

OFFERING MEMORANDUM



Comisión Federal de Electricidad®

Comisión Federal de Electricidad

(a Productive State Enterprise of the Federal Government of the United Mexican States)

U.S.\$1,200,000,000 3.348% Notes due 2031

U.S.\$800,000,000 4.677% Notes due 2051

jointly and severally guaranteed by

CFE Distribución, CFE Suministrador de Servicios Básicos, CFE Transmisión, CFE Generación I, CFE Generación II, CFE Generación III, CFE Generación IV, CFE Generación V and CFE Generación VI (each, a Subsidiary Productive Enterprise of Comisión Federal de Electricidad)

Comisión Federal de Electricidad (the “Issuer”), a productive state enterprise of the Federal Government (the “Mexican government”) of the United Mexican States (“Mexico”), is offering U.S.\$1,200,000,000 aggregate principal amount of 3.348% Notes due 2031 (the “2031 notes”) and U.S.\$800,000,000 aggregate principal amount of 4.677% Notes due 2051 (the “2051 notes” and, together with the 2031 notes, the “notes”). The 2031 notes will bear interest at the rate of 3.348% per year and will mature on February 9, 2031. The 2051 notes will bear interest at the rate of 4.677% per year and will mature on February 9, 2051. Interest on the notes will be payable semi-annually in arrears on February 9 and August 9 of each year, beginning on August 9, 2021. The payment of principal of and interest and Additional Amounts (as defined under “Description of the Notes—Additional Amounts”) will be unconditionally and irrevocably guaranteed jointly and severally by CFE Distribución, CFE Suministrador de Servicios Básicos, CFE Transmisión, CFE Generación I, CFE Generación II, CFE Generación III, CFE Generación IV, CFE Generación V and CFE Generación VI (each, a “guarantor” and, collectively, the “guarantors”), each of which is a subsidiary productive enterprise of the Issuer. The Issuer’s payment obligations under the notes, and the payment obligations of the guarantors under their respective guaranties of the notes, will at all times rank without any preference among themselves and equally with all other unsecured public external indebtedness of the Issuer or of such guarantor, respectively. The Mexican government does not guarantee or secure the Issuer’s obligations or those of the guarantors and has no obligation to pay the principal, interest or any other amounts payable on the notes in the event that the Issuer’s cash flows and/or assets or those of the guarantors are not sufficient to make any such payments. The notes do not grant in any way rights over the ownership, control or assets of the Issuer or any of the guarantors. The notes will not be secured by any of the Issuer or the guarantors’ assets or properties.

We may redeem the notes, in whole or in part, at any time prior to November 9, 2030 (three months prior the maturity date of the 2031 notes) in the case of the 2031 notes, and August 9, 2050 (six months prior the maturity date of the 2051 notes) in the case of the 2051 notes by paying the greater of 100% of the principal amount of the notes to be redeemed and the applicable “make whole” premium amount, plus accrued interest to the redemption date. On or after November 9, 2030 (three months prior the maturity date of the 2031 notes) in the case of the 2031 notes, and August 9, 2050 (six months prior the maturity date of the 2051 notes) in the case of the 2051 notes, we may redeem the notes, in whole or in part, by paying 100% of the principal amount of the notes to be redeemed, plus accrued interest to the redemption date. On the maturity date, the redemption price of the notes will be 100% of the principal amount of the notes outstanding plus accrued and unpaid interest to the maturity date. In addition, in the event of certain changes to applicable laws and regulations or certain changes in the interpretation or application of such laws and regulations that result in an increase in the applicable rate of Mexican withholding tax in respect of payments of interest under the notes of a series, the Issuer or any guarantor may redeem the notes of such series, in whole but not in part, prior to maturity, at a price equal to 100% of their principal amount, plus accrued and unpaid interest to the redemption date (and Additional Amounts, if any). In addition, upon the occurrence of certain fundamental changes in our ownership or business (including, among others, if the Issuer ceases to be a public sector entity of, or majority-owned by, the Mexican government), the Issuer will be required to offer to purchase the notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest to the purchase date. See “Description of the Notes—Redemption and Purchase.”

The notes will contain provisions, commonly known as “collective action clauses.” Under these provisions, which differ from the terms of the Issuer’s public external indebtedness issued prior to June 16, 2015, the Issuer may amend the payment provisions of any series of debt securities issued under the indenture (including the notes) and other reserved matters listed in the indenture, with the consent of the holders of: (1) with respect to a single series of debt securities, more than 75% of the aggregate principal amount of the outstanding debt securities of such series; (2) with respect to two or more series of debt securities, if certain “uniformly applicable” requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, more than 66²/₃% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually. See “Description of the Notes—Meetings, Amendments and Waivers.”

We will apply to admit the notes for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market of the Luxembourg Stock Exchange. This offering memorandum constitutes a prospectus for purposes of Part IV of the Luxembourg law on prospectus for securities dated July 16, 2019.

Investing in the notes involves risks. See “Risk Factors” beginning on page 18.

Issue price per 2031 note: 100.000%, plus accrued interest, if any, from February 9, 2021

Issue price per 2051 note: 100.000%, plus accrued interest, if any, from February 9, 2021

THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE MEXICAN *COMISIÓN NACIONAL BANCARIA Y DE VALORES* (NATIONAL BANKING AND SECURITIES COMMISSION, OR THE “CNBV”). THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN *REGISTRO NACIONAL DE VALORES* (NATIONAL SECURITIES REGISTRY) MAINTAINED BY THE CNBV AND, THEREFORE, THE NOTES MAY NOT BE PUBLICLY OFFERED OR SOLD IN MEXICO. HOWEVER, THE NOTES MAY BE OFFERED, ON A PRIVATE PLACEMENT BASIS, IN MEXICO TO INVESTORS THAT QUALIFY AS INSTITUTIONAL OR ACCREDITED INVESTORS UNDER MEXICAN LAW, PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN THE MEXICAN *LEY DEL MERCADO DE VALORES* (THE “SECURITIES MARKET LAW”). AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, WE WILL NOTIFY THE CNBV OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES LAW AND REGULATIONS THEREUNDER FOR INFORMATIONAL AND STATISTICAL PURPOSES ONLY, AND THE FILING OR RECEIPT OF SUCH NOTICE BY THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES AND DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN.

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction, and are being offered only outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act. For certain restrictions on the transfer of the notes, see “Transfer Restrictions.”

The initial purchasers expect to deliver the notes to purchasers in book-entry form through the facilities of The Depository Trust Company (“DTC”) for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking S.A. (“Clearstream”), against payment on or about February 9, 2021.

Global Coordinators and Joint Book-Running Managers

BBVA

Goldman Sachs & Co. LLC

J.P. Morgan

Mizuho Securities

Joint Book-Running Managers

Barclays

Citigroup

Santander

March 4, 2021

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You should carefully review the entire offering memorandum before making an investment decision. Neither the Issuer nor any of the initial purchasers has authorized anyone to provide you with different information. The Issuer is offering to sell, and is seeking offers to buy, the notes only in jurisdictions where offers and sales are permitted. This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any notes by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made under it implies that there has been no change in our affairs or that the information in this offering memorandum is correct as of any date after the date of this offering memorandum.

This offering memorandum has been prepared by us solely for use in connection with the placement of the notes. The Issuer and the initial purchasers reserve the right to reject any offer to purchase for any reason.

Neither the U.S. Securities and Exchange Commission (the “SEC”), the CNBV, any state securities commission nor any other regulatory authority has approved or disapproved the offering of the notes or the notes; nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area. See “Plan of Distribution—Sales Outside the United States—European Economic Area.” The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. See “Plan of Distribution—Sales Outside the United States—United Kingdom.”

You must:

- comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the notes, and
- obtain any consent, approval or permission required to be obtained by you for the purchase, offer or sale by you of the notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales; and neither the Issuer nor any of the initial purchasers shall have any responsibility therefor.

See “Transfer Restrictions” for information on transfer restrictions applicable to the notes.

You acknowledge that:

- you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum;
- you have not relied on the initial purchasers or any person affiliated with the initial purchasers in connection with your investigation of the accuracy of such information or your investment decision; and
- no person has been authorized to give any information or to make any representation concerning us or the notes, other than as contained in this offering memorandum and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the initial purchasers.

The notes may not be transferred or resold, except as permitted under the indenture governing the notes, the Securities Act and applicable U.S. state securities laws. You may be required to bear the financial risks of this investment for an indefinite period of time.

We have taken reasonable care to ensure that the information contained in this offering memorandum is true and correct in all material respects and is not misleading in any material respect as of the date of this offering memorandum, and that there has been no omission of information that, in the context of the issuance of the notes, would make any statement of material fact in this offering memorandum misleading in any material respect, in light of the circumstances existing as of the date of this offering memorandum. We accept responsibility accordingly.

No representation or warranty, express or implied, is made or given by the initial purchasers or the trustee as to the accuracy, completeness or sufficiency of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise, representation or warranty by the initial purchasers or the trustee. To the fullest extent permitted by law, none of the initial purchasers or the trustee accepts any responsibility for the contents of this offering memorandum or for any other statement made or purported to be made by the initial purchasers or the trustee or on their behalf in connection with the Issuer or the issue and offering of the notes. Each of the initial purchasers and the trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering memorandum or any such statement. This offering memorandum is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Issuer, the initial purchasers, the trustee or any other person that any recipient of this offering memorandum should purchase the notes. Each potential purchaser of the notes should determine for itself the relevance of the information contained in this offering memorandum and its purchase of the notes should be based upon such investigations with its own tax, legal, business and financial advisors as it deems necessary. The initial purchasers assume no obligation, responsibility or liability to update the information contained herein, or to inform investors of any change of the information or any issues that come to their attention.

In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the notes. Each person receiving this offering memorandum acknowledges that such person has not relied on the initial purchasers, the trustee or any person affiliated with any of such persons in connection with its investigation of the accuracy of such information or its investment decision. By purchasing the notes, you will be deemed to have acknowledged that you have made certain acknowledgments, representation and agreements as set forth above and under “Transfer Restrictions.”

Neither us nor any of the initial purchasers, nor any of our or their respective representatives, is making any representation to you regarding the legality of an investment in the notes. You should consult with your own advisors as to legal, tax, business, financial, regulatory and related aspects of an investment in the notes. You must comply with all laws applicable in any place in which you buy, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain all applicable consents and approvals. Neither us nor any of the initial purchasers, nor any of our or their respective representatives shall have any responsibility for any of the foregoing legal requirements.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is an *empresa productiva del Estado* (productive state enterprise) of the Mexican government and the guarantors are *empresas productivas subsidiarias* (subsidiary productive enterprises) of the Issuer, all of which have been created under applicable law. The Issuer and the guarantors have irrevocably submitted to the jurisdiction of the U.S. federal courts located in the Borough of Manhattan in The City of New York and, to the extent permitted by law, have waived immunity from the jurisdiction of these courts in connection with any action based upon the notes brought by any holder of notes. The Issuer and the guarantors have, however, reserved the right to plead immunity under the U.S. Foreign Sovereign Immunities Act of 1976 (the “Foreign Sovereign Immunities Act”) in actions brought against them under the U.S. federal securities laws or any U.S. state securities laws. Unless the Issuer or the guarantors waive their immunity against such actions, a U.S. court judgment could be obtained against the Issuer or the guarantors only if a U.S. court were to determine that the Issuer or the guarantors are not entitled to sovereign immunity under the Foreign Sovereign Immunities Act with respect to that action.

The Issuer’s and the guarantors’ directors and officers, as well as certain experts named in this offering memorandum, reside outside the United States, and all or a substantial portion of assets of the Issuer and the guarantors, and their respective directors and officers, are located outside of the United States. As a result, it may not be possible for holders of the notes to effect service of process outside of Mexico upon the Issuer or the guarantors, its or their directors or officers or those experts, or to enforce against such parties judgments of courts located outside Mexico predicated upon civil liabilities under the laws of jurisdictions other than Mexico, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States.

Neither the Issuer, as a productive state enterprise of the Mexican government, nor the guarantors, as subsidiary productive enterprises of the Issuer, are subject to the Mexican *Ley de Concursos Mercantiles* (the “Commercial Bankruptcy Act”) and thus cannot be declared in reorganization or bankrupt (*en concurso mercantil o en quiebra*). Under applicable Mexican law, the Issuer may be liquidated and dissolved by the Mexican Congress if it determines that the Issuer ceases to fulfill the purpose for which the Issuer was created or for any other reason. In addition, the guarantors may be liquidated and dissolved at any time by the *Consejo de Administración* of the Issuer (the “Board of Directors”), upon a proposal of the Issuer’s *Director General* (General Director). In the event that the Issuer is liquidated and dissolved by the Mexican Congress, or the guarantors are liquidated and dissolved as a result of a determination made by the Board of Directors, it is uncertain whether or to what extent the rights of holders of the notes would be honored. The Mexican government does not guarantee the Notes and is not required to assume or make payments under the Notes.

Under the CFE Law (as defined below), real property owned by the Issuer and the guarantors shall be deemed to be property of the public domain and, under Articles 6 and 13 of the *Ley General de Bienes Nacionales* (General Law of Public Property), neither attachment prior to judgment nor attachment in aid of execution will be ordered by Mexican courts against any such real property. As a result, a Mexican court would not recognize an attachment order against any such real property. In addition, under the *Constitución Política de los Estados Unidos Mexicanos* (the “Mexican Constitution”) and the *Ley de la Industria Eléctrica* (the “Electric Industry Law”), the transmission and distribution of electric energy through the *Red Nacional de Transmisión* (National Transmission Grid) and the *Redes Generales de Distribución* (General Distribution Grids), which are deemed a public service, are reserved to the Mexican government, through us, and to that extent, the assets related thereto may be subject to immunity. As a result, the ability to enforce judgments against the Issuer or the guarantors in the courts of Mexico may be substantially limited.

Neither the Issuer nor the guarantors can predict whether Mexican courts would enforce judgments of U.S. courts based on the civil liability provisions of the U.S. federal securities laws. Therefore, even if a judgment of a U.S. court against the Issuer or any guarantor were obtained, a holder of notes may not be able to obtain a judgment in Mexico that is based on that U.S. court judgment. Moreover, a holder of notes may not be able to enforce a judgment against the property of the Issuer or any guarantor in the United States except under the limited circumstances specified in the Foreign Sovereign Immunities Act. If an action were to be brought in Mexico seeking to enforce the obligations of the Issuer or the guarantors under the notes or the guaranty agreement (in respect of the notes), satisfaction of those obligations may be made in Mexican pesos, pursuant to the laws of Mexico, at the rate of exchange in effect on the date on which payment is made. Such rate of exchange is currently determined by *Banco de México* every business day in Mexico based on an average of wholesale foreign exchange market quotes and is published on *Banco de México*’s website (www.banxico.org.mx) and the following business banking day in the Mexican *Diario Oficial de la Federación* (the “Official Gazette”). See “Exchange Rates.”

WHERE YOU CAN FIND MORE INFORMATION

We prepare annual audited consolidated financial statements and quarterly unaudited condensed consolidated financial information in both Spanish and English. This information is available on our website (www.cfe.mx). In addition, we are required to file certain annual, quarterly and other reports and information with the *Bolsa Mexicana de Valores, S.A.B. de C.V.* (the “BMV”) with respect to our debt securities listed on the BMV. You may inspect and copy these reports and other information related to us at the offices of the BMV located at Paseo de la Reforma 255, Colonia Cuauhtémoc, Alcaldía Cuauhtémoc, C.P. 54124, Ciudad de México, México. Our BMV filings are available to you on the BMV’s website (www.bmv.com.mx).

The Issuer is a productive state enterprise of the Mexican government. However, the Mexican government does not guarantee or secure the Issuer’s obligations and has no obligation to pay the principal or interest on the notes in the event that the Issuer’s cash flows and/or assets are not sufficient to make any such payments. Macroeconomic and other information relating to the Mexican government is available to the public on the websites of *Banco de México* (www.banxico.org.mx), the Mexican *Secretaría de Hacienda y Crédito Público* (Ministry of Finance and Public Credit, or the “Ministry of Finance”) (www.gob.mx/shcp) and the Mexican *Instituto Nacional de Estadística y Geografía* (National Institute of Statistics and Geography, or “INEGI”) (www.inegi.org.mx). In addition, Mexico publishes ongoing reports with the SEC. Such reports are available on the SEC’s website (www.sec.gov).

The information contained in the foregoing websites is not incorporated by reference in this offering memorandum.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to “CFE,” “we,” “us” and “our” are to Comisión Federal de Electricidad, and any subsidiaries that CFE consolidates, including its subsidiary productive enterprises, all of which will guarantee the notes, and CFE International LLC, CFenergía, S.A. de C.V., CFE Intermediación de Contratos Legados, S.A. de C.V., CFE Calificados, S.A. de C.V. and CFECapital, S. de R.L. de C.V., which are our affiliates (*empresas filiales*) and are reflected in our consolidated results, but will not guarantee the notes. References to the “Issuer” are solely to Comisión Federal de Electricidad.

This offering memorandum includes our annual audited consolidated financial statements as of and for the years ended December 31, 2019, 2018 and 2017 (our “annual financial statements”), and our unaudited condensed consolidated interim financial statements as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019 (our “interim financial statements” and, together with our annual financial statements, our “financial statements”). Our interim financial statements have been subject to a limited review by Gossler, S.C., an independent accounting firm.

Our financial statements are expressed in thousands of Mexican pesos and have been prepared in accordance with International Financing Reporting Standards (“IFRS”), as adopted by the International Accounting Standards Board (the “IASB”).

For the nine-month period ended September 30, 2020, our non-guarantor affiliates represented approximately 7.9% of our Adjusted EBITDA and approximately 7.2% of our total assets. For the year ended December 31, 2019, our non-guarantor affiliates represented approximately 3.7% of our Adjusted EBITDA and approximately 6.4% of our total assets.

Currency Information

References in this offering memorandum to “U.S.\$” and “U.S. dollars” are to the lawful currency of the United States and references to “Ps.” and “Mexican pesos” are to the lawful currency of Mexico. See “Exchange Rates” for certain historical Mexican peso/U.S. dollar exchange rates.

This offering memorandum contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, U.S. dollar equivalent information for amounts in Mexican pesos is based upon the rate published in the Official Gazette on September 29, 2020 for payment obligations due on September 30, 2020, which was Ps.22.4573 per U.S.\$1.00. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or that have been or could be converted into U.S. dollars at the rate indicated or any other rate.

Rounding

Certain figures included in this offering memorandum have been rounded for ease of presentation. Percentage figures included in this offering memorandum have been calculated on the basis of such amounts prior to rounding, not on the basis of rounded figures. For this reason, percentage amounts in this offering memorandum may vary from those obtained by performing the same calculations using the figures in our financial statements. Certain numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them due to rounding.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains words, such as “believe,” “plan,” “intend,” “estimate,” “target,” “expect,” “anticipate,” “should,” “potential,” “seek,” “consider,” “assume,” “forecasts” and similar expressions that identify forward-looking statements, which reflect our views about future events and financial performance. Examples of such forward-looking statements include projections or statements as to the following:

- changes in the legal and regulatory regime applicable to the Mexican electricity sector, or the interpretation thereof;
- our future operating revenues, net income (loss), capital expenditures, indebtedness levels or other financial items or ratios;
- our plans, objectives or goals, including those related to our competition, regulation and rates;
- our future financial performance;
- the future economic performance of Mexico;
- interest rates, currency exchange rates, restrictions on convertibility, devaluations and foreign securities markets; and
- availability and cost of external financing for our operations, which have been affected by the stress experienced by the global financial markets.

Actual results could differ materially from those projected in such forward-looking statements as a result of various factors that may be beyond our control. These factors include, but are not limited to:

- significant economic or political developments in Mexico, particularly developments affecting the electricity sector;
- changes in the economic policies or priorities of the Mexican government;
- changes in our or Mexico’s domestic and international credit ratings;
- interruptions or failures in our operations or technology systems;
- economic, political and regulatory developments in the United States or elsewhere;
- legal action initiated by us or our suppliers or contractual counterparties, in connection with contractual terms and breaches thereunder;
- adjustments to the rates that we charge our customers;
- availability of funds under income laws and budgets approved annually for our operations;
- effects on us from increases in fuel oil or natural gas prices;
- our inability to meet efficiency or cost reduction objectives or increases in our operating costs;
- terrorist and organized criminal activities as well as geopolitical events;
- changes in interest rates or access to sources of financing on competitive terms and inflation levels;
- foreign currency exchange fluctuations relative to the U.S. dollar or the Mexican peso and potential currency exchange control risks;
- effects on us from competition, including on our ability to hire and retain skilled personnel;

- the duration and severity of the pandemic caused by the coronavirus identified as SARS-CoV-2 that causes the disease known as COVID-19 (“COVID-19”), as well as the measures adopted by governments in response thereto, and the potential impact on our business of COVID-19 and such measures; and
- changes in our regulatory environment, including tax and environmental regulations, or the interpretation thereof.

Accordingly, you should not place undue reliance on these forward-looking statements. In any event, these statements speak only as of their dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

For a more detailed discussion of important factors that could cause actual results to differ materially from those contained in any forward-looking statement, see “Risk Factors.”

TECHNICAL TERMS RELATING TO THE ELECTRICITY INDUSTRY

“capacity” means the installed capacity an electric system must have to meet peak hour demand plus a reserve sufficient to cover unplanned outages. Some of our installed capacity is idle during periods when there is lower demand for energy output and, during those periods, some of the potential output is not generated. Capacity is generally measured in megawatts.

“demand” means, for an integrated electric system, the amount of power demanded by consumers of energy at any point in time, including energy lost during transmission and distribution to consumers. It is often expressed in kilowatts.

“distribution” means the part of the electric power system that takes power from a bulk power substation to customer switches. It includes distribution substations, circuits that extend from distribution substations to every distribution transformer, metering equipment and customer location.

“generation” means the production of electricity in the large quantities required to supply electric power systems in generating stations, or power plants. Generation of electricity is achieved by converting the heat of fuel (*e.g.*, coal, gas or uranium), the hydraulic energy of water, or other forms of energy (*e.g.*, wind or solar) into electric energy. A generating station or facility may consist of several independent generating units.

“GW” means gigawatt. One gigawatt equals one billion watts, one million kilowatts or one thousand megawatts.

“GWh” means gigawatt-hour, or one million kilowatt-hours. The GWh is often used to measure the annual energy output from large power generators.

“GVA” means gigavolt-amperes. The capacity of our transmission grid is normally measured in terms of gigavolt-amperes, where one GVA is one billion volt-amperes.

“kW” or “kilowatt” means one thousand watts.

“kWh” means kilowatt-hour, the standard unit of energy used in the electric utility industry to measure consumption. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour.

“legacy/grandfathered interconnection contracts” refers to interconnection contracts executed with private generation companies prior to the Mexican Energy Reform, and remained in effect thereafter.

“MW” or “megawatt” means one million watts or one thousand kilowatts.

“MWh” means megawatt-hour, or one thousand kilowatt-hours.

“photovoltaic” means a method of generating electrical power by converting solar radiation into direct current electricity using semiconductors.

“reserve” means, in the electricity industry, the generating capacity that is accessible on short notice to meet unplanned increases in demand for electricity or losses of generation capacity.

“substation” means an assembly of equipment through which electrical energy delivered by transmission circuits is passed in order to convert it to voltages suitable for use by consumers.

“thermal” means a type of electric generating station in which the source of energy for the prime mover or turbine is heat.

“transmission line” means an electrical connection between two points on a power system for the purpose of transferring high voltage electrical energy between the points. Generally, a transmission line consists of large wires, or conductors, held aloft by towers.

“TW” means terawatt. One terawatt equals one trillion watts, one billion kilowatts, one million megawatts or one thousand gigawatts.

“TWh” means terawatt-hour—a unit of electrical energy equal to the work done by one TW acting for one hour.

“volt-ampere” means the unit used to measure the apparent power in an electrical circuit.

“voltage” means the energy level of electrons flowing in an electric current. A high voltage line carries electrons that are at a high energy level and can transmit more power than a low voltage line with the same current flowing in it.

SUMMARY

This summary highlights selected information described in more detail elsewhere in this offering memorandum. This summary may not include all of the information you should consider before making a decision to invest in the notes. You should carefully read this entire offering memorandum, including the risk factors and financial statements.

Comisión Federal de Electricidad

Overview

We are an electric power company operating as a productive state enterprise of the Mexican government and, following the energy reform described below, we remain 100% owned by the Mexican government. We generate approximately 70% of the electricity consumed in Mexico, which includes electricity generated by independent power producers (“IPPs”) (31%), and we are solely responsible for the transmission and distribution of electricity for public service purposes throughout Mexico. The remaining 30% of electricity is generated by Petróleos Mexicanos (“PEMEX”), a productive state enterprise of the Mexican government that is engaged in exploration, production, refining and marketing of oil and gas, and by private producers. As of September 30, 2020, we provided electricity to over 45 million customer accounts, which we estimate represented 99% of the Mexican population.

We were created in 1937 by presidential decree, and then converted by the Mexican Congress in 1949 into an *organismo público descentralizado de la Administración Pública Federal* (decentralized public entity of the Mexican government). Pursuant to the CFE Law, in accordance with the Energy Reform Decree and Secondary Legislation (each as defined below), we were converted into an *empresa productiva del Estado* (productive state enterprise) in October 2014, subject to a new legal regime and with a corporate purpose of creating economic value for the Mexican government as its owner. In addition, pursuant to Mexican Constitution, the Electric Industry Law and the CFE Law, in 2016, we undertook a vertical and horizontal separation of each of our key electric sector activities — electricity generation, transmission, distribution and commercialization — through the creation of nine *empresas productivas subsidiarias* (subsidiary productive enterprises) and four *empresas filiales* (affiliate enterprises). On August 2, 2019, we created CFE Telecomunicaciones e Internet para Todos, a new subsidiary productive enterprise. See “Comisión Federal de Electricidad—General Regulatory Framework—Organizational Structure of CFE.”

On December 20, 2013, amendments to Articles 25, 27 and 28 of the Mexican Constitution were published as the Energy Reform Decree in the Official Gazette, which took effect on December 21, 2013 (the “Energy Reform Decree”). The Energy Reform Decree outlines the general framework for the Secondary Legislation. On August 11, 2014, the secondary legislation relating to the Energy Reform Decree (the “Secondary Legislation”) was published in the Official Gazette. The Secondary Legislation includes nine laws including, among others, the new CFE Law and the Electric Industry Law. On October 31, 2014, the President of Mexico published in the Official Gazette 26 regulations and amendments in respect of the Secondary Legislation including, among others, the Regulations to the CFE Law and the Regulations to the Electric Industry Law. See “Comisión Federal de Electricidad—General Regulatory Framework” for more details regarding the laws and regulations applicable to us.

We have undertaken several steps aimed at consolidating our new organizational and operational structure, including the following measures:

- we have analyzed and are planning to take advantage of new financing mechanisms, including *certificados bursátiles fiduciarios de proyectos de inversión* (investment projects certificates) and *certificados bursátiles fiduciarios de capital de desarrollo* (development capital certificates), as well as co-investments, joint ventures and public-private partnerships;
- we created a Fibra E through our affiliate CFECapital, S. de R.L. de C.V. Our Fibra E aims to attract new private investors to finance infrastructure investments in energy generation, transmission and distribution projects and has the benefit of (i) increasing our equity, (ii) not being considered as part of our public indebtedness, and (iii) allowing us to retain ownership and control over strategic assets. In February 2018, our Fibra E conducted an offering of *certificados bursátiles fiduciarios de inversión en*

energía e infraestructura (“CBFEs”) to finance transmission projects. In the future, our Fibra E may offer to sell additional CBFEs to finance generation, transmission and distribution projects; and

- we reduced our generation costs by converting certain plants that use fuel oil to natural gas.

See “Comisión Federal de Electricidad—General Regulatory Framework—Mexican Energy Reform.”

During 2019, we reported net income of Ps.25.7 billion (U.S.\$1.1 billion), as compared to net income of Ps.61.6 billion (U.S.\$2.7 billion) in 2018, due to an increase in taxes and a substantial foreign exchange loss. For the nine-month period ended September 30, 2020, we reported a net loss of Ps.142.9 billion (U.S.\$6.4 billion), as compared to net income of Ps.471.8 million (U.S.\$21.0 million) for the nine-month period ended September 30, 2019, mainly due to a substantial foreign exchange loss caused by a depreciation of the Mexican peso during the nine-month period ended September 30, 2020, and as a result of our new collective bargaining agreement with SUTERM. See “Summary—Business Strategy—Business Plan—Long-Term Employee Benefit Obligation Costs Optimization and Productivity” and Note 20 to our interim financial statements. In 2019, we received a Ps.75.2 billion (U.S.\$3.3 billion) subsidy from the Mexican government related to the subvention of electricity rates that we charge certain basic supply (*suministro básico*) customers. The Federal Budget for 2020 provided for a subsidy transfer from the Mexican government to us of approximately Ps.70.0 billion (U.S.\$3.1 billion) during 2020. As of September 30, 2020, we had received a subsidy transfer of Ps.63.0 billion (U.S.\$2.8 billion) from the Mexican government. The Federal Budget for 2021 provides for a subsidy transfer from the Mexican government to us of approximately Ps.70.0 billion (U.S.\$3.1 billion) during 2021. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations.”

The Electric Industry Law provides that the rates that we charge for regulated services are to be determined by the *Comisión Reguladora de Energía* (the “CRE”). The regulated power supply rates we currently charge are determined by the Mexican government: by the CRE for commercial, public service (*alumbrado público*) and industrial customers; and by the Ministry of Finance for agricultural and residential customers. These electricity rates established by the CRE reflect our anticipated production costs (including generation costs associated with basic supply vested contracts (*contratos legados para el suministro básico*), long-term auction (*subastas de largo plazo*) agreements, and costs in the wholesale electricity market considering the local marginal prices for the short-term energy market), as well as other variables including the category and location of the consumer and the time of day that the electricity is expected to be consumed. According to the CRE’s methodology, basic supply rates are comprised, in general terms, of the costs associated with transmission, distribution, CENACE and basic supplier operations and ancillary services not traded in the *Mercado Eléctrico Mayorista* (Wholesale Electricity Market, or the “MEM”), as well as charges associated with energy and capacity. However, the Electric Industry Law also provides that the federal government may determine a rate mechanism that differs from the final rates set by the CRE for specific groups of basic power supply users. The Mexican government, through the Ministry of Finance, has set some of our electricity rates at levels below our operating costs (if applicable, subject only to an inflation adjustment factor) in order to maintain the affordability of electricity, in particular, for our agricultural and most of our residential customers.

In January 2016, the MEM began operations and the rates set by the CRE for our transmission and distribution activities became effective. In addition, in December 2017, the CRE published for the first time a schedule of consumer rates as well as the methodology used for their determination. In December 2020, the CRE extended indefinitely the methodology used for the determination of such rates, which are reviewed on a yearly basis. Generally, basic supply consumer rates are calculated based on the regulated rates applicable to transmission and distribution activities, certain electricity costs, the operation tariff of the corresponding basic power supplier (*suministrador de servicios básicos*) and the subsidy from the Mexican government. The energy and capacity costs in consumer final rates are calculated month by month according to market factors.

Suministradores calificados (qualified suppliers) duly registered with the CRE are permitted to compete with us by supplying electricity to *usuarios calificados* (qualified users) at unregulated rates and to load points (*centros de carga*) of such qualified users and by representing exempt generators (*generadores exentos*) (*i.e.*, those generators that do not require a generation permit since the installed capacity of their power plants is less than 0.5 MW) in the MEM. As of September 30, 2020, there were 28 registered qualified suppliers with the CRE.

Our Business

Our business is divided into four main areas: generation, transmission, distribution and commercialization. Pursuant to the 2019-2033 *Programa de Desarrollo del Sistema Eléctrico Nacional* (“PRODESEN”) prepared by the *Secretaría de Energía* (the “Ministry of Energy”) of the Mexican government, we generate approximately 70% of the electricity consumed in Mexico, including IPPs. We have a 100% market share of the transmission and distribution markets. As of September 30, 2020, we had a 100% market share of the basic supply market and a 36% market share of the qualified supply market.

We continually invest in electricity generation, transmission and distribution infrastructure in order to address Mexico’s growing electricity demand. In 2019, we paid a net amount of Ps.49.0 billion (U.S.\$2.2 billion) for the acquisition of plants, facilities and equipment, and as of September 30, 2020 we had paid a net amount of Ps.18.6 billion (U.S.\$830 million). The Board of Directors defines our five year business plan, determines our annual budget and approves investment priorities and projects. Our *balance financiero* (financial condition target), *techo de gasto de servicios personales* (expenditure ceiling) and *techo de endeudamiento neto* (net debt ceiling) are updated annually and require the approval of the Mexican Congress. Our investment budget for 2020, approved as part of the *Presupuesto de Egresos de la Federación para el Ejercicio Fiscal 2020* (Mexican Federal Budget for 2020, was Ps.49.1 billion (U.S.\$2.1 billion), of which Ps.18.6 billion (U.S.\$830 million) had been invested as of September 30, 2020. Our investment budget for 2021, approved as part of the Mexican Federal Budget for 2021, is approximately Ps.49.3 billion (U.S.\$2.2 billion).

Our service area is divided into 16 regions and extends to some of the most remote regions of Mexico.



Source: CFE.

The majority of our electricity generation activities (including nuclear, coal-fired and geothermal) are undertaken through thermal and hydroelectric power plants. A small percentage of our electricity generation comes from other sources, including wind and photovoltaic power plants. Since 1992, IPPs have been permitted under Mexican law to build and operate electricity generation plants in Mexico and sell the generated power exclusively to us.

As of September 30, 2020, our total debt, including obligations in respect of our *Proyectos de Inversión de Infraestructura Productiva con Registro Diferido en el Gasto Público* (“PIDIREGAS”) and lease liabilities, was Ps.1.1 trillion (U.S.\$48.5 billion) and our total equity was Ps.518.5 billion (U.S.\$23.1 billion). In addition, on October 20, 2020, we issued Ps.10.0 billion (U.S.\$445.3 million) aggregate principal amount of *certificados bursátiles* (“Cebures”). Our total assets were Ps.2.2 trillion (U.S.\$99.1 billion) as of September 30, 2020. For further information on our existing indebtedness, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

Our total revenue and net loss for the nine-month period ended September 30, 2020 were Ps.386.5 billion (U.S.\$17.2 billion) and Ps.142.9 billion (U.S.\$6.4 billion), respectively, as compared to Ps.408.9 billion (U.S.\$18.2 billion) of total revenue and Ps.471.8 million (U.S.\$21.0 million), of net income in the comparable period of 2019.

Our total revenue and net income for 2019 were Ps.556.2 billion (U.S.\$24.8 billion) and Ps.25.7 billion (U.S.\$1.1 billion), respectively. Our total revenue and net income for 2018 were Ps.547.3 billion (U.S.\$24.4 billion) and Ps.61.6 billion (U.S.\$2.7 billion), respectively. Our total revenue and net income for 2017 were Ps.489.6 billion (U.S.\$21.8 billion) and Ps.107.7 billion (U.S.\$4.8 billion), respectively

Business Strategy

Since Mr. Andrés Manuel López Obrador's election to the presidency of Mexico in 2018 and Mr. Manuel Bartlett Díaz's designation as *Director General* (General Director) of CFE, we have been implementing a new strategy that better reflects the current presidential administration's principles, values and objectives. On December 8, 2020, our Board of Directors approved our 2021-2025 Business Plan, which includes the following:

- a revised mission for CFE, to provide the energy required for Mexico's economic and social development in an efficient, sustainable, affordable and inclusive manner, through a policy that prioritizes national energy security and sovereignty and strengthens the public sector electricity service.
- a revised vision for CFE, to consolidate our position as the leading energy company in Mexico, in terms of installed capacity and number of customers, and as the only entity that integrates generation, transmission and distribution, committed to guaranteeing quality and socially responsible service to our customers in all segments of the market, contributing to the country's sustainable development and generating economic value and profitability to the country.

To achieve our new mission and vision, we have defined eight primary objectives:

- increase CFE's productivity, generating economic value and profitability for the country, and prioritizing the reliability of the country's electric supply;
- maintain CFE's majority market share in generation on a nationwide basis;
- contribute to sustainable development and the reduction of greenhouse gas emissions;
- increase and diversify CFE's income sources through new business development;
- reduce financial, commercial and operational damages to CFE derived from regulatory asymmetries;
- strengthen internal process control through: (i) comprehensive risk management, (ii) anti-corruption measures, (iii) institutional management and (iv) continuous development of CFE's human capital;
- improve user satisfaction and our institutional image on a nationwide basis; and
- improve CFE's financial profitability and cash flow, guaranteeing the availability of operating and investment resources.

Our business strategy remains focused on maximizing our overall performance in our four main business lines: generation, transmission, distribution and commercialization, through the following key strategies.

Improve our Electricity Generation Performance

We intend to maximize our current electricity generation capacity through the optimization and segmentation of our generation power plants, the incorporation of new technologies and by rehabilitating and modernizing currently underperforming power plants. One of the objectives of CFE's business plan is to renew its generation infrastructure, replacing less efficient generation plants with more efficient and sustainable plants, to face the challenges of the wholesale electricity market and to guarantee the supply of electricity throughout the country. Between 2020 and 2024, we plan to invest approximately Ps.64.0 billion (U.S.\$2.8 billion) in new combined-cycle power plants, which together are expected to represent an additional 4,550 MW of capacity. In addition, we are planning to acquire 11 combined cycle plants for an aggregate amount of approximately U.S.\$2.4 billion, along with

10 clean energy power plants, for an expected aggregate investment amount of U.S.\$500 million. Our generation subsidiaries will also implement a maintenance program with investments of over Ps.41.5 billion (U.S.\$1.9 billion).

Our market share in electricity generation, including IPPs, is approximately 70%. Our goal is to increase our electricity output at a rate that will correspond with the anticipated increase in electricity demand in Mexico, which PRODESEN estimates will be 3.1% per year at least until 2033, while also improving the profitability of our business portfolio. We also intend to increase the competitiveness of our generation plants.

We also plan to expand our generation capacity in clean and renewable energy sources, by investing in the modernization of eight hydroelectric power plants. In addition, we are analyzing the possibility of developing clean energy generation projects for 500 MW, with a total investment of Ps.12.2 billion (U.S.\$542 million). We rely, and expect to continue relying, on the use of cleaner burning fuels, such as natural gas, in our generation activities (as compared to fuels that emit higher levels of contaminants into the environment, such as fuel oil). As of September 30, 2020, 48.1% of our electricity generation capacity, excluding IPPs, derived from fossil fuels (natural gas, coal, diesel and fuel oil). The remaining 25.0% of our electricity generation capacity derived from clean sources (including nuclear). We also plan to engage in strategic projects with companies in other industrial sectors, which could reuse the gases that are a byproduct of electrical energy generation, to help reduce the emission of pollutants.

Our goal is to maintain or improve this allocation between fuel types in the future; however, our actual allocation will depend in part on the global supply of such fuels and pricing considerations. In addition, we rely, and expect to continue to rely, on clean generation technology, such as hydroelectric, geothermal and wind power generation, each of which use renewable primary sources of energy.

Modernize our Transmission and Distribution Grids and Reduce Technical and Non-Technical Losses

Transmission and distribution remain strategic activities for the Mexican government and are part of our core business line. Our business plan includes a package of approximately 142 new transmission projects, which include transmission lines, power substations and the installation of reactive compensation equipment in our transmission grid, which combined represent an investment of Ps.58.9 billion (U.S.\$2.6 billion). Some of our main investments include projects to increase transmission capacity from the Northeast to the center of the country, and for the Riviera Maya and Cancun regions, and two new transmission lines: the Huasteca-Monterrey line and the submarine line from Playacar to Chankanaab. Likewise, we have authorized CFE Transmisión to perform the project “*Olmeca Banco 1 y red asociada*” for the upgrading of the eastern region’s transmission grid. We will also invest in our smart grid and in metering systems for the MEM.

Our main objective in the mid- to long-term in our distribution grid is to reduce our technical losses and the quantity of electricity that is used in Mexico but not paid for (*i.e.*, “non-technical losses”). Our goal is to reduce our technical and non-technical losses in the distribution process from 13.1% in 2019 to 12.7% by 2024, through the modernization of our metering systems, strengthening our commercial processes, regularizing our services in areas affected by irregular land use and strengthening our electric infrastructure.

Modernization of our equipment and technology, including the replacement of aging substations and power lines, is integral to providing reliable electricity service to our customers. We intend to dedicate a significant portion of our financial and human resources as we seek to ensure that our grids employ state of the art technology and are in good working condition. In addition, we intend to further develop our “smart-grid” technology, which will include a two-way digital communication system between our customers and us, through which we will be able to monitor the electricity needs of our customers in real time and, accordingly, improve the efficiency with which we provide electricity. We expect that the implementation of smart-grid technology will also help reduce our non-technical losses, by making it possible to automate the operation of our distribution grid remotely and manage our distribution grid’s energy balance for the MEM.

We seek to reduce electricity service interruptions. Much of our equipment is installed outdoors and is subject to the varying weather conditions and natural disasters that affect Mexico from time to time. As a result, this equipment (including, in particular, our transmission towers and utility poles) often incurs weather-related damage, which in certain instances causes electricity service interruptions for our customers. We maintain a well-trained staff of technicians that repair damaged equipment upon our receipt of notice of any such damage. For 2019, we had a goal to reduce the duration of service interruptions per user to 25.81 minutes. As of December 2019, the duration of

service interruptions per user has been reduced to 25.1 minutes per year. Our goal for the first half of 2020 was to reduce the duration of service interruptions per user to 9.25 minutes. As of June 30, 2020, we had reduced the duration of service interruptions per user to 8.025 minutes. We continually assess the quality and speed of these repairs, and we expect that our dedication to delivering fast and effective repair services will continue into the future.

We have had two recent major power outages caused by fires. The first occurred in the Yucatan Peninsula during April 2019, when local farmers burnt dry grasses, causing a fire that damaged a transmission line. The second and largest outage occurred on December 28, 2020 in Tamaulipas, where a fire, which was aggravated by wind gusts ranging from 60 to 70 kilometers per hour and 40% relative humidity (resulting from the cold front number 24), damaged a 400 kV transmission line. In both cases, electrical service was reestablished in a matter of hours. We are in the process of investigating the causes of, and our personnel's response to, this outage, and reviewing any measures that can be adopted to avoid similar outages in the future.

Supply and Commercialization

A key aspect of our growth strategy is increasing the profitability of our commercialization activities in the medium to long-term. We intend to continue servicing our customers represented by approximately 45.3 million basic supply customer accounts and future qualified users by developing client-focused strategies that focus on differentiating our clients by segment. We also plan to take advantage of our client base to develop new lines of business and increase our overall commercialization capacity. As of September 30, 2020, CFE had a 100% market share of the basic supply market and a 36% market share of the qualified supply market.

In parallel, we plan to continue to develop our transportation and commercialization of natural gas business. Under our current structure, CF Energía, S.A. de C.V. and CFE International LLC, two entities wholly owned by us, participate in the business of buying, selling, transporting and storing gas, fuel oil, coal and other fuels.

We currently are the most important purchaser of the natural gas that is consumed in Mexico, and within five years we expect to become the main consumer of natural gas in North America. Considering our unique position in the industry and the opportunities available in Mexico's undeveloped sector, we seek to gradually increase our presence in the market as we continue to commercialize, import, export, transport and store natural gas in Mexico and the United States.

Business Plan

Our business plan is based on strategic pillars that support each of our business lines:

Organizational and Operational Structure and Strong Performance Culture

Our organizational and operational structures allow us and our affiliates to operate in a competitive and efficient manner, attract high-skilled employees, improve our strong performance culture and enhance result-oriented strategies. For further information, see "Comisión Federal de Electricidad—General Regulatory Framework—Organizational Structure of CFE."

Our business plan requires us to reduce our financing costs and improve our financial risk management controls, for which we have centralized our budgetary, human resources, accounting and financing activities, as well as public relations through our corporate center.

Services and Support

During 2019, we implemented an operational model in which the Issuer provides administrative support and other services to its subsidiary productive enterprises and affiliates to create synergies. This model includes financial and operational metrics to continually evaluate each subsidiary productive enterprise and affiliate. We may also transfer certain of our servicing areas to subsidiary productive enterprises or affiliates, including those areas that currently provide administrative support. These subsidiaries are expected to service third parties as well as to continue servicing our businesses and affiliates, thus optimizing the value of our assets through more efficient processes.

Investments and Financing Capabilities

Our program of contracting with IPPs has allowed private companies to bid and operate electricity generation plants in Mexico and sell the generated power to us. Under the program, we have entered into long-term agreements (up to 25 years), under which IPPs are responsible for the construction, operation and maintenance of the electricity generation facility during the life of the agreement, and we are obligated to purchase the electricity produced by that facility. The use of IPPs has historically helped us meet electricity generation demands without the cost of construction.

The IPP program has also allowed us to obtain competitive prices for the purchased electricity via international bidding processes, in which we award projects to bidders that offer the lowest price per kWh for the sale of electricity to us. As of September 30, 2020, CFE had a total of 33 IPP contracts signed relating to generation facilities that were operational (504 units, which include combined-cycle and wind).

The *Obra Pública Financiada* program (Financed Public Works Program, “OPF”) addresses our infrastructure needs with respect to the transmission and distribution of electricity and for generation projects that cannot be structured using IPPs. We enter into relatively short-term agreements (1-2 years), under which a private company, which we select in an international public bidding process, is responsible for the construction of a project, but not for its ongoing operation and maintenance. Bidders that are selected for OPF agreements receive a total payment upon the completion of the project. The main advantage of this program is the avoidance of potential risks relating to the development of the project that may arise during the construction stage, such as cost escalation and failure of the completed project to meet technical specifications. As with IPPs, we are able to secure competitive prices for the OPFs as a result of an international bidding process.

We also intend to increase competition during the bidding processes for procurement contracts, reduce our financing costs and improve our risk-management policies.

In the past, our financings have been mostly limited to public and private financing transactions in the Mexican loan and bond markets, and certain private financings in the United States, Europe and Japan. In May 2011, February 2012, October 2013, June 2015, September 2016, October 2016, July 2017, October 2017, March 2018, July 2019 and March 2020, we sought financing in the international bond markets. We believe that the further development of this financing option, together with our objective to diversify our financing sources, will improve our liquidity and debt maturity profile and help fund our investment activities.

We are in the process of implementing a new financial vehicle in the form of a private trust agreement, which we refer to as the Master Investment Trust, and which is intended to allow the integration of our financial and investment portfolios. Such trust shall be incorporated by CF Energía and CFE Transmisión. This self-financing structure will work through the use of CF Energía’s accumulated and future profits, along with capital resources from prior and future equity issuances by our Fibra E, to finance the construction and development of new power plants, as well as the acquisition of existing projects. The purpose of the Master Investment Trust, is to seek to guarantee the return on investments and enhance the financial capacity of each of our subsidiaries and affiliates. We expect the Master Investment Trust to be incorporated later this year.

The Master Investment Trust would incorporate a sub-trust for each investment project, consisting of new power plants to be developed. Once such plant is built, it will be operated by one of CFE’s generation subsidiaries. Under this structure, the sub-trusts will be the owners of the new power plants and would enter into contracts with the applicable generation subsidiary, which will in turn operate the power plant.

Long-Term Employee Benefit Obligation Costs Optimization and Productivity

As of December 31, 2019, our long-term employee benefit liabilities represented 29% of our total liabilities. On August 19, 2020, we entered into a new collective bargaining agreement with the *Sindicato Único de Trabajadores Electricistas de la República Mexicana* (“SUTERM”). This new collective bargaining agreement included modifications to employee retirement age, which resulted in an increase of approximately Ps.75.1 billion in our long-term employee benefits and an increase of approximately Ps.76.7 billion in employee benefits costs, in each case as reflected in our interim financial statements. See Note 16 to our interim financial statements.

Strategic Regulatory Action

As a productive state enterprise, we intend to have an active role in the implementation of the new policies and regulations to develop the *Sistema Eléctrico Nacional* (National Electric System). We will continue to develop our relationship with our regulators. In particular, regarding our rate-regulated business, we will coordinate and maintain a channel of communication aimed to align the rates that we charge our customers with our costs and operating expenses.

Additionally, the energy reform established the creation of the *Centro Nacional de Control de Energía* (“CENACE”), the independent energy system operator of the National Electric System and the entity in charge of managing the MEM, its participants and the electricity spot market.

Social Responsibility

We will continue to operate as a last resort provider of electric power and we intend to continue to proactively face any electric emergencies. As a productive state enterprise, we expect to continue to monitor and assist the regulatory authorities in establishing reasonable and fair rates.

Recent Developments

Impact of the COVID-19 Pandemic on CFE

Since December 2019, a novel strain of coronavirus identified as SARS-CoV-2 that causes the disease known as COVID-19 has spread throughout the world. The COVID-19 pandemic has resulted in numerous deaths and the imposition of local, municipal and national governmental “shelter-in-place” and other quarantine measures, border closures and other travel restrictions, causing unprecedented commercial disruption in a number of jurisdictions, including Mexico. See “Risk Factors—Risks Factors Related to Mexico.”

To mitigate the effects of the COVID-19 pandemic on us, in accordance with our business continuity plan, we have limited our workforce’s access to our facilities, implemented alternating shifts and allowed a portion of our workforce to work remotely. In addition, we have implemented sanitizing measures to disinfect our facilities and mandatory use of face masks, among other measures, to control and monitor infection risks.

Our business operations are considered to be of public interest pursuant to Mexican law, and transmission and distribution of power are deemed a strategic area under the Mexican Constitution. Therefore, our operations have remained active throughout the period of the COVID-19 pandemic. As a result, the impact of the COVID-19 pandemic has been less severe on our results of operations, business and operations as compared to other industries. However, during the nine-month period ended September 30, 2020, we reported a decrease in revenues, in part due to a decrease of over 10% in revenues from electricity sales principally to industrial customers resulting from lower TWh of electricity sales due to the impact of the COVID-19 pandemic. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations.”

We believe that the extent of the impacts of the COVID-19 pandemic will depend on future developments, which are highly uncertain and unpredictable, such as increased cases of COVID-19 and general uncertainty related to immunization and vaccines. If the impact of the COVID-19 pandemic continues for an extended period of time, it could result in further decreases in our revenues and have other consequences in our results of operations.

Pension Liabilities

On August 19, 2020, we entered into a new collective bargaining agreement with SUTERM. This new collective bargaining agreement included certain modifications to our employee retirement age that resulted in an increase in long-term employee benefits and employee benefits costs, in each case as reflected in our interim financial statements. See “Summary—Business Strategy—Business Plan—Long-Term Employee Benefit Obligation Costs Optimization and Productivity.” As a result of these modifications to our collective bargaining agreement, we are in the process of reevaluating with the Ministry of Finance the terms of certain promissory notes pursuant to which the federal government has agreed to assume certain liabilities under our long-term employee benefits plan. See Note 17 to our annual financial statements. The outcome of this process may result in a reduction in the fair value of the benefit plan assets and promissory notes issued by the Ministry of Finance, potentially resulting in an increase in long-term employee benefits for the year ended December 31, 2020. While we are still in the process of closing our financial statements as of and for the year ended December 31, 2020, we do not believe that the outcome of this process will have a material effect on our financial condition, operating results, liquidity or capital resources.

Business Plan

On December 8, 2020, our Board of Directors approved our 2021-2025 Business Plan. For more information regarding our Business Plan, see “Comisión Federal de Electricidad—Business Strategy.”

Electric Industry Law Presidential Bill

On February 1, 2021, the President of Mexico submitted to the Chamber of Deputies, for its consideration, a bill which proposes amendments to several provisions of the Electric Industry Law. The bill considers technical and operational aspects that may improve our position in the market, and includes, among others, the following provisions that may have an impact on our business:

- give first priority to our hydroelectric and second priority to any other of our plants in the process of grid dispatch;
- remove the requirement of basic suppliers to purchase electricity and associated products only at CENACE auctions and introduce flexibility to consider other aspects such as available back-up capacity and availability of other electrical services;
- certain of our power purchase agreements entered into with independent power producers may be renegotiated to ensure that the underlying generation asset is self-financing in accordance with existing requirements under applicable law; and
- change the methodology to determine the allocation of clean energy certificates such that it is no longer premised on the ownership of the relevant power plant or the date on which the plant’s commercial operation date was achieved.

The bill was presented by the President of Mexico to the Chamber of Deputies as a “preferred” bill, which means that it must be discussed and voted on by the Chamber of Deputies within 30 calendar days following its submission. If the bill is approved by the Chamber of Deputies, then it must be discussed and voted on in the Senate within 30 calendar days after approval by the Chamber of Deputies. In order to become effective, the bill must be approved by both chambers of the Mexican Congress, signed by the President of Mexico and published in the Official Gazette.

As of the date of this offering memorandum, we cannot predict whether the bill will become effective as proposed, if it will be approved at all, or, if approved, what impact it will have on our financial condition and operations.

Our principal executive office is located at Paseo de la Reforma 164, Col. Juárez, 06600 Ciudad de México. Our telephone number at that address is +52 (55) 5229-4400.

THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing throughout this offering memorandum. For a more complete description of the terms of the notes, see "Description of the Notes."

Issuer	Comisión Federal de Electricidad.
Guarantors	CFE Distribución, CFE Suministrador de Servicios Básicos, CFE Transmisión, CFE Generación I, CFE Generación II, CFE Generación III, CFE Generación IV, CFE Generación V and CFE Generación VI.
Notes Offered	U.S.\$1,200,000,000 aggregate principal amount of 3.348% Notes due 2031. U.S.\$800,000,000 aggregate principal amount of 4.677% Notes due 2051.
Issue Date	February 9, 2021.
Issue Price	2031 notes: 100.000% of the principal amount thereof, plus accrued interest, if any, from February 9, 2021. 2051 notes: 100.000% of the principal amount thereof, plus accrued interest, if any, from February 9, 2021.
Maturity Date	2031 notes: February 9, 2031. 2051 notes: February 9, 2051.
Interest Rate	The 2031 notes will bear interest at the rate of 3.348% per annum. The 2051 notes will bear interest at the rate of 4.677% per annum.
Interest Payment Dates	Interest on the notes will be payable semi-annually on February 9 and August 9 of each year, beginning on August 9, 2021.
Guarantees	Payments of principal, premium, if any, interest, and any other amounts due in respect of the notes (whether at stated maturity, upon redemption, purchase pursuant to an offer to purchase, acceleration or otherwise) will be irrevocably and unconditionally, jointly and severally, guaranteed by the guarantors.
Status	The notes will constitute the Issuer's direct, general, unconditional, unsecured and unsubordinated Public External Indebtedness (as defined below). The notes will rank equally with all of the Issuer's other unsubordinated Public External Indebtedness. It is understood that this provision shall not be construed so as to require the Issuer to make payments under the notes ratably with payments being made under any of its other Public External Indebtedness.

The guarantees will constitute the direct, general, unconditional, unsecured and unsubordinated Public External Indebtedness (as defined below) of the guarantors. The guarantees will rank equally with all other unsubordinated Public External Indebtedness of such guarantor. It is understood that this provision shall not be construed so as to require any guarantor to make payments under the notes ratably with payments being made under any of its other Public External Indebtedness.

The Mexican government does not guarantee or secure the Issuer's obligations or those of the guarantors and has no obligation to pay the principal or interest on the notes in the event that the Issuer's cash flows and/or assets or those of the guarantors are not sufficient to make any such payments. The notes do not grant in any way recourse against the Mexican government or rights over the

ownership, control or assets of the Issuer or of the guarantors.

See “Description of the Notes—General—Status.”

Payments of Additional Amounts.....

The Issuer and the guarantors are required by current Mexican law to deduct Mexican withholding taxes from payments of interest (or amounts deemed to be interest) to holders who are not residents of Mexico for tax purposes, as described under “Taxation—Mexican Tax Considerations,” and to pay such deducted taxes to the Mexican tax authorities. The Issuer and the guarantors will pay Additional Amounts in respect of those payments of interest (or amounts deemed to be interest) so that the amount holders receive after Mexican withholding tax will equal the amount that they would have received if no such Mexican withholding taxes had been applicable, subject to certain limitations and exceptions as described under “Description of the Notes—Additional Amounts.”

Negative Covenants

The indenture governing the notes contains certain negative covenants relating to the Issuer and the guarantors, including:

- a negative pledge, under which the Issuer has agreed to a limitation on its and the guarantors’ ability to incur certain liens securing Public External Indebtedness; and
- a limitation on fundamental changes, under which the Issuer have agreed not to, and not to permit the guarantors to, engage in certain mergers, consolidations or sales of assets.

These covenants are subject to significant qualifications and exceptions. See “Description of the Notes—Negative Covenants.”

Optional Redemption

Prior to November 9, 2030 (three months prior the maturity date of the 2031 notes) in the case of the 2031 notes, and August 9, 2050 (six months prior the maturity date of the 2051 notes) in the case of the 2051 notes, the Issuer may redeem the notes, in whole or in part, at any time or from time to time, by paying the greater of 100% of the principal amount of the notes being redeemed and a “make-whole” amount, plus accrued and unpaid interest thereon (and Additional Amounts, if any) to the redemption date.

On or after November 9, 2030 (three months prior the maturity date of the 2031 notes) in the case of the 2031 notes, and August 9, 2050 (six months prior the maturity date of the 2051 notes) in the case of the 2051 notes, the Issuer may redeem the notes, in whole or in part, at any time or from time to time, by paying 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest thereon (and Additional Amounts, if any) to the redemption date

On the maturity date, the redemption price of the notes will be 100% of the principal amount of the notes outstanding plus accrued and unpaid interest to the maturity date.

See “Description of the Notes—Redemption and Purchase—Optional Redemption.”

Tax Redemption

The Issuer or any guarantor may redeem the notes of one or both series, in whole, but not in part, prior to maturity, at a price equal to 100% of the outstanding principal amount of the notes to be redeemed, plus accrued and unpaid interest thereon (and Additional Amounts, if any) to the redemption date, upon notice, if the Issuer or such guarantor is obligated to pay any Additional Amounts on the notes of such series in excess of those Additional Amounts attributable to a

Mexican withholding tax rate of 4.9% in respect of payments of interest, as a result of certain changes in Mexican tax laws and regulations applicable to payments under the notes of such series or certain changes in the interpretation or application of such laws. See “Description of the Notes—Redemption and Purchase—Redemption for Taxation Reasons.”

Purchase at the Option of Holders.....

Upon the occurrence of certain fundamental changes in the ownership or business of the Issuer (including, among others, if the Issuer ceases to be a public-sector entity of, or majority-owned by, the Mexican government) and, in certain circumstances, of the Issuer and the guarantors, the Issuer will be required to offer to purchase the notes, at a price equal to 100% of their principal amount, plus accrued interest (and Additional Amounts, if any) to the purchase date. See “Description of the Notes—Redemption and Purchase—Purchase at the Option of Holders.”

Further Issuances

The Issuer may, from time to time without the consent of holders of the notes, issue additional notes of each series having the same terms and conditions as the notes of such series in all respects, except for the issue date, issue price and, if applicable, the date of first payment of interest, the date from which interest will accrue, CUSIP and/or other securities numbers and, to the extent necessary, certain temporary securities law transfer restrictions; provided that any such additional notes issued with the same CUSIP as the notes of such series issued pursuant to this offering memorandum shall be (1) issued in a qualified reopening, (2) otherwise treated as part of the same “issue” of debt instruments as the notes of such series issued pursuant to this offering memorandum, or (3) issued with no more than *de minimis* original issue discount, in each case, for U.S. federal income tax purposes. Additional notes issued in this manner will increase the aggregate principal amount of, and be consolidated with and form a single series with, the previously outstanding notes of such series.

Collective Action Clauses

The notes will contain “collective action clauses.” Under these provisions, which differ from the terms of the Issuer’s Public External Indebtedness issued prior to June 16, 2015, the Issuer may amend the payment provisions of any series of debt securities issued under the indenture (including the notes) and other reserved matters listed in the indenture with the consent of the holders of: (1) with respect to a single series of debt securities, more than 75% of the aggregate principal amount of the outstanding debt securities of such series; (2) with respect to two or more series of debt securities, if certain “uniformly applicable” requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, whether or not the “uniformly applicable” requirements are met, more than 66⅔% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually. See “Description of the Notes—Meetings, Amendments and Waivers.”

Transfer Restrictions

The notes have not been and will not be registered under the Securities Act and are subject to transfer restrictions. See “Transfer Restrictions.”

The notes have not been and will not be registered with the *Registro Nacional de Valores* (Mexican National Securities Registry) maintained by the CNBV and,

therefore, the notes may not be publicly offered or sold in Mexico. The notes may be offered in Mexico to investors that satisfy the requirements to be considered institutional or qualified investors under Mexican law, pursuant to the private placement exemption set forth in Article 8 of the Securities Market Law.

Form and Denomination The notes will be issued in fully registered book-entry form, with a minimum denomination of U.S.\$200,000 and integral multiples of U.S. \$1,000 in excess thereof.

The notes sold in the United States in reliance on Rule 144A will be evidenced by one or more notes in global form (collectively, the “Restricted global note”), which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. The notes sold outside of the United States in reliance on Regulation S will be evidenced by one or more notes in global form (collectively, the “Regulation S global note”), which also will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Transfer of beneficial interests between the Restricted global note and the Regulation S global note will be subject to certain certification requirements.

Use of Proceeds We intend to use the net proceeds from the offering to refinance existing indebtedness and for general corporate purposes in accordance with the Mexican laws and regulations applicable to us.

Listing Application will be made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF Market. No assurance can be given that such application will be granted or that the Luxembourg listing will be maintained.

Trustee, Registrar, Paying Agent and Transfer Agent Deutsche Bank Trust Company Americas.

Luxembourg Listing Agent Deutsche Bank Luxembourg S.A.

Governing Law The indenture is, and the notes and guarantees will be, governed by, and construed in accordance with, the laws of the State of New York, except that matters relating to the authorization and execution of the indenture and the notes and the guarantees by the Issuer and the guarantors are governed by and construed in accordance with the laws of Mexico.

Risk Factors Prospective purchasers of the notes should consider carefully all of the information set forth in this offering memorandum and, in particular, the information set forth under “Risk Factors” in this offering memorandum, before making an investment in the notes.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The summary financial information set forth below has been derived from our annual financial statements and our interim financial statements. This summary of financial information should be read in conjunction with, and are qualified in their entirety by reference to, our financial statements included elsewhere in this offering memorandum.

Our financial statements are expressed in thousands of Mexican pesos and have been prepared in accordance with IFRS, as issued by the IASB.

All comparative financial information as of and for the years ended December 31, 2018 and 2017 has been restated to reflect the adoption of IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” using the full retrospective approach as of January 1, 2016, and all comparative financial information as of and for the years ended December 31, 2018 and 2017, has been restated to reflect the adoption of IFRS 16 “Leases” using the full retrospective approach as of January 1, 2017.

	As of and for the Nine-Month Period Ended September 30,			As of and for the Year Ended December 31,				
	2020	2020	2019	2019	2019	2018 (Restated)	2017 (Restated)	
	(in millions of U.S. dollars, except for ratios, percentages and GWh) ⁽¹⁾	(in millions of Mexican pesos, except for ratios, percentages and GWh)		(in millions of U.S. dollars, except for ratios, percentages and GWh) ⁽¹⁾	(in millions of Mexican pesos, except for ratios, percentages and GWh)			
Statement of Comprehensive Income (Loss) Data								
Total revenue	U.S.\$ 17,211	Ps. 386,519	Ps. 408,851	U.S.\$ 24,765	Ps. 556,152	Ps. 547,346	Ps. 489,606	
Total costs	(16,409)	(368,509)	(369,625)	(21,173)	(475,487)	(502,518)	(435,614)	
Operating results	U.S.\$ 802	Ps. 18,010	Ps. 39,225	U.S.\$ 3,592	80,666	Ps. 44,828	Ps. 53,991	
Total comprehensive financing results, net	6,915	155,290	36,422	1,245	27,965	49,373	19,585	
Income (loss) before income tax and other comprehensive income ...	U.S.\$ (6,113)	Ps. (137,280)	Ps. 2,803	U.S.\$ 2,347	Ps. 52,701	Ps. (4,545)	Ps. 34,406	
Income tax	U.S.\$ (251)	Ps. (5,629)	Ps. (2,331)	U.S.\$ (1,203)	Ps. (27,027)	Ps. 66,171	Ps. 73,303	
Net (loss) income	U.S.\$ (6,364)	Ps. (142,909)	Ps. 472	U.S.\$ 1,143	Ps. 25,674	Ps. 61,625	Ps. 107,709	
Statement of Financial Position Data								
Total current assets	U.S.\$ 11,972	Ps. 268,858	Ps. 193,179	U.S.\$ 8,797	Ps. 197,546	Ps. 193,197	Ps. 176,948	
Plants, facilities and equipment, net	53,256	1,195,991	1,183,396	53,938	1,211,304	1,186,590	1,190,848	
Derivative financial instruments	1,672	37,539	14,102	181	4,064	17,783	16,085	
Loans to employees	659	14,804	13,488	613	13,777	12,368	12,339	
Deferred tax assets	7,491	168,230	176,824	7,445	167,194	171,333	76,832	
Intangibles and other assets.....	2,022	45,415	44,160	1,721	38,639	34,289	32,837	
Total assets	U.S.\$ 99,102	Ps. 2,225,557	Ps. 2,094,144	U.S.\$ 93,818	Ps. 2,106,900	Ps. 1,962,360	Ps. 1,815,111	
Long-term employee benefits ⁽²⁾	U.S.\$ 22,192	Ps. 498,364	Ps. 329,555	U.S.\$ 19,008	Ps. 426,861	Ps. 327,453	Ps. 361,780	
Short-term debt and Lease Liabilities ⁽³⁾	4,046	90,859	66,552	2,893	64,972	66,686	64,225	
Other payables and accrued liabilities and Income tax ⁽⁴⁾	4,216	94,675	116,808	4,113	92,362	116,668	113,103	
Long-term debt and non-current Lease liabilities ⁽⁵⁾	44,413	997,403	876,598	38,133	856,370	744,385	691,120	
Other long-term liabilities	1,142	25,657	21,460	1,027	23,057	20,451	23,425	
Total equity holders of the parent and Non- controlling interests	23,093	518,599	683,171	28,644	643,278	686,717	561,457	

	As of and for the Nine-Month Period Ended September 30,				As of and for the Year Ended December 31,									
	2020		2020		2019		2018 (Restated)		2017 (Restated)					
	(in millions of U.S. dollars, except for ratios, percentages and GWh) ⁽¹⁾		(in millions of Mexican pesos, except for ratios, percentages and GWh)		(in millions of U.S. dollars, except for ratios, percentages and GWh) ⁽¹⁾		(in millions of Mexican pesos, except for ratios, percentages and GWh)							
Total liabilities and total equity	U.S.\$	99,102	Ps.	2,225,557	Ps.	2,094,144	U.S.\$	93,818	Ps.	2,106,900	Ps.	1,962,360	Ps.	1,815,111
Non-GAAP Measures														
Adjusted EBITDA ⁽⁶⁾	U.S.\$	7,683	Ps.	172,549	Ps.	117,039	U.S.\$	8,118	Ps.	182,319	Ps.	135,718	Ps.	171,789
Ratio of Adjusted EBITDA to interest paid ⁽⁷⁾		4.4x		4.4x		19.0x		8.3x		8.3x		6.2x		6.6x
Ratio of Debt ⁽⁸⁾ to Adjusted EBITDA LTM ⁽⁹⁾		4.6x		4.6x		4.5x		5.1x		5.1x		6.0x		4.4x
Ratio of Debt to Total Equity ⁽¹⁰⁾⁽¹¹⁾		209.8%		209.8%		138.1%		143.2%		143.2%		118.1%		134.5%
Acquisition of plants, facilities and equipment....	U.S.\$	830	Ps.	18,642	Ps.	35,054	U.S.\$	2,182	Ps.	49,003	Ps.	46,114	Ps.	69,788
GWh sold ⁽¹²⁾				155,638		164,886				218,930		218,083		215,310

N/A = Not applicable.

- (1) Mexican peso amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the Mexican peso/U.S. dollar exchange rate of Ps.22.4573 = U.S.\$1.00, as published in the Official Gazette on September 29, 2020 for payment obligations due on September 30, 2020. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollars at the foregoing or any other rate.
- (2) Represents employee benefits plus provision for long-term employee benefit obligations upon retirement.
- (3) As of December 31, 2019, 2018 and 2017, represents current portion of documented debt plus PIDIREGAS and current portion of lease liabilities. As of September 30, 2020 and 2019, represents current portion of long term documented debt plus PIDIREGAS and lease liabilities under IFRS 16 “Leases.”
- (4) Represents liabilities derived from suppliers and contractors plus taxes and fees payable plus other accounts payable and accrued liabilities plus deposits from users and contractors.
- (5) As of December 31, 2019, 2018 and 2017, represents long term documented debt plus PIDIREGAS and non-current portion of lease liabilities. As of September 30, 2020 and 2019, represents long term documented debt plus PIDIREGAS and lease liabilities under IFRS 16 “Leases.” “Documented debt” consists of local and international bonds issued by the Issuer, loans and lines of credit (mainly revolving).
- (6) Adjusted EBITDA equals net income plus income tax and total comprehensive financing results, net, less depreciation and employee benefits costs. Operating EBIT equals net income plus income tax and total comprehensive financing results, net.
- (7) Calculated as Adjusted EBITDA divided by interest paid.
- (8) Debt equals short-term debt plus current lease liabilities plus long-term debt plus non-current lease liabilities.
- (9) Ratio calculated as Debt divided by Adjusted EBITDA for, in the case of the twelve-month period ended September 30, 2020 (LTM), the sum of Adjusted EBITDA for the three-month period ended December 31, 2019 and Adjusted EBITDA for the nine-month period ended September 30, 2020, and, in the case of the twelve-month period ended September 30, 2019 (LTM), the sum of Adjusted EBITDA for the three-month period ended December 31, 2018 and Adjusted EBITDA for the nine-month period ended September 30, 2019.
- (10) Total Equity equals total equity holders of the parent plus non-controlling interest.
- (11) Ratio calculated as Debt divided by Total Equity.
- (12) Sold by CFE Suministrador de Servicios Básicos.

Adjusted EBITDA and the ratios of Adjusted EBITDA to interest paid, Debt to Adjusted EBITDA LTM and Debt to Total Equity are presented in this offering memorandum because we believe that they are widely accepted as financial indicators of our ability to internally fund capital expenditures and service or incur debt.

Adjusted EBITDA and such ratios should not be considered as indicators of our financial performance, as alternatives to cash flow, as measures of liquidity or as being comparable to other similarly titled measures of other companies.

Reconciliation of our Operating EBIT is as follows:

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2020	2020	2019	2019	2019	2018 (Restated)	2017 (Restated)
	(in millions of U.S. dollars) ⁽¹⁾	(in millions of Mexican pesos)		(in millions of U.S. dollars) ⁽¹⁾	(in millions of Mexican pesos)		
Net (loss) income	(6,364)	(142,909)	472	1,143	25,674	61,625	107,709
Income tax	251	5,629	2,331	1,203	27,027	(66,171)	(73,303)
Total comprehensive financing results, net	6,915	155,290	36,422	1,245	27,965	49,373	19,585
Operating EBIT	802	18,010	39,225	3,592	80,666	44,828	53,991

Reconciliation of our Adjusted EBITDA is as follows:

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2020	2020	2019	2019	2019	2018 (Restated)	2017 (Restated)
	(in millions of U.S. dollars) ⁽¹⁾	(in millions of Mexican pesos)		(in millions of U.S. dollars) ⁽¹⁾	(in millions of Mexican pesos)		
Operating EBIT.....	802	18,010	39,225	3,592	80,666	44,828	53,991
Depreciation.....	2,306	51,788	51,764	2,928	65,753	70,350	69,895
Employee benefits costs ⁽²⁾	4,575	102,751	26,050	1,599	35,900	20,540	47,903
Adjusted EBITDA.....	7,683	172,549	117,039	8,118	182,319	135,718	171,789

Reconciliation of our ratio of Adjusted EBITDA to interest paid is as follows:

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2020	2020	2019	2019	2019	2018 (Restated)	2017 (Restated)
	(in millions of U.S. dollars, except for ratio) ⁽¹⁾	(in millions of Mexican pesos, except for ratios)		(in millions of U.S. dollars, except for ratio) ⁽¹⁾	(in millions of Mexican pesos, except for ratio)		
Adjusted EBITDA	7,683	172,549	117,039	8,118	182,319	135,718	171,789
Interest paid	1,741	39,095	6,170	976	21,926	22,053	26,094
Ratio of Adjusted EBITDA to interest paid	4.4	4.4	19.0	8.3	8.3	6.2	6.6

Reconciliation of our Debt is as follows:

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2020	2020	2019	2019	2019	2018 (Restated)	2017 (Restated)
	(in millions of U.S. dollars) ⁽¹⁾	(in millions of Mexican pesos)		(in millions of U.S. dollars) ⁽¹⁾	(in millions of Mexican pesos)		
Short-term debt	3,036	68,177	36,751	2,400	53,897	39,829	48,498
Current lease liabilities.....	1,010	22,682	29,801	493	11,075	26,857	15,727
Long-term debt	14,563	327,054	324,481	13,338	299,532	314,796	287,053
Non-current lease liabilities.....	29,850	670,349	552,117	24,795	556,838	429,589	404,068
Debt.....	48,459	1,088,262	943,150	41,026	921,342	811,071	755,345

Reconciliation of our ratio of Debt to Adjusted EBITDA LTM is as follows:

	For the Twelve-Month Period Ended September 30,			For the Year Ended December 31,			
	2020	2020	2019	2019	2019	2018 (Restated)	2017 (Restated)
	(in millions of U.S. dollars, except for ratio) ⁽¹⁾	(in millions of Mexican pesos, except for ratios)		(in millions of U.S. dollars, except for ratio) ⁽¹⁾	(in millions of Mexican pesos, except for ratios)		
Debt	48,459	1,088,262	943,150	41,026	921,342	811,071	755,345
Adjusted EBITDA LTM ⁽³⁾	10,590	237,829	209,655	8,118	182,319	135,718	171,789
Ratio of Debt to Adjusted EBITDA LTM.	4.6	4.6	4.5	5.1	5.1	6.0	4.4

Reconciliation of our Total Equity is as follows:

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2020	2020	2019	2019	2019	2018 (Restated)	2017 (Restated)
	(in millions of U.S. dollars) ⁽¹⁾	(in millions of Mexican pesos)		(in millions of U.S. dollars) ⁽¹⁾	(in millions of Mexican pesos)		
Total equity holders of the parent	22,263	499,966	667,034	27,792	624,131	669,221	561,457
Non-controlling interest	830	18,633	16,137	853	19,147	17,497	-
Total Equity	23,093	518,599	683,171	28,644	643,278	686,717	561,457

Reconciliation of our ratio of Total Equity to Debt is as follows:

	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,			
	2020	2020	2019	2019	2019	2018 (Restated)	2017 (Restated)
	(in millions of U.S. dollars, except for ratio) ⁽¹⁾	(in millions of Mexican pesos, except for ratios)		(in millions of U.S. dollars, except for ratio) ⁽¹⁾	(in millions of Mexican pesos, except for ratios)		
Debt	48,459	1,088,262	943,150	41,026	921,342	811,071	755,345
Total Equity	23,093	518,599	683,171	28,644	643,278	686,717	561,457
Ratio of Debt to Total Equity	209.8%	209.8%	138.1%	143.2%	143.2%	118.1%	134.5%

- (1) Mexican peso amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the Mexican peso/U.S. dollar exchange rate of Ps.22.4573 = U.S.\$1.00, as published in the Official Gazette on September 29, 2020 for payment obligations due on September 30, 2020. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollars at the foregoing or any other rate.
- (2) Represents the cost for the period for pension and seniority premiums in respect of our defined benefits plan, as determined by an independent actuarial study on an annual basis, which was established for employees that were employed prior to the inception of our defined contribution plan on August 18, 2008.
- (3) For the twelve-month period ended September 30, 2020, represents the sum of Adjusted EBITDA for the three-month period ended December 31, 2019 and Adjusted EBITDA for the nine-month period ended September 30, 2020 (LTM). For the twelve-month period ended September 30, 2019, represents the sum of Adjusted EBITDA for the three-month period ended December 31, 2018 and Adjusted EBITDA for the nine-month period ended September 30, 2019 (LTM).

The figures in Mexican pesos shown for the purpose of reconciling Adjusted EBITDA are presented in thousands of Mexican pesos in the consolidated statements of cash flows for the corresponding periods.

RISK FACTORS

An investment in the notes is subject to the risks described below. You should carefully review the following risk factors, together with the other information contained in this offering memorandum, before deciding whether this investment is suited to your particular circumstances. Any of these risks could have a material adverse effect on our business, financial condition and results of operations, which could, in turn, affect our ability to repay our indebtedness, including the notes. The trading price of the notes could decline due to any of these risks, and investors may lose all or part of their investment. The risks described below are those known to us and what we currently believe may materially affect us. Additional risks not presently known to us or that we currently consider immaterial may also impair our business.

Risk Factors Related to Mexico

The outbreak of COVID-19 has had and may continue to have an adverse effect on our business, results of operations and financial condition

Since December 2019, a novel strain of coronavirus identified as SARS-CoV-2 that causes the disease known as COVID-19 has spread throughout the world. On March 11, 2020, COVID-19 was categorized as a pandemic by the World Health Organization. The COVID-19 pandemic has resulted in numerous deaths and the imposition of local, municipal and national governmental “shelter-in-place” and other quarantine measures, border closures and other travel restrictions, causing unprecedented commercial disruption in a number of jurisdictions, including Mexico. Many countries around the world, including Mexico, are suffering significant economic and social crises as a result of the ongoing COVID-19 pandemic and measures taken to contain or mitigate it, which have had dramatic adverse consequences on demand, operations, supply chains and financial markets, as well as contributed to significant volatility in commodity prices. While the nature and scope of the consequences to date are difficult to evaluate precisely, and their future course is impossible to predict with confidence, these events may continue for a sustained period of time.

As of the date of this offering memorandum, the Mexican government has adopted certain measures intended to help mitigate the spread of COVID-19 in Mexico. However, we cannot predict the range of future measures that may be enacted by the Mexican government, or any other government, or the impact these measures will have on our business and operations. Our business operation is considered to be of public interest (*interés público*) pursuant to article 2 of the Electric Industry Law, provided further that, transmission and distribution of power (which are performed by our productive state enterprises CFE Transmisión and CFE Distribución) are deemed a strategic area (together with the planning and control of the National Electric System) as defined in Articles 27 and 28 of the Mexican Constitution. Therefore, our operations remain active as of the date of this offering memorandum; however, in accordance with our business continuity plan, we have limited our workforce’s access to our facilities, implemented alternating shifts and allowed a portion of our workforce to work remotely. In addition, we have implemented sanitizing measures to disinfect our facilities and mandatory use of face masks, among other measures, to control and monitor infection risks. The COVID-19 pandemic, or any future pandemic or epidemic, has and may further impact the places where we operate or our workforce. In turn, this could significantly disrupt our operations and cause health restrictions to our workforce and, therefore, impact the operation of our facilities. These conditions could adversely affect our business, results of operations and financial condition.

Furthermore, although the impact of the COVID-19 pandemic has been less severe on our results of operations, business and operations as compared to other industries, if it continues for an extended period of time, it could adversely affect our ability to operate our business in the manner previously planned. Further, the COVID-19 pandemic could have accounting consequences, such as decreases in our revenues, foreign exchange losses, impairments of fixed assets, and affect our ability to operate effective internal control over financial reporting.

The extent to which COVID-19 or other health pandemics or epidemics may continue to impact Mexico, the Mexican economy and the global economy and, in turn, our business, results of operations and financial condition is highly uncertain and will depend on numerous evolving factors that we cannot predict, including, but not limited to:

- the duration, scope, and severity of the COVID-19 pandemic;

- the impact of travel bans, work-from-home policies, shelter-in-place orders or other measures enacted by the Mexican government;
- staffing shortages;
- general economic, financial, and industry conditions, particularly conditions relating to liquidity and financial performance, which may be amplified by the effects of the COVID-19 pandemic; and
- the long-term effects of the COVID-19 pandemic on the national and global economy, including on consumer confidence and spending, financial markets and the availability of credit for us, our suppliers and our customers.

On December 11, 2020, the *Comisión Federal para la Protección contra Riesgos Sanitarios* (Federal Commission for the Protection against Sanitary Risks) authorized the emergency use of the Pfizer-BioNTech COVID-19 vaccine, which will be used in the *Política Nacional de Vacunación* (National Vaccination Policy) against COVID-19. Under this policy, the vaccine will first be administered to health care professionals on the front lines of the pandemic. Other vaccines, such as an AstraZeneca vaccine have also been authorized.

As of February 1, 2021 Mexico had 2,064,109 officially estimated cases of COVID-19, of which an estimated 178,606 resulted in fatalities and an estimated 1,425,748 resulted in recoveries.

Economic conditions, political events and government policies in Mexico and elsewhere may have a material impact on our operations and financial performance

Substantially all of our operations and assets are located in Mexico and our revenues, therefore, are indirectly related to economic conditions in Mexico, including, among other factors, changes in its gross domestic product (“GDP”), per capita disposable income, unemployment rates, the value of the Mexican peso as compared to the U.S. dollar, regulations affecting convertibility, inflation, changes in oil prices, interest rates, regulation, taxation, social instability, and other political social and economic developments. These events could also lead to increased volatility in the foreign exchange and financial markets, thereby affecting our ability to obtain new financing and service our debt, including the notes. The Mexican government cut spending for the 2019 and 2020 budgets as part of the current Mexican president’s austerity policy, and part of the government budget for 2021 has been redirected to help address the COVID-19 pandemic. We cannot assure you that the government will not cut spending in the future. See “—Risk Factors Related to the Issuer and the Guarantors—The Mexican government controls us and could limit our ability to satisfy our external debt obligations.” These cuts, although not applicable to us, could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects.

Political events in Mexico may significantly affect Mexican economic policy and, consequently, our operations. The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican government actions concerning the economy and regulation of certain industries, including the energy sector, could have a significant effect on us and on market conditions in Mexico. The Mexican president influences new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, which could negatively affect our business, financial condition and results of operations. As of the date of this offering memorandum, a single political party, the *Movimiento Regeneración Nacional* (National Regeneration Movement, or Morena) holds an absolute majority in the *Cámara de Diputados* (Chamber of Deputies) and in 20 local congresses. We cannot predict the impact that political developments in Mexico will have on the Mexican economy nor can provide any assurances that these events, over which we have no control, will not have an adverse effect on our business, financial condition and results of operations.

In the past, Mexico has experienced several periods of slow or negative economic growth, high inflation, high interest rates, currency devaluation (in particular with respect to the Mexican peso-U.S. dollar exchange rate), convertibility restrictions and other economic problems. These problems may worsen or reemerge, as applicable, in the future and could adversely affect our business and ability to service our debt. In a series of decisions beginning in August 2019 and continuing throughout 2019, Banco de México decreased its reference rate for the first time in over five years, by a total of 100 basis points, from 8.25% to 7.25%. During the nine-month period ended September 30, 2020, Banco de México further lowered its reference rate by a total of 300 basis points, from 7.25% to 4.25%.

However, we cannot assure you that Banco de México will not increase its reference rates in the future and that such future increases in interest rates will not adversely affect our results of operations by increasing our financing costs.

In addition, a worsening of international financial or economic conditions, such as a slowdown in growth or recessionary conditions in Mexico's trading partners, including the United States, or the emergence of a new financial crisis, could have adverse effects on the Mexican economy, our financial condition and our ability to service our debt, including the notes.

Violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy.

Mexico has experienced violence relating to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border. This violence has had an adverse impact on the Mexican economy generally, and may lead to increased social instability in the future, which could adversely affect our ability to conduct our business. We cannot assure you that the level of violent crime in Mexico, over which we have no control, will not increase in the future and will not have adverse effects on our business, financial position and results of operation.

Social, political and economic developments in other countries may adversely affect us, including the prices of our debt securities

Social, political, economic conditions in other countries may, to varying degrees, affect the market value of securities of Mexican companies, including the notes. Although social, political and economic conditions in other countries may differ significantly from social, political and economic conditions in Mexico, investors' reactions to social, political or economic developments in other countries may have an adverse effect on the market value of securities of Mexican companies, including the notes.

Economic, political and regulatory developments in the United States may adversely affect the Mexican economy

Changes in economic, political and regulatory conditions in the United States or in laws and policies governing foreign trade could create uncertainty in the international markets and could have a negative impact on the Mexican economy. Economic conditions in Mexico are highly correlated with economic conditions in the United States. This correlation is due, in part, to the high degree of economic activity between the two countries generally, including the trade facilitated by the United States-Mexico-Canada Agreement ("USMCA"), as well as physical proximity.

In August 2017, Mexico, the United States and Canada commenced renegotiation of North American free Trade Agreement ("NAFTA"), and on November 30, 2018, the presidents of Mexico, United States and Canada signed the USMCA. The USMCA effectively replaced NAFTA on July 1, 2020. Unlike NAFTA, the USMCA includes a sunset provision that requires it to be analyzed and modified, if applicable, after six years and after 16 years shall be renegotiated. The USMCA also includes amendments to the rules of origin in practically all sectors, rules to deter artificial changes to exchange rates to obtain commercial advantages, additional intellectual property protections, as well as amendments in labor matters and information technologies, among other provisions. There can be no assurance as to the outcome of the USMCA or any subsequent trade agreements made as a response thereto, and the impact on our industry of these measures or any other measure adopted by the United States cannot be predicted.

In addition, the U.S. presidential elections and changes in the U.S. administrations have had an impact on the worldwide economy and in Mexico. The current policies of the U.S. government towards Mexico have created instability, uncertainty and may adversely affect the Mexican economy. For example, President Donald Trump has instituted import tariffs and enforced measures intended to control illegal immigration from Mexico, each of which has created friction between the U.S. and Mexican governments and may reduce economic activity between these countries. On January 20, 2021, Joseph R. Biden became the 46th President of the United States, and his administration may pass legislation that could impact Mexico. While the Mexican and U.S. governments have been able to reach an understanding in the past, we cannot assure you that such understanding will remain in place or that the U.S. government will not impose policies on Mexico in the future and that we will not be materially adversely affected by such policies in the future.

Changes in exchange rates or in Mexico’s exchange controls may adversely affect our ability to service our foreign currency-denominated indebtedness

The Mexican government does not currently restrict the ability of Mexican companies or individuals to convert Mexican pesos into U.S. dollars or other currencies, and Mexico has not had foreign exchange controls policy since 1982. However, in the future, the Mexican government could impose a restrictive exchange control policy or devalue the Mexican peso, as it has done in the past. We cannot provide assurances that the Mexican government will maintain its current policies with regard to the Mexican peso or that the Mexican peso’s value will not fluctuate significantly in the future.

The Mexican peso has been subject to significant devaluations against the U.S. dollar in the past and has recently been subject to significant fluctuations, and Mexican government policies affecting the value of the Mexican peso could prevent us from paying our foreign currency obligations

Depreciation of the Mexican peso against the U.S. dollar and/or volatility in the financial markets could adversely affect our operational and financial results. In particular, a depreciation in the value of the Mexican peso relative to the U.S. dollar could increase our costs because our main raw materials are hydrocarbons, whose prices are referenced to the U.S. dollar. In addition, more than half of our debt, excluding lease liabilities (63.0% as of September 30, 2020, before hedging) is denominated in U.S. dollars or other foreign currencies (25.8% after hedging), and we may incur additional indebtedness denominated in U.S. dollars or other foreign currencies in the future. The value of the Mexican peso in U.S. dollar terms appreciated by 4.3% in 2019 as compared to a 0.5% appreciation of the Mexican peso in U.S. dollar terms in 2018. During the nine-month period ended September 30, 2020, the value of the Mexican peso depreciated by 19.2% in U.S. dollar terms as compared to December 31, 2019. Future declines in the value of the Mexican peso relative to the U.S. dollar or other foreign currencies would increase our interest and repayment costs in Mexican pesos and may result in foreign exchange losses.

Regulatory developments in Mexico could have a negative impact on our results of operations and financial condition

We operate in an industry that is heavily regulated by the Mexican government including, in particular, the CRE. As a result, our results of operations are closely linked to certain factors that are under the control of the Mexican government, such as the regulation of electricity rates throughout Mexico. Consequently, a change in applicable law, regulations or policies in Mexico, or the interpretation thereof, if adverse to us, could have a negative impact on our business, financial condition and results of operations. See “Comisión Federal de Electricidad—General Regulatory Framework.”

Risk Factors Related to the Issuer and the Guarantors

The Mexican government controls us and could limit our ability to satisfy our external debt obligations

The primary source of funds for us to make payments under the notes is our results of operations and cash flows. The notes do not grant in any way rights over the ownership, control or assets of the Issuer or the guarantors.

Pursuant to the CFE Law, in October 2014, the Issuer was converted from a decentralized public entity of the Mexican government into a productive state enterprise of the Mexican government. In addition, the Board of Directors has been empowered to create additional subsidiary productive enterprises or participate in affiliates without the need to obtain approval from the Mexican Congress. We have additional technical, managerial and budgetary autonomy, which is designed to allow us to compete with other companies participating in the Mexican energy sector. See “Comisión Federal de Electricidad—General Regulatory Framework.” Notwithstanding this increased autonomy, we remain under the Mexican government’s supervision and regulation, and the Minister of Energy acts as Chair of the Board of Directors. Our activities are monitored by the Ministry of Energy and the CRE, and our annual budget can be adjusted by the Mexican government in certain respects, as it has been adjusted in the recent past. The influence by the Mexican government may cause our business and activities to be driven by political factors that may not be aligned with increasing our efficiency and/or profitability. In addition, our financial condition target, expenditure and net debt ceiling are included in the overall public sector financing plans and expenditure budget, which requires the approval of the Mexican Congress. The maximum amount we may pay in connection with indebtedness incurred is fixed, on a yearly basis, by the Mexican Chamber of Deputies. As a result, our financing and payment capacity is directly aligned with that of the Mexican government, which could adversely affect our ability to make payments under any securities issued by us, including the notes. In addition, the Mexican

government has the power, upon further amendment to the Mexican Constitution and applicable federal law, to reorganize us, including transferring of all or a portion of our assets to an entity not controlled by the Mexican government. The reorganization contemplated by the Energy Reform Decree and the Secondary Legislation, or any other reorganization implemented by the Mexican government in the future could adversely affect our operations, cause a disruption in our workforce and cause us to default on certain obligations. See “Comisión Federal de Electricidad—General Regulatory Framework.”

Although we are wholly owned by the Mexican government, our financing obligations do not constitute obligations of the Mexican government, and the Mexican government does not guarantee or secure our obligations and has no obligation to pay the principal or interest on the notes in the event that our cash flows and/or assets are not sufficient to make any such payments. In certain past debt restructurings of the Mexican government, our external indebtedness was treated on the same terms as the debt of the Mexican government and other public sector entities, and it may be treated on similar terms in any future debt restructuring. In addition, Mexico has in the past entered into agreements with official bilateral creditors to reschedule public sector external debt. The Mexican government’s agreements with international creditors may affect our external debt obligations, including the notes.

Our operating costs may not be fully covered by our electricity rates, which are set by the Mexican government; as a result, a reduction of our electricity rates could adversely affect our results of operations and financial condition

The Mexican government may set some of our consumer electricity rates at levels below our operating costs (if applicable, subject only to an inflation adjustment factor) in order to maintain the affordability of electricity, in particular with respect to our residential and agricultural customers, which rates will continue to be determined by the Mexican government following the implementation of the Secondary Legislation. In addition, upon the repeal of the *Ley del Servicio Público de Energía Eléctrica* (the “LSPEE”) and the Issuer’s conversion into a productive state enterprise, we are no longer subject to the public use tax and “rate insufficiency” regime that was historically applicable to us.

Certain electricity rates were historically set at levels below our operating costs. To avoid absorbing the impact of subsidies granted to consumers by the Mexican government, through 2014 we were permitted to offset certain taxes through the “rate insufficiency” regime, which allowed us to transfer losses incurred from subsidized electricity rates to the Mexican government. The subsidy we currently receive is included in the *Presupuesto de Egresos de la Federación* (“Federal Budget”) and transferred in ten monthly payments from February to November of each year. If the Mexican government maintains or continues to set some of our electricity rates at levels below our operating costs, we may be required to absorb the impact of the subsidies granted to consumers by the Mexican government and our business, financial condition and results of operations may be adversely affected. We can provide no assurances that we will not have to absorb such impact in the future and that, if we have to absorb it, our results of operations and financial position will not be adversely affected.

Any significant increase in fuel prices could adversely affect our results of operations and financial condition

Our operations require substantial amounts of fossil fuel (fuel oil, natural gas, liquefied natural gas, coal and diesel), since a substantial percentage of our installed capacity for generation (including through the IPPs model) is derived from plants powered by these fuels. We purchase our fuel oil and natural gas from PEMEX and other suppliers through our commercialization affiliates both in Mexico and in the United States, at indexed prices pursuant to long-term (15-year) contracts awarded pursuant to an international bidding process. For the year ended December 31, 2019 and the nine-month period ended September 30, 2020, fuel oil and natural gas accounted for a total of 69.7% and 82.0%, respectively, of the aggregate amounts that we spent for the generation of electricity. As of December 31, 2019, approximately 9.3% of our installed capacity relied on the use of coal. In October 2020, CFE formalized the purchase of two million tons of coal from 60 producers in the state of Coahuila. For the acquisition of the coal, a survey of 120 producers was conducted, with the support of the Deputy Ministry of Mining (*Subsecretaría de Minería*) and the Mexican Geological Service, to carry out on-site verifications, review of permits, application of questionnaires and verification of tax, labor and environmental obligations. From this survey and review, 75 potential suppliers were identified and we entered into contracts with 60 of them. These suppliers have been providing coal to CFE’s generation subsidiaries since September 2020. 73% of this purchase was allocated to micro and small producers, 16% to medium producers and 11% to large producers. A small percentage of our generating plants use diesel fuel, which we purchase from PEMEX at prices regulated by the Mexican government.

Any variation in fuel prices could affect our results of operations and financial condition, since an increase in fuel prices has a direct impact on our net operating cost. Our exposure to fuel prices is limited, since the electricity rates that we charge our industrial, commercial, public services (street lighting) and high-consumption residential customers, which accounted for 77.0% of our revenue from electricity sales during the nine-month period that ended September 2020, are adjusted monthly according to the methodology determined by the CRE. This methodology considers energy costs for CFE Suministrador de Servicios Básicos and the evolution of local marginal prices, which indirectly reflect fuel costs. However, we maintain exposure to natural gas prices, due to the participation of imported natural gas in our electricity generation and, in the future, we may not be able to successfully reduce our exposure to the volatility of fuel prices and their impact on our results of operations and financial condition. Additionally, we could face a combination of increased fuel prices and depreciation of the Mexican peso, which could adversely affect our operational and financial results.

We have substantial debt that could adversely affect our results of operations and financial condition.

We have incurred and, pursuant to our capital expenditures program, will continue to incur substantial amounts of indebtedness. Neither the indenture governing the notes, nor any of our loan agreements, or the other documents governing our indebtedness contain covenants restricting the incurrence of indebtedness by us. However, because we are subject to certain budgetary controls by the Mexican government and the Mexican Chamber of Deputies, we may not be able to exceed limits on net indebtedness established for us, which are reevaluated annually by the Mexican Congress.

Our ability to repay our indebtedness, including the notes, depends primarily on our results of operations and cash flow. If our operating revenues and cash flows are significantly affected by any factor, including, for example, serious technical failures in the functioning of our generation facilities, or increases in fuel prices or labor costs, we may have difficulties making payments as they come due on our indebtedness, including the notes.

The occurrence of certain events could result in an obligation to prepay, or accelerate, our indebtedness

We have incurred indebtedness in Mexico and in the international markets that is subject to certain conditions that, if not met by us, could give rise to an obligation to prepay or an event of default under such indebtedness. For example, a mandatory prepayment event or an event of default under certain of our indebtedness may occur if (i) we cease to be a productive state enterprise of the Mexican government, (ii) the Mexican government ceases to be our majority owner, (iii) we cease to be a productive state enterprise authorized to generate, transmit and distribute electricity in Mexico or (iv) our share of the electricity market in Mexico with respect to other public sector entities were to be reduced below 75% (unless the Mexican government were to formally assume or guarantee all of our obligations). The Issuer would have an obligation to offer to repurchase such indebtedness, including the notes, early if the events described above were to occur, but we cannot assure you that we would have the resources available to do so if such an event were to occur. Moreover, if a mandatory prepayment event or an event of default under our indebtedness were to occur and our repayment obligations are accelerated, our business, financial condition and results of operations could be adversely affected.

We are or may be involved in legal and regulatory proceedings that could result in unfavorable decisions and financial penalties for us

We are exposed to claims that could arise due to our operations. We cannot be certain that these claims will be resolved in our favor. Responding to the demands of litigation claims and responding to, or initiating proceedings may divert management's time attention and financial resources.

For example, there is currently a dispute between CFE and Consorcio Chicoasén II (the "Consortium") relating to the construction of a dam pursuant to an EPC contract we had entered into with the Consortium, in which an arbitral award, issued on July 22, 2020, ordered CFE to pay U.S.\$226 million, which is approximately 3.4% of our cash and cash equivalents as of September 30, 2020. Although different strategies have been and are being pursued to defend the interests of CFE, if this proceeding is not resolved in our favor, it could have an adverse effect on our results of operations and liquidity.

If one or more final judgments are issued against us, including a final order enforcing the arbitral award against us referred to above, and such judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay, we could be in default

under the indenture that governs the notes, which may, in turn, trigger cross-default provisions in our other debt instruments.

We are subject to anti-corruption, anti-bribery and anti-money laundering laws. Our failure to comply with these laws could result in penalties, which could harm our reputation and have an adverse effect on our business, results of operations and financial condition

We are subject to anti-corruption, anti-bribery and anti-money laundering laws. Although we maintain policies and processes intended to comply with these laws, including the review of our internal control over financial reporting, we cannot ensure that these compliance policies and processes will prevent intentional, reckless or negligent acts committed by our officers or our employees. If we, our officers or our employees fail to comply with any applicable anti-corruption, anti-bribery or anti-money laundering laws, we and our officers and our employees may be subject to criminal, administrative or civil penalties and other remedial measures, which could have material adverse effects on our business, financial condition and results of operations. Any investigation of potential violations of anti-corruption, anti-bribery or anti-money laundering laws by governmental authorities in Mexico or other jurisdictions could result in an inability to prepare our financial statements in a timely manner. This could adversely impact our reputation, ability to access the financial markets and ability to obtain contracts, assignments, permits and other government authorizations necessary to participate in our industry, which, in turn, could have adverse effects on our business, results of operations and financial condition.

The Issuer is a productive state enterprise and depends on the results of operations of its subsidiary productive enterprises, including to meet its obligations under the notes

The Issuer is a productive state enterprise with no independent operations or substantial assets other than assets of its subsidiary productive enterprises. See “Comisión Federal de Electricidad—General Regulatory Framework—Organizational Structure of CFE.” Accordingly, it depends on the results of operations of its subsidiary productive enterprises. The Issuer’s ability to service its debt and other obligations, including the notes, will depend on its subsidiary productive enterprises’ generation of cash flow and their ability to make such cash available to the Issuer. In the event that the Issuer does not receive cash from its subsidiary productive enterprises, the Issuer may be unable to make required principal and interest payments on its indebtedness, including the notes, or honor its other obligations. Any adverse change in the financial condition or results of operations of the Issuer’s subsidiary productive enterprises could affect our business, results of operations and financial condition.

Increased competition in the electricity sector could adversely affect our business and financial performance

As a result of the Energy Reform Decree and the enactment of the Secondary Legislation and the applicable regulations, we expect a greater involvement of the private sector in the power industry, including power generation and commercialization, creating greater competition. Electricity generation and commercialization are open to private sector participation and the new legislation allows high margin industrial consumers (licensed as qualified users) to purchase electricity from private qualified suppliers. Dispatch of power plants in the MEM is subject, by general rule, to an economic dispatch (*despacho económico*) principle which essentially results in the most cost-efficient power plants (that is, the power plants with the lower variable operation costs) being dispatched by the independent system operator (*i.e.*, CENACE) for purposes of the short-term energy market. The economic dispatch principle applies to power plants owned by private companies as well as power plants owned by productive state enterprises such as ours. In addition, private companies are allowed to enter into partnerships or agreements with us or the Ministry of Energy for the financing, installation, maintenance, management, operation and expansion of transmission and distribution infrastructure. Likewise, under the regime of the former electricity law, the LSPEE, private companies were allowed to participate in the generation and supply of power to satisfy their own power needs or their shareholders’ electricity requirements through grandfathered self-supply and cogeneration scheme. These grandfathered schemes still apply after the Energy Reform Decree. See “Comisión Federal de Electricidad—General Regulatory Framework—Private Participation in the Electricity Sector.” These changes could result in increased competition in some of the sectors in which we operate, and could make it more difficult for us to hire and retain skilled personnel. If we are unable to compete successfully with private-sector companies in these sectors, our results of operations and financial performance may be adversely affected.

We started engaging in the transportation, storage and sale of natural gas to industrial customers, which is a new line of business for us; however, we cannot provide assurance that an expansion into this line of business will succeed

We started engaging in the transportation, storage and sale of natural gas to industrial customers, which are activities in which we have limited experience. The expansion into this or any other new area of the Mexican energy sector in which we have not been previously engaged will subject us to the expenses, difficulties and risks inherent in establishing a new line of business. Failure to successfully develop this or other new lines of business in conjunction with our existing operations may have an adverse effect on our business, financial condition and results of operations.

We may suffer from a significant interruption of service, which could adversely affect our results of operations and financial condition

Although we conduct a comprehensive maintenance program, we may not be able to prevent service interruptions due to technical or technological failures. Much of our equipment is installed outdoors and is subject to the varying weather conditions that affect Mexico from time to time. As a result, this equipment, including, in particular, our transmission towers and utility poles, often incurs weather-related damage as well as wear-and-tear from aging, which in certain instances causes electricity service interruptions for our customers. Furthermore, we may suffer from significant and prolonged interruptions of service in any one or more of our facilities due to natural disasters (e.g., hurricanes, earthquakes, flooding, tsunamis and/or fires), epidemics (including, but not limited to, global health crisis, such as the COVID-19 pandemic), accidents, sabotage, terrorist acts, copper wire theft or failure of our technical systems or emergency maintenance plans, which could adversely affect our business, financial condition and results of operations.

Additionally, as demand for electricity in Mexico increases in the future, our ability to maintain the quality of our service and avoid service interruptions may depend in part on our ability to expand our labor force accordingly. However, because we are subject to certain budgetary controls, any expansion of our labor force is subject to the authorization of the Mexican government and the Mexican Congress. We cannot assure you that we will be able to obtain such authorization.

We are subject to environmental risks and possible claims and lawsuits inherent to the generation, transmission and distribution of electricity

There are environmental risks inherent to electricity generation, transmission, and distribution activities, and accordingly, we are subject to claims and lawsuits for damages arising from our operations. In particular, we are subject to environmental risks relating to the operation of our nuclear generation plant. Although we monitor the emissions of all our generation plants on a daily basis, we are subject to environmental audits ordered and performed by the *Procuraduría Federal de Protección al Ambiente* (Federal Environmental Protection Agency), which is part of the *Secretaría del Medio Ambiente y Recursos Naturales* (Ministry of Environment and Natural Resources), without prior notice, which could subject us to fines or remedial action. Furthermore, our nuclear facility is also subject to the regulation of the International Nuclear Regulators Association (“INRA”) and certain other international organizations.

Furthermore, a wide range of general and industry-specific Mexican federal and state environmental laws and regulations apply to our operations; these laws and regulations are often costly to comply with and carry substantial penalties for non-compliance. Such regulatory burden increases our costs as it may require significant capital expenditures.

We maintain a general liability insurance policy (which includes environmental risk insurance) and a civil liability insurance policy for the operation of our nuclear plant; however, such coverage may not be adequate or available to protect us in the event of a claim, or our coverage could be canceled or otherwise terminated. A major claim for damages could have a material impact on our business, financial condition, results of operations or prospects.

Natural disasters, such as hurricanes, earthquakes or massive rain storms could adversely affect our operations, in particular the supply of energy to the affected regions. On September 8, 2017 and September 19, 2017, Mexico was hit by two powerful earthquakes that registered a magnitude of 8.2 and 7.1, respectively, on the Richter scale, resulting in loss of life and significant damage to the affected regions. Both earthquakes resulted in

power outages in regions of Mexico in which we operate. In particular, because the epicenter of the September 19 earthquake was located about 100 miles away from Mexico City and near other highly populated cities in six other states, approximately 4.8 million consumers were affected by power supply disruptions. While we were able to reestablish approximately 99% of power supply within four days of the September 19 earthquake, and we have contingency plans in place and insurance against some or all of these risks, we cannot assure you that we will be able to respond to the effects of future natural disasters in an effective manner or that our insurance coverage will be adequate.

Unfavorable hydrologic conditions may adversely affect our operations

Our power generation activities depend, to a certain extent, on adequate flows and supplies of water, as 20.6% of our total installed capacity as of September 30, 2020 was from hydroelectric sources. Hydrological conditions largely influence plant dispatch and generation and therefore affect our operations. In the event of adverse hydrologic conditions and if alternative sources of generation are not available to us at a low cost, our financial performance may be negatively affected.

We may not be successful in implementing our business strategies

As part of our overall business strategy, we plan to undertake new, or expand ongoing, projects. Such projects include improving our clean and renewable energy generation capabilities, increasing the use throughout Mexico of energy-efficient appliances and light fixtures and further developing “smart grid” technology to improve the operational efficiency of our electricity transmission and distribution network.

Because of inherent uncertainties affecting these strategic initiatives, we are exposed to a number of risks and challenges, including, among others, the following:

- new and expanded business activities may require additional and unanticipated capital expenditures and increased regulatory compliance costs;
- new and expanded business activities may result in lower profits than we currently anticipate and there can be no guarantee that such activities will become profitable at the levels we desire or at all; and
- we may need to hire new personnel and/or retrain existing personnel to oversee and operate the relevant new business activities.

Labor unrest, employee benefits obligations and labor-related lawsuits may adversely affect our business, financial condition and results of operations

As of September 30, 2020, approximately 79% of our employees were members of SUTERM. Historically, our relationship with SUTERM has been cordial and respectful despite our differing interests. Every two years, we renegotiate the terms of our *contrato colectivo* (collective bargaining agreement) with SUTERM, while wages are reviewed and negotiated on an annual basis. We cannot guarantee the future stability of our relationship with SUTERM, and any labor related conflict with SUTERM may adversely affect our business, results of operations and financial condition.

In addition, as of September 30, 2020, we reported a liability of Ps.498.4 billion (U.S.\$22.1 billion) on our statement of financial position in respect of our long-term employee benefits, which represented 29.1% of our total liabilities as of such date. Any inability to meet these obligations at any time in the future may result in labor unrest, which could adversely affect our business, financial condition and results of operations.

As of September 30, 2020, we had 19,521 labor-related lawsuits filed against us by current and past employees. As of September 30, 2020, we had established a provision for employee benefits of Ps.13.2 billion (U.S.\$588 million) for our estimated liability in respect of these lawsuits, which provision is based on the trend of labor-related lawsuits resolved in the last five years. Although we have established reserves that we believe are sufficient to cover the risks associated with these lawsuits, we cannot guarantee that the assumptions underlying the establishment of our reserves will prove to be accurate, nor can we assure you that we will not become the subject of further lawsuits that may have an adverse effect on our business, results of operations and financial condition.

Our failure to timely file required financial information in Mexico may have adverse consequences

We are required, pursuant to the *Disposiciones de carácter general aplicables a las emisoras de valores y a otros participantes del mercado de valores* (General Provisions Applicable to Issuers of Securities and other Participants of the Mexican Stock Exchange), to publish our financial results in Mexico within specified timeframes. On April 29, 2019, we publicly announced that, due to the adoption of IFRS 16 “Leases,” effective January 1, 2019, our financial results for the three-month period ended March 31, 2019 and for the year ended December 31, 2018 would be published with delays. We published our financial results for the three-month period ended March 31, 2019 on May 31, 2019 and our financial results for the year ended December 31, 2018 on May 30, 2019. As a result of our failure to timely file our financial results for the three-month period ended March 31, 2019 within the required timeframe, the BMV temporarily suspended public trading in our securities listed on that exchange. Such suspension was lifted on May 31, 2019.

Although delays of this type are infrequent and we have procedures in place to avoid similar delays, we cannot guarantee that unforeseen events or changes in accounting policies will not result in similar delays in the future.

We may be subject to interruptions or failures in our information technology systems, as well as to cyberattacks or other breaches of network or IT security

We rely on sophisticated information technology systems and infrastructure to support our business in accordance with industry standards. Although we regularly evaluate risks and update our systems, programs and infrastructure, our systems may be susceptible to outages due to fire, floods, earthquakes, power loss, telecommunications failures and similar events. The failure of any of our information technology systems may cause disruptions in our operations, adversely affecting our operations. We cannot assure you that our business continuity plans will be completely effective in the event of interruptions or failure of our information technology systems.

Furthermore, our technologies, systems and networks may become the target of cyberattacks or information security breaches that could result in the unauthorized release, misuse or loss of confidential information, or other disruption of our operations. Although we have not experienced any material loss related to cyberattacks, there can be no assurance that we will not be the target of cyberattacks in the future that could adversely affect our operations or financial condition. In addition, if we fail to protect the privacy of customer and employee confidential data, we may be adversely affected. As cyber threats continue to evolve, we may be required to incur additional expenses to enhance our protective measures or to remediate any information security vulnerability.

Risk Factors Related to the Notes

The notes will contain provisions that permit CFE to amend the payment terms of a series of notes without the consent of all the holders

The notes will contain provisions regarding acceleration and voting on amendments, modifications and waivers that are commonly referred to as “collective action clauses.” Under these provisions, certain key terms of a series of the notes may be amended, including the maturity date, interest rate and other payment terms, without the consent of all the holders. See “Description of the Notes—Meetings, Amendments and Waivers.”

An active trading market for the notes may fail to develop, which could adversely affect the market prices and liquidity of the notes

Currently, there is no established trading market for the notes. Application will be made to have the notes admitted for listing on the Official List of Luxembourg Stock Exchange. Even if the notes become listed on either exchange, we may delist the notes from such exchange. If the notes fail to, or cease to be listed on the Luxembourg Stock Exchange, certain investors may not invest in, or continue to hold or invest in, the notes. A trading market for the notes may not develop, or if a market for the notes were to develop, the notes may trade at a discount from their initial offering price, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. The initial purchasers are not under any obligation to make a market with respect to the notes, and we cannot assure you that trading markets will develop or be maintained. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the notes. If an active market for the notes does not develop or is interrupted, the market price and liquidity of the notes may be adversely affected.

We may choose to redeem the notes and you may be unable to reinvest the proceeds at the same or a higher rate of return

We may redeem the notes, at our option, in whole or in part, at any time prior to November 9, 2030 (three months prior the maturity date of the 2031 notes) in the case of the 2031 notes, and August 9, 2050 (six months prior the maturity date of the 2051 notes) in the case of the 2051 notes by paying the greater of 100% of the principal amount of the notes to be redeemed and the applicable “make whole” premium amount, plus accrued interest to the redemption date. At any time on or after November 9, 2030 (three months prior the maturity date of the 2031 notes) in the case of the 2031 notes, and August 9, 2050 (six months prior the maturity date of the 2051 notes) in the case of the 2051 notes, we may redeem the notes, at our option, in whole or in part, by paying 100% of the principal amount of the notes to be redeemed, plus accrued interest to the redemption date. In addition, in the event of certain changes in Mexican tax laws or certain changes in the interpretation or application of such laws, we will have the right to redeem the notes of one or both series, in whole but not in part, prior to their maturity at a price equal to 100% of the outstanding principal amount of the notes to be redeemed plus accrued and unpaid interest to the redemption date (and Additional Amounts, if any). See “Description of the Notes—Redemption and Purchase—Redemption for Taxation Reasons.” We may choose to redeem the notes at times when prevailing interest rates may be relatively low. Accordingly, you may not be able to reinvest the redemption proceeds in a comparable security with an effective interest rate as high as that of the notes being redeemed.

The notes are subject to certain transfer restrictions

The notes have not been and will not be registered under the Securities Act or any U.S. state or other securities laws, and we are not required to make and currently do not plan on making any such registration in the immediate future. Accordingly, the notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state or other securities laws, as applicable. Prospective investors should be aware that investors may be required to bear the financial risks of an investment in the notes for an indefinite period of time. See “Transfer Restrictions” for a full explanation of these restrictions.

Our credit ratings do not reflect all risks of investing in the notes

Our credit ratings are an assessment by the rating agencies of our ability to pay our debts as they mature. Consequently, actual or anticipated changes in our credit ratings generally affect the market value of the notes. The ratings do not constitute a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time by the rating agency. Our credit rating from each rating agency should be evaluated independently of ratings by any other rating agencies.

Our current credit ratings and rating outlooks depend, in part, on economic conditions and other factors that affect credit risk and are outside our control, as well as assessments of the creditworthiness of Mexico. Certain ratings agencies have recently downgraded Mexico’s credit ratings and their assessment of Mexico’s creditworthiness has and may further affect our credit ratings.

We are not subject to the bankruptcy laws of Mexico, and certain of our assets cannot be attached by creditors

Neither the Issuer, as a productive state enterprise of the Mexican government, nor the guarantors, as subsidiary productive enterprises of the Issuer, are subject to the Commercial Bankruptcy Act and thus cannot be declared in reorganization or bankrupt. Under applicable Mexican law, the Issuer may be liquidated and dissolved by the Mexican Congress if it determines that the Issuer ceases to fulfill the purpose for which the Issuer was created or for any other reason. In addition, the guarantors may be liquidated and dissolved at any time by the Board of Directors, upon a proposal of the Issuer’s General Director. In the event that the Issuer is liquidated and dissolved by the Mexican Congress, or the guarantors are liquidated and dissolved as a result of a determination made by the Board of Directors, it is uncertain whether or to what extent the rights of holders of the notes would be honored. The Mexican government does not guarantee the Notes and is not required to assume or make any payments under the Notes.

Under the CFE Law, real property owned by the Issuer and the guarantors is deemed to be property in the public domain, and under Articles 6 and 13 of the General Law of Public Property neither attachment prior to judgment nor attachment in aid of execution will be ordered by Mexican courts against our real property. As a result, a Mexican court would not recognize an attachment order against such assets. In addition, under the Electric

Industry Law, the transmission and distribution of electric energy as a public service are reserved to the Mexican government, through us, and to that extent, the assets related thereto may be subject to immunity. As a result, the ability to enforce judgments against the Issuer or the guarantors in the courts of Mexico may be limited.

The Issuer and the guarantors have irrevocably submitted to the jurisdiction of the U.S. federal courts located in the Borough of Manhattan in The City of New York and, to the extent permitted by law, have waived immunity from the jurisdiction of these courts in connection with any action based upon the notes brought by any holder of notes. However, a holder of notes would not be able to enforce that judgment against the Issuer's or the guarantors' property in the United States except under the limited circumstances specified in the Foreign Sovereign Immunities Act. Moreover, most of the Issuer's and the guarantors' assets are located in Mexico, not in the United States. Therefore, even if a U.S. judgment against the Issuer or the guarantors were obtained, and an action to enforce that judgment were to be brought in Mexico, or an action seeking to enforce the obligations of the Issuer or the guarantor under the notes or the guaranty agreement (in respect of the notes) were brought against us in Mexico, satisfaction of those obligations may be made in Mexican pesos, pursuant to the laws of Mexico, at the rate of exchange in effect on the date on which payment is made. This rate of exchange is currently determined by *Banco de México* every business day in Mexico, based on an average of wholesale foreign exchange market quotes, and is published on *Banco de México*'s website (www.banxico.org.mx) and the following business banking day in the Official Gazette. See "Exchange Rates."

Holders of the notes may not be able to enforce civil liabilities against us or our directors and officers

The Issuer is a productive state enterprise of Mexico and the guarantors are subsidiary productive enterprises of the Issuer. While the Issuer and the guarantors have irrevocably submitted to the jurisdiction of the federal courts located in the Borough of Manhattan in The City of New York and, to the extent permitted by law, have waived immunity from the jurisdiction of these courts in connection with any action based upon the notes brought by any holder of notes, the Issuer and the guarantors have reserved the right to plead immunity under the Foreign Sovereign Immunities Act in actions brought against the Issuer or the guarantors under the U.S. federal securities laws or any U.S. state securities laws. Unless the Issuer or the guarantors waive their immunity against such actions, a U.S. court judgment could be obtained against the Issuer or any guarantor only if a U.S. court were to determine that the Issuer or any guarantor is not entitled to sovereign immunity under the Foreign Sovereign Immunities Act with respect to that action.

The Issuer's and the guarantors' directors and officers, as well as certain experts named in this offering memorandum, reside outside the United States, and all or a substantial portion of their assets are located outside of the United States. As a result, it may not be possible for holders of the notes to effect service of process outside Mexico upon the Issuer or the guarantors, its or their directors or officers, or those experts, or to enforce against such parties judgments of courts located outside Mexico predicated upon civil liabilities under the laws of jurisdictions other than Mexico, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States.

Mexican law does not require us to pay our foreign-currency judgments or foreign currency-denominated liabilities in a currency other than Mexican pesos

Although our obligations to pay U.S. dollars outside Mexico are valid and enforceable, under Article 8 of the Mexican *Ley Monetaria de los Estados Unidos Mexicanos* (Mexican Monetary Law), if proceedings are brought in Mexico seeking to enforce in Mexico our obligations under the notes, whether as a result of an initial action before Mexican courts or in connection with the enforcement of a judgment issued by a non-Mexican court through a Mexican court, we would not be required to discharge such obligations in Mexico in a currency other than Mexican currency. Pursuant to such Article 8, an obligation that is payable in Mexico in a currency other than Mexican currency may be satisfied in Mexican currency at the rate of exchange in effect on the date and in the place payment occurs. Such rate currently is determined by *Banco de México* every business banking day in Mexico and published the following business banking day in the Official Gazette. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican judgment currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit our liability to discharge our obligations in Mexican currency as described above, or to give any party an additional course of action seeking indemnity or compensation for possible deficiencies arising or resulting from variations in rates of exchange, will not be enforceable in Mexico.

Payment dates with respect to the notes shall be determined in accordance with the time zone applicable to The City of New York

All payment dates with respect to the notes, whether at maturity, upon earlier redemption or on any interest payment date, shall be determined in accordance with the time zone applicable to The City of New York. Because of time-zone differences, the interest payment date on which we make payment may not be the same business day in the applicable jurisdiction of the relevant holder of notes. In addition, deliveries, payments and other communications involving the notes are likely to be carried out through Euroclear and Clearstream, which means such transactions can only be carried out on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

Trading in the clearing systems is subject to minimum denomination requirements

The terms of the notes provide that notes will be issued in minimum denominations of U.S.\$200,000 and multiples of U.S.\$1,000 in excess thereof. It is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denomination. If definitive notes are required to be issued in relation to such notes in accordance with the provisions of the relevant global note, a holder who does not have the minimum denomination or any integral multiple of U.S.\$1,000 in excess thereof in its account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of definitive notes unless and until such time as its holding satisfies the minimum denomination requirement.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the notes, after payment of the initial purchasers' discounts and estimated transaction expenses payable by us, will be approximately U.S.\$1,994,000,000. We intend to use the net proceeds from the offering to refinance existing indebtedness and for general corporate purposes in accordance with the Mexican laws and regulations applicable to us.

EXCHANGE RATES

Mexico has a free market for foreign exchange, and the Mexican government allows the Mexican peso to float freely against the U.S. dollar. There can be no assurance, however, that the Mexican government will maintain its current policies with respect to the Mexican peso or that the Mexican peso will not depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the period-end, average, high and low exchange rates between the Mexican peso and the U.S. dollar published by *Banco de México*. These exchange rates are currently determined by *Banco de México* every business day in Mexico, based on an average of wholesale foreign exchange market quotes and published on *Banco de México*'s website (www.banxico.org.mx) and the following business banking day in the Official Gazette. The rates shown below are stated in Mexican pesos that have not been restated in constant currency units. No representation is made that the Mexican peso amounts referred to in this offering memorandum could have been or could be converted into U.S. dollars at any particular rate or at all.

<u>Year ended December 31,</u>	<u>Exchange Rate⁽¹⁾</u>			
	<u>End of Period</u>	<u>Average⁽²⁾</u>	<u>High</u>	<u>Low</u>
2016	20.731	18.662	21.051	17.177
2017	19.787	18.914	21.908	17.494
2018	19.683	19.237	20.716	17.979
2019	18.845	19.257	20.125	18.772
2020	19.909	21.498	25.119	18.571
 Month				
September 2020	22.457	21.681	22.457	20.970
October 2020	21.251	21.271	21.956	20.880
November 2020	20.140	20.382	21.156	20.047
December 2020	19.949	19.965	20.178	19.754
January 2021	20.217	19.889	20.217	19.579

⁽¹⁾ Exchange rates were rounded down to three decimals.

⁽²⁾ The average of the exchange rate for Mexican pesos is calculated taking daily quotations during the relevant period.

Source: *Banco de México*.

The exchange rate published in the Official Gazette on September 29, 2020 for payment obligations due on September 30, 2020, was Ps.22.4573 per U.S. dollar. Unless otherwise indicated, translations of Mexican peso amounts into U.S. dollars throughout this offering memorandum are based upon this exchange rate.

CAPITALIZATION

The following table sets forth our short-term debt and our capitalization on an actual basis as of September 30, 2020 and as adjusted to reflect the issuance and sale of the notes, but not the use of proceeds therefrom.

	As of September 30, 2020							
	Actual (in millions of Mexican pesos)		Actual (in millions of U.S. dollars) ⁽¹⁾		As Adjusted for this Offering (in millions of Mexican pesos) ⁽³⁾		As Adjusted for this Offering (in millions of U.S. dollars) ⁽¹⁾⁽³⁾	
Debt								
Current portion of long-term debt	Ps.	68,177	U.S.\$	3,036	Ps.	68,177	U.S.\$	3,036
Current portion of the lease of plants, installation, equipment and PIDIREGAS		22,682		1,010		22,682		1,010
Total short-term debt	Ps.	90,859	U.S.\$	4,046	Ps.	90,859	U.S.\$	4,046
Long-term documented debt	Ps.	327,054	U.S.\$	14,563	Ps.	327,054	U.S.\$	14,563
Long-term leases of plants, installation, equipment and PIDIREGAS		670,350		29,850		670,350		29,850
3.348% Notes due 2031 offered hereby ⁽²⁾		—		—		26,949		1,200
4.677% Notes due 2051 offered hereby ⁽²⁾		—		—		17,966		800
Total long-term debt	Ps.	997,403	U.S.\$	44,413	Ps.	1,042,319	U.S.\$	46,413
Total debt	Ps.	1,088,263	U.S.\$	48,459	Ps.	1,133,177	U.S.\$	50,459
Equity								
Accumulated results.....	Ps.	(14,439)	U.S.\$	(643)	Ps.	(14,439)	U.S.\$	(643)
Contributions from the Mexican government		5		—		5		—
Contributions in kind received from the Mexican government.....		95,004		4,230		95,004		4,230
Other comprehensive income.....		419,396		18,675		419,396		18,675
Non-controlling interest		18,633		830		18,633		830
Total equity	Ps.	518,599	U.S.\$	23,092	Ps.	518,599	U.S.\$	23,092
Total capitalization (total debt and equity)...	Ps.	1,606,862	U.S.\$	71,551	Ps.	1,651,776	U.S.\$	73,551

(1) Mexican peso amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the Mexican peso/U.S. dollar exchange rate of Ps.22.4573 = U.S.\$1.00, as published in the Official Gazette on September 29, 2020 for payment obligations due on September 30, 2020.

(2) Does not include issuance costs.

(3) Does not reflect the issuance by us of Ps.10.0 billion (U.S.\$445 million) in aggregate principal amount of Cebures on October 20, 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is based on and should be read in conjunction with our annual financial statements and interim financial statements and related notes thereto included elsewhere in this offering memorandum and should also be read in conjunction with "Presentation of Financial Information," "Summary—Summary Financial and Operating Information" and other financial information contained in this offering memorandum.

We prepare our financial statements in accordance with IFRS, which require our management to make certain estimates and assumptions to determine the valuation of certain items included in our financial statements and to make the appropriate disclosures therein. Although actual results may differ from such estimates, our management believes that the estimates and assumptions used were adequate under the circumstances.

Effective January 1, 2018, we adopted the new accounting standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" using a full retrospective approach as of January 1, 2016. Accordingly, we restated comparative financial information as of and for the years ended December 31, 2017 and 2016.

Effective January 1, 2019, we also adopted the new accounting standard IFRS 16 "Leases," using a full retrospective approach for each period presented in the annual financial statements. As a result of the adoption of IFRS 16, total equity as of January 1, 2017 was adjusted from Ps.534.2 billion (U.S.\$23.8 billion) to Ps.484.3 billion (U.S.\$21.6 billion), representing a decrease of 9.3%. Accordingly, we restated comparative financial information as of and for the years ended December 31, 2018 and 2017. For more information on the impact of the adoption of IFRS 16, see Note 4 to our annual financial statements and Note 9 to our interim financial statements. Our interim financial statements have not been audited and are subject to a limited review by Gossler, S.C.

Significant Accounting Policies

The following is a summary of the significant accounting policies that we follow in preparing our financial information, including our financial statements included herein. See Note 3 to our annual financial statements and Note 2 to our interim financial statements.

Basis of Consolidation

The financial information of CFE Distribución, CFE Transmisión, CFE Generación I, CFE Generación II, CFE Generación III, CFE Generación IV, CFE Generación V, CFE Generación VI, CFE Suministrador de Servicios Básicos and CFE Telecomunicaciones e Internet para Todos, our subsidiary productive enterprises, CFE Calificados, S.A. de C.V., CFE International, LLC., CF Energía, S.A. de C.V., CFE Intermediación de Contratos Legados, S.A. de C.V. and CFE Capital, S. de R. L. de C. V., our affiliate enterprises, and the three trusts over which we have control are consolidated in our financial statements for all periods presented in this offering memorandum.

Non-controlling Interest

Changes in our ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions.

Transactions in Foreign Currency

Foreign currency-denominated transactions are recorded at the current exchange rate on the date on which they are carried out. Foreign currency monetary assets and liabilities are valued in local currency at the exchange rate in effect at the date of the financial statements. Foreign exchange fluctuations are recorded as profit or loss as part of our financing cost.

Cash and Cash Equivalents

Cash and cash equivalents are represented by cash, bank deposits, and temporary and short-term investments. Cash and bank deposits are presented at nominal value and returns on these investments are recognized in the income statement as they accrue. Marketable investments with short-term maturities are valued at fair value.

Financial Instruments

Financial assets (except for accounts receivable that do not contain a significant financing component) or financial liabilities are initially recorded at fair value plus, in the case of items not measured at fair value through profit or loss, the transaction costs that are directly attributable to the purchase or issuance.

IFRS 9 “Financial Instruments” establishes the requirements for the recognition and measurement of financial assets, financial liabilities and other purchase or sale contracts for non-financial items. IFRS 9 replaced IAS 39 “Financial Instruments: Recognition and Measurement” on January 1, 2018. However, IFRS 9 retains almost all of the existing requirements from IAS 39 regarding the classification and measurement of financial liabilities. Therefore, the adoption of IFRS 9 did not have a significant impact on our accounting policies related to financial liabilities and derivative financial instrument.

Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are recognized at fair value in our statement of financial position, and changes are generally recognized through profit or loss.

The fair value of derivative financial instruments is determined using generally accepted valuation techniques. In line with the risk strategy adopted, we enter into derivative financial instruments to mitigate foreign exchange and interest rate exposure, through contracting interest-rate swaps, cross-currency swaps and foreign exchange forwards.

The effectiveness of hedge derivatives is assessed prior to their designation as hedges, as well as during the hedging period, which is reassessed at least quarterly. If the hedge is not highly effective, we cease to treat the relevant derivative financial instrument as a hedge.

We suspend cash flow hedge accounting when a derivative expires, has been cancelled or executed, is not effective enough to offset the changes in the fair value or cash flows of the hedged item, or when we decide to cease to treat the relevant derivative financial instrument as a hedge.

Finance Income and Finance Costs

Our finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses (and reversals) on investments in debt securities carried at amortized cost or fair value through other comprehensive income;
- hedge ineffectiveness recognized in profit or loss; and
- the reclassification of net income and losses previously recognized in other comprehensive income on cash flow hedges of interest rate risk and foreign currency risk for borrowings.

Interest income or expense is recognized using the effective interest method. Dividend income is recognized in profit or loss on the date on which our right to receive payment is established.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Inventory of Operating Materials and Costs of Consumption

Inventories of operating materials are recorded at the lower of their acquisition cost or net realizable value. Operating materials inventory unit costs are calculated using the average cost method.

When required, we record provisions to recognize write-downs in the value of our inventories due to impairment, obsolescence, low turnover and other circumstances that indicate that the recovery values of the inventories are less than their carrying amounts.

Plants, Facilities and Equipment

Plants, facilities and equipment are recorded at their acquisition cost. Borrowing costs incurred in financing of both direct and general construction in progress for a period longer than six months are capitalized as part of the cost of such asset.

In addition to the acquisition costs and other costs directly attributable to preparing the asset (in order to operate in the location and conditions foreseen by our technicians), the asset cost also includes estimated retirement costs and restoring costs.

Plants, facilities and equipment used for generation, transmission and distribution of electricity are subsequently revalued to adjust such cost to fair value, net from accumulated depreciation. We have established the policy of reviewing the fair value of our fixed assets every five years. Any increase in the revaluation of those plants, facilities and equipment is recognized as a surplus in other comprehensive income, except if such increase reverts a revaluation decrease previously recognized in the results of operations, in which case the increase is credited to the results of the period to the extent it reduces the expense previously recognized. A decrease in the carrying value generated by the revaluation of those plants, facilities, and equipment is recorded in the results of operations to the extent it exceeds the revaluation in plants, facilities and equipment, if any.

Depreciation of plants, facilities and equipment used for generation, transmission and distribution of electricity is recognized in net income and calculated by using the straight-line method as of the initial operating date of assets, considering depreciation rates based on the respective useful lives of the assets. In the event of a subsequent sale or retirement of revaluated property, the revaluation surplus attributable to the revaluation reserve of the remaining properties is transferred directly to retained earnings.

Depreciation rates based on the useful lives of the assets are determined by CFE-employed specialists as follows:

	Useful Life (Years)
Geothermal power plants.....	27 to 50
Steam power plants.....	34 to 75
Hydroelectric power plants.....	40 to 80
Internal combustion power plants.....	34 to 75
Turbogas and combined-cycle power plants	34 to 75
Nuclear power plants	40
Substations.....	39 to 75
Transmission lines	34 to 75
Distribution networks	30 to 59

The estimated useful life, residual value and depreciation method are reviewed periodically, and the effect of any change on the estimate recorded is recognized prospectively. Capitalized replacement parts are depreciated from the time at which they are available for use.

Real property and assets allocated to offices and general services are depreciated in accordance with the following rates:

<u>Real property</u>	<u>Useful Life</u>
	<u>Years</u>
Buildings.....	20
Office furniture and equipment	10
Computer equipment	4
Transportation equipment	4
Other assets.....	10

Land is not depreciated.

There is a periodical evaluation to determine whether there is an indication of impairment of plants, facilities and equipment allocated to offices and general services.

Intangible Assets and Other Assets

Intangible assets acquired separately are recognized at cost and we estimate the useful life of each intangible asset. Intangibles with an indefinite useful life are classified as intangible assets with indefinite useful lives, mainly rights of way.

The other assets line item is largely comprised of security deposits provided under real estate leases, as well as guarantees provided to third parties under agreements for goods and/or services provided.

Employee Benefits

Direct employee benefits.

Direct employee benefits are determined based on services rendered and considering the current salaries of employees. The related liability is recorded as the benefits accrue. Direct employee benefits are mostly comprised of productivity incentives, vacation days, vacations premiums, bonuses and seniority awards granted to our temporary, contingent and permanent staff.

Pension benefits and other benefits.

We provide retirement pensions to our employees.

A defined benefit pension plan is given to employees who started their employment relationship on or before August 18, 2008, and a defined contribution pension plan applies to our employees whose employment started on or after August 19, 2008.

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

In addition, there are defined contribution pension plans established by the Mexican government, which must make contributions on behalf of workers. The pension costs for defined contribution pension plans are recognized in our results as incurred and are calculated by applying the percentages indicated in the relevant regulations on the amount of wages and eligible wages, and deposited in the retirement fund chosen by our employees and the Mexican Social Security Institute.

According to the Mexican *Ley Federal del Trabajo* (Federal Labor Law), there is a requirement to provide for a seniority premium as well as to make certain payments to staff for terminations under certain circumstances.

The cost of the defined contribution pension plans is recognized in profit or loss as they are incurred. Our net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

Defined Benefit Plans.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for us, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. We determine the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. We recognize gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Termination Benefits.

Termination benefits are expensed at the earlier of: (i) when we can no longer withdraw the offer of those benefits and (ii) when we recognize costs for a restructuring. These benefits are discounted when they are not expected to be wholly settled within 12 months of the reporting date.

Income Tax

Income tax expense comprises current and deferred tax.

Current-year income tax is recognized as a short-term liability, net of prepayments made during the year.

Deferred tax is recognized using the asset and liability method, based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes at the date of the consolidated statement of financial position.

Deferred tax is measured at the tax rates that are expected to be in force when the assets materialize or the liabilities are settled using tax rates enacted or substantively enacted at the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be used. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred taxes are recognized in profit or loss except for the items related to other comprehensive income.

Revenue Recognition

Our revenue recognition policies are as follows:

Sale of electricity: revenue is recognized when the electricity is delivered to the customers, which is considered to be the point in time at which the customer accepts the electricity and the risks and benefits related to the transfer of ownership. Other criteria applied for revenue recognition include that: (i) both the revenue and costs can be reliably measured by the entity, (ii) it is probable that the economic benefits associated with the transaction will flow to the entity and (iii) the entity does not retain continuing involvement over the goods sold.

IFRS 15 “Revenue from Contracts with Customers” establishes a complete conceptual framework for determining whether to recognize income from ordinary activities, when to recognize it and in what amount. This standard replaced the existing revenue recognition guideline, including IAS 18 “Income from Ordinary Activities,” IAS 11 “Construction Contracts” and IFRIC 13, on January 1, 2018.

Under IFRS 15, revenue is recognized when the performance obligation is satisfied. Among other requirements, IFRS 15 requires that the collectability of a contract be reasonably assured to be able to recognize the revenue under that contract. We determined that certain divisions have problems related to regularization of rates and social resistance, and our customers in those divisions no longer have the capacity or willingness to pay the amounts owed. We reassessed our contracts with those customers and have preliminarily determined that they do not meet the revenue recognition requirement prescribed by IFRS 15. Therefore, we did not recognize the revenue for the electricity delivered under those contracts. As a result of the adoption of IFRS 15, retained earnings as of January 1, 2016 were adjusted from Ps.77.8 billion (U.S.\$3.5 billion) to Ps.88.3 billion (U.S.\$3.9 billion).

Sale of fuel: revenue is recognized when the fuel is delivered to customers.

Transmission and distribution services: revenue is recognized over time, as the public electricity transmission and distribution services are provided.

Third-party contributions: revenue from contributions received from customers to connect them to the national transmission and distribution grids is recorded in the statement of comprehensive income after their request is satisfied. This revenue is included under other revenue.

Revenue from subsidies: revenue from subsidies received from the Ministry of Finance is recognized when we receive the subsidies.

Leases

Our lease recognition policies are as follows:

We have right-of-use assets which are deemed to be leases under IFRS 16 “Leases” derived from our contracts with creditors for rentals of office space, furniture, reserved capacity gas pipelines for a fixed price, as well as contracts with independent power generation plants that provide power generation services to us.

At contract inception, we assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, we use the definition of a lease included in IFRS 16.

As a Lessee

At inception or reassessment of a contract that contains a lease component, we allocate the consideration in the contract to each lease on the basis of their relative stand-alone prices. However, for the leases of property we have elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

We recognize a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to us by the end of the lease term or the cost of the right-of-use asset reflects that we will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, our incremental borrowing rate. Generally, we use our incremental borrowing rate as the discount rate

We determine its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that we are reasonably certain to exercise, lease payments in an optional renewal period if it is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless we are reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in our estimate of the amount expected to be payable under a residual value guarantee, if we change our assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

We present right-of-use assets that do not meet the definition of investment property in ‘property, plant and equipment’ and lease liabilities in ‘loans and borrowings’ in the statement of financial position.

Short-term leases and leases of low-value assets

We have elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. We recognize the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

As a Lessor

We recognize lease payments received from operating leases as income on a linear basis during the lease term as part of other income.

Generally, the accounting policies applicable to us as a lessor in the comparative period were not different from IFRS 16, except for the classification of the sublease entered into in the current reporting period, which resulted in a classification of a finance lease.

Transactions with Mexican Federal, State and Municipal Governments

The main transactions carried out with the Mexican federal, state and municipal governments and their accounting treatment are as follows:

- (1) Transactions with the Mexican government:
 - Invested equity. In accordance with the Mexican *Ley de Ingresos de la Federación para el Ejercicio Fiscal 2020* (the “Federal Revenue Law”), the Ministry of Finance can impose a dividend payment on the invested equity which, if applicable, should be paid to the Mexican government and recorded as a decrease in equity. Similarly, the executive branch of the Mexican government can determine its reinvestment annually in entities as

an equity contribution for the Issuer. The Federal Revenue Law for 2020 did not contemplate a dividend payment to the Mexican government.

- Subsidy. Certain electricity rates have been historically set at levels below our operating costs. To avoid absorbing the impact of subsidies granted to consumers by the Mexican government, we receive transfers from the Mexican government to compensate for the subvention of such electricity rates.

Subsidy

	Nine-Month Period Ended		Year Ended December 31,		
	September 30,				
	2020	2019	2019	2018	2017
	(in millions of Mexican pesos)				
Subsidy paid by the Mexican government	63,000	41,669	75,186	81,405	65,915

(2) Transactions with Mexican state and municipal governments:

- Beginning on January 1, 2017, contributions received from the Mexican state and municipal governments to connect a customer to the grid and provide electricity are recorded as deferred income and recognized as income in the consolidated statement of comprehensive income once we have concluded the customer connection to the grid. Once connected, certain customers will be able to select between us or our competitors to supply electricity.

Provisions

Accrued liabilities are recognized when there is a present obligation, either legal or assumed, which is the result of a past event, that is likely to require the use of economic resources to settle the obligation and can be reasonably estimated.

In cases where the effect of the value of money over time is important, the amount of the provision is discounted to present value, based on disbursements we estimate will be required to settle the obligation in question. The discount rate is before tax and reflects market conditions at the time of our statement of financial position and, where appropriate, the risks specific to the liability. In the case of contingent liabilities, we recognize the corresponding provision only when an outflow of resources for its settlement is probable. In this case, the increase in the provision is recognized as financing cost.

Measurement of Fair Values

A number of our accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. We have an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

Factors Affecting our Revenue and Expenses

Our revenues and expenses are principally affected by economic conditions in Mexico, changes in the price of fuel oil and natural gas, fluctuations in the prevailing interest rates and changes in foreign exchange rates.

Economic Conditions in Mexico

Because our operations, facilities and customers are located in Mexico, we are affected by general economic conditions in the country. In particular, the general performance of the Mexican economy affects demand for electricity, and inflation primarily affects our business by leading to increases in wages and other operating costs, while at the same time reducing our net income if electricity prices do not increase at the same pace as inflation.

During 2015, GDP growth increased by 3.3% as compared to 2014. During 2016, GDP growth increased by 2.6% as compared to 2015, primarily due to increased private consumption. During 2017, GDP growth increased by 2.2% as compared to 2016, due to an expansion in the service sector, in addition to an increase in international demand, which benefited our exports and manufacturing industry. During 2018, GDP growth increased by 2.0% as compared to 2017, primarily due to an expansion in the primary sector. During 2019, GDP growth decreased by 0.1% as compared to 2018, primarily due to reduced industrial output of secondary activities, specifically in the construction and mining sectors. Finally, during the nine-month period ended September 30, 2020, GDP growth decreased by 9.1% in annualized terms as compared to the same period in 2019, primarily due to the effects of the global COVID-19 pandemic.

The following table sets forth the year-over-year changes in Mexico of various economic indicators, including GDP, the national consumer price index, the national producer price index, merchandise export growth and interest rates, as well as a comparison of these changes to the changes in the demand for electricity in Mexico for the years indicated.

Selected Economic Indicators for the Years Ended December 31, 2015 through 2019

	2015	2016	2017	2018	2019
Real GDP (% change) ⁽¹⁾	3.3	2.6	2.1	2.2	(0.1)
National consumer price index (% change) ⁽²⁾	2.1	3.4	6.8	4.8	2.8
National producer price index without oil (% change) ⁽¹⁾	2.8	8.5	4.7	6.4	0.7
Merchandise export growth without oil (% change) ⁽¹⁾	0.8	(0.7)	8.6	8.9	3.5
Interest rates (average% based on 28-day Cetes) ⁽²⁾	3.0	4.2	6.7	7.6	7.8
Change in Electricity Demand in Mexico (% change) ⁽³⁾	2.9	3.7	3.4	4.3	3.1

Sources: (1) INEGI, (2) *Banco de México*, and (3) PRODESEN Chapter VI.

Changes in the Rates CFE Charges Consumers

The Electric Industry Law provides that the rates that we charge for regulated services are to be determined by the CRE as a general rule. In December 2017, the CRE published for the first time a schedule of consumer rates (specifically, basic supply end-users) as well as the methodology used for their determination. During 2018, following some discussions with the CRE, consumer rates were revised and the average price per kWh of our electricity retail sales during 2018 reached an average of Ps.1.79 per kWh, an increase of 7.2%, from Ps.1.67 per kWh during 2017. In December 2018, the CRE established the methodology to calculate consumer rates for 2019, and in December 2019, the CRE established the methodology to calculate the rates for 2020, which were established at an average price of 1.82 pesos per kWh during the first nine months of the year. In December 2020, the CRE updated the methodology to determine rate adjustments in 2021. Future adjustments to the rates of regulated transmission and distribution public services are currently under discussion with the CRE. See “Comisión Federal de Electricidad—Electricity Rates” for a more detailed description of the new system.

Changes in the Prices of Electricity, Fuel Oil and Natural Gas Paid by CFE

Our margins are substantially dependent on the prices that we charge for electricity and that we are required to pay for the fuel that powers our generation activities. For the year ended December 31, 2019, fuel oil represented 10.2% of the various fossil fuel sources on which we rely for our generation activities and natural gas represented 77.4% or, a total of 87.6%. Fuel oil and natural gas, together, represented 82.0% of the cost of our fuels for the nine-month period ended September 30, 2020, each excluding IPPs. Although several of our generating plants can use either fuel oil or natural gas, our generation plants are generally limited to the use of a single fuel type. As a result, our ability to change fuel sources in the event of a price increase is limited.

The prices we pay for fuel oil and natural gas have been and may continue to be affected by, among other factors, the availability of fuel oil and natural gas in Mexico, our ability to enter into agreements with local companies producing or transporting fuel oil and natural gas, the prices established by the Mexican government for these products and international supply and demand. Any significant increase in fuel prices could adversely affect our results of operations and financial condition.

The Electric Industry Law provides that the rates that we charge for regulated services are to be determined by the CRE. The electricity supply rates established by the CRE reflect our anticipated production costs (including, generation costs associated to basic supply vested contracts (*contratos legados para el suministro básico*), long-term auction (*subastas de largo plazo*) agreements, and costs in the wholesale electricity market considering the local marginal prices for the short-term energy market, as well as other variables including the category and location of the consumer and the time of day that the electricity is expected to be consumed. According to the CRE's methodology, basic supply rates are comprised, in general terms, of the costs associated with transmission, distribution, CENACE and basic supplier operations and ancillary services not traded in the MEM, as well as charges associated with energy and capacity. However, the Electric Industry Law also provides that the executive branch may determine a rate mechanism different from the final rates determined by the CRE for specific groups basic power supply of users. The Mexican government, through the Ministry of Finance, has set certain of our electricity rates at levels below our operating costs (if applicable, subject only to an inflation adjustment factor) in order to maintain the affordability of electricity, in particular, for our residential and agricultural customers.

Changes in Interest Rates

As of September 30, 2020, we had Ps.1,088.3 billion (U.S.\$48.4 billion) in total indebtedness (including obligations in respect of PIDIREGAS and lease liabilities). Lease liabilities accounted for a total of Ps.693.0 billion (U.S.\$30.9 billion). Of our total indebtedness, excluding lease liabilities, Ps.105.1 billion (U.S.\$4.7 billion) accrued interest at floating interest rates. If the interest rates applicable to our floating rate debt increase, we will incur a corresponding increase in our interest expense, which may reduce our net income. We have entered into interest rate swaps covering 22.5% of our floating rate foreign currency-denominated debt.

Changes in Exchange Rates

Our external debt denominated in foreign currencies represented 25.8% (after hedging) of our total indebtedness, excluding lease liabilities, as of September 30, 2020. We have incurred indebtedness in several currencies, with the most substantial portion being denominated in U.S. dollars. We have entered into hedging transactions to minimize our exposure to foreign exchange risk with respect to a portion of our U.S. dollar-denominated debt, but the majority of our U.S. dollar-denominated debt is not swapped into Mexican pesos. If the Mexican peso depreciates against the U.S. dollar, we may need to apply a higher percentage of our revenues to the servicing of our U.S. dollar-denominated debt, which may reduce our net income.

Labor Relations and Employee Benefits

As of September 30, 2020, approximately 79% of our employees were members of SUTERM. Historically, our relationship with SUTERM has been cordial and respectful despite our differing interests. Every two years, we renegotiate the terms of our collective bargaining agreement with SUTERM, while wages are reviewed on an annual basis.

On August 19, 2020 we entered into a new collective bargaining agreement with SUTERM. This new collective bargaining agreement included modifications to employee pensions, which adjusted both the years of work required as well as the retirement age for staff who joined CFE prior to August 18, 2008. These modifications will represent a liability on our statement of financial position, of approximately Ps.75 billion. In addition, as of September 30, 2020, we reported a liability of Ps.498.4 billion (U.S.\$22.2 billion) on our statement of financial position related to long-term employee benefits, which represented 29.1% of our total liabilities as of such date.

In 2008, as a result of our collective bargaining negotiations with SUTERM, we entered into a "defined contribution" employee benefits program, wherein we have agreed to establish individual retirement accounts for each employee that we hire after August 18, 2008. As currently set forth in the collective bargaining agreement with SUTERM, employees subject to the defined contribution plan are required to contribute 5% of their monthly salary into their individual retirement account, and we provide a corresponding contribution in the amount of 7.5% of each employee's monthly salary (although these percentages are subject to change in accordance with the terms of the

collective bargaining agreement). This new program replaces our previous “defined benefits” plan, which entitled our employees to certain retirement benefits, including a pension and health insurance, which were allocated to our retired employees in amounts that corresponded, in large part, to their years of service and seniority level at CFE. The new defined contribution plan does not apply retroactively to our employees that were employed as of or prior to August 18, 2008, nor does it apply to temporary employees. Labor unrest, employee benefits obligations and labor-related lawsuits may adversely affect our business, financial condition and results of operations.

Competition in Supply and Generation

As a result of the Energy Reform Decree and the enactment of the Secondary Legislation, we expect greater involvement from third parties in the power industry, which could create greater competition. The new legislation allows high margin industrial consumers to purchase electricity from other independent qualified suppliers, which could have a significant impact on our results of operations and financial performance. Increased competition in the electricity sector could adversely affect our business and financial performance.

Results of Operations

Nine-Month Period Ended September 30, 2020 Compared to Nine-Month Period Ended September 30, 2019

Total Revenue

During the nine-month period ended September 30, 2020, we reported total revenue of Ps.386.5 billion (U.S.\$17.2 billion), which represented a 5.5% decrease as compared to our total revenue of Ps.408.9 billion (U.S.\$18.2 billion) for the same period in 2019. This revenue decrease was mainly due to a contraction of over 10% in revenue from electricity sales resulting from lower TWh of electricity sales, further described below, due to the impact of the COVID-19 pandemic.

During the nine-month period ended September 30, 2020, we sold 155.6 TWh of electricity (excluding sales through the wholesale channel under CFE Calificados, S.A. de C.V.), which represented a 5.6% decrease in total sales volume as compared to the same period in 2019 (164.9 TWh). However, we had an increase in our customer accounts from 44.2 million as of September 30, 2019, to 45.3 million as of September 30, 2020.

Our revenue from electricity sales attributable to retail sales of electricity during the nine-month period ended September 30, 2020 were Ps.280.1 billion (U.S.\$12.5 billion) as compared to Ps.312.9 billion (U.S.\$13.9 billion) for the same period in 2019. This decrease was due primarily to the effects that the global COVID-19 pandemic had on our sales, mainly during the first half of the year.

The average price per kWh of our electricity retail sales decreased by 4%, from Ps.1.89 per kWh during the nine-month period ended September 30, 2019 to Ps 1.82 per kWh during the same period in 2020.

Total revenue attributable to direct sales of electricity to each of our customer types during the nine-month period ended September 30, 2020, as compared to the same period in 2019, is set forth in the following table.

Revenue from Electricity Sales

Customer Type	September 30,		% Change
	2020	2019	
	(in billions of Mexican pesos)		
Domestic services ⁽¹⁾	62.6	56.8	10.2
Commercial services.....	34.7	38.4	(9.6)
Agricultural services	6.3	5.7	10.5
Industrial services	162.1	192.2	(15.7)
Services ⁽²⁾	10.2	11.3	(9.7)
Total sales⁽³⁾	275.9	304.3	(9.4)

Source: CFE.

- (1) Refers to services provided to residential users.
(2) Refers to street and public lighting.

- (3) Total sales do not reflect electricity that has been (i) exported, (ii) resold or (iii) sold domestically but as part of “other programs”; however, such amounts are reflected in revenue from the sale of electricity, as further described in Note 18 to our interim financial statements.

Total Costs

Our total costs of generating, transmitting and distributing electricity (collectively, “operating costs”) decreased by 0.3% during the nine-month period ended September 30, 2020 as compared to the same period in 2019. This decrease in operating costs was the result of a lower demand for fuel due to the COVID-19 pandemic and the resulting lower fuel prices, specifically natural gas. Our total costs, decreased by Ps.1.1 billion (U.S.\$0.1 million), as a result of a reduction in fuel prices and fuel purchases during the pandemic.

The table below presents our total costs for the nine-month period ended September 30, 2020 as compared to the same period in 2019:

	Total Costs		% Change
	Nine-Month Period Ended September 30,		
	2020	2019	
	(in billions of Mexican pesos)		
Salaries and related costs	50.8	49.8	2.0
Energy and other fuel supplies.....	117.7	199.9	(41.1)
Energy and other fuel supplies - Third party.....	18.1	32.0	(43.4)
Maintenance, materials and general services	15.3	3.7	313.5
Taxes and duties	1.6	1.8	(11.1)
Wholesale Electricity Market costs (MEM).....	2.4	2.4	—
Depreciation.....	51.8	51.8	—
Employee benefit costs	102.8	26.1	293.9
Other expenses.....	8.1	2.2	268.2
Total costs	368.5	369.6	(0.3)

Source: CFE.

Operating Results

We had operating results of Ps.18.0 billion (U.S.\$0.8 billion) for the nine-month period ended September 30, 2020 as compared to operating results of Ps.39.2 billion (U.S.\$1.7 billion) during the same period in 2019. This decrease was mainly due to an increase in employee benefits costs resulting from the modifications to our employee retirement age under the new collective bargaining agreement with SUTERM. See “Factors Affecting our Revenue and Expenses—Labor Relations and Employee Benefits.”

Total Comprehensive Financing Results, Net

Total comprehensive financing results, net reflects interest income (including gains and losses on certain derivative instruments), interest expense, financing income or expense and foreign exchange gain or loss. We had comprehensive financing results, net for the nine-month period ended September 30, 2020 of Ps.155.3 billion (U.S.\$6.9 billion), as compared to a comprehensive financing results, net for the same period in 2019 of Ps.36.4 billion (U.S.\$1.6 billion). This increase in financial loss was mainly due to a foreign exchange loss of U.S.\$4.9 billion, due to the fact that most leases for IPP contracts and pipelines are denominated in U.S. dollars, and during the nine-month period ended September 30, 2020 the Mexican peso depreciated 19.2% against the U.S. dollar compared to December 2019.

The following table sets forth our total comprehensive financing results, net for the nine-month period ended September 30, 2020 as compared to the same period in 2019:

Total Comprehensive Financing Results, Net

	Nine-Month Period Ended		% Change
	September 30,		
	2020	2019	
(in billions of Mexican pesos)			
Interest expense.....	39.1	33.2	17.7
Finance cost	5.8	4.3	34.5
Foreign exchange (income) loss	110.4	(1.1)	(10,136.4)
Total comprehensive financing results, net.....	155.3	36.4	326.4

Source: CFE.

Income Tax

We are obligated to pay income taxes based on our income, as are all corporate entities in Mexico. Our taxable income represents the difference between our taxable revenues, including profits, capital gains and passive income, and our expenses. We made monthly estimated income tax payments that amounted to Ps.5.6 billion (U.S.\$250 million) during the nine-month period ended September 30, 2020, as compared to monthly estimated income tax payments that amounted to Ps.2.3 billion (U.S.\$0.1 billion) during the same period in 2019.

Net Income (Loss)

Net income decreased from net income of Ps.0.5 billion (U.S.\$0.21 billion) during the nine-month period ended September 30, 2019 to a net loss of Ps.142.9 billion (U.S.\$6.4 billion) for the same period in 2020, mainly due to the foreign exchange loss described above.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Total Revenue

During 2019, we reported total revenue of Ps.556.2 billion (U.S.\$24.8 billion), which represented a 1.6% increase as compared to our total revenue of Ps.547.3 billion (U.S.\$24.4 billion) for 2018. This revenue increase was mainly due to an increase in revenue from electricity supply services revenue of Ps.39.6 billion (U.S.\$1.8 billion).

The average price per kWh of our electricity retail sales increased by 5.6%, from Ps.1.79 per kWh in 2018 to Ps.1.89 per kWh in 2019. During 2019, our basic supplier sold 218,929.6 GWh of electricity, which represented a 0.4% increase in total sales volume as compared to 2018 (218,083.2 GWh).

Total revenue attributable to direct sales of electricity to each of our customer types during 2019, as compared to 2018, is set forth in the following table:

Revenue from Electricity Sales

	Year Ended December 31,		% Change
	2019	2018	
(in billions of Mexican pesos)			
Customer Type:			
Domestic services ⁽¹⁾	77.1	64.3	19.9
Commercial services	52.4	49.3	6.3

	Year Ended December 31,		% Change
	2019	2018	
	(in billions of Mexican pesos)		
Agricultural services	6.9	6.3	9.5
Industrial services	256.0	242.0	5.8
Services ⁽²⁾	14.9	14.7	1.4
Total sales⁽³⁾	407.2	376.6	8.2

Source: CFE.

- (1) Domestic services refers to services provided to residential users.
- (2) Refers to street and public lighting.
- (3) Total sales do not reflect electricity that has been (i) exported, (ii) resold or (iii) sold domestically but as part of "other programs"; however, such amounts are reflected in revenue from the sale of electricity, as further described in Note 18 to our interim financial statements.

Total Costs

Our total costs decreased by 5.3% in 2019 as compared to 2018 due to lower costs of natural gas and costs of maintenance, materials and general services. The table below presents our total costs for 2019 as compared to 2018:

	Year Ended December 31,		% Change
	2019	2018	
	(in billions of Mexican pesos)		
Salaries and related costs	69.0	63.2	9.2
Energy and other fuel supplies	235.0	259.6	(9.5)
Energy and other fuel supplies - Third party	35.5	51.0	(30.4)
Maintenance, materials and general services	14.3	23.3	(38.6)
Taxes and duties.....	2.3	3.8	(40.0)
MEM costs	3.2	3.0	6.7
Depreciation	65.8	70.4	(6.5)
Employee benefit costs	35.9	20.5	75.2
Other expenses	14.6	7.7	(89.6)
Total costs	475.5	502.5	(5.3)

Source: CFE.

Operating Results

Our operating results increased from Ps.44.8 billion (U.S.\$2.0 billion) in 2018 to Ps.80.7 billion (U.S.\$3.6 billion) in 2019, mainly as a consequence of an increase in sales of energy and savings in fuel, maintenance and services and materials.

Total Comprehensive Financing Results, Net

Total comprehensive financing results, net reflects interest income or expense (including gains and losses on certain derivative instruments) and foreign exchange gain or loss. Our total comprehensive financing results, net decreased from a cost of Ps.49.4 billion (U.S.\$2.2 billion) in 2018 to a cost of Ps.27.9 billion (U.S.\$1.2 billion) in

2019. This decrease was primarily due to an increase of foreign exchange income resulting from an appreciation of the peso of 4.3% during 2019.

The following table sets forth our total comprehensive financing results, net for 2019 as compared to 2018:

Total Comprehensive Financing Results, Net

	Year Ended December 31,		% Change
	2019	2018	
	(in billions of Mexican pesos)		
Interest expense.....	42.0	47.8	(12.0)
Finance income	(3.7)	(0.6)	516.7
Finance cost	11.6	4.4	163.6
Foreign exchange (income) loss	(22.0)	(2.2)	900.0
Total comprehensive financing results, net.....	28.0	49.4	(43.3)

Source: CFE.

Income Tax

We recognized a Ps.27 billion (U.S.\$1.2 billion) income tax expense in 2019, as compared to an income tax benefit of Ps.66.2 billion (U.S.\$2.9 billion) in 2018. The income tax expense increase of Ps.93.0 billion (U.S.\$4.1 billion) as of December 31, 2019 was mainly due to the elimination of a deferred tax asset recognized among CFE and subsidiaries CFE Generación I, CFE Generación IV and CFE Generación VI, and a significant reduction in the effect of unrecognized deferred taxes in 2019.

Net Income

Net income decreased from Ps.61.6 billion (U.S.\$2.7 billion) in 2018 to Ps.25.7 billion (U.S.\$1.1 billion) in 2019. This decrease in net income was primarily due to a deferred tax effect.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Total Revenue

During 2018, we reported total revenue of Ps.547.3 billion (U.S.\$24.3 billion), which represented an 11.8% increase as compared to our total revenue of Ps.489.6 billion (U.S.\$21.8 billion) for 2017. This revenue increase was mainly due to higher income from energy supply services revenue, subsidy income and third party fuel revenue.

The average price per kWh of our electricity retail sales increased by 7.2%, from Ps.1.6772 per kWh in 2017 to Ps.1.79 per kWh in 2018, mainly due to a rate adjustment starting in the second quarter of 2018. During 2018, we sold 218,083 GWh of electricity, which represented a 1.3% decrease in total sales volume as compared to 2017 (215,310 GWh).

Total revenue attributable to direct sales of electricity to each of our customer types during 2018, as compared to 2017, is set forth in the following table:

Revenue from Electricity Sales

	Year Ended December 31,		% Change
	2018	2017	
	(in billions of Mexican pesos)		
Customer Type:			
Domestic services ⁽¹⁾	64.3	63.0	2.1
Commercial services	49.3	50.6	(2.6)
Agricultural services.....	6.3	6.9	(8.7)
Industrial services	242.0	205.8	17.6
Services ⁽²⁾	14.7	22.4	(34.3)
Total sales⁽³⁾	376.6	348.7	8.0

Source: CFE.

- (1) Domestic services refers to services provided to residential users.
- (2) Refers to street and public lighting.
- (3) Total sales do not reflect electricity that has been (i) exported, (ii) resold or (iii) sold domestically but as part of "other programs"; however, such amounts are reflected in revenue from the sale of electricity, as further described in Note 18 to our interim financial statements.

Total Costs

Our total costs increased by 15.4% in 2018 as compared to 2017. The table below presents our total costs for 2018 as compared to 2017:

	Year Ended December 31,		% Change
	2018	2017	
	(in billions of Mexican pesos)		
Salaries and related costs	63.2	57.9	9.1
Energy and other fuel supplies	259.6	216.1	20.1
Energy and other fuel supplies - Third party	51.0	19.1	167
Maintenance, materials and general services	23.3	19.6	18.8
Taxes and duties	3.8	2.6	46.0
MEM	3.0	2.7	11.1
Depreciation	70.4	69.9	0.7
Employee benefit costs	20.5	47.9	(57.2)
Other expenses.....	7.7	(0.2)	(3,950)
Total costs.....	502.5	435.6	15.4

Source: CFE.

Operating Results

Our operating results decreased from Ps.54.0 billion (U.S.\$2.4 billion) in 2017 to Ps.44.8 billion (U.S.\$1.9 billion) in 2018, mainly due to the increase in total costs described above.

Total Comprehensive Financing Results, Net

Total comprehensive financing results, net reflects interest income or expense (including gains and losses on certain derivative instruments) and foreign exchange gain or loss. Our total comprehensive financing results, net increased from a cost of Ps.19.6 billion (U.S.\$0.9 billion) in 2017 to a cost of Ps.49.4 billion (U.S.\$2.2 billion) in 2018. This increase was primarily due to an increase in finance cost and interest expense, and a decrease in foreign exchange income due to an increase in the exchange rates during 2018 when compared to foreign exchange fluctuations during 2017.

The following table sets forth our comprehensive financing results, net for 2018 as compared to 2017:

	Year Ended December 31,		% Change
	2018	2017	
	(in billions of Mexican pesos)		
Interest expense.....	47.8	33.9	41.0
Finance income	(0.6)	-	N/A
Finance cost	4.4	-	N/A
Foreign exchange (income) loss	(2.2)	(14.3)	84.6
Total comprehensive financing results, net.....	49.4	19.6	152.0

Source: CFE.

Income Tax

We recognized a Ps.66.2 billion (U.S.\$2.9 billion) income tax benefit in 2018, as compared to an income tax benefit of Ps.73.3 billion (U.S.\$3.3 billion) in 2017. This decrease was the result of a reduction in the effect of unrecognized deferred taxes in 2018.

Net Income

Net income decreased from Ps.107.7 billion (U.S.\$4.8 billion) in 2017 to Ps.61.6 billion (U.S.\$2.7 billion) in 2018. This decrease in net income was primarily due to the increase in total costs and total comprehensive financing results, net described above, as well as a reduction in the income tax benefit described above.

Liquidity and Capital Resources

We have experienced, and expect to continue to experience, substantial liquidity and capital resource requirements, principally in order to finance the construction and maintenance of our electrical generation facilities, transmission and distribution substations and power-line grids and to service our outstanding debt. In the past, we have generally met our liquidity and capital resource requirements primarily from cash flow generated by our operating activities and borrowings. For the nine-month period ended September 30, 2020, our net cash flow used in operating activities was Ps.138.7 billion (U.S.\$6.2 billion). Our cash flow used in investment activities during the nine-month period ended September 30, 2020 was Ps 18.6 billion (U.S.\$0.8 billion), which left us, after cash flows from financing activities of Ps.59.4 billion (U.S.\$2.6 billion), with an increase in cash and cash equivalents of Ps.60.7 billion (U.S.\$2.7 billion). For the year ended December 31, 2019, our net cash flow provided by operating activities was Ps.114.5 billion (U.S.\$5.1 billion). Our cash flow used in investment activities during 2019 was Ps.49.0 billion (U.S.\$2.2 billion), which left us, net cash from financing activities of Ps.54.6 billion (U.S.\$2.4 billion), with an increase in cash and cash equivalents of Ps.10.8 billion (U.S.\$0.5 billion).

As of September 30, 2020, we had working capital of Ps.83.3 billion (U.S.\$3.7 billion) and as of December 31, 2019, we had working capital (total current assets less total current liabilities) of Ps.40.2 billion (U.S.\$1.8 billion). The increase in our working capital was primarily due to an increase in cash and equivalents and accounts receivable.

The following table sets forth the maturity composition of our short- and long-term debt as of September 30, 2020, excluding bank loans, IPPs and interest:

CFE's Contractual Maturities (as of September 30, 2020) (in billions of Mexican pesos)					
	Total	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years
Documented debt	230.4	53.1	19.2	37.6	120.4
PIDIREGAS	164.9	15.1	27.1	24.1	98.6
Total	395.2	68.2	46.4	61.7	219.0

Source: CFE.

We have a total amount of Ps.68.2 billion (U.S.\$3.0 billion) in debt that will come due in less than a year from the date of this offering memorandum, some of which may be refinanced with the proceeds of newly issued debt.

The major categories of our indebtedness, excluding lease liabilities, are as follows:

Total Indebtedness						
	As of September 30,		As of December 31			
	2020		2019		2018	
	(in billions of Mexican pesos)					
Bank loans	Ps.	0.0	Ps.	0.6	Ps.	7.5
Documented debt.....		53.1		39.2		15.6
PIDIREGAS debt		15.1		14.2		16.8
Total short-term debt		68.2		53.9		39.8
Documented debt.....	Ps.	177.3	Ps.	177.6	Ps.	200.5
PIDIREGAS debt		149.8		121.9		114.3
Total long-term debt		327.1		299.5		314.8
Total debt⁽¹⁾	Ps.	395.2	Ps.	353.4	Ps.	354.6

Source: CFE.

(1) Refers to total registered public debt, which does not include obligations for capital leases associated with IPPs.

For a breakdown of our indebtedness, excluding lease liabilities, by currency, see Notes 12 to our interim financial statements and Note 13 to our annual financial statements.

After giving effect to our hedging derivatives, as of December 31, 2019, 79.3% of our total indebtedness, excluding lease liabilities, was denominated in Mexican pesos and 20.7% was denominated in other currencies (primarily U.S. dollars). As of December 31, 2019, 25.4% of our debt obligations, excluding lease liabilities, bore interest at floating rates, after hedging. We have not pledged any assets as collateral for our debt.

On July 11, 2019, the Board of Directors approved the General Director's *Propuesta Global de Financiamiento* (Global Financing Proposal) for the year ended December 31, 2020 that contemplated an increase of our net indebtedness during that year in an amount equal to approximately Ps.20.0 billion, comprised of the issuance

and sale of Mexican peso-denominated notes, including the issuance of Mexican Cebures, and the issuance of U.S. dollar-denominated notes.

As of September 30, 2020, 37% of our total indebtedness, excluding lease liabilities, was denominated in Mexican pesos and 63% was denominated in other currencies (primarily U.S. dollars). After giving effect to our hedging derivatives, as of September 30, 2020, 74.2% of our total indebtedness, excluding lease liabilities, was denominated in Mexican pesos and 25.8% was denominated in other currencies (primarily U.S. dollars).

On October 20, 2020 we issued Ps.10 billion (U.S.\$445 million) in aggregate principal amount of Cebures, which were represented by a global security deposited with S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V., the Mexican licensed central clearing system.

Conditioned Investment Liabilities (IPPs)

In addition to our indebtedness discussed above, as of September 30, 2020, we had 28 IPP contracts with lease characteristics of power generating plants in accordance with IFRIC 4 “Determination if an agreement contains a lease” and IFRIC 12 “Service Concession Agreements.” In turn, those leases qualify as financial leases in accordance with IAS 17, “Leases,” which requires that we capitalize all leases for which we are the sole beneficiary of the leased asset. The annual interest rate on those lease agreements is 11.19% on average.

In addition to the 28 contracts with IPPs for fossil-fuel power plants, we had six other contracts for wind facilities with IPPs in operation. Unlike the other 28 IPP contracts, these contracts for wind facilities are not considered financial leases as we pay only for wind power actually generated and delivered. In addition, we have entered into contracts with third-party suppliers for services related to liquefied natural gas and coal that are not considered financial leases under IFRS.

Capital Expenditures and Investment

Since 2006, CFE has gradually increased its installed capacity. We estimate that, with our current installed capacity, the projects that are currently under construction and the new projects approved by our Board of Directors, we and the private sector participants can satisfy the demand for electricity in Mexico for the next 15 years in accordance with PRODESEN. As of September 30, 2020, our installed capacity was 58,977 MW, an increase of 1,105 MW from the installed capacity as of December 31, 2019, due to the start of operations of two combined-cycle plants.

The following table illustrates the growth in our installed capacity since 2006 as well as the change in our generation of electricity:

	Installed Capacity As of December 31,	Generation As of December 31,
	(MW)	(TWh)
2006	47,857	221.9
2007	49,854	228.5
2008	49,931	231.4
2009	50,384	230.6
2010	51,611	241.5
2011	51,177	254.7
2012	51,780	257.5
2013	52,906	254.6
2014	54,577	250.0
2015	54,952	253.1
2016	55,564	254.4
2017	55,891	249.6
2018	55,265	249.0
2019	57,872	236.9
2020*	58,977	167.0

* As of September 30, 2020 and for the nine-month period then ended, respectively.

Source: CFE.

Our total capital expenditures for 2021, approved as part of the Federal Budget for 2021 amount to up to Ps.49.3 billion (U.S.\$2.2 billion) in investments and include allocations for the following items: up to Ps.9.8 billion (U.S.\$438 million) for PIDIREGAS electricity generation projects and maintenance of our generation infrastructure; up to Ps.10.7 billion (U.S.\$474 million) for the improvement and expansion of our transmission grid, and up to Ps.9.9 billion (U.S.\$442 million) for the improvement and expansion of our distribution grid and commercialization.

Long-Term Productive Infrastructure Projects (PIDIREGAS)

An important component of our capital expenditures are PIDIREGAS. Because of federal budgetary constraints, in 1996, the Mexican government sought private sector participation in the building and financing of PIDIREGAS in the electricity sector. The Mexican government approved the designation of certain infrastructure projects as PIDIREGAS. This designation means that these projects are treated as off-balance sheet items for annual Mexican government budgetary purposes, until delivery of the completed project to us or until our payment obligations begin under the contract, and are excluded from across-the-board Mexican government budget reductions.

The Mexican *Ley Federal de Deuda Pública* (Federal Law of Public Debt) and the *Ley Federal de Presupuesto y Responsabilidad Hacendaria* (Federal Law of Budget and Fiscal Accountability) define the PIDIREGAS legal framework. Article 18 of the Federal Law of Public Debt outlines the treatment of financial obligations under PIDIREGAS, defining as a direct liability the amounts payable under a financing during the current and immediately following fiscal years, and the remaining amounts as a contingent liability until its full payment. Article 32 of the Federal Law of Budget and Fiscal Accountability grants PIDIREGAS preferential and priority treatment for inclusion in the Mexican government's budget in future years, until the full payment of a project's costs. The distinction between PIDIREGAS and non-PIDIREGAS expenditures on the budget of the Mexican government (which includes the expenditures of the various decentralized public entities) is important in that, due to the private financing of PIDIREGAS projects during the planning and construction stages, they are immune from across-the-board budget cuts by the Mexican Congress, while non-PIDIREGAS investments are not.

PIDIREGAS has three stages:

- The Mexican government identifies a project as a PIDIREGAS and authorizes expenditures related to their development by the private sector;
- Private sector companies, in cooperation with us, build and deliver the project to us; and
- We, with the Mexican government's authorization, pay all amounts owing to contractors and make final payments to receive delivery of the completed project, and then record as a liability the full principal amount of all indebtedness incurred to finance the project.

Compliance with the Mexican government's financial reporting standards and the Guidelines for the Accounting Treatment of Investments in Long-Term Productive Infrastructure Projects (Technical Release NIF-09-B, the "Technical Release"), which outlines the accounting and budgetary treatment applicable to PIDIREGAS, is mandatory during the construction period and after delivery of the PIDIREGAS. In accordance with IFRS, all of the accounts, expenditures and liabilities related to PIDIREGAS are incorporated into our financial statements.

There are currently two types of PIDIREGAS projects: conditioned investment (IPPs) and direct investment (OPFs). These two primary private investment programs address the two central needs of CFE: generation and transmission.

Productores Externos de Energía (Independent Power Producer Program). The IPP program allows private companies to bid to construct and operate a generation plant in Mexico and sell the generated power to CFE. Under the program, CFE enters into a long-term agreement (up to 25 years) under which the private producer is responsible for the construction, operation and maintenance of the generation facility during the life of the contract and CFE is obligated to purchase the electricity produced by that facility. Power purchase agreements under the IPP program are subject to certain options or obligations to buy the underlying generation asset as a result of certain events such as force majeure, restructuring of the market or events of default. The IPP program helps CFE meet

generation demands without the costs of construction and maintenance. The IPP program also allows CFE to obtain competitive prices for the purchased energy through an international bidding process. Pursuant to IFRS, 28 of our contracts with IPPs are reported as financial leases in our financial statements.

Obra Pública Financiada (Financed Public Works Program). The OPF program addresses our infrastructure needs with respect to the transmission and distribution of electrical energy and for generation projects that cannot be structured as IPPs. CFE enters into relatively short-term agreements (1-2 years) under which a private company is responsible for the construction of a project, but not for its ongoing operation and maintenance. International bidders place their bids to receive a total payment upon the completion of the project involved. The main advantage of this program is the avoidance of potential risks relating to the development of the project that may arise during the construction stage, such as risks relating to cost escalation and failure of the completed project to meet the technical specifications. As with IPPs, we are able to secure competitive prices for the OPFs as a result of an international bidding process.

The table below sets forth a comparison between IPPs and OPFs.

IPP Program	OPF Program
<ul style="list-style-type: none"> • Used for generation projects, excluding hydroelectric plants. • Projects are awarded through international bidding process to bidder who offers lowest kWh price for the sale of electricity to CFE. • Winning bidder becomes fully responsible for the financing and construction of the plant. • CFE and the bidder sign an agreement for commitment of electrical power generation capacity and purchase of associated electrical power by CFE for up to 25 years commencing upon commercial operation of the plant. • Bidder remains the sole owner of the project assets and plant operator. 	<ul style="list-style-type: none"> • Generally used for transmission lines and substations. • Projects are awarded through international public bidding process to bidder that offers the lowest project development price. • Winning bidder becomes fully responsible for the construction of the project under a “turnkey” contract and the financing of the project during the construction stage. • At the end of construction and upon acceptance of the work by CFE, the ownership of the project is transferred to CFE and CFE pays the bidder the full contract price.

Currently, three new power plants are being built and one plant is being modernized, which together are expected to add an additional 1,388 MW of installed capacity.

Recent developments with respect to PIDIREGAS

During the first quarter of 2020, we completed the construction of “CC Norte III,” a combined-cycle power generation plant located in the State of Chihuahua, which is expected to have an installed capacity of 907 MW. Between the end of 2020 and the first half of 2021, we expect to complete and commence operations in five generation projects, including one geothermal plant and four combined-cycle plants, the largest being the combined-cycle plants “Empalme I” and “Empalme II.” The five projects will add a total of 2470 MW of installed capacity. Furthermore, we estimate that by the end of 2021, we will complete the construction of “C.C. Centro,” a combined-cycle power generation plant that is expected to have an installed capacity of 642 MW.

Derivatives and Hedging

Foreign Exchange Rate Risk

A substantial part of our indebtedness, excluding lease liabilities (25.8% (after hedging) as of September 30, 2020) is denominated in foreign currencies, mostly U.S. dollars, and we have very limited assets and revenues denominated in U.S. dollars. As a result, we are exposed to the risk of depreciation of the Mexican peso. As of

December 31, 2019, our U.S. dollar-denominated indebtedness, including our U.S. dollar-denominated obligations in respect of our PIDIREGAS debt, amounted to Ps.188.4 billion (U.S.\$8.4 billion).

To offset the foreign exchange rate risk, we enter into derivative financial instruments with large financial institutions to minimize the impact of fluctuations in exchange rates on our indebtedness. These derivative instruments typically consist of cross-currency swaps in which we pay Mexican peso amounts based on Mexican peso interest rates and receive U.S. dollar amounts based on U.S. dollar interest rates. As of September 30, 2020, we had outstanding cross-currency swaps covering foreign currency liabilities, excluding lease liabilities, of Ps.38.6 billion (U.S.\$1.7 billion), including our U.S. dollar-denominated PIDIREGAS debt.

Our Japanese yen-denominated debt, as of December 31, 2019, amounted to Ps.5,078 million (U.S.\$226.1 million) or 1.7% of our total indebtedness, excluding lease liabilities. In 2012, we also entered into derivative financial instruments to offset the foreign exchange rate risk of our ¥ 32 billion private placement. This derivative financial instrument consists of a foreign exchange forward string purchase contract under which we have agreed to purchase Japanese yen at a fixed U.S. dollar exchange rate during the established transaction term. We have also purchased a call option for the purchase of Japanese yen at the end of this transaction term. The mark-to-market value of this transaction is a liability of Ps.383.4 million (U.S.\$17.1 million) as of December 31, 2019. For further discussion relating to our derivative and hedging transactions, see Note 11 to our interim financial statements and Note 12 to our annual financial statements.

Interest Rate Risk

A substantial part of our indebtedness, excluding lease liabilities, bears interest at variable rates (22.5% as of September 30, 2020, after hedging). As a result, we are exposed to risks from changing interest rates.

We enter into derivative financial instruments with large financial institutions to minimize the impact of fluctuations in variable interest rates on our indebtedness. The types of derivative instruments we have typically entered into in recent periods include interest-rate swaps (in which we generally pay amounts based on fixed interest rates and receive amounts based on variable interest rates). The general effect of these swaps is to replace an obligation to pay variable-rate interest on our debt with an obligation to pay fixed-rate interest.

As of September 30, 2020, the aggregate notional amount of our Mexican peso-denominated variable rate to fixed rate interest-rate swaps was Ps.(33.5) million (U.S.\$(1.5) million).

The fair value of our derivative instruments for hedging purposes was an asset of Ps.38.5 billion (U.S.\$1.7 billion) as of September 30, 2020.

Our use of derivatives varies from time to time, depending on our judgment about our level of exposure to exchange rate and interest rate risks, and the costs of derivative instruments. The aggregate notional amount of our interest-rate swaps may be greater or less than the principal amount of our debt, and we may discontinue hedging at any time. We review and change our derivatives positions regularly, and our derivatives policies change from time to time. Under IFRS, we account for our interest rate swaps on a fair value basis. See Note 11 to our interim financial statements and Note 12 to our annual financial statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a material effect on our financial condition, operating results, liquidity or capital resources.

COMISIÓN FEDERAL DE ELECTRICIDAD

Overview

We are an electric power company operating as a productive state enterprise of the Mexican government and, following the energy reform described below, we remain 100% owned by the Mexican government. We generate approximately 70% of the electricity consumed in Mexico, which includes electricity generated by IPPs (31%), and we are solely responsible for the transmission and distribution of electricity for public service purposes throughout Mexico. The remaining 30% of electricity is generated by PEMEX, a productive state enterprise of the Mexican government that is engaged in exploration, production, refining and marketing of oil and gas, and by private producers. As of September 30, 2020, we provided electricity to over 45 million customer accounts, which we estimate represented 99% of the Mexican population.

We were created in 1937 by presidential decree, and then converted by the Mexican Congress in 1949 into a decentralized public entity of the Mexican government. Pursuant to the CFE Law, in accordance with the Energy Reform Decree and Secondary Legislation, we were converted into a productive state enterprise in October 2014, subject to a new legal regime and with a corporate purpose of creating economic value for the Mexican government as its owner. In addition, pursuant to Mexican Constitution, the Electric Industry Law and the CFE Law, in 2016, we undertook a vertical and horizontal separation of each of our key electric sector activities — electricity generation, transmission, distribution and commercialization — through the creation of nine subsidiary productive enterprises and four affiliate enterprises. On August 2, 2019, we created CFE Telecomunicaciones e Internet para Todos, a new subsidiary productive enterprise. See “—General Regulatory Framework—Organizational Structure of CFE.”

On December 20, 2013, the Energy Reform Decree was published in the Official Gazette, which took effect on December 21, 2013. The Energy Reform Decree outlines the general framework for the Secondary Legislation. On August 11, 2014, the Secondary Legislation was published in the Official Gazette. The Secondary Legislation includes nine laws including, among others, the new CFE Law and the Electric Industry Law. On October 31, 2014, the President of Mexico published in the Official Gazette 26 regulations and amendments in respect of the Secondary Legislation including, among others, the Regulations to the CFE Law and the Regulations to the Electric Industry Law. See “—General Regulatory Framework” for more details regarding the laws and regulations applicable to us.

We have undertaken several steps aimed at consolidating our new organizational and operational structure, including the following measures:

- we have analyzed and are planning to take advantage of new financing mechanisms, including CERPIs and CKDs, as well as co-investments, joint ventures and public-private partnerships;
- we created a Fibra E through our affiliate CFECapital, S. de R.L. de C.V. Our Fibra E aims to attract new private investors to finance infrastructure investments in energy generation, transmission and distribution projects and has the benefit of (i) increasing our equity, (ii) not being considered as part of our public indebtedness, and (iii) allowing us to retain ownership and control over strategic assets. In February 2018, our Fibra E conducted an offering of CBFES to finance transmission projects. In the future, our Fibra E may offer to sell additional CBFES to finance generation, transmission and distribution projects; and
- we reduced our generation costs by converting certain plants that use fuel oil to natural gas.

See “Comisión Federal de Electricidad—General Regulatory Framework—Mexican Energy Reform.”

During 2019, we reported net income of Ps.25.7 billion (U.S.\$1.1 billion), as compared to net income of Ps.61.6 billion (U.S.\$2.7 billion) in 2018, due to an increase in taxes and a substantial foreign exchange loss. For the nine-month period ended September 30, 2020, we reported a net loss of Ps.142.9 billion (U.S.\$6.4 billion), as compared to net income of Ps.471.8 million (U.S.\$21.0 million) for the nine-month period ended September 30, 2019, mainly due to a substantial foreign exchange loss caused by a depreciation of the Mexican peso during the nine-month period ended September 30, 2020, and as a result of our new collective bargaining agreement with SUTERM. See “Summary—Business Strategy” and Note 20 to our interim financial statements. In 2019, we received a Ps.75.2 billion (U.S.\$3.3 billion) subsidy from the Mexican government related to the subvention of electricity rates that we charge certain basic supply customers. The Federal Budget for 2020 provided for a subsidy

transfer from the Mexican government to us of approximately Ps.70.0 billion (U.S.\$3.1 billion) during 2020. As of September 30, 2020, we had received a subsidy transfer of Ps.63.0 billion (U.S.\$2.8 billion) from the Mexican government. The Federal Budget for 2021 provides for a subsidy transfer from the Mexican government to us of approximately Ps.70.0 billion (U.S.\$3.1 billion) during 2021. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations.”

The Electric Industry Law provides that the rates that we charge for regulated services are to be determined by the CRE. The regulated power supply rates we currently charge are determined by the Mexican government: by the CRE, for commercial, public service (*alumbrado público*) and industrial customers; and by the Ministry of Finance for agricultural and residential customers. These electricity supply rates established by the CRE reflect our anticipated production costs (including generation costs associated with basic supply vested contracts, long-term auction agreements, and costs in the wholesale electricity market considering the local marginal prices for the short-term energy market), as well as other variables including the category and location of the consumer and the time of day that the electricity is expected to be consumed. According to the CRE’s methodology, basic supply rates are comprised, in general terms, of the costs associated with transmission, distribution, CENACE and basic supplier operations and ancillary services not traded in the Wholesale Electricity Market, as well as charges associated with energy and capacity. However, the Electric Industry Law also provides that the federal government may determine a rate mechanism that differs from the final rates set by the CRE for specific groups of basic power supply users. The Mexican government, through the Ministry of Finance, has set some of our electricity rates at levels below our operating costs (if applicable, subject only to an inflation adjustment factor) in order to maintain the affordability of electricity, in particular, for our agricultural and most of our residential customers.

In January 2016, the MEM began operations and the rates set by the CRE for our transmission and distribution activities became effective. In addition, in December 2017, the CRE published for the first time a schedule of consumer rates as well as the methodology used for their determination. In December 2020, the CRE extended indefinitely the methodology used for the determination of such transmission and distribution rates, which are reviewed on a yearly basis. Generally, basic supply consumer rates are calculated based on the regulated rates applicable to transmission and distribution activities, certain electricity costs, the operation tariff of the corresponding basic power supplier and the subsidy from the Mexican government. The energy and capacity costs in consumer final rates are calculated month by month according to market factors.

Qualified Suppliers duly registered with the CRE are permitted to compete with us by supplying electricity to qualified users at unregulated rates and to load points of such qualified users and by representing exempt generators (*i.e.*, those generators that do not require a generation permit since the installed capacity of their power plants is less than 0.5 MW) in the MEM. As of September 30, 2020, there were 28 registered qualified suppliers with the CRE.

Our Business

Our business is divided into four main areas: generation, transmission, distribution and commercialization. Pursuant to the 2019-2033 PRODESEN prepared by the Ministry of Energy of the Mexican government, we generate approximately 70% of the electricity consumed in Mexico, including IPPs. We have a 100% market share of the transmission and distribution markets. As of September 30, 2020, we had a 100% market share of the basic supply market and a 36% market share of the qualified supply market.

We continually invest in electricity generation, transmission and distribution infrastructure in order to address Mexico’s growing electricity demand. In 2019, we paid a net amount of Ps.49.0 billion (U.S.\$2.2 billion) for the acquisition of plants, facilities and equipment, and as of September 30, 2020 we had paid a net amount of Ps.18.6 billion (U.S.\$828 million). The Board of Directors defines our five year business plan, determines our annual budget and approves investment priorities and projects. Our financial condition target, expenditure ceiling and net debt ceiling are updated annually and require the approval of the Mexican Congress. Our investment budget for 2020, approved as part of the Mexican Federal Budget for 2020, was Ps.49.1 billion (U.S.\$2.1 billion), of which Ps.18.6 billion (U.S.\$830 million) had been invested as of September 30, 2020. Our investment budget for 2021, approved as part of the Mexican Federal Budget for 2021, is approximately Ps.49.3 billion (U.S.\$2.2 billion).

Our service area is divided into 16 regions and extends to some of the most remote regions of Mexico.



Source: CFE.

The majority of our electricity generation activities (including nuclear, coal-fired and geothermal) are undertaken through thermal and hydroelectric power plants. A small percentage of our electricity generation comes from other sources, including wind and photovoltaic power plants. Since 1992, IPPs have been permitted under Mexican law to build and operate electricity generation plants in Mexico and sell the generated power exclusively to us.

As of September 30, 2020, our total debt, including obligations in respect of our PIDIREGAS and lease liabilities, was Ps.1.1 trillion (U.S.\$48.5 billion) and our total equity was Ps.518.5 billion (U.S.\$23.1 billion). In addition, on October 20, 2020, we issued Ps.10.0 billion (U.S.\$445.3 million) aggregate principal amount of Cebures. Our total assets were Ps.2.2 trillion (U.S.\$99.1 billion) as of September 30, 2020. For further information on our existing indebtedness, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

Our total revenue and net loss for the nine-month period ended September 30, 2020 were Ps.386.5 billion (U.S.\$17.2 billion) and Ps.142.9 billion (U.S.\$6.4 billion), respectively, as compared to Ps.408.9 billion (U.S.\$18.2 billion) of total revenue and Ps.471.8 million (U.S.\$21.0 million), of net income in the comparable period of 2019.

Our total revenue and net income for 2019 were Ps.556.2 billion (U.S.\$24.8 billion) and Ps.25.7 billion (U.S.\$1.1 billion), respectively. Our total revenue and net income for 2018 were Ps.547.3 billion (U.S.\$24.4 billion) and Ps.61.6 billion (U.S.\$2.7 billion), respectively. Our total revenue and net income for 2017 were Ps.489.6 billion (U.S.\$21.8 billion) and Ps.107.7 billion (U.S.\$4.8 billion), respectively.

Business Strategy

Since Mr. Andrés Manuel López Obrador’s election to the presidency of Mexico in 2018 and Mr. Manuel Bartlett Diaz’s designation as General Director of CFE, we have been implementing a new strategy that better reflects the current presidential administration’s principles, values and objectives. On December 8, 2020, our Board of Directors approved our 2021-2025 Business Plan, which includes the following:

- a revised mission for CFE, to provide the energy required for Mexico’s economic and social development in an efficient, sustainable, affordable and inclusive manner, through a policy that prioritizes national energy security and sovereignty and strengthens the public sector electricity service.
- a revised vision for CFE, to consolidate our position as the leading energy company in Mexico, in terms of installed capacity and number of customers, and as the only entity that integrates generation, transmission and distribution, committed to guaranteeing quality and socially responsible service to our customers in all segments of the market, contributing to the country’s sustainable development and generating economic value and profitability to the country.

To achieve our new mission and vision, we have defined eight primary objectives:

- increase CFE’s productivity, generating economic value and profitability for the country, and prioritizing the reliability of the country’s electric supply;
- maintain CFE’s majority market share in generation on a nationwide basis;
- contribute to sustainable development and the reduction of greenhouse gas emissions;
- increase and diversify CFE’s income sources through new business development;
- reduce financial, commercial and operational damages to CFE derived from regulatory asymmetries;
- strengthen internal process control through: (i) comprehensive risk management, (ii) anti-corruption measures, (iii) institutional management and (iv) continuous development of CFE’s human capital;
- improve user satisfaction and our institutional image on a nationwide basis; and
- improve CFE’s financial profitability and cash flow, guaranteeing the availability of operating and investment resources.

Our business strategy remains focused on maximizing our overall performance in our four main business lines: generation, transmission, distribution and commercialization, through the following key strategies.

Improve our Electricity Generation Performance

We intend to maximize our current electricity generation capacity through the optimization and segmentation of our generation power plants, the incorporation of new technologies and by rehabilitating and modernizing currently underperforming power plants. One of the objectives of CFE’s business plan is to renew its generation infrastructure, replacing less efficient generation plants with more efficient and sustainable plants, to face the challenges of the wholesale electricity market and to guarantee the supply of electricity throughout the country. Between 2020 and 2024, we plan to invest approximately Ps.64.0 billion (U.S.\$2.8 billion) in new combined-cycle power plants, which together are expected to represent an additional 4,550 MW of capacity. In addition, we are planning to acquire 11 combined cycle plants for an aggregate amount of approximately U.S.\$2.4 billion, along with 10 clean energy power plants, for an expected aggregate investment amount of U.S.\$500 million. Our generation subsidiaries will also implement a maintenance program with investments of over Ps.41.5 billion (U.S.\$1.9 billion).

Our market share in electricity generation, including IPPs, is approximately 70%. Our goal is to increase our electricity output at a rate that will correspond with the anticipated increase in electricity demand in Mexico, which PRODESEN estimates will be 3.1% per year at least until 2033, while also improving the profitability of our business portfolio. We also intend to increase the competitiveness of our generation plants.

We also plan to expand our generation capacity in clean and renewable energy sources, by investing in the modernization of eight hydroelectric power plants. In addition, we are analyzing the possibility of developing clean energy generation projects for 500 MW, with a total investment of Ps.12.2 billion (U.S.\$542 million). We rely, and expect to continue relying, on the use of cleaner burning fuels, such as natural gas, in our generation activities (as compared to fuels that emit higher levels of contaminants into the environment, such as fuel oil). As of September 30, 2020, 48.1% of our electricity generation capacity, excluding IPPs, derived from fossil fuels (natural gas, coal, diesel and fuel oil). The remaining 25.0% of our electricity generation capacity derived from clean sources (including nuclear). We also plan to engage in strategic projects with companies in other industrial sectors, which could reuse the gases that are a byproduct of electrical energy generation, to help reduce the emission of pollutants.

Our goal is to maintain or improve this allocation between fuel types in the future; however, our actual allocation will depend in part on the global supply of such fuels and pricing considerations. In addition, we rely, and expect to continue to rely, on clean generation technology, such as hydroelectric, geothermal and wind power generation, each of which use renewable primary sources of energy.

Modernize our Transmission and Distribution Grids and Reduce Technical and Non-Technical Losses

Transmission and distribution remain strategic activities for the Mexican government and are part of our core business line. Our business plan includes a package of approximately 142 new transmission projects, which

include transmission lines, power substations and the installation of reactive compensation equipment in our transmission grid, which combined represent an investment of Ps.58.9 billion (U.S.\$2.6 billion). Some of our main investments include projects to increase transmission capacity from the Northeast to the center of the country, and for the Riviera Maya and Cancun regions, and two new transmission lines: the Huasteca-Monterrey line and the submarine line from Playacar to Chankanaab. Likewise, we have authorized CFE Transmisión to perform the project “*Olmeca Banco 1 y red asociada*” for the upgrading of the eastern region’s transmission grid. We will also invest in our smart grid and in metering systems for the MEM.

Our main objective in the mid- to long-term in our distribution grid is to reduce our technical losses and the quantity of electricity that is used in Mexico but not paid for (*i.e.*, “non-technical losses”). Our goal is to reduce our technical and non-technical losses in the distribution process from 13.1% in 2019 to 12.7% by 2024, through the modernization of our metering systems, strengthening our commercial processes, regularizing our services in areas affected by irregular land use and strengthening our electric infrastructure.

Modernization of our equipment and technology, including the replacement of aging substations and power lines, is integral to providing reliable electricity service to our customers. We intend to dedicate a significant portion of our financial and human resources as we seek to ensure that our grids employ state of the art technology and are in good working condition. In addition, we intend to further develop our “smart-grid” technology, which will include a two-way digital communication system between our customers and us, through which we will be able to monitor the electricity needs of our customers in real time and, accordingly, improve the efficiency with which we provide electricity. We expect that the implementation of smart-grid technology will also help reduce our non-technical losses, by making it possible to automate the operation of our distribution grid remotely and manage our distribution grid’s energy balance for the MEM.

We seek to reduce electricity service interruptions. Much of our equipment is installed outdoors and is subject to the varying weather conditions and natural disasters that affect Mexico from time to time. As a result, this equipment (including, in particular, our transmission towers and utility poles) often incurs weather-related damage, which in certain instances causes electricity service interruptions for our customers. We maintain a well-trained staff of technicians that repair damaged equipment upon our receipt of notice of any such damage. For 2019, we had a goal to reduce the duration of service interruptions per user to 25.81 minutes. As of December 2019, the duration of service interruptions per user has been reduced to 25.1 minutes per year. Our goal for the first half of 2020 was to reduce the duration of service interruptions per user to 9.25 minutes. As of June 30, 2020, we had reduced the duration of service interruptions per user to 8.025 minutes. We continually assess the quality and speed of these repairs, and we expect that our dedication to delivering fast and effective repair services will continue into the future.

We have had two recent major power outages caused by fires. The first occurred in the Yucatan Peninsula during April 2019, when local farmers burnt dry grasses, causing a fire that damaged a transmission line. The second and largest outage occurred on December 28, 2020 in Tamaulipas, where a fire, which was aggravated by wind gusts ranging from 60 to 70 kilometers per hour and 40% relative humidity (resulting from the cold front number 24), damaged a 400 kV transmission line. In both cases, electrical service was reestablished in a matter of hours. We are in the process of investigating the causes of, and our personnel’s response to, this outage, and reviewing any measures that can be adopted to avoid similar outages in the future.

Supply and Commercialization

A key aspect of our growth strategy is increasing the profitability of our commercialization activities in the medium to long-term. We intend to continue servicing our customers represented by approximately 45.3 million basic supply customer accounts and future qualified users by developing client-focused strategies that focus on differentiating our clients by segment. We also plan to take advantage of our client base to develop new lines of business and increase our overall commercialization capacity. As of September 30, 2020, CFE had a 100% market share of the basic supply market and a 36% market share of the qualified supply market.

In parallel, we plan to continue to develop our transportation and commercialization of natural gas business. Under our current structure, CF Energía, S.A. de C.V. and CFE International LLC, two entities wholly owned by us, participate in the business of buying, selling, transporting and storing gas, fuel oil, coal and other fuels.

We currently are the most important purchaser of the natural gas that is consumed in Mexico, and within five years we expect to become the main consumer of natural gas in North America. Considering our unique

position in the industry and the opportunities available in Mexico's undeveloped sector, we seek to gradually increase our presence in the market as we continue to commercialize, import, export, transport and store natural gas in Mexico and the United States.

Our business plan is based on strategic pillars that support each of our business lines:

Organizational and Operational Structure and Strong Performance Culture

Our organizational and operational structures allow us and our affiliates to operate in a competitive and efficient manner, attract high-skilled employees, improve our strong performance culture and enhance result-oriented strategies. For further information, see “—General Regulatory Framework—Organizational Structure of CFE.”

Our business plan requires us to reduce our financing costs and improve our financial risk management controls, for which we have centralized our budgetary, human resources, accounting and financing activities, as well as public relations through our corporate center.

Services and Support

During 2019, we implemented an operational model in which the Issuer provides administrative support and other services to its subsidiary productive enterprises and affiliates to create synergies. This model includes financial and operational metrics to continually evaluate each subsidiary productive enterprise and affiliate. We may also transfer certain of our servicing areas to subsidiary productive enterprises or affiliates, including those areas that currently provide administrative support. These subsidiaries are expected to service third parties as well as to continue servicing our businesses and affiliates, thus optimizing the value of our assets through more efficient processes.

Investments and Financing Capabilities

Our program of contracting with IPPs has allowed private companies to bid and operate electricity generation plants in Mexico and sell the generated power to us. Under the program, we have entered into long-term agreements (up to 25 years), under which IPPs are responsible for the construction, operation and maintenance of the electricity generation facility during the life of the agreement, and we are obligated to purchase the electricity produced by that facility. The use of IPPs has historically helped us meet electricity generation demands without the cost of construction.

The IPP program has also allowed us to obtain competitive prices for the purchased electricity via international bidding processes, in which we award projects to bidders that offer the lowest price per kWh for the sale of electricity to us. As of September 30, 2020, CFE had a total of 33 IPP contracts signed relating to generation facilities that were operational (504 units, which include combined-cycle and wind).

The Financed Public Works Program (OPF) addresses our infrastructure needs with respect to the transmission and distribution of electricity and for generation projects that cannot be structured using IPPs. We enter into relatively short-term agreements (1-2 years), under which a private company, which we select in an international public bidding process, is responsible for the construction of a project, but not for its ongoing operation and maintenance. Bidders that are selected for OPF agreements receive a total payment upon the completion of the project. The main advantage of this program is the avoidance of potential risks relating to the development of the project that may arise during the construction stage, such as cost escalation and failure of the completed project to meet technical specifications. As with IPPs, we are able to secure competitive prices for the OPFs as a result of an international bidding process.

We also intend to increase competition during the bidding processes for procurement contracts, reduce our financing costs and improve our risk-management policies.

In the past, our financings have been mostly limited to public and private financing transactions in the Mexican loan and bond markets, and certain private financings in the United States, Europe and Japan. In May 2011, February 2012, October 2013, June 2015, September 2016, October 2016, July 2017, October 2017, March 2018, July 2019 and March 2020, we sought financing in the international bond markets. We believe that the further

development of this financing option, together with our objective to diversify our financing sources, will improve our liquidity and debt maturity profile and help fund our investment activities.

We are in the process of implementing a new financial vehicle in the form of a private trust agreement, which we refer to as the Master Investment Trust, and which is intended to allow the integration of our financial and investment portfolios. Such trust shall be incorporated by CF Energía and CFE Transmisión. This self-financing structure will work through the use of CF Energía's accumulated and future profits, along with capital resources from prior and future equity issuances by our Fibra E, to finance the construction and development of new power plants, as well as the acquisition of existing projects. The purpose of the Master Investment Trust, is to seek to guarantee the return on investments and enhance the financial capacity of each of our subsidiaries and affiliates. We expect the Master Investment Trust to be incorporated later this year.

The Master Investment Trust would incorporate a sub-trust for each investment project, consisting of new power plants to be developed. Once such plant is built, it will be operated by one of CFE's generation subsidiaries. Under this structure, the sub-trusts will be the owners of the new power plants and would enter into contracts with the applicable generation subsidiary, which will in turn operate the power plant.

Long-Term Employee Benefit Obligation Costs Optimization and Productivity

As of December 31, 2019, our long-term employee benefit liabilities represented 29% of our total liabilities. On August 19, 2020, we entered into a new collective bargaining agreement with the SUTERM. This new collective bargaining agreement included modifications to employee retirement age, which resulted in part in an increase of approximately Ps.75.1 billion in our long-term employee benefits and an increase of approximately Ps.76.7 billion in employee benefits costs, in each case as reflected in our interim financial statements. See Note 16 to our interim financial statements.

Strategic Regulatory Action

As a productive state enterprise, we intend to have an active role in the implementation of the new policies and regulations to develop the National Electric System. We will continue to develop our relationship with our regulators. In particular, regarding our rate-regulated business, we will coordinate and maintain a channel of communication aimed to align the rates that we charge our customers with our costs and operating expenses.

Additionally, the energy reform established the creation of the CENACE, the independent energy system operator of the National Electric System and the entity in charge of managing the MEM, its participants and the electricity spot market.

Social Responsibility

We will continue to operate as a last resort provider of electric power and we intend to continue to proactively face any electric emergencies. As a productive state enterprise, we expect to continue to monitor and assist the regulatory authorities in establishing reasonable and fair rates.

History

We were created in 1937 by presidential decree, and then converted by the Mexican Congress in 1949 into a decentralized public entity of the Mexican government. Since the enactment of the LSPEE, we have generally been responsible for the generation, transmission and distribution of electric power in Mexico. In connection with the Energy Reform Decree, which, among others, repealed the LSPEE, we were converted from a decentralized public entity of the Mexican government to a productive state enterprise effective upon the effectiveness of the CFE Law in October 2014. Such transformation required, and still requires, changes in management, organization and operation standards. Our activities are supervised by the Ministry of Energy, and the Minister of Energy serves as the Chair of the Board of Directors.

Luz y Fuerza del Centro

Luz y Fuerza del Centro ("LFC"), which was the utility previously responsible for the transmission and distribution of electricity in Mexico City and the surrounding areas, was dissolved by presidential decree in October 2009. LFC was also involved in small-scale electric power generation, amounting to 1,174 MW as of October 2009. Pursuant to the terms of LFC's dissolution, the assets of LFC were transferred to the *Servicio de Administración y*

Enajenación de Bienes (Asset Management and Divestiture Service, or “SAE”), a decentralized entity of the Mexican government that is operated by the Ministry of Finance. As of the date of the dissolution, LFC’s legal, commercial and financial obligations were assumed by SAE and the distribution of electricity within Mexico City and the surrounding areas was assumed by us. In order to carry out these new responsibilities, we have entered into a lease arrangement with SAE, which provides us with access to certain of LFC’s former assets and enables us to service LFC’s former customers.

As a result of LFC’s dissolution, we obtained approximately six million additional customer accounts. However, the increase in our customer base had little effect on our overall sales volume both because the volume of our sales to these new customers is substantially similar to the volume of our previous sales to LFC and because of the additional non-technical losses we incur by servicing the metropolitan area directly.

Our Operations

Generation

As of September 30, 2020, our installed capacity was 58,977 MW, which includes the installed capacity of IPPs. Of our total installed capacity, 73% corresponds to our own generation units, while the remaining 27% corresponds to 33 generation plants operated by IPPs.

The following table sets forth the change in our installed capacity for the periods listed:

Installed Capacity	As of						As of
	December 31,						September 30,
	2014	2015	2016	2017	2018	2019	2020
Installed Capacity (MW)							
CFE.....	41,516	41,899	42,611	42,644	42,018	42,881	43,079
IPPs.....	12,851	12,953	12,953	13,247	13,247	14,991	15,898
Total	54,367	54,852	55,564	55,891	55,265	57,872	58,977
Generation (TWh)							
CFE.....	164.3	164.3	166.0	163.6	162.7	145.9	93.5
IPPs.....	85.7	88.8	88.4	86.0	86.3	91.0	73.5
Total	250.0	253.1	254.4	249.6	249.0	236.9	167.0

Source: CFE.

During the first three quarters of 2020, we generated approximately 80% of our electricity (including IPPs) from fossil fuel-based power plants, 12% from hydroelectric power plants, and the remainder of our electricity came from other sources, such as nuclear, geothermal, coal-fired, wind and photovoltaic plants. As of September 30, 2020, our installed capacity was 58,977 MW, including 15,898 MW from IPPs. Since most of our power generation relies on fossil fuels (mainly fuel oil and natural gas), our generation cost is highly sensitive to international fuel prices.

During 2019, we generated 237.3 TWh of electricity, representing a 5% decrease over the 249.0 TWh we generated in 2018. Of this total, 38% was generated by IPPs and the remainder was generated from facilities owned by us.

The table below sets forth the installed capacity as of September 30, 2020 of the various sources of energy on which we rely.

Installed Capacity by Source as of September 30, 2020

Type of Plant	Capacity (MW)	% of Total
Gas, fuel oil and diesel.....	22,899	38.8
Coal-fired.....	5,464	9.3
Nuclear power.....	1,608	2.7
Geothermal	891	1.5
Total thermal (excluding IPPs).....	30,862	52.3
Hydroelectric	12,125	20.6
Wind and photovoltaic.....	92	0.2
IPPs (combined-cycle and wind)	15,898	27.0
Total CFE (including IPPs).....	58,977	100.0

Source: CFE.

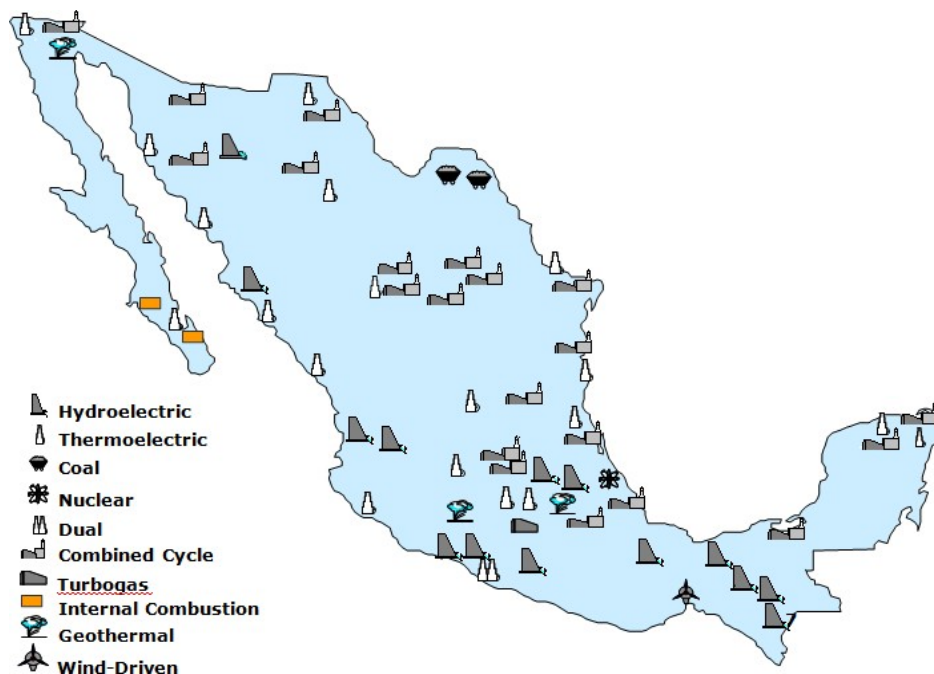
Our electricity generation capacity as of September, 2020 consists of 192 plants with 981 active units (including IPPs) throughout Mexico as follows in the table below (the distribution by generation type varies by season, rainfall and availability of renewable resources):

Generation Plants and Units by Type as of September 30, 2020

Type	Plants	Active Units
IPPs (combined-cycle and wind).....	33	504
Hydropower	60	167
Turbo gas.....	41	92
Steam.....	21	58
Internal combustion (diesel)	5	27
Combined-cycle	19	80
Geothermal	4	26
Coal-fired	3	15
Wind and photovoltaic	5	10
Nuclear power	1	2
TOTAL.....	192	981

Source: CFE.

As of September 30, 2020, our generation plants and generation units were located throughout Mexico, as illustrated in the map below.



Source: CFE.

Thermal Power Generation

Thermal power generation that uses fossil fuels as the primary source of energy can be classified according to the type of technology used to power the rotation of an electrical generator's turbines, as follows:

- Steam (fuel oil);
- Gas turbine (natural gas);
- Combined-cycle;
- Internal combustion (diesel); and
- Coal-fired.

As of September 30, 2020, 48.1% of our electricity generation capacity, excluding IPPs, was based on fossil fuels (natural gas, coal, diesel and fuel oil). Therefore, our generation cost is highly sensitive to international fuel prices.

We purchase our fuel oil and natural gas from PEMEX and other suppliers through our commercialization affiliates both in Mexico and in the United States, at indexed prices pursuant to long-term contracts awarded pursuant to an international bidding process. For the year ended December 31, 2019, fuel oil and natural gas, together, represented 69.7%, and for the nine-month period ended September 30, 2020, fuel oil and natural gas represented 82.0% of the aggregate amounts that we spent on the fossil fuels for the generation of electricity. Approximately 9.3% of our installed capacity relied on the use of coal as of September 30, 2020. A small percentage of our generating plants use diesel fuel, which we purchase from PEMEX at prices regulated by the Mexican government.

Nuclear Power Generation

We operate Mexico's only nuclear power plant, Laguna Verde. The Laguna Verde plant is located on the coast of the Gulf of Mexico in the municipality of Alto Lucero in the state of Veracruz. The plant is a strategic facility due to its high power generation capacity, low operating cost and frequency and voltage regulation capacity. Laguna Verde is comprised of two power generating units. The nuclear reactor contained in each power generating unit is a "Boiling Water" (BWR-5) reactor equipped with direct cycle Mark II containment. Since operations at Laguna Verde began in 1990, Unit 1 has generated more than 105.2 million MWh, while Unit 2 has generated more than 89.4 million MWh. In 2011, we completed a substantial renovation of both generating units as a result of an investment of approximately Ps.7.3 billion (U.S.\$325 million), which was financed as an OPF under PIDIREGAS. As a result of the renovations, the installed capacity of Laguna Verde increased by a total of 208 MW to 1,608 MW as of September 30, 2020.

The two units of the Laguna Verde plant together account for nearly 3% of our total installed capacity (including IPPs) as of September 30, 2020, with a total capacity of 1,608 MW. Laguna Verde's operations are subject to regulation and oversight by both national and international nuclear regulatory bodies. Laguna Verde has operated in compliance with ISO-14000 international standards for environmental management since 1999 based on its quality and safety standards. In 2020, the Ministry of Energy authorized the renewal of the operating license for Unit 1 of this facility. The license is valid from July 25, 2020 to July 24, 2050. CFE has started the process for the renewal of the operating license for Unit 2. See "Risk Factors—Risks Factors Related to the Issuer and the Guarantors—We are subject to environmental risks and possible claims and lawsuits inherent to the generation, transmission, and distribution of electricity."

Hydroelectric Power Generation

Our largest hydroelectric generating plant is *Manuel Moreno Torres*, which has 2,400 MW of installed capacity and is located in Chicoasén, Chiapas. The plant utilizes the water flow from the Grijalva River to power its turbines. The second and third largest plants are *Infiernillo*, which has 1,200 MW of installed capacity and is located in La Unión, Guerrero, and *Malpaso*, which has 1,080 MW of installed capacity and is located in Tecpatán, Chiapas. As of September 30, 2020, our hydroelectric power plants had a total capacity of 12,125 MW, or 20.6% of our total installed capacity (including IPPs).

Coal-Fired Power Generation

We have three coal-fired power generation plants: two located just south of the U.S.-Mexico border in the State of Coahuila, known as the *Carbón* plants, and a third one in the State of Guerrero, known as the *Petacalco* plant. These three plants comprise a total of 15 generation units, which have a combined installed capacity of 5,463 MW and were responsible for 9.3% of our total installed capacity and 5.7% of our total generation as of September 30, 2020.

Geothermal Power Generation

Our geothermal energy is generated by four plants with a total installed capacity of 891 MW as of September 30, 2020, which represent approximately 1.5% of our total installed capacity (including IPPs). Our largest geothermal power station is *Cerro Prieto*, followed by *Los Azufres* in Michoacán. Geothermal energy is the only renewable source other than hydroelectric power that currently contributes significantly to the total mix of the electricity we generate.

Wind and Photovoltaic Power Generation

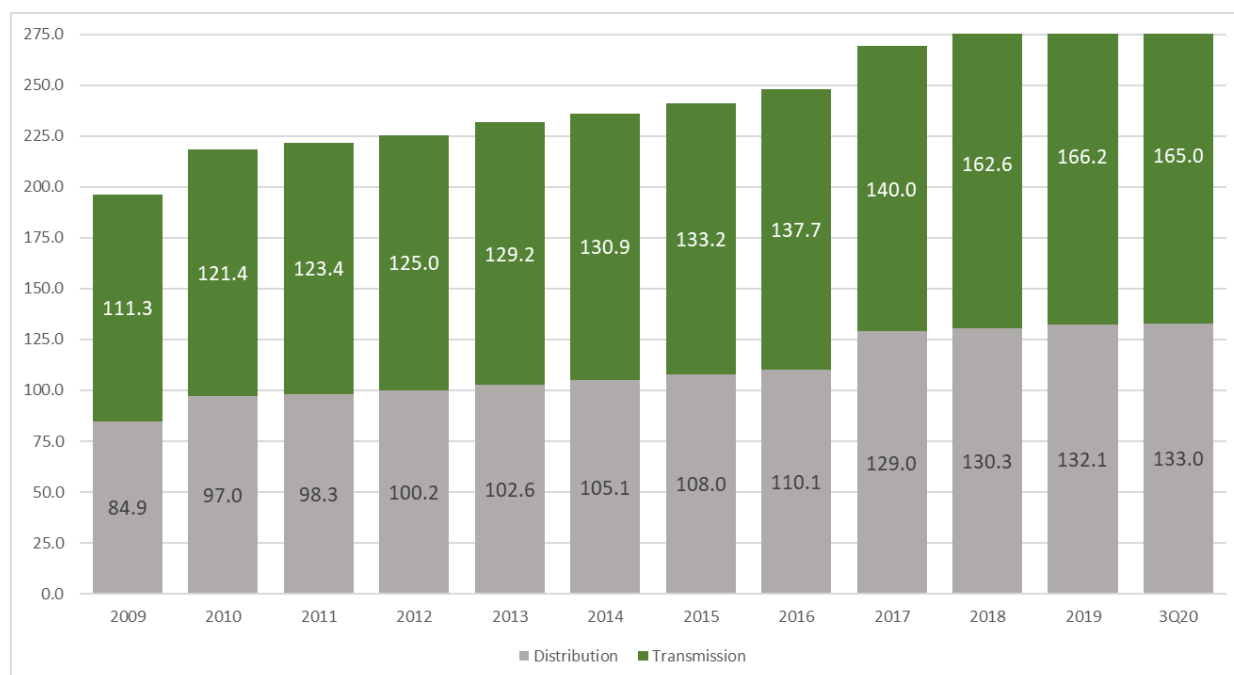
We own and operate two wind power plants, the largest of which is the *La Venta* power plant located 30 km northeast of the city of Juchitán, Oaxaca. *La Venta* was the first wind power plant developed in Mexico and in Latin America. A small portion of our installed capacity (6 MW) is derived from two one-unit photovoltaic plants located in the states of Baja California and Baja California Sur, the most important of which is the Cerro Prieto plant located in the state of Baja California, south of the U.S.-Mexico border and near the city of Mexicali, with an installed capacity of 5 MW. The four wind and photovoltaic power plants have a combined installed capacity of 86 MW. The six wind power plants operated by IPPs have a combined installed capacity of 612.9 MW, all of them located in the State of Oaxaca. As of September 30, 2020, our wind power plants (excluding IPPs) contributed to 0.2% of our installed capacity.

Transformation, Transmission and Distribution

Electric power generated in our facilities, as well as by IPPs and by other private generators that are interconnected to the grid, is made available to consumers after being transformed, transmitted and distributed. Transformation is the process by which the current and voltage of electricity is converted to a form suitable for its transmission or distribution. This process is carried out by our grid of electrical transmission and distribution substations, which has grown in size and capacity in parallel with the growth of our transmission and distribution grids.

As of September 30, 2020, our transformation capacity was 298 GVA, of which 59% related to transmission substations and 41% to distribution substations.

Capacity of Transmission and Distribution Substations (GVA)



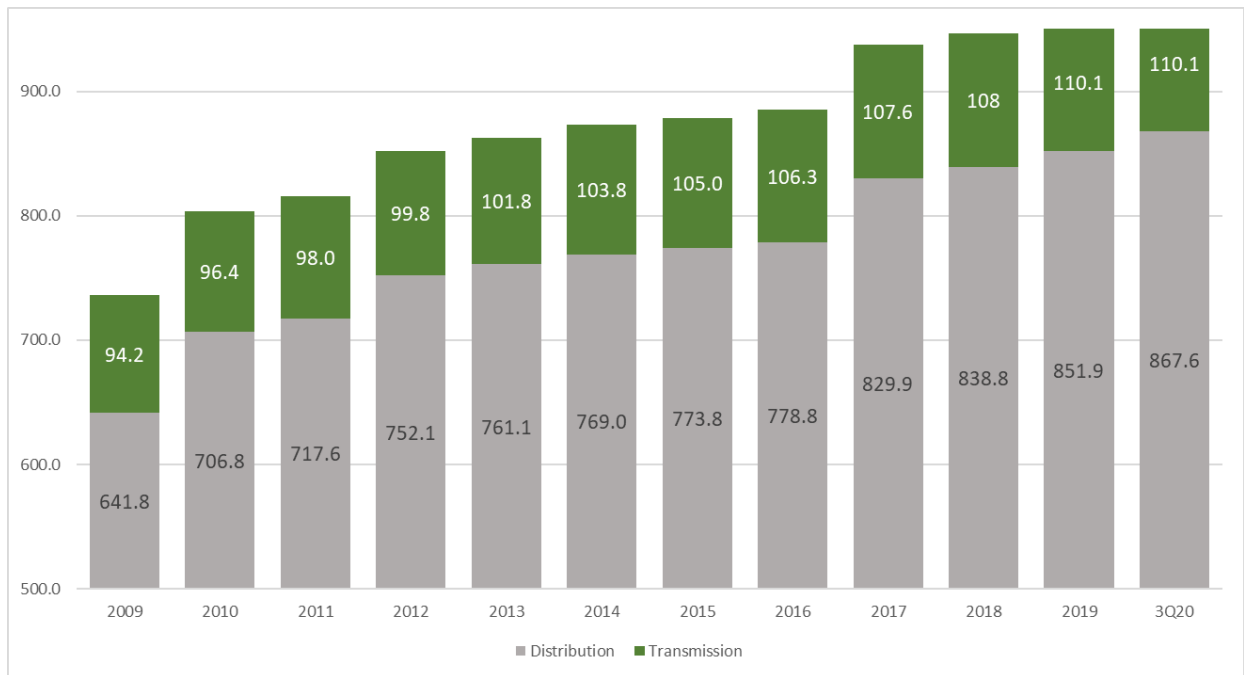
Source: CFE.

Transmission is the process by which electrical power is carried from electrical generators to distribution substations. Our transmission grid consists of a network of power lines with capacities ranging from 69 to 400 kilovolts. Between 2015 and 2016, the length of our transmission grid increased significantly due to a reclassification of voltage limits between distribution and transmission, resulting in an asset transfer from CFE Distribución to CFE Transmisión. As of September 30, 2020, the transmission grid was 110,138 kilometers (68,437 miles) long.

Our distribution grid, which is responsible for delivering electricity to most of our customers throughout Mexico, comprises distribution power lines with voltage levels of 33, 23, 13.8, 6.6, and 2.4 kilovolts, and 220 and 110 volts.

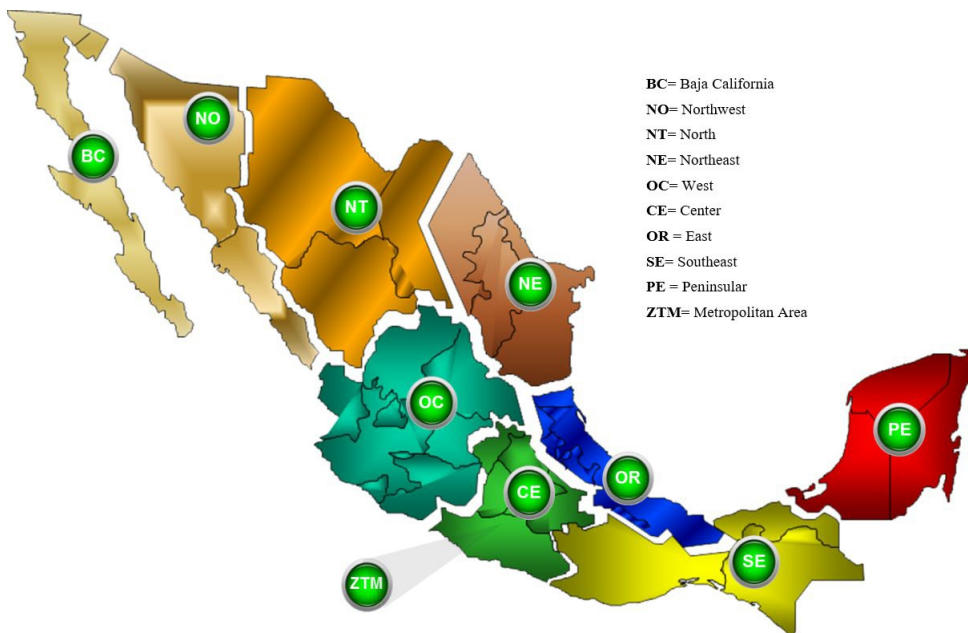
As of September 30, 2020, we had a total of 868,876 kilometers (539,895 miles) of distribution lines. Including transmission and distribution power lines, our transmission and distribution network is almost 980,000 kilometers (609,000 miles) long. We also have 13 international connections, 11 with the United States of America, one with Guatemala and one with Belize.

Length of Transmission and Distribution Lines (thousands of kilometers)



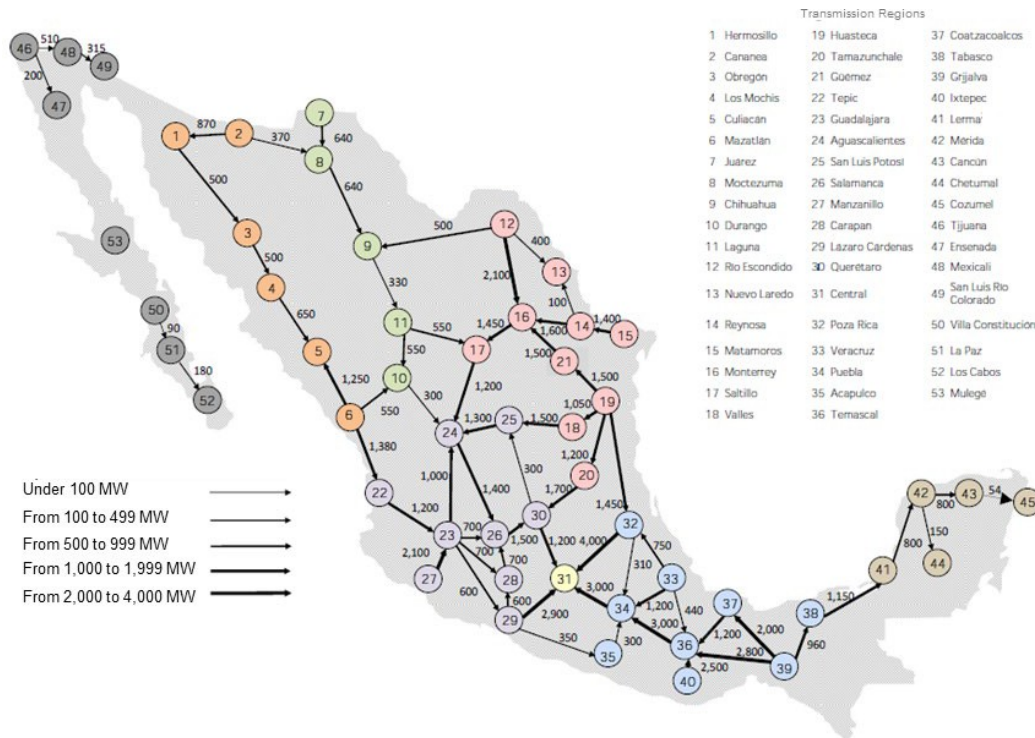
Source: CFE.

CFE Transmisión is organized into nine regional offices, as shown in the following map:



Source: CFE.

The map below shows the geographic distribution of our transmission grid.



Source: CFE.

CENACE

Pursuant to the Mexican Constitution and the Electric Industry Law, we were required to transfer to the CENACE the necessary human, material and financial resources for the operation of the National Electric System and the MEM. Accordingly, on November 28, 2014, we transferred to the CENACE the following assets:

- the *Centro Nacional* (National Center) located in Mexico City;
- the *Centro Nacional Alterno* (Alternate National Center) located in Puebla;
- eight control areas located in Mexicali, Hermosillo, Gómez Palacio, Monterrey, Guadalajara, Mexico City, Puebla and Mérida;
- the control centers in La Paz and Santa Rosalía;
- the *Coordinación de Planificación* (Office of Planning) of the *Subdirección de Programación* (Budget Department) located in Mexico City; and
- employees and assets associated with the operation of the above.

For more information regarding the CENACE, see “—General Regulatory Framework.”

The CENACE is also responsible for auctioning mid-term (3-years) and long-term (15-year/20-year) *contratos de cobertura* (power purchase agreements) in which we commit to purchase energy, capacity and/or clean energy certificates (for long-term auctions only), at specified prices from private participants. The purpose of these auctions is to allow us to purchase electricity, capacity and clean energy certificates (for long-term auctions only) at competitive prices from qualified bidders.

The CENACE conducted two long-term auctions for clean and renewable energy projects in 2016. The first auction received 227 offers from 69 prequalified bidders. As a result, in March 2016, 18 offers were granted to 11

companies for wind and solar projects. The average price offered by the winning companies was around 38% lower than the maximum purchase price offered by us. The projects selected in this first auction have a total generating capacity of 2,085 MW. In the second auction, 23 companies were selected out of 57 that participated. The winning bids were selected in September 2016 and covered 83.8% of the energy requested by us. The projects selected have a total generating capacity of 3,776 MW. During 2017, the CENACE carried out one more long-term auction allocating a total of 15 winning bids for solar and wind energy projects with a total generation capacity of approximately 2,180 MW. On March 28, 2018, the CENACE announced a fourth long-term auction, in which participants would be able to make one or more bids to sell any combination of the following products: capacity, electricity and clean energy certificates. However, on December 3, 2018, such long-term auction was suspended due to senior management changes in different government entities following the commencement of the term of the new federal administration. As of the date of this offering memorandum, no further long-term auctions have been announced.

CENACE conducted one mid-term auction in 2017, and one in 2018, which was subsequently cancelled. As of the date of this offering memorandum, no further mid-term auctions have been announced.

Fiber Optic Network

As of September 2020, we had almost 51,000 kilometers (31,600 miles) of national fiber optic network, with an average of 36 fiber strands, composed of long distance (94%) and access (6%) networks, developed to increase the safety and reliability of the National Electric System. Our fiber optic network has available capacity for commercialization and is attractive for the telecommunications sector. It covers more than 280 localities and 55 million people and facilitates the deployment of solutions for technical and administrative networks, including voice, data, video and smart power grid.

With the incorporation on August 2, 2019 of CFE Telecomunicaciones e Internet para Todos, a new CFE subsidiary, we expect to reach small and unprivileged communities throughout Mexico, providing free internet access in over 10,000 isolated localities, by using our optic fiber grid. As of September 30, 2020, CFE Telecomunicaciones e Internet para Todos had 1,000 working priority access internet locations in 24 states, and by 2025, we expect to have 200,000 access points to provide internet service to 130,000 localities across the country.

Service Quality

During the past several years, the Mexican government has implemented various programs in an effort to modernize our operational units. All of our operational units are under constant evaluation. This practice allows us to identify our strengths and weaknesses, and to set benchmarks for productivity, competitiveness and technology programs, including the reduction of energy losses, the establishment of quality indicators and the implementation of pricing and maintenance programs. Our energy savings programs consist of efforts to promote replacement of high-consumption appliances and air conditioning units as well as internal programs for energy savings in generation plants and the creation of incentives for customers to use energy-friendly equipment.

Our quality indicators show a steady improvement over the past years. Increases in service quality are due to our commitment and effective measures undertaken by management to transform CFE into a world class company. As of 2004, all of our processes and work centers were certified under the ISO 9000 rules. We have been awarded the *Premio Nacional de Calidad* (National Quality Award) eight times, an award that is given by the Mexican government for continued improvement in quality indicators. We have also been awarded the *Premio Iberoamericano de la Calidad* (Iberoamerican Quality Award) on four occasions, the *Reconocimiento Innova* (Innova Award) and the *Premio Intragob* (Intragob Award).

The following table sets forth the primary indicators on which we rely to evaluate the quality of the services we provide.

Service Indicators	2014	2015	2016	2017	2018	2019	2020
Service Quality							
Fulfillment of service commitments (%)	98.1	97.4	97.6	93.8	92.1	92.6	N/A
Receipt of non-conforming electricity (for every 1,000 users per month).....	3.75	3.69	3.27	3.53	5.53	4.88	N/A
Quality of Electric Power Supply							
Outage time per user (minutes per year)	37.5	36.8	31.8	30.8	28.6	25.1	N/A
Population with access to electric power (%) ...	98.43	98.53	98.58	98.64	98.68	98.75	99.0

Source: CFE.

Client Base and Demand

Since our inception in 1937, Mexico's population has quintupled in size, growing to an estimated 127 million inhabitants as of December 2020. This population growth has been accompanied by a significant increase in the demand for electric energy. The following table sets forth our response to population growth in Mexico during the last 48 years:

	As of December 31,						
	1970	1980	1990	2000	2010	2019	3Q 2020
Population of Mexico* (in millions)	48.2	66.8	81.2	97.5	112.3	126.0	126.0
Number of CFE customer accounts (in millions)	4.9	6.8	12.0	18.7	34.2	44.2	45.3
Total installed capacity of CFE (in MW).....	5,401	13,692	24,442	35,869	51,611	57,872	58,977

Source: CFE.

*Source : INEGI. Estimated for 2019 and 3Q 2020.

We provide electricity to approximately 99% of Mexico's population, and as of September 30, 2020, we had over 45 million customer accounts. We classify our customers into five categories: residential, commercial, agricultural, services and large industry. As of December 31, 2019, our customer base consisted of 88.9% residential accounts and 9.5% commercial accounts, with the remainder of our accounts attributed to agricultural, industrial and services customers.

The following table sets forth a customer breakdown per sector for the years ended December 31, 2014 through 2019 and for the nine-month period ended September 30, 2020:

Sector	Year Ended December 31,						Nine-Month Period Ended September 30,
	2014	2015	2016	2017	2018	2019	2020
	Percentage of Customers						
Residential	88.6%	88.6%	88.6%	88.6%	88.7%	88.8%	89.0%
Commercial	9.8%	9.8%	9.8%	9.8%	9.7%	9.6%	9.4%
Agricultural	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Industrial.....	0.8%	0.8%	0.8%	0.8%	0.8%	0.9%	0.9%
Services	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%

Source: CFE.

Although the residential sector represented 89.0% of our customer base as of September 30, 2020, it constituted only 22.7% of our sales as of September 30, 2020. Inversely, the industrial sector represented approximately 0.9% of our customer base, but as of September 30, 2020, it accounted for 58.8% of our sales volume.

The following table sets forth the percentage of our sales volume attributable to each sector that we service for the years ended December 31, 2014 through 2019 and for the nine-month period ended September 30, 2020.

Sector	Year Ended December 31,					2019	Nine-Month Period Ended September 30,
	2014	2015	2016	2017	2018		2020
	Percentage of Volume Sold*						
Residential	25.9%	22.6%	22.3%	18.1%	17.1%	18.9%	22.7%
Commercial	6.7%	13.5%	14.0%	14.5%	13.1%	12.9%	12.6%
Agricultural.....	4.8%	1.7%	2.0%	2.0%	1.7%	1.7%	2.3%
Industrial	58.3%	54.8%	54.3%	59.0%	64.3%	62.9%	58.8%
Services.....	4.3%	7.4%	7.4%	6.4%	3.9%	3.7%	3.7%

* 100% is total retail volume before non-technical losses, billing errors, billing in process and other exploitation products.
Source: CFE.

Electricity Rates

The Electric Industry Law provides that the rates that we charge for regulated services are to be determined by the CRE. In accordance with applicable law, these regulated rates are determined in order to recover efficient costs and obtain a reasonable profit; provided that such regulated rates shall foster the efficient development of the power industry, secure the continuance of the rendering of power-related services, prevent any undue discrimination, allow for the open access to the transmission and distribution grids and protect the interests of market participants and end-users. Regulated services include the transmission and the distribution of electricity, as well as the operation of a basic services supplier. The final rates for basic services supply are also rate-regulated.

In 2015, the CRE published the rates that our transmission and distribution subsidiaries were to charge during an initial period from 2016 to 2018, as well as the criteria and methodology to apply adjustments to those rates during that initial period. In December 2020, the CRE extended the application of those transmission and distribution rates indefinitely. The methodology for future transmission and distribution rate adjustments is currently under discussion between the CRE and CFE.

Regulated electricity transmission rates are structured as a “postage stamp” based on injections by each generator or withdrawals that each power supplier or qualified user makes from the national electric grid, in each case without regards to the distance over which the electricity is transmitted, based on two tension levels: higher or equal to 220 kV and below 220 kV. Such regulated rates shall be adjusted annually based on inflation, exchange rate fluctuations and development of new transmission infrastructure.

A similar methodology applies in connection with regulated tariffs for the electricity distribution service provided by CFE Distribution, provided, however, that such rates shall be allocated amongst 16 distribution regions across the country and upon five different groups based upon costumers’ consumption profile. Such regulated rates shall be adjusted annually based on inflation and by an economies of scale factor for each distribution region.

In November 2017, the CRE published the methodology to determine and adjust the rates for the operation of a basic services supplier, for the final rates for basic services supply, and for provision of ancillary services not included in the MEM. According to the Electric Industry Law, the required income for basic services suppliers shall include the costs of regulated rates, as well as the energy generation costs and any associated products or services purchased by the supplier for this service.

The new rate system was implemented in December 2017. Rates have been grouped in 17 divisions and 12 categories, and include charges for the following concepts: generation, transmission, distribution, CENACE operations, operation of the basic services supplier, energy and capacity, among others. The rates for the initial phase were valid through December 31, 2018. In December 2018, the CRE established the methodology to calculate consumer rates for 2019, which complemented the rate regulation for other regulated services such as transmission and distribution, and modified the mechanism for reviewing and adjusting on a monthly basis the generation-related component/charge of the basic supply rate in connection with the costs corresponding to the basic supply vested contracts, long-term agreements and the MEM. In December 2019, the CRE modified the 2018 methodology in order to, among other things, define the generation costs/component of the basic supply rate as being comprised by

expected costs of basic supply vested contracts, expected costs of long-term auction energy hedging agreements, expected costs in the MEM (considering Day-Ahead Market's local marginal prices), expected generation costs in small power systems under the micro-grid scheme operating in Yucatán and Baja California for 2020 and amounts for reimbursements made to end-users under the I-15 interruptible tariff. Additionally, in order for end-users to have certain stability in their power bills. CRE decided to continue with the application of (a) capacity charges for the lesser of (i) the coincident maximum demand for the peak hour (in kW) and (ii) the maximum demand associated to the consumption registered in the applicable monthly invoicing period (kW), and (b) distribution charges for the lesser of (i) the maximum demand registered in the applicable monthly invoicing period (in kW) and (ii) the maximum demand associated to the consumption in the applicable invoicing period (in kWh). In December 2020, the key items of the methodology established by CRE (in 2019) in order to determine the final rates of basic power supply for 2021, were essentially ratified. The methodology to determine future rate adjustments, as well as the future rate period, is currently under discussion with the CRE.

The Electric Industry Law also provides that the executive branch may determine a rate mechanism different from the final rates determined by the CRE for specific groups of users. The Mexican government, through the Ministry of Finance, has set some of our electricity rates at levels below our operating costs (if applicable, subject only to an inflation adjustment factor) in order to maintain the affordability of electricity, in particular, for our residential and all of our agricultural customers. As a result, we have historically relied on compensation from the Mexican government to address any rate insufficiencies. During the summer months, the Mexican government increases the portion of the rate insufficiencies that relate to our residential customers located in regions of Mexico that experience extreme heat. This seasonal adjustment is designed to mitigate the financial burden arising from higher demand for electricity, in particular because of the increased use of air conditioners in these regions. We are working with the Ministry of Finance with the goal of creating a framework whereby the subsidies are granted to consumers only based on income and location, with the prospect that we do not absorb the impact of such subsidies in the future, but we can provide no assurances that we will not have to absorb such impact, or whether the new framework will adversely affect our results of operations and financial position.

Additionally, our affiliate CFE Calificados, S.A. de C.V. may charge different prices for the electricity it provides to its customers, as it operates as a qualified supplier facing market prices. We note, however, that such entity is not a guarantor of the notes.

The rates that we can charge our customers can be modified significantly, particularly with respect to certain of our industrial and commercial customers. The rates that we charge our residential and agricultural customers will continue to be determined and regulated by the Mexican government, in principle, through the Ministry of Finance. The rates that we charge our large industrial and commercial customers are no longer regulated, which grants us greater flexibility in determining our pricing strategy for these consumers and enable us to compete on equal terms with private electricity producers. We also expect to generate additional revenue from the rates applicable to our transmission and distribution activities, which are designed to allow us to obtain a profit that the CRE determines to be reasonable from services that we provide to third parties. We believe that the new rate regime will also provide greater transparency regarding our results of operations. The public use tax was repealed by the Electric Industry Law.

The rate-setting mechanisms for transmission and distribution public services in general consider a reasonable return on equity as well as depreciation, operation, maintenance and administration costs and an adjustment for efficiency improvements in such operation, maintenance and administration costs. The rates for operation of the basic services supplier are integrated by (a) regulated tariffs corresponding to transmission, distribution, basic supplier's operation and ancillary services not included in the MEM; and (b) the generation costs (energy and capacity) resulting from the costs of energy and associated products for providing the basic power supply to end-users.

The following table sets forth, for the periods indicated, (i) the average price of electricity that we charge our final users (measured in Mexican pesos per kWh) and (ii) the percentage change in the average price of electricity that we charge our customers.

Historic Price Trends		
Year	Period Average Price of Electricity Ps/kWh	Percentage Change in Period Average Price (as compared to the immediately preceding period)
2008	1.31	15.9%
2009	1.14	(13.0)%
2010	1.32	15.8%
2011	1.47	11.4%
2012	1.41	(4.1)%
2013	1.50	6.4%
2014	1.55	3.3%
2015	1.35	(13.0)%
2016	1.37	1.2%
2017	1.72	25.5%
2018	1.79	4.1%
2019	1.89	5.6%
3Q 2020	1.82	(3.7)%

Source: CFE.

Billing and Collection

Our billing and collection practices are governed by the *Disposiciones Administrativas de Carácter General que establecen las condiciones generales para la prestación del suministro eléctrico* (General Regulations for the Distribution and Sale of Electricity to the Public, the “Billing Rules”).

The bills are sent monthly to industrial, commercial and service customers and every two months to residential customers according to our workforce. Under the Billing Rules, customers have ten calendar days, plus three additional calendar days when the collection is made by “centralized collection,” to pay for electricity bills after receipt of the corresponding invoice. However, if we deliver an invoice late, the applicable payment period is extended accordingly.

In order to satisfy our customers and improve their experience using our services, we offer several payment platforms, of which the most important are: (i) customer service, (ii) web page, (iii) ATMs (CFEmáticos), (iv) phone application, (v) banks, (vi) self-service stores and (vii) mobile apps.

We may suspend the supply of electricity to a customer if, among other items set forth in article 41 of the Electric Industry Law, any of the following occurs: (i) late payment; (ii) tampering with metering or control installations; (iii) acts or failures to act by the customer that prevent the correct operation of the grids in compliance with technical regulations; (iv) violations of electricity supply contracts and regulations with respect to the use of electricity; (v) consumption of electricity without a contract; and (vi) connection to our service without our previous authorization. Upon the occurrence of any of the above, we may proceed to cancel service without judicial intervention. However, in the case of any of the events described under (i), (iii) or (iv) above occur, we are required to notify customers before suspending their service.

In the context of basic power supply, we may terminate the supply of electricity if, for example, any of the following occurs: (i) a suspension event is not cured within 15 calendar days following such suspension; or (ii) upon request by a customer following the rescission of the electricity supply agreement.

A customer may rescind its electricity supply agreement without cause and without incurring any liability for damages, by means of a five business days’ prior written notice or else upon delivery of a change of address notice. We may rescind an electricity supply agreement upon the occurrence of any of the following events, provided each such event is deemed as a termination or rescission event thereof (i) if the customer consumes electricity through irregular electrical facilities in a manner that alters or impedes the proper functioning of the meters and other measurement equipment, (ii) if the identity information furnished by the customer shall have been false, (iii) upon a deliberate or reiterated breach by the customer to its obligations under the applicable law, and (iv) upon a final judgment or administrative resolution adjudicating such rescission.

We may agree to modify the terms of payment when customers are unable to pay amounts owed to us but have agreed to such amounts. Among the modifications that we may agree to are: (i) the payment of 25% of the

aggregate amount owed to us upon execution of an agreement modifying the terms of payment; (ii) the establishment of a monthly payment plan; (iii) the charging of interest on amounts owed (at a rate of the *Tasa de Interés Interbancaria de Equilibrio* (TIIE) plus a margin approved by us); and (iv) the acceleration of the aggregate amount owed to us upon the failure to make a monthly payment.

Labor

As of September 30, 2020, we had 90,899 employees (including temporary employees). As of September 30, 2020, approximately 79% of our employees were unionized under the SUTERM labor union and the remainder were not unionized. We have never experienced a labor-related work stoppage or strike, and we consider our overall relationship with our unionized employees to be stable. The average tenure of our full-time employees (union and non-union) is 14.4 years.

The following table sets forth the breakdown of our labor force between unionized and non-unionized employees as of December 31, 2014 through 2019, and as of September 30, 2020:

Employees*	As of December 31,						As of September 30,
	2014	2015	2016	2017	2018	2019	2020
Non-unionized Employees.....	19,277	18,970	19,219	19,048	18,690	17,507	18,867
Unionized Employees.....	74,665	74,229	73,693	70,952	72,679	70,627	72,032
Total Active Employees.....	93,942	93,199	92,912	90,000	91,369	88,134	90,899

* Includes temporary employees.
Source: CFE.

In 2008, as a result of our collective bargaining negotiations with SUTERM, we entered into a new “defined contribution” employee benefits program, wherein we have agreed to establish individual retirement accounts for each employee that we hire after August 18, 2008. As currently set forth in the collective bargaining agreement with SUTERM, employees subject to the defined contribution plan are required to contribute 5% of their monthly salary into their individual retirement account, and we provide a corresponding contribution in the amount of 7.5% of each employee’s monthly salary (although these percentages are subject to change in accordance with terms of the collective bargaining agreement). This new program replaces our previous defined benefits plan, which entitled our employees to certain retirement benefits, including a pension and health insurance, which were allocated to our retired employees in amounts that corresponded, in large part, to their years of service and seniority level at CFE. The new defined contribution plan does not apply retroactively to our employees that were employed as of or prior to August 18, 2008, nor does it apply to temporary employees. As of September 30, 2020, we reported a liability of Ps.498.4 billion (U.S.\$22.2 billion) on our statement of financial position in respect of our long-term employee benefits, which represents 29.1% of our total liabilities. See “Risk Factors—Risk Factors Related to the Issuer and the Guarantors—Labor unrest, employee benefits obligations and labor-related lawsuits may adversely affect our business, financial condition and results of operations.”

Environmental and Sustainability Matters

We are subject to a broad range of environmental laws and regulations, including the Mexican *Ley General del Equilibrio Ecológico y la Protección al Ambiente* (General Law of Ecological Balance and Environmental Protection), which is the principal environmental law in Mexico. These laws and regulations impose stringent environmental protection standards regarding, among other things, water usage, air and noise emissions, contamination control, wastewater discharges, the use and handling of hazardous waste or materials and waste disposal practices. These standards expose us to the risk of environmental costs and liabilities; however, we believe that we are in substantial compliance with all environmental laws applicable to us. In addition to environmental laws and regulations applicable to our operations, we are required to utilize the electricity production technologies that result in the lowest cost to us, on both a short-term and a long-term basis, after considering the environmental effect of each technology. We are also required to use the electricity production technologies that offer optimum stability, quality and safety for the public service we provide. This mandate is consistent with our longer-term strategy to focus on clean energy as we expand our generation capacity.

To maintain compliance with and mitigate our risk under the Mexican environmental legal and regulatory framework, we maintain an environmental policy program known as the *Programa Institucional para la Competitividad y la Sustentabilidad de la Comisión Federal de Electricidad* (Program for the Competitiveness and Sustainability of the Comisión Federal de Electricidad, or the “PICS”), designed primarily to reduce the environmental impact and increase the efficiency of our operations, increase the use of alternative fuels and promote energy savings programs. To satisfy these objectives, PICS focuses on plant modernizations, emissions controls, the construction of water treatment plants and programs to promote the use of clean energy and increase the efficiency of hydrocarbon-based plants, each of which is consistent with the *Programa Especial de Cambio Climático 2009-2012* (Mexican government’s Special Climate Change Program for 2009-2012) which establishes the objective of reduction of 50% of greenhouse gases emissions by 2050. CFE aims to reduce CO2 emissions to 308gr/kWh by 2024. Furthermore, PICS requires each participant in the bidding processes relating to the construction, maintenance and operation of power plants to prove their ability to perform these activities in compliance with all existing environmental rules and regulations and with our standards, which in some cases are more stringent than those in applicable environmental laws. Additionally, it requires winning bidders to perform an environmental impact study sanctioned by the *Procuraduría Federal de Protección al Ambiente* (Federal Environmental Protection Agency), which is part of the *Secretaría del Medio Ambiente y Recursos Naturales* (Ministry of Environment and Natural Resources).

Pursuant to the Electric Industry Law, the Ministry of Energy will implement policies and procedures to promote the diversification of energy sources, energy security and clean energy through the use of clean energy certificates.

A substantial majority of our plants were awarded a *Certificado de Industria Limpia* (Clean Industry Certificate), certifying that their operations are in full compliance with applicable environmental laws. We expect that all of our plants currently under construction will be awarded with a Clean Industry Certificate. Additionally, certain of our operations and processes in our different power plants have obtained ISO-9001, ISO 14000 and ISO 18000 certifications for environmental management systems.

Additionally, CFE is developing a program to strengthen its organizational structure by incorporating sustainability concepts, with particular focus towards environmental, social & governance (ESG) issues.

Finally, we maintain a general liability insurance policy which includes specific environmental liabilities insurance coverage arising from nuclear accidents in compliance with Mexican rules and regulations and international conventions to which Mexico is a party.

Intellectual Property

We currently hold 18 patents: four to protect inventions, two to protect our utility models and 12 for the protection of our designs. We have also obtained 273 trademark registrations.

General Regulatory Framework

Mexican Energy Reform

We describe below the key features of our legal framework as it relates to our operations:

- **Legal Form**: We are a productive state enterprise, and our framework gives us a degree of managerial and budgetary autonomy, as described below.
- **Scope of Mandate**: Our corporate purpose is to create economic value and increase the profitability of the Mexican state and we are solely responsible for the transmission and distribution of electricity for public service purposes.
- **Corporate Governance**: The CFE Law requires that our Board of Directors consists of 10 board members. The President of Mexico appoints five members, including the Minister of Finance and the Minister of Energy, who serves as the Chair of the Board of Directors. Four part-time independent board members are appointed by the President and ratified by the *Cámara de Senadores* (Senate), and the remaining board member is appointed by SUTERM, our labor union. In addition, our internal

auditing, control and accountability responsibilities are undertaken by three separate and independent bodies.

- Budgetary Autonomy: Although the Mexican Congress approves our financial condition target, personal services expenditure and net debt ceilings, and notwithstanding we are subject to certain budgetary controls by the Mexican government and the Mexican Congress, our Board of Directors is able to define our five-year business plan, determine our annual budget and freely approve investment priorities and projects. We also have autonomy and flexibility with respect to our procurement, contracting and compensation policies, which we believe enable us to reduce contracting costs by adopting terms that are market standard in our service contracts and enhance our ability to attract and retain highly-skilled employees.
- Dividends: The Ministry of Finance may determine, based upon the information provided by the Board of Directors, the amount of any dividend we will pay to the Mexican government each year after taking into account our business plan and capital investment and financing needs for the upcoming fiscal year. The Federal Revenue Law for 2021 does not contemplate a dividend payment to the Mexican government. Upon congressional approval, the Ministry of Finance would determine the terms on which we would pay such dividend.
- Rates: The rates that we charge our customers are determined and regulated by the Mexican government; provided, however, that certain end-users (particularly, residential and all agricultural customers) are currently subject to rates determined by the Ministry of Finance, whereas other customers within the basics services supply space are charged at rates determined by CRE which are comprised by components such as transmission, distribution, CENACE operation and basic services supplier operation regulated tariffs/rates, as well as energy and capacity charges. The rates that we charge, through CFE Calificados, S.A. de C.V., to our large industrial and commercial customers that qualify as “qualified users” by registration with the CRE (provided existing demand exceeds certain thresholds) are not regulated, which grants us greater flexibility in determining our pricing strategy for “qualified users” and enables us to compete on equal terms with private electricity suppliers. We also expect to generate additional revenue from the rates applicable to our transmission and distribution activities, which are designed to allow us to obtain a profit that the CRE determines to be reasonable from services that we provide to third parties.
- Continued government participation: The Mexican government is exclusively responsible for the planning and control of Mexico’s National Electric System and the transmission and distribution of electric energy, which remains a public service.
- Private-sector participation: The Mexican government may permit private-sector companies to enter into contracts with us related to the financing, installation, maintenance, management, operation and expansion of electricity transmission and distribution infrastructure, although concessions continue to be prohibited with respect to these activities. In addition, private-sector companies are now able to invest and participate in all aspects of electricity generation and commercialization activities.
- Vertical and Horizontal Division of CFE: The CFE Law and the transitional articles of the Electric Industry Law mandate that we maintain vertical and horizontal separation of each of our core activities of generation, transmission, distribution and commercialization of electric power. See “—Organizational Structure of CFE.”
- Regulatory oversight and authority: The Ministry of Energy and the CRE have technical and administrative authority over certain of our operations and the electric energy sector generally. The Ministry of Energy is in charge of designing, implementing and coordinating Mexico’s energy policy, implementing the infrastructure programs, monitoring and adjusting the profitability and return on equity of productive state enterprises and its subsidiaries pursuant to the methodologies determined by the Ministry of Finance and establishing mechanisms to promote clean energy generation through tradable clean energy certificates. The CRE was vested with its own legal status and technical and administrative autonomy and was entrusted with regulating and issuing permits for power generation and implementing regulations to encourage the sustainability, reliability and efficiency of the National Electric System. In addition, the CENACE, a decentralized public entity of the Mexican government,

was created to manage the National Electric System, operate the MEM and ensure an open and non-discriminatory access to the electric transmission grid and the distribution systems.

- **Electric Industry Law:** The Electric Industry Law enables private-sector companies to obtain permits for generation and commercialization of electric power. Participants in Mexico's electric sector, including us, are able to sell electricity to large industrial and commercial customers at rates set by the market in a new MEM. Pursuant to the Electric Industry Law, we are subject to a permits regime in order to continue to generate electricity, are authorized to sell electricity to residential consumers and small and medium industrial and commercial consumers subject to power supply/commercialization permits at regulated rates, and have authority to enter into contracts with private-sector companies, including contracts for the financing, installation, maintenance, procurement, operation and expansion of the electric grid infrastructure.

On October 31, 2014, the initial regulations relating to the Secondary Legislation, including the Regulations to the CFE Law and the Regulations to the Electric Industry Law, were published in the Official Gazette.

Organizational Structure of CFE

The CFE Law mandates that we create subsidiaries and undertake a vertical and horizontal legal separation of each of its key electric sector activities—electricity generation, transmission, distribution and commercialization. In addition, the Board of Directors is authorized to create additional subsidiaries and affiliates to engage in any new lines of business that we pursue without the need to obtain approval from the Mexican Congress.

Guarantors

On January 11, 2016, the Ministry of Energy published the general terms for the reorganization of CFE in the Official Gazette. These terms set forth the terms and conditions for the creation of these new subsidiaries. Accordingly, on March 29, 2016, CFE created the following new subsidiaries pursuant to the *Acuerdos de Creación de las Subsidiarias* (the Creation Resolutions of the Subsidiaries) published by CFE in the Official Gazette: (i) CFE Distribución; (ii) CFE Suministrador de Servicios Básicos; (iii) CFE Transmisión; (iv) CFE Generación I; (v) CFE Generación II; (vi) CFE Generación III; (vii) CFE Generación IV; (viii) CFE Generación V; and (ix) CFE Generación VI. Each of these subsidiaries, which is a guarantor under the notes, is wholly owned by CFE.

Our split and allocation of assets and systems to each of the guarantors became effective between January and February 2017.

On May 24, 2019, a proposal for the reorganization of all generation assets and contracts, including the Laguna Verde Nuclear Power Plant and the Mobile Emergency Units (but excluding IPP plants of CFE Generación V), was submitted to the Ministry of Energy for consideration. This reorganization, which became effective on January 1, 2020, had the following principal objectives:

- The organization of the assets of the generation subsidiaries to improve the operational and administrative efficiency of each of the five regional companies, as organized prior to the reorganization of CFE.
- The hydroelectric power plant assets were to be grouped by prioritizing operational regionalization, including by giving priority to common basins, in order to guarantee safety and optimal management of the hydraulic resources and reservoirs.
- To guarantee the reliability and security of the National Electric System (SEN), it was decided to group all the Mobile Emergency Units in the *Subdirección de Negocios No Regulados*, to ensure expeditious decision-making and prompt asset mobilization, according to the needs of the SEN in the various regions of the country.
- To maintain the nuclear power generation business unit, which includes the Laguna Verde Power Plant as part of CFE Corporate, with representation in the MEM.

- Legacy/vested contracts (*Contratos Legados para el Suministro Básico*) to be grouped in our subsidiary CFE Suministrador de Servicios Básicos (SSB).

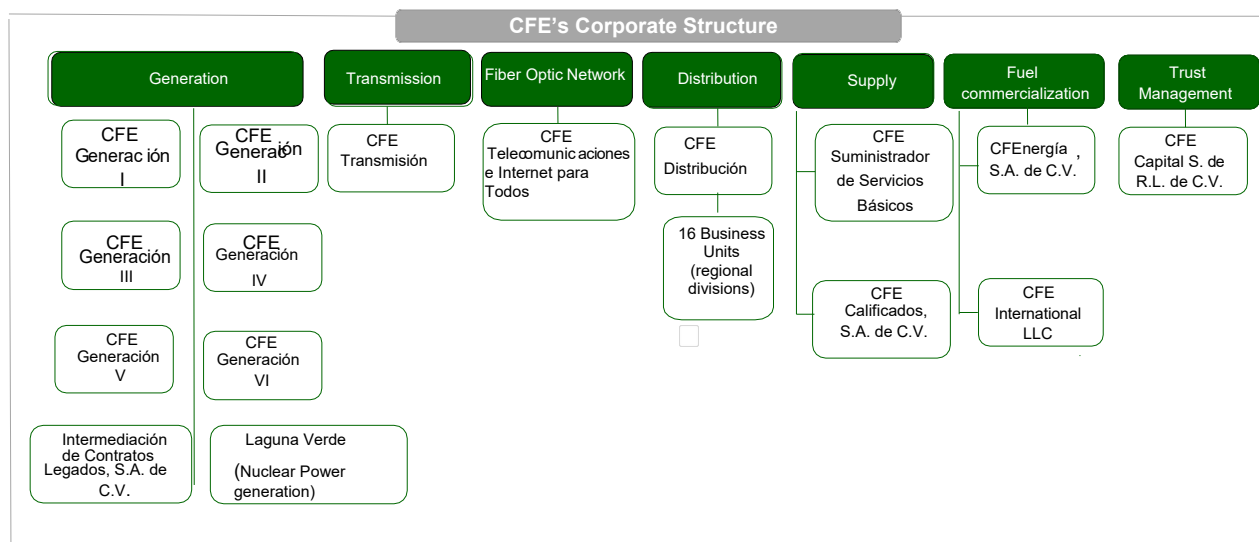
On August 2, 2019, the General Director of CFE published the creation decree of CFE Telecomunicaciones e Internet para Todos in the Official Gazette. CFE Telecomunicaciones e Internet para Todos is a subsidiary productive enterprise of CFE, whose purpose is to provide free internet access to underprivileged communities using CFE’s national fiber optic network. CFE Telecomunicaciones e Internet para Todos will become an additional guarantor of the notes.

Affiliates

On January 20, 2015, we created CFE International LLC, a Delaware limited liability company, as an affiliate established with the purpose of increasing our presence in the international fuel market. Also, on August 11, 2015, we created CF Energía, S.A. de C.V., a Mexican corporation, as an affiliate with the purpose of increasing our participation in the import, export, transportation, storage and marketing of natural gas and other fuels, both in Mexico and abroad. In March 2016, we created CFE Intermediación de Contratos Legados, S.A. de C.V., a Mexican corporation, as an affiliate with the purpose of administering the legacy/grandfathered interconnection contracts (*Contratos de Interconexión Legados*) signed pursuant to the LSPEE. In May 2016, we created CFE Calificados, S.A. de C.V., a Mexican corporation, as an affiliate with the purpose of increasing our participation in the MEM in a cost-effective manner provide qualified supply services to end-users a large power demand.

In December 2017, we created CFECapital, S. de R.L. de C.V., a Mexican limited liability company with variable capital, as an affiliate established with the purpose of managing trusts, including our Fibra E.

The following chart sets forth our consolidated corporate structure:



The following table sets forth our subsidiary productive enterprises and affiliates as of September 30, 2020:

Name of Company	Jurisdiction of Organization	Percentage Owned	Business
CFE Distribución*	Mexico	100%	Distribution
CFE Suministrador de Servicios Básicos*	Mexico	100%	Supply
CFE Transmisión*	Mexico	100%	Transmission
CFE Generación I*	Mexico	100%	Generation
CFE Generación II*	Mexico	100%	Generation
CFE Generación III*	Mexico	100%	Generation
CFE Generación IV*	Mexico	100%	Generation

Name of Company	Jurisdiction of Organization	Percentage Owned	Business
CFE Generación V*.....	Mexico	100%	Generation
CFE Generación VI*	Mexico	100%	Generation
CFE Telecomunicaciones e Internet para Todos	Mexico	100%	Fiber optic and telecommunications
CFEnergía, S.A. de C.V.	Mexico	100%	Power commercialization
Intermediación de Contratos Legados, S.A. de C.V.	Mexico	99%	Administration of interconnection contracts
CFE Calificados, S.A. de C.V.	Mexico	99%	Fuel commercialization
CFE International LLC	United States	99%	Fuel commercialization
CFECapital S. de R.L. de C.V.	Mexico	100%	Trust and trust asset management

* Guarantor.

This new organizational structure makes our operations more efficient and transparent, and allows our new subsidiary productive enterprises and affiliates to focus on maximizing our profitability along the entire energy sector value chain.

Because we continue to be a public-sector entity, the Mexican government’s ownership interest in the Issuