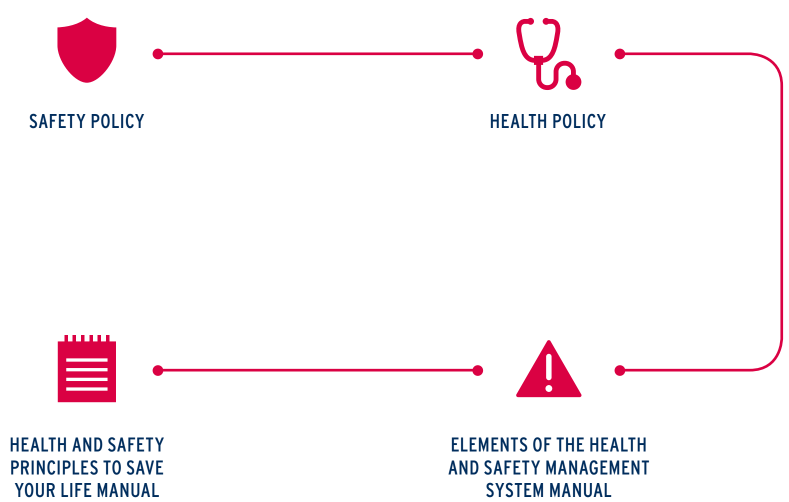
The goal of our Health and Safety operating model is to ensure that our employees—who are our most valuable asset—carry out their duties under world-class working conditions.

Understanding that IEnova's future growth and participation in new business lines require flexibility, the model was designed to be equally efficient regardless of the number of employees—which fluctuates considerably depending on the number of projects we have under construction—and of the specific characteristics of each asset. In 2018, the management system adapted perfectly to address the requirements of new projects—solar energy parks and refined products storage terminals—and to the considerable increase in the number of man hours worked.

OUR MANAGEMENT MODEL

[103-2]

The health and safety model is guided by four primary documents:



These documents are all aligned with our Internal Labor Bylaws and with our Code of Ethics and several policies and procedures developed specifically to achieve a zero-accidents operation. We operate in strict compliance with the Official Mexican Standards, the Federal Labor Law, the Social Security Law, as well as other applicable regulations.

Our Health and Safety policies reflect IEnova's commitment to have a workplace that is free of uncontrolled known hazards, that ensures safe work practices, and that implements adequate preventive measures for people, facilities, and processes.

The Health and Safety Principles to Save Your Life Manual includes 12 principles to help prevent incidents, including the use of personal protective gear, the obligation to report any incidents or unsafe conditions, blocking hazardous sources of energy, installing rails around machinery, employing safety measures when driving, and fall-prevention measures for working at high altitudes, among others.

The Elements of the Health and Safety Management System Manual establishes corporate expectations concerning the assets through the use of self-assessment lists. In 2018 we incorporated two new elements: first, one related to manned and unmanned aircraft, such as drones, as they could potentially cause damage; and second, safety measures that need to be followed when working in or near bodies of water. We have added this element because we are in the process of developing and building refined products storage terminals in areas near the ocean.

With the continued implementation of the management system by our Champions team—a group of employees in charge of ensuring safety compliance in an asset other than their own—we ensure adherence to national and international best practices and we are able to apply the lessons learned across the company.

WITH THE IMPLEMENTATION OF THE MANAGEMENT SYSTEM BY OUR TEAM OF CHAMPIONS WE ENSURE ADHERENCE TO NATIONAL AND INTERNATIONAL BEST PRACTICES

San Isidro Compression Station

Día de la Familia (Family Day) in Mexico City

PERFORMANCE IN SAFETY

[403-3]

In order to measure our performance in safety, we designed a proactive indicator that includes the elements of the management system used to assess achievements using a number scale. To oversee how this process is working, our Champions carry out quarterly reviews and an annual cross-verification process. In 2018, given the intense levels of activity, we had to hire new employees to perform these functions. The number of Champions also grew to 355.

In addition to verifying the management system, authorities or certification institutions perform periodic reviews and facility inspections to ensure the correct status of our operations and projects.

To strengthen our culture of prevention, in 2018 we offered 46,122 hours of training in Health and Safety—almost two and a half times more than the prior year—through 910 courses on varied issues, including safety when dealing with fire and when working with electricity, storing and handling hazardous materials, and emergency response, among others. This year we gave particular attention to a safe driving campaign.

IN 2018 WE OFFERED 46,122 TRAINING HOURS ON HEALTH AND SAFETY, TWO AND A HALF MORE HOURS THAN IN 2017


Transformers area at the Ventika Wind Farm

Our operating units include the following:

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

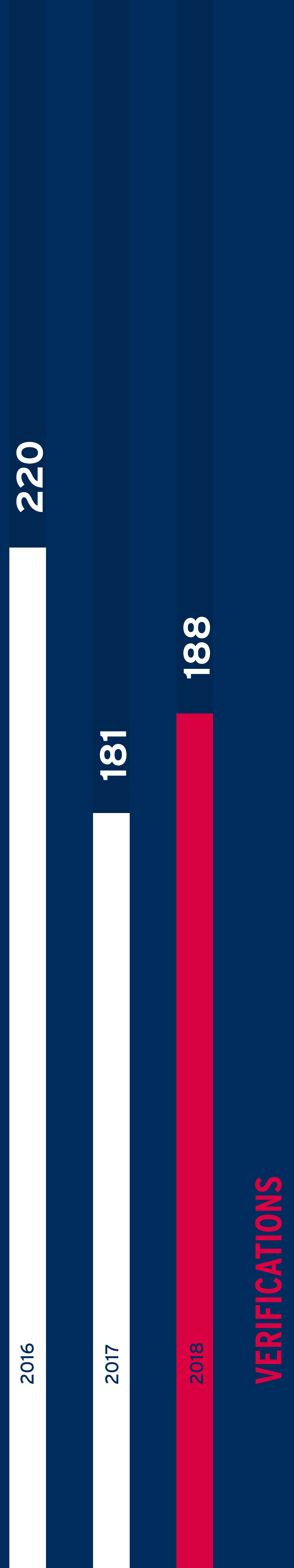
In 2018, the Health and Safety committees and work teams included 786 employees and contractors.

For the fourth consecutive year we awarded a prize to the asset which best complies with our corporate Health and Safety guidelines. ECOGAS México was the best performing business unit in 2018, with a score of 4.52 (on a 0-5 scale).

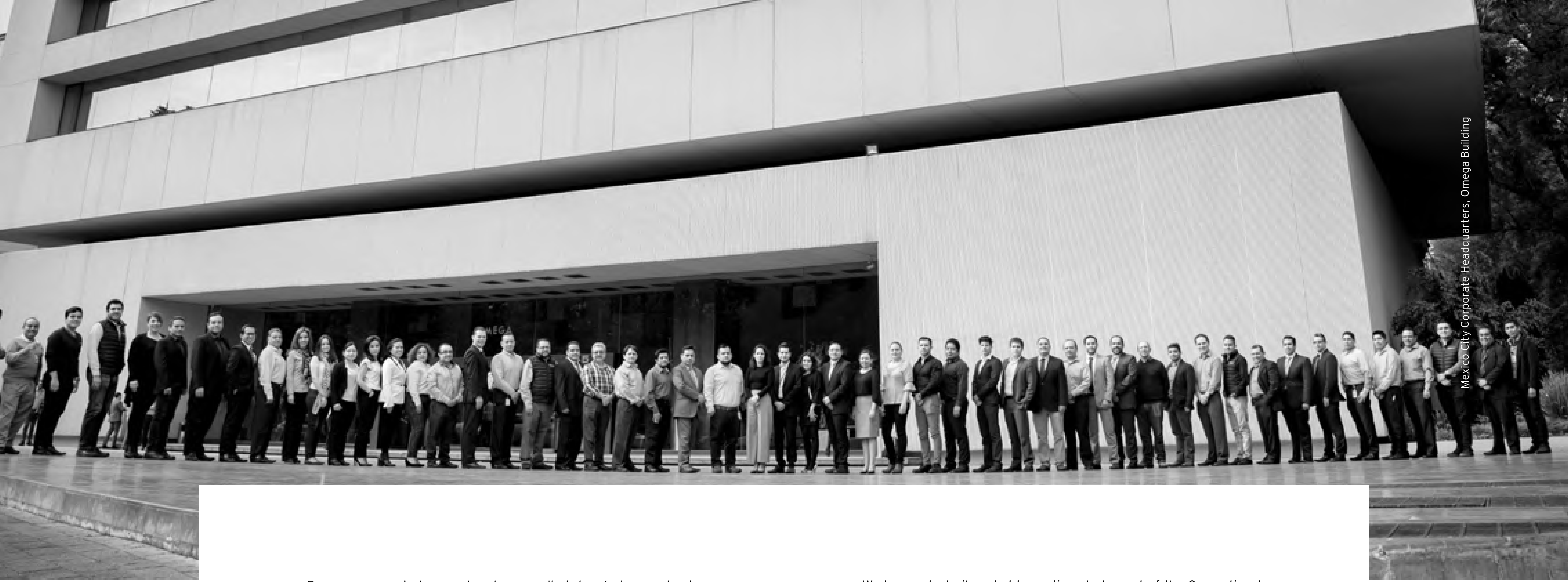
In terms of our occupational health culture, at all our business units we monitor industrial hygiene and perform periodic medical tests in compliance with official norms. We provide lectures on prevention and health care, and hold vaccination campaigns against illnesses such as tetanus and influenza. We also hire medical providers to support our health programs. At some of our operating units we offer organized sports activities and follow a morning exercise program called *Pausa por la Salud* (Take a Break for Health).

VERIFICATIONS

TYPE	2016	2017	2018
Internal	161	148	145
External	59	33	43
Total	220	181	188



IN 2018, 786 EMPLOYEES, INCLUDING CONTRACTORS, PARTICIPATED IN THE HEALTH AND SAFETY COMMITTEES OR WORK TEAMS



Mexico City Corporate Headquarters, Omega Building

For every 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:

- Adhere to our primary documents
- Complete our health and safety induction course
- Ensure operators have valid certifications
- Have procedures and permits in place to perform high risk tasks
- Conduct periodic field inspections and random breathalyzer and drug testing

Additionally, since we operate in compliance with the General Civil Protection Law and we promote a culture of prevention in case of incidents resulting from natural or human-induced disasters, in 2018 we carried out 85 drills at our work centers, for a 102% increase with respect to 2017.

We also implement initiatives such as the Health and Safety Employee Award, commemorating the World Day for Occupational Health and Safety (April 28th), as well as the *Safety and My Family* drawing contest, which we have been holding since 2014. Some 250 people, including direct and indirect family members of all ages, participated in this year's edition. The 12 winning drawings are used to produce a calendar that is distributed across the company.

We have voluntarily opted to continue to be part of the Occupational Health and Safety Self-Management Program (PASST) of the Mexican Department of Labor and Social Welfare (STPS) in order to obtain the Safe Company certificate and for all assets to be certified before they have been operating for 12 months. Once certified, the goal is for our assets to maintain or exceed their current level.

All assets that require it, given the characteristics of their operation, are either already certified or in the process of being certified under health and safety at the workplace standards established by the *British Standards Institution: Occupational Health and Safety Assessment Series* (OHSAS).

In 2018, the certifying entity in comprehensive management systems, EQA Certificación México, certified ECOGAS in ISO 9001:2015, ISO 14001:2015, and OHSAS 18001:2007. The certification recognizes correct natural gas operation in compliance with the highest international standards in quality, occupational health and safety, as well as environmental protection and quality.

[403-2]

The number of work hours registered a considerable increase in 2018, with a consequent surge in exposures to hazards compared to the previous year. Yet promoting a zero-accidents culture among our employees enabled us to control our accident rate, which remained stable.

We are proud to report that once again we had zero work-related employee or contractor fatalities. The Total Recordable Incident Rate (TRIR) stood at 0.58; the Lost Time Accident Rate (LTAR) was 0.18. This is the result of the daily efforts of our employees related to safety, in addition to a proactive strategy that aspires to achieve a zero-accidents operation.

Our 2019 Goal:
1.98
Total Recordable Incident Rate (TRIR)
1.50
Lost Time Accident Rate (LTAR)

ACCIDENT RATE[1]	2016	2017	2018
Work-related fatalities	0	0	0
Total Recordable Incident Rate (TRIR)[2]	0.77	0.58	0.58
Lost Time Accident Rate (LTAR)[3]	0.28	0.17	0.18

Notes:
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: Accident Rate = (Number of accidents x 200,000) / hours worked.
2 TRIR = Total Recordable Incident Rate. We include injuries and work-related illnesses that required treatment beyond first aid 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 workdays.


Veracruz Storage Terminal

OUR
STORIES

SHAPING THE FUTURE

IS PART

OF OUR

ESSENTIAL

VALUES

IENOVA PROGRAM FOR OPERATORS' TRAINING

WE PREPARE SPECIALIZED TECHNICIANS THAT CONTRIBUTE TO OUR INDUSTRY AND SUPPORT THEIR FAMILIES

AT IENOVA WE ARE FIRMLY COMMITTED TO RESPECTING AND SUPPORTING OUR EMPLOYEES AND THE COMMUNITIES TO WHICH WE BELONG.

PROFOI Class of 2019

PROFOI CONTRIBUTES TO STRENGTHENING OUR RELATIONSHIP WITH COMMUNITIES NEAR OUR OPERATIONS.

30 CANDIDATES SELECTED PER CLASS

177 GRADUATES

600 TRAINING HOURS

104 OF CURRENT IENOVA EMPLOYEES GRADUATED FROM THE PROGRAM

USD$**2.67** MILLION INVESTED IN PROFOI SINCE 2014

Championing people and shaping the future are part of our essential values. Among other things, this translates into having continuous learning and improvement frameworks in place and maintaining a vision of the future that allows us to anticipate market needs.

Based on these principles and on our sustainability policy, our efforts within the Social Pillar are focused on providing specialized training to address our current and future needs. Additionally, we support communities neighboring our assets.

With these goals in mind, we designed the innovative IEnova Program for Operators' Training (PROFOI) through which we hire technicians who have recently graduated from technical schools and universities offering specialized studies in engineering and the energy sector.

In addition to serving as a talent pool for IEnova, PROFOI contributes to strengthening our relationship with communities in close proximity to our operations, as that is where we recruit potential participants. Among the characteristics we look for in candidates, the most relevant are a desire to excel, talent, a thirst for competition, teamwork, and dedication. On average, we select 30 candidates per graduating class; it is with great pride that we have observed an increase in the number of women seeking to participate.

The course, which is offered in the city of Ensenada, Baja California, consists of 600 training hours, distributed over a three-month period. Participants receive biweekly economic compensation in addition to housing, meals, transportation, and the materials needed to fulfill the requirements of the training program.

Over these three months, students receive training on topics such as operation and maintenance, transporting gas, electricity, the basics of corrosion, industrial safety, project management, occupational health, environmental issues, and renewable energy, among others. It also includes sessions on the IEnova culture and ethics, as introductory information on the company. PROFOI is flexible enough to adapt to the requirements of our different lines of business.

Since 2014—the year the first PROFOI generation graduated—to date, we have invested USD$2.67 million in this program. There are now 177 graduates from six graduating classes; 104 of IEnova's current employees participated in the program.

While a certain percentage of participants are not hired directly by IEnova, upon completion of their training they all receive certification on a series of competencies that make them excellent candidates to collaborate with other companies, within or outside the energy sector. Additionally, they occupy a privileged position in IEnova's database; PROFOI graduates are first in line when there is a vacancy in the company.

It is with great pride that we see how the three months of training they receive open a wide range of job opportunities for them. We are certain we have transformed the lives of many young people and their families with this program.

SOCIAL COMMITMENT

[203-1, 413-1]

We manage our social investments based on IEnova's strong commitment to society. To this end, three years ago we created Fundación IEnova; we also operate a series of Trusts linked to the main projects we have under construction or already in operation, as well as the social work we carry out through projects we build directly or through joint ventures:

Fundación IEnova
Energía que transforma

+

TRUSTS

+

PROJECTS UNDER CONSTRUCTION AND IN DEVELOPMENT

=

SOCIAL COMMITMENT

FUNDACIÓN IENOVA

The goal of Fundación IEnova—a second-tier foundation duly authorized to make donations and economic contributions in compliance with the requirements set forth by the Mexican tax authority *(Servicio de Administración Tributaria, SAT)*—is to maximize the impact of the economic and human resources we invest in the communities in which we operate and to which we belong.

AREAS OF GIVING

The Fundación IEnova resources are focused on sponsoring works that, with our collaboration, can offer greater mid- and long-term benefits to the community. These must be consistent with the four areas on which the Foundation's actions are focused:

EDUCATION

Scholarships for talented university-level students who are in need of economic aid in order to continue their studies.

ENVIRONMENT

Infrastructure improvements focused on supplying electricity generated from clean sources to foster homes and centers that offer aid to vulnerable groups.

VULNERABLE GROUPS

Infrastructure improvements in foster homes and centers that offer aid to vulnerable groups.

COMMUNITY SERVICES

Integral care for children with cancer.

OUR GOAL IS TO MAXIMIZE OUR IMPACT ON THE COMMUNITIES WHERE WE OPERATE AND TO WHICH WE BELONG

[203-1]

Fundación IEnova supports non-profit organizations approved by SAT whose activities are aligned with one of the priority programs and/or with the corporate purpose described in the Foundation's Bylaws.

At Fundación IEnova we employ a robust assessment methodology in order to structure the way in which we determine which projects and organizations to sponsor. This provides the donation process with transparency and maximizes the impact of the allocated resources.

Fundación IEnova is managed by an Advisory Committee and a Managing Board. The Advisory Committee includes IEnova's CEO and Executive Vice-Presidents and is chaired by the Chairman of the Board of Directors and Executive Chairman of IEnova. Several employees are members of the Managing Board and it is chaired by the Chief Corporate Affairs Officer.

Additionally, each year the Foundation's performance is subject to an internal audit. The auditor's report is presented to the Associates Meeting and to the Advisory Committee.

MANAGEMENT STRUCTURE FOR FUNDACIÓN IENOVA

[103-2]

ADVISORY COMMITTEE

Chair: Chairman of the Board of Directors and Executive Chairman of IEnova

MANAGING BOARD

Chair: Chief Corporate Affairs Officer

MANAGEMENT

Fundación IEnova Manager

[103-2]

The Fundación IEnova management team presents the preselected 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 them. The Committee also evaluates the results, supervises the performance of the Managing Board, and evaluates how Fundación IEnova is being managed.

DONATIONS BY STATE IN 2018

EDUCATION	ENVIRONMENT	VULNERABLE GROUPS	COMMUNITY SERVICES
6 PROJECTS	1 PROJECT	10 PROJECTS	7 PROJECTS
			2 IN-KIND DONATIONS

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 IEnova Anti-Corruption Procedure for the Approval of Donations, Sponsorships, Improvements, and Memberships implemented by IEnova's Corporate Ethics division.

To verify compliance with the project timeline and results, the organization must submit quarterly reports as well as the supporting documentation needed to verify how the resources are managed from beginning to end.

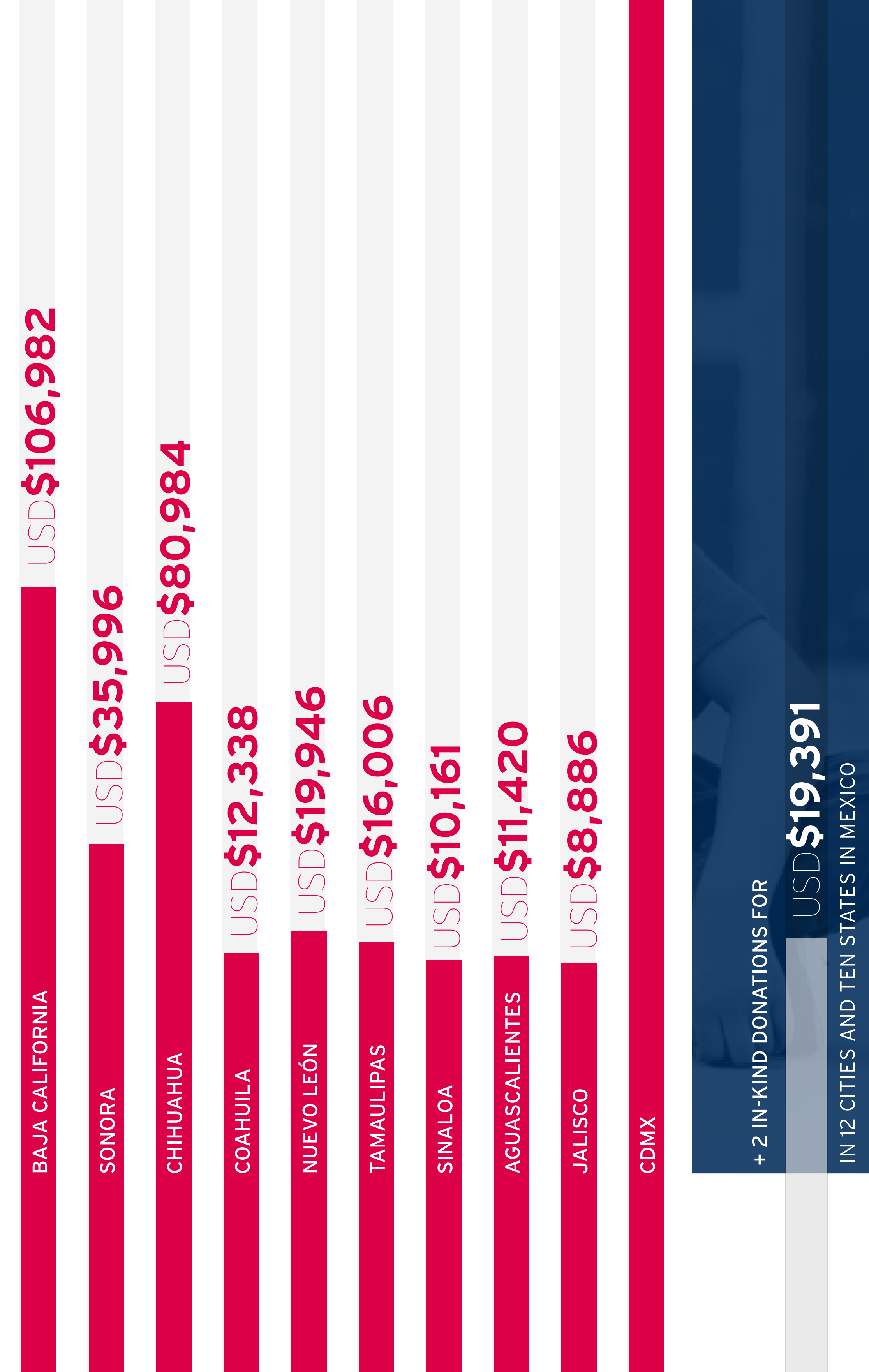
In 2018, Fundación IEnova awarded USD$688,241* in donations, an amount that allowed us to support 12 organizations and 24 projects as well as to carry out two in-kind donations, in 12 cities in 10 states in Mexico.

* $13,546,576 pesos at the official exchange rate of $19.6829 pesos per USD$1.

USD$688,241*

TOTAL INVESTMENT

* Figures in USD at an exchange rate of $19.6829 pesos per USD$1.



2018 DONATIONS BY AREA OF GIVING

EDUCATION	ENVIRONMENT	VULNERABLE GROUPS	COMMUNITY SERVICES
56%	4%	23%	17%
• Asociación Mexicana Pro Colegios del Mundo Unido, A.C. (UWC) • Trust number F/744942 (FIMUNET) • Fundación UABC, A.C. • Instituto Educativo del Noroeste, A.C. (CETYS) • Promesa Educativa para México, A.C.	• A Favor del Niño, I.A.P.	• Casa Hogar del Anciano de Ensenada, A.C. • Fundación del Empresariado Chihuahuense, A.C. (FECHAC) • Fundación del Empresariado Sonorense, A.C. (FESAC) • Fundación para la Protección de la Niñez, I.A.P.	• Casa de la Amistad para Niños con Cáncer, I.A.P. • Cruz Roja Mexicana, I.A.P. • Fundación para la Protección de la Niñez, I.A.P.

As part of our Collaboration Agreement with the Mexican Red Cross (Cruz Roja Mexicana, I.A.P.) for rapid response in case of natural disasters, we made a donation for USD$10,161* in aid for victims in the communities affected by floods in the state of Sinaloa in September 2018.

Likewise, through our internal disaster-relief program for victims of the 2017 earthquakes in Mexico City, Puebla, Morelos, Oaxaca, and Chiapas, we donated USD$28,918* to the Fundación para la Protección de la Niñez, I.A.P. In this effort, funds collected by IEnova employees were matched by Fundación IEnova and used to purchase furnishings for four schools, benefiting 725 students.

Corporate volunteers are an integral part of Fundación IEnova; employee participation is an essential element of our social commitment efforts. Through our Corporate Volunteers Program we have benefited children and youngsters living in vulnerable conditions with more than 1,600 donation packages between 2015, when Fundación IEnova was founded, and year-end 2018.

* Figures in USD at an exchange rate of $19.6829 pesos per USD$1.

EMPLOYEE PARTICIPATION IS AN ESSENTIAL ELEMENT OF OUR SOCIAL COMMITMENT EFFORTS

In 2018, we held 14 volunteer events through which we benefited the following projects:

459 PACKAGES

INCLUDING SCHOOL SUPPLIES, CLOTHES, SHOES, AND TOYS DONATED TO CHILDREN AND YOUNGSTERS THROUGH OUR CORPORATE VOLUNTEERS PROGRAM

203

VOLUNTEERS

ESCUELA + SONRISAS

231

SCHOOL SUPPLIES PACKAGES DELIVERED IN SEVEN CITIES:

Chihuahua, Mexico City, Hermosillo, Mexicali, Monterrey, Tecate, and Torreón

ÁRBOL DE LA SONRISA

228

PACKAGES INCLUDING CLOTHES, SHOES, AND TOYS DELIVERED IN SEVEN CITIES:

Chihuahua, Mexico City, Hermosillo, Mexicali, Monterrey, Tecate, and Torreón

DURING 2018, OUR CORPORATE VOLUNTEERS PROGRAM BENEFITED CHILDREN LIVING IN VULNERABLE CONDITIONS WITH MORE THAN 450 DONATION PACKAGES WITH THE COLLABORATION OF CLOSE TO 200 VOLUNTEERS

FUNDACIÓN IENOVA IN SUMMARY 2018

24
PROJECTS

2
IN-KIND DONATIONS

12
ASSOCIATIONS SPONSORED DIRECTLY

8,404
BENEFICIARIES

USD$ 688,241*
GRANTED IN DONATIONS

The 2018 Fundación IEnova Report is available to view and download at: http://www.ienova.com.mx/fundacion.php

* $13,546,576 pesos at exchange rate of $19.6829 pesos per USD$1.

TRUSTS

[203-1, 413-1]

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 representing the health, private, academic, economic development, and conservation sectors in 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, environmental, equipment, infrastructure, and public safety projects in Ensenada.

In 2018, we invested USD$121,933 to build a 3,400 m2 community gymnasium-auditorium, with a capacity for 1,500 people, that can be used to carry out activities to promote culture, sports, and a healthy lifestyle.

From the date it was constituted and as of December 31st, 2018, we have supported 24 projects and invested USD$4.6 million in medical equipment, infrastructure works, and in education and municipal services, sports, and public safety, benefiting the approximately 500,000 people who live in Ensenada.

SONORA

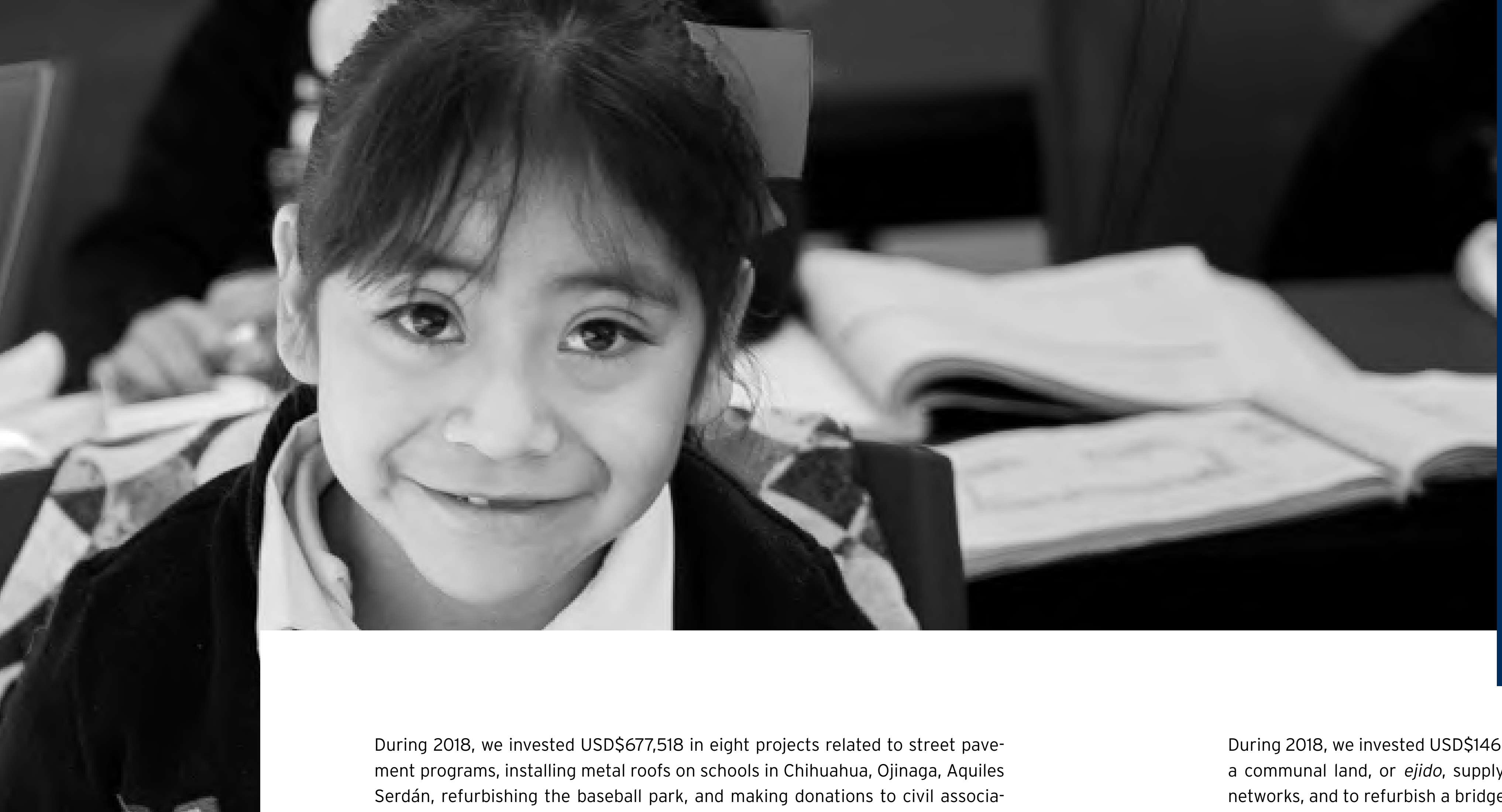
We constituted the Sonora Trust in 2012. Representatives from the Federal Electricity Commission (CFE), the state government of Sonora, and IEnova participate in a Technical Committee that reviews all applications for public works.

In 2018, we invested USD$90,126 in electrification works for the Yaqui communities, and in building eight self-sufficient solar-energy water purification plants in eight Yaqui communities: Belém, Huírivis, Rahum, Potam, the Vícam station and town, Tórim, and Loma de Guamúchil. The project included building the infrastructure required to operate the water purification systems.

From the date it was constituted and as of December 31st, 2018, the Trust has granted its support to 44 projects and invested USD$4.04 million in the state of Sonora, benefiting directly and indirectly 817,485 people who live in these communities.

OJINAGA-EL ENCINO

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



USD$1.85***

MILLION ALLOCATED TO SOCIAL WORKS DURING 2018

*** Includes donations granted by Fundación IEnova, the social works of the Ethane Pipeline, Energía Sierra Juárez, and the Los Ramones Norte Pipeline, as well as contributions from the following Trusts: Ensenada, Sonora, Ojinaga-El Encino, and San Isidro-Samalayuca.

During 2018, we invested USD$677,518 in eight projects related to street pavement programs, installing metal roofs on schools in Chihuahua, Ojinaga, Aquiles Serdán, refurbishing the baseball park, and making donations to civil associations and the Chihuahua Family Protection Agency (DIF).

From the date it was constituted to year-end 2018, we have sponsored 32 projects with an investment of USD$1.91 million in the municipalities of Chihuahua, Ojinaga, Coyamé, Aquiles Serdán, Rosales, and Aldama, benefiting 12,385 people.

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.

During 2018, we invested USD$68,622 in projects related to donating furniture and other equipment for blind people, rehabilitating and wiring the electric system of the San Isidro church, waterproofing and painting the roofs of 31 schools, paving one street, as well as refurbishing and supplying equipment for six schools and seven childcare centers.

From the date it was constituted and as of December 31st, 2018, we have approved 19 projects and invested USD$839,622, directly benefiting 4,485 people in Ciudad Juárez, Samalayuca, and San Isidro.

ETHANE TRANSPORTATION SYSTEM

At the Ethane Transportation System project, we made two types of investments in social works. On the one hand, we collaborated with the governments of the municipalities through which the project crosses and, on the other, we helped the communities directly.

During 2018, we invested USD$146,140 in works to repair the meeting center for a communal land, or *ejido*, supply electric components to improve the public networks, and to refurbish a bridge we built as part of the work that benefited a community in the state of Chiapas.

Since 2013, when construction began on the Ethane Pipeline, and as of December 31st, 2018, we have sponsored 126 projects and invested USD$6.4 million benefiting several municipalities in the states of Veracruz, Chiapas, and Tabasco.

SOCIAL COMMINTMENT AT OUR JOINT VENTURES

We also make social investments at our joint ventures with other companies.

For example, in 2018 at our Energía Sierra Juárez wind farm—asset belonging to the joint venture with Actis, in which IEnova holds a 50% stake—we invested USD$2,807 to implement health brigades at a community doctor's office in the Jacumé communal land, or *ejido*, to offer medical and educational services, focusing on sexual and reproductive health, good eating habits, family health, and dental hygiene, among others. We benefited 212 people with this program.

Additionally, through our Los Ramones Norte Natural Gas Pipeline—the asset belonging to the joint venture with BlackRock, in which IEnova holds a 50% stake—we invested USD$58,233 in improving conditions in community access roads and we built a baseball field.

Since 2015 and as of December 31st, 2018, we have made 96 contributions and invested USD$1.02 million in social works, benefiting several municipalities in the states of Nuevo León, Tamaulipas, and San Luis Potosí.

OUR
STORIES

THROUGH FUNDACIÓN IENOVA

WE CONTRIBUTE TO IMPROVING THE LIVES OF CHILDREN LIVING IN VULNERABLE CONDITIONS

TRIANNUAL FOSTER HOME ADOPTION PROGRAM FOR INFRASTRUCTURE IMPROVEMENTS

WE CONTRIBUTE TO IMPROVING THE LIVES OF CHILDREN LIVING IN FOSTER HOMES

PARTICIPATING IN THE SUSTAINABLE DEVELOPMENT OF MEXICO IN A FRAMEWORK OF RESPECT AND COMMITMENT TO THE COMMUNITIES TO WHICH WE BELONG IS FUNDAMENTAL TO THE IENOVA BUSINESS STRATEGY.

We establish a positive relationship with and offer our support to different groups that are part of the communities to which we belong, all on the basis of our sustainability policy. Through the activities implemented in the **Social Pillar**, we seek to offer our support to efforts aimed at improving the quality of life of those who are most in need.

In order to contribute to transforming the lives of children living in vulnerable conditions, at Fundación IEnova we established the **Triannual Foster Home Adoption Program** for Infrastructure Improvements in collaboration with the Fundación para la Protección de la Niñez.

The goal of this program is to change the living conditions of children in foster care. We are convinced that if they can grow up under healthier and more optimal conditions their chances for a better life increase. That is why the funds we donate are allocated to making upgrades to the infrastructure of the foster homes where they live.

As part of this effort, between 2015 and 2017 Fundación IEnova adopted six foster homes located near our operations:

- El Camino Hacia Adelante, A.C., in Chihuahua, Chihuahua
- Promoción y Acción Comunitaria, I.A.P. (Casa PACO), in Mexico City
- Casa Hogar Cañón Buenavista, A.C., in Ensenada, Baja California
- Casa Esperanza para Niños, I.A.P., in Hermosillo, Sonora
- Institución Paccelli, A.C., in Mexicali, Baja California
- Albergue del Padre Manuelito, A.C., in Torreón, Coahuila

The funds granted by the program are allocated to infrastructure works and can vary depending on the needs of each foster home. Among others, the following improvements have been made:

- Making upgrades to workshops
- Repairing electric systems
- Repairing and remodeling roofs, bedrooms, play areas, and bathrooms
- Building or repairing computer rooms, multi-purpose rooms, office spaces
- Installing security systems and telephone exchanges

In 2015-2017—the first three-year period of this successful program—we invested **USD$248,337*, benefiting 309 children.**

* At exchange rate of $19.6829 pesos per USD$1.

FUNDS GRANTED BY THE PROGRAM ARE ALLOCATED TO INFRASTRUCTURE WORKS

USD$**349,948***

INVESTED IN 2015-2018

11

FOSTER HOMES ADOPTED IN TWO THREE-YEAR PERIODS

1,600

PACKAGES CONTAINING SCHOOL SUPPLIES, CLOTHES, SHOES, AND TOYS DONATED

In 2018 we started the new 2018-2020 foster home adoption program.

During this second phase, we will make donations for improving facilities at seven foster homes:

- Casa Hogar Jeruel, A.C., in Chihuahua, Chihuahua
- Promoción y Acción Comunitaria, I.A.P. (Casa PACO), in Mexico City
- Casa Guadalupe Libre, I.A.P., in Hermosillo, Sonora
- Betesda Mexicali, A.C., in Mexicali, Baja California
- Casa Hogar Manantial de Amor, A.C., in Monterrey, Nuevo León
- Casa Hogar para Niños Rancho El Milagro, I.B.P., in Tecate, Baja California
- Albergue del Padre Manuelito, A.C., in Torreón, Coahuila

The following are among the improvements we plan to make:

- Repairing and remodeling bathrooms and bedrooms
- Building the first phase of an area that will be allocated to offering specialized help to children
- Purchasing furnishings
- Installing solar panels

Additionally, twice a year we hold corporate volunteer events that offer us the opportunity to get to know and spend time with the children we sponsor.

The first event, which takes place before the beginning of the school year, is known as *Escuela + Sonrisas* (School + Smiles). It consists of donating school supplies packages collected by our employees.

At the end of the year we carry out a second event, *Árbol de la Sonrisa* (Smiling Tree), during which we give the children toys, clothes, and shoes, all of which are also donated by our employees, thus contributing to making the holidays a happier time for the kids.

This program is an employee favorite because of the close bonds they form with the children.

Managing this project and contributing to the improvement of the lives of children and young people in our communities is a source of great pride at Fundación IEnova.

We are certain that with programs such as these, we contribute to changing the lives of groups of people who need it the most.

At Fundación IEnova we are very proud of having the opportunity to manage this project and contribute to improving the lives of children and youngsters in our communities.

2018 PROGRESS AND 2019 CHALLENGES

SOCIAL PILLAR

[102-44, 103-1, 103-2]

Throughout 2018 we carried out several initiatives in order to meet the challenges established in the IEnova sustainability strategy and to address those issues that are most relevant to our stakeholders. Here is a summary of the progress we have made and the new challenges we have set for 2019.

2018 PROGRESS	2019 CHALLENGES
HEALTH AND SAFETY	
✓ Communicate and publish the Safe Driving campaign.	
✓ Obtain or initiate the certification process for the STPS's Safe Company certificate at all IEnova operating units during the first 12 months after they begin to operate or after we gain operating control of them.	◷ Obtain or maintain the Safe Company certificate granted by STPS at all our operating units during the first 12 months after they begin to operate or after we gain operating control of them.
✓ Reach the established performance goals in accident rate: Total Recordable Incident Rate (TRIR): 2.10 Lost Time Accident Rate (LTAR) 1.59	◷ Reach the established performance goals in accident rate: Total Recordable Incident Rate (TRIR): 1.98 Lost Time Accident Rate (LTAR) 1.50
✓ Maintain the OHSAS 18001 certificate in Pipelines, Energía Costa Azul, Energía Sierra Juárez, and Termoeléctrica de Mexicali.	
✓ Obtain the OHSAS 18001 certificate in ECOGAS (Distribution).	
✓ Update the elements of the Management System for the 2018 version.	
✓ Release Health and Safety Guidelines to be included in new or renewed contracts.	
	+ Consolidate and communicate the health and safety culture through internal activities such as Family Day, and the Health and Safety Week, among others, implemented at all the IEnova operating units.
EMPLOYEES	
✓ Maintain the Great Place to Work certification.	◷ Maintain the Great Place to Work certification.
◷ Continue the high-performance program and have a third graduating class.	◷ Renew the high-performance program in 2019.
✓ Strengthen healthy habits in employees by implementing campaigns on healthy eating and a sports culture.	◷ Maintain healthy habits in employees by encouraging changes in nutrition and offering support of gym memberships.
✓ Offer flexible training programs, based on competencies identified through surveys applied during the year.	
✓ Launch the IEnova Culture and Values campaign.	+ Redefine and relaunched the IEnova Mission, Vision, and Values.
✓ Explore best practices in work-life balance.	+ Evaluate proposals for working from home options, based on the current IEnova culture, projects, and operations, and implement.
✓ Include Human Capital presentations in every project to reinforce work environment and diversity and inclusion topics.	◷ Include Human Capital presentations in every project to reinforce work environment and diversity and inclusion topics.
✓ Carry out a feasibility study in every location to determine whether it is possible to incorporate people with disabilities into any of IEnova's companies.	◷ Continue the ECOGAS Chihuahua pilot program to measure impact and evaluate future phases.
	+ Establish mechanisms to encourage internal promotions.
COMMUNITY RELATIONS	
✓ Create communication materials for the Community Grievance Mechanism (MAC for its acronym in Spanish) in any native language necessary to serve the indigenous communities in the locations of our projects.	+ Draft public versions of the monitoring reports on the Social Impact Assessments (EvIS).
✓ Monitor the applicable implementation of prevention and mitigation measures included in the Social Impact Assessment of the projects and operating assets.	◷ Monitor the applicable implementation of prevention and mitigation measures suggested in the Social Impact Assessment.
✓ Continue operating Fundación IEnova in compliance with all applicable administrative, accounting, tax, and money laundering practices and regulations.	◷ Continue operating Fundación IEnova in compliance with all applicable administrative, accounting, tax, and money laundering practices and regulations, expanding the number of states in which Fundación IEnova is present.
✓ Maintain social and volunteer programs that are consistent with IEnova's sustainability pillars through Fundación IEnova.	+ Develop a co-relation between Fundación IEnova and the UN Sustainable Development Goals, as a civil association and based on its four main programs.
	+ Design a website on which to perform quarterly revisions of the projects sponsored by Fundación IEnova, including results and impact indicators.

✓ REACHED

◷ IN PROGRESS

+ NEW CHALLENGE

WE GENERATE VALUE IN OUR PROJECT'S SURROUNDINGS BY PROTECTING THE ENVIRONMENT

THE IENOVA BUSINESS STRATEGY ESTABLISHES FULL RESPECT FOR THE ENVIRONMENT STRIVING TO PROMOTE A PROSPEROUS FUTURE FOR ALL

ENVIRONMENTAL PILLAR

ENVIRONMENTAL PILLAR

IN NUMBERS

PLANTS
IN OUR
NURSERIES

249,379

ton OF CO_2eq
OF TOTAL
SCOPE 1 AND 2
EMISSIONS

2,587,191

GJ
ENERGY
CONSUMPTION

37,685,751

m^3
WATER EXTRACTED

101,539,986

m^3
OF WATER RETURNED
TO ITS ORIGINAL
EXTRACTION SOURCE
IN THE SAME OR
BETTER CONDITIONS

96,951,657

Nursery Energía Costa Azul

MANAGING SUSTAINABLE RESOURCES
AND ENVIRONMENTAL IMPACT

[103-1, 103-2, 103-2b, 103-2c]

Our environmental strategy—which includes communicating a deeply rooted environmental culture among our employees and stakeholders—strives to:

- Care for and treat the water we use in our processes.
- Protect biodiversity with state-of-the-art programs.
- Manage our waste and emissions in a comprehensive way, employing the most advanced technologies.
- Contribute to the production of clean, low-carbon, and efficient energy.

AT IENOVA WE OPERATE OUR BUSINESSES IN STRICT COMPLIANCE WITH ALL REGULATIONS AND WITH THE FIRM CONVICTION OF PROTECTING THE ENVIRONMENT

[103-2]

In 2018 we began implementing our Corporate Environmental Management System based on ISO standards and other best practices. The system, which includes our environmental policy and the corporate environmental management system manual, enables us to improve environmental performance at our business units in terms of the use of natural resources, air emissions, and waste and water management.

Ventika Wind Farm

While implementing this Management System and simultaneous with the development, construction, and operation of all our assets, we adhere to best practices in the industry. We also strictly comply with all applicable environmental laws, regulations, and standards. We respect the terms established by the Mexican Ministry of the Environment and Natural Resources (Semarnat) and by the National Agency for Safety, Energy, and the Environment (ASEA) for our environmental permits and authorizations.

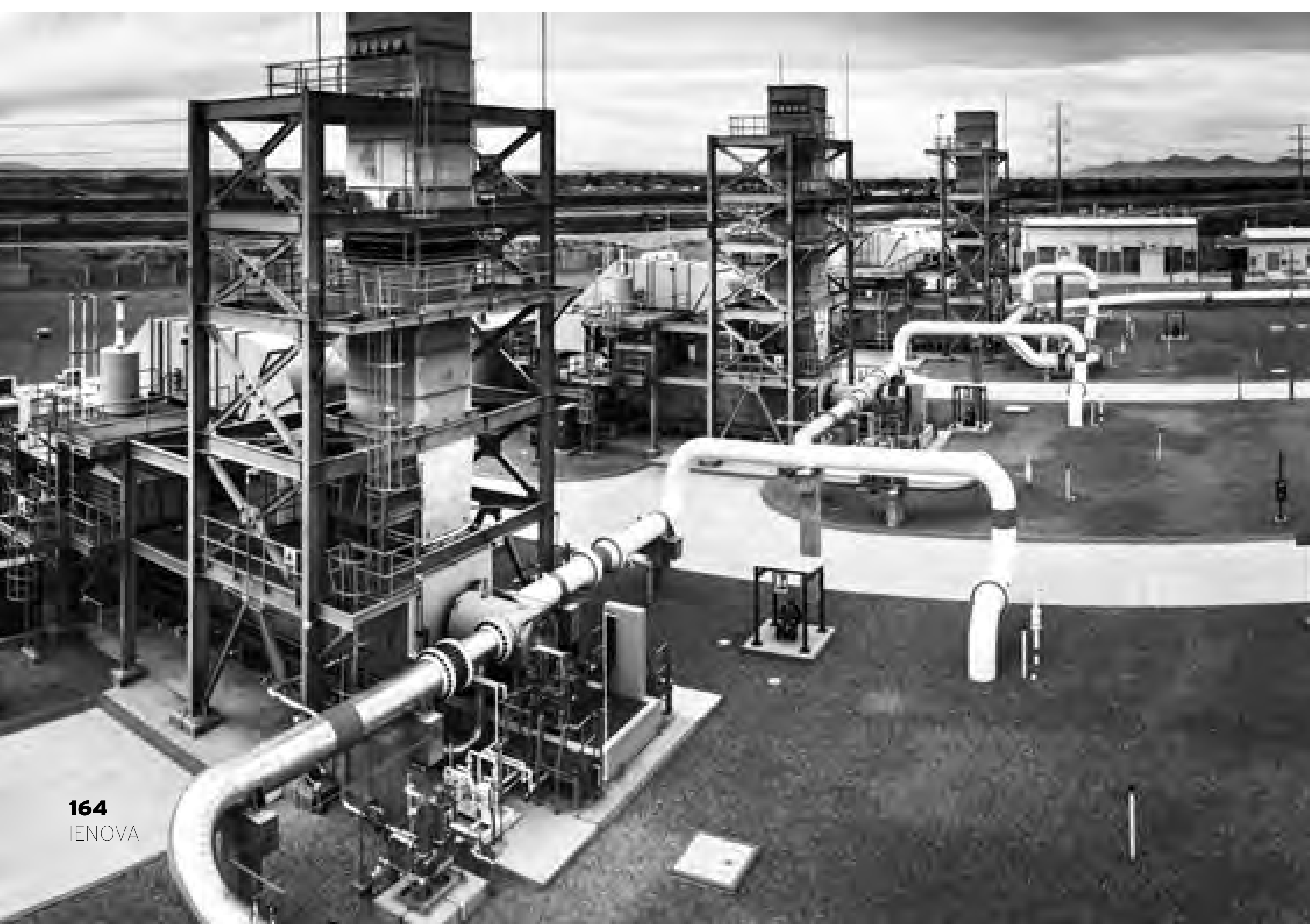
In 2018, we updated our Climate Change Strategy to include indicators that will allow us to identify with greater certainty those measures we can voluntarily include in our operation in order to reduce emissions and assess risks related to climate change. The Strategy also sets the basis to establish tangible measures for mitigating and adapting to climate change; it is based on an assessment of our operations' energy consumption and greenhouse gas emissions, which will be updated annually.

At IEnova, we have the internal goal to obtain either the Clean Industry or Environmental Quality certifications issued by Semarnat or ASEA for all our assets. We are committed to beginning the certification process within 12 months after a project starts operating or when we take over operating control of an asset we acquire.

Additionally, all our business units that require it are ISO 9001, ISO 14001, and OHSAS 18001 certified, or in the process of getting certified.

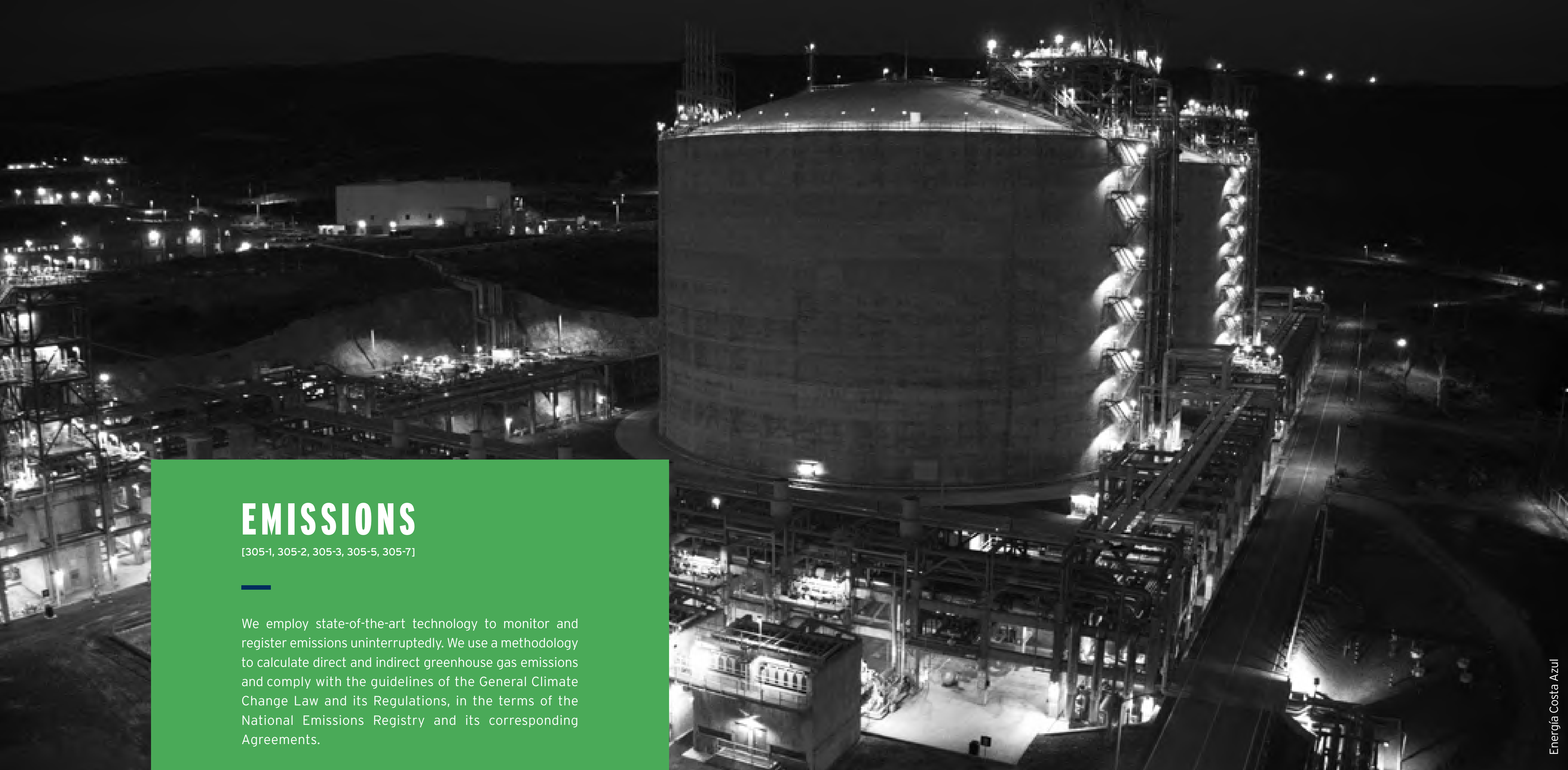
In the Power Segment we generate electric power at TDM, a combined-cycle natural-gas-fired plant. The facility meets the highest energy efficiency and emissions standards, with levels that are below all applicable limits in Mexico. We also generate renewable energy at the Ventika and Energía Sierra Juárez wind farms.

Furthermore, as part of our renewable energy projects portfolio, we have under development and construction the expansion of the Energía Sierra Juárez wind farm, in the state of Baja California, and four solar energy projects: Pima Solar and Don Diego Solar, in Sonora; Rumorosa Solar, in Baja California, and Tepezalá Solar, in Aguascalientes. Pima Solar started operating during the first quarter of 2019, with an investment of approximately USD$115 million.



AT IENOVA OUR GOAL IS TO OBTAIN EITHER THE CLEAN INDUSTRY OR ENVIRONMENTAL QUALITY CERTIFICATIONS ISSUED BY SEMARNAT OR ASEA FOR ALL OUR ASSETS

San Isidro Compression Station



Energía Costa Azul

EMISSIONS

[305-1, 305-2, 305-3, 305-5, 305-7]

We employ state-of-the-art technology to monitor and register emissions uninterruptedly. We use a methodology to calculate direct and indirect greenhouse gas emissions and comply with the guidelines of the General Climate Change Law and its Regulations, in the terms of the National Emissions Registry and its corresponding Agreements.

Given the nature of their processes, ECA and TDM produce higher levels of emissions than all our assets, thus requiring more stringent monitoring. At ECOGAS the automobiles used by our salesforce and operations and maintenance staff generate emissions. All our vehicles comply with all vehicular pollutant verification standards.

In 2018, our Scope 1 and Scope 2 greenhouse gas emissions totaled 2,587,191 metric tons of CO_2 equivalent, referred to as ton CO_2eq. This represented a 47% increase with respect to 2017 mainly due to the fact that we generated more electric power at TDM and because we used more detailed records and updated our methodology for measuring fugitive and venting emissions.

REPORT OF IENOVA'S AIR EMISSIONS

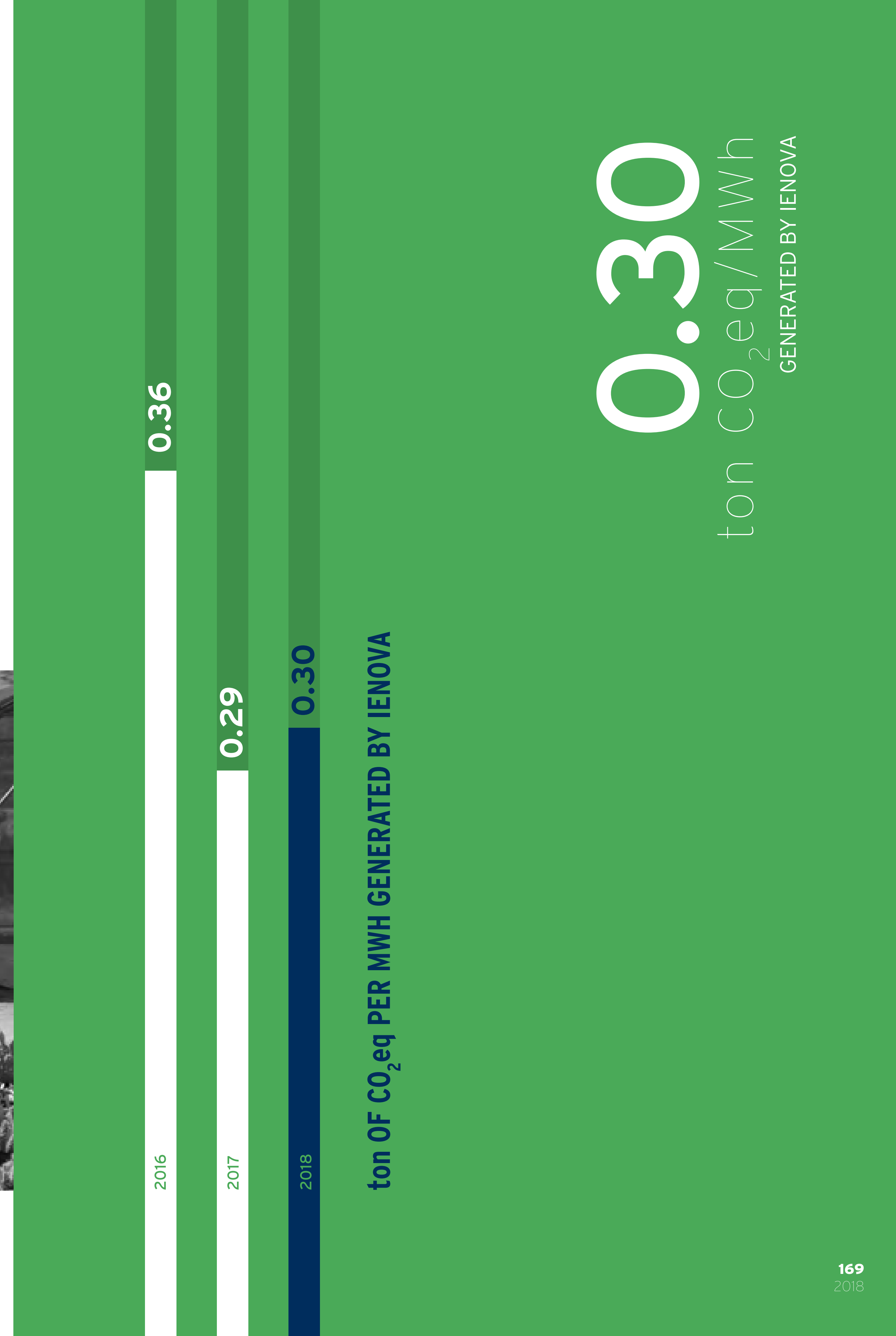
[305-1, 305-2]

TYPE OF EMISSIONS	AMOUNT IN METRIC TONS OF CO_2eq		
	2016	2017	2018
Direct emissions (Scope 1)	1,247,980	1,754,225	2,579,606
Indirect emissions (Scope 2)	5,430	7,597	7,585
TOTALES	1,253,410	1,761,822	2,587,191

In terms of the intensity of our emissions due to energy generation, measured as the amount of CO_2 produced times the energy generated, it is important to point out that between 2017 and 2018 our emissions in terms of this relative indicator remained constant. The slight increase was due, as mentioned before, to the increase in the energy generated by TDM.

It is important to point out that using natural gas as part of the combined-cycle technology is among the best technologies for generating electricity with low-carbon fuels. This is the basis of our results. The decrease between 2016 and 2017 was mainly due to the inclusion of the Ventika wind farm. We expect this indicator to drop even further once the new renewable energy assets begin operating in 2019.

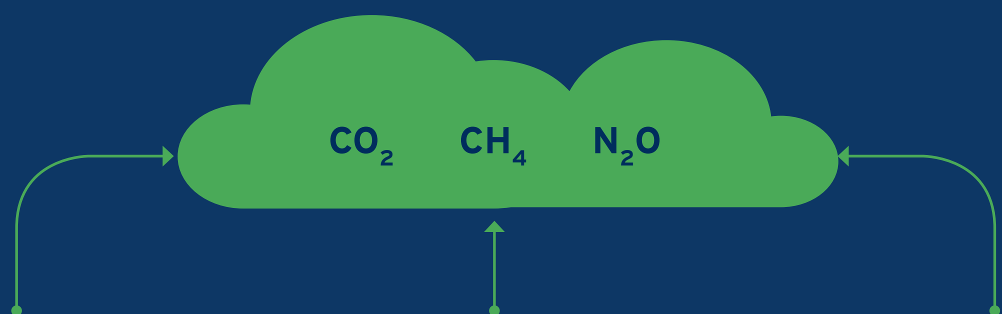

Nursery at the Energía Sierra Juárez Wind Farm



GREENHOUSE GAS EMISSIONS ARE CATALOGUED IN THE FOLLOWING MANNER:

Scope 1 emissions are direct emissions of the reporting company; Scope 2 and 3 emissions are produced by other companies or clients, as a result of the activity of the reporting company.

EMISSIONS SCOPE:



SCOPE 1
Direct

SCOPE 2
Indirect

SCOPE 3
Indirect

Emissions from sources that are owned by or controlled by the reporting company.

At IEnova this includes emissions by TDM—our combined-cycle terminal—our natural gas pipeline and distribution systems, and by ECA, our liquefied natural gas storage company.

Emissions produced by another company to generate electricity, steam, or heat that the reporting company either purchases or uses for its own operations.

At IEnova these emissions include the electricity we purchase for use at our assets.

Emissions produced by another company resulting from the upturn and downturn activities of a given company (excluding emissions reported as Scope 2) and that occur at sources that are owned by or controlled by other companies.

At IEnova these emissions include those produced by our Distribution and Pipelines customers who use gas as fuel.

DISTRIBUTION OF TOTAL CO_2eq EMISSIONS

- Generation of electricity 61%
- Pipelines 35%
- Storage 2%
- Distribution 2%

The distribution of the total percentage shows that the majority of our emissions are produced by the generation of electricity (TDM) and by our Pipelines, accounting for 96% of emissions.

EMISSIONS OF DISTRIBUTION CUSTOMERS FROM THE USE OF OUR PRODUCTS (SCOPE 3)

[305-3]

During 2018, Scope 3 emissions were 17,509,486 ton CO_2eq. This shows a considerable increase compared to the amounts reported the two previous years (1,530,968 ton CO_2eq for 2017 and 1,748,349 ton CO_2eq for 2016) mainly because we have included the emissions of our Pipelines' industrial customers who use natural gas as fuel.

TYPE OF EMISSIONS	GAS EMISSIONS	AMOUNT IN METRIC TONS OF CO_2eq		
		2016	2017	2018*
Others	Natural gas sold to customers	1,748,349	1,530,968	17,509,486*

* The considerable increase in 2018 is mainly due to the fact that we have included emissions produced by our Pipelines' industrial customers. Previously, we only reported emissions produced by our Distribution customers.

Mexicali Gas Generation

WE HAVE PREVENTIVE AND CORRECTIVE PROGRAMS IN PLACE TO MINIMIZE RISKS AND OPERATION FAILURES, AND TO ENSURE THE INTEGRITY AND RELIABILITY OF OUR OPERATIONS

WASTE GENERATION AND MANAGEMENT

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

We collaborate with specialized companies that are authorized to adequately dispose of waste to adequately manage it. When the physical and chemical nature of the waste allows, instead of disposing of it in landfills, we work with suppliers that either recycle and/or reuse it.

Our sites that generate the largest amounts of non-hazardous waste are ECA and TDM, both located in Baja California. At both companies we have preventive and corrective programs in place to minimize risks and operation failures, and to ensure the integrity and reliability of our operations, focusing on reducing waste and disposing of it adequately. Additionally, we are registered at the federal and local level as generator of waste requiring special handling.

During 2018 we had no reports of accidental leaks due to waste management. We recycled 20 tons of hazardous waste and 94 tons of non-hazardous waste.

REPORT ON IENOVA'S TOTAL WASTE GENERATION AND MANAGEMENT*

[306-2]

TYPE OF WASTE	DISPOSAL	AMOUNT IN METRIC TONS		
		2016	2017	2018
Hazardous waste	Waste confined in controlled deposits	9	45	55
	Incinerated waste	0	0	0
	Waste recycled by another company (recovery of waste oil and transformed energy)	18	21	20
	Total hazardous waste**	**27**	**67**	**75**
Non-hazardous waste and byproducts	Waste confined in controlled deposits	7,412	8,948	10,159
	Waste recycled by another company	36	56	94
	Total non-hazardous waste and byproducts	**7,447**	**9,004**	**10,254**

* The majority of waste is generated by TDM, Ventika, and Pipelines.

** Figures have been rounded off as follows: for 2016, we rounded up 26.88 to 27; for 2017, we rounded up 66.85 to 67; for 2018, we rounded down 75.45 to 75.

WATER
MANAGEMENT

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

ECA - the asset that uses the most water—and TDM, which is the next highest in water consumption, are the primarily focus of our efforts in reusing, saving, and recycling water.

At ECA we use water exclusively for the heating process required to produce a phase change in natural gas. It is important to point out that water never comes in contact with any product and, consequently, is never contaminated. 99% of the water used at ECA is extracted from the ocean and returned to the original source, always strictly complying with the specifications of all applicable environmental permits. The other 1% is wastewater that is processed in a treatment plant before it is discharged in the ocean.

Every three months, an accredited laboratory analyzes the physical and chemical characteristics of ECA's discharge water to ensure we fully comply with the conditions established in our discharge permits and with the authorized contaminant limits established by the regulation.

TDM uses demineralized water to produce the steam needed to operate the turbines. It also uses service water for the cooling system. TDM uses municipal wastewater from the Zaragoza oxidation lagoon, in Mexicali.

Water is treated so that it can be used in the process and then discharged in compliance with applicable regulation. Thus, TDM benefits the environment because the water it returns to the original source is in better conditions than when it was first withdrawn. During 2018, our efficiencies in water usage improved compared to 2017, since we used 1.43 m^3/MWh generated, representing a 15% decrease with respect to 2017.

At TDM we employ several different methods to treat wastewater and eliminate organic contaminants and mineral salts. The wastewater treatment plant can process a volume of 920 m^3/h. The treated water is used several times before being discharged. It is purged in the heat recovery units and the cooling towers.

DURING 2018, AT TDM WE IMPROVED OUR EFFICIENCIES IN WATER USAGE BY 15% VS 2017

TDM is among the cleanest natural-gas-fired power plants supervised by the Western Electricity Coordinating Council (WECC). To achieve this level of excellence, it uses state-of-the-art environmental technologies that comply with or even exceed all applicable norms in Mexico and in the state of California.

This year IEnova registered a reduction in the amount of discharged water. This is greatly due to the decrease in water consumption at TDM resulting from improvements implemented in its wastewater treatment plant. Likewise, we replaced chlorine gas with liquid gas in the water sanitizing system. These measures complemented our effort to continue to increase the amount of water that is reused in the process and to detect and repair leaks in a timely manner.

REPORT ON IENOVA'S TOTAL WATER DISCHARGE*

[306-1]

TYPE OF DISCHARGE	AMOUNT (m³)		
	2016	2017	2018
Water discharged into municipal treatment plants	5,807	11,695	7,026
Water discharged to other sources	1,892,004	1,415,723	988,943
Water discharged to the ocean	2,104	2,024	2,016
Total water discharged	**1,899,915**	**101,822,290**	**96,960,700**
Water returned to its original extraction source in the same or better conditions	**74,543,748**	**100,392,848**	**96,951,657**

* The majority of water is used by ECA and TDM.

** Total water discharged to the ocean: 96,953,673 m³

Water returned to its original extraction source in the same or better conditions: 96,951,657 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]

	AMOUNT (m³)		
	2016	2017	2018
Ground water	3,010	4,544	4,599
Municipal wastewater	4,973,429	4,866,458	5,427,746
Municipal water	5,954	14,081	14,499
Water obtained from other sources (ocean water)	74,672,817	100,565,537	96,093,411
Total water discharged	**79,655,210**	**105,450,620**	**101,539,986**

CONSERVATION
OF BIODIVERSITY

[304-1, 304-2, 304-3, 413-1, OG4]

At IEnova we implement programs for the conservation of biodiversity that vary depending on the specific characteristics of a given project and the ecosystem of the site where we build or operate an asset. These programs are basically divided into two:

FLORA RESTORATION, CONSERVATION, AND COMPENSATION

PROTECTION AND RESCUE OF WILDLIFE

The programs focused on conserving biodiversity enable us to fully comply with the authorities' guidelines included in the permits granted to IEnova. As a good internal practice, we have continued to voluntarily implement some of the programs with which we contribute to preserving natural resources, exceeding what is stipulated by law.

We also have a Strategy for the Conservation of Natural Resources in place which enables us to manage the efforts and resources allocated to these programs.

Nursery at Energía Costa Azul

WE CURRENTLY HAVE 8 NURSERIES IN OPERATION

1
AT ENERGÍA COSTA AZUL (ECA)

1
AT ENERGÍA SIERRA JUÁREZ (ESJ)

1
AT THE SONORA PIPELINE

5
AT THE LOS RAMONES I AND LOS RAMONES NORTE PIPELINES

AT OUR NURSERIES WE HAVE:

PRODUCED
185,636
plants deemed to be at-risk species by the Mexican norm NOM-059-SEMARNAT-2010

PRODUCED
5,811,821
seeds, including species deemed to be at risk

PROTECTED
249,397
plants

FLORA RESTORATION, CONSERVATION AND COMPENSATION

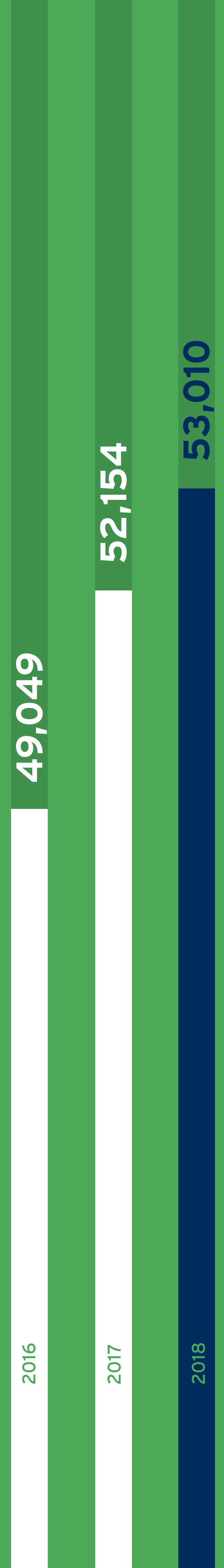
At IEnova we manage natural resources efficiently during both the construction and operation process, with particular emphasis on those projects which could have an impact on the environment.

Our commitment to biodiversity is evidenced by our reforestation programs. As part of these programs, we reproduce the region's native species in our own nurseries and maintain them even beyond the period established by the authority. We generate value in the areas surrounding our projects by protecting and producing native species in a controlled environment and producing seeds of species deemed at risk of extinction.

In 2018, work at the nurseries was mainly focused on maintenance and habitat evaluation based on qualitative and quantitative monitoring. Results have been excellent in terms of plant density, vegetation propagation, survival, and biological diversity.

The nursery located within the ECA facilities—which has been operating for more than ten years despite the fact that environmental authorities requested it remained in place for only five years—is an excellent example of our best practices. At this nursery, diversity values for the species are similar, and in some cases even slightly higher, that the measurement we took at the beginning of the program, with a better balance in the species and greater stability in the ecosystem. During 2018 our efforts were focused on producing plants that would allow us to have a reserve of more than 50% the nursery's capacity. There are currently 53,010 plants of 20 native species in the nursery.

INVENTORY OF PLANTS PRODUCED AT THE ECA NURSERY



IN CLOSE COLLABORATION WITH SEVERAL SUPPLIERS, WE HAVE GAINED CONSIDERABLE EXPERIENCE IN HANDLING ENDEMIC SPECIES OF FLORA, FOR AN AVERAGE SURVIVAL INDEX OF MORE THAN 90%

Nursery at the Energía Sierra Juárez Wind Farm

In summary, our rescue, restoration, compensation, and conservation programs include, to a greater or lesser degree depending on the program, the following activities:

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

RESCUE AND RESTORATION PROGRAMS IN FORCE AT YEAR-END 2018

[304-3, 413-1]

RESCUE AND RESTORATION PROGRAMS IN FORCE AT YEAR-END 2018
2018
Ventika I and II Environmental Oversight Plan
2016
San Isidro-Samalayuca Pipeline: Flora Rescue and Relocation Program
Ojinaga-El Encino Pipeline: Flora Protection and Conservation Program
2014
Los Ramones I Pipeline: Flora Protection and Conservation Program
Los Ramones Norte Pipeline: Flora Protection and Conservation Program
Ethane Pipeline: Flora Rescue and Relocation Program
2013
Sonora Pipeline: Flora Rescue and Relocation, Environmental Awareness, Soil Conservation, and Revegetation Program
2012
Ventika: Flora and Fauna Rescue Program
ESJ: Flora Protection and Conservation Program
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 at the Expansion of the Rosarito Pipeline
Plan to Rescue and Preserve the Flora at Energía Costa Azul (ECA)

COMPENSATION AND CONSERVATION PROGRAMS IN FORCE AT YEAR-END 2018
2018
Energía Sierra Juárez-Jácume: Environmental Compensation Program
Sonora Pipeline: Reforestation Program
2017
Energía Costa Azul (ECA): Reforestation Program
Sonora Pipeline: Reforestation Program
ESJ: Environmental Compensation Program
2011
Program to Reforest the *Pinus Jeffreyi* at Sierra Juárez, Baja California during construction of the Rosarito Pipeline
2009
Program to reforest the *Prosopis juliflora* shrub in the areas impacted by the construction of the compression station of the Rosarito Pipeline
Program to reforest the *Prosopis Juliflora* and *Prosopis Chilensis* in areas impacted by the construction of the Rosarito Pipeline
2006
Energía Costa Azul (ECA): Plan to Rescue and Preserve the Flora

Energía Sierra Juárez Wind Farm

THIS YEAR, WORK AT THE NURSERIES WAS FOCUSED ON MAINTENANCE AND HABITAT EVALUATION EFFORTS

PROTECTION AND RESCUE OF WILDLIFE

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

Before we begin developing any project, we perform studies to measure its potential impact on the ecosystem. Our practices are often stricter than what the environmental legislation stipulates, so we propose measures that we consider necessary to protect the habitat and species of wildlife found in the area.

We have strict fauna rescue and relocation programs in place to identify species living in the areas neighboring our construction sites. We relocate them to a safe place. We use species-specific techniques to capture them and we set the specimens free in forest areas that are similar to the area from which they were rescued.

Our Marine Mammals Monitoring Program (MMMP)—established in 2003 before we started building the ECA terminal—is particularly relevant. We operate this program in collaboration with the Ensenada Center for Scientific Investigation and University Studies (CICESE), and the Autonomous University of Baja California (UABC), among other experts. MMMP renders the data required to protect species in the region, particularly the gray whale, whose migratory route is located near ECA. We also study migration patterns and ensure the free movement of marine species in the area.

WE CARRY OUT STUDIES TO MEASURE THE POTENTIAL IMPACT ON THE ECOSYSTEM BEFORE WE EVEN START TO DEVELOP A PROJECT

Based on periodic measurements of several environmental indicators, we have been able to confirm that the behavior of marine mammals has not been affected since ECA began to operate in the area. In 2018, we registered the presence of 11 species. Based on the number of sightings, the gray whale *(E. robustus)* was the predominant species during this season, followed by the common dolphin *(Delphinus spp.)*. This year we also recorded sightings, although in lower numbers, of California sea lions *(Zalophus californianus)* and blue whales *(Balaenoptera musculus)*. We have historical records for 15 species of mammals, and sightings vary from year to year.

SURVIVAL RATES FOR THE TRANSPLANTED POPULATIONS EXCEED 99%

PROGRAM TO RESCUE, PROTECT, AND PRESERVE BENTHONIC FAUNA

Before construction of our ECA facility began, we started implementing another 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 (UABC). Through the implementation of this program, we have achieved the same sequence of changes to the organisms' population structure that they would have if ECA had not been built on that location.

Since 2007, twice a year we have monitored the protected organisms, including different species of urchins, sea cucumbers, and sea snails. We have found that survival rates for the transplanted populations exceed 99%. At the beginning of the program, we trained local fishermen on sustainable harvesting techniques, which has contributed greatly to the program's success.

PROJECTS UNDER CONSTRUCTION

At the projects which we were about to begin construction on or were already under construction at year-end 2018, including the Pima Solar, Rumorosa Solar, Tepezalá Solar, and Don Diego Solar energy parks as well as the terminals in Veracruz, Puebla, the vicinity of Mexico City, Manzanillo, Topolobampo, and Baja California, the environmental impact studies and assessments required by the authority have either already been done or are in the process of being done. Based on these studies, at IEnova we designed environmental protection programs specifically for each project, in particular flora and fauna conservation programs.

Among other efforts, at the Pima, Rumorosa, and Tepezalá solar energy facilities we implemented Wildlife Rescue and Relocation Programs through which our trained personnel captured small and medium-sized mammals, reptiles, and snakes living in different areas. This was done prior to beginning the site preparation and construction process. Each of the captured specimens were relocated to sites near the project which offer similar ecological conditions to the places where they were captured—but not near enough for the animals to return to their habitat.

We also implemented Wild Flora Rescue and Relocation Programs. At Pima Solar we planted a hectare of native vegetation, specifically ironwood *(Olneya tesota)* and shrub *(Prosopis spp.)*. At Rumorosa Solar, where we are about to start our reforestation effort, all rescued specimens have been taken to a temporary nursery where they are kept until they are transplanted in environmental compensation areas authorized by Semarnat. Finally, at Tepezalá Solar, rescued specimens were immediately relocated in environmental compensation areas authorized by Semarnat.

At the Veracruz storage terminal, which is being built on land developed by the Veracruz Port Authority (API), 11 coastal fauna specimens were identified during the works to condition the land and relocated outside the limits of the project, on the contiguous coastal line. For the other terminals, we are currently evaluating the area in order to determine whether there is a need to implement a specific biodiversity protection program.

WE HAVE NO OPERATIONS IN PROTECTED NATURAL AREAS OR IN AREAS OF HIGH BIODIVERSITY VALUE

ASSETS BELONGING TO JOINT VENTURES

[304-1, 304-2, 304-3, 304-4]

We extend our commitment to preserve biodiversity to those assets we develop in collaboration with other companies. We implement measures to ensure flora and fauna relocation, protection, and conservation programs at these assets comply with IEnova's best practices.

Before starting construction on any project, we determine its location striving to have no impact on protected natural areas or in areas of high biodiversity value, whenever possible.

For example, at the Energía Sierra Juárez wind farm—an asset belonging to the joint venture with Actis, in which IEnova holds a 50% stake—environmental and flora and fauna protection programs are particularly important. Before construction started, we carried out different activities that will be maintained for five years. Among them, the following are most relevant:

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


Ventika Wind Farm

[304-4]

At this wind farm, we also implemented a program, in collaboration with the San Diego Zoo, to identify and monitor birds and bats. Among other things, we study the flight patterns and territories of the California condors and golden eagles that inhabit the border between Mexico and the US. We also estimate the risk of collision with the wind turbines and power lines, and the measures we can implement to minimize such occurrences.

Since 2013, the Jalapa Institute of Ecology (INECOL), in the state of Veracruz, has studied local birds and bats. In the 2017 study, they recorded 100 bird species and 10 bat species, corresponding to 50% of the species that could potentially be distributed across the area. It was determined that, based on the stipulations of the Mexican norm, only four of the species found were identified as at-risk: the sharp-shinned hawk *(Accipiter striatus)* and the Cooper's hawk *(Accipiter cooperii)*, both subject to special protection, and the MacGillivray's warbler *(Geothlypis tolmiei)*, which is a threatened species, and finally, the red-breasted nuthatch *(Sitta canadensis)* deemed as probably extinct.

Among the bats, two species are under some degree of protection: the Mexican long-tongued bat *(Choeronycteris mexicana)* and the long-earned myotis *(Myotis evotis)*. The most recent annual observation exercise, carried out between March 2018 and February 2019, is currently being analyzed.

At this asset we also carry out a Plan for Environmental Management and Monitoring to follow-up on the mitigation measures implemented. Now that we are operating, the program adheres to an Environmental Management System, aligned with ISO 14001.

We began implementing the ESJ Environmental Compensation Program in December 2017. At year-end 2018, we had completed reforestation efforts on 20 hectares by planting 7,943 specimens of *Yucca schidigera* and 1,943 of *Pinus quadrifolia*, with an average survival of 93%, which is well above our 85% goal.

We are planning to carry out the following actions over the next four years:

- Continue with the production and acquisition of plants for reforestation and to maintain the nursery.
- Reforest 227 hectares.
- Install soil rehabilitation and protection systems.
- Maintain and protect reforested areas.
- Carry out environmental monitoring efforts.

At the Los Ramones Norte Pipeline—an asset belonging to the joint venture with BlackRock, in which IEnova holds a 50% stake—our efforts include operating five nurseries in collaboration with the Los Ramones I Pipeline, in compliance with the IEnova nursery standards. They are described in greater detail in the Our Stories section on the next page. Additionally, we operated a wildlife protection and rescue program in the areas through which the project crosses. With this program we have rescued 111 specimens belonging to 16 species, which were relocated to areas outside the project limits that are similar to their natural habitat.

IN THE AREAS THROUGH WHICH THE LOS RAMONES NORTE PIPELINE CROSSES, WE HAVE RESCUED 111 SPECIMENS OF 16 SPECIES

OUR
STORIES

BY PROTECTING NATIVE FLORA

WE ARE DOING THE RIGHT THING AND SHAPING THE FUTURE BASED ON VALUES THAT ENCOURAGE US TO STRENGTHEN OUR COMMITMENT TO ENVIRONMENTAL CONSERVATION

OUR LOS RAMONES I AND LOS RAMONES NORTE NURSERIES

WE PROTECT THE FLORA AT EVERY SITE WHERE WE BUILD OR OPERATE AN ASSET

USD$1.2*	5,789,856	226,396	700
MILLION INVESTED IN IMPLEMENTING PMyMA	COLLECTED SEEDS	PLANTS OF 70 SPECIES SAFEGUARDED	STUDENT VISITS

DOING THE RIGHT THING AND SHAPING THE FUTURE ARE VALUES THAT ENCOURAGE US TO DEEPEN OUR COMMITMENT TO ENVIRONMENTAL CONSERVATION. ACCORDINGLY, WE IMPLEMENT PROGRAMS FOR THE PROTECTION AND CONSERVATION OF BIODIVERSITY THROUGH WHICH WE COMPLY WITH AND EXCEED THE REQUIREMENTS OF ENVIRONMENTAL REGULATIONS.

One of our most relevant programs in our sustainability policy's **Environmental Pillar** consists of establishing nurseries in which we protect native plants found in our construction sites.


Nursery at Energía Costa Azul

Responding to our commitment to conserve local flora, we established a series of nurseries which are part of our **Environmental Management and Monitoring Program** (PMyMA for its Spanish acronym) that we are currently operating at the Los Ramones I and Los Ramones Norte pipelines.

In this project **we collaborate with technical experts from the School of Forest Sciences at the Autonomous University of Nuevo León (UANL).** One of the main objectives of our collaboration with the University is for students to do their bachelors and postgraduate degree theses and dissertations, and write scientific articles and books, on the land use and vegetation of areas on the path of the pipeline. As of this date, four dissertation studies have analyzed issues related to this project, and three more are in the works.

Started during the construction stages, the PMyMA was established to ensure correct environmental performance, comply with the regulation, and minimize any potential impact on the areas surrounding construction sites and along the right of way. Among other actions, we installed and currently operate five nurseries distributed at different locations in the states of Nuevo León, Tamaulipas, and San Luis Potosí. We use this group of nurseries to carry out rescue, maintenance, and survival efforts for native flora species. Several of the rescued species are deemed to be at-risk or even on the verge of extinction.

Once construction was finished, the plants were used to reforest certain areas; the nurseries continue to be in operation as of this date.

Additionally, resulting from our collaboration, the UANL was able to reopen the Efraím Hernández Xolocotz Botanical Gardens located within its School of Forest Sciences. The Botanical Gardens occupy an area of 6.2 hectares and currently the collection includes more than 3 thousand plants of 75 species of cacti and succulent plants, of which 20 species are at risk of extinction. The Botanical Gardens, which are owned and managed by the University, are registered before Semarnat as Management Units for the Conservation of Wildlife (UMA for its Spanish acronym).

To refurbish the Botanical Gardens we supplied plants from non-forest areas of the Los Ramones Norte nurseries, thus increasing the biological collection of species that can be studied and preserved. In addition, we began an environmental education program, in collaboration with the Ministry of Education of the state of Nuevo León, which constitutes an open invitation for Elementary School and Middle School students to visit the facilities. As of this date, more than 700 students in the region's schools have visited.

Since 2016—when construction on the Los Ramones I Pipeline began—to date, we have invested USD$1.2* million to implement PMyMA and monitor its progress.

At year-end 2018, 226,396 plants of 70 species of flora were being housed in the five nurseries. With a general survival rate of 93.6%, we are exceeding by far the 80% survival rate required by the General Sustainable Forest Development Law.

Additionally, we have collected 5,789,856 seeds of 38 species that are being kept in an UANL seed bank.

These results exceed what is stipulated by law. Furthermore, the nurseries offer a social benefit by employing 21 full time workers, all of whom come from different locations of the three states through which both pipelines cross.

PMyMA also has a considerable academic value not only because of its achievements but because IEnova and UANL are currently studying collaborative projects that could come to fruition in the mid-term.

We are certain that the successful model used at the Los Ramones I and Los Ramones Norte pipelines—in which our commitment to protecting the environment is intertwined with social and academic elements—could be replicated by other projects in the future.

IENOVA'S BUSINESS STRATEGY ESTABLISHES ITS FULL COMMITMENT TO PROTECTING THE ENVIRONMENT

*$23,823,615 pesos at the official exchange rate of $19.6829 pesos per USD$

ENVIRONMENTAL PILLAR

2018 PROGRESS AND 2019 CHALLENGES

[102-44, 103-1, 103-2]

Throughout 2018 we carried out several initiatives in order to meet the challenges established in the IEnova sustainability strategy and to address those issues that are most relevant to our stakeholders. Here is a summary of the progress we have made and the new challenges we have set for 2019.

2018 PROGRESS	2019 CHALLENGES
ENVIRONMENT	
✔ Continue operating and monitoring the Sustainable Office Program at all assets operated by IEnova.	🕒 Continue operating and monitoring the Sustainable Office Program at 27 assets and implement it at those assets that begin operating in 2019.
✔ Obtain or maintain the Clean Industry or Environmental Quality certificate offered by Profepa and/or ASEA at all our operating units during the first 12 months after they begin to operate or after we gain operating control of them.	🕒 Obtain or maintain the Clean Industry or Environmental Quality certificate offered by Profepa and/or ASEA at all our operating units during the first 12 months after they begin to operate or after we gain operating control of them.
✔ Implement the short-term measures included in the Climate Change Strategy.	+ Update the Climate Change Strategy taking into consideration the following: reduction mechanisms or alternatives, inventory of emissions, definition and implementation of relative performance indicators for this issue, among others.
✔ Develop environmental training workshops.	
	+ Make available to the projects' stakeholders the public versions of compliance reports on the conditions of the environmental impact assessments (EvIA).
	+ Define efficiency goals in terms of energy, water, and waste applicable to all IEnova operating units.

✔ REACHED

🕒 IN PROGRESS

+ NEW CHALLENGE

[102-44, 102-56]

Deloitte.

Deloitte Asesoría en Riesgos, S.C.
Av. Paseo de la Reforma No. 505, Piso 28
Colonia Cuauhtémoc
06500 Ciudad de México
México
Tel: + 52 (55) 5080 6000
Fax: + 52 (55) 5080 6001
www.deloitte.com/mx

Independent assurance report on the 2018 Sustainability 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 2018 Sustainability Report (SR) for the period from January 1st to December 31st, 2018, as well as ensuring its content, definition, adaptation and maintenance of the management systems and internal control from which the information is obtained, and which is 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 March 04th, 2019, therefore we do not 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 which is substantially lower than a reasonable assurance scope, therefore the assurance provided is also lower. This report in no case can be understood as an audit report.

We conducted the 2018 SR review under the following conditions and/or criteria:

a) The adaptation on the 2018 SR disclosures to the Sustainability Reporting Standards Guidelines of the Global Reporting Initiative (GRI) and according to the materiality study provided by IEnova.
b) The review of the GRI Standards disclosures in accordance with the reporting requirements as specified in the GRI Content Index of the 2018 SR.
c) The data consistency between the information included in the 2018 SR with supporting evidence provided by the 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) del International Federation of Accountants (IFAC).

Our review work included the formulation of questions to the Management as well as various departments of IEnova that have participated in the elaboration of the 2018 SR and the application of certain analytical and sample screening tests procedures that are described below:

a) Meetings with staff of IEnova to learn the principles, systems and applied management approaches.
b) Analysis of the process to collect, validate and consolidate the data presented in the 2018 SR.
c) Analysis of scope, relevance and integrity of the information included in the 2018 SR in terms of the understanding of IEnova and of the requirements that stakeholders have identified as material topics.
d) Selected sample review from the evidence that supports the information included on the 2018 SR.
e) 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 GRI Standards Guide

102-8	102-46	302-1	304-3	305-7	401-1
102-17	201-1	303-1	305-1	306-1	403-2
102-41	203-1	303-3	305-2	306-2	404-1
102-42	204-1	304-1	305-3	306-3	404-3
102-44	205-2	304-2	305-5	307-1	413-1

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

a) Materiality of IEnova referred in the 2018 SR.
b) Information provided during the meetings with the interviewed staff.
c) Review of the evidence provided by IEnova staff of this project.

Conclusions

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 contents and disclosures reviewed in the 2018 SR contain significant errors or have not been prepared in accordance with the reporting requirements established in the GRI Standards. For those GRI Standards disclosures where IEnova did not report in quantitative terms (numeric) the independent reviewer only reviewed the qualitative information, which includes procedures, policies, evidence of the activities performed, among others.

Action alternatives

Deloitte has provided IEnova a report with the most significant action alternatives for future reporting, which do not modify the conclusions expressed in this independent review report.

Deloitte Asesoría en Riesgos, S.C.

Deloitte Touche Tohmatsu Limited affiliated Firm

Rocío Canal Garrido
Director of Deloitte Asesoría en Riesgos, S.C.
May 30th, 2019

CONTENT INDEX

GRI

[102-55]

For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report. This service was performed on the Spanish version of the report.

380	DISCLOSURE	PAGE AND/OR DIRECT RESPONSE	OMISSIONS	INDEPENDENT ASSURANCE
GRI 101: ECONOMIC PERFORMANCE 2016				
GRI 102: GENERAL DISCLOSURES 2016				
102-1	Name of the organization	Infraestructura Energética Nova, S.A.B. de C.V. (IEnova)		
102-2	Activities, brands, products, and services	20		
102-3	Location of headquarters	Mexico City		
102-4	Location of operations	18, 22		
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	18, 20, 22, 70, 74		
102-7	Scale of the organization	70		
102-8	Information on employees and other workers	96, 98, 102 Reason for the omission: All information is consolidated for IEnova as a whole, not by operating unit or type of contract.	We do not report a break-down by region or type of contract.	Yes, pages 202, 203
102-9	Supply chain	70, 72		
102-10	Significant changes to the organization and its supply chain	20, 21		
102-11	Precautionary principle or approach	52, 53		
102-12	External initiatives	380		
102-13	Membership of associations	55		
102-14	Statement from senior decision maker	10 al 15		
102-15	Key impacts, risks, and opportunities	52, 53		

STANDARD NUMBER	DISCLOSURE	PAGE AND/OR DIRECT RESPONSE	OMISSIONS	INDEPENDENT ASSURANCE
102-16	Values, principles, standards, and norms of behavior	9, 46, 47		
102-17	Mechanisms for advice and concerns about ethics	46, 47, 50		
102-18	Governance structure	40, 42, 44, 45		
102-19	Delegating authority	28		
102-20	Executive-level responsibility for economic, environmental, and social topics	28 The Chief Corporate Affairs Officer chairs the Sustainability Committee, which in turn reports to the Corporate Practices Committee of the Board of Directors, as per its bylaws.		
102-22	Composition of the highest governance body and its committees	40, 42, 44, 45		
102-23	Chair of the highest governance body	40, 42 Carlos Ruiz Sacristán serves as Chairman of the Board of Directors and Executive Chairman of IEnova. http://phx.corporate-ir.net/phoenix.zhtml?c=251830&p=irol-govHighlights		
102-24	Nominating and selecting the highest governance body	40, 42 http://phx.corporate-ir.net/phoenix.zhtml?c=251830&p=irol-govHighlights 222-229		
102-25	Conflicts of interest	40, 42, 45, 46 https://www.bmv.com.mx/docs-pub/infoanua/infoanua_918295_2018_1.pdf 214		
102-26	Role of the highest governance body in setting purpose, values, and strategy	The role of the highest governance body is described in the IEnova Bylaws, which can be viewed at: http://phx.corporate-ir.net/phoenix.zhtml?c=251830&p=irol-govHighlights		
102-28	Evaluating the highest governance body's performance	40, 42, 44, 45 The Corporate Practices Committee is responsible for reviewing the performance of the Board of Directors once a year.		
102-29	Identifying and managing economic, environmental, and social impacts	52, 53 https://www.bmv.com.mx/docs-pub/infoanua/infoanua_918295_2018_1.pdf 222 - 231		
102-30	Effectiveness of risk management processes	52 Risk management at IEnova is headed by the Chief Financial Officer. The division is mainly responsible for measuring, managing, reporting, and monitoring all risks. This division is also in charge of establishing timely mitigation measures that contribute to limiting the potential impact on the business of any risk. http://phx.corporate-ir.net/phoenix.zhtml?c=251830&p=irol-govHighlights http://www.ienova.com.mx/pdf/Administracion_de_Riesgos.pdf		
102-31	Review of economic, environmental, and social topics	28, 52, 53		
102-32	Highest governance body's role in sustainability reporting	28, 44 The Chief Corporate Affairs Officer chairs the Sustainability Committee, which in turn reports to the Corporate Practices Committee of the Board of Directors, as per its bylaws.		

STANDARD NUMBER	DISCLOSURE	PAGE AND/OR DIRECT RESPONSE	OMISSIONS	INDEPENDENT ASSURANCE
102-33	Communicating critical concerns	28		
102-35	Remuneration policies	44 The company continually reviews salaries, bonuses, and other economic compensation plans in order to offer competitive compensation. https://www.bmv.com.mx/docs-pub/infoanua/infoanua_918295_2018_1.pdf		
102-36	Process for determining remuneration	The Corporate Practices Committee collaborates with the Board of Directors to determine remuneration for Board members and senior management. https://www.bmv.com.mx/docs-pub/infoanua/infoanua_918295_2018_1.pdf 232		
102-40	List of stakeholder groups	26, 30, 33		
102-41	Collective bargaining agreements	2.9% of our employees are unionized: 3 women and 27 men.		Yes, pages 202, 203
102-42	Identifying and selecting stakeholders	The IEnova Model to Manage Stakeholders is a process in which the members of the Sustainability Committee participate. They ensure annually that the most relevant stakeholders are included in the company's sustainability strategy. 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: http://www.ienova.com.mx/pdf/english/Sustainability Policy.pdf		Yes, pages 202, 203
102-43	Approach to stakeholder engagement	30, 74		
102-44	Key topics and concerns raised	33, 32, 74, 90, 154, 200, 202		Yes, pages 202, 203
102-45	Entities included in the consolidated financial statements	68, 380 The data published refers to our Gas and Electricity 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 farms. It does not include sustainability contents for the solar energy parks and storage terminals currently under construction and/or in development.		
102-46	Defining report content and topic Boundaries	30,34, 62, 380 We adhere to the Principles for drafting reports related to the definition of quality: Principle of sustainability context, Principle of materiality, Inclusion of stakeholders, Precision, Equilibrium, Clarity, Comparability, Reliability, Punctuality.		Yes, pages 202, 203
102-47	List of material topics	34		
102-48	Restatements of information	34 A footnote has been used in cases where a restatement exists.		
102-49	Changes in reporting	380		
102-50	Reporting period	380		
102-51	Date of most recent report	34, 380 The last report was published on May 31st 2019, and it covered the period between January 1st and December 31st 2018.		

STANDARD NUMBER	DISCLOSURE	PAGE AND/OR DIRECT RESPONSE	OMISSIONS	INDEPENDENT ASSURANCE
102-52	Reporting cycle	The report has been published annually for the past six years.		
102-53	Contact point for questions regarding the report	380 Corporate Headquarters Paseo de la Reforma 342, Piso 24, Colonia Juárez, Alcaldía Cuauhtémoc, Ciudad de México, C.P. 06600 Tel. (55) 91380100 sustentabilidad@ienova.com.mx		
102-54	Claims of reporting in accordance with the GRI Standards	380 This report has been prepared in accordance with the GRI Standards, essential option.		
102-55	GRI Content index	204		
102-56	External assurance	202, 203 For the fifth consecutive year, Deloitte, as an independent third-party, verified 30 material contents included in this Sustainability Report		
GRI 103: MANAGEMENT APPROACH 2016 This reference to GRI 103: Management Approach 2016 and the corresponding Disclosures 103-1, 103-2 and 103-3 applies to all material topics covered by the following topic-specific Standards: GRI 201: ECONOMIC PERFORMANCE 2016, GRI 203: INDIRECT ECONOMIC IMPACT 2016, GRI 204: PROCUREMENT PRACTICES 2016, GRI 205: ANTICORRUPTION 2016, GRI 206: ANTICOMPETITIVE BEHAVIOR 2016, GRI 301: MATERIALS 2016, GRI 302: ENERGY 2016, GRI 303: WATER 2016, GRI 304: BIODIVERSITY 2016, GRI 305: EMISSIONS 2016, GRI 306: EFFLUENTES AND WASTE 2016, GRI 307: ENVIRONMENTAL COMPLIANCE 2016, GRI 401: EMPLOYMENT 2016, GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016, GRI 404: TRAINING AND EDUCATION 2016, GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016, GRI 406: NON-DISCRIMINATION 2016, GRI 408: CHILD LABOR 2016, GRI 409: FORCED OR CUMPULSORY LABOR 2016, GRI 410: SECURITY PRACTICES 2016, GRI 411: RIGHTS OF INDIGENOURS PEOPLES 2016, GRI 412: HUMAN RIGHTS ASSESSMENT 2016, GRI 413: LOCAL COMMUNITIES 2016, GRI 414: SUPPLIER SOCIAL ASSESSMENT 2016, GRI 415: PUBLIC POLICY 2016, GRI 416: CUSTOMER HEALTH AND SAFETY 2016, GRI 417: MARKETING AND LABELING 2016, GRI 419: SOCIOECONOMIC COMPLIANCE 2016, OG SECTOR SUPPLEMENT.				
103-1	Explanation of the material topic and its Boundary	34, 90, 96, 154, 160, 200 The relevant topics included in this report are founded on the three pillars, economic, social, and environmental, described in our Sustainability Policy and approved by the Sustainability Committee. The prioritization and coverage of the topics is based on the company's materiality assessment.		
103-2	The management approach and its components	52, 74, 76, 77, 90, 96, 103, 114, 137, 154, 160, 162, 200		
103-2b	The purpose of the management approach	160		
103-2c	A description of the following, if the management approach includes that component: i. Policies ii. Commitments iii. Goals and targets iv. Responsibilities v. Resources vi. Formal grievance mechanisms and/or claims vii. Specific actions, such as processes, projects, programs and initiatives	160		

STANDARD NUMBER	DISCLOSURE	PAGE AND/OR DIRECT RESPONSE	OMISSIONS	INDEPENDENT ASSURANCE
103-3	Evaluation of the management approach	34, 74		
GRI 201: ECONOMIC PERFORMANCE 2016				
201-1	Direct economic value generated and distributed	82		Yes, pages 202, 203
201-3	Defined benefit plan obligations and other retirement plans	108		
201-4	Financial assistance received from government	The company received no financial assistance from government.		
GRI 203: INDIRECT ECONOMIC IMPACTS				
203-1	Infrastructure investments and services supported	132, 135, 144 Currently, the Fundación IEnova operating model is focused on measuring results. We are evaluating a mechanism to measure impact.		Yes, pages 202, 203
203-2	Significant indirect economic impacts	70		
GRI 204: PROCUREMENT PRACTICES				
204-1	Proportion of spending on local suppliers	72		Yes, pages 202, 203
GRI 205: ANTI-CORRUPTION 2016				
205-1	Operations assessed for risks related to corruption	46		
205-2	Communication and training about anti-corruption policies and procedures	46, 47 IEnova's Corporate Ethics Policy establishes that only those employees who have direct or indirect contact with authorities need to get certified in anti-corruption. At year-end 2018, 68% of our employees had taken the course; the goal is for 100% of employees to have taken it by the first quarter of 2019. http://www.ienova.com.mx/pdf/english/Corporate_Ethics_Policy.pdf		Yes, pages 202, 203
205-3	Confirmed incidents of corruption and actions taken	There were no corruption incidents during the year.		
GRI 206: ANTICOMPETITIVE BEHAVIOR 2016				
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices.	There were no claims regarding anticompetitive behavior.		
GRI 300: ENVIRONMENTAL 2016				
GRI 301: MATERIALS 2016				
301-2	Recycled input materials used	172		
GRI 302: ENERGY 2016				
302-1	Energy consumption within the organization	37,685,751.61 GJ (99.61% from natural gas, 0.23% from gasoline and diesel, 0.16% from electric power, 0.0006% from LPG)		Yes, pages 202, 203
GRI 303: WATER AND EFFLUENTS 2016				
303-1	Water withdrawal by source	174, 177		Yes, pages 202, 203
303-2	Water sources significantly affected by withdrawal of water	174		
303-3	Water recycled or reused	174		Yes, pages 202, 203
GRI 304: BIODIVERSITY 2016				
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	178, 186, 191 None of our operations are located on protected areas. As a good practice, we develop programs to protect, rescue, conserve, and compensate flora, and to protect and rescue wildlife.		Yes, pages 202, 203

STANDARD NUMBER	DISCLOSURE	PAGE AND/OR DIRECT RESPONSE	OMISSIONS	INDEPENDENT ASSURANCE
GRI 304: BIODIVERSITY 2016				
304-2	Significant impacts of activities, products, and services on biodiversity	178, 186, 191 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, pages 202, 203
304-3	Habitats protected or restored	178, 184, 186, 191		Yes, pages 202, 203
GRI 305: EMISSIONS 2016				
305-1	Direct (Scope 1) GHG emissions	166, 167		Yes, pages 202, 203
305-2	Energy indirect (Scope 2) GHG emissions	166, 167		Yes, pages 202, 203
305-3	Other indirect (Scope 3) GHG emissions	166, 167		Yes, pages 202, 203
305-5	Reduction of GHG emissions	166		Yes, pages 202, 203
305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	166		Yes, pages 202, 203
GRI 306: EFFLUENTS AND WASTE 2016				
306-1	Water discharge by quality and destination	174, 177		Yes, pages 202, 203
306-2	Waste by type and disposal method	172, 173		Yes, pages 202, 203
306-3	Significant spills	172 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, pages 202, 203
GRI 307: ENVIRONMENTAL COMPLIANCE 2016				
307-1	Non-compliance with environmental laws and regulations	There were no significant fines or sanctions for non-compliance with laws and/or regulations.		Yes, pages 202, 203
GRI 400: SOCIAL				
GRI 401: EMPLOYMENT 2016				
401-1	New employee hires and employee turnover	96		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	108		Yes, pages 202, 203
401-3	Parental leave	108		
GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016				
403-1	Occupational health and safety management system	114		
403-2	Hazard identification, risk assessment, and incident investigation	124		Yes, pages 202, 203
403-3	Occupational health services	119		
GRI 404: TRAINING AND EDUCATION 2016				
404-1	Average hours of training per year per employee	103, 105 The average in the number hours of training was obtained by dividing the total number of hours of training between the number of employees. For this year we divided 43,768.98 hr by 1,058 employees who took a training course during the year. However, some of these trainees are no longer employed by the company. As of December 31st. 2018 we reported a total of 1,035 IEnova employees.		Yes, pages 202, 203

STANDARD NUMBER	DISCLOSURE	PAGE AND/OR DIRECT RESPONSE	OMISSIONS	INDEPENDENT ASSURANCE
GRI 404: TRAINING AND EDUCATION 2016				
404-2	Programs for upgrading employee skills and transition assistance programs	103		
404-3	Percentage of employees receiving regular performance and career development reviews	103		Yes, pages 202, 203
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016				
405-1	Diversity of governance bodies and employees	40, 42, 96, 102		
GRI 406: NON-DISCRIMINATION 2016				
406-1	Incidents of discrimination and corrective actions taken	During 2018 there were no discrimination cases reported on the IEnova helpline.		
GRI 408: CHILD LABOR 2016				
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.		
GRI 409: FORCED OR CUMPULSORY LABOR 2016				
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.		
GRI 410: SECURITY PRACTICES 2016				
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 the general training they need in order to offer their service to IEnova.		
GRI 411: RIGHTS OF INDIGENOUS PEOPLES 2016				
411-1	Incidents of violations involving rights of indigenous peoples	There were no incidents of violations involving rights of indigenous peoples.		
GRI 412: HUMAN RIGHTS ASSESSMENT 2016				
412-2	Employee training on human rights policies and procedures	112 The IEnova Code of Ethics includes human rights topics.		
GRI 413: LOCAL COMMUNITIES 2016				
413-1	Operations with local community engagement, impact assessments, and development programs	132, 144, 178, 184 We currently monitor the results of our social projects. Entities benefited by Fundación IEnova submit quarterly reports as well as the supporting documentation needed to verify how the resources granted are being managed. We are working on defining the mechanisms that will allow us to measure the impact of our social programs in the mid-term.		Yes, pages 202, 203
GRI 414: SUPPLIER SOCIAL ASSESSMENT 2016				
414-1	New suppliers who have passed certain selection filters based on social engagement criteria.	72		
GRI 415: PUBLIC POLICY 2016				
415-1	Political contributions	There were no financial or in-kind contributions made to any political parties.		

STANDARD NUMBER	DISCLOSURE	PAGE AND/OR DIRECT RESPONSE	OMISSIONS	INDEPENDENT ASSURANCE
GRI 416: CUSTOMER HEALTH AND SAFETY 2016				
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	76		
GRI 417: MARKETING AND LABELING 2016				
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 2018.		
GRI 419: SOCIOECONOMIC COMPLIANCE 2016				
419-1	Non-compliance with laws and regulations in the social and economic arena	There were no significant fines or sanctions for non-compliance with laws and regulations.		
OIL AND GAS SECTOR SUPPLEMENT				
OG2	Total amount invested in renewable energy	To date, our estimated investment for renewable energy projects already in operation, under construction, and in development is USD$1.537 billion.		
OG3	Total amount of renewable energy generated by source	20, 21 891 MW installed		
OG4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	178		
OG13	Number of process safety events, by business activity	79		

GLOBAL COMPACT

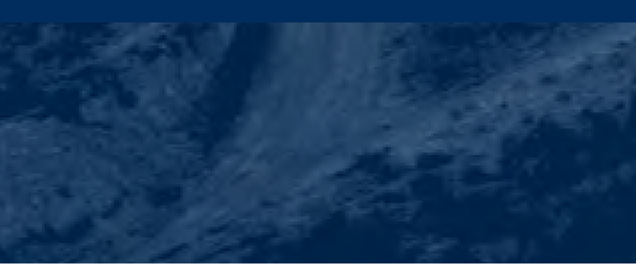
THE SUSTAINABLE DEVELOPMENT GOALS GLOBAL REPORTING INITIATIVE

The following shows the link between IEnova's activities and its contribution to the UN Global Compact, the Sustainable Development Goals, and the content of the Global Reporting Initiative.

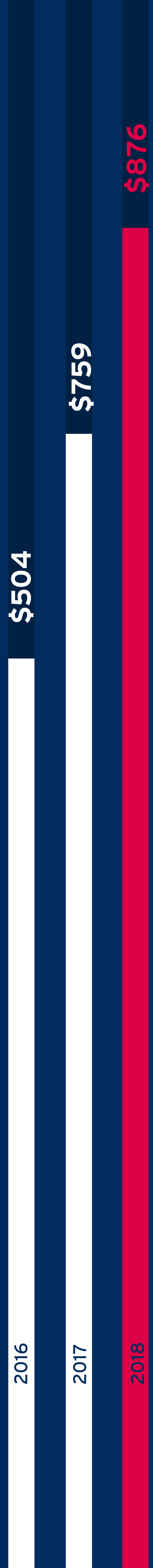
SDG	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH
PRINCIPLES OF THE UN GLOBAL COMPACT								
Human Rights	1 2	1 2	1 2	1 2	1 2	1 2		1 2
Labor Standards	4 5 6			6	4 5 6			3 4 5 6
Environment			7 8	7 8		7 8	7 8	7 8
Anti-corruption								
SDG TARGETS	1.2, 1.3, 1.5	2.1, 2.2	3.2, 3.3, 3.4, 3.8, 3.9,	4.3, 4.4, 4.5, 4.6, 4.7, 4.A, 4.B	5.1, 5.2, 5.4, 5.5	6.3, 6.4, 6.5	7.1, 7.2, 7.3	8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8
GRI	203-2, 201-3		403-2, 403-3, 401-2, 401-3, 203-2, 305-1, 305-2, 305-3, 305-7, 306-3, 306-2, 306-1	404-1, 404-2, 205-2, 410-1	401-1, 404-1, 404-3, 405-1, 406-1, 401-3, 414-1 203-1, 401-2, 102-24, 102-22	306-1, 303-3, 306-2, 306-3, 303-1, 303-2, 304-1, 304-2, 304-3	302-1	201-1, 404-1, 404-2, 203-2, 204-1, 302-1, 301-2, 303-3, 401-1, 405-1, 102-8, 401-2, 401-3, 404-3, 408-1, 409-1, 403-1, 403-2, 403-3, 406-1, 102-41, 102-47, 414-1

SDG	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS
PRINCIPLES OF THE UN GLOBAL COMPACT									
Human Rights		1 2	1 2					1 2	1 2
Labor Standards		3 4 5 6						3 4 5 6	3
Environment	7 8 9		7 8	7 8 9	7 8 9	7 8 9	7 8 9		
Anti-corruption		10						10	10
SDG TARGETS	9.1, 9.4, 9.5	10.2, 10.3, 10.4, 10.5	11.1, 11.2, 11.3, 11.4	12.2, 12.3, 12.4, 12.5, 12.6, 12.7, 12.8	13.1, 13.2, 13.3	14.1, 14.2, 14.3, 14.5	15.1, 15.2, 15.3, 15.5, 15.6, 15.8, 15.9	16.1, 16.2, 16.3, 16.5, 16.6, 16.7	17.3, 17.16, 17.17
GRI	201-1, 203-1	401-1, 405-1, 406-1, 411-1, 412-2, 203-1, 413-1, 102-8, 404-1, 404-3, 102-25, 102-30, 102-16, 102-17, 205-2	203-1, 413-1, 304-3	301-2, 302-1, 303-3, 306-1, 306-2, 305-1, 305-2, 305-3, 305-7, 306-3, 102-50, 102-51, 102-52, 102-54, 102-44, 102-4, 102-6, 103-2	305-5, 305-1, 305-2, 305-3, 302-1, 103-2	306-1, 306-3, 304-2, 304-1, 304-3, 305-1, 305-2, 305-3, 305-5, 305-7	304-1, 304-2, 306-3, 304-3, 305-1, 305-2, 305-3, 305-5, 305-7	410-1, 414-1, 408-1, 102-17, 206-1, 307-1, 416-2, 417-2, 419-1, 205-1, 205-2, 205-3, 415-1, 102-23, 102-25, 102-22, 102-24, 102-29	203-1, 413-1, 102-40, 102-42, 102-43

FINANCIAL HIGHLIGHTS

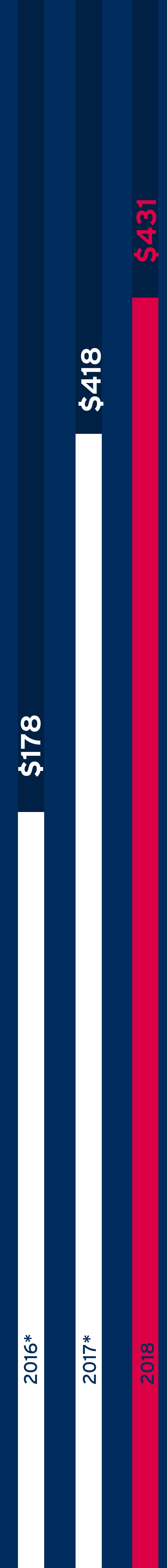


Ventika Wind Farm



ADJUSTED EBITDA

TOTAL ASSETS



NET INCOME

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.

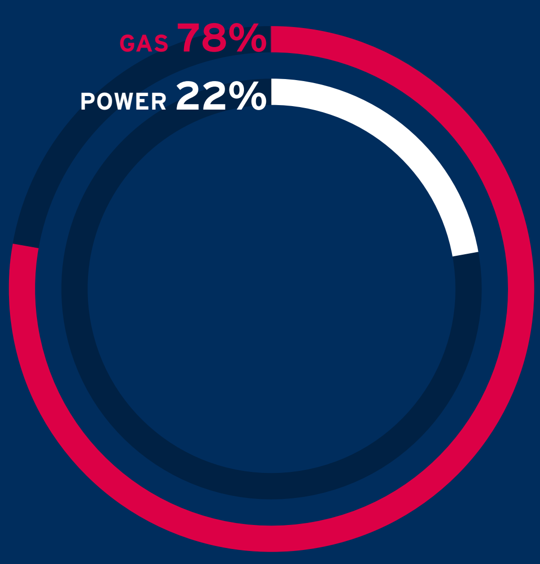
Our definition of EBITDA is profit for the period after adding back or subtracting, as the case may be, (1) depreciation and amortization, (2) impairment of Termoeléctrica de Mexicali, (3) financing cost, net, (4) other losses (gains), net, (5) income tax expense and (6) share of profits of joint ventures, net of income tax.

We define Adjusted EBITDA as EBITDA plus Joint Ventures (JV) EBITDA adjustment.

We define the JV EBITDA adjustment as our share of the profit of 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) losses, net, and (4) income tax expense.

* Exclude one-time non-cash effects.

Amount in millions of US$, except percentages.



PROPERTY, PLANT AND EQUIPMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR 2018 RESULTS

We are the first private sector, publicly traded energy infrastructure company on the Mexican Stock Exchange and one of the largest private sector energy companies in Mexico in terms of market share. We develop, build, and operate essential energy infrastructure. Our footprint in Mexico includes several business lines that encompass a significant portion of the Mexican energy infrastructure value chain that is open to private investment.

EXECUTIVE SUMMARY

	YEAR ENDED DECEMBER 31,				
(MILLIONS OF US$, EXCEPT PERCENTAGES)		2018		2017	% VAR.
Adjusted EBITDA *	$	876.4	$	758.6	16 %
Profit for the period	$	430.6	$	354.2	22 %
Revenues	$	1,368.6	$	1,222.9	12 %

*Twelve-month figures are audited, except for Adjusted EBITDA

- In 2018, Adjusted EBITDA increased 16 percent to $876.4 million, compared with $758.6 million in 2017. The increase of $117.8 million was mainly due to the Termoeléctrica de Mexicali power plant higher operational results and its scheduled major maintenance in 2017, the November 2017 acquisition of the remaining 50 percent of Ductos y Energéticos del Norte and higher margin in the gas segment.

- In 2018, profit was $430.6 million, compared with $418.0 million in 2017, excluding the $63.8 million Termoeléctrica de Mexicali power plant non-cash after-tax impairment charge in the second quarter of 2017. The increase of $12.6 million was mainly due to Termoeléctrica de Mexicali power plant higher operational results and its scheduled major maintenance in 2017, and the November 2017 acquisition of the remaining 50 percent of Ductos y Energéticos del Norte, partially offset by higher financing costs and higher income taxes.

- In 2018, revenues were $1,368.6 million, compared with $1,222.9 million in 2017. The increase of $145.7 million was mainly due to higher revenue at the Termoeléctrica de Mexicali power plant due to higher volumes and prices, higher volume sold of natural gas, the acquisition of the remaining 50 percent of Ductos y Energéticos del Norte and higher power prices at Ventika.

- In 2018 and early 2019, the Company executed the following transactions for a total value of approximately $2.4 billion:

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

  - In April 2018, the Company announced a project to develop, construct and operate a marine terminal that will receive, store and deliver hydrocarbons, primarily gasoline and diesel, within the La Jovita Energy Center, which is located 23 km north of Ensenada, B.C., Mexico. In connection with this terminal, the Company executed two long-term contracts, one with Chevron, and the other with BP for the storage and delivery of hydrocarbons. Together, these two contracts represent 100% of the initial total terminal storage capacity (which is approximately one million barrels). Currently, affiliates of Chevron have the option to acquire 20% of the equity of the terminal after commercial operations begin. With an investment of approximately $130 million, the terminal is expected to begin commercial operations in the fourth quarter of 2020.

  - In July 2018, IEnova was awarded the public tender issued by the Integral Port Administration (API) of Topolobampo for the construction and operation of a marine terminal for the receipt and storage of hydrocarbons and other liquids, primarily diesel and gasoline. The first phase of the terminal will have a capacity of approximately one million barrels and an estimated investment of $150 million. The terminal could also be expanded to store additional refined products and/or offer service for other products such as petrochemicals. It is expected to begin operations during the fourth quarter of 2020.

  - In September and October 2018, IEnova announced the execution of two long-term, U.S. dollar-denominated contracts with subsidiaries of Chevron and Marathon for the storage and delivery of refined products, primarily gasoline and diesel, at the terminal for the receipt, storage, and delivery in Topolobampo, Sinaloa, Mexico. The agreements will allow Chevron and Marathon to each utilize approximately 50% of the terminal's initial one million barrels of storage capacity. Additionally, another subsidiary of Chevron will have the right to acquire up to 25% of the equity of the terminal after commercial operations begin.

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

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

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

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

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

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

- The Company's total assets increased more than $0.6 billion, from $8.2 billion as of December 2017 to $8.8 billion as of December 2018.

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

EBITDA AND ADJUSTED EBITDA

(MILLIONS OF US$)	YEAR ENDED DECEMBER 31,			
	2018		2017	
	(UNAUDITED)			
Gas Segment	$	626.8	$	610.8
Power Segment		141.9		85.3
Corporate		(0.4)		(8.0)
EBITDA (1)	**$**	**768.3**	**$**	**688.1**
JV EBITDA adjustment (1)		108.1		70.5
Adjusted EBITDA (1)	**$**	**876.4**	**$**	**758.6**

GAS SEGMENT

In 2018, Gas segment EBITDA was $626.8 million, compared with $610.8 million in 2017. The increase of $16.0 million was mainly due to the acquisition of the remaining 50 percent of Ductos y Energéticos del Norte by $11.3 million and one-time natural gas distribution rates true-up from prior years at Ecogas Mexicali by $6.9 million.

POWER SEGMENT

In 2018, Power segment EBITDA was $141.9 million, compared with $85.3 million in 2017. The increase of $56.5 million was mainly due to $49.7 million from Termoeléctrica de Mexicali power plant higher operational results and its scheduled major maintenance in 2017, and Ventika higher operational results of $9.4 million.

JOINT VENTURES

In 2018, Joint Ventures EBITDA was $108.1 million, compared with $70.5 million in the same period of 2017.The increase of $37.6 million in the period was mainly due to the November 2017 acquisition of the remaining 50 percent of Ductos y Energéticos del Norte.

RESULTS OF OPERATIONS

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). All amounts are unaudited, unless otherwise noted. Numbers may not add up due to rounding.

The 2017 and 2018 first quarter financial results have been re-presented to show Termoeléctrica de Mexicali as continued operations in the Condensed Consolidated Statements of Profit, as management formalized the decision in the second quarter of 2018 to no longer hold it for sale.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT

(MILLIONS OF US$)	YEAR ENDED DECEMBER 31			
	2018		2017	
Revenues	$	1,368.6	$	1,222.9
Cost of revenues		(385.8)		(331.8)
Operating, administrative and other expenses		(214.5)		(203.0)
Depreciation and amortization		(137.2)		(119.0)
Impairment of Termoeléctrica de Mexicali		–		(63.8)
Financing cost, net		(95.4)		(50.7)
Other (losses) gains, net		–		(40.9)
Profit before income tax and share of profits of joint ventures		**535.7**		**413.7**
Income tax expense		(143.1)		(104.2)
Share of profits of joint ventures, net of income tax		38.0		44.7
Profit for the period	**$**	**430.6**	**$**	**354.2**

(1) 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) impairment of Termoeléctrica de Mexicali, (3) financing cost, net, (4) other losses (gains), net, (5) income tax expense and (6) share of profits of joint ventures, net of income tax.
We define Adjusted EBITDA as EBITDA plus Joint Ventures (JV) EBITDA adjustment.
We define the JV EBITDA adjustment as our share of the profit of 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) losses, net, and (4) income tax expense.

SEGMENT INFORMATION

Segment information is presented after eliminating inter-company transactions.

PROFIT BEFORE INCOME TAX AND SHARE OF PROFITS OF JOINT VENTURES

(MILLIONS OF US$)	YEAR ENDED DECEMBER 31,			
	2018		2017	
Gas Segment	$	519.0	$	519.7
Power Segment		84.4		(33.9)
Corporate		(67.7)		(72.1)
	$	**535.7**	**$**	**413.7**

GAS SEGMENT

In 2018, Gas segment profit before income tax and share of profits of joint ventures is in line with the same period of 2017.

POWER SEGMENT

In 2018, Power segment profit before income tax and share of profits of joint ventures was $84.4 million, compared with a loss of $33.9 million in 2017. The increase of $118.3 million is mainly due to the Termoeléctrica de Mexicali power plant impairment and its scheduled major maintenance that both occurred in 2017 and its higher operational results in 2018.

CORPORATE

In 2018, Corporate losses before income tax is in line with the same period of 2017.

REVENUES

(MILLIONS OF US$, EXCEPT PRICE PER MMBTU[1])	YEAR ENDED DECEMBER 31,			
	2018		2017	
Gas Segment	$	1,058.5	$	991.7
Power Segment		308.3		229.3
Corporate		1.8		1.9
	$	**1,368.6**	**$**	**1,222.9**
Natural gas weighted average price USD per MMBtu	$	3.44	$	3.18

(1) MMBtu: Million British thermal units (of natural gas)

GAS SEGMENT

In 2018, Gas segment revenues were $1,058.5 million, compared with $991.7 million in 2017. The increase of $66.8 million is mainly due to:

- $31.9 million from higher volume sold of natural gas,
- $11.5 million from the acquisition of Ductos y Energéticos del Norte,
- $6.9 million one-time natural gas distribution rates true-up from prior years at Ecogas Mexicali,
- $6.3 million from higher natural gas distribution rates, and
- $4.6 million from higher transportation and storage rates.

POWER SEGMENT

In 2018, Power segment revenues were $308.3 million, compared with $229.3 million in 2017. The increase of $79.0 million is mainly due to:

- $70.5 million from higher volumes and prices at Termoeléctrica de Mexicali power plant, and
- $9.0 million from higher power prices at Ventika.

COST OF REVENUES

(MILLIONS OF US$, EXCEPT COST PER MMBTU)	YEAR ENDED DECEMBER 31,			
	2018		2017	
Gas Segment	$	259.9	$	230.3
Power Segment		125.9		101.5
	$	**385.8**	**$**	**331.8**
Natural gas weighted average cost USD per MMBtu	$	3.14	$	3.18

GAS SEGMENT

In 2018, Gas segment cost of revenues was $259.9 million, compared with $230.3 million in 2017. The increase of $29.6 million is mainly due to higher volumes sold of natural gas.

POWER SEGMENT

In 2018, Power segment cost of revenues was $125.9 million, compared with $101.5 million in 2017. The increase of $24.4 million is mainly due to higher natural gas volume at the Termoeléctrica de Mexicali power plant.

CONSOLIDATED RESULTS

OPERATING, ADMINISTRATIVE AND OTHER EXPENSES

In 2018, these expenses were $214.5 million, compared with $203.0 million in 2017. The increase of $11.5 million was mainly due to the 2017 start of operations of new pipelines, other corporate general expenses, and maintenance expenses at Termoeléctrica de Mexicali power plant, partially offset by its scheduled major maintenance in 2017.

DEPRECIATION AND AMORTIZATION

In 2018, depreciation and amortization was $137.2 million, compared with $119.0 million in 2017. The increase of $18.2 million was mainly due to the 2017 start of operations of new pipelines and the resumption of Termoeléctrica de Mexicali power plant depreciation.

IMPAIRMENT OF TERMOELÉCTRICA DE MEXICALI

In June 2017, the asset value indicated by the Termoeléctrica de Mexicali power plant sale process was determined to be lower than its carrying value. This resulted in a non-cash after-tax impairment charge of $63.8 million in the second quarter of 2017.

FINANCING COST, NET

In 2018, financing cost, net was $95.4 million, compared with $50.7 million in 2017. The increase of $44.7 million was mainly due to a higher corporate debt balance and higher interest rates, partially offset by higher interest income related to the shareholder's loan granted to South Texas – Tuxpan pipeline.

OTHER (LOSSES) GAINS, NET

In 2018, other (losses) gains were $0.0 million, compared with other losses of $40.9 million in 2017. The variation of $ $40.9 million were related to exchange rate effects, mainly due to a peso-denominated shareholder's loan to fund the South Texas – Tuxpan pipeline, which is offset in Share of Profits of Joint Ventures.

INCOME TAX EXPENSE

In 2018, income tax expense was $143.1 million compared with $104.2 million in 2017. The increase of $38.9 million is primarily due to higher profit before taxes and the effect of the deferred income tax balance from the fluctuation in the tax basis of property, plant and equipment at our U.S. dollar functional currency, which we are required to remeasure in each reporting period based on changes in the Mexican peso exchange rate, partially offset by the effect of exchange rate and inflation on monetary assets and liabilities.

SHARE OF PROFITS OF JOINT VENTURES, NET OF INCOME TAX

(MILLIONS OF US$)	JOINT VENTURE WITH		YEAR ENDED DECEMBER 31, 2018		2017
Los Ramones Norte pipeline[1]	Blackrock	$	34.3	$	22.1
South Texas – Tuxpan pipeline	TransCanada		(0.1)		19.0
Energía Sierra Juárez wind generation facility	Actis		3.8		3.6
		$	38.0	$	44.7

(1) In November 2017, IEnova acquired the remaining 50 percent of Ductos y Energéticos del Norte. Accordingly, IEnova has a 50- percent indirect interest in Los Ramones Norte pipeline.

In 2018, our share of profits of joint ventures, net of income tax, was $38.0 million, compared with $44.7 million in 2017. The decrease of $6.7 million is mainly due to the loss in the South Texas – Tuxpan pipeline from foreign exchange rate effects primarily related to a peso-denominated shareholder's loan, partially offset by the increased ownership of Los Ramones Norte pipeline. The foreign exchange rate effects are offset in Other (Losses) Gains, net.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(THOUSANDS OF US$)		DECEMBER 31, 2018		DECEMBER 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	$	51,681	$	37,208
Short-term investments		83		1,081
Trade and other receivables, net		153,649		94,793
Taxes receivable		151,713		121,542
Other current assets [1]		106,815		112,199
Assets held for sale [2]		–		148,190
Non-current assets		**463,941**		**515,013**
Non-current assets				
Due from unconsolidated affiliates		646,297		493,887
Finance lease receivables		932,375		942,184
Deferred income tax assets		80,853		97,334
Investments in joint ventures		608,708		523,102
Property, plant and equipment, net		4,086,914		3,729,456
Goodwill		1,638,091		1,638,091
Other non-current assets [3]		311,418		224,792
Total non-current assets		**8,304,656**		**7,648,846**
Total assets	**$**	**8,768,597**	**$**	**8,163,859**
Liabilities and Stockholders' Equity				
Short-term debt	$	870,174	$	262,760
Due to unconsolidated affiliates		310,696		544,217
Other current liabilities [4]		264,761		184,418
Liabilities held for sale [2]		–		62,522
Total current liabilities		**1,445,631**		**1,053,917**
Non-current liabilities				
Long-term debt		1,675,192		1,732,040
Due to unconsolidated affiliates		75,161		73,510
Deferred income tax liabilities		566,892		551,614
Other non-current liabilities[5]		251,971		236,191
Total non-current liabilities		**2,569,216**		**2,593,355**
Total liabilities		**4,014,847**		**3,647,272**
Stockholders' equity				
Common stock		963,272		963,272
Additional paid-in capital		2,351,801		2,351,801
Treasury shares		(7,190)		–
Accumulated other comprehensive (loss)		(104,105)		(114,556)
Retained earnings		1,536,662		1,316,070
Total equity attributable to owners		**4,740,440**		**4,516,587**
Non-controlling interests		13,310		–
Total equity of the company	**$**	**4,753,750**	**$**	**4,516,587**
Total liabilities and equity	**$**	**8,768,597**	**$**	**8,163,859**

(1) Other current assets include restricted cash, carbon allowances - current, amounts due from unconsolidated affiliates, other current assets, natural gas inventories, finance lease receivables (current), and derivative financial instruments.

(2) On June 1, 2018, management formalized its decision to suspend the sale of Termoeléctrica de Mexicali power plant, and the assets and liabilities that were previously classified as held for sale were reclassified as held and used.

(3) Other non-current assets include intangible assets, other non-current assets, carbon allowances - non-current and derivative financial instruments.

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

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

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

(MILLIONS OF US$)	YEAR ENDED DECEMBER 31,			
		2018		2017
Cash and cash equivalents at the beginning of the period	**$**	**37.2**	**$**	**24.9**
Net cash provided by operating activities		625.0		586.2
Net cash used in investing activities		(597.5)		(974.9)
Net cash (used in) provided by financing activities		(34.0)		406.6
Effects of exchange rate changes on cash and cash equivalents		21.0		(5.6)
Cash and cash equivalents at the end of the period	**$**	**51.7**	**$**	**37.2**

OPERATING ACTIVITIES

In 2018, net cash provided by operating activities was $625.0 million, compared with $586.2 million in 2017, mainly due to higher operational results and lower income tax paid, partially offset by changes in working capital.

INVESTING ACTIVITIES

In 2018, net cash used in investing activities was $597.5 million, mainly due to capital expenditures of $456.4 million primarily related to the new solar and liquid terminal projects and the funding of $174.9 million in the South Texas – Tuxpan pipeline, partially offset by a restricted cash reduction of $29.5 million.

In 2017, net cash used in investing activities was $974.9 million, mainly due to $578.1 million to fund the South Texas – Tuxpan pipeline and capital expenditures of $253.0 million primarily related to our Ojinaga – El Encino pipeline, Sonora pipeline Guaymas – El Oro segment, San Isidro – Samalayuca pipeline, Empalme lateral pipeline and Veracruz marine terminal project and $147.6 million for the acquisition of the remaining 50 percent of Ductos y Energéticos del Norte, net of cash available at the closing date.

FINANCING ACTIVITIES

In 2018, net cash used in financing activities was $34.0 million, mainly due to $242.0 million in net repayments of loans from unconsolidated affiliates, a dividend payment of $210.0 million, the five-year CEBURES payment at maturity of $102.1 million and interest paid of $85.0, partially offset by $612.4 million in net borrowings against credit facilities.

In 2017, net cash provided by financing activities was $406.6 million, due to $807.4 million of international senior note offerings, net of expenses, $331.2 million in net borrowings from unconsolidated affiliates, $360.5 million net bank loan payments, a dividend payment of $200.0 million, payment to Pemex Transformación Industrial loan of $95.8 million as part of the acquisition of the remaining 50 percent of Ductos y Energéticos del Norte, and interest paid of $75.6 million.

RECONCILIATION OF PROFIT FOR THE PERIOD TO EBITDA AND ADJUSTED

(MILLIONS OF US$)	YEAR ENDED DECEMBER 31,			
		2018 (UNAUDITED)		2017
EBITDA reconciliation				
Profit for the period	$	430.6	$	354.2
Depreciation and amortization		137.2		119.0
Impairment of Termoeléctrica de Mexicali		–		63.8
Financing cost, net		95.4		50.7
Other losses (gains), net		–		40.9
Income tax expense		143.1		104.2
Share of (profits) of joint ventures, net of income tax		(38.0)		(44.7)
(1) EBITDA		**768.3**		**688.1**
JV EBITDA Adjustment reconciliation				
Profit for the period		38.0		44.7
Depreciation and amortization		6.3		6.2
Financing cost, net		34.6		30.1
Other (gains), net		(3.2)		(16.9)
Income tax expense		32.4		6.4
(2) JV EBITDA Adjustment		**108.1**		**70.5**
(1+2) Adjusted EBITDA	**$**	**876.4**	**$**	**758.6**

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 systems designed to generate key financial information.

FINANCIAL STATEMENTS AUDITED

INDEX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Paseo de la Reforma 505, piso 28
Colonia Cuauhtémoc
06500 Ciudad de México
México

Tel: +52 (55) 5080 6000
www.deloitte.com/mx

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

Opinion

We have audited the consolidated financial statements of Infraestructura Energética Nova, S. A. B. de C. V. and its subsidiaries (the "Company" or "IEnova"), which comprise the consolidated statements of financial position as of December 31, 2018, 2017 and 2016, and the consolidated statements of profit, profit and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Infraestructura Energética Nova, S. A. B. de C. V. and its Subsidiaries as of December 31, 2018, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit issues which should be communicated in our report.

Deloitte.

Relevant new contracts and transactions analysis

As described in Note 1.2 of the consolidated financial statements, the Company entered into several relevant transactions during the year, some of them requiring the determination of the appropriate accounting that can have significant implications to current and future financial statements with respect to the recognition, valuation, presentation and disclosures of the particular transaction. International Financial Reporting Standards require Management to apply its judgement to define the accounting treatment with limited specific industry guidance provided. A typical analysis requires the entity to determine whether it needs to consolidate a project; whether the arrangement contains a lease, and if so, its classification as a finance or operating lease; whether the contract meets the own use exemption or the definition of a derivative (to which hedge accounting could be applied) or it contains embedded derivatives; or, whether, it should be accounted for under another model, such as a concession arrangement. Examples of relevant transactions include agreements such as: terminal services, power sales, concessions, purchase options, and acquisition of subsidiaries.

Our audit emphasizes on the internal control and performing detailed risk assessment procedures to each transaction to determine the relevant aspects of judgement to design tailored audit procedures. We also involved our technical accounting specialists to assist us in auditing these matters.

Goodwill impairment testing

As described in Note 13 to the consolidated financial statements, the Company maintains goodwill of $1,638 million, which originated mainly from the acquisitions of IEnova Pipelines and Ventika. Management performed its annual goodwill impairment testing during the fourth quarter which uses business and valuation assumptions that require judgement, including discount rates and long term projections of revenues and costs. The most relevant matters addressed in our audit are as follows:

- The reasonableness of discount rates
- The reasonableness of the fair value from different valuation techniques

Our audit procedures focused mainly on testing relevant controls and substantive procedures over relevant assumptions. We involved an internal valuation specialist to assist us in auditing these matters.

Other Information

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

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

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

Deloitte.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Deloitte.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other matter

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

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

C.P.C. Omar Esquivel Romero
Mexico City, Mexico
February 19, 2019

INFRAESTRUCTURA ENERGETICA NOVA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of U. S. Dollars)

ASSETS	NOTES	DECEMBER 31, 2018	DECEMBER 31, 2017	DECEMBER 31, 2016
Current assets:				
Cash and cash equivalents	4, 24	$ 51,681	$ 37,208	$ 24,918
Short-term investments	24	83	1,081	80
Finance lease receivables	8, 24	9,809	8,126	7,155
Trade and other receivables, net	5, 24, 29	153,649	94,793	100,886
Due from unconsolidated affiliates	6, 24	45,043	24,600	12,976
Income taxes receivable	25	74,806	81,909	6,390
Natural gas inventories	7	3,516	7,196	6,083
Derivative financial instruments	24	9,474	6,130	6,913
Value added tax receivable		76,907	39,633	27,600
Carbon allowances	21	5,936	–	–
Other assets	9	9,695	10,327	9,289
Restricted cash	4, 24	23,342	55,820	51,363
Assets held for sale	12	–	148,190	191,287
Total current assets		463,941	515,013	444,940
Non-current assets:				
Due from unconsolidated affiliates	6, 24	646,297	493,887	104,352
Derivative financial instruments	24	8,146	1,935	1,127
Finance lease receivables	8, 24	932,375	942,184	950,311
Deferred income tax assets	25	80,853	97,334	89,688
Investment in joint ventures	10	608,708	523,102	125,355
Other assets	9	94,060	32,658	4,855
Property, plant and equipment, net	14, 28	4,086,914	3,729,456	3,614,085
Carbon allowances	21	15,499	–	–
Intangible assets	15	190,772	190,199	154,144
Goodwill	13	1,638,091	1,638,091	1,638,091
Restricted cash	4, 24	2,941	–	–
Total non-current assets		8,304,656	7,648,846	6,682,008
Total assets	28	$ 8,768,597	$ 8,163,859	$ 7,126,948

(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	DECEMBER 31, 2018	DECEMBER 31, 2017	DECEMBER 31, 2016
Current liabilities:				
Short-term debt	22, 24	$ 870,174	$ 262,760	$ 493,571
Trade and other payables	16, 24	99,757	72,638	94,566
Due to unconsolidated affiliates	6, 24	310,696	544,217	260,914
Income tax liabilities	25	63,044	3,384	13,322
Derivative financial instruments	24	10,943	41,726	10,310
Other financial liabilities	18, 24	24,720	10,372	5,877
Provisions	20	251	394	930
Other taxes payable		31,619	36,273	27,872
Carbon allowances	21	6,354	–	–
Other liabilities	19	28,073	19,631	28,861
Liabilities related to assets held for sale	12	–	62,522	35,451
Total current liabilities		1,445,631	1,053,917	971,674
Non-current liabilities:				
Long-term debt	23, 24	1,675,192	1,732,040	1,039,804
Due to unconsolidated affiliates	6, 24	75,161	73,510	3,080
Deferred income tax liabilities	25	566,892	551,614	489,607
Carbon allowances	21	14,826	–	–
Provisions	20	61,903	67,210	51,035
Derivative financial instruments	24	152,880	162,444	215,851
Employee benefits	17	7,643	6,537	5,586
Other non-current liabilities	19, 29	14,719	–	–
Total non-current liabilities		2,569,216	2,593,355	1,804,963
Total liabilities	28	4,014,847	3,647,272	2,776,637
Stockholders' equity:				
Common stock	26	963,272	963,272	963,272
Additional paid-in capital	26	2,351,801	2,351,801	2,351,801
Treasury shares	26	(7,190)	–	–
Accumulated other comprehensive loss		(104,105)	(114,556)	(126,658)
Retained earnings		1,536,662	1,316,070	1,161,896
Total equity attributable to owners of the Company		4,740,440	4,516,587	4,350,311
Non-controlling interests		13,310	–	–
Total stockholders' equity		4,753,750	4,516,587	4,350,311
Commitments and contingencies	36, 37	–	–	–
Events after the reporting date	39	–	–	–
Total stockholders' liabilities and equity		$ 8,768,597	$ 8,163,859	$ 7,126,948

See accompanying notes to the Consolidated Financial Statements.

INFRAESTRUCTURA ENERGETICA NOVA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT

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

	NOTES	YEAR ENDED DECEMBER 31, 2018	2017	2016
		(Notes 1, 12)	(Notes 1, 12)	(Notes 1, 12)
Revenues	24, 28, 29	$ 1,368,555	$ 1,222,905	$ 767,089
Cost of revenues		(385,791)	(331,846)	(270,885)
Operating, administrative and other expenses	31	(214,519)	(202,982)	(122,270)
Depreciation and amortization	14, 28, 34	(137,157)	(119,020)	(66,606)
Impairment of Termoelectrica de Mexicali, S. de R. L. de C. V. ("TDM")	12	–	(63,804)	(136,880)
Interest income	28, 30	27,449	22,808	6,294
Finance costs	28, 33	(122,879)	(73,501)	(21,092)
Other gains (losses), net	32	8	(40,900)	773
Remeasurement of equity method investment	11	–	–	673,071
Profit before income tax and share of profits of joint ventures	25	535,666	413,660	829,494
Income tax expense	25, 28	(143,064)	(104,163)	(117,345)
Share of profits of joint ventures, net of income tax	10, 28	37,984	44,677	42,841
Profit for the year	28, 35	$ 430,586	$ 354,174	$ 754,990
Attributable to:				
Owners of the company		430,592	354,174	754,990
Non-controlling interests		(6)	–	–
		$ 430,586	$ 354,174	$ 754,990
Earnings per share:				
Basic and diluted earnings per share	35	$ 0.28	$ 0.23	$ 0.61

See accompanying notes to the Consolidated Financial Statements.

INFRAESTRUCTURA ENERGETICA NOVA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT AND OTHER COMPREHENSIVE INCOME

(In thousands of U. S. Dollars)

	NOTES	YEAR ENDED DECEMBER 31, 2018	2017	2016
Profit for the year	28, 35	$ 430,586	$ 354,174	$ 754,990
Items that will not be reclassified to profit or (loss):				
Actuarial gain on defined benefits plans	17	519	704	1,765
Deferred income tax related to actuarial gain on defined benefits plans		(156)	(211)	(530)
Total items that will not be reclassified to profit		363	493	1,235
Items that may be subsequently reclassified to profit or (loss):				
Gain (loss) on valuation of derivative financial instruments held for hedging purposes		7,688	4,586	(17,112)
Deferred income tax on the gain (loss) on valuation of derivative financial instruments held for hedging purposes		(2,306)	(1,376)	5,133
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures		7,665	3,270	35,308
Deferred income tax on the gain on valuation of derivative financial instruments held for hedging purposes of joint ventures		(2,299)	(981)	(10,592)
Exchange differences on translation of foreign operations		(660)	6,110	(36,686)
Total items that may be subsequently reclassified to profit or (loss)		10,088	11,609	(23,949)
Other comprehensive income (loss) for the year		10,451	12,102	(22,714)
Total comprehensive income for the year		$ 441,037	$ 366,276	$ 732,276
Attributable to:				
Owners of the Company		441,043	366,276	732,276
Non-controlling interests		(6)	–	–
		$ 441,037	$ 366,276	$ 732,276

See accompanying notes to the Consolidated Financial Statements.

INFRAESTRUCTURA ENERGETICA NOVA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands of U. S. Dollars)

	NOTES	COMMON SHARES	ADDITIONAL PAID-IN CAPITAL	TREASURY SHARES	OTHER COMPREHENSIVE LOSS	RETAINED EARNINGS	ATTRIBUTABLE TO OWNERS OF THE PARENT	NON-CONTROLLING INTERESTS	TOTAL
Balance as of December 31, 2015		$ 762,949	$ 973,953	$ –	$ (103,944)	$ 546,906	$ 2,179,864	$ –	$ 2,179,864
Profit for the year	28, 35	–	–	–	–	754,990	754,990	–	754,990
Actuarial gain on defined benefit plans, net of income tax	17	–	–	–	1,235	–	1,235	–	1,235
Loss on valuation of derivative financial instruments held for hedging purposes, net of income tax		–	–	–	(11,979)	–	(11,979)	–	(11,979)
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		–	–	–	24,716	–	24,716	–	24,716
Exchange differences on translation of foreign operations		–	–	–	(36,686)	–	(36,686)	–	(36,686)
Total comprehensive (loss) income for the year		–	–	–	(22,714)	754,990	732,276	–	732,276
Issuance of shares, net		200,323	1,377,848	–	–	–	1,578,171	–	1,578,171
Dividends paid	27	–	–	–	–	(140,000)	(140,000)	–	(140,000)
Balance as of December 31, 2016	26	$ 963,272	$ 2,351,801	$ –	$ (126,658)	$ 1,161,896	$ 4,350,311	$ –	$ 4,350,311
Profit for the year	28, 35	–	–	–	–	354,174	354,174	–	354,174
Actuarial gain on defined benefit plans, net of income tax	17	–	–	–	493	–	493	–	493
Gain on valuation of derivative financial instruments held for hedging purposes, net of income tax		–	–	–	3,210	–	3,210	–	3,210
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		–	–	–	2,289	–	2,289	–	2,289
Exchange differences on translation of foreign operations		–	–	–	6,110	–	6,110	–	6,110
Total comprehensive income for the year		–	–	–	12,102	354,174	366,276	–	366,276
Dividends paid	27	–	–	–	–	(200,000)	(200,000)	–	(200,000)
Balance as of December 31, 2017	26	$ 963,272	$ 2,351,801	$ –	$ (114,556)	$ 1,316,070	$ 4,516,587	$ –	$ 4,516,587
Profit for the year	28, 35	–	–	–	–	430,592	430,592	(6)	430,586
Additional non-controlling interests arising on the acquisition of subsidiaries	11	–	–	–	–	–	–	13,094	13,094
Additional non-controlling interests relating to equity contributions		–	–	–	–	–	–	222	222
Actuarial gain on defined benefit plans, net of income tax	17	–	–	–	363	–	363	–	363
Gain on valuation of derivative financial instruments held for hedging purposes, net of income tax		–	–	–	5,382	–	5,382	–	5,382
Gain on valuation of derivative financial instruments held for hedging purposes of joint ventures, net of income tax		–	–	–	5,366	–	5,366	–	5,366
Exchange differences on translation of foreign operations		–	–	–	(660)	–	(660)	–	(660)
Repurchase of ordinary shares	26	–	–	(7,190)	–	–	(7,190)	–	(7,190)
Total comprehensive (loss) income for the year		–	–	(7,190)	10,451	430,592	433,853	13,310	447,163
Dividends paid	27	–	–	–	–	(210,000)	(210,000)	–	(210,000)
Balance as of December 31, 2018	26	$ 963,272	$ 2,351,801	$ (7,190)	$ (104,105)	$ 1,536,662	$ 4,740,440	$ 13,310	$ 4,753,750

See accompanying notes to the Consolidated Financial Statements.

INFRAESTRUCTURA ENERGETICA NOVA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U. S. Dollars)

	NOTES	YEAR ENDED DECEMBER 31, 2018	2017	2016
Cash flows from operating activities:				
Profit for the year	28, 35	$ 430,586	$ 354,174	$ 754,990
Adjustments for:				
Income tax expense	25, 28	143,064	104,162	117,349
Share of profit of joint ventures, net of income tax	10, 28	(37,984)	(44,677)	(42,841)
Finance costs	28, 33	122,879	73,501	21,092
Interest income	28, 30	(27,449)	(22,808)	(6,294)
Loss (gain) on disposal of property, plant and equipment		13,708	7,877	(4,233)
Impairment (gain) loss recognized on trade receivables		(1)	(60)	46
Impairment of TDM		–	63,804	136,880
Remeasurement of intangible assets		–	–	(673,071)
Depreciation and amortization	14, 28, 34	137,157	119,020	66,606
Net foreign exchange loss (gain)		6,103	37,028	(4,652)
Net (gain) loss on valuation of derivative financial instruments		(3,754)	6,715	(21,001)
		784,309	698,736	344,871
Movements in working capital:				
(Increase) decrease in trade and other receivables, net		(55,452)	(2,368)	5,741
Decrease (increase) in natural gas inventories, net		3,680	(1,113)	(1,455)
(Increase) decrease in other assets, net		(14,220)	(4,204)	18,398
Increase (decrease) in trade and other payables, net		5,134	12,546	(45,302)
(Decrease) increase in provisions, net		(42,463)	(252)	16,249
Increase (decrease) in other liabilities, net		1,088	(2,098)	20,348
Cash generated from operations		682,076	701,247	358,850
Income taxes paid		(57,090)	(115,013)	(118,552)
Net cash provided by operating activities		624,986	586,234	240,298

(Continued)

	NOTES	YEAR ENDED DECEMBER 31, 2018	2017	2016
Cash flows from investing activities:				
Acquisition of subsidiaries and assets, net of cash acquired	11	(19,954)	(147,638)	(1,512,248)
Investment in joint ventures	10	(79,908)	(72,067)	(100,477)
Marine terminals counter-payments fee	1	(44,355)	(28,179)	–
Interest received		563	1,089	3,875
Acquisitions of property, plant and equipment	14	(392,073)	(224,816)	(315,810)
Loans granted to unconsolidated affiliates		(134,661)	(505,997)	685
Receipts of loans granted to unconsolidated affiliates		42,275	8,152	8,262
Short-term investments		998	(1,001)	19,988
Net cash used in investing activities		(627,115)	(970,457)	(1,895,725)
Cash flows from financing activities:				
Issuance of shares from follow on public offering		–	–	1,602,586
Shares issuance costs		–	–	(34,877)
Interest paid		(85,046)	(75,661)	(35,785)
Loans received from unconsolidated affiliates	6	70,000	377,926	1,240,000
Loans payments to unconsolidated affiliates	6	(312,032)	(46,702)	(1,369,600)
Payments of loans acquired through acquisition of subsidiary	11	–	(95,839)	–
Proceeds from bank financing		916,757	897,000	805,000
Payments related to bank financing		(304,395)	(1,257,531)	(459,463)
Proceeds from international debt offering	23	–	840,000	–
Debt issuance costs	23	–	(32,609)	(2,400)
Payments for repurchase of shares	26	(7,190)	–	–
Payment of debt securities ("CEBURES")	23	(102,069)	–	–
Dividends paid	27	(210,000)	(200,000)	(140,000)
Net cash (used in) provided by financing activities		(33,975)	406,584	1,605,461
(Decrease) increase in cash and cash equivalents		(36,104)	22,361	(49,966)
Increase (decrease) in restricted cash		29,537	(4,457)	46,849
Cash and cash equivalents at the beginning of the year		37,208	24,918	40,377
Effects of exchange rate changes on cash and cash equivalents		21,040	(5,614)	(12,342)
Cash and cash equivalents at the end of the year		$ 51,681	$ 37,208	$ 24,918

See accompanying notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In thousands of U. S. Dollars, except where otherwise stated)

1. GENERAL INFORMATION AND RELEVANT EVENTS

1.1. GENERAL INFORMATION

Infraestructura Energetica Nova, S. A. B. de C. V. ("IEnova") and Subsidiaries (collectively,"IEnova or the Company") are located and incorporated in Mexico. Their parent and ultimate holding company is Sempra Energy (the "Parent") located and incorporated in the United States of America ("U. S."). The addresses of their registered offices and principal places of business are disclosed in Note 41.

1.2. RELEVANT EVENTS

1.2.1. International Senior Notes Offering ("Senior Notes")

On December 7, 2017, IEnova obtained $840.0 million related to an international Senior Notes offering, the notes were offered and sold in a private placement to qualified institutional buyers in the U. S. pursuant to Rule 144A and outside the U. S. pursuant to Regulation S under the U. S. Securities Act of 1933, as amended (the "Securities Act").

The Senior Notes received an investment grade rating from Fitch Ratings (BBB+), Moody's Corporation ("Moody's") (Baa1) and Standard & Poor's Global Ratings ("S&P") (BBB). The Company used the net proceeds from the offering to repay outstanding short-term indebtedness, with the remainder for general corporate purposes.

The Senior Notes may not be offered or sold in Mexico absent authorization by the Comision Nacional Bancaria y de Valores (the "CNBV") in accordance with the Ley del Mercado de Valores ("Mexican Securities Market Law") and all applicable regulations and the registration of the Senior Notes in the Registro Nacional de Valores ("National Securities Registry") maintained by the CNBV; or in the U. S. absent registration under the Securities Act or an exemption from registration therefrom.

On December 14, 2017, the Company entered into an international Senior Notes offering comprised of $300.0 million aggregate principal amount of the Company's 3.75 percent Senior Notes due 2028 and $540.0 million aggregate principal amount of the Company's 4.88 percent Senior Notes due 2048. (Please refer to Note 23.f.)

1.2.2. Global Offering

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

Total capital raised, net of expenses and the corresponding taxes, was $29,941.0 million Mexican Pesos (approximately $1.6 billion of U.S. Dollars), the proceeds were used to repay a bridge loan to its affiliate Sempra Global ("SEG"), used to purchase the remaining 50.0 percent of IEnova Pipelines, S. de R. L de C. V. (" IEnova Pipelines") from Pemex Transformacion Industrial ("Pemex TRI"), to fund a portion of the acquisition of the Ventika wind-farm and to fund capital expenditures and general corporate purposes. (Please refer to Note 26.2.).

As a result of the Global Offering, the Company raised $30,400.0 million Mexican Pesos, and the issuance costs amounted to $659.5 million Mexican Pesos (Please refer to Note 26.2.).

The Company in order to complete the transaction mentioned in Note 1.2.8., entered into four forward exchange rate contracts with a maturity date in October 2016. The effect of these forwards was $3.4 million, and was recognized in the Consolidated Statement of Profit within other gains and losses.

1.2.3. CEBURES

On February 8, 2018, the Company made the repayment of its CEBURES public debt, of the second placement for an amount of $1,300.0 million of historical Mexican Pesos (Please refer to Note 23.a.).

For this debt, which was scheduled to mature in 2018, the Company entered into a derivative instrument contract and swapped fixed rate in Mexican Pesos for a fixed rate in U. S. Dollars, exchanging principal and interest payments. The Company received $1,300.0 million Mexican Pesos and paid $102.2 million U. S. Dollars. The repayment ended the hedging contract and CEBURES liability. (Please refer to Note 23.a.).

1.2.4. Credit agreements

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

i. U.S. Dollar-denominated.
ii. Twelve-month term, with an option to extend up to five years.
iii. Financing to repay and cancel the previous loans contracted in 2014 with Santander and SMBC, as well as to finance working capital and for general corporate purposes.

Restructuring of credit agreement and new credit agreement

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

On November 3, 2016, the Company entered into a second amendment agreement, in connection to the revolving credit mentioned above, in which Bank of America, N. A. ("BofA"), BBVA Bancomer S. A. ("Bancomer"), Institucion de Banca Multiple, Grupo Financiero BBVA Bancomer and Mizuho Bank, LTD ("Mizuho"), joined as new lenders and with the existing lenders whereby agreed to increase the amount of the credit line under the Credit Agreement to a maximum aggregate in the amount of $1,170.0 million from the previously authorized maximum of $600.0 million. (Please refer to Note 22.a.).

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

On January 22, 2018, in order to make more efficient and standardize the process for the issuance of letters of credit requested by governmental entities or third parties with whom the Company contracts, IEnova together with a bank syndicate formed by Banamex, SMBC, Bancomer, Scotiabank Inverlat, S. A. ("Scotiabank"), Mizuho, BNP Paribas S. A. and Santander, entered into a letter of credit facility and reimbursement agreement, up to an amount equivalent to $1.0 billion U. S. Dollars, which will be in effect for five years.

i. The agreement, among other things, will allow IEnova to expedite the administrative processes for the issuance or renewal of standby letters of credit and to have a standard process for the issuance of all its standby letters of credit.
ii. The LOCF and the standby letters of credit issued under this agreement do not constitute IEnova's debt.

1.2.6. Revolving credit

On November 30, 2018, the Company entered into a revolving credit agreement with SEG for up to $320.0 million and maturity date on August 2020. The funds will be used for working capital, investments and other general corporate purposes.

1.2.7. Plan to market and sell TDM

In February 2016, the Company's management approved a plan to market and sell TDM, a 625-Megawatts ("MW") natural gas-fired power plant located in Mexicali, Baja California, Mexico.

1.2.7.1. TDM changes to plan of sale

On June 1, 2018, the management of the Company formalized its decision to suspend the sell of TDM, and the assets and liabilities that were previously classified as held for sale were reclassified as held and used, and depreciation resumed. (Please refer to Note 12.).

1.2.8. Purchase agreement of remaining interest in IEnova Pipelines ("formerly Gasoductos de Chihuahua, S. de R. L. de C. V.") from Petroleos Mexicanos ("Pemex").

On July 31, 2015, the Company announced an agreement with Pemex to purchase Pemex's 50.0 percent equity interest in IEnova Pipelines in the amount of $1,325 million. The assets involved in the acquisition include three natural gas pipelines; one ethane pipeline; one liquid petroleum gas ("LPG") pipeline; and one LPG storage terminal. Under the terms of the agreement, Pemex and IEnova maintain their existing partnership in the Los Ramones II Norte pipeline project through the project holding company, Ductos y Energeticos del Norte, S. de R. L. de C. V. ("DEN").

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

Resolution was obtained from the Comision Federal de Competencia Economica ("COFECE") in connection with the purchase agreement of the remaining interest in IEnova Pipelines from Pemex.

In December 2015, the COFECE rejected the transaction to purchase Pemex's interest in IEnova Pipelines as proposed. The parties restructured the transaction so that Pemex could proceed in accordance with the COFECE ruling.

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

On September 21, 2016, the COFECE authorized IEnova's acquisition of 50.0 percent of the equity of IEnova Pipelines ("IEnova Pipelines acquisition"), owned by Pemex TRI.

On September 26, 2016, IEnova Pipelines' acquisition was completed through IEnova Gasoductos Holding, S. de R. L. de C. V., ("IGH") a subsidiary of IEnova; therefore, the Company now holds 100 percent of IEnova Pipelines' shares. The final price of the transaction was $1,077.6 million, net of cash acquired. IEnova Pipelines joint venture with Pemex TRI remains after the acquisition, as originally contracted, each holding 50.0 percent of the shares in DEN. Through DEN, IEnova and Pemex TRI preserved their energy infrastructure joint venture of the construction of the Los Ramones Norte pipeline and the potentially development of new projects. Please refer to Note 1.2.9. related to financing transaction. Please refer to Note 1.2.11. for purchase agreement of DEN.

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

1.2.9. Bridge loan for IEnova Pipelines acquisition

a. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of $800.0 million with SEG. The loan had the following characteristics:

    i. U.S. Dollar-denominated.
    ii. Two-month term.
    iii. Used to finance the acquisition of IEnova Pipelines.

In October 2016, the Company repaid this Bridge Loan.

b. On September 26, 2016, IEnova entered into an unconsolidated affiliate loan credit in the amount of $350.0 million with Semco Holdco, S. de R. L. de C. V. ("SEMCO"). The loan had the following characteristics:

    i. U.S. Dollar-denominated.
    ii. Two-month term.
    iii. Used to finance the acquisition of IEnova Pipelines.

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

1.2.10. Purchase agreement of Ventika wind farm

On September 2, 2016, the Company agreed to acquire IEnova Ventika Holding, B. V. ("formerly Fisterra Energy Netherlands III, B. V."), IEnova Ventika Holding II, B. V. ("formerly Fisterra Energy Netherlands IV, B. V."), IEnova Ventika Mexico, S. de R. L. de C. V. ("formerly Fisterra Energy Mexico III, S. de R. L. de C. V."), IEnova Ventika Mexico II, S. de R. L. de C. V. ("formerly Fisterra Energy Mexico IV, S. de R. L. de C. V."), Ventika, S. A. P. I. de C. V., and Ventika II, S. A. P. I. de C. V. (collectively "Ventika"), a 252-MW wind generation facility, located in the state of Nuevo Leon, Mexico. Ventika was jointly developed by Fisterra Energy and Cementos Mexicanos, S. A. de C. V. The construction was completed in December 2015 and commercial operations started in April 2016.

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

In December 2016, the COFECE authorized the acquisition of 100.0 percent of the equity interest in Ventika. The transaction was completed on December 14, 2016 through Controladora Sierra Juarez, S. de R. L. de C. V. ("CSJ") a subsidiary of IEnova. The final price of the transaction was $434.7 million, plus the assumption of outstanding debt of $485.3 million.

The loans fully mature in March 2032, and bear interest equal to a fixed base rate or London Interbank Offered Rate ("LIBOR") plus a spread of 3.03 percent to 3.93 percent, which varies over the term of the loans. To moderate the exposure to interest rate and associated cash flow variability, Ventika entered into floating-to-fixed interest rate swaps to have almost 92.0 percent of the full amount of the loans fixed.

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

1.2.11. Purchase agreement of DEN

On October 6, 2017, the Company announced the agreement to acquire Pemex TRI's participation in DEN.

On November 10, 2017, the COFECE authorized the transaction. The purchase price paid was $164.8 million (exclusive of $17.2 million of cash and cash equivalents acquired), plus the assumption of $95.8 million of existing debt, and the proportional amount of Los Ramones II Norte pipeline project financing of $289.0 million. This debt will not be consolidated on IEnova's Consolidated Financial Statements.

This acquisition increased IEnova's indirect participation in the Los Ramones II Norte pipeline from 25.0 percent to 50.0 percent through TAG Norte Holding, S. de R. L. de C. V. ("TAG").

Please refer to Notes 10.4., 10.5. and 11.3.

1.2.12. Formation of a fund to repurchase its own shares

On June 14, 2018, at the Company's Ordinary General Shareholders' Meeting, the shareholders decided to approve the creation of a fund to repurchase its own shares for a maximum amount of $250.0 million. Such amount shall not exceed the Company's total net profits, including retained earnings, as stated in the Company's 2017 Financial Statements, which were approved in the Ordinary General Shareholders' Meeting on April 27, 2018. (Please refer to Note 26.).

1.2.13. Projects under development

a. *Marine pipeline*

In June 2016, Infraestructura Marina del Golfo, S. de R. L. de C. V. ("IMG"), the joint venture formed between IEnova and TransCanada Corporation ("TransCanada"), whereby TransCanada has 60 percent interest in the partnership and IEnova owns the remaining 40 percent interest, resulted the winner of a bidding process and entered into a 25-year natural gas transportation service agreement with the Comision Federal de Electricidad ("CFE"), in connection with the bid issued by CFE for the South Texas–Tuxpan marine pipeline. IMG shall be responsible for the development, construction, and operation of the 42-inch pipeline, with a capacity of 2,600 Million Cubic Feet per Day ("MMCFPD") and a length of approximately 800 kilometers ("km"). The project will require an investment of approximately $2.4 billion, equivalent to $1.0 billion with IEnova's 40 percent share, and is expected to occur in early second quarter of 2019. (Please refer to Note 10.3.).

b. *La Rumorosa Solar Project and Tepezala II Solar Project*

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

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

Trina Solar has the option to sell, Trina Solar's ownership interest at the end of the construction period, before operations commence.

c. *Pima Solar Project*

EIn March 2017, the Company, through one of its subsidiaries executed a 20-year electric supply contract with Deacero, S. A. P. I. de C. V. to provide energy, clean energy certificates, and capacity from a new solar power plant located in Caborca, Sonora, Mexico.

The Company will be responsible for all aspects of the project implementation, including permitting, acquisition of land and rights of way, engineering, procurement, construction, financing, operations and maintenance.

The solar power plant will have a 110 MW capacity. The estimated investment for this project is $115.0 million. The beginning of commercial operations is expected to occur in the first quarter of 2019.

d. *Veracruz marine terminal and in-land terminal*

On July 12, 2017, the Company won the Administracion Portuaria Integral de Veracruz, S. A. de C. V. ("Veracruz API") bid for a 20-year transfer of its concession rights of an area to build and operate a marine terminal for the reception, storage and delivery of refined products.

According to the bidding basis, the Company made a onetime counter-payment offered for the right to build, use, leverage and benefit from the operation of the Veracruz marine terminal, in two installments, each equivalent to the 50 percent of the total amount, the first payment of $500.0 million Mexican Pesos ($28.2 million U. S. Dollars) was settled on August 1, 2017, prior to the execution of the concession agreement, as per bidding basis.

On August 3, 2017, the Company executed the 20-year concession agreement with the Veracruz API to develop, construct and operate the aforementioned marine terminal. The concession includes the transfer, during 2018, of the waterfront lot where the terminal will be built.

With an investment of approximately $170.0 million U.S. Dollars, the terminal will have a capacity of 2,100,000 barrels and is expected to begin operations in the fourth quarter of 2019.

Additionally, the Company will build and operate two storage terminals that will be strategically located in Puebla and Mexico City, and will have initial storage capacities of approximately 650,000 barrels, each one. With an investment of approximately $145.0 million U.S. Dollars, the two in-land terminals will start operations in the first quarter 2020.

The Company will be responsible for the implementation of the projects, including the obtaining of permits, engineering, procurement, construction, operation, maintenance, financing and providing services.

On July 29, 2017, the Company executed three long-term firm capacity contracts with Valero Marketing and Supply de Mexico, S. A. de C. V. ("Valero") for the receipt, storage capacity and delivery of hydrocarbons in the Veracruz marine terminal and for the two in-land terminals to be constructed in Puebla and Mexico City, for a 20-years term, the contracts are denominated in U.S. Dollars.

Valero plans to import refined products including gasoline, diesel and jet fuel, and store them at the Veracruz marine terminal. Locally, the products will be distributed by truck and transported to Puebla and Mexico City by rail.

After commercial operations, and subject to all relevant regulatory and corporate authorizations as well as the approval of the API of Veracruz, Valero will have the option to acquire 50 percent of the equity in each of the three terminals.

On January 8, 2018, ESJ Renovable III, S. de R. L. de C. V. ("ESJRIII") paid to the Veracruz API the remaining 50 percent of a counter-payment fee equivalent to the amount of $500.0 million Mexican Pesos ($25.9 million U. S. Dollars) for the right to build, use, leverage and benefit from the operation of the marine terminal in Veracruz, Mexico.

On November 22, 2018, ESJRIII signed a contract with the Veracruz API for land, which will be used exclusively for the construction and operation of a railway and its respective roads with term on June 11, 2038.

e. *Wind power generation facility*

On November 16, 2017, the Company through Energia Sierra Juarez 2 U. S., LLC, its wholly owned subsidiary, executed a 20-year power purchase agreement with San Diego Gas & Electric Company ("SDG&E"), a IEnova's unconsolidated affiliate. The contract will be supplied through a new wind power generation facility that will be located in the municipality of Tecate in Baja California, Mexico. The project will have a capacity of 108 MW and will require an investment of approximately $150.0 million. The development of this project is subject to the receipt of regulatory approvals, including from the California Public Utilities Commission and the U.S. Federal Energy Regulatory Commission. It is also subject to obtaining consents from financing parties and partners.

f. *Long-term electric supply contract*

On February 28, 2018, the Company executed a 15-year electricity supply contract with various subsidiaries of El Puerto de Liverpool, S. A. B. de C. V. ("Liverpool"). The electricity will be generated by a new solar power plant that will be located in the municipality of Benjamin Hill in the State of Sonora, Mexico. The plant will have the capacity to supply Liverpool and other large energy consumers. The Company will be responsible for the development, construction and operation of the project that will have a capacity of 125 MW, with an investment of approximately $130.0 million. The beginning of commercial operations is expected to occur in the second half of 2019. (Please refer to Note 11.4.).

g. *Marine terminal, Baja California, Mexico*

On April 12, 2018, the Company announced a project to develop, construct, and operate a marine terminal that will be located 23 Km North of Ensenada, Baja California, Mexico. The terminal, with one million barrels of initial storage capacity will receive, store, and deliver hydrocarbons, primarily gasoline and diesel. The investment will be approximately $130.0 million. The terminal is expected to begin commercial operations in the fourth quarter of 2020.

On April 12, 2018, the Company signed a long-term contract with Chevron Combustibles de Mexico S. de R. L. de C. V., a Chevron Corporation ("Chevron") subsidiary, for approximately 50 percent of the terminal's storage capacity. Additionally, another Chevron subsidiary will have the right to acquire 20 percent of the terminal equity after commercial operations begin. The option does not meet the definition of an equity instrument under IAS 32 and is therefore within the scope of IFRS 9 as a financial instrument, the option is required to be initially recognized at fair value which upon the effective date of the agreement is minimal, as the exercise price of the option is a proxy for fair value, as such the Company will not record a fair value.

On March 14, 2018, the Company executed a second long-term contract for the storage and delivery of hydrocarbons with BP Estaciones y Servicios Energeticos, S. A de C. V. ("BP") , a BP P. L. C. ("BP LC") subsidiary, for the remaining 50 percent of the terminal's storage capacity.

h. *Marine terminal in Topolobampo, Sinaloa, Mexico*

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

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

In September and October 2018, the Company announced the execution of two long-term, U. S. Dollar-denominated contracts with subsidiaries of Chevron and Marathon Petroleum Corporation ("Marathon") for the storage and delivery of refined products, primarily gasoline and diesel, at the terminal, for the receipt, storage and delivery in Topolobampo, Sinaloa, Mexico. The agreements will allow Chevron and Marathon to each utilize approximately 50 percent of the terminal's initial one million barrels of storage capacity. Additionally, another subsidiary of Chevron will have the right to acquire up to 25 percent of the equity of the terminal after commercial operations begin. The option does not meet the definition of an equity instrument under IAS 32 and is therefore within the scope of IFRS 9 as a financial instrument, the option is required to be initially recognized at fair value which upon the effective date of the agreement is minimal, as the exercise price of the option is a proxy for fair value, as such the Company will not record a fair value.

According to the bidding basis, the Company is committed to make a onetime counter-payment offered for the right to build, use, leverage and benefit from the operation of the Topolobampo marine terminal, payable in two installments, each equivalent to 50 percent of the total amount. The first payment of $350.5 million Mexican Pesos ($18.4 million U. S. Dollars) was made in July 2018.

i. *Marine terminal in Manzanillo, Colima, Mexico*

On September 26, 2018, the Company executed a long-term contract with Trafigura Mexico S.A. de C. V. ("Trafigura"), for 740 thousand barrels, equivalent to 50 percent of the terminal's storage capacity.

On September 28, 2018, the Company announced a project to develop, build and operate a marine terminal for the receipt, storage and delivery of refined products, primarily gasoline and diesel, that will be located in Manzanillo, Colima, Mexico. In its initial stage, the terminal is expected to have a storage capacity of 1.48 million barrels. The project's estimated investment is approximately $200.0 million, and the Company anticipates, subject to the timing of issuance of the remaining permits, the start of commercial operations in the fourth quarter of 2020.

As part of the agreements, the Company also acquired 51 percent of the equity of ICM Ventures Holding B. V. ("ICM"), owner of the land where the project will be built. Affiliates of Trafigura retained 49 percent of the equity interest in the project. (Please refer to Note 11.6.).

j. *Natural gas liquefaction project*

On November 7, 2018, the Company announced, together with Sempra LNG & Midstream, the signature of three agreements with affiliated companies of Total S.A., Mitsui & Co., Ltd. and Tokyo Gas Co., Ltd. for the full capacity of phase 1 of the Energia Costa Azul, S. de R.L. de C.V. ("ECA") liquefied natural gas project located in Ensenada, Baja California, Mexico.

The project's phase 1 is a single-train liquefaction facility to be located adjacent to the existing receipt terminal and is expected to produce approximately 2.4 million tonnes of liquefied natural gas ("LNG") per annum.

The three agreements for the phase 1 contemplate the parties negotiating and finalizing definitive 20-year liquefied natural gas sales-and-purchase agreements. A final investment decision for this project is targeted in late 2019 with potential first LNG deliveries in 2023.

k. *Power purchase agreement*

On December 17, 2018, the Company, through one of its subsidiaries, executed a 15-year electric supply contract with Compañia Minera Autlan, S.A.B. de C.V., ("Autlan") to provide energy for 1,175.0 MW from the Company's portfolio of solar generation project's.

The beginning of commercial operations is expected to occur in the fourth quarter of 2019.

1.2.14 Other matters

a. *Energy Reforms*

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

b. *Credit Ratings*

On November 30, 2017, S&P gave the Company a global corporate credit rating of BBB with a stable outlook, and Fitch Ratings gave IEnova long-term foreign and local currency issuer default ratings of BBB+ with a stable outlook.

On November 19, 2018, Fitch Raitings confirmed the credit rating of BBB granted in 2017. S&P Global Ratings affirmed IEnova's global scale corporate credit rating of BBB and revised its global outlook from stable to negative because of similar action on Sempra Energy. As a result, IEnova's local credit rating changed from AAA to AA+.

1.3 ACTIVITIES

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

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

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

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

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

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

1.3.1 Gas segment

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

a. Ecogas Mexico, S. de R. L. de C. V. ("ECO") is engaged in the distribution and sale of natural gas for industrial, residential and commercial use in three local distribution zones: Mexicali (serving the city of Mexicali, Baja California), Chihuahua (serving the cities of Chihuahua, Delicias, Cuauhtemoc and Anahuac) and La Laguna-Durango (serving the cities of Torreon, Gomez Palacio, Lerdo and Durango), with pipelines of approximately 3,925 km in length.

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

In May 2009, the CRE approved the third five-year plan to ECO for the local distribution zones of Chihuahua, Chihuahua and Mexicali, Baja California, and in June 2010 for the local distribution zone of La Laguna-Durango. Additionally, in 2016, the CRE authorized an adjustment to the authorized tariffs to be applied in the five-year plan for the local distribution zones of Chihuahua, Chihuahua and La Laguna-Durango and in 2018 an actualization to tariffs related to inflationary effects. The five-year plans do not include commitments regarding the minimum number of customers. As of December 31, 2018, 2017 and 2016, ECO had over 122,000, 120,000 and 119,000 customers, respectively.

b. Servicios DGN de Chihuahua, S. A. de C. V. ("SDGN") provides administrative, and operational services to other affiliates of the group.

c. IEnova Gasoductos Mexico, S. de R. L. de C. V. ("IGM") is engaged in the acquisition and subscription of any kind of participation in the capital stock of a variety of companies; its subsidiaries are engaged in the compression, storage and transportation of natural gas and LPG as well as in rendering all kind of services related to such activities, including the coordination, consulting and supervision of construction and development of energy infrastructure projects.

   It is primarily engaged in the compression of natural gas using compression equipment located in Naco, Sonora (also referred to as the Naco Compression Station).

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

d. Gasoductos de Aguaprieta, S. de R. L de C. V. ("GAP"), a subsidiary of IEnova Gasoductos Mexico, was incorporated on July 4, 2001 and commenced operations on November 20, 2002. GAP is primarily engaged in the transportation of natural gas.

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

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

   Sonora pipeline: In October 2012, GAP was awarded by the CFE with two contracts to build and operate an approximately 835 km natural gas pipeline network connecting the Northwestern Mexican states of Sonora and Sinaloa ("Northwest gas pipeline", also known as the "Sonora Pipeline") to the U.S. interstate pipeline.

   The Sonora pipeline is comprised of two segments; the first one (Sasabe – Guaymas), has an approximate length of 505 km, 36-inch diameter pipeline with 770 MMCFPD of transportation capacity; and the second one (Guaymas – El Oro), has an approximate length of 330 km, and 30-inch pipeline with 510 MMCFPD of transportation capacity and started commercial operation on May 19, 2017.

   On August 18, 2014, CFE granted a compliance certification for the Sasabe – Puerto Libertad segment construction. The first 220 km, of the first segment were put into operation in the fourth quarter of 2014. The second 285 km of the first segment (Puerto Libertad – Guaymas), this segment started commercial operation in the third quarter of 2015.

   The capacity of the Sonora pipeline is contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

Ojinaga - El Encino pipeline: In December 2014, GAP, entered into the Ojinaga pipeline natural gas transportation services agreement with the CFE, which has a term of 25 years. The CFE contracted 100 percent of the transportation capacity of the Ojinaga pipeline, equal to 1.4 billion Cubic Feet Per Day ("CFPD"). The 42-inch pipeline, with a length of approximately 220 km. This segment started commercial operation on June 30, 2017.

San Isidro - Samalayuca pipeline: During 2015, the Company, through its subsidiary GAP, was declared winner of the CFE tender for a natural gas transportation contract through a pipeline from San Isidro to Samalayuca in the State of Chihuahua. Such project consists of a header facility with a capacity of 3 billion CFPD and a 23 km pipeline with a capacity of 1,135 MMCFPD of natural gas. The system supplies natural gas to the Norte III Combined Cycle Power Plant and interconnect with the following systems: Gasoductos de Chihuahua, Tarahumara Pipeline and the Samalayuca-Sasabe pipeline. This segment started commercial operation on March 31, 2017. The contract maturity is 25 years.

El Empalme pipeline branch: In May 2016, IEnova entered into a natural gas transportation service agreement with CFE for a 21 year term, denominated in U.S. Dollars, for 100 percent of the transportation capacity of the Ramal Empalme pipeline, equal to 226 MMCFPD of natural gas. The 20 km pipeline branch. This segment started commercial operation on June 24, 2017.

Gasoducto Rosarito, ("GRO") renders services of transportation of natural gas, providing the energy requirements of Baja California, Mexico. GRO operates the Gasoducto system comprised of three natural gas pipelines *(Rosarito Mainline, LNG Spur and Yuma Lateral)* and two 32,500 horse power ("HP") compression stations located in Baja California, Mexico. The total length of GRO system is approximately 302 km. The system begins at the interconnection with the El Paso Natural Gas Co. pipeline near Ehrenberg, Arizona, U. S. ("North Baja Pipeline"), and ends in southern Tijuana, Baja California at the interconnection with the Transportadora de Gas Natural de Baja California, ("TGN"), pipeline. The Mexican portion of the pipeline begins at the interconnection in Algodones, Baja California with the North Baja Pipeline and travels through Mexicali and Tecate, Baja California ending at the interconnection with TGN. These three pipelines operate under one transportation permit issued by the CRE.

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

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

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

Effective August 1, 2017, GRO was merged with and into GAP which is the surviving entity in the merger.

TGN is engaged in the transportation of natural gas in accordance with a permit issued by the CRE, through a 45 Km, 30-inch pipeline with a designed transportation capacity of 940 MMCFPD as permitted by the CRE. TGN interconnects with the GRO pipeline system in the Tijuana, Baja California, Mexico, area and extends north to interconnect with the SDG&E, system at the Otay Mesa International border and southwest to the CFE's 1,300MW Presidente Juarez Power Plant in Rosarito, Baja California, Mexico. The TGN pipeline system was placed in service in June 2000. A 19 km expansion to the TGN system began operations in May 2008.

Effective August 1, 2017, TGN was merged with and into GAP which is the surviving entity in the merger.

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

f. ECA, owns and operates an LNG regasification and storage facility ("LNG Terminal") in Ensenada, Baja California, Mexico.

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

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

ECA entered into two 20-year firm storage service agreements with third independent parties for the 50 percent of the total storage capacity of the LNG Terminal. The agreements commenced in 2009.

g. IEnova Marketing, S. de R. L. de C. V. ("IEnova Marketing") provides LNG services related to the purchase and sale of LNG and natural gas. In May 2008, IEnova Marketing began operations jointly with ECA. Up to that date, the activities of IEnova Marketing were primarily focused on obtaining necessary permits to operate.

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

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

As of February 28, 2018, all end users that purchase natural gas and whose maximum annual consumption is greater than 5,000 Gigajoules ("GJ") must resort to licensees marketers for the supply thereof, said licensees marketers must have a supply issued by the CRE. During the period from January to March 2018, IEnova Marketing signed 93 natural gas purchase agreements with third parties which are located in Mexicali, Chihuahua, Torreon and Durango. The majority of the customers were previously consumers from ECO. (Please refer to Note 1.3.1.a.)

As of December 31,2018, IEnova Marketing has a total of 147 new customers derived from the change regulation issued by the CRE.

h. IEnova Pipelines is engaged in providing natural gas and LPG transportation services through Gasoductos de Tamaulipas, S de R. L. de C. V. ("GdT"), Gasoductos del Noreste, S. de R. L. de C. V. ("GdN") and TDF, S. de R. L. de C. V. ("TDF"), respectively, it also stores gas for the supply of LPG, through Transportadora del Norte SH, S. de R. L. de C. V. ("TdN", TDF's holding company). These activities are regulated by the CRE. IEnova Pipelines is also engaged as well in the ethane gas transportation service through Gasoductos del Sureste, S. de R. L. de C. V. ("GdS").

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

GdT - San Fernando pipeline: a fully bi-directional system that is comprised of a 36-inch diameter pipeline with an approximate length of 114 km and a capacity of 1,460 MMCFPD and two compression stations with a total of 95,670 HP. The pipeline extends from the El Caracol compression station in Reynosa, Tamaulipas to Los Indios compression station in San Fernando, Tamaulipas. CENAGAS, as transferee of Pemex TRI, is the sole customer of the San Fernando pipeline and also purchases the system's unused compression capacity on an as-needed basis pursuant to an interruptible transportation services agreement. The services agreement with CENAGAS has an initial term of 20 years beginning in 2003, but is extendable for a five-year period at the customer's option.

IEnova Pipelines - Samalayuca pipeline: a 24-inch diameter pipeline with an approximate length of 37 km and a capacity of 400 MMCFPD. The Samalayuca pipeline, which began operations in 1997, was the first privately-owned natural gas pipeline in Mexico. The Samalayuca pipeline extends from Ejido San Isidro, Chihuahua, to CFE's Samalayuca power plant and interconnects with a separate, 16-inch diameter pipeline owned by Pemex TRI that extends from Ciudad Juarez to Chihuahua. IEnova Pipelines has entered into long-term transportation service agreements with the Samalayuca pipeline's customers, which have 50 percent of the system's design capacity contracted on a firm basis.

IEnova Pipelines - Gloria a Dios compression station: a 14,300 HP compressor with a capacity of 60 MMCFPD. It is installed at the interconnection point of the Samalayuca pipeline and Pemex TRI's Ciudad Juarez–Chihuahua natural gas pipeline in Gloria a Dios, Chihuahua. CFE, which is the station's sole customer, has contracted 100 percent of the station's capacity on a firm basis through 2021, at the rates established by the CRE, pursuant to a transportation and compression services agreement.

Under this agreement, the Gloria a Dios compression station provides compression services for the Chihuahua II power plant, transports natural gas from an interconnection between Kinder Morgan's pipeline system and the Samalayuca pipeline at the Mexico–U.S. border, and delivers the compressed gas to the interconnection point of the Samalayuca pipeline and Pemex TRI's pipeline system.

TDF - LPG pipeline: a system comprised of approximately 190 km of 12-inch diameter pipeline with an average daily transportation capacity of 34,000 Barrels per day ("Bbld") of LPG, a pumping station located near the pipeline's point of delivery, and a reception facility that includes two storage spheres with a combined storage capacity of 40,000 Bbld.

The TDF's LPG pipeline, which was the first private LPG pipeline in Mexico, extends from Pemex TRI's Burgos LPG production area in the State of Tamaulipas to a delivery facility near Monterrey, Nuevo Leon. The TDF's LPG pipeline has in place a firm transportation services agreement with Pemex TRI, which expires in 2027.

TdN - Guadalajara LPG terminal: in 2013 TdN completed the construction of an LPG storage facility with a capacity of 80,000 Bbld near Guadalajara, Jalisco. This facility consists of four storage spheres, each with a capacity of approximately 20,000 Bbld, ten loading bays, and an interconnection with a separate LPG pipeline system that is owned by Pemex TRI. The Company has entered into several 15-year storage service agreements with Pemex TRI, pursuant to which it has contracted 100 percent of the terminal's capacity through 2028.

GdN - Los Ramones I pipeline: the system is comprised of a 48-inch diameter pipeline with an approximate length of 116 km and two compression stations with a total of 123,000 HP. The Los Ramones I pipeline transports natural gas from northern Tamaulipas, near the Mexico-U.S. border, to the interconnection point with the Los Ramones II Norte pipeline and Mexico's national pipeline system in Los Ramones, Nuevo Leon. CENAGAS, as transferee of Pemex TRI, is the sole customer of this facility under a 25-year firm transportation services agreement.

GdS - Ethane pipeline: an approximately 224 km system comprised of three segments. The first segment is a 20-inch diameter pipeline with a transportation capacity of approximately 52 MMCFPD (0.6 MMThd). The second segment is a 16/24-inch diameter pipeline with a transportation capacity of approximately 100 MMCFPD (1.8 MMThd). The third segment is a 20-inch diameter pipeline with a transportation capacity of approximately 106,000 Bbld (1.9 MMThd). The Ethane pipeline transports ethane from Pemex's processing facilities in the states of Tabasco, Chiapas, and Veracruz to the Ethylene XXI ethylene and polyethylene polymerization plant in the State of Veracruz. Pemex TRI, the sole customer of this facility, has contracted 100 percent of its capacity for a period of twenty one years under a purchase agreement on a take-or-pay basis. This system, which began operations in 2015, is Mexico's first privately-owned ethane pipeline.

i. DEN provides operation and maintenance services to the Los Ramones II Norte pipeline system under a 25-year term agreement, starting in February 2016, the commercial operations date DEN owned 50 percent of TAG, which owned 99.99 percent of TAG Pipelines Norte, S. de R. L. de C. V. ("TAG Pipelines Norte"), under which the Los Ramones II Norte pipeline was built. On November 15, 2017, IEnova completed the acquisition of Pemex TRI 50 percent interest in DEN, through this acquisition IEnova increased its ownership interest in TAG from 25 percent to 50 percent. DEN became a wholly owned, consolidated subsidiary of IEnova. (Please refer to Note 11.3.).

1.3.2 Power segment

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

a. TDM, a 625-MW natural-gas-fired, combined-cycle power generation facility located in the city of Mexicali, Baja California, is engaged in the generation and sale of electricity. In August 2001, TDM received a favorable resolution by the CRE to generate and export electricity.

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

   On December 2016, this contract was assigned to SGPM. In April 2018, the Company signed an addendum to the contract where the payment for the sale of electricity was eliminated.

b. In October 2013, ESJ began the construction of the 155 MW first phase of the wind generation project, which is fully contracted by SDG&E and started operations in June 2015. The ESJ project is designed to provide up to 1,200 MW of capacity if fully developed. In June 2014, the ESJ wind project entered into a $240.0 million loan agreement to finance the construction project. The credit facilities mature on June 30, 2033.

   The loan agreement also provides for a $31.7 million letter of credit facility. ESJ also entered into a separate Mexican Peso denominated credit facility for up to $35.0 million U.S. Dollar equivalent to fund the VAT of the project. On December 23, 2015, ESJ repaid and canceled the total credit facility related to VAT. (Please refer to Note 10.2.)

c. In December 2016, the Company acquired 100 percent of the equity interests of Ventika's wind farm, located in the State of Nuevo Leon, approximately 56 km from the U.S. border. It is powered by 84 turbines, provides an aggregate of up to 252 MW of generating capacity, and is connected to CFE's transmission line. Ventika's location has one of the strongest wind resources in the country. It started operations in April 2016, and substantially all of Ventika's generation capacity is contracted to private companies through 20-year, U.S. Dollar-denominated, energy supply agreements.

1.3.3 Corporate segment

The Corporate Segment holds interests in the transportation, storage, distribution, and regassification, holds interest and is developing projects for power generation facilities in Mexico. The Company develops marine and in-land terminals for the reception, storage and delivery of refined products. Based on the significant investment and impact on the Liquids Terminals, the chief decision makers have decided to reclassify retrospectively the amounts as of December 31, 2017, included from Liquid Terminals in to the Corporate segment to the Gas segment, considering more appropriate to include operations and assets to this segment. The amounts of December 31, 2016, has not been restated as the investment and operation on terminals began during 2017. (Please refer to Note 28.).

a. IEnova Holdco, S. de R.L. de C.V. (formerly known as Sempra Servicios Energeticos, S. de R. L. de C. V.) is a holding company that invests in affiliated companies.

b. Fundacion IEnova, A. C., was established as a non-profit organization.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. STATEMENT OF COMPLIANCE

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

2.2. BASIS OF PREPARATION

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

a. ***Historical cost***

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

b. *Fair value*

Fair value ("FV") is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated Financial Statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, *Leases* and measurement that have some similarities for fair value but are not fair value, such as net realizable value in IAS 2, Inventories or value in use in IAS 36, *Impairment of assets*.

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

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

Comparative information
The Consolidated Financial Statements provide comparative information in respect of the previous period. In addition, the Company presents an additional information at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the Financial Statements. A additional information for the Segment disclosure as of December 31, 2017, is presented in these Consolidated Financial Statements due to the retrospective reclassification. (Please refer to Note 28.).

For cash flow reporting purposes, balances restricted cash now form part of the cash and cash equivalents. Accordingly, changes in restricted cash in 2017 and 2016 are no longer reported as cash flows from investing activities.

2.3. CONSOLIDATION OF FINANCIAL STATEMENTS

2.3.1. Basis of consolidation

The Consolidated Financial Statements of IEnova incorporate the Financial Statements of all entities where it maintains control (its subsidiaries). Control is achieved when the Company

i. Has power over the investee;
ii. Is exposed, or has rights, to variable returns from its involvement with the investee; and
iii. Has the ability to use its power to affect its returns.

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

i. The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
ii. Potential voting rights held by the Company, other vote holders or other parties;
iii. Rights arising from other contractual arrangements; and
iv. Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Profit and Other Comprehensive Income ("OCI") from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

All intercompany transactions, assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

IEnova's equity ownership in subsidiaries for the year ended December 31, 2018 is as follows:

COMPANY	OWNERSHIP PERCENTAGE 2018
GAS SEGMENT:	
Ecogas Mexico, S. de R. L. de C. V.	100.00
PE International Canada, S. de R. L. de C. V. ("merged in 2018 with IEnova Holdco, S. de R. L. de C. V. ")	100.00
Servicios DGN de Chihuahua, S. A. de C. V.	100.00
IEnova Gasoductos Mexico, S. de R. L. de C. V.	100.00
Gasoducto de Aguaprieta, S. de R. L. de C. V.	100.00
IEnova Gasoductos Holding, S. de R. L. de C. V.	100.00
Energia Costa Azul, S. de R. L. de C. V.	100.00
IEnova Marketing, S. de R. L. de C. V.	100.00
Ductos e Insfraestructura Marina, S. de R. L. de C. V.	100.00
IEnova Gas, S. de R. L. de C. V.	100.00
IEnova Pipelines, S. de R. L. de C. V.	100.00
Gasoductos de Tamaulipas, S. de R. L. de C. V.	100.00
Gasoductos del Noreste, S. de R. L. de C. V.	100.00
Transportadora del Norte SH, S. de R. L. de C. V.	100.00
TDF, S. de R. L. de C. V.	100.00
Ductos y Energeticos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos del Sureste, S. de R. L. de C. V.	100.00
Gasoductos Servicios Subholding, S. de R. L. de C. V.	100.00
Gasoductos Ingenieria, S. de R. L. de C. V.	100.00

COMPANY	OWNERSHIP PERCENTAGE 2018
Gasoductos Servicios Corporativos, S. de R. L. de C. V.	100.00
Gasoductos Servicios Corporativos y de Administracion, S. de R. L. de C. V.	100.00
Ductos y Energeticos del Norte, S. de R. L. de C. V.	100.00
IEnova Infraestructura Marina Holding, B. V.	100.00
IEnova Petroleum Liquids Holding, B. V.	100.00
IEnova Gasoductos Holding, LLC	100.00
Sempra Ecogas Holdings, LLC	100.00
IEnova Petroliferos Holdings, S. de R. L. de C. V.	100.00
IEnova Petroliferos III, S. de R. L. de C. V.	100.00
IEnova Petroliferos IV, S. de R. L. de C. V.	100.00
IEnova Petroliferos V, S. de R.L. de C. V.	100.00
IEnova Petroliferos VI, S. de R.L. de C. V.	100.00
ECA Liquefaction, S. de R. L. de C. V.	100.00
Servicios Energia Costa Azul, S. de R. L. de C. V.	100.00
ICM Ventures Holding, B. V.	51.00
TP Terminals, S. de R. L. de C.V.	51.00
ECA Minority, S. de R. L. de C. V.	100.00
ECA LNG Holdings, B. V.	50.00
ESJ Renovable III, S. de R. L. de C. V.	100.00
POWER SEGMENT:	
Termoelectrica de Mexicali, S. de R. L. de C. V. and Subsidiaries	100.00
Termoelectrica U.S., LLC	100.00
Servicios Termoelectrica de Mexicali, S. de R. L. de C. V.	100.00
Controladora Sierra Juarez, S. de R. L. de C. V.	100.00
IEnova Ventika Holding, B. V.	100.00
IEnova Ventika Holding II, B. V.	100.00
IEnova Ventika Mexico, S. de R. L. de C. V.	100.00
IEnova Ventika Mexico II, S. de R. L. de C. V.	100.00
Ventika, S. A. P. I. de C. V.	100.00
Ventika II, S. A. P. I. de C. V.	100.00
ESJ Renovable I, S. de R. L. de C. V.	90.00
ESJ Renovable II, S. de R. L. de C. V.	100.00
Ventika Energy B. V. (formerly known as IEnova Renewable Holding I, B. V.)	100.00
IEnova Renewable Holding II, B. V.	100.00
Energia Sierra Juarez 2, U. S., LLC	100.00
Energia Sierra Juarez 2, S. de R. L. de C. V.	100.00
Energia Sierra Juarez Holding, S. de R. L. de C. V.	100.00
ESJ Energy, B.V.	100.00
Central Fotovoltáica Border Solar Norte, S. A. de C.V.	100.00
Don Diego Solar Netherlands, B. V.	100.00
Don Diego Solar Holding, S. de R. L. de C. V.	100.00
Don Diego Solar, S. A. P. I. de C. V.	100.00
IEnova Suministro Calificado, S. de R. L. de C. V.(formerly known as BC Transmision, S. de R. L. de C. V.)	100.00
CORPORATE SEGMENT:	
IEnova Holdco, S. de R. L. de C. V. (formerly known as Sempra Servicios Energeticos, S. de R. L. de C. V.)	100.00
Fundacion IEnova, A. C.	100.00
Inmobiliaria IEnova, S. de R. L. de C. V.	100.00

2.4. CLASSIFICATION OF COSTS AND EXPENSES

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

2.5. CASH AND CASH EQUIVALENTS

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

2.6. RESTRICTED CASH

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

2.7. SHORT-TERM INVESTMENTS

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

2.8. NATURAL GAS INVENTORIES

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

2.9. LEASING

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

2.9.1. The Company as lessor

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

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2.9.2. Company as lessee

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

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

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

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

2.10. Investments in joint ventures

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

The results, assets and liabilities of the joint venture are incorporated in these Consolidated Financial Statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*. Under the equity method, an investment in a joint venture is initially recognized in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and OCI of the joint venture.

When the Company's share of losses of a joint venture exceeds the Company's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint venture), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit in the year in which the investment is acquired.

The requirements of IFRS 9, *Financial instruments:* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, *Impairment of Assets*, as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Company retains an interest in the former joint venture and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Company accounts for all amounts previously recognized in OCI in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in OCI by that joint venture would be reclassified to profit on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit (as a reclassification adjustment) when the equity method is discontinued.

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

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

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

2.11. Business combination and assets acquisition

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

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

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

i. Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 *Employee Benefits*, respectively,
ii. Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit.

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

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

When a transaction or other event does not meet the definition of a business combination due to the asset or group of assets not meeting the definition of a business, it is termed an "asset acquisition". In such circumstances, the acquirer:

i. Identifies and recognizes the individual identifiable assets acquired and liabilities assumed; and,
ii. Allocates the cost of the group of assets and liabilities to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

In addition, in an asset acquisition, the acquirer generally capitalizes transaction costs as part of the cost of the assets acquired, applies the exception to recognition of deferred taxes arising upon the initial recognition of assets and liabilities, and, does not recognize contingent liabilities.

2.12. Goodwill

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

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

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

2.13. Carbon allowances

The Company has elected to account for carbon allowances, or emission allowances, ("CAs") under the inventory model, whereby CAs are measured at a weighted-average cost. CAs allocated by a regulatory body will have a zero cost basis, CAs purchased at auction or from other market participants are recorded at their purchase price, and CAs acquired when the Company elects to physically settle carbon futures are recorded based on the settlement price. The weighted-average cost of CAs consumed (i.e., carbon emitted while power is generated) is charged to cost of revenue of each reporting period. The CAs' carrying value is evaluated under the "lower of cost or net realizable value" approach. The CAs inventory is classified as other current assets or other non-current assets if it is expected to surrender the inventory within the term greater than one year beginning at the Consolidated Statements of Financial Position date. The CAs' cash inflows and outflows are classified as an operating activity in the Consolidated Statements of Cash Flows. (Please refer Note 21).

2.14. Property, plant and equipment

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

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

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

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

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

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

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

2.15. Intangible assets

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

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

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

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

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

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

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

A discontinued operation is a component of a company that either has been disposed of or is classified as held for sale and represents (or is part of a single coordinated plan to dispose of) a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

A discontinued operation is presented as a single amount in the Consolidated Statements of Profit comprising the total of post-tax profit or loss of discontinued operations and gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets constituting the discontinued operation.

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

i. Its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale; and
ii. Its recoverable amount at the date of the subsequent decision not to sell or distribute.

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

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

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

2.18. Borrowing costs

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

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

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

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

2.19. Employee benefits

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

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

For defined benefit retirement plans, which include pension plans as well as its seniority premium benefits, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

Remeasurement comprising actuarial gains and losses and the effect of the changes on the floor of the asset (if applicable), are immediately recognized in the Consolidated Statement of Financial Position charged to the credit recognized in the Consolidated Statements of Profit and OCI in the period in which they occur.

Remeasurement recognized in OCI is reflected immediately in retained earnings and will not be reclassified to profit or loss. The Company presents service costs within administrative and other expenses in the Consolidated Statements of Profit. The Company presents net interest cost within finance costs in the Consolidated Statements of Profit. The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the present value of the defined benefit obligation as of the end of each reporting year.

2.19.1 BShort-term and other long-term employee benefits and statutory employee profit sharing ("PTU")

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

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

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

2.19.2 Statutory employee profit sharing

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

As result of the 2014 Income Tax Law, as of December 31, 2018, 2017 and 2016, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

2.20. Provisions

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

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

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

2.21. Financial instruments

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

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

2.21.1 Amortized cost

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

The effective interest method is a method of calculating the amortized cost of a debt instrument or financial liability and of allocating interest income or expense over the relevant period.

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

2.21.2 Fair value

Fair value is defined in Note 2.2.b.

2.22. Financial assets

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

2.22.1. Amortized cost /effective interest rate method

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

2.22.2.Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

2.22.3 Held-to-maturity investments

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

2.22.4. Loans and receivables

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

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

2.22.5. Impairment of financial assets

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

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

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

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

2.22.6. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

For changes related to the adoption of IFRS 9 and IFRS 7, refer to notes 38 and 24.9, respectively.

2.23. Financial liabilities and equity instruments

2.23.1. Classification as debt or equity

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

2.23.2. Equity instruments

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

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

2.23.3. Financial liabilities

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

2.23.3.1. Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

2.23.3.2. Other financial liabilities

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

2.23.3.3. Derecognition of financial liabilities

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

2.24. Derivative financial instruments

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

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

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

2.24.1. Embedded derivatives

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

2.24.2. Own use exemption

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

2.25. Hedge accounting

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

For its hedging instruments, the Company documents the relationship between the hedging instrument and the hedged item at the inception of the hedge relationship, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

2.25.1. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in Consolidated Statements of Profit.

Amounts previously recognized in OCI and accumulated in equity are reclassified to profit in the years when the hedged item is recognized in profit, in the same line of the Consolidated Statements of Profit as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in OCI and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit.

2.25.2. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the profit or loss consolidated statements of related to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2.26. Taxation

Income Tax expense represents the sum of the current and deferred tax.

2.26.1. Current tax

Current income tax is recognized in the results of the year in which it is incurred.

2.26.2. Deferred taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.26.3. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.26.4. Tax on assets

The assets tax (“IMPAC”) expected to be recoverable is recorded as a tax credit and is presented in the balance sheet in the income taxes receivable line item.

2.27. Revenue recognition

The Company has initially applied IFRS 15 from 1 January 2018. Information about the Company’s accounting policies relating to contracts with customers is provided in Note 29. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 29.

2.27.1. Sale of goods

Revenue from the sale of goods are recognized over the time when the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.

Management considered practical expedient which allows companies to recognize revenues based on amount invoiced to the customer when the amount of the invoice corresponds directly with the value transferred.

The following revenue streams related to the sale of goods are recognized in accordance with the previous accounting policy :as disclosed in more detail below:

i. Sales of natural gas and the related costs are recognized upon the transfer of title, which coincides with the physical delivery of natural gas to customers; and,
ii. Power generation on revenues are recognized when generated power is

2.27.2. Rendering of services

Under IFRS 15 revenue is recognized upon the satisfaction of an entity's performance obligation which occurred when contract service transfers to the costumer at a point in time or over time.

The main services are consumed simultaneously therefore the performance obligation is eligible for recognition over the time.

Management considered practical expedient which allows companies to recognize revenues based on amount invoiced to the customer when the amount of the invoice corresponds directly with the value transferred.

The following revenue streams related to the rendering of services are recognized in accordance with the previous accounting policy as disclosed in more detail below:

i. Storage and regasification capacity are recognized based on reservation and usage fees under terminal capacity agreements and nitrogen injection service agreements;
ii. Revenues and related costs and expenses from gas distribution and transportation are recognized when the distribution or transportation services are rendered;
iii. Revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for natural gas; and,
iv. Revenues and costs related to administrative and other services are recognized when such services are rendered according to the related service contracts.

2.27.3. Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset´s net carrying amount on initial recognition.

2.27.4. Rental income

The Company's policy for recognition of revenue from finance leases is described in Note 2.9.1.

2.28. Foreign currencies

The Company's functional currency is the U. S. Dollar, except for ECO, PEI and SDGN in its Gas segment, and Fundacion IEnova in the corporate segment, which is the Mexican Peso.

In preparing the Consolidated Financial Statements of each individual subsidiary of the Company, transactions in currencies other than the subsidiaries functional currency (U. S. Dollar or Mexican Peso) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

i. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
ii. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in OCI and reclassified from equity to profit on repayment of the monetary items.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Company's subsidiaries with Mexican peso functional currency are translated into U. S. Dollars (the Company's reporting currency) using exchange rates prevailing at the end of each reporting period. Profit amounts are translated at the rate of the transaction date, unless there are significant currency fluctuations during the period, in which case the exchange rates at the dates of the transactions are used.Exchange differences arising, if any, are recognized in other items of comprehensive income and accumulated in equity.

On the disposal of an operation with a Mexican Peso functional currency all of the exchange differences accumulated in equity related to the disposed operation that are attributable to the owners of the Company are reclassified to profit.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

3.1. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments, apart from those involving estimations (see Note 3.2 below), that Company's management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the Consolidated Financial Statements.

3.1.1. Finance leases

Management has determined that certain arrangements should be accounted for as a finance lease as the present value of the minimum lease payments at inception date of the arrangement amounted to substantially all of the fair value of the compression station as of such date. Details of the finance lease asset are included in Note 8.

3.1.2. Regulatory accounting

Rate regulation is the setting, by regulatory bodies or governments of prices that can be charged to customers for services or products through regulations, often where a company has a monopoly or dominant market position that gives it significant market power.

As of December 31, 2018, 2017 and 2016, there is no explicit guidance under IFRS regarding whether entities operating in rate-regulated environments should recognize assets and liabilities arising from the effects of rate regulation. Generally Accepted Accounting Principles in the U.S. ("U.S. GAAP") provide specific guidance on this matter.

The IFRS Interpretations Committee ("IFRIC") has previously commented that the U.S. GAAP recognition criteria pertaining to rate-regulated accounting are not consistent with IFRS. The IASB, issued IFRS 14, *Regulatory deferral accounts* on January 30, 2014, as a part of its project on this matter, however, such standard is not applicable to the Company as it is not a first-time adopter of IFRS. As a result, the Company does not recognize rate-regulated assets or liabilities in its Consolidated Financial Statements. Management will continue to monitor the status of future deliberations by the IASB and IFRIC as it relates to this matter and its potential impact on the Company's Consolidated Financial Statements.

3.1.3. Contingencies

The Company accrues losses for the estimated impacts of various matters, situations or circumstances involving uncertain outcomes. For loss contingencies, the Company accrues for the loss if an event has occurred on or before the date of the Consolidated Statements of Financial Position. The Company does not accrue contingencies that might result in gains. The Company continuously assesses contingencies for litigation claims, environmental remediation and other events.

3.1.4. Own use exemption

IAS 39 contains a scope exemption from derivative accounting treatment for physical delivery contracts of a non-financial item for an entity's own use. The scope exemption is meant to apply to ordinary physical supply arrangements. However, the standard also seeks to identify contracts which are not used for operational purposes as derivative instruments.

If a non-financial item can be settled net either in cash or another financial instrument, or by exchange of financial instruments, it must be accounted for as a financial instrument.

There are various ways in which a contract can be settled net. Management applies judgment in assessing whether, among others, past practices of net settling similar contracts or of taking delivery and selling the item within a short period; or, the commodity is readily convertible to cash, would lead to net settlement.

Management analyzes each of its physical delivery contracts of nonfinancial items for determining if they are within the own use exemption from derivative accounting treatment.

3.1.5. Determining whether an arrangement contains a lease

The Company evaluates if an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a series of payments should be accounted for as a lease. The Company's management uses its judgment to determine, whether, based on facts and circumstances existing at the inception of the contract, it is remote that parties other than the purchaser will take more than an insignificant amount of the output of the related asset.

3.1.6. Classification of its joint arrangements

Interests in associates and the joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profits and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

3.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities presented in the Company's Consolidated Statements of Financial Position.

3.2.1. Estimated useful lives of property, plant and equipment

As described in Note 2.14., the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Please refer to Note 14.1. for useful lives of property, plant and equipment.

3.2.2. Impairment of long-lived assets (goodwill)

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Impairment testing is performed on an annual basis.

3.2.3. Asset decommissioning obligation

The estimated cost of decommissioning at the end of the useful lives of the Company's long-lived assets is reviewed periodically and is based on estimates at the date of the Consolidated Statements of Financial Position of the present value of future costs expected to be incurred when assets are retired from service as required by law or per its contractual obligations. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the long-lived assets, but are currently anticipated to be between 25 to 50 years. The Company uses its long-term "borrowing cost" rate as the discount rate for calculating its provision related to its decommissioning liabilities, which is the 30-year borrowing cost for companies in its industry with similar credit ratings, as measured by Bloomberg.

3.2.4. Valuation of financial instruments (fair value measurement)

The Company uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Please refer to Note 24. for detailed information about the key assumptions used in the determination of the fair value of financial instruments.

The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

3.2.5. Allowance for doubtful accounts (expected losses)

The methodology for determining the allowance for doubtful accounts on trade and other receivables is set out in Note 5. The estimates and assumptions used to determine the allowance are reviewed periodically. Although the expected loss recognized is considered appropriate, changes in economic conditions could lead to changes in the allowance and, therefore, impact profit.

3.2.6. Recoverability of deferred tax assets

As mentioned in Note 25., the Company has accumulated tax loss carryforward benefits, for which an evaluation of recoverability is performed on an annual basis.

The use of estimates and assumptions are particularly important in the recognition of deferred income tax assets.

3.2.7. Measurement of defined benefit obligations: key actuarial assumptions

As described in Note 17., the Company uses actuarial valuations that include inputs that are based on published statistic and mortality tables. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the benefit obligations.

3.2.8. Key sources of estimation uncertainty for IEnova Pipelines

Selected Valuation Methodology.
IEnova Pipelines is a regulated business that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

3.2.9 Key sources of estimation uncertainty for Ventika

Selected Valuation Methodology.
Based on the nature of the power facility and generally accepted industry practice, the Company relied on the Income Approach, specifically the Discounted Cash Flow ("DCF") method.

Associated intangibles such as rights of way / easements are embedded in the value of the property plant and equipment.

While the Cost Approach was not relied upon to derive the fair value estimate, provided the Income Approach being the preferred approach to valuing an operational wind power facility, it was considered for corroboratory purposes in relation to the fair value estimate derived utilizing the Income Approach. It is noted that the derived fair value estimate embeds a developer margin (i.e., margin above the cost to develop/ construct the power project) that is within the reasonable range of developer margins expected for this type of power facility and at the stage of development associated with Ventika (i.e., recently entering commercial operation).

In addition to what is described above, the Company used different estimates relating to operating statistics, revenues, operating expenses and cash flow items.

4. CASH AND CASH EQUIVALENTS

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash, banks and investments in instruments in the money market funds, net of bank overdrafts.

Cash and cash equivalents at end of year as shown in the Consolidated Statements of Cash Flows can be reconciled to the related items in the Consolidated Statements of Financial Position as follows:

	AS OF		
	12/31/18	12/31/17	12/31/16
Cash and cash equivalents	$ 51,681	$ 37,208	$ 24,918

The Company maintained restricted cash , as a current asset and non current asset $26.3 million wich $2.9 millions are presented in non cuarrent asstes, $55.8 million and $51.4 million as of December 31, 2018, 2017and 2016, respectively, to make payments of certain operating costs for the execution of projects.

5. TRADE AND OTHER RECEIVABLES, NET

	AS OF		
	12/31/18	12/31/17	12/31/16
Trade receivables	$ 146,273	$ 93,299	$ 90,523
Allowance for doubtful accounts (a)	(40)	(41)	(101)
	146,233	93,258	90,422
Other receivables	7,416	1,535	10,464
	$ 153,649	$ 94,793	$ 100,886

(a) For the Gas segment, ECO, has recognized an allowance for doubtful accounts of 80 percent against all receivables outstanding between 180 and 269 days and 100 percent against all receivables outstanding over 270 days, based on historical experience.

The Company revised methodology based on IFRS 9: Expected losses and compared versus the amount determined under the described methodology and the amount recorded is appropriate.

Allowances for doubtful accounts are recognized against trade receivables for customers whose outstanding balances are outstanding between 30 and 179 days when such receivables are estimated not to be recoverable based on an analysis of the customers' financial position.

For all the other companies within the Gas segment and for the Power segment, the average credit period on trade receivables is 30 days.

Trade receivables disclosed above include amounts (see below for aging analysis) that are past due at the end of the reporting year for which the Company has not recognized an allowance for doubtful debts because the amounts are still considered recoverable.

5.1. AGE OF RECEIVABLES THAT ARE PAST DUE BUT NOT IMPAIRED

	AS OF		
	12/31/18	12/31/17	12/31/16
31-120 days	$ 33	$ 61	$ 35
121-180 days	18	21	7
181-270 days	11	5	3
Total	$ 62	$ 87	$ 45
Average age (days)	41	29	30

5.2. MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL ACCOUNTS

	AS OF		
	12/31/18	12/31/17	12/31/16
Balance as of beginning of the year	$ (41)	$ (101)	$ (147)
Impairment losses recognized on receivables	(69)	(90)	(46)
Amounts written off during the year as uncollectible	66	152	65
Foreign exchange translation gain (loss)	4	(2)	27
Balance as of end of the year	$ (40)	$ (41)	$ (101)

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. See Note 24.9. for more details of the Company's credit risk management and concentration of credit risk assessment.

5.3. AGE OF IMPAIRED TRADE RECEIVABLES

	AS OF		
	12/31/18	12/31/17	12/31/16
181-270 days	$ (14)	$ (20)	$ (10)
Over 270 days	(26)	(21)	(91)
Total	$ (40)	$ (41)	$ (101)

6. TRANSACTION AND BALANCES WITH UNCONSOLIDATED AFFILIATES

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

6.1 TRANSACTIONS AND BALANCES WITH UNCONSOLIDATED AFFILIATES

During the years ended December 31, 2018, 2017 and 2016, the Company entered into the following transactions with unconsolidated affiliates as part of ongoing operations:

	REVENUES YEAR ENDED		
	12/31/18	12/31/17	12/31/16
Sempra Gas & Power Marketing, LLC ("SG&PM")	$ 226,004	$ 140,914	$ 62
Sempra LNG International Holdings, LLC ("SLNGIH")	59,588	103,043	101,998
SLNGI	38,847	–	–
TAG Pipelines Norte	23,357	1,766	–
Sempra International, LLC ("Sempra International")	1,763	1,844	1,746
Servicios ESJ, S. de R. L. de C. V. ("SESJ")	1,215	1,072	1,243
Southern California Gas Company ("SoCalGas")	731	231	12
Sempra LNG ECA Liquefaction, LLC ("SLNGEL")	81	217	2,026
ESJ	7	–	94
DEN	–	6,761	–
SGEN	–	–	101,130

	COST OF REVENUE, ADMINISTRATIVE AND OTHER EXPENSES YEAR ENDED		
	12/31/18	12/31/17	12/31/16
SLNGI	$ 230,510	$ 207,505	$ 178,145
SG&PM	139,565	88,144	4,124
Sempra International	8,509	7,250	8,301
Sempra Infrastructure, LLC. (formerly Sempra U.S. Gas & Power, LLC "USGP")	5,430	6,936	6,930
SoCalGas	2,026	1,258	1,450
Pacific Enterprises International INC ("PEI INC")	366	–	–
Sempra Energy Holdings, XI. B. V. ("SEH")	131	–	–
Sempra Midstream, Inc. ("Sempra Midstream")	–	492	688
SGEN	–	–	25,335

Included in the operational transactions are administrative services from affiliates by $8.5 million, $7.3 million and $8.3 million for the years ended December 31, 2018, 2017 and 2016, respectively, which were collected and paid, and have been properly distributed to the segments incurring those costs.

	INTEREST INCOME YEAR ENDED		
	12/31/18	12/31/17	12/31/16
IMG	$ 61,581	$ 17,211	$ –
ESJ	401	775	1,122
SEG	75	180	24
DEN	–	3,665	4,082

	Finance costs year ended		
	12/31/18	12/31/17	12/31/16
Inversiones Sempra Limitada ("ISL")	$ 9,315	$ 3,491	$ 534
Peruvian Opportunity Company, S. A. C. ("POC")	2,941	944	4
SEH	2,310	937	1,236
TAG Pipelines Norte	1,651	50	–
Sempra Oil Trading Suisse ("SOT Suisse")	1,321	1,265	1,363
Sempra Energy International Holdings, N. V. ("SEI NV")	209	–	–
Inversiones Sempra Latin America Limitada ("ISLA")	–	1,174	1,618
SEG (i)	–	332	831
DEN	–	143	46
SEMCO (ii)	–	–	364

i. On September 26, 2016, IEnova entered into a $800.0 million of U.S. Dollar-denominated loan with SEG, to finance IEnova Pipelines acquisition. The agreement was for two-month term. Interest is payable on a monthly basis at LIBOR plus 110 Basis Points ("BPS") of outstanding balances. In October 2016, with the proceeds from the Global Offering, the Company repaid this loan including the corresponding interests.

ii. On September 26, 2016, IEnova entered into a $350.0 million of loan with SEMCO, to finance IEnova Pipelines acquisition. The agreement was for two-month term. Interest was payable on a monthly basis at LIBOR plus 110 BPS of outstanding balances.

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

	Amounts due from unconsolidated affiliates as of		
	12/31/18	12/31/17	12/31/16
SG&PM	$ 40,600	$ 10,723	$ –
TAG Pipelines Norte	2,234	4,289	–
PEI INC	1,803	–	–
SESJ	346	371	174
SoCalGas	60	21	–
SLNGIH	–	9,162	6,456
SLNGEL	–	34	53
DEN	–	–	5,754
ESJ	–	–	539
	$ 45,043	$ 24,600	$ 12,976

	Amounts due to unconsolidated affiliates as of		
	12/31/18	12/31/17	12/31/16
ISL (iii)	$ 165,768	$ 275,188	$ 30,025
POC (iv)	102,000	102,020	20,004
SG&PM	23,412	17,525	491
SLNGI	18,795	16,360	11,135
PEI INC	390	–	–
SoCalGas	199	98	120
Sempra International	122	226	582
SEH (v)	10	132,800	–
ISLA (iii)	–	–	160,091
SOT Suisse (vi)	–	–	38,460
Sempra Midstream	–	–	6
	$ 310,696	$ 544,217	$ 260,914

iii. On March 2, 2015, IEnova entered into a $90.0 million and a $30.0 million U.S. Dollar-denominated credit facilities with ISLA and ISL, respectively, to finance working capital and for general corporate purposes. The agreements are nine-month term, with an option to be extended for up to four years. Interest is payable on a quarterly basis a rate of 1.98 percent per annum of outstanding balances.

In December 2016, the Company signed addendums modifying the initial contracts and the new characteristics are: the term was extended and was due and payable in full on December 15, 2017. The applicable interest shall be computed and paid on a quarterly basis at the rate of 1.75 percent per annum.

On December 27, 2016, IEnova entered into a $70.0 million U.S. Dollar-denominated affiliate revolving credit facility with ISLA, to finance working capital and for general corporate purposes. The credit facility has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at a rate of 1.75 percent per annum. Interest shall be paid on the last day of each calendar quarter.

On March 21, 2017, IEnova entered into an $85.0 million U.S. Dollar-denominated affiliate credit facility with ISL, to finance working capital and for general corporate purposes. The credit is a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 60 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

Effective June 1, 2017, ISLA was merged with and into ISL which is the surviving entity in the merger, the agreements conditions between ISL and IEnova remain the same.

On December 15, 2017, the Company signed addendums modifying the contracts terms over the $90.0 million, $30.0 million and $70.0 million U.S. Dollar-denominated credit facilities with ISL and the new conditions are: the term was extended and are due and payable in full on December 15, 2018, the interest rate applicable shall be computed on a calendar quarter basis at three-month LIBOR plus 63 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

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

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

On November 30, 2018, the Company made a payment to ISL for $179.2 million, the loans for $90.0 million and $70.0 million was paid in full and the loan for $30.0 million was partially paid leaving a balance to pay $165.8 million.

On December 15, 2018, the Company signed an addendum modifying the contract's terms over the $30.0 million and $70.0 million U.S. Dollar-denominated credit facilities with ISL and the new conditions are: the term was extended and is due and payable in full on December 15, 2019, the interest rate applicable shall be computed on a calendar quarter basis at three-month LIBOR plus 1.024 percent per annum. Interest shall be paid on the last day of each calendar quarter.

iv. On December 27, 2016, IEnova entered into a $20.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest on the outstanding balance is payable on a quarterly basis at rate of 1.75 percent per annum.

On April 27, 2017, IEnova entered into a $19.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend for up to four years. Interest on the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 60 BPS per annum.

On June 26, 2017, IEnova entered into a $21.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 70 BPS per annum. On June 26, 2018, IEnova signed an addendum modifying the contract term to December 15, 2018.

On September 29, 2017, IEnova entered into a $21.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend it for up to four years. Interest of the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 70 BPS per annum. On September 28, 2018, IEnova signed an addendum modifying the contract term to December 15, 2018.

On December 15, 2017, the Company signed an addendum modifying the contract term over the $20.0 million U.S. Dollar-denominated revolving credit facilities with POC and the new characteristics are: the term was extended and are due and payable in full on December 15, 2018, the interest rate applicable shall be computed on a calendar quarter basis at three-month LIBOR plus 63 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

On December 28, 2017, IEnova entered into a $21.0 million U.S. Dollar-denominated affiliate revolving credit facility with POC, to finance working capital and general corporate purposes. The credit has a twelve-month term, with an option to extend for up to four years. Interest on the outstanding balance is payable on a quarterly basis at three-month LIBOR plus 63 BPS per annum.

On December 15, 2018, the Company signed an addendum modifying the following contracts:

- $20.0 million (originally issued on December, 27, 2016)
- $19.0 million (originally issued on April 27, 2017)
- $21.0 million (originally issued on June 26, 2017)
- $21.0 million (originally issued on September, 29, 2017)
- $21.0 million (originally issued on December, 28, 2017)

The new conditions of the contract in relation to $102.0 million U.S. Dollar-denominated credit facilities with POC are: the term was extended and is due and payable in full on December 15, 2019, the interest rate applicable shall be computed on a calendar quarter basis at three-month LIBOR plus 90 BPS per annum. Interest shall be paid on the last day of each calendar quarter.

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

On February 6, 2018, IEnova signed an addendum modifying the contract term to August 22, 2018. In August 2018, the outstanding balance of $132.8 million was paid in full by the Company.

vi. During 2018, 2017 and 2016, related to the loan with SOT Suisse, the Company paid interest in the amount of $1.2 million, $1.3 million and $1.4 million, respectively. The loan bears variable interest based on U. S. Treasury mid-term applicable federal rate plus 200 BPS (an average annual rate of 3.99 percent, 3.29 percent and 3.58 percent in 2018, 2017 and 2016, respectively).

Transactions with unconsolidated affiliates during 2018, 2017 and 2016, have been carried out in accordance with applicable transfer pricing requirements, as of December 31, 2018, and as of the date of this report, the nature and amount of transactions are consistent with previous years. The amounts outstanding are unsecured and will be settled in cash.

No guarantees have been given nor received. No expenses have been recognized in the current or prior periods for bad or doubtful debts regarding the amounts owed by unconsolidated affiliates.

6.2 LOANS TO UNCONSOLIDATED AFFILIATES

	AS OF		
	12/31/18	12/31/17	12/31/16
IMG (i)	$ 640,775	$ 487,187	$ –
ESJ	3,411	6,700	14,307
SEG	2,111	–	–
DEN	–	–	90,045
	$ 646,297	$ 493,887	$ 104,352

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

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

As of December 31, 2018, the outstanding balance amounts $12,612.3 million Mexican Pesos, including $1,457.6 million Mexican Pesos of accrued interest.

6.3 LOANS FROM UNCONSOLIDATED AFFILIATES

	AS OF		
	12/31/18	12/31/17	12/31/16
SEI NV (i)	$ 38,460	$ –	$ –
TAG Pipelines Norte (ii)	36,701	35,050	–
SOT Suisse (i)*	–	38,460	–
DEN	–	–	3,080
	$ 75,161	$ 73,510	$ 3,080

* This amount was reclassified in 2016 to current liabilities.

i. On March 17, 2017, IEnova entered into an amended agreement with SOT Suisse in order to extend the loan to seven years. The interest is payable on an annually basis at three-month LIBOR plus 180 BPS.

   On November 9, 2018, the contract signed between the Company and SOT Suisse was transferred to SEI NV with no modifications in the original terms and conditions except for the modification in interest rate of three-month LIBOR plus 137 BPS per annum. The credit matures on March 17, 2024.

ii. On December 19, 2017, DEN entered into a $35.0 million U.S. Dollar-denominated affiliate credit facility with TAG, to finance working capital and general business purposes. The credit facility has a four years term. Interest on the outstanding balance is payable on a quarterly basis at six-month LIBOR plus 290 BPS per annum.

6.4 COMPENSATION OF KEY MANAGEMENT PERSONNEL

Total compensation paid to key management personal was $13.5 million, $10.3 million and $5.0 million, for the years ended December 31, 2018, 2017 and 2016, respectively.

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

7. NATURAL GAS INVENTORIES

	AS OF		
	12/31/18	12/31/17	12/31/16
Liquefied natural gas	$ 3,516	$ 7,196	$ 6,083

The cost of inventories recognized within cost of revenues were $222.0 millions, $194.0 millions and $164.4 millions for the years ended December 31, 2018, 2017 and 2016, respectively.

For the years ended December 31, 2018, 2017 and 2016, no cost of revenue was recognized, due to write-downs of inventory to net realizable value.

8. FINANCE LEASE RECEIVABLES

8.1. FINANCE LEASE RECEIVABLES - NATURAL GAS COMPRESSION PLANT

	AS OF		
	12/31/18	12/31/17	12/31/16
Current finance lease receivables	$ 433	$ 308	$ 219
Non-current finance lease receivables	13,394	13,827	14,135
	$ 13,827	$ 14,135	$ 14,354

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

8.1.1. Amounts receivables under finance leases

	MINIMUM LEASE PAYMENTS AS OF			PRESENT VALUE OF MINIMUM LEASE PAYMENTS AS OF		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Not later than one year	$ 5,136	$ 5,136	$ 5,136	$ 433	$ 308	$ 219
Later than one year and not later than five years	20,544	21,828	22,458	4,348	3,464	3,403
More than five years	14,123	17,975	24,395	9,046	10,363	10,732
	39,803	44,939	51,989	13,827	14,135	14,354
Less: unearned finance income	(25,976)	(30,804)	(37,635)	n/a	n/a	n/a
Present value of minimum lease payments receivable	$ 13,827	$ 14,135	$ 14,354	$ 13,827	$ 14,135	$ 14,354

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

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

The average effective interest rate contracted is approximately 34.5 percent per annum for 2018, 2017 and 2016. The receivable under finance lease balance as of December 31, 2018, 2017 and 2016, is neither past due nor impaired.

8.2. FINANCE LEASE RECEIVABLES – LOS RAMONES I PIPELINE

	AS OF		
	12/31/18	12/31/17	12/31/16
Current finance lease receivables	$ 4,517	$ 3,665	$ 3,383
Non- current finance lease receivables	562,888	567,405	571,070
	$ 567,405	$ 571,070	$ 574,453

Leasing arrangements.

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

8.2.1 Amounts receivables under finance leases

	MINIMUM LEASE PAYMENTS AS OF			PRESENT OF MINIMUM LEASE PAYMENTS AS OF		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Not later than one year	$ 86,470	$ 87,104	$ 87,639	$ 4,517	$ 3,665	$ 3,383
Later than one year and not later than five years	426,802	424,616	428,582	32,643	28,108	23,997
More than five years	812,855	901,512	984,650	530,245	539,297	547,071
	1,326,127	1,413,232	1,500,871	567,405	571,070	574,451
Less: unearned finance income	(758,722)	(842,162)	(926,418)	n/a	n/a	n/a
Present value of minimum lease payments receivable	$ 567,405	$ 571,070	$ 574,453	$ 567,405	$ 571,070	$ 574,451

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

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

The average effective interest rate contracted is approximately 15.2 percent per annum for 2018, 2017 and 2016. The receivable under finance lease balance as of December 31, 2018 ,2017 and 2016, is neither past due nor impaired.

8.3. FINANCE LEASE RECEIVABLES – ETHANE PIPELINE

	AS OFL		
	12/31/18	12/31/17	12/31/16
Current finance lease receivables	$ 4,859	$ 4,153	$ 3,553
Non-current finance lease receivables	356,093	360,952	365,106
	$ 360,952	$ 365,105	$ 368,659

Leasing arrangements.

The Company entered into a finance lease arrangement for its ethane pipeline. The lease is denominated in U. S. Dollars.

The transportation system refers to:

Segment I. Transports ethane from Ethylene Complex XXI Braskem-IDESA to Cangrejera (Veracruz), through a 20-inch and 4 km length pipeline. The term of the finance lease is 20.5 years.

Segment II. Transports ethane from Nuevo Pemex (Tabasco) to Cactus (Chiapas) through a 16-inch and 15 km length pipeline and from Cactus to the Ethylene XXI Complex Braskem-IDESA through a 24-inch and 133.5 km length pipeline. The term of the finance lease is 20.5 years.

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

The breakdown as of December 31, 2018, of this finance lease is as follows:

	AMOUNT
Segment I	$ 31,257
Segment II	183,814
Segment III	145,881
Total	$ 360,952

8.3.1 Amounts receivables under finance leases

	MINIMUM LEASE PAYMENTS AS OF			PRESENT OF MINIMUM LEASE PAYMENTS AS OF		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Not later than one year	$ 54,704	$ 55,393	$ 55,976	$ 4,859	$ 4,153	$ 3,553
Later than one year and not later than five years	258,766	264,235	268,951	38,948	33,512	28,779
More than five years	416,097	388,982	439,651	317,145	327,440	336,327
	729,567	708,610	764,578	360,952	365,105	368,659
Less: unearned finance income	(368,615)	(343,505)	(395,919)	n/a	n/a	n/a
Present value of minimum lease payments receivable	$ 360,952	$ 365,105	$ 368,659	$ 360,952	$ 365,105	$ 368,659

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

The average effective interest rate contracted is approximately 16.0 percent for segment I and 14.0 percent for segments II and III as of December 31, 2018, 2017 and 2016, respectively. The receivable under finance lease balance as of December 31, 2018, 2017 and 2016, is neither past due nor impaired.

9. OTHER ASSETS

	As of		
	12/31/18	12/31/17	12/31/16
Veracruz marine terminal initial bidding quota (Refer to Note 1.2.13.d)	$ 54,163	$ 28,179	$ –
Topolobampo marine terminal initial bidding quota (Refer to Note 1.2.13.h)	18,371	–	–
Rights of way	14,073	–	–
Prepayments	8,966	9,621	9,495
Contractual tariff	5,744	–	–
Standby letter credit Facility (LOCF) related costs	1,506	–	–
Pipeline interconnection rights	1,486	1,637	1,792
Prepaid land leases	547	526	839
Pipeline integrity system	468	593	–
IMPAC recoverable	–	1,455	1,698
Natural gas imbalance	–	974	320
	$ 105,324	$ 42,985	$ 14,144
Amortization expense (a)	$ (1,569)	$ –	$ –
	$ 103,755	$ 42,985	$ 14,144
Current	$ 9,695	$ 10,327	$ 9,289
Non-current	94,060	32,658	4,855
	$ 103,755	$ 42,985	$ 14,144

a. The amortization expense as of December 31, 2018, is for an amount of $1,504.0 million and $65.0 million related to Veracruz and Topolobampo marine terminals, respectively.

10. INVESTMENT IN JOINT VENTURES

10.1. IENOVA PIPELINES

Until September 26, 2016, the Company owned a 50 percent interest in IEnova Pipelines, a joint venture with Pemex TRI a Pemex subsidiary. IEnova Pipelines operates three natural gas pipelines, five natural gas compression stations, one LPG system and one ethane pipeline, in the states of Chiapas, Chihuahua, Nuevo Leon, Tabasco, Tamaulipas and Veracruz and one LPG storage facility in the state of Jalisco, Mexico.

Beginning September 27, 2016, the Company fully consolidates IEnova Pipelines. (Please refer to Note 11.1.).

10.2. ESJ

The joint venture formed between IEnova and Saavi Energia, started operations in June 2015. As of December 31, 2018, 2017 and 2016, the Company's remaining 50 percent interest in ESJ is accounted for under the equity method. ESJ's Consolidated Statements of Financial Position and the Company's equity method investment are summarized as follows:

	As ofl		
	12/31/18	12/31/17	12/31/16
Cash and cash equivalents	$ 1,695	$ 2,785	$ 9,601
Other assets	24,165	18,479	15,201
Current assets	25,860	21,264	24,802
Deferred income tax assets	2,849	4,778	5,413
Other assets	2,784	2,795	2,650
Property, plant and equipment, net	241,457	252,856	264,468
Non-current assets	247,090	260,429	272,531
Total assets	$ 272,950	$ 281,693	$ 297,333
Current liabilities	$ 16,673	$ 17,509	$ 17,777
Non-current liabilities	210,991	231,048	255,070
Total liabilities	$ 227,664	$ 248,557	$ 272,847
Total members' equity	$ 45,286	$ 33,136	$ 24,486
Share of members' equity	$ 22,643	$ 16,568	$ 12,243
Goodwill	12,121	12,121	12,121
Carrying amount of investment in ESJ	$ 34,764	$ 28,689	$ 24,364

ESJ's Consolidated Statements of Profit are as follows:

	Year ended		
	12/31/18	12/31/17	12/31/16
Revenues	$ 45,759	$ 46,570	$ 44,283
Operating, administrative and other expenses	(20,210)	(22,147)	(20,773)
Finance costs	(15,166)	(15,929)	(16,731)
Other gains, net	48	13	221
Income tax expense	(2,780)	(1,340)	(1,886)
Profit for the year	$ 7,651	$ 7,167	$ 5,114
Share of profit of ESJ	$ 3,825	$ 3,583	$ 2,557

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

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

YEARS	LIBOR APPLICABLE MARGIN
June 2015 – June 2019	2.375%
June 2019 – June 2023	2.625%
June 2023 – June 2027	2.875%
June 2027 – June 2031	3.125%
June 2031 – June 2033	3.375%

As per the financing agreement, the ability to make withdrawals ended on the term conversion date June 30, 2015. ESJ made total accumulated withdrawals from the credit facility in the amount of $239.8 million. The debt outstanding as of December 31, 2018, is as follows:

		DEBT BALANCE
Mizuho	$	46,256
SMBC		46,256
NORD/LB		46,256
NAFINSA		33,640
NADB		33,640
	$	206,048

b. *Interest rate swaps.* To partially mitigate its exposure to interest rate changes associated with the term loan, ESJ entered into floating-to-fixed interest rate swaps for 90 percent of the ESJ project financing loan amount.

There are three outstanding interest rate swaps with Mizuho, SMBC and NORD/LB, each one with a trade date of June 12, 2014, and an effective date of June 30, 2015, the date of conversion to a term loan. The terms of the interest rate swaps were constructed to match the critical terms of the interest payments. The swaps are accounted for as cash flow hedges.

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

10.3. IMG

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

As of December 31, 2018, 2017 and 2016, the Company's 40 percent interest in IMG is accounted for under the equity method. IMG's Consolidated Financial Statements and the Company's equity method investment are summarized as follows:

	AS OFL					
		12/31/18		12/31/17		12/31/16
Cash and cash equivalents	$	55,333	$	58,284	$	128,110
Accounts receivable		60,322		–		–
Value added tax receivable		51,371		195,350		12,264
Other assets		1		434		683
Total current assets		167,027		254,068		141,057
Total non-current assets		2,594,950		1,653,554		135,494
Total assets	$	2,761,977	$	1,907,622	$	276,551
Current liabilities	$	364,716	$	176,771	$	27,916
Long term debt		1,602,029		1,222,973		–
Deferred revenue		56,754		–		–
Deferred income tax liabilities		51,785		34,209		2,678
Total non-current liabilities		1,710,568		1,257,182		2,678
Total liabilities	$	2,075,284	$	1,433,953	$	30,594
Total members' equity	$	686,693	$	473,669	$	245,957
Share of members' equity		274,677		189,468		98,383
Guarantees		5,018		5,018		–
Remeasurement of interest rate (c)		(37,653)		–		–
Share of members' equity and carrying amount of investment in IMG	$	242,042	$	194,486	$	98,383

IMG's Consolidated Statements of (loss) profit are as follows:

	YEAR ENDED					
		12/31/18		12/31/17		12/31/16
Finance income (costs), net	$	7,582	$	78,082	$	(467)
Other gains (losses), net*		9,858		692		(1,646)
Income tax expense		(17,657)		(31,233)		(3,122)
(Loss) profit for the year	$	(217)	$	47,541	$	(5,235)
Share of (loss) profit of IMG	$	(87)	$	19,016	$	(2,094)

* Includes a foreign exchange impact mainly related to the Mexican Peso-denominated inter-affiliate loan granted by the Company and TransCanada to IMG for the proportionate share of the project financing. In the Consolidated Statements of Profit, in the "Other gains (losses), net", net line item, a corresponding foreign exchange gain (loss) which fully offsets the aforementioned effect, is included.

a. ***Project financing for the IMG project.*** As of December 31, 2018, 2017 and 2016, the project resources for the design and construction of the marine pipeline have been funded with capital contributions and loans of its members.

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

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

   Loan balance as of December 31, 2018, with IEnova is $12,612.3 million Mexican Pesos.
   On March 23, 2018, IMG entered into a $300.0 million U. S. Dollar-denominated revolving credit facility with Scotiabank, which can be disbursed in U. S. Dollar or Mexican Pesos, to fund Value Added Tax payments and other capital expenditures. The credit facility is for a one year term with option to extend for one additional year. Interest of the outstanding balance is payable on a bullet basis at LIBOR plus 90 BPS for U. S. Dollar or TIIE plus 50 BPS for Mexican Pesos per annum.

   As of December 31, 2018, a total of $278.7 million debt is outstanding under this credit facility.

b. ***Guarantees.*** IEnova and TransCanada have each provided guarantees to third parties associated with the construction of IMG's Sur de Texas-Tuxpan natural gas marine pipeline. IEnova's share of potential exposure of the guarantees was estimated to be $5.3 million and will terminate upon completion of all guaranteed obligations. The guarantees have terms ranging through July 2019.

c. ***Remeasurement of interest rate.*** As of December 31, 2018, the adjusted amount in the financial income for the loan between IEnova and IMG was $37.7 million, derived from the difference in the capitalized interest rates of projects under construction, by contract loan accrues interest at TIIE rate plus 220 PBS, 10.2 percent average during 2018; while the financing of the resources used by IEnova accrues interest at 3.9 percent average during 2018.

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

   On September 20, 2018, the Company made a capital contribution of $20.2 million to IMG.

   On October 30, 2018, the Company made a capital contribution of $34.9 million to IMG.

e. ***Other disclosures.*** Offshore mainline construction was completed in May 2018 and the project continues to progress toward an anticipated in-service date in early second quarter of 2019, with an investment of approximately $2.4 billion, equivalent to $1.0 billion with IEnova's 40 percent share. An amending agreement has been signed with the Comision Federal de Electricidad ("CFE") that recognizes force majeure events and payment of fixed capacity charges beginning October 31, 2018.

10.4. DEN

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

In November 2017, the Company fully consolidated DEN.

DEN's Consolidated Financial Statements of Financial Position and the Company's equity method investment, are summarized as follows:

	AS OF			
		10/31/17		12/31/16
Cash and cash equivalents	$	17,257	$	8,819
Due from unconsolidated affiliates		4,135		4,012
Other assets		7,166		4,278
Total current assets		28,558		17,109
Deferred income tax assets	$	10,361	$	17,364
Investments in join ventures		195,981		155,327
Property, plant and equipment, net		1,795		1,689
Total non-current assets		208,137		174,380
Total assets	$	236,695	$	191,489
Current liabilities	$	68	$	646
Non-current liabilities		194,010		185,627
Total liabilities	$	194,078	$	186,273
Total members' equity	$	42,617	$	5,216
Share of members' equity and carrying amount of investment in DEN	$	21,309	$	2,608

DEN's Consolidated Statements of Profit is as follows:

	PERIOD ENDED 10/31/17	YEAR ENDED 12/31/16
Revenues	$ 18,532	$ 5,623
Operating, administrative and other expenses	(7,185)	(5,310)
Finance costs	(7,394)	(2,126)
Other losses	(202)	(341)
Income tax (expense) benefit	(7,003)	3,464
Share of profit of joint venture, net of income tax	41,551	2,604
Profit for the period / year	$ 38,299	$ 3,914
Share of profit of DEN	$ 19,150	$ 1,957

On November 15, 2017, IEnova completed the acquisition of Pemex's TRI 50 percent interest in DEN.

In November, 2017, DEN became a wholly owned, consolidated subsidiary of IEnova. (Please refer to Note 11.3.).

10.5. TAG

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

In November 2017, the Company increased its indirect participation in TAG from 25 percent to 50 percent.(Please refer to Note 11.3.).

As of December 31, 2018, the interest in TAG is accounted for under the equity method. TAG's Consolidated Statement of Financial Position and the Company's equity method investment are summarized as follows:

	AS OF 12/31/17	12/31/16
Cash and cash equivalents	$ 88,977	$ 81,823
Other assets	36,917	22,293
Total current assets	125,894	104,116
Due from unconsolidated affiliates	73,715	70,698
Finance lease receivables	1,411,308	1,431,703
Other assets	3,202	16,466
Property, plant and equipment, net	15,282	15,471
Total non-current assets	1,503,507	1,534,338
Total assets	$ 1,629,401	$ 1,638,454
Current liabilities	$ 69,115	$ 58,023
Non-current liabilities	1,083,748	1,178,616
Total liabilities	$ 1,152,863	$ 1,236,639
Total members' equity	$ 476,537	$ 401,815
Share of members' equity and carrying amount of investment in TAG	$ 238,269	$ 200,907
Equity method goodwill	99,020	99,020
Total amount of the investment in TAG	$ 337,289	$ 299,927

TAG's Consolidated Statement of Profit is as follows:

	YEAR ENDED 12/31/18	FOR THE PERIOD OF 11/01/17 TO 12/31/17
Revenues	$ 211,002	$ 32,411
Operating, administrative and other expenses	(32,903)	(6,876)
Finance costs	(60,052)	(10,517)
Other (losses) gains, net	(1,564)	217
Income tax expense	(47,992)	(9,378)
Profit for the period	$ 68,491	$ 5,857
Share of profit of TAG	$ 34,246	$ 2,928

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

During 2016 and 2015, there were amendments to the credit contract in order to include additional banks as lenders. The total amount of the credit is $1,274.5 million, divided in tranches: i) long tranche, up to $701.0 million, ii) short tranche up to $513.3 million and iii) the letter of credit tranche for debt service reserve up to $60.2 million.

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

YEARS	APPLICABLE MARGIN BPS
1st disbursement - (System Commercial Operation Date)	250
0 - 4	265
5 - 9	300
10 - 14	325
15-until credit maturity	350

As of December 31, 2018, the total outstanding loan is $1,062.0 million, with its respective maturities. TAG hedged a portion of the loans tied to the interest rate risk through an interest rate swap, by changing the variable rate for a fixed rate.

The loans mentioned above contain restrictive covenants, which require TAG to maintain certain financial ratios and limits dividend payments, loans and obtaining additional financing. TAG met such covenants as of December 31, 2018.

Long-term debt due dates are as follows:

YEAR	AMOUNT
2019	$ 59
2020	59
2021	59
2022	59
Thereafter	826
Total	$ 1,062

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

c. *Exchange rate forwards.* In September 2017, TAG Pipelines Norte entered into forward contracts to exchange Mexican Pesos for U. S. Dollars of a portion of the project revenues for 2018; maturing from March 2018 through February 2019. Additionally, in September 2018, entered into forward contracts to exchange Mexican Pesos for U. S. Dollars of a portion of the projects' revenues for 2019; maturing from January 2019 through February 2020.

11. BUSINESS COMBINATIONS AND ASSETS ACQUISITION

11.1. IENOVA PIPELINES, BUSINESS COMBINATIONS

On September 26, 2016, IEnova acquired the remaining 50 percent of IEnova Pipelines shares at a value of $1,143.8 million, which was recorded using the acquisition method as it obtained control over IEnova Pipelines as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

a. *Subsidiaries acquired*

ENTITY	PRINCIPAL ACTIVITY	DATE OF ACQUISITION	PROPORTION OF VOTING EQUITY INTERESTS ACQUIRED	CONSIDERATION TRANSFERRED
IEnova Pipelines	Gas transportation	September 26, 2016	50%	$ 1,143,834

b. *Consideration transferred*

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "Operating, administrative and other expenses" in the Consolidated Statements of Profit.

c. *Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions*

	AS OF 9/26/16
Fair value of business combination:	
Cash consideration (fair value of total consideration)	$ 1,143,834
Total fair value of business combination	$ 2,287,668
Cash and cash equivalents	66,250
Trade and other receivables	66,739
Finance lease receivables	945,104
Property, plant and equipment, net	309,186
Other assets	933
Current liabilities	(112,980)
Non-current liabilities (i)	(484,572)
Total identifiable, net assets	1,275,232
Goodwill	$ 1,497,008

i. Includes $364.0 million related to bank loans.

None of the goodwill is expected to be deductible for tax purposes.

Key sources of estimation uncertainty

Selected Valuation Methodology.

IEnova Pipelines is a regulated business, that will earn a return of its costs and a reasonable return on its invested capital, without other consideration; the value of the assets of a regulated business is the value of its invested capital. Under this premise, the FV of the fixed assets of regulated businesses is equivalent to carrying value for financial reporting purposes, as carrying value reflects the basis for which invested capital is derived, and for which a regulated business is allowed to earn a reasonable return.

The Company concluded that the carrying value of the fixed assets is deemed to be representative of FV for IFRS purposes.

d. *Net cash flow from acquisition of subsidiaries*

	AS OF 09/26/16
Consideration paid in cash	$ 1,143,834
Less: balances of cash and cash equivalents acquired	(66,250)
Consideration paid in cash, net	$ 1,077,584

e. *Impact of acquisitions on the results of the period*

The results of the year ended December 31, 2016, includes a gain of $673.1 million for the excess of the acquisition-date fair value of IEnova's previously held equity interest in IEnova Pipelines over the carrying value of that interest, included as remeasurement of equity method investment on the Consolidated Statements of Profit.

11.2. VENTIKA, BUSINESS COMBINATION

On December 14, 2016, IEnova acquired the 100 percent of the shares of Ventika at a value of $434.7 million, which was recorded using the acquisition method as it obtained control over Ventika as of such date. The result of this acquisition has been included in the accompanying Consolidated Financial Statements as of the acquisition date.

a. *Subsidiaries acquired*

ENTITY	PRINCIPAL ACTIVITY	DATE OF ACQUISITION	PROPORTION OF VOTING EQUITY INTERESTS ACQUIRED	CONSIDERATION TRANSFERRED
Ventika	Wind Generation Facility	December 14, 2016	100%	$ 434,688

b. *Consideration transferred*

The costs associated with the acquisition have been excluded from the consideration transferred and have been recognized as an expense in the period within "Operating, administrative and other expenses" in the Consolidated Statements of Profit.

c. *Assets acquired and liabilities recognized at the acquisition date and goodwill on acquisitions*

		AS OF 12/14/16
Fair value of business combination:		
Cash consideration (fair value of total consideration)	$	309,724
Total fair value of business combination	$	309,724
Cash and cash equivalents		24
Trade and other receivables, net		14,939
Restricted cash		68,299
Other assets		51,216
Property, plant and equipment, net		673,410
Intangible assets		154,144
Current liabilities		(145,912)
Non-current liabilities		(621,825)
Total identifiable, net assets	$	194,295
Goodwill	$	115,429

During the fourth quarter of 2017, the Company received additional information regarding Ventika's deferred income taxes as of the acquisition date, primarily related to net operating loss carryforwards. As a result, the Company recorded measurement period adjustments that resulted in a net decrease to goodwill and an increase in deferred tax assets of $13.7 million, respectively.

d. *Net cash flow used in acquisition of subsidiaries*

		AS OF 12/14/16
Consideration paid in cash	$	434,688
Less: balances of cash and cash equivalents acquired		(24)
Consideration paid in cash, net	$	434,664

11.3. DEN, ASSET ACQUISITION

On November 15, 2017, IEnova completed the acquisition of Pemex TRI's 50 percent interest in DEN, a joint venture that holds a 50 percent interest in the Los Ramones Norte pipeline, through TAG, for a purchase price of $164.8 million (exclusive of $17.2 million of cash and cash equivalents acquired), plus the assumption of $95.8 million of intercompany debt. This acquisition increases IEnova's ownership interest in TAG from 25 percent to 50 percent. IEnova Pipelines previously accounted for its 50 percent interest in DEN as an equity method investment. In November, 2017, DEN became a wholly owned, consolidated subsidiary of IEnova. DEN will continue to account for its interest in TAG as on equity method investment.

This transaction was accounted as an asset acquisition because DEN does not meet the definition of a business, since it does not have substantive inputs or processes. DEN's most significant asset is its equity method investment in TAG, the entity that owns the Los Ramones Norte pipeline. The excess consideration over the fair value of assets acquired and liabilities assumed was allocated on a relative fair value basis between the equity investment in TAG and an acquired intangible asset (Please refer to Note 15.).

a. *Assets acquisition*

ENTITY	MAIN ACTIVITY	DATE OF ACQUISITION	PROPORTION OF VOTING EQUITY INTERESTS ACQUIRED	CONSIDERATION TRANSFERRED
DEN	Holds equity investment in TAG	November 15, 2017	50%	$ 164,752

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

		AS OF 11/15/17
Fair value of assets acquisition:		
Cash paid	$	164,752
Acquisition costs		143
Total fair value of assets acquisition	$	164,895
Cash and cash equivalents		17,257
Trade and other receivables		12,284
Deferred income tax assets		10,481

	AS OF 11/15/17
Fair value of assets acquisition:	
Investment in TAG	295,002
Property, plant and equipment, net	1,795
Other intangible assets	44,566
Current liabilities	(99,343)
Non-current liabilities	(95,839)
Total identifiable, net assets	$ 186,203
Less: Carrying value of equity interest in DEN immediately prior to acquisition	(21,308)
Total fair value of assets acquisition	$ 164,895

Valuation of DEN's Assets and Liabilities. DEN is substantially comprised of two assets. The first asset is DEN's equity method investment in TAG. The second asset is an acquired intangible asset, with an amortization period of 23 years, representing a favorable Operation & Maintenance ("O&M") agreement. Both assets were valued using an income approach. For substantially all other assets and liabilities, the Company determined that historical carrying value approximates fair value due to their short-term nature.

c. *Net cash flow from acquisition of assets*

	AS OF 11/15/17
Contraprestación pagada en efectivo	$ 164,752
Más: costo pagado por la adquisición	143
Less: balances of cash and cash equivalents acquired, net of acquisition costs	(17,257)
Consideration paid in cash, net	$ 147,638

11.4. DON DIEGO SOLAR NETHERLANDS, B. V ("DON DIEGO"), ASSET ACQUISITION

On February 28, 2018, IEnova acquired 100 percent of the shares of Fisterra Energy Netherlands II,B.V. ("Fisterra") at a value of $5.1 million, which was renamed to Don Diego after the acquisition. Don Diego, a 125 MW solar project facility in Benjamin Hill municipality in the state of Sonora, Mexico, is comprised of a Self-Supply Permit granted by the CRE in 2016. The Self-Supply Permit allows generators to compete directly with the CFE retail tariffs and thus have access to Power Purchase Agreements ("PPAs") with significantly higher prices.

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

a. *Asset acquisition*

ENTITY	MAIN ACTIVITY	DATE OF ACQUISITION	PROPORTION OF VOTING EQUITY INTERESTS ACQUIRED	CONSIDERATION TRANSFERRED
Don Diego	Energy infrastructure investments / Development of solar project	February 28, 2018	100%	$ 5,072

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

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

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

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

c. *Net cash flow from acquisition of assets*

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

i. There was a cash payment for the amount of $3.0 million at closing and an amount of $2.1 million paid on February 5, 2019, after the Company issued the final notice for the assigned Engineering Procurement and Construction contract.

11.5. CENTRAL FOTOVOLTAICA BORDER DEL NORTE. S. A. DE C. V. ("BORDER SOLAR"), ASSET ACQUISITION

On August 14, 2018, IEnova acquired 100 percent of the shares of Border Solar at a value of $3.6 million. Border Solar is comprised of a Self-Supply Permit granted by the CRE in 2015. The Self-Supply permit allows generators to compete directly with CFE's retail tariffs and thus have access to PPAs with significantly higher prices.

The primary purpose of the transaction was for the Company to further grow its renewable energy business through the purchase of Border Solar to develop a photovoltaic solar electric generating project located in Ciudad Juarez, Chihuahua, Mexico with a nominal capacity rating of approximately 150 Megawatt Alternating Current ("MWac") / 192 Megawatt Direct Current ("MWdc").

According to the purchase and sale agreement, the acquisition date was subject to the subsequent condition, which consisted in the seller to complete the subdivision of the land that was completed on August 14, 2018.

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

a. *Asset acquisition*

ENTITY	MAIN ACTIVITY	DATE OF ACQUISITION	PROPORTION OF VOTING EQUITY INTERESTS ACQUIRED	CONSIDERATION TRANSFERRED
Border Solar	Energy infrastructure investments / Development of solar project	August 14, 2018	100%	$ 3,580

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

		AS OF 08/14/18
Fair value of assets acquisition:		
Cash consideration (i)	$	3,580
Total fair value of assets acquisition	$	3,580
Tax receivables		514
Intangible assets		5,490
Current liabilities		(2,424)
Total identifiable, net assets	$	3,580

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

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

c. *Net cash flow from acquisition of assets*

		AS OF 08/14/18
Cash consideration, net (i)	$	3,580

i There was a cash payment for an amount of $0.5 million at the closing of the acquisition, and the remaining amounts will become due and payable as follows:

- $ 1.7 million subject to the execution of a PPA.
- $ 0.6 million at the start of project construction.
- $ 0.7 million on the date on which the project reaches commercial operation.

11.6. ICM, ASSET ACQUISITION

On September 26, 2018, IEnova signed a purchase-sale agreement with Trafigura Holdings, B.V. ("Trafigura") for 51 percent of the shares of ICM, at a value of $16.4 million and Trafigura retained the remaining 49 percent of the equity of ICM.

The purpose of the acquisition is to develop, construct, own and operate a refined hydrocarbon products terminal in Manzanillo, Colima, Mexico. ICM owns certain permits and land where, the terminal for the receipt, storage and delivery of refined products will be built.

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

a. *Asset acquisition*

ENTITY	MAIN ACTIVITY	DATE OF ACQUISITION	PROPORTION OF VOTING EQUITY INTERESTS ACQUIRED	CONSIDERATION TRANSFERRED
ICM	Development of marine terminal project for the storage of refined products	September 26, 2018	51%	$ 16,442

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

		As of 09/26/18
Fair value of assets acquisition:		
Cash consideration	$	16,442
Total fair value of assets acquisition	$	16,442
Cash and cash equivalents		2
Taxes receivable		554
Other receivables		17
Property, plant and equipment (land)		28,832
Deferred income taxes		483
Current liabilities		(351)
Total identifiable, net assets	$	29,537
Non-controlling interest	$	(13,095)

Valuation of ICM's assets and liabilities. ICM substantially comprised of two assets of property plant and equipment that corresponds to five plots of land at the shore of the Pacific Ocean in Manzanillo, Colima, Mexico, equivalent to 87.92 hectares, where the marine terminal will be built. The assets were valued using an income approach. For substantially all other assets and liabilities, the Company determined that historical carrying value approximates fair value due to their short-term nature.

c. *Non-controlling interest*

The non-controlling interest (49 percent ownership interest in ICM held by Trafigura) recognized at the acquisition date was measured by reference to the fair value of the non-controlling interest and amounted to $13.1 million, this fair value was estimated by applying an income approach.

d. *Net cash flow from acquisition of assets*

		As of 09/26/18
Cash consideration	$	16,442
Less: balances of cash and cash equivalents acquired		(2)
Cash consideration, net	$	16,440

12. ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

Assets and liabilities held for sale corresponding to TDM are as follows:

		As of 12/31/17		12/31/16
Cash and cash equivalents	$	–	$	434
Other assets		64,263		32,813
Total current assets		64,263		33,247
Deferred income tax assets		201		193
Other assets		1,515		1,125
Carbon allowance		2,272		22,089
Property, plant and equipment, net		79,939		134,633
Total non-current assets		83,927		158,040
Total assets	$	148,190	$	191,287
Current liabilities	$	54,336	$	7,974
Non-current liabilities		8,186		27,477
Total liabilities	$	62,522	$	35,451

As a result of the allocation in assets held for sale property, made during this year, the Company carried out a review of the recoverable amount of these assets. The review led to the recognition of an after-tax impairment loss of $63.8 and $136.9 million during 2017 and 2016 respectively, which have been recognized in the Consolidated Statements of Profit. The Company also estimated the fair value less costs of disposal of property, plant and equipment, which is based on the recent market prices of assets with similar age and obsolescence.

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

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

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

13. GOODWILL

	AS OF		
	12/31/18	12/31/17	12/31/16
Cost	$ 1,638,091	$ 1,638,091	$ 1,638,091

There are no accumulated impairment losses. The breakdown of goodwill is as follows:

	AS OF		
COMPANY	12/31/18	12/31/17	12/31/16
IEnova Pipelines	$ 1,497,008	$ 1,497,008	$ 1,497,008
Ventika	115,429	115,429	115,429
IGM	25,654	25,654	25,654
Total	$ 1,638,091	$ 1,638,091	$ 1,638,091

Allocation of goodwill to cash-generating units

IEnova Pipelines

Management expects IEnova Pipeline's acquisition to have strategic benefits, including opportunities for expansion into other infrastructure projects and larger platform and presence in Mexico to participate in energy sector. As such, IEnova Pipelines goodwill is tested at the Company's Cash Generated Unit ("CGU"), IEnova Transportation.

The Company used DCF analysis to determine the fair value of the CGU. The DCF includes cash flows through contracted period of the pipelines and the gas storage terminal exit multiple of 6.0x. The discount rate used was the weighted average cost of capital ("WACC") calculated in 7.8 percent. Under this approach, the value in use was greater to the carrying value. Based on that, no impairment was determined.

Ventika

Management expects Ventika's acquisition to have strategic benefits, including opportunities for expansion into other infrastructure projects and larger platform and presence in Mexico to participate in energy sector. As such, Ventika's goodwill is tested at the Company's CGU, IEnova Renewables.

There are no significant changes in Ventika's operations that would indicate potential impairment since acquisition, including the following: a) its financial results have been consistent with management initial projections, b) there has not been a material change in macroeconomic indicators, and c) there have been no significant changes in workforce, strategy, market trends or impacts due to recent acquisitions/integrations.

In the case of Ventika, the Company considered appropriate to use cash flows from the acquisition model and reviewed consistency with the actual results in 2017. The discount rate used was the WACC of 9.2 percent. Under this approach, the value in use is greater to the carrying value. Based on that, no impairment was determined.

During the fourth quarter of 2017, the Company received additional information regarding Ventika's deferred income taxes as of the acquisition date, primarily related to net operating loss carryforwards. As a result, the Company recorded a measurement period adjustment that resulted in a net decrease to goodwill of $13.7 million. (Please refer to Note 11.2.c.).

IGM

Goodwill has been allocated for impairment testing purposes to IEnova Gasoductos Mexico's CGU, which is included in the IEnova Transportation.

The recoverable amount of this CGU is determined based on a 10-year DCF analysis of IEnova Gasoductos Mexico's projected results. The DCF for 2018, 2017 and 2016, was calculated based on a long-term unlevered cash flow forecast using a discount rate of 7.8 percent, which was the same rate used at the acquisition date.

There are no significant changes in IEnova Gasoductos Mexico's operations that would indicate potential impairment since acquisition, including the following: a) its financial results have been consistent with management's initial projections, b) the changes on the macroeconomic indicators may have not had adverse effect on the Company's operations (i.e. risk free rates are unchanged or lower than acquisition date and the change of Sovereign average rating from BBB to BBB+ for Mexico), c) changes in the regulatory environment have not had adverse effect on the Company's operations and, d) there have been no significant changes in workforce, strategy, market trends or impacts due to recent acquisitions/integrations.

Although, the Company's management believes the current discount rate may be lower as market rates have declined since the acquisition, the discount rate used as of the acquisition date was deemed to be a reasonable rate for goodwill impairment testing purposes.

14. PROPERTY, PLANT AND EQUIPMENT, NET

	AS OF		
	12/31/18	12/31/17	12/31/16
Carrying amounts of:			
Buildings and plants	$ 4,273,297	$ 4,017,315	$ 3,110,525
Equipment	31,937	28,674	96,017
Other assets	135,580	117,279	59,670
	4,440,814	4,163,268	3,266,212
Accumulated depreciation and amortization	(851,313)	(545,148)	(433,074)
Land	124,908	82,389	82,404
Properties under construction	372,505	28,947	698,543
	$ 4,086,914	$ 3,729,456	$ 3,614,085

COST	LAND	BUILDINGS AND PLANTS	EQUIPMENT	PROPERTIES UNDER CONSTRUCTION	OTHER ASSETS	TOTAL
Balance as of January 1, 2016	$ 76,524	$ 2,586,775	$ 86,965	$ 364,296	$ 38,843	$ 3,153,403
Assets held for sale	(674)	(436,077)	(7,525)	(533)	(2,935)	(447,744)
Additions	282	15,523	17,085	332,682	17,386	382,958
Business combination IEnova Pipelines (Refer to Note 11.1.)	6,026	296,520	–	–	8,750	311,296
Business combination Ventika (Refer to Note 11.2.)	252	673,531	–	–	–	673,783
Disposals	–	(1,021)	(164)	–	(738)	(1,923)
Effect of foreign currency translation	(6)	(26,882)	(344)	(724)	(1,636)	(29,592)
Revisions and additions to decommisioning liability	–	4,978	–	–	–	4,978
Balance as of December 31, 2016	$ 82,404	$ 3,113,347	$ 96,017	$ 695,721	$ 59,670	$ 4,047,159
Additions	13	886,917	192	(705,173)	33,318	215,267
Assets acquisition DEN (Refer to Note 11.3)	–	–	203	–	1,592	1,795
Disposals	(30)	(7,501)	(59)	(325)	(2,146)	(10,061)
Effect of foreign currency translation	2	(10,662)	–	16,013	837	6,190
Revisions and additions to decommisioning liability	–	10,814	–	–	–	10,814
Other	–	24,400	(67,679)	22,711	24,008	3,440
Balance as of December 31, 2017	$ 82,389	$ 4,017,315	$ 28,674	$ 28,947	$ 117,279	$ 4,274,604
Additions	12,982	27,863	110	360,893	12,065	413,913
Assets acquisition ICM (Refer to Note 11.6)	28,832	–	–	–	–	28,832
Effect of TDM reclassification to held and used (Refer to Note 12)	733	235,007	966	523	12,695	249,924
Disposals	(28)	(9,873)	–	(518)	(5,336)	(15,755)
Effect of foreign currency translation	–	351	72	(193)	9	239
Revisions and additions to decommisioning liability	–	(13,685)	–	–	–	(13,685)
Other	–	16,319	2,115	(17,147)	(1,132)	155
Balance as of December 31, 2018	$ 124,908	$ 4,273,297	$ 31,937	$ 372,505	$ 135,580	$ 4,938,227
Accumulated depreciation						
Balance as of January 1, 2016	$ –	$ (523,842)	$ (10,606)	$ –	$ (23,115)	$ (557,563)
Assets held for sale	–	178,795	–	–	1,622	180,417
Eliminated on disposals of assets	–	271	111	–	270	652
Depreciation expense	–	(57,741)	(2,241)	–	(3,468)	(63,450)
Effect of foreign currency translation	–	6,732	186	–	886	7,804
Other	–	(934)	–	–	–	(934)
Balance as of December 31, 2016	–	(396,719)	(12,550)	–	(23,805)	(433,074)
Eliminated on disposals of assets	–	890	146	–	1,572	2,608
Depreciation expense	–	(102,805)	(911)	–	(6,745)	(110,461)
Effect of foreign currency translation	–	(1,314)	(234)	–	(666)	(2,214)
Other	–	(3,379)	3,579	–	(2,207)	(2,007)
Balance as of December 31, 2017	$ –	$ (503,327)	$ (9,970)	$ –	$ (31,851)	$ (545,148)
Eliminated on disposals of assets	–	1,591	11	–	866	2,468
Effect of TDM reclassification to held and used (Refer to Note 12)	–	(180,017)	(404)	–	(1,209)	(181,630)
Depreciation expense	–	(117,446)	(974)	–	(8,419)	(126,839)
Effect of foreign currency translation	–	(5)	1	–	(3)	(7)
Other	–	(45)	–	–	(112)	(157)
Balance as of December 31, 2018	$ –	$ (799,249)	$ (11,336)	$ –	$ (40,728)	$ (851,313)

The additions to property, plant and equipment during 2018, 2017 and 2016, are mainly comprised of construction in process, related to the following projects:

- Solar - Pima, Tepezala II and Rumorosa (Please refer to Note 1.2.13.).
- Terminals - Veracruz, Puebla, Mexico City and Baja California (Please refer to Note 1.2.13.).
- Pipelines - Compression station, in Sonora.
- Pipelines - San Isidro - Samalayuca (COD on March 31, 2017)
- Pipelines - Guaymas - El Oro (COD on May19, 2017)
- Pipelines - El Empalme pipeline branch (COD on June 24, 2017)
- Pipelines - Ojinaga - El Encino (COD on June 30, 2017)

As of December 31, 2018, 2017 and 2016, additions of property, plant and equipment that were not paid, amount to $63.6 million, $41.7 million and $49.8 million, respectively.

Borrowing cost. During the years ended December 31, 2018, 2017 and 2016 the Company capitalized borrowing costs on qualifying assets in the amount of $10.7 million, $10.2 million and $14.8 million, respectively. The weighted average rate used to determine the amount of borrowing costs eligible for capitalization were 4.02 percent, 2.98 percent and 3.33 percent, for the years ended December 31, 2018, 2017 and 2016, respectively.

14.1 USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	YEARS
Buildings	40
Plant and equipment for LNG storage, regasification and nitrogen injection facility [1]	5-45
Plant and equipment for wind power generation facilities [1]	20-30
Pipelines system for transportation and distribution of gas [1]	34-50
Plant and equipment for generation of electricity [1]	37
Fiber optic network [2]	5-20
Leasehold improvements [2]	3-10
Machinery and other equipment [2]	3-10
Other assets [2]	3-20

1 Useful lives related to plant and equipment category

2 Useful lives related to other assets category

15. INTANGIBLE ASSETS

	AS OF 12/31/18	12/31/17	12/31/16
Carrying amounts of:			
Renewable transmission rights (a)	$ 164,622	$ 154,144	$ 154,144
O&M contract (b)	44,566	44,566	–
Amortization	(18,416)	(8,511)	–
	$ 190,772	$ 190,199	$ 154,144

a. *Renewable transmission rights*

On December 14, 2016, regarding Ventika's acquisition the Company recorded $154.1 million related to the renewable transmission and consumption rights associated with the projects approved under the preexisting self-supply renewable program.

On February 28, 2018, the Company acquired a $5.0 million intangible asset related to Self-Supply Permit of the Don Diego Solar Project. (Please refer to Note 11.).

On August 14, 2018, the Company acquired a $5.5 million intangible asset related to Self-Supply Permit of the Border Solar Project. (Please refer to Note 11.).

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

b. *O&M Contract*

In November 2017, the Company, through DEN's asset acquisition, acquired a $44.6 million intangible asset related to the O&M contract with TAG, the amortization is calculated on a straight-line basis until the expiration of the Agreement in February 2041, equivalent to 23 years. (Please refer to Note 11).

16. TRADE AND OTHER PAYABLES

	AS OF		
	12/31/18	12/31/17	12/31/16
Trade payables	$ 99,713	$ 72,603	$ 93,731
Other miscellaneous payables	44	35	835
	$ 99,757	$ 72,638	$ 94,566

The average credit period on purchases of goods and services is between 15 to 30 days. No interest has been charged on trade payables. The Company has policies in place to ensure that all payables are paid within the pre-agreed credit terms.

17. EMPLOYEE BENEFITS

17.1. DEFINED CONTRIBUTION COMPONENT

The Company provides a defined contribution plan for all permanent full-time employees in Mexico. Employees that leave the Company obtain the capital accumulated with the contributions according to the following vesting schedule: a) Basic Contribution: 100 percent immediately for the capital accumulated. b) Additional Contribution: for the capital accumulated the vesting rates are: 100 percent in case of death or disability, and in case of voluntary termination according with the Company policy.

17.2. DEFINED BENEFIT COMPONENT

The Company also provides defined benefit plans for all permanent full-time employees of its subsidiaries in Mexico. Under the plans, the employees are entitled to retirement benefits varying between 55 percent and 100 percent of their final salary upon reaching the retirement age of 65 years. No other post-retirement benefits are provided to these employees.

17.3. SENIORITY PREMIUM BENEFITS

The Company provides seniority premium benefits, which consist of a lump sum payment of 12 days of wages per each year worked, calculated using the employee's most recent salary, not to exceed twice the minimum wage established by law.

17.3.1. Costs and obligations for post-employment and other long-term employee benefits

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	VALUATION AT		
	12/31/18	12/31/17	12/31/16
Discount rates	9.75%	8.25%	8.00%
Expected rates of salary incrase	4.75%	4.75%	4.75%
Long-term expected inflation	3.75%	3.75%	3.75%
Exchange rate	$ 18.81	$ 18.20	$ 19.72

Amounts recognized within current earnings and OCI as well as benefits paid with respect to the Company's post-employment and other long-term employee benefits were as follows:

	AS OF		
	12/31/18	12/31/17	12/31/16
Current service cost recognized in administrative and other expenses	$ 836	$ 155	$ 646
Interest on obligation recognized in finance costs	528	457	345
Actuarial gains recognized in OCI	519	704	1,765

The amount included in the Consolidated Statements of Financial Position arising from the Company's obligation related to its defined benefit plans, and changes in the present value of the defined benefit obligation in the current year, were as follows:

	AS OF		
	12/31/18	12/31/17	12/31/16
Opening defined benefit obligation	$ 6,537	$ 5,586	$ 4,295
Current service cost	836	105	585
Interest benefit	528	422	309
Actuarial (gain) loss	(519)	482	435
Payment	310	–	115
Benefits paid	(49)	(58)	(153)
Ending defined benefit obligation	$ 7,643	$ 6,537	$ 5,586

18. OTHER FINANCIAL LIABILITIES

	AS OF		
	12/31/18	12/31/17	12/31/16
Accrued interest payable (a)	$ 22,454	$ 6,959	$ 4,855
Customer deposits	2,266	1,333	1,022
Guarantee liability (b)	–	2,080	–
	$ 24,720	$ 10,372	$ 5,877

a. Balance represents accrued interest payable on long-term debt. (Please refer to Note 23.).

b. IEnova and its partner on the Sur of Texas-Tuxpan natural gas pipeline, Transcanada, have a jointly guaranteed obligation for constructions services during the construction of the pipeline. (Please refer to Note 10.3.).

19. OTHER LIABILITIES

	AS OF		
	12/31/18	12/31/17	12/31/16
Wages and benefits payable	$ 21,302	$ 19,012	$ 14,995
Deferred revenue (a) and (b)	11,983	–	–
Contractor withholdings	6,771	619	13,866
Payable lease (c)	2,736	–	–
	$ 42,792	$ 19,631	$ 28,861
Other current liabilities	$ 28,073	$ 19,631	$ 28,861
Other non current liabilities	14,719	–	–
	$ 42,792	$ 19,631	$ 28,861

a. Corresponds to Guaymas-El Oro pipeline unrendered services for an amount of $7.6 millions. It is expected to place in operation by the end of 2019.

b. Corresponds to San Isidro-Samalayuca contract unrendered services for an amount of $4.3 millions.

c. Corresponds to fixed monthly contribution of API Veracruz given land use.

20. PROVISIONS

	AS OF		
	12/31/18	12/31/17	12/31/16
Decommissioning liabilities (a)	$ 54,443	$ 58,654	$ 41,618
Other provisions (b)	7,711	8,950	10,347
	$ 62,154	$ 67,604	$ 51,965
Current	$ 251	$ 394	$ 930
Non-current	61,903	67,210	51,035
Total provisions	$ 62,154	$ 67,604	$ 51,965

	ASSET RETIREMENT OBLIGATIONS	OTHERS	TOTAL
Balance as of January 1, 2016	$ 34,236	$ 1,293	$ 35,529
Additional provisions recognized	1,705	9,380	11,085
Increase of financial cost	1,745	–	1,745
Payments and other decreases in provisions recognized	–	(326)	(326)
Unwinding of discount and effect of changes in the discount rate	3,932	–	3,932
Balance as of December 31, 2016	$ 41,618	$ 10,347	$ 51,965
Additional provisions recognized	4,239	–	4,239
Increase of financial cost	1,983	–	1,983
Payments and other decreases in provisions recognized	–	(1,397)	(1,397)
Unwinding of discount and effect of changes in the discount rate	10,814	–	10,814
Balance as of December 31, 2017	$ 58,654	$ 8,950	$ 67,604
Recognition of provision on TDM reclassification to held and used	6,922	–	6,922
Increase of financial cost	2,552	–	2,552
Payments and other decreases in provisions recognized	–	(1,239)	(1,239)
Unwinding of discount and effect of changes in the discount rate	(13,685)	–	(13,685)
Balance as of December 31, 2018	$ 54,443	$ 7,711	$ 62,154

a. *Decommissioning liabilities*

For long-lived assets, the Company recognized decommissioning liabilities for the present value of future costs expected to be incurred when assets are withdrawn from service, if the Company has a legal or constructive obligation and if the Company can make a reasonable estimate of that obligation. The discount rates used by the Company were 4.64 percent, 3.90 percent and 4.54 percent as of December 31, 2018, 2017 and 2016, respectively.

b. *Other provisions*

The balance of other provisions include a liability by $0.3 million due to an onerous contract representing the present value of future losses that the Company expects to incur under one of their service contracts. Because the related asset is operating below full capacity, management of the Company utilized a present value model to determine the provision utilizing a discount rate of 10 percent.

As of December 31, 2018, the balances of the Specific Services Contract ("CSE") related to the authorized provision stipulated under the O&M contract with Pemex TRI regarding the acquisition of materials, spare parts and services for the maintenance of the pipelines transportation system amounts $7.4 million.

21. CARBON ALLOWANCES

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

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

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

	AS OF	
		12/31/18
Assets:		
Current	$	5,936
Non-current		15,499
	$	21,435
Liabilities (a):		
Current	$	6,354
Non-current		14,826
	$	21,180

a. Cost of carbon allowances of $21.9 millions, $16.5 millions and $12.8 millions were recorded in cost or revenue, for the years ended December 31, 2018, 2017 and 2016, respectively.

22. SHORT-TERM DEBT

As of December 31, 2018, 2017 and 2016, short-term debt includes the following:

	AS OF					
		12/31/18		12/31/17		12/31/16
Credit agreement (a)	$	808,086	$	137,053	$	446,034
Current portion of IEnova Pipelines Bank Loan β(Refer to Note 23.c.).		38,227		40,631		38,682
Current portion of Ventika Bank Loan (Refer to Note 23.d.)		25,973		22,588		13,482
Trina Solar (Refer to Note 23.g.).		28		–		–
CEBURES at variable rate (Refer to Note 23.a.).		–		65,871		–
	$	872,314	$	200,272	$	498,198
Borrowing costs		(2,140)		(3,383)		(4,627)
	$	870,174	$	196,889	$	493,571

a. ***Credit agreement.*** On August 21, 2015, the Company entered into an agreement for a $400.0 million, U.S. Dollar-denominated, five-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lenders are Banamex, SMBC, Santander, The Bank of Tokyo and The Bank of Nova Scotia.

DWithdrawal of credit line. In June and July 2016, the Company withdrew $20.0 million and $380.0 million, respectively, of the credit line to be used for working capital and general corporate purposes. In December 2016, the Company withdrew $375.0 million to finance a portion of Ventika's acquisition and for general corporate purposes.

On October 21, 2016, the Company paid $250.0 million of the credit agreement.

On November 3, 2016, the Company renegotiated the credit line of the credit agreement for an amount up to $1,170.0 million, U.S. Dollar-denominated. On December 30, 2016, a portion of this revolving credit was repaid in the amount of $200.0 million.

On November 14, 2017, the Company withdrew $260.0 million, a portion of this disposition was used to finance the acquisition of DEN. (Please refer to Note 11.3.).

On December 14, 2017, with the proceeds received from the Senior Notes offering the Company paid a portion of this revolving credit by $730.0 million. (Please refer to Note 23.f.).

As of December 31, 2018, 2017 and 2016, the available unused credit portion was $362.0 million, $1,033.0 million and $724.0 million, respectively.

b. ***Financing of project's VAT*** - On April 8, 2014, Ventika entered into a line of credit with NAFINSA and BANCOMEXT, as lenders. On December 17, 2015, there was an amendment to increase the line for up to $569.4 million Mexican Pesos and $713.3 million Mexican Pesos, respectively. Interest was accrued at the TIIE plus 250 BPS payable on a quarterly basis. The credit line under this contracts was used to finance the VAT on the Ventika's projects. In 2016, the Company decided to repay and accordingly canceled the total credit facility.

23. LONG-TERM DEBT

As of December 31, 2018, 2017 and 2016, long-term debt includes:

	AS OF		
	12/31/18	12/31/17	12/31/16
Senior Notes (f)	$ 840,000	$ 840,000	$ –
Santander – Ventika (d, e)	426,359	451,248	472,781
BBVA Bancomer, S. A. de C. V. ("Bancomer") – IEnova Pipelines (c)	239,513	–	–
CEBURES at fixed rate (a, b)	198,142	277,175	317,279
Trina Solar (g)	3,757	–	62,911
CEBURES at variable rate (a, b)	–	197,614	188,734
	$ 1,707,771	$ 1,766,037	$ 1,041,705
Debt issuance costs	(32,579)	(33,997)	(1,901)
	$ 1,675,192	$ 1,732,040	$ 1,039,804

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

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

   ii. The second placement was for $102.1 million ($1,300.0 million of historical Mexican Pesos) bearing interest at variable rate based on the TIIE plus 30 BPS, with monthly payments of interest, maturing in 2018. The average annual rate as of December 31, 2018, 2017 and 2016, was 6.93 percent, 7.25 percent and 4.64 percent, respectively.

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

   For this debt, which was scheduled to mature in 2018, the Company entered into a derivative instrument contract and swapped fixed rate in Mexican Pesos for a fixed rate in U. S. Dollars, exchanging principal and interest payments. The Company received $1,300.0 million Mexican Pesos and paid $102.2 million U. S. Dollars. The repayment ended the hedging contract and CEBURES liability.

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

   i. For the debt maturing in 2023, the Company swapped fixed rate in Mexican Pesos for a fixed rate in U. S. Dollars, exchanging principal and interest payments. The weighted average interest rate, in U. S. Dollars for this swap was 4.12 percent in 2018.

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

   As of December 31, 2018, the swaps' total notional value is $306.2 million ($3,900.0 million historical Mexican Pesos). These contracts have been designated as cash flow hedges.

c. *Bancomer - IEnova Pipelines.* On December 5, 2013, IEnova Pipelines signed a credit contract with Bancomer as agent and Deutsche Bank Mexico, Fiduciary Division, as Fiduciary. The amount of the loan is for $475.4 million U. S. Dollars, the proceeds of which will be used to develop the IEnova Pipelines projects in process. The four participating credit institutions are Bancomer with a 50 percent contribution, The Bank of Tokyo with 20 percent, Mizuho with 15 percent and NORD/LB with 15 percent.

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

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

   As of December 31, 2018, the long term debt maturity are as follows:

YEAR	AMOUNT
2019	$ 38,227
2020	42,213
2021	45,054
Thereafter	152,247
	$ 277,741

In such credit, IEnova Pipelines was defined as debtor, TDF together with GdT were assigned as guarantors and collaterals through the cession of the collections rights from their portfolio of projects integrated by IEnova Pipelines, TDF and GdT as source of payment for the credit.

Covenants arising from the credit require for the following:

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

ENTITY	AMOUNT
IEnova Pipelines	$ 450,000
GdT	130,000
TDF	90,000

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

   As of the date of the Consolidated Financial Statements, the Company has complied with these obligations.

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

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

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

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

BANK	MATURITY DATE
SANTANDER	15/03/2024
BANOBRAS	15/03/2032
NADB	15/03/2032
BANCOMEXT	15/03/2032
NAFIN	15/03/2032

The breakdown of the debt is as follows:

BANK	AS OF 12/31/18
NADB	$ 135,666
SANTANDER	92,701
BANOBRAS	87,214
BANCOMEXT	67,833
NAFINSA	67,833
Interest payable	1,085
	$ 452,332

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

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

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

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

As of December 31, 2018, the debt issuance costs amounts $32.6 million.

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

g. *Trina Solar - ESJ Renovable I. S. de R. L. de C. V.* On July 31, 2018, the Company, signed a credit contract with Trina Solar Holdings, B. V. The amount of the loan is for $3.7 million, the proceeds will be used to develop the Tepezala II Solar Project. The maturity of the loan is 10 years.

The loan can be totally paid at the end of the credit contract or partially paid throughout the contract term.

The loan bears an interest at three - month LIBOR plus 365 BPS, with quarterly payments, maturing in 2028.

24. FINANCIAL INSTRUMENTS

24.1. CAPITAL MANAGEMENT

The Company expects its cash flows from operations to fund a substantial portion of future capital expenditures and dividends.

The Company is subject to externally imposed capital requirements for its regulated subsidiaries in the gas segment. According to applicable regulations the subsidiaries need to include in their bylaws the requirement to have a minimum fixed capital, without withdrawal rights, equivalent to 10 percent of their investment.

Also, the Company has a commitment with the Mexican regulator for capital contributions based on invested capital for its projects. As of December 31, 2018, 2017 and 2016, the Company had complied with the above requirements.

24.2. CATEGORIES OF FINANCIAL INSTRUMENTS

	AS OF		
	12/31/18	12/31/17	12/31/16
Financial assets			
Cash and cash equivalents	$ 51,681	$ 37,208	$ 24,918
Short term investment	83	1,081	80
Restricted cash	26,283	55,820	51,363
FVTPL			
Held for trading	17,703	9,146	8,120
Amortized cost			
Loans and receivables	844,989	613,280	218,214
Financial leasing	942,184	950,310	957,466
Financial liabilities			
FVTPL			
Held for trading	$ 163,823	$ 204,170	$ 226,161
Amortized cost	3,055,700	2,695,537	1,897,812

24.3 FINANCIAL RISK MANAGEMENT OBJECTIVES

The activities carried out by the Company may expose it to financial risk, including market risk, which encompasses foreign exchange, interest rate and commodity price risks, credit risk and liquidity risk. The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program.

The Company may use derivative and non-derivative financial instruments to hedge against some exposures to financial risks embedded in assets and liabilities on the Consolidated Statements of Financial Position or off-balance sheet risks (firm commitments and highly probable forecasted transactions). Both financial risk management and the use of derivative and non-derivative financial instruments are governed by Company policies.

The Company identifies, assesses, monitors and centrally manages the financial risks of its operating subsidiaries through written policies that establish limits associated with specific risks including guidelines for permissible losses, guidelines for determining when the use of certain derivative financial instruments are appropriate and within policy guidelines, guidelines for when instruments can be designated as hedges, and guidelines for when derivative instruments do not qualify for hedge accounting but can qualify as held-for-trading, which is the case for derivative financial instruments. Compliance with established policies and exposure limits by the Company's management is reviewed by internal audit on a routine basis.

24.4 MARKET RISK

Market risk is the risk of erosion of the Company's cash flows, earnings, asset values and equity due to adverse changes in market prices and interest and foreign currency rates.

The Company has policies governing its market risk management and trading activities. The Parent's senior officers are members of committees that establish policies, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with the Company's stated energy risk management and trading policies. These activities include, but are not limited to, daily monitoring of market positions that create credit, liquidity and market risk. The respective oversight organizations and committees are independent from the energy procurement departments.

The Company enters into a variety of derivative financial instruments to manage its exposure to commodity price, interest rate and foreign currency exchange rate risks, including:

- Interest rate swaps to mitigate the risk of rising interest rates or foreign currencies under which certain liabilities are denominated (and its related tax impacts); and,
- Commodity price contracts to hedge the volatility in the prices and basis of natural gas.

There has been no material change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

24.5. VALUE AT RISK ("VAR") ANALYSIS

The VaR measure estimates the potential loss in pre-tax profit, under normal market conditions, over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Along with other tools, the Company uses VaR to measure its exposure to market risk primarily associated with commodity derivative instruments that the Company holds. The Company uses historical volatilities and correlations between instruments and positions in the calculations.

The Company uses a one-day holding period and a 95.0 percent confidence interval in its VaR calculations.

The one-day 95.0 percent VaR number reflects the 95.0 percent probability that the daily loss will not exceed the reported VaR.

The variance-covariance approach was used to calculate the VaR values.

	AS OF		
VAR HISTORY (95%, ONE DAY) BY RISK TYPE	12/31/18	12/31/17	12/31/17
Interest rate swap and commodities	$ 2,258	$ 2,581	$ 4,025
Total VaR exposure	$ 2,145	$ 2,452	$ 3,824

VaR is a statistical estimate of how much a portfolio may lose in the given time horizon for the given confidence interval. By using a VaR with a 95.0 percent confidence interval, the potential losses above that percentile are not considered; by using historical data possible adverse extreme movements might not be captured, since these did not occur during the time period considered in the calculations; and there is no guarantee that the actual losses will not exceed the calculated VaR.

While VaR captures the Company's daily exposure to commodity and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in commodity prices and interest rates over a year. Details of sensitivity analysis for foreign currency risk are set out in Note 24.7.1.

24.6. COMMODITY PRICE RISK

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. The Company's various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas markets. The Company's policy is to manage this risk within a framework that considers the unique market and operating and regulatory environments of each subsidiary.

The Company is generally exposed to commodity price risk, indirectly through its LNG, gas pipelines and storage, and power generating assets. The Company may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indexes, but may also include fixed price purchases and sales of commodities. (Please refer to Note 24.4.).

24.7. FOREIGN CURRENCY RISK MANAGEMENT

The Company has investments in entities whose functional currency is not the U. S. Dollar; additionally, it also has balances in Mexican Pesos held by its U. S. Dollar functional currency subsidiaries, exposing the Company to currency fluctuations.

The Company's primary objective in reducing foreign currency risk is to preserve the economic value of the investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations.

As mentioned above, the Company enters into transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency-denominated financial assets and financial liabilities, in relation to its subsidiaries' functional currencies, at the end of the reporting period are as follows:

	FINANCIAL ASSETS AS OF		
	12/31/18	12/31/17	12/31/16
U. S. Dollar functional currency subsidiaries	$ 907,113	$ 746,038	$ 171,462
Mexican Peso functional currency subsidiaries	32,146	33,594	19,900

	FINANCIAL ASSETS AS OF		
	12/31/18	12/31/17	12/31/16
U. S. Dollar functional currency subsidiaries	$ 860,870	$ 853,067	$ 779,000
Mexican Peso functional currency subsidiaries	31,325	26,478	34,012

For the Company's U.S. Dollar functional currency subsidiaries their Mexican Peso balances include: bank accounts and short-term investments, VAT, income tax receivables or payables, prepaid expenses, guarantee deposits, intercompany loans, long-term debt, trade accounts payable and other tax withholdings.

For the Company's Mexican Peso functional currency subsidiaries, their U.S. Dollar balances include: bank accounts, intercompany loans, trade accounts receivables or payables and provisions.

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

	MEXICAN PESOS			
	12/31/18	12/31/17	12/31/16	02/19/19
One U.S. Dollar	$ 19.6829	$ 19.7354	$ 20.6640	$ 19.3625

24.7.1. . Foreign currency sensitivity analysis

The Company's account balances disclosed in Note 24.7. are exposed to the Mexican Peso for its U. S. Dollar functional currency subsidiaries and to the U. S. Dollar for its Mexican Peso functional currency subsidiaries.

The following table details the Company's profit and OCI sensitivity to a 10.0 percent increase and decrease in the U. S. Dollar against the Mexican Peso. The sensitivity rate used to report foreign currency risk internally to key Company's management is 10.0 percent, which represents management's benchmark of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10.0 percent change in foreign currency rates. The sensitivity analysis includes intercompany loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

A negative number below indicates a decrease in profit or equity where the U. S. Dollar strengthens 10.0 percent against the Mexican Peso for U. S. Dollar functional currency subsidiaries. For a 10.0 percent weakening of the U. S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be positive.

For U. S. Dollar functional currency entities, the sensitivity analysis to changes in the Mexican Peso to U. S. Dollar exchange rate is determined on a pre-tax basis due to the complexity of determining the tax impacts (tax laws recognize taxable or deductible exchange gains and losses based on the U. S. Dollar monetary position, regardless of the functional currency).

For Mexican Peso functional currency subsidiaries, a positive number below indicates an increase in profit or equity where the U. S. Dollar strengthens 10.0 percent against the Mexican Peso. For a 10.0 percent weakening of the U. S. Dollar against the Mexican Peso, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	U.S. DOLLAR FUNCTIONAL CURRENCY			MEXICAN PESO FUNCTIONAL CURRENCY		
	2018	2017	2016	2018	2017	2016
Profit (loss) (i)	$ 2,943	$ 6,811	$ 38,662	$ 52	$ (453)	$ 898
OCI	–	–	–	414	2,580	(9,486)

(i) This is mainly attributable to the exposure to outstanding Mexican Peso receivables in the U. S. Dollar functional currency subsidiaries at the end of each reporting period.

The U. S. Dollars functional currency subsidiaries sensitivity to foreign currency decreased mainly due to higher intercompany loans with unconsolidated affiliates.

The Mexican Peso functional currency subsidiaries sensitivity to foreign currency has increased mainly due to higher trade and other trade receivables balances.

24.8. INTEREST RATE RISK MANAGEMENT

In September 2005, the Company entered into derivative transactions to hedge future interest payments associated with forecasted borrowings of $450.0 million from third parties for ECA, which were designated as cash flow hedges.

In 2007, the original hedged items became probable of not occurring due to a change in the Company's external borrowing needs. Accordingly, a cash flow hedge gain of $30.0 million was reclassified from OCI in members' equity to current earnings, and changes in the fair value of these instruments were recognized in current earnings prospectively within other gains and losses line item.
As of December 31, 2014, there was one remaining interest-rate swap agreement with a notional amount of $151.2 million under which IEnova received a variable interest rate (three-month LIBOR) and paid a fixed interest rate of 5.0 percent.

The original terms of the swap expire on December 15, 2027. On September 16, 2015, the Company, through an early termination clause, made a prepayment in the amount of $29.8 million and as a result, such derivative was canceled. The one-year VaR information related to the interest rate swap is included in Note 24.5.

24.8.1. Interest rate swaps contracts entered into by the Company's joint ventures

As described in Note 10.2.b. the joint venture with Saavi Energia entered into a swap contract that effectively hedges the interest rate risk due to variable rate financings.

As described in Note 10.5.b. the joint venture with BlackRock entered into swap contract that effectively hedges the interest rate risk due to variable rate financings.

The fair value of derivative instruments is based on the market values in place as of the date of the Consolidated Financial Statements, which impacts investment in joint venture with a debit to current earnings.

The Company's management considers the results of the sensitivity analysis for these derivatives to be imaterial.

24.9. CREDIT RISK MANAGEMENT

Credit risk is the risk of loss that would be incurred as a result of nonperformance of the Company's counterparties contractual obligations. The Company monitors credit risk through a credit-approval process and the assignment and monitoring of credit limits. The Company establishes these credit limits based on risk and return considerations under terms customary for the industry.

As with market risk, the Company has policies and procedures to manage credit risk, which are tailored for each business segment, administered by each subsidiary's respective departments and overseen by their management.

In ECO, depending on the type of service requested by the customer, different criteria are applied as follows:

Minor customers (residential customers for household consumption):

- Copy of official identification;
- Proof of residence or power of attorney from landlord, in case of rental residences;
- Personal references, (which are confirmed); and,
- Registration with tax agency for commercial customers with minor consumption.

Major customers (customers for industrial and commercial consumption):

Power of attorney;
- Legal representative official identification;
- Copy of articles of incorporation;
- Proof of address; and,
- Depending on consumption volume, a guarantee is required, which could include letter of credit, cash deposit, or promissory notes among others.

The oversight includes a monthly review of 100.0 percent of the balances of major customers by the credit and collection department, to make sure that payments are made on a timely manner and to ensure that they are in compliance with the agreed terms of their contract.

The Company believes that it has allocated adequate reserves for counterparty's nonperformance.
For all other entities of the Gas and Power segments, when the Company's development projects become operational, they rely significantly on the ability of their suppliers to perform on long-term agreements and on the ability to enforce contract terms in the event of nonperformance.

Also, the factors that the Company considers in evaluating a development project include negotiating customer and supplier agreements and, therefore, rely on these agreements for future performance.

24.9.1. Concentration of credit risk

The Company conduct their businesses based upon ongoing evaluations of their customers' financial conditions and certain guarantees, except when such clients qualify for credit based on their long-term debt credit ratings issued by S&P's or other credit rating agency in the U. S. or Canada.

The management believes that the risk arising from its concentration of credit is mitigated since all of their major customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected.

The following table shows the Company's revenue concentration by customer:

	SEGMENT	12/31/18	12/31/17	12/31/16
Customer 1	Gas	$ 317,805	$ 317,055	$ 226,496
Customer 2	Power & Gas	218,126	142,445	–
Customer 3	Gas	171,666	168,937	40,592
Customer 4	Gas	143,026	113,086	6,143
Customer 5	Gas	123,366	114,093	30,040
Customer 6	Gas	98,435	103,043	101,998
Customer 7	Gas	84,846	87,160	88,646
Customer 8 *	Power	36,353	35,389	3,594
Customer 9	Gas	36,723	36,397	35,839
Customer 10	Power	–	–	110,576
Others **		138,209	105,300	123,165
		$ 1,368,555	$ 1,222,905	$ 767,089

* Please refer to Note 12.
** Within others, there are no customers with revenue concentration greater than 9.0 percent.

As mentioned above, all major customers pay on a monthly basis, otherwise service can be suspended until due amounts are collected, and as a result, the Company's management does not estimate the Company is exposed to significant credit risks.

The Company's maximum credit risk exposure as of December 31, 2018, 2017 and 2016, was $350.9 million, $313.6 million and $190.2 million, respectively.

24.10. LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the Parent's directors and IEnova's key executives, who have established an appropriate liquidity risk management framework for management of the Company's funding and liquidity management requirements. As of December 31, 2018, the projects were funded with resources obtained from the Global Offering (Note 1.2.2.), unconsolidated affiliates loans and bank financing. The Company's current liabilities exceed its current assets mainly due to loans from unconsolidated affiliates and short-term debt. As explained in Notes 6 and 22, the Company had $1,033.0 million of unused lines of credits with banks.

24.10.1. Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on contractual maturity, which is the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	5+ YEARS	TOTAL
December 31, 2018						
Variable interest rate from banks (SMBC)		$ 808,086	$ –	$ –	$ –	$ 808,086
Variable interest rate from banks (International debt 10 years)	3.75	11,250	33,750	56,250	300,000	401,250
Variable interest rate from banks (International debt 30 years)	4.88	26,325	78,975	131,625	1,066,500	1,303,425
Fixed interest rate for long- term debt (Note 23)	6.3	12,483	37,449	199,286	–	249,218
Variable interest rate loan from banks (Ventika)	6.49	53,649	83,028	197,086	447,892	781,655
Variable interest rate loan from banks (GdC)	4.63	49,316	33,268	283,563	–	366,147
Variable interest rate for long-term (Trina)	6.07	256	684	1,140	3,862	5,942
		$ 961,365	$ 267,154	$ 868,950	$ 1,818,254	$ 3,915,723

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	5+ YEARS	TOTAL
December 31, 2017						
Variable interest rate from banks (SMBC)		$ 137,053	$ –	$ –	$ –	$ 137,053
Variable interest rate from banks (Senior Notes 10 years)	3.75	6,563	33,750	56,250	316,875	413,438
Variable interest rate from banks (Senior Notes 30 years)	4.88	15,356	78,975	131,625	1,105,988	1,331,944
Variable interest rate of short-term debt (Note 23.)	4.14	65,871	–	–	–	65,871
Fixed interest rate of long-term debt (Note 23.)	6.30	12,623	37,868	211,378	–	261,869
Variable interest rate loan from banks (Ventika)	5.60	48,211	76,868	210,235	472,467	807,781
Variable interest rate loan from banks (IEnova Pipelines)	4.63	53,642	39,034	341,697	–	434,373
		$ 339,319	$ 266,495	$ 951,185	$ 1,895,330	$ 3,452,329

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	5+ YEARS	TOTAL
December 31, 2016						
Variable interest rate from banks (SMBC)		$ 442,560	$ –	$ –	$ –	$ 442,560
Variable interest rate of short-term debt (Note 23.)	4.14	2,512	57,613	–	–	60,125
Fixed interest rate of long-term debt (Note 23.)	6.30	12,055	36,166	24,111	177,769	250,101
Variable interest rate loan from banks (Ventika)	5.59	38,767	75,855	50,570	645,630	810,822
Variable interest rate loan from banks (IEnova Pipelines)	4.63	53,576	44,682	29,788	361,961	490,007
		$ 549,470	$ 214,316	$ 104,469	$ 1,185,360	$ 2,053,615

Prepayments on intercompany loans can be made at the Company's discretion.

The following table details the Company's liquidity analysis for its derivative financial instruments. The table has been drawn-up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates or commodity prices forward curves at the end of the reporting period.

	LESS THAN 1 YEAR	1-2 YEARS	3-5 YEARS	5+ YEARS	TOTAL
December 31, 2018					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	$ 176	$ (1,920)	$ (159,750)	$ (2,909)	$ (164,403)
	$ 176	$ (1,920)	$ (159,750)	$ (2,909)	$ (164,403)

	LESS THAN 1 YEAR	1-2 YEARS	3-5 YEARS	5+ YEARS	TOTAL
December 31, 2017					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	$ (38,978)	$ (3,032)	$ (12,579)	$ (141,516)	$ (196,105)
	$ (38,978)	$ (3,032)	$ (12,579)	$ (141,516)	$ (196,105)

	LESS THAN 1 YEAR	1-2 YEARS	3-5 YEARS	5+ YEARS	TOTAL
December 31, 2016					
Net settled:					
- Interest rate swaps, cross currency swap, exchange rate	$ (3,848)	$ (54,361)	$ (13,089)	$ (146,824)	$ (218,122)
	$ (3,848)	$ (54,361)	$ (13,089)	$ (146,824)	$ (218,122)

24.11. FAIR VALUE OF FINANCIAL INSTRUMENTS

24.11.1. Fair value of financial instruments carried at amortized cost

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

	AS OF					
	12/31/18		12/31/17		12/31/16	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets						
Financial lease receivables	$ 942,184	$ 942,184	$ 950,310	$ 950,310	$ 957,466	$ 957,466
Due to unconsolidated Affiliates	691,340	696,626	535,945	592,727	117,328	103,965
Financial liabilities						
-Financial liabilities held at amortized cost:						
-Long-term debt (traded in stock exchange)	1,038,142	865,710	1,037,614	998,995	249,744	232,812
-Loans from banks long-term	669,629	675,801	728,423	849,486	790,060	678,649
-Due from unconsolidated affiliates (Short-term)	310,696	310,694	554,497	553,558	260,914	491,879
-Short-term debt	872,314	872,314	266,143	266,143	498,198	678,649
-Loans from unconsolidated affiliates (Long-term)	75,161	67,963	73,510	69,967	3,080	3,080

24.11.2. Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of finance lease receivables is determined by calculating the present value of the minimum lease payments, including the contract extension period, using the discount rate that represents the Company's internal rate of return on capital investments.
- The Company determined the fair value of its long-term debt using prices quoted on recognized markets.
- For financial liabilities other than long-term debt, the Company determined the fair value of its financial liabilities carried at amortized cost by determining their present value as of each period end. The risk free interest rate used to discount to present value is adjusted to reflect the Company's own credit risk.
- The fair value of commodity and other derivative positions, which include interest rate swaps, are determined using market participant assumptions to price these derivatives. Market participants' assumptions include those about risk, and the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable.

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

24.11.3. Fair value measurements recognized in the Consolidated Statements of Financial Position

The Company applies recurring fair value measurements to certain assets and liabilities. "Fair value" is defined in Note 2.2.b.

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability as of reporting date, either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data and are generally less observable from objective sources.

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

	AS OF		
	12/31/18	12/31/17	12/31/17
Financial assets at FVTPL			
Short-term investments (Level 1)*	$ 26,366	$ 56,901	$ 51,443
Derivative financial assets (Level 2)	17,620	8,065	8,040
Financial liabilities at FVTPL			
Derivative financial liabilities (Level 2)	163,823	204,170	226,161

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

* The short term investments include restricted cash by $23.3 million, $55.8 million and $51.4 million as of December 31, 2018, 2017 and 2016, respectively.

24.11.4. Commodities and other derivative positions

The Company enters into derivative financial instrument agreements to hedge the volatility of its income tax impact attributable to the fluctuation of the Mexican Peso relative to the U. S. Dollar. Certain monetary assets and liabilities of the Company are denominated in U. S. Dollars (functional currency); however, they are remeasured in Mexican Pesos throughout the year for Mexican tax purposes. The remeasurement of these assets and liabilities gives rise to foreign currency gains and losses for Mexican tax purposes and impacts the Mexican income tax liability.

The Company recognized the change in fair value and the settlements in the "cost of revenue" line item within the Consolidated Statements of Profit.

25. INCOME TAXES

The Company is subject to ISR. The rate of current income is 30 percent.

25.1. INCOME TAXES RECOGNIZED IN THE CONSOLIDATED STATEMENTS OF PROFIT:

	AS OF		
	12/31/18	12/31/17	12/31/17
Current income tax:			
ISR	$ (113,683)	$ (39,376)	$ (102,950)
IETU-IMPAC	–	(205)	–
	(113,683)	(39,581)	(102,950)
Deferred Income tax:			
Deferred income tax	(29,381)	(64,582)	(14,395)
Total taxes in the Consolidated Statements of Profit	$ (143,064)	$ (104,163)	$ (117,345)

Income tax expense is reconciled with the profit before tax as follows:

	AS OF		
	12/31/18	12/31/17	12/31/17
Profit before income tax and share of profits of joint ventures	$ 535,666	$ 413,660	$ 829,494
Income tax expense calculated at 30%	(160,700)	(124,098)	(248,848)
Non-deductible expenses	(1,985)	(2,880)	(2,546)
Effects of foreign exchange rate	513	(17,806)	38,884
Effects of inflation adjustment	(28,076)	(32,341)	(8,779)
Effect of unused tax losses not recognized as deferred income tax asset	2,279	(25,965)	(23)
Effect of the remeasurement of equity method investment	–	–	201,921
Non-taxable income	–	368	1,055
Effect of foreign exchange rate and inflation on the tax bases of property, plant and equipment, net and unused tax losses	55,180	98,880	(97,792)
Other	(10,275)	(321)	(1,217)
Income tax expense recognized in the Consolidated Statements of Profit	$ (143,064)	$ (104,163)	$ (117,345)

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

- The effect of foreign currency exchange gains or losses is being calculated on Mexican Pesos balances for financial reporting purposes, while the Mexican income tax law recognizes foreign exchange gains or losses on U. S. Dollar balances.
- The effect of exchange rate changes in the tax basis of property, plant and equipment, which are valued in Mexican Pesos for tax purposes, while maintained in U. S. Dollars (functional currency) for financial reporting purposes. In addition, the Mexican income tax law takes into account the effects of inflation on such tax basis.
- The inflationary effects relative to certain monetary assets and liabilities.
- Tax losses used or not recognized as deferred taxes.

25.2. INCOME TAX RECOGNIZED DIRECTLY IN COMMON STOCK AND OCI

	AS OF		
	12/31/18	12/31/17	12/31/17
Recognized directly in common stock:			
Issuance or ordinary shares under IPO and Follow-on	$ –	$ 17,851	$ 10,463
Recognized directly in OCI:			
Tax related to actuarial gain on defined benefit plans	(156)	(211)	(530)
Tax on valuation of financial instruments held for hedging purposes	(4,605)	(2,357)	(5,459)
Total of income tax recognized directly in common stock and OCI	$ (4,761)	$ 15,283	$ 4,474

25.3. DEFERRED INCOME TAX ASSETS AND LIABILITIES BALANCES

The following is the analysis of deferred income tax assets (liabilities) presented in the Consolidated Statements of Financial Position:

	AS OF		
	12/31/18	12/31/17	12/31/17
Deferred income tax assets:			
Benefit of tax-loss carry forwards for recovering income taxes paid in previous years	$ 72,497	$ 171,015	$ 265,310
Accrued expenses and provisions	21,582	43,381	28,940
Effect of business combination IEnova Gasoductos Mexico	1,355	1,453	1,550
Employee benefits	6,845	5,941	4,835
Inventories	1,909	2,768	3,861
Allowance for doubtful accounts	159	139	123
Deferred income tax assets for issuance or ordinary shares under IPO and follow on	17,851	17,851	17,851
Deferred income tax asset regarding valuation of financial instruments held for hedging purposes	6,593	10,360	19,899
Others	–	–	(1,720)
Total deferred income tax assets	128,791	252,908	340,649
Deconsolidation effect (a)	(47,938)	(155,574)	(250,961)
Deferred income tax asset	$ 80,853	$ 97,334	$ 89,688

	AS OF		
	12/31/18	12/31/17	12/31/17
Deferred income tax liabilities:			
Property, plant and equipment	$ (228,634)	$ (318,297)	$ (340,451)
Finance leases	(282,525)	(285,000)	(287,240)
Effect of assets fair value and intangible of Ventika	(83,054)	(86,241)	(88,355)
Prepaid expenses	(4,396)	(4,693)	(11,263)
Other	(16,221)	(12,957)	(13,259)
Total deferred income tax liabilities	(614,830)	(707,188)	(740,568)
Deconsolidation effect (a)	47,938	155,574	250,961
Deferred income tax liabilities	$ (566,892)	$ (551,614)	$ (489,607)

a. The effects of tax deconsolidation in deferred income tax are presented to reflect that the Company no longer has the right to offset income taxes of its subsidiaries and, therefore, they are presented separately in the Consolidated Statements of Financial Position as of December 31, 2018, 2017 and 2016.

During 2017, the Company has not recognized a deferred tax asset in the amount of $15.2 million generated from the deductible temporary differences between book value and tax basis as a result of the decision to sale the partnership interest in TDM.

Additionally, the Company has not recognized a deferred tax asset in the amount of $23.4 million generated from the deductible temporary differences between book value and tax basis of TDM.

The Company considers that there are no sufficient taxable profits available to recognize all or part of the deferred tax asset.

25.4. DEFERRED INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following is an analysis of the deferred tax assets (liabilities) included in the Consolidated Statements of Financial Position:a:

	AS OF		
	12/31/18	12/31/17	12/31/17
Assets	$ 80,853	$ 97,334	$ 89,688
Liabilities	$ (566,892)	$ (551,614)	$ (489,607)
	$ (486,039)	$ (454,280)	$ (399,919)

Deferred tax assets have been recognized for tax-loss carryforwards and the IMPAC paid which provide for future tax benefits in the form of future deductible amounts and tax credits, respectively, and can be realized subject to compliance with certain requirements. Expiration dates and restated amounts as of December 31, 2018, are as follows:

YEARS	TAX-LOSS CARRYFORWARDS	IMPAC RECOVERABLE
2019	$ 1,675	$ 147
2020	1,630	147
2021	1,358	147
2022	537	147
2023	458	147
2024	2,243	147
2025	19,696	147
2026	206,996	147
2027	1,241	147
2028	5,824	151
	$ 241,658	$ 1,474

In determining the deferred income tax as described above, the effects of tax-loss carryforwards and IMPAC paid recoverable were included for $241.7 million and $1.5 million respectively.

25.5. CURRENT TAX RECEIVABLE AND PAYABLE

	AS OF		
	12/31/18	12/31/17	12/31/17
Current tax assets:			
ISR receivable	$ 74,806	$ 81,909	$ 6,390
Current tax liabilities:			
ISR payable	$ (63,044)	$ (3,384)	$ (13,322)

26. STOCKHOLDERS' EQUITY

	AS OF		
	12/31/18	12/31/17	12/31/17
Common stock	$ 963,272	$ 963,272	$ 963,272
Additional paid-in equity	2,351,801	2,351,801	2,351,801
	$ 3,315,073	$ 3,315,073	$ 3,315,073

26.1. ISSUED MEMBER'S EQUITY IS COMPRISED AS FOLLOWS:

Pursuant to a resolution of the general ordinary member's meeting on February 15, 2013, member's equity increase was approved at $1.00 Mexican Peso per share, which was subscribed and paid by SEH an unconsolidated affiliate, increasing the value of its social part; also, Company's name change from Sempra Mexico, S. de R. L. de C. V. to "Sociedad Anonima de Capital Variable" ("S. A. de C. V.", Public limited Company) was approved. As a result of such resolution, the change of social parts for shares was performed; as of February 15, 2013, the distribution of such shares was as follows:

	SHARES		
SHAREHOLDERS NAME	CLASS I	CLASS II	TOTAL
Sempra Energy Holdings XI, B.V.	4,990	935,908,312	935,913,302
Sempra Energy Holdings IX, B.V.	10	–	10
	5,000	935,908,312	935,913,312

Shareholder's equity consists of nominative shares with no-par value. The theoretical value per share is $10.00 Mexican Pesos. The Class I and II represent the fixed and the variable part of shareholder's equity, respectively. Variable capital may be increased without limitation.

On March 6, 2013, SEH subscribed for a capital increase in SEMCO (a subsidiary of Sempra Energy), agreeing to pay for such capital increase through a contribution of IEnova's shares in an amount to be determined based on the price per share in the Global Offering, and subject to the shares being duly registered with the Mexican National Securities Registry ("RNV", by its initials in Spanish). On March 21, 2013, the effective date of the Global Offering and registration of IEnova's shares with the RNV, SEMCO acquired 100-percent of the Shares of SEH pursuant to the above described terms; therefore, beginning on this date, SEMCO was the new Parent Company of IEnova.

On March 21, 2013, the Company carried out a Global Offering of shares. Through such Global Offering, the Company issued 189,661,305 shares at a placement price of $34.00 Mexican Pesos per share; such offering included an over-allotment option up to 28,449,196 shares. The amount of this Global Offering was $520,707 ($6,448.4 million Mexican Pesos).

In connection with the Global Offering, on March 27, 2013, the underwriters in Mexico and abroad exercised the over-allotment option. The amount of over-allotment was $78,106.0 ($967.0 million Mexican Pesos), related to 28,449,196 shares at the placement price of $34.00 Mexican Pesos per share.

On September 14, 2015, the Ordinary and Extraordinary Shareholder's Meeting approved the proposal of an equity offering through a combined global offering which consists of a public offering in Mexico to the general public and a concurrent international offering as defined by Rule 144A and in Regulation S, under the United States Securities Act of 1933.

In addition an equity increase was approved for up to $3,300.0 million Mexican Pesos in Ordinary and Extraordinary Shareholder's Meetings; of which 330 million ordinary shares were issued. As of December 31, 2015, such shares have been neither subscribed nor paid, and therefore no impacts have been reflected in the Consolidated Financial Statements.

26.2. GLOBAL OFFERING

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

Total capital raised, net of offering costs, was approximately $1.6 billion U. S. Dollars. As a result of the Global Offering, the Company raised $30,400 million Mexican Pesos, net of issuance costs for $659.5 million Mexican Pesos ($34.8 million U. S. Dollars). Subsequent to the Company's Global Offering, subscribed and paid common stock of IEnova is represented by a total of 1,534,023,812 shares.

26.3. CONSTITUCIÓN DE FONDO DE COMPRA DE ACCIONES PROPIAS

The Company's General Shareholders' Meeting celebrated on June 14, 2018, approved the formation of a fund to purchase the Company's own shares, considering an a maximum amount por that purpose as of December 31, 2018, of $250.0 million. As of December 31, 2018, the Company had repurchased 2,000,000 shares for a total of $7.2 million. The repurchased shares are held in the Company's treasury and cannot be released without board approval. As of December 31, 2018, the repurchase fund balance is for an amount of $242.8 million ($5,012 million Mexican Pesos).

	FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017 (MEXICAN PESOS)				
COMPANY STOCKHOLDER'S	NUMBER OF SHARES	FIXED CAPITAL	VARIABLE CAPITAL	TOTAL	TOTAL SHARES IN USD
SEMCO	1,019,038,312	$ 50,000	$ 10,190,333,120	$ 10,190,383,120	$ 751,825
Private investors	514,985,500	–	5,149,855,000	5,149,855,000	211,447
	1,534,023,812	$ 50,000	$ 15,340,188,120	$ 15,340,238,120	$ 963,272

27. DECLARED DIVIDENDS

During 2018, 2017 and 2016, pursuant to the resolution of Extraordinary Stockholders' Meetings, payments of dividends in cash were approved, to be paid from retained CUFIN balances. Under Mexican tax regulation, dividends paid from CUFIN balances are not taxed, dividends were declared and paid, for the following amounts:

MEETING DATE	AMOUNT
July 24, 2018 (*)	$ 210,000
July 25, 2017	$ 200,000
August 9, 2016	$ 140,000

* Dividends were paid on August 21, 2018.

27.1. DIVIDENDS PER SHARE

	Cents per share for year ended		
	12/31/18	12/31/17	12/31/16
IEnova	$ 0.14	$ 0.13	$ 0.11

28. SEGMENT INFORMATION

28.1. PRODUCTS AND SERVICES FROM WHICH REPORTABLE SEGMENTS DERIVE THEIR REVENUES

Information reported for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Company's reportable segments are described and presented in Note 1.3.

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

28.2. SEGMENT REVENUES AND RESULTS

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment:

	Segment revenues year ended		
	12/31/18	12/31/17	12/31/16
Gas:			
Revenues from customers	$ 919,783	$ 888,647	$ 548,947
Revenues from unconsolidated affiliates	138,752	103,043	101,998
Intersegment revenues	329,527	309,179	238,147
Power:			
Revenues from customers	99,592	99,164	12,315
Revenues from unconsolidated affiliates	208,652	130,192	101,192
Corporate:			
Allocation of professional services with affiliates	1,776	1,859	2,637
Intersegment professional services	34,974	29,970	29,484
	1,733,056	1,562,054	1,034,720
Intersegment adjustments and eliminations	(364,501)	(339,149)	(267,631)
Total segment revenues	$ 1,368,555	$ 1,222,905	$ 767,089

	Segment revenues year ended		
	12/31/18	12/31/17	12/31/16
Gas	$ 445,259	$ 463,483	$ 912,370
Power	65,357	(34,316)	(104,900)
Corporate	(80,030)	(74,993)	(52,480)
Total segment profit	$ 430,586	$ 354,174	$ 754,990

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

28.3. ASSETS AND LIABILITIES BY SEGMENT

	As of		
	12/31/18	12/31/17	12/31/16
Assets by segment:			
Gas	$ 6,705,011	$ 6,425,446	$ 5,716,175
Power	1,356,815	1,170,970	1,241,689
Corporate*	706,771	567,443	169,084
Consolidated total assets	$ 8,768,597	$ 8,163,859	$ 7,126,948
Liabilities by segment:			
Gas	$ 1,066,774	$ 1,031,448	$ 983,424
Power	655,386	652,502	641,479
Corporate*	2,292,687	1,963,322	1,151,734
Consolidated total liabilities	$ 4,014,847	$ 3,647,272	$ 2,776,637

*Corporate segment

The chief decision makers have decided to reclassify retrospectively the amounts of $39.7 in assets and $0.8 in liabilities as of December 31, 2017, related to Liquid Terminals included in Corporate segment to the Gas segment, considering more appropriate to include operations and assets to this segment. (Please refer to Note 2.29.).

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

- All assets are allocated to reportable segments. Goodwill is allocated to reportable segments.
- All liabilities are allocated to reportable segments.

28.4. OTHER INFORMATION BY SEGMENT

	Property, plant and equipment as of			Accumulated depreciation as of		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Gas	$ 3,777,923	$ 3,569,528	$ 3,354,683	$ (616,526)	$ (510,744)	$ (424,639)
Power	1,150,247	686,195	677,440	(232,776)	(24,885)	(1,807)
Corporate	19,685	18,881	16,191	(11,639)	(9,519)	(7,783)
	$ 4,947,855	$ 4,274,604	$ 4,048,314	$ (860,941)	$ (545,148)	$ (434,229)

	Depreciation and amortization year ended			Additions to property, plant and equipment year ended		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Gas	$ 100,794	$ 86,182	$ 60,703	$ 218,811	$ 205,452	$ 692,853
Power	34,228	31,049	4,356	222,384	8,373	673,808
Corporate	2,135	1,789	1,547	1,550	3,237	1,376
	$ 137,157	$ 119,020	$ 66,606	$ 442,745	$ 217,062	$ 1,368,037

	Interest income year ended			Finance (cost) income year ended		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Gas	$ 2,105	$ 813	$ 959	$ (12,074)	$ 3,371	$ 23,144
Power	804	963	1,176	(23,631)	(25,573)	(1,542)
Corporate	24,540	21,032	4,159	(87,174)	(51,299)	(42,694)
	$ 27,449	$ 22,808	$ 6,294	$ (122,879)	$ (73,501)	$ (21,092)

	Share of profits of joint ventures year ended			Income tax (expense) benefit year ended		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Gas	$ 34,158	$ 41,094	$ 40,284	$ (107,875)	$ (97,340)	$ (132,951)
Power	3,826	3,583	2,557	(22,861)	(3,972)	30,889
Corporate	–	–	–	(12,328)	(2,851)	(15,283)
	$ 37,984	$ 44,677	$ 42,841	$ (143,064)	$ (104,163)	$ (117,345)

28.5. Revenue by type of product or services

The following is an analysis of the Company's revenue from its major type of product or service:

	Year ended		
	12/31/18	12/31/17	12/31/16
Transportation of gas	$ 483,458	$ 438,277	$ 175,217
Power generation	307,039	229,934	113,127
Sale of natural gas	258,966	176,334	145,912
Other operating revenues	133,646	156,306	145,943
Storage and regasification capacity	112,923	109,837	97,168
Natural gas distribution	72,523	112,217	89,722
	$ 1,368,555	$ 1,222,905	$ 767,089

Other operating revenues

a. IEnova Marketing received payments from SLNGIH and SLNGI related to the losses and obligations incurred in the amount of $98.5 million, $103.0 million and $102.0 million for the years ended December 31, 2018, 2017 and 2016, respectively; such balances are presented within the revenues line item in the Consolidated Statements of Profit.

   On August 3, 2018, as a part of dissolution of SLNGIH there was a deed of termination executed between IEnova Marketing and SLNGIH, transferring indemnity obligations under the deed of indemnity from SLNGIH back to SLNGI by executing the Third Amended and Restated LNG Sale and Purchase Agreement (LNG SPA) between IEnova Marketing and SLNGI.

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

29. Revenue from contracts with customers

29.1. Contracts with customers

The Company has initially applied IFRS 15 from 1 January 2018. The following table shows the distribution by type of revenue shown in the Consolidated Statements of Profit for the years ended on December 31, 2018:

	Year ended 12/31/18
Revenue from operations:	
Contracts with customers	$ 866,426
Leases	161,584
Derivatives	69,617
Others - Sale of natural gas	171,206
Other revenue - Non IFRS 15	99,722
Total revenue	$ 1,368,555

29.2. DISAGGREGATION OF REVENUE FROM REGULAR OPERATIONS

Following is a breakdown of income from contracts with clients by type of product or service, operating segment and date on which obligations are met, as well as a reconciliation of total revenue per segment for the years ended on December 31, 2018 :

	YEAR ENDED 12/31/18					
		TOTAL SUBSIDIARIES		CONSOLIDATION ADJUSTMENTS		TOTAL
By type of product or service:						
Service revenues:						
Power generation	$	525,409	$	(218,370)	$	307,039
Transportation of gas		392,875		(51,411)		341,464
Storage of natural gas		195,229		(82,306)		112,923
Administrative services		149,322		(122,979)		26,343
Natural gas distribution		81,941		(3,284)		78,657
Total revenue from contracts with clients	$	1,344,776	$	(478,350)	$	866,426
Others - Sale of natural gas		262,436		(91,230)		171,206
Total revenue	$	1,607,212	$	(569,580)	$	1,037,632
Obligations met:						
Over time	$	1,344,776	$	(478,350)	$	866,426
Total revenue from contracts with clients	$	1,344,776	$	(478,350)	$	866,426
By operating segment:						
Gas		1,388,062		(329,527)		1,058,535
Power		308,244		–		308,244
Corporate		36,750		(34,974)		1,776
Total revenue	$	1,733,056	$	(364,501)	$	1,368,555

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

The Company records revenue from services and from the generation of wind and electric energy at the time those services are rendered or delivered to and accepted by that client, in the terms of the programs established in each contract. That income is assigned on the basis of independent sales prices established in the contract and on the basis of amounts incurred. Assignment of the consideration, and therefore the schedule of income recognition, required no changes as a result of adopting IFRS 15.

Energy services and deliveries are conducted over time, as the client receives the benefits provided by the Company throughout the period in which the contract remains in effect.

Following is a detailed description of the principal features by type of product or service:

i. *Revenue from power generation*

The Company generates revenue from renewable energy generated by Ventika, a wind energy generation facility acquired in December 2016.

Such revenue for the sale of power is recorded under long term U. S. Dollar PPAs as energy is delivered at the interconnection point. It is invoiced to clients based on the volume of electricity delivered at rates established in a formula set down in the contracts.

The client has a period of time established in the contract (commonly up to the later of (i) 10 days following issuance of the invoice and (ii) the 30th of the calendar month in question) to make full payment on the invoice in question. In certain contracts, if Ventika fails to provide the client with the minimum production agreed over one year of operations, it must pay the client a fine in the amount of the difference between (i) what the client must pay the CFE to acquire that energy in the market and (ii) the amount the Client would have paid Ventika to purchase the minimum amount of energy at the contract price. The Company has determined that the transaction price does not contain a significant financing component.

ii. *Revenue from transportation of gas*

Transportation services are provided over long-term agreements based on rates established at inception of the contract and the Company is obligated to transport and deliver natural gas and other products to the costumer from the receipt point to the delivery point, subject to a minimum/maximum.

The variable usage fee it's depends of the volume delivered. The stand-alone selling price is established at the inception of each contract and depends of the agreement it could be based on a regulated rate or a conventional rate.

iii. *Revenue from storage of natural gas*

Natural gas always remains the property of the storage service clients, which pay a global rate based on two components:

1. A fixed rate, which confers the right to store natural gas at Company facilities.
2. A rate per unit for volumes injected into or withdrawn from the storage unit.

The fixed rate component of the global rate is recorded as revenue for the period in which the service is rendered. The charge per unit is recorded as revenue when volumes are injected into or withdrawn from the storage units.

iv. *Revenue from administrative services*

Revenue from services rendered under the management agreements generally arises as services are rendered and are recorded over time as clients receive and consume the benefits of said services.

Clients are invoiced for services on the basis of an fixed annual rate and payment is generally due in one month. Certain agreements allow for the reimbursement of expenses when the Company acts as agent of affiliates, such as in cases where it manages invoicing and personnel subcontracting of other affiliates. In those cases, income is recorded net of the respective expenses incurred.

v. *Revenue from natural gas distribution*

Revenue is generated through the monthly distribution service charges billed to its customers. The purchase price of natural gas for the Company is based on international price indices and is transferred directly to customers. The charges for the distribution service of the ECO system are regulated by the CRE, which reviews the rates every five years and monitors the prices charged to final consumers. The current tariff structure of natural gas minimizes the market risk to which the Company is exposed, since the rates are adjusted regularly based on inflation and fluctuations in exchange rates. The adjustments due to inflation take into account the cost components incurred both in Mexico and in the United States, so that costs incurred in the latter country can be included in the final rates.

29.3 BALANCES FROM REVENUE ARISING FROM CONTRACTS WITH CUSTOMERS

Revenue from rendering services to customers prior to expiration of the payment date is recorded as contractual assets until the remaining performance obligations are satisfied.

When payments are received prior to complying with the performance obligations associated with contracts with customers, that revenue is deferred as a contractual liability and is generally amortized in line with profits during the lifetime of the contract, provided performance obligations are met.

The following table shows the reconciliation of balances at the opening and closing of contracts with clients for Company, contractual assets and liabilities as of December 31, 2018.

	CONTRACTS ASSETS	CONTRACT LIABILITIES
Balance as of January 01, 2018	$ –	$ (834)
Adjustments for adoption of IFRS 15	–	–
Revenue from performance obligation satisfied during reporting period	–	–
Revenue from performance obligation satisfied in previous reporting periods	–	–
Other deferred revenue adjustments		(6,803)
Cash receipts	–	–
Advance payments	–	(4,346)
Reclassifications to accounts receivable	–	–
Balance as of December 31, 2018 *	$ –	$ (11,983)

*The contract liabilities are presented in Other non - current liabilities in the Consolidated Statements of Financial Position.

i. Accounts receivable from contracts with customers

The following table shows the receivable balances associated with contracts with customers shown in the Consolidated Statements of Financial Position.

	YEAR ENDED 31/12/18
Accounts receivable - commercial - net	101,038
Accounts receivable - other - net	52,611
Total	$ 153,649

29.4 PERFORMANCE OBLIGATIONS

Company revenue from contracts with customers are principally related to the generation, transfer and distribution of electricity and the transfer, distribution and storage of natural gas via our regulated public services. Likewise, other midstream services are provided as well as others pertaining to renewable energy.

The Company considers the transfer of electricity and natural gas, as well as natural gas storage services, to be continuous and integrated services. Electricity and natural gas services are generally received and consumed by the client simultaneously. Therefore, the performance obligation related to the services is met over time and represents a series of differentiated services which are substantially the same and show the same transfer-to-client pattern. Energy services and deliveries are conducted over time, as the client receives the benefits provided by the Company throughout the period in which the contract remains in effect

Payment conditions in contracts with clients vary. There is generally an unconditional right to client payment, which expires once the performance obligation to the client has been complied with.

Therefore, there are no material contractual assets or contractual liabilities in the Consolidated Statements of Financial Position. The lapse from the date of invoicing to the expiration date is not significant, i.e., usually from 10 to 90 days.

Therefore, revenue is usually recognized when the agreed basic service has been rendered to the clients and an amount has been invoiced to the clients reflecting the consideration to which it is entitled in exchange for those services.

29.5 TRANSACTION PRICE ASSIGNED TO PENDING PERFORMANCE OBLIGATIONS

The Company elected to implement the practical expedient so as not to disclose information concerning its pending performance obligations, because it records revenue from regular operations based on compliance with the performance obligation.

REMAINING PERFORMANCE OBLIGATIONS	
2019	$ 508
2020	508
2021	509
2022	512
2023	506
Thereafter	2,732
Total Revenues to be recognized	$ 5,275

No information is disclosed concerning remaining performance obligations for (a) contracts with an expected duration of one year or less, (b) revenue recorded in the amount the entity is entitled to invoice for services rendered, and (c) a variable consideration assigned to performance obligations that have remained entirely unsatisfied.

29.6 SIGNIFICANT JUDGMENTS

The Company uses the product method to record revenue from regular operations under contracts with clients related to performance obligations satisfied over time so as to determine the schedule for satisfaction of said performance obligations, as the value of the delivery of electricity or natural gas to the client can be measured directly on the basis of units delivered. In most cases, the right to the consideration of the client corresponds directly to the value transferred to the client and is recorded in income in the amount the entity is entitled to invoice.

The Company records revenue from services and from the generation of wind and electric energy at the time those services are rendered or delivered to and accepted by that client, in the terms of the programs established in each contract. Consequently, assignment of that revenue is based on independent sales prices established in the contract and on the basis of amounts incurred. Therefore, assignment of the consideration and, consequently, the schedule for revenue recognition was not affected by adoption of IFRS 15.

29.7 ASSETS RECORDED FOR COSTS INCURRED IN ORDER TO SECURE OR COMPLY WITH A CONTRACT WITH A CLIENT.

The Company has not recorded assets pertaining to costs incurred in order to secure or comply with a contracts with clients at December 31, 2018.

30. INTEREST INCOME

		YEAR ENDED				
		12/31/18 (NOTE 12)		12/31/17 (NOTE 12)		12/31/16 (NOTE 12)
Interest income:						
Unconsolidated affiliates	$	24,405	$	21,651	$	5,198
Bank investments		3,044		1,157		1,071
	$	27,449	$	22,808	$	6,269

The following is an analysis of interest income by category of asset:

		AS OF				
		12/31/18 (NOTE 12)		12/31/17 (NOTE 12)		12/31/16 (NOTE 12)
Loans and receivables (including cash and bank balances)	$	24,405	$	21,651	$	5,198
Held-to-maturity investments		3,044		1,157		1,071
	$	27,449	$	22,808	$	6,269

31. OPERATING, ADMINISTRATIVE AND OTHER EXPENSES

		YEAR ENDED				
		12/31/18 (NOTE 12)		12/31/17 (NOTE 12)		12/31/16 (NOTE 12)
Purchased services	$	101,490	$	81,954	$	42,082
Employee benefit expenses		88,231		78,033		55,625
Purchased materials		20,750		22,305		11,775
Outside services and others		4,048		20,690		12,788
	$	214,519	$	202,982	$	122,270

Outside services and others include charges related to leases of land and buildings with lease terms between five and ten years. Operating lease contracts greater than five years includes review periods of five years to rent. The Company does not have an option to purchase the leased land at the end of the leasing periods.

32. OTHER GAINS (LOSSES), NET

		YEAR ENDED				
		12/31/18 (NOTE 12)		12/31/17 (NOTE 12)		12/31/16 (NOTE 12)
Net gains (losses) arising on derivative financial instruments (b)		3,415		(6,135)		(3,477)
Other gains (losses)		2,697		2,262		(402)
Net foreign exchange (losses) gains (a)	$	(6,104)	$	(37,027)	$	4,652
	$	8	$	(40,900)	$	773

a. A foreign exchange loss by $2.9 million and $34.9 million for the years ended December 31, 2018 and 2017, on a peso-denominated inter-affiliate loan granted to IMG for the development of the South Texas - Tuxpan marine pipeline project for our proportionate share of the project´s financing is included. (Please refer to Note 10.3.).

b. The amount represents a change in fair value arising from the cross currency swaps, interest rates swaps and foreign exchange forwards and the related settlements. (Please refer to Note 24.).

33. FINANCE COSTS

		YEAR ENDED				
		12/31/18 (NOTE 12)		12/31/17 (NOTE 12)		12/31/16 (NOTE 12)
Capitalized interest (a)	$	10,746	$	10,181	$	14,876
Decommissioning liabilities accretion expense		(2,552)		(2,249)		(1,686)
Other finance costs		(8,615)		(5,037)		(3,865)
Interest on loans from unconsolidated affiliates		(17,747)		(8,338)		(17,268)
Long - term interest		(104,711)		(68,058)		(13,149)
	$	(122,879)	$	(73,501)	$	(21,092)

a. Please refer to Note 14., for the capitalized interest on qualified assets.

34. DEPRECIATION AND AMORTIZATION

	YEAR ENDED		
	12/31/18 (NOTE 14)	12/31/17 (NOTE 14)	12/31/16 (NOTE 14)
Depreciation of property, plant and equipment	$ 126,839	$ 110,461	$ 66,003
Amortization of other assets	10,318	8,559	603
Total depreciation and amortization expense	$ 137,157	$ 119,020	$ 66,606

35. BASIC AND DILUTED EARNINGS PER SHARE

	YEAR ENDED		
	12/31/18	12/31/17	12/31/16
Basic and diluted earnings per share	$ 0.28	$ 0.23	$ 0.61

35.1. EARNINGS USED IN THE CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE

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

	YEAR ENDED		
	12/31/18	12/31/17	12/31/16
Earnings from continuing operations used in the calculation of basic and diluted earnings per share	$ 430,586	$ 354,174	$ 754,990
Weighted average number of shares for the purposes of basic and diluted earnings per share	1,533,857,145	1,534,023,812	1,235,758,229

The Company does not have potentially diluted shares.

36. COMMITMENTS

36.1. SALES COMMITMENTS

a. *GRO.* Eentered into firm transportation service agreements ("FTSAs") with eight customers. Under the FTSAs, the Company is committed to provide firm natural gas transportation service up to certain daily quantities of natural gas, defined as Maximum Daily Quantities ("MDQ") measured in dekatherms per day ("Dth/d"). The FTSAs establish a transportation service rate which can be a conventional rate or a regulated rate. Such rates are applied to customers' reserved daily transportation capacity. Conventional rates typically remain fixed during the term of the contract. The regulated rates are adjusted annually for inflation and other factors per regulations and the CRE authorization. The range of effective periods and the agreed-upon MDQ for each agreement described above are from 5 to 25 years and from 800 to 1,307,000 Dth/d, respectively.

b. *TGN.* Entered into FTSAs with two clients. Through FTSAs the Company commits to surrender transportation services up to a certain daily amount of natural gas. The FTSAs establish conventional or regulated transportation rates.

c. *ECA.* The Company has a contract to sell 50 percent of the LNG Terminal's capacity to a third party for 20 years commencing in May 2008. As of April 2009, the customer assigned a portion of its contracted capacity to another independent third party.

The Company built a nitrogen facility to provide nitrogen injection services to agreed storage capacity parties. Agreement terms were embedded into the LNG Terminal's FTSAs with same period term of 20 year.

d. *GAP.* Entered into a 25 year capacity contract with CFE corresponding to segment Sasabe Guaymas, which started operations in December 2014 and has a capacity of 793,100 Dth/d.

The Company, entered into a 25 year capacity contract with CFE related to next segments:

	SASABE Puerto Libertad	PUERTO LIBERTAD Guaymas	SAN ISIDRO Samalayuca	GUAYMAS El Oro	OJIANGA El Encino
Capacity	793.1 Dth/d		1,169.02 Dth/d	525.3 Dth/d	1,396.7 Dth/d
Started Operation	10/01/2015	08/01/2015	03/31/2017	05/19/2017	06/30/2017
Zone	Sonora	Chihuahua	Sonora y Sinaloa	Chihuahua	

The Company, entered into a 21 year capacity contract with CFE corresponding to segment El Ramal Empalme which started operations in June 2017 and has a capacity of 232.8 Dth/d. This agreement was executed on May 5, 2016.

The Company, has entered into Interruptible Transportation and Compression of natural gas Service Agreements ("ITSAs") with Shell Trading Mexico, S. de R. L. de C. V. Under the ITSAs, the Company is committed to provide interruptible natural gas transportation service up to 1,000 Dth/d defined as MDQ. The ITSAs establish a transportation service rate which has to be approved by CRE. This agreement was executed on May 15, 2017, and will continue in full force until May 15, 2022.

The Company, has entered into ITSAs with Union Energetica del Noroeste, S. A de C. V. Under the ITSAs, the Company is committed to provide interruptible natural gas transportation service up to 3,600 Dth/d defined as MDQ. The customer will pay the regulated fee applicable in accordance with the latest publication by the Official Gazzete of the Federation and according to the modifications approved by the CRE. This agreement will be valid as of the date on which the customer notifies to GAP that is ready to start the natural gas tests and will be in force until such tests are concluded. This agreement was executed on January 4, 2017.

e. *IEnova Pipelines.* Celebró contratos de ITSA con dos clientes. Bajo los ITSA, la Compañía se compromete a proporcionar los servicios de transporte y compresión de gas natural interrumpible hasta ciertas cantidades diarias, medidas en Gigacalorias por día ("Gcal/d"). Los ITSA establecen un precio de servicio de transporte y compresión publicado en el Diario Oficial de la Federación de acuerdo con la normatividad aplicable. El rango de periodos efectivos y la CMD para cada acuerdo descrito anteriormente son de uno a tres años y de 3,822 a 10,000 Gcal/d respectivamente. Los contratos entraron en vigor el 22 de marzo de 2017 y 19 abril de 2017, y tendrán vigencia al 22 de marzo de 2018 y 30 de abril de 2020, respectivamente.

On February 15, 2001, entered into a contract with to increase the maximum daily capacity of natural gas transportation to Chihuahua, by adding a natural gas compression system. The contract term is 20 years, commencing on November 12, 2001 (date of commencement of commercial operation of the station), with the right of renewal for additional five years. The maximum daily capacity covered by this contract is 60 MMCFPD.

On October 22, 2014, entered into a natural gas transportation services contract, under the TF-1 firm transport service scheme with CFE for a firm base reserved capacity of 100 MMCFPD with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.

On October 22, 2014, entered into an agreement to provide natural gas transportation service under the TI-1 interruptible transport service scheme to CFE for an interruptible capacity of 72 MMCFPD with a regulated rate. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.

On October 31, 2014, entered into a natural gas transportation services contract, under the TI-2 interruptible transport service scheme with CFE for an interruptible capacity of 50 million cubic feet per day with a regulated rate. After December 31, 2014, the amendments extend the maturity with automatic renewals of one-year period.

On September 28, 2016, entered into a fifth natural gas transportation services amending agreement, under the TF-1 firm transport service scheme with PGPB signed on December 11, 2009, for a firm base reserved capacity of 40 MMCFPD with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.

On September 28, 2016, entered into a fifth natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with PGPB signed on December 11, 2009 for an interruptible capacity of 80 MMCFPD with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year period. This agreement is currently in effect with Pemex TRI.

On September 28, 2016, entered the into a fifth natural gas transportation services amending agreement, under the TI-2 interruptible transport service scheme with PGPB signed on December 11, 2009 for a interruptible capacity of 80 MMCFPD with a regulated rate. After December 31, 2017, the amendments extend the maturity with automatic renewals of one-year periods. The agreement is currently in effect with Pemex TRI.

On December 16, 2014, entered into a second natural gas transportation services amending agreement, under the TI-1 interruptible transport service scheme with Energia Chihuahua signed on December 21, 2012, for an interruptible capacity of 80 MMCFPD. After December 31, 2015, the amendments extend the maturity with automatic renewals of one-year period.

On February 17, 2012, signed a service contract to LPG storage with Pemex TRI. This contract provides base storage capacity reserved of 4,470 MMCFPD to 30,000 Bbld. The contract term is 15 years with a conventional rate, which represents the rate regulated by the CRE minus 1.2 percent. This contract was given in all rights and obligations, together with all attachments to TdN, by signing an amendment agreement dated on June 18, 2012, between IEnova Pipelines, TdN and Pemex TRI.

f. *GAP.* In October 2012, was awarded by the CFE with two contracts to build and operate an approximately 835 km (500 miles) natural gas pipeline network connecting the northwestern Mexican states of Sonora and Sinaloa ("Northwest gas pipeline", also known as the "Sonora Pipeline") to the U.S. interstate pipeline. The Northwest gas pipeline will comprised of two segments; the first one is for an approximate length of 505 km, 36-inch diameter pipeline with 770 MMCFPD of transportation capacity; and the second one, is for an approximate length of 330 km, 30-inch pipeline with 510 MMCFPD of transportation capacity. The estimated price per MMCFPD is approximately $250.0. The Company estimates the total cost of the Northwest gas pipeline will be $1.0 billion. The capacity of the Northwest gas pipeline is fully contracted by CFE under two 25-year firm contracts denominated in U.S. Dollars.

In order to ensure compliance, during the construction stage and up to the scheduled date of commercial operation of the Northwest gas pipeline, GAP issued 2 irrevocable standby credit letters, for $90.0 million and $65.0 million with CFE as beneficiary, with term of one year, which can be extended automatically for annual periods until November 30, 2039 and until October 31, 2041, respectively.

g. *La Rumorosa solar project.* Entered into an Electricity Sales and Purchase Agreement ("SPA") with CFE for 15 years and has a contracted energy of 114,115.9 MWh by year and shall take effect from Commercial Operation Date ("COD") which is on June 15, 2019; the contract was executed on January 20, 2017.

The Company, signed a Clean Energy Certificates ("CEC") SPA with CFE for 20 years. During this period ESJH acquired the obligation to sell to CFE 117,064 CEC per year. This commitment will take effect from COD which is expected to occur on June 15, 2019, the contract was executed on January 20, 2017.

h. *Tepezala solar project.* Entered into an Electricity SPA with CFE for 15 years and has contracted energy of 278,357.76 MWh per year and shall take effect from COD which is expected to occur on June 15, 2019; the contract was executed on January 20, 2017.

The Company, entered into an Power SPA with CFE for 15 years and has a contracted power of 10 MW per year and shall take effect from COD which is expected to occur on June 15, 2019, the contract was executed on as of January 20, 2017.

The Company, signed a CEC with CFE for 20 years, during this period ESJRI acquired the obligation to sell to CFE 285,606 CEC per year, this commitment will take effect from COD which is expected to occur on June 15, 2019, the contract was executed on January 20, 2017.

i. *Pima solar project.* Entered into an electricity, power and CEC with Deacero, this contract was executed on March 24, 2017 and will have a duration of 20 years counted from the COD which is expected to occur in the first quarter of 2019.

Must deliver for each contract year at least the amount of CEC corresponding to the guaranteed Energy that will be one CEC per MWh and is obligated to transfer the net power of the power plant which is 110 MW.

j. *Marine terminal Veracruz proyect.* The Company executed the services agreement with Valero dated as of July 29, 2017. With effect since the COD, the Company will provide to the customer the terminal services for the reception, storage and delivery of refined products. The COD is expected to take place in December 2018 and include 775,000 barrels of shell storage capacity. The initial term of this agreement shall commence on the COD and shall run for a period of 10 years.

k. *Puebla in-land terminal project.* The Company executed the services agreement with Valero dated as of July 29, 2017. With effect since the COD, the Company will provide to the customer the terminal services for the reception, storage and delivery of refined products. The COD shall mean, among others, has tankage availability of 480,000 barrels of shell capacity. The parties expect the COD to occur twenty two months after the effective date. The initial term of this agreement shall commence on the COD and shall run for a period of 10 years.

l. *Mexico City in-land project.* The Company executed the services agreement with Valero dated as of July 29, 2017. With effect since the COD, the Company will provide to the customer the terminal services for the reception, storage and delivery of refined products. The COD shall mean, among others, has tankage availability of 780,000 barrels of shell capacity. The parties expect the COD to occur twenty two months after the effective date. The initial term of this agreement shall commence on the COD and shall run for a period of 10 years.

m. *IEnova Marketing.* On July 1, 2008, entered into a contract with CFE, for supply natural gas at the delivery points from an LNG Storage Plant, the contract ends on December 31, 2022, equivalent to 14.5 years.

The Company, has entered into a base contract for sale and purchase of natural gas (the "Base Contract"), through this contract IEnova Marketing celebrated a Supply Agreement with several clients to supply natural gas. The terms and conditions of the Supply Agreement are variable for each customer. As of December 31, 2017, IEnova Marketing support seven ongoing supply agreements with an average maturity less of 5 years.

On July 1, 2015, entered into a contract with SLNGIH, to transfer 65 percent of profits and losses under the deed of indemnity until August 30, 2029.

On February 1, 2013, entered into a Scheduling Agreement with SG&PM; the agreement ends on December 31, 2022. The objective of the agreement is to engage in the service of SGEN to supply natural gas at the delivery points of SG&PM.

On January 1, 2013 and September 1, 2014, entered into two natural gas purchase agreement with SLNGI. The agreements end on August 20, 2029 and December 31, 2022, respectively (equivalent to 16.6 years and 8.3 years respectively). The acquired capacities are 188,000 MMBtu/Year and 400 MMBtus/Day, respectively.

n. *GdT.* Executed a natural gas compression and transport service contract with PGPB. Such contract was signed on December 19, 2001, and stipulates a capacity of 1,000, million cubic feet of natural gas. The contract provides for a conventional rate as established in the natural gas regulations of the CRE. The contract duration is 20 years, computed as of November 12, 2003 (the starting date of commercial operations). On January 1, 2016, this agreement was transferred to CENACE.

o. *GdN.* On July 19, 2013, entered into an agreement to provide natural gas transportation services to Pemex TRI. The agreement has a term of 25 years from COD the system with a regulated rate. This contract is under scheme firm transport capacity reserved of 2,100 Mcfd. This contract was transferred to CENACE on January 1, 2016.

p. *DEN.* On December 15, 2014, entered an agreement with TAG to provide O&M services. This agreement expires in 25 years from the pipeline commercial operations.

On January 1, 2016, entered an agreement with TAG to provide commercial services for a period equal Natural Gas Transport Permit G/335/TRA/2014 in favor of TAG, starting from the firm contract date.

q. *Ventika.* During 2014, entered into a 10 to 20-year contract with their customer's shareholders to sell 100 percent of the renewable energy produced from the wind energy project. Such agreement commenced in April 2016 once Ventika started commercial operations.

r. *TDF.* On December 15, 2005, entered into a LPG transport service contract with Pemex TRI, under firm base capacity reserved of 4,470 MMCFPD equivalent to 30,000 Bbld. This agreement expires 20 years after COD.

s. *GdS.* On December 13, 2012, entered into an ethane gas transportation services contract with Pemex TRI. The contract duration is 21 years with a conventional rate. The contract is under the firm transport service scheme for a firm base reserved capacity of: Segment I Cangrejera– Complejo Etileno XXI 33,000 BPD, Segment I Complejo Etileno XXI–Cangrejera 29,500 BPD, Segment II Nuevo Pemex km 3 66,000 BPD, Segment II Cactus–km 3 38,000 BPD, Segment II km 3–Complejo Etileno XXI 95,500 BPD and Segment III Cd. Pemex–Nuevo Pemex 105,600 BPD.

t. *Wind power generation facility.* On November 16, 2017, the Company through Energia Sierra Juarez 2 U. S., LLC, its wholly owned subsidiary, executed a 20-year power purchase agreement with SDG&E, a IEnova's unconsolidated affiliate. The contract will be supplied through a new wind power generation facility that will be located in the municipality of Tecate in Baja California, Mexico. The project will have a capacity of 108 MW.

u. *Long-term electric supply contract.* On February 28, 2018, the Company executed a 15-year electricity supply contract with various subsidiaries of Liverpool. The electricity will be generated by a new solar power plant that will be located in the municipality of Benjamin Hill in the State of Sonora, Mexico with a capacity of 125 MW. The beginning of commercial operations is expected to occur in the second half of 2019.

v. *Marine terminal, Baja California, Mexico.* On April, 2018, the Company signed a long-term contract with Chevron, for approximately 50 percent of the terminal's storage capacity.

On March 14, 2018, the Company executed a second long-term contract for the storage and delivery of hydrocarbons with BP, for the remaining 50 percent of the terminal's storage capacity.

w. *Marine terminal in Topolobampo, Sinaloa, Mexico.* In September and October 2018, the Company announced the execution of two long-term, U. S. dollar-denominated, contracts with subsidiaries of Chevron and Marathon for the storage and delivery of refined products, primarily gasoline and diesel, at the terminal, for the receipt, storage and delivery in Topolobampo, Sinaloa, Mexico. The agreements will allow Chevron and Marathon to each utilize approximately 50 percent of the terminal's initial one million barrels of storage capacity.

x. *Marine terminal in Manzanillo, Colima, Mexico.* On September 26, 2018, the Company executed a long - term contract with Trafigura, for 740 thousand barrels, equivalent to 50 percent of the terminal's storage capacity.

y. *Liquefied natural gas project.* On November 7, 2018, the Company announced together with Sempra LNG & Midstream, the signature of three agreements with affiliated companies of Total S. A., Mitsui & Co., Ltd. and Tokyo Gas Co., Ltd. for the full capacity of phase 1 of the ECA liquefied natural gas project located in Baja California, Mexico.

The project's phase 1 is a single-train liquefaction facility to be located adjacent to the existing receipt terminal and is expected to produce approximately 2.4 million tonnes of LNG per annum with potential first LNG deliveries in 2023.

z. *Power purchase agreement.* On December 17, 2018, the Company, executed a 15-year electric supply contract with Autlan to provide energy from the Company's portfolio of solar generation project's.

The beginning of commercial operations is expected to occur in the fourth quarter of 2019.

36.2. PURCHASE COMMITMENTS

a. ***Rumorosa solar project.*** In 2017, entered into several land leases for the development and construction of two photovoltaic solar power systems in Baja California and Sonora, Mexico, respectively. The agreements are a 20-year term. During 2018 and 2017 payments under the agreements were $0.1 million, and $0.1 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS	
2019	$	111
2020		111
2021		111
Thereafter		1,662
	$	1,995

During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $5.8 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS	
2019	$	7,072

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

YEAR	AMOUNTS	
2019	$	185
2020		150
2021		160
Thereafter		3,087
	$	3,582

b. ***PIMA solar project.*** In 2017, ESJH and ESJRII entered into several land leases for the development and construction of two photovoltaic solar power systems in Baja California and Sonora, Mexico, respectively. The agreements are a 20-year term. During 2018 and 2017, payments under the agreements were $0.2 million and $0.2 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS	
2019	$	201
2020		201
2021		201
Thereafter		3,013
	$	3,616

In the fourth quarter of 2017, ESJH, ESJR I and ESJR II entered into various engineering, procurement and construction agreements with third parties for the PIMA Solar Project.

During 2018 and 2017, payments under the agreement were $116.5 million and $3.1 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS	
2019	$	8,097

During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $9.0 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS	
2019	$	1,000

c. The Company leases the building space of its administrative offices in the cities of Hermosillo, Monterrey, Guadalajara, Mexicali, Chihuahua, Durango, and Mexico City. During 2018, 2017 and 2016, the rent expense amounted to $4.1 million, $3.7 million and $4.2 million, respectively.

The leases expire in 2016 through 2021 and establish the following future contractual payments:

YEAR	AMOUNTS	
2019	$	3,968
2020		2,078
2021		1,404
Thereafter		2,507
	$	9,957

d. ***TDM.*** During 2003, entered into a Long Term Services Agreement ("LTSA") with a third party, which covers certain periodic maintenance, including replacement parts for power generation turbines. The term of the agreement is based on turbine usage, that can not exceed 24 years.

Payments under the agreement consist of a fixed fee of $24.0 per month, plus a variable escalation percentage and a variable fee based upon unit run-hours and starts.

The fixed monthly fee payments are expensed as incurred. The variable payments are classified as prepayments on the statements of financial position and are capitalized as property, plant and equipment if they relate to the replacement of major components, or expensed when such payments occur. While some services are provided ratably throughout the year, the primary cost driver is planned outages at the facility. Variable payments are subject to fluctuations based on the timing and scope of the services being provided.

During 2018, 2017 and 2016, payments, under the LTSA, were $0.2 million, $0.4 million, and $0.5 million, respectively; variable payments under such LTSA were $2.4 million,$4.3 million and $6.1 million, respectively.

This agreement was terminated in June 1, 2018.

SGEN and TDM. On January 1, 2013 (with effective date on January 1, 2012), entered into an schedule coordination, energy management and related services agreement, with term of 5 years (with possibility to extend the term one more year), for which TDM will continue to deliver all of its power output directly to the CAISO and SGEN provides marketing, scheduling, and dispatch services for TDM, among others. On December 1, 2016 this contract was assigned to Sempra Gas & Power Management LLC.

During 2018, 2017 and 2016, payments under the agreement were $6.8 million, $5.1 million and $5.5 million, respectively. Future contractual cash payments are as follows::

YEAR	AMOUNTS
2019	$ 3,500

e. *ECA.* Entered into a service agreement with Turbinas Solar, S. A. de C. V. ("Turbinas Solar") which provides extended service and maintenance for five gas turbines. As of April 2014, Turbinas Solar assigned this agreement to Servicios de Turbinas Solar, S. A. de C. V. The agreement establishes two main types of services: a monthly fee covers operational support and extended product warranty for $124.4 million and a variable cost based on turbine usage, expensed as incurred, for major turbine maintenance, that will be capitalized and amortized over a five-year period based on its estimated useful life. The term of the agreement is 60-months starting from the date of first beneficial use. During 2013, the Company renegotiated the agreement-terms until 2018.

During 2018, 2017 and 2016, payments under the agreement were $1.4 million, $3.6 million and $3.6 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS
2019	$ 208

Entered into various technical service and maintenance agreements with third parties. During 2018, 2017 and 2016, payments under such agreements were $4.9 million, $8.2 million and $11.6 million, respectively. Future contractual cash payments of such commitments are as follows:

YEAR	AMOUNTS
2019	$ 3,111
2020	1,250
2021	1,200
Thereafter	16,800
	$ 22,361

f. On January 1, 2013, the Company entered into an Information Technology Services Agreement with Sempra Infrastructure, LLC ("Sempra Infrastructure") (formerly U.S. Gas & Power) (a related party in U.S.). Pursuant to this agreement, Sempra Infrastructure will provide certain software and information technology services, including software, support and security services. The Company pays an approximate annual rate of $6.8 million. This agreement has an initial term of five years, and for subsequent five year Renewal Terms thereafter.

g. On February 28, 2013, the Company entered into a Management, Technical and Advisory Services Agreement with Sempra International (a related party in U.S.); pursuant to which Sempra International (directly or through affiliates) will provide with certain support services. The Company paid $6.5 million, $8.3 million and $5.8 million during 2018, 2017 and 2016, respectively.

h. *ECO.* Entered into purchase agreement of natural gas contract with British Petroleum from February 1, 2015 to January 31, 2017 for 14,000 MmBtu daily. In 2016, the contract changed from British Petroleum to IEnova Marketing (consolidated affiliate).

i. *GdT.* On December 5, 2012, entered into an agreement with Pemex TRI through which it receives compression services based on interruptible by PGPB to GdT, on investment of $4.6 million will be used for the rehabilitation of compression station 19 and PGPB reinstate costs in 75 percent and only paid 25 percent to Pemex TRI. On January 1, 2016 this agreement was transferred to CENAGAS.

j. *TDF.* On December 15, 2005, entered into an agreement with Pemex TRI, through which it receives O&M services for liquid gas transport system. This agreement expires 20 years after COD. The agreement is currently in effect with Pemex Logistica.

During 2018 and 2017, payments during the agreement were $5.2 million and $5.2 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS
2019	$ 5,155
2020	5,155
2021	5,155
Thereafter	20,620
	$ 36,085

k. *TdN.* On February 21, 2012, entered into an agreement with PGPB, through which it provides operation and maintenance services for the LPG transportation services. This agreement expires 20 years after COD. This agreement is currently in effect with Pemex Logistica.

During 2018 and 2017, payments during the agreement were $3.0 million and $3.1 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS
2019	$ 3,047
2020	3,047
2021	3,047
Thereafter	30,974
	$ 40,115

l. ***GdS.*** On April 16, 2014, entered into an agreement with Pemex TRI, through which it provides operation and maintenance services for the ethane gas transportation services. This agreement expires in 20.5 years after the first segment commercial operational date. This agreement is currently in effect with Pemex Logistica.

During 2018 and 2017, payments during the agreement were $6.2 million and $6.2 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS	
2019	$	6,201
2020		6,201
2021		6,201
Thereafter		79,057
	$	97,660

m. ***Gasoductos Servicios Corporativos y de Administración, S. de R. L. de C. V. ("GSCA").*** On March 30, 2017, entered into an agreement with GE Oil & Gas Products and Services, S. de R. L. de C. V. ("GE") for the maintenance of GdT's turbines. This agreement will expire upon the first occur considering the following:

a) The date upon which all covered units have reached their performance end date, or
b) Eight years from the contract effective date.

The estimated cost of this contract amounts to $18.2 million.

During 2018 and 2017, payments during the agreement were $2.5 million and $0.6 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS	
2019	$	3,061
2020		5,038
2021		3,080
Thereafter		2,312
	$	13,491

GSCA and GdT. Entered into various O&M agreements during 2017. During 2018 and 2017, payments during the agreement were $1.3 million and $1.4 million, respectively.

Future contractual cash payments are as follows:

YEAR	AMOUNTS	
2019	$	1,041

n. ***Veracruz marine terminal project.*** Entered into an agreement with the Veracruz API as concessionary, for the right to build, use, leverage and benefit from the operation of the marine terminal in Veracruz, Mexico, with an obligation for the Company to pay a fixed fee from 2019 until maturity date in 2037, during 2018 payments were $26.0 million.

Under the concession contract signed in 2017, the Company is subject to a monthly fee. Net future payments of this contractual commitment are as follows:

YEAR	AMOUNTS	
2019	$	2,457
2020		3,893
2021		4,069
Thereafter		100,524
	$	110,943

During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $36.4 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS	
2019	$	45,944

During 2018, the Company started several contracts for land improvement. During the year ended December 31, 2018, payments under these contracts were $3.3 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS	
2019	$	2,966

o. ***Ventika.*** Has acquired the rights to a 20-year land lease agreement to use land for generating and transmitting electricity using wind turbines. The agreement can be extended by another 20-year term.

During 2018 and 2017, payments during the agreement were $0.5 million and $0.5 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS	
2019	$	544
2020		581
2021		620
Thereafter		10,298
	$	12,043

On June 3, 2013, entered into 5-year O&M agreement with Acciona Energia Servicios Mexico, S. de R. L. de C. V. ("Acciona") which commenced after the commissioning of the last wind turbine units, and covers operation, service and maintenance activities. The agreement can be extended by another 20-year term.

During 2018 and 2017, payments during the agreement were $6.5 million and $7.6 million, respectively. Future contractual cash payments are as follows:

YEAR	AMOUNTS
2019	$ 7,433
2020	6,773
2021	2,839
	$ 17,045

On April 8, 2014, entered into a 5-year asset management services agreements with Cemex, S. A. B. de C. V. Payments under the agreement consist of an annual fixed fee plus a variable administration commission.

During 2018 and 2017, payments during the agreement were $5.0 million and $5.0 million, respectively. Future expected payments for Ventika are as follows:

YEAR	AMOUNTS
2017	$ 5,308
2018	5,379
2019	3,484
	$ 14.171

p. ***IEnova Marketing.*** On May 1, 2008, entered into a contract with MGI Supply, LTD ("MGI"), to purchase the gas natural transportation capacity in the North Baja System. The acquired capacity is 210 Dth/d. The contract term is for 14 years (ends on August 31, 2022).

On November 24, 2016, entered into a purchase natural gas capacity agreement with SG&PM, to guarantee the ongoing Supply Agreements signed with several customers. The acquired capacity is variable and the average maturity is less of 5 years.

q. ***Puebla in-land terminal project.*** During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $6.1 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS
2019	$ 10,988

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

YEAR	AMOUNTS
2019	$ 5,833

r. ***Mexico City in-land project.*** During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $6.2 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS
2019	$ 22,212

During 2018 the Company started several parcel land purchase negotiations for the site on which the project will be constructed. During the year ended December 31, 2018 payments under these contracts were $0.7 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS
2019	$ 3,826

s. ***Tepezala II solar project.*** During 2018, the Company entered into several contracts for the project. During the year ended December 31, 2018, payments under these contracts were $13.7 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS
2019	$ 76,970

During 2018, the Company entered into assignment agreements of the permits and rights of way. During the year ended December 31, 2018, payments under these contracts were $3.3 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS
2019	$ 2,388

During 2018, the Company started several parcel land purchase negotiations for the site on which the project will be constructed. During the year ended December 31, 2018, payments under these contracts were $0.2 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS
2019	$ 305
2020	285
2021	285
Thereafter	4,272
	$ 5,147

t. *Compression stations.* During 2018, the Company entered into several contracts for the construction of the project. During the year ended December 31, 2018, payments under these contracts were $3.9 million. Net future payments under these contractual commitments are as follows:

YEAR	AMOUNTS
2019	$ 26,562

u. *Topolobampo, Sinaloa terminal project.* During 2018, the Company entered into a contract for the concession agreement with the Administration of Topolobampo Port. During the year ended December 31, 2018, the payments under this contract were $18.4 million. Net future payments under this contractual commitment is as follows:

YEAR	AMOUNTS
2019	$ 17,894

Under the aforementioned concession agreement the Company is subject to a monthly fee. Net future payments under this contractual commitment is as follows:

YEAR	AMOUNTS
2019	$ 2,167
2020	2,273
2021	2,384
Thereafter	63,874
	$ 70,698

v. *Software licenses.* During 2018, the Company entered into a contract for the purchase of software licenses. Net future payments under this contractual commitment are as follows:

YEAR	AMOUNTS
2019	$ 4,880
2020	880
2021	880
Thereafter	1760
	$ 8,400

37. CONTINGENCIES

37.1. MATTERS RELATED WITH TAX AUTHORITIES

Additional income taxes payable could arise in transactions with nonresident unconsolidated affiliates if the Mexican Tax Authority (Servicio de Administracion Tributaria, "SAT" by its initials in Spanish), during a review, believes that prices and amounts used by the Company are not similar to those used with or between independent parties in comparable transactions.

37.2. JUDICIAL, ADMINISTRATIVE OR ARBITRAL PROCEEDINGS

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

Matters on ECA

a. ***Motions for review (recurso de revision) against MIA of the ECA Terminal, filed by Castro, Valdez y Palafox.*** In May 2003, ***Hiram Castro Cruz*** and ***Roberto Valdez Castañeda ("Castro and Valdez")***, jointly, and Monica Fabiola Palafox ("Palafox"), acting individually filed ***motions for review*** before the Ministry of the Environment and Natural Resources ***(Secretaria de Medio Ambiente y Recursos Naturales, SEMARNAT)*** to challenge the issuance of the MIA to the ECA Terminal granted in April 2003, based on allegations similar to IVG's allegations. SEMARNAT dismissed the motions and the plaintiffs filed before the Federal Court of Tax and Administrative Justice ***(Tribunal Federal de Justicia Fiscal y Administrativa, TFJFA)***, in Mexico city, motions for annulment against the respective rulings. In January 2006 and May 2013, the TFJFA issued the judgments declaring null and void the rulings through which SEMARNAT dismissed the motions for annulment ordering SEMARNAT to issue new rulings in the terms set forth in such judgments. In the case of Castro and Valdez, SEMARNAT admitted the motion and in January 2012 it issued a resolution ratifying the validity of the MIA. In March 2012, Valdez filed before the TFJFA a motion for annulment against the ruling issued by SEMARNAT and ECA filed before the Collegiate Circuit Court for the Federal District, a motion against the ruling whereby the TFJFA ordered the admittance of the motion filed by Valdez. In the case of Palafox, SEMARNAT has not issued its resolution on the MIA yet. The management of the Company deems that the claims of Castro, Valdez and Palafox are unfounded.

   Finally, against the resolution of dismissal Roberto Valdes filed an annulment proceeding that was resolved denying the annulment to the complainant by means of a judgment published in January 2017.

b. ***Saloman Arya Furst*** and ***Abraham Hanono Raffoul*** filed before the Unitary Agrarian District Court of Ensenada a claim against the Ministry of Agrarian Reform ***(Secretaria de la Reforma Agraria)***, ECA and other 20 defendants. The purpose of such claim is to procure a declaration of nullity of the property rights granted by the National Agrarian Registry regarding some plots of land where ECA's Terminal is located, as well as the return of another plot which allegedly is located in the same place, based on the argument that the property titles issued in favor of the ECA's former owners were issued improperly and without considering the existing property rights of such immovable property. In September 2011, was held a definitive hearing on the subject, where the plaintiffs offered evidence to extend their claim. The judge did not admit the evidence, and before issuing the judgment, the plaintiffs filed a constitutional claim against the refusal of the judge to the admittance of the evidence. The action of the judge is suspended by the constitutional claim, and, the constitutional trial cannot continue until the Court serves notice of the civil claim to the other defendants, which has not happened. The Company deems that the claim is ungrounded.

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

On November 3, 2017, a diligence for inspection and study in the field was carried out by various experts offered by the litigants. To date all experts have surrendered their respective opinions. The Agrarian Court has ordered the issuance of an expert opinion of a third party in dispute and is requesting the Superior Agrarian Court, the appointment of an expert for this purpose.

c. *Criminal Investigation.* In May 2009, Sanchez Ritchie filed before the Attorney General Office of Ensenada a criminal complaint arguing that "Sempra's affiliates", several employees of ECA's Terminal and several former employees of such Office committed the crime of procedural fraud as to a criminal complaint filed by ECA, which owns ECA's Terminal against Sanchez Ritchie in 2006 as part of the conflict related to the possession of an immovable property adjacent to ECA's Terminal, which is property of the Company. In September 2006, ECA accused Sanchez Ritchie of the crime of dispossession for having trespassed ECA's immovable property. As part of such proceedings, the public prosecutor issued a provisional order to remove Sanchez Ritchie from the immovable property. In the criminal complaints filed in 2009, Sanchez Ritchie argued that ECA and the other defendants provided false information to obtain such order. The public prosecutor responsible of the case determined that there was not enough evidence to prosecute the defendants and closed the investigation; and, in March 2011, the criminal court of Tijuana ratified the withdrawal of the action. In September 2011, Sanchez Ritchie filed a constitutional claim against the respective ruling before the Collegiate District Court of Ensenada. The hearing to analyze the substantive aspects of the constitutional claim was held in March 2012 and in July 2012 the judge granted the protection regarding the omission in the study, by the criminal judge, of certain evidence and arguments submitted by Sanchez Ritchie. The district judge ordered the criminal judge to issue a new resolution considering such issues. ECA's Terminal appealed the resolution in the Federal Circuit Court, which as of December 31, 2015, had not issued a ruling on the matter. On October 19, 2016, the District Judge dismissed the amparo suit filed by Sanchez Ritchie. This resolution caused a state of affairs and the judgment was filed as a closed case.

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

e. Lawsuit challenging issued driving licenses of Agency for Safety, Energy and Environment (Agencia de Seguridad, Energia y Ambiente ASEA) and Mexican Ministry of Energy (Secretaria de Energia de Mexico SENER) related to Environmental Impact Evaluation and Social Impact Evaluation, respectively, from one of our ECA's liquefaction projects. On August 2018, the Bajamar's Leading Resort through Banco Santander Mexico, S. A. Institucion de Banca Multiple Grupo Financiero Santander Mexico, Institucion Fiduciaria in the Trust 53153-0, filed a lawsuit before a District Judge with residency in Ensenada, Baja California, against the Environmental Impact Evaluation and Social Impact Evaluation from one of our ECA's liquefaction projects, which was issued in late 2017, by ASEA and SENER, respectively. The lawsuit was admitted by District Judge, who granted the temporary suspension in order to keep things in the state they are, and not to suspend the procedure, and no final resolution was issued over the works and construction or operation of the project from which results the claimed acts, until it happened.

Incidental audience that was scheduled on October 23, 2018, was postponed to January 28, 2019. ECA presented a complaint resort against the order was granted temporary suspension.

38. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

IFRS 9 Financial Instruments

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

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

Classification and measurement

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

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

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

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

Impairment

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

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

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

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

IFRS 9 implementation analysis
The Company´s adoption date for IFRS 9 is on January 1, 2018. At the date of initial application and upon transitional provision under IFRS 9, the Company did not restate prior periods for comparative figures purposes. Difference that might arise as a result of adopting IFRS 9 between previous carrying amounts and the carrying amount at the beginning of the annual reporting period should be allocated to opening retained earnings. However, no differences were identified.

As a result of the implementation strategy towards IFRS 9 adoption and based upon the classification and measurement requirements fulfillment, the Company conclude that all of its financial assets would continue to be recognized under the current categories as follows:

ASSETS	IAS 39 MEASUREMENT BASIS	IFRS 9 MEASUREMENT BASIS	CHANGE
Cash and cash equivalents / restricted cash	Amortized cost	Amortized cost	No
Short term investments	FVTPL	FVTPL	No
Trade and other receivable, net	Amortized cost	Amortized cost	No
Trade receivables from unconsolidated related parties	Amortized cost	Amortized cost	
Financial derivatives	FVTPL	FVTPL	No

Although receivables under a finance leases scheme meet the definition of financial asset, are exclude from the scope of IFRS 9. However lease receivables recognized by a lessor and finance lease payables recognized by a lessee are subject to the derecognition requirements of IFRS 9 and in the case of lease receivables by the lessor, impairment requirements under IFRS 9 are also applicable.

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

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

Based on the implementation strategy towards IFRS 9 impairment adoption, the Company concludes that the financial assets mainly affected by impairment losses under the expected loss model are trade and other receivables, net. The Company is confident that the simplified approach is better suited to its operations and no significant financial impact in the financial statements was determined.

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

Accounting for Hedges

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

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

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

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

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

Please refer to Note 29 for additional disclosures concerning the nature, quantity, timing and uncertainty of revenue arising from contracts with customers

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

La Compañía no ha aplicado las siguientes IFRS nuevas y revisadas que se han emitido pero que aún no han entrado en vigor:

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

Regarding the transition methodology to be used, the Company will be using the modified retrospective method. The Company will recognize a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments. However, The Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Company does not intend to adopt the standard before its effective date.

Expected impact from adoption of the lease standard

		AS OF 01/01/19
Other assets (reclassification from prepayments and other liabilities) (Refer to Notes 9 and 19)	$	(68,295)
Right of use assets:		164,540
	$	96,245
Lease liabilities:		
Lease current liabilities	$	(25,768)
Lease non current liabilities		(70,477)
Total leases liabilities	$	(96,245)

Annual Improvements to IFRSs 2015 - 2017 Cycle

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

Amendments to IFRS 3 *Business Combinations* clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interest in that business.

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

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

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

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

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement of IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are remeasured each reporting period. Contracts are measured using the building blocks of: 1) discounted probability-weighted cash flows, 2) an explicit risk adjustment, and 3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows to choose between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their Financial Assets under IFRS 9.

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

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items.

When applying, the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

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

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

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

IFRIC 23 *Uncertainty over Income Tax Treatments*

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

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

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date. The Company not expect any significant effect on its consolidated financial statements.

39. EVENTS AFTER REPORTING DATE

a. *Topolobampo marine terminal*

On January 4, 2019, IEnova Petroliferos IV, S. de R. L. de C. V. paid the remaining 50 percent of a counter-payment fee equivalent to the amount in Mexican Pesos for the right to build, use, leverage and benefit from the operation of the marine terminal in Topolobampo, the counter-payment amounts to $350.5 million Mexican Pesos. (Please refer to Note 1.2.13.h.).

b. *Withdrawals of credit line*

On January 9, 2019, regarding the credit line mentioned in Note 23.a. the Company withdrew $50.0 million, to be used for working capital and general corporate purposes.

c. *ICM asset acquisition*

On January 28, 2019, ICM issued 770,000 new shares to the Company, following the transaction, ownership of ICM is held as follows, (Please refer to Note 11.6.):

SHAREHOLDER	SHARES HELD	OWNERSHIP PERCENTAGE
IEnova	15,577,708	52.35%
Trafigura	14,178,013	47.65%

d. *Don Diego asset acquisition*

On February 5, 2019, the Company paid the remaining of the consideration for Don Diego acquisition, after issued the final notice for the assigned Engineering Procurement and Construction contract. (Please refer to Note 11.4.).

e. *Increase and term extension to revolving credit agreement*

On February 11, 2019, the Company entered into an amendment agreement to i) increase the amount of the credit line to $1.5 billion, ii) extend the term thereof from August 2020 to February 2024 and iii) include JP Morgan Chase Bank, N. A. and Credit Agricole Corporate and Investment Bank to the lenders' syndicate. The interest rate will be libor + 90 bps and the payment commitment will be 24 bps.

f. *Repurchase of shares*

During the month of February 2019, repurchases of shares were carried out for a total of $ 5.8 million, equivalent to 1,600,000 shares.

40. APPROVAL OF FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements were authorized for issuance on February 19, 2019, by Manuela Molina Peralta, Chief Financial Officer, and subject to the approval of the Management Board and the ordinary shareholders of the Company, who may be modified in accordance with the provisions of the General Law of Commercial.

41. REGISTERED OFFICES

- Paseo de la Reforma No. 342 Piso 24
  Torre New York Life
  Col. Juárez, C.P. 06600
  Ciudad de México, México.
- Campos Eliseos No. 345 Piso 4
  Torre Omega
  Col. Chapultepec Polanco C.P. 11560
  Ciudad de México, México.
- Carretera Escénica Tijuana – Ensenada
  km. 81.2 Col. El Sauzal, C. P. 22760
  Ensenada, B.C., México.
- Carretera Mexicali Tijuana km. 14.5
  Col. Sonora, C. P. 21210
  Mexicali, B.C., México.
- Avenida Tecnológico No. 4505
  Col. Granjas, C. P. 31160
  Chihuahua, Chihuahua, México.
- Avenida Constitución Poniente No. 444
  Col. Monterrey Centro C. P. 64000
  Monterrey, Nuevo León, México.

Algodones Compression Station

GLOSSARY

AND FORMULAS

ACTIS	Actis LLP, financial asset management corporation. IEnova and its subsidiary, Saavi Energía, have a joint venture
API	Administración Portuaria Integral (Comprehensive Port Authority)
ASEA	Agencia de Seguridad, Energía y Ambiente (National Agency for Safety, Energy, and the Environment)
Autlán	Compañía Minera Autlán, S.A.B. de C.V.
Baja Refinados Terminal	A refined products storage terminal located in the state of Baja California. It is currently under construction. The project will have a 1,000,000 bl capacity
Benthonic fauna	A group of organisms that live on seabeds
Bl	Barrels
BlackRock	BlackRock, Inc. is an investment asset management corporation.
BMV	Bolsa Mexicana de Valores (Mexican Stock Exchange)
BP	BP plc., and subsidiaries, formerly British Petroleum, is an energy company, specializing in oil and natural gas
Carbon dioxide equivalent	A measurement used to compare several greenhouse gas emissions based on their global warming potential
Cemefi	Centro Mexicano para la Filantropía (Mexican Center for Philanthropy)
CEMEX	Cemex, S.A.B. de C.V., and subsidiaries
CENACE	Centro Nacional de Control de Energía (National Center for the Control of Energy)
CFE	Comisión Federal de Electricidad (Federal Electricity Commission)
CRE	Comisión Reguladora de Energía (Energy Regulatory Commission)
Chevron	Chevron Combustibles de México, S. de R.L. de C.V.
CICESE	Centro de Investigación Científica y de Educación Superior de Ensenada (Ensenada Center for Scientific Investigation and University Studies)
DeAcero	DeAcero, S.A.P.I. de C.V., and subsidiaries
DEN	Ductos y Energéticos del Norte, S. de R.L. de C.V., was the joint venture between IEnova and Pemex TRI until November 2017
Don Diego Solar	Solar energy park with a 125 MWAC capacity. It is currently under construction. Located in the state of Sonora
EBITDA	Earnings Before Taxes, Depreciation, and Amortization
ECA	Energía Costa Azul S. de R.L. de C.V., is an LNG storage and regasification terminal
ECOGAS	Ecogas México, S. de R.L. de C.V., is IEnova's natural gas distribution business
ESJ	Energía Sierra Juárez, a 155 MW wind farm located at La Rumorosa, in the state of Baja California
Ethane Pipeline	Pipeline that includes three segments. It includes approximately 224 km of pipelines with a capacity to transport approximately 52 mcfd (0.6 mthd) of ethane gas in the first segment, and approximately 152 mcfd (1.8 mthd) in the second segment. The third segment has the capacity to transport approximately 106,000 bld (1.9 mthd) of liquid ethane. It is used to transport ethane from the Pemex processing facilities located in the states of Tabasco, Chiapas, and Veracruz to the Etileno XXI ethylene and polyethylene polymerization plant in Veracruz
FCPA	Foreign Corrupt Practices Act
FEMSA	Fomento Económico Mexicano, S.A.B. de C.V.

GAP	Aguaprieta Pipeline
GdC Pipelines	Gasoductos de Chihuahua, S. de R.L. de C.V., entity which until September 26, 2016 was the joint venture between IEnova and Pemex TRI. Gasoductos de Chihuahua has now changed its name to IEnova Pipelines
GPTW	Great Place to Work (program that ranks the best companies to work for)
GR	Rosarito Pipeline
GW	Gigawatts
GWh	Gigawatts hour
HP	Horsepower
IEnova	Infraestructura Energética Nova, S.A.B. de C.V.
IEnova Marketing	IEnova Marketing, S. de R.L. de C.V.
IEnova Pipelines	Previously Gasoductos de Chihuahua, S. de R.L. de C.V., it was the joint venture between IEnova and Pemex TRI
INECOL	Instituto de Ecología, A.C. (Ecology Institute)
InterGen	InterGen N.V. and/or its subsidiaries Energía Azteca X, S. de R.L. de C.V. and/or Energía de Baja California, S. de R.L. de C.V. In 2018, Actis acquired the InterGen portfolio in Mexico
Involuntary Turnover Rate	(Number of hires in a year - number of involuntary cuts in a year) / Total number of employees
IPC	Índice de Precios y Cotizaciones (IPC Index of the Mexican Stock Exchange)
ISO	International Organization for Standardization
ISR	Income Tax
km	Kilometers
kW	Kilowatts
kWh	Kilowatts-hour
Liverpool	El Puerto de Liverpool, S.A.B. de C.V.
LNG	Liquefied Natural Gas
LNG Terminal	A natural liquefied natural gas storage terminal. It is located in the city of Ensenada, in the state of Baja California. It has a storage capacity of 320,000 m^3 (73.3 mthd) in two 160,000-m^3 (36.6 mthd) tanks, and the capacity to deliver 1,300 mfc
Los Ramones I Pipeline	Pipeline of approximately 116 km in length, 48 inches in diameter, two 123,000-HP compression stations, and capacity to transport 2,100 mcfd (21.8 mthd) of natural gas. The system starts at the US border with the state of Tamaulipas and interconnects with the Los Ramones Norte Pipeline in the city of Ramones, in the state of Nuevo León
Los Ramones Norte Pipeline	Pipeline, which is a joint venture with BlackRock, of approximately 452 km in length, 42 inches in diameter, two 123,000-HP compression stations, and capacity to transport 1,420 mcfd (14.8 mthd) of natural gas. The system starts at the interconnection with the Los Ramones I Pipeline, at the city of Ramones, in the state of Nuevo León, and interconnects with the Los Ramones Sur Pipeline in the state of San Luis Potosí

LP Gas	Liquefied Petroleum Gas
LP Gas Terminal in Guadalajara	A liquefied petroleum gas storage terminal with a total storage capacity of 80,000 bl (4.4 mthd) of LP Gas. It is located in the state of Jalisco
LTAR	Lost Time Accident Rate
Manzanillo Terminal	A storage terminal for refined products located in the state of Colima. It is currently under construction and will have a capacity of 1,480,000 bl. The project will be developed through a joint venture between IEnova and Trafigura
mbd	Millions of barrels daily
mbl	Millions of barrels
mcf	Millions of cubic feet
mcfd	Millions of cubic feet daily
Mitsui	Mitsui & Co., Ltd
MMMP	Marine Mammals Monitoring Program
mth	Millions of therms
mthd	Millions of therms daily
Mtpy	Millions of tons per year
MW	Megawatts
MW_{AC}	Megawatt, alternate current
Naco Compression Station	A 14,340 HP natural gas compression station. It is installed on the Naco-Hermosillo pipeline, which is owned by CENEGAS. Located in the city of Naco, in the state of Sonora
NOM	Norma Oficial Mexicana (Official Mexican Standard)
OECD	Organisation for Economic Co-operation and Development
OHSAS	Occupational Health and Safety Assessment Series
Ojinaga-El Encino Pipeline	Pipeline of approximately 220 km in length, 42 inches in diameter, and capacity to transport 1,356 mcfd (14.1 mthd) of natural gas, located in the state of Chihuahua
Operating Unit or Asset	Refers to IEnova's companies operating in the Gas and Power business segments
PASST	Programa de Autogestión en Seguridad y Salud en el Trabajo (Occupational Health and Safety Self-Management Program)
Pemex	Petróleos Mexicanos
Pemex TRI	Pemex Transformación Industrial, previously Pemex Gas y Petroquímica Básica
Pima Solar	Solar energy park located in the municipality of Caborca, in the state of Sonora. 110 MW_{AC} capacity
Profeco	Procuraduría Federal del Consumidor (Federal Consumer Protection Agency)
Profepa	Procuraduría Federal de Protección al Ambiente (Federal Environmental Protection Agency)
Puebla Terminal	A storage terminal for refined products located in Puebla. It is currently under construction. The project will have a 650,000 bl capacity

Ramal Empalme	20-inch pipeline with a 226 mcfd (2.4 mthd) capacity. It is 20 km long and is located between the cities of Empalme and Guaymas, where it interconnects with the Sonora Pipeline
Rumorosa Solar	Solar energy park that is currently under construction. The project will have a capacity of approximately 41 MWAC and will be located in the state of Baja California
Samalayuca Pipeline	Pipeline that includes approximately 37 km of 24-inch pipelines with an installed capacity to transport 400 mcfd (4.2 mthd) of natural gas. It runs from the communal land, or ejido, of San Isidro, in the state of Chihuahua, to CFE's electric power plant in Samalayuca. It interconnects with a 16-inch pipeline that is owned by Pemex TRI, which runs from the city of Ciudad Juárez to the city of Chihuahua, in the state of Chihuahua
San Isidro-Samalayuca Pipeline	Pipeline of approximately 23 km in length, with a capacity to transport 1,135 mcfd (11.8 mthd) of natural gas, that includes a 46,000-HP compression station, located in the state of Chihuahua
Sásabe-Puerto Libertad-Guaymas Pipeline	First segment of the Sonora Pipeline, of approximately 505 km of 36-inch pipelines, with the capacity to transport 770 mcfd (8.0 mthd) of natural gas. The pipeline includes two segments in the state of Sonora. The Sásabe-Puerto Libertad segment is 220 km long, and the Puerto Libertad-Guaymas segment is 285 km long
SCADA	Supervisory Control and Data Acquisition
Scotiabank	Scotiabank Inverlat, S.A. Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
Semarnat	Secretaría del Medio Ambiente y Recursos Naturales (Mexican Ministry of the Environment and Natural Resources)
Sempra Energy	The indirect controlling shareholder of IEnova; a company incorporated in accordance with the laws of the state of California, in the US.
Shell	Shell México Gas Natural, S. de R.L. de C.V.
Sonora Pipeline	Natural gas transportation system that includes approximately 835 km of pipelines with the capacity to transport 770 mcfd (8.0 mthd) of natural gas in the first segment, and 510 mcfd (5.3 mthd) in the second segment. The system is located in the states of Sonora and Sinaloa. The first segment is the Sásabe-Puerto Libertad-Guaymas Pipeline, and the second segment is the Guaymas-El Oro Pipeline; they are both interconnected
STPS	Secretaría del Trabajo y Previsión Social (Mexican Ministry of Labor and Social Welfare)
TDM	Termoeléctrica de Mexicali, S. de R.L. de C.V., is a combined-cycle natural-gas-fired electric power plant with a capacity of approximately 625 MW. It is located in the state of Baja California
Tepezalá Solar	Solar energy park that is currently under construction. The project will have a capacity of approximately 100 MWAC and will be located in the state of Aguascalientes. The Tepezalá Solar project will be developed as a joint venture between IEnova and Trina Solar. Trina Solar will hold a minority 10% stake
TGN	Transportadora de Gas Natural de Baja California, S. de R.L. It is one of IEnova's natural gas pipelines
TGN Pipeline	Pipeline that includes approximately 45 km of 30-inch pipelines. It is located in the state of Baja California and has a capacity to transport 940 mcfd (9.8 mthd) of natural gas. It includes an 8,000-HP compression station
The Climate Registry	NGO in the US that measures and verifies international carbon standards
Tokyo Gas	Tokyo Gas Co., Ltd
Topolobampo Terminal	A refined products storage terminal located in of Sinaloa. It is currently under construction. The project will have a capacity of 1,000,000 bl
Total	Total S.A.
Total Turnover Rate	(Number of hires in a year - number of voluntary and involuntary cuts in a year) / Total number of employees
Trafigura	Trafigura México, S.A. de C.V., raw materials logistics and marketing corporation with which IEnova has a joint venture
Trina Solar	Trina Solar Limited
TRIR	Total Recordable Incident Rate
UABC	Universidad Autónoma de Baja California (Autonomous University of Baja California)
USD$	US dollars
Valero	Valero Energy Corporation
VAT	Value Added Tax
Ventika	252 MW wind farm located in the state of Nuevo León.
Veracruz Terminal	A storage terminal for refined products located in the state of Veracruz. It is currently under construction. The project will have a 2,100,000 bl capacity
Vicinity of Mexico City Terminal	A storage terminal for refined products located in the vicinity of Mexico City. It is currently under construction. The project will have a capacity of 650,000 bl
Voluntary Turnover Rate	(Number of hires in a year - number of voluntary cuts in a year) / Total number of employees

CHEMICAL FORMULAS

CH_4	Methane
CO	Carbon monoxide
CO_2	Carbon dioxide
CO_2eq	Carbon dioxide equivalent (a measurement used to compare several greenhouse gas emissions based on their global warming potential)
N_2O	Nitrogen oxide
NOx	Nitrogen oxides (applies to various compounds formed by oxygen and nitrogen)
SOx	Sulfur oxides (applies to various compounds formed by oxygen and sulfur)

ABOUT THIS
REPORT

[102-12, 102-45, 102-46, 102-49, 102-50, 102-52, 102-54, 102-55, 102-56]

This is the sixth **Sustainability Report published by IEnova**. In it we describe in detail our company's performance for 2018, including our accomplishments, areas for improvement, and challenges we faced concerning economic, social, and environmental issues related to our business strategy and to the commitment that we, as a company, have made to sustainability. For the fourth time, the Report also includes the company's financial highlights.

This **Sustainability Report + Financial Report** summarizes the material information corresponding to the period between January 1st and December 31st, 2018 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 farms. It does not include sustainability contents for the solar energy parks or storage terminals that we currently have under development or construction nor does it include information for the terminals in Manzanillo, Colima, and in Guadalajara, Jalisco; these will be included in the Report once they start operating. It is important to mention that this Report makes no reference to the Refined Products Storage Terminal in Guadalajara, which was announced in 2019.

In the Power Segment, the Report consolidates data on Energía Sierra Juárez, a cross-border wind farm that we built and now operate as part of our joint venture with Actis, in which we have a 50% stake. Unless otherwise specified, health and safety indicators include information on all our operating assets and on all projects under construction.

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.

All figures included in this Report are presented in US dollars. Unless otherwise specified, we used an exchange rate of $19.6829 pesos per USD$1 in our conversion calculations. Unless otherwise specified, figures reported with no decimal points were rounded off: above 0.5 the numbers were rounded up and below 0.5 they were rounded down.

In drafting this Report we followed the GRI Sustainability Reporting Standards, with the "Core" option. For the fifth consecutive year, Deloitte, as an independent third-party, verified 30 material contents included in this Sustainability Report.

As a signatory of the UN Global Compact since 2015, this Report constitutes IEnova's fourth 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).

PROCESS FOR DEFINING MATERIALITY

The topics identified in the IEnova materiality assessment, done for the first time in 2014, are reviewed annually to confirm they are still relevant to our stakeholders. Modifications are reflected in our materiality matrix. Following the GRI Standards, we report on the information pertaining to the contents related to our material topics and boundaries, as well as on those that we consider to be most relevant to our stakeholders. We obtained the GRI Materiality Disclosures Service seal for the fifth consecutive year. For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report. This service was performed on the Spanish version of the report. Our methodology is described in the chapter "We are a Sustainable Company".

We thank you for your interest in IEnova. We are certain the Report contains enough detailed information about our sustainability performance. This Report is available to view and download, in English and Spanish, on our website: **www.ienova.com.mx.**

CONTACT

[102-53]

PASEO DE LA REFORMA
No. 342 Piso 24. Col. Juárez
Alcaldía Cuauhtémoc
C.P. 06600
Mexico City

PHONE. (5255) 9138 0100

sustentabilidad@ienova.com.mx

This Report is a translation from the original version in Spanish. In case of discrepancy, the Spanish version prevails.

Design: XDesign www.xdesign.com.mx

WWW.IENOVA.COM.MX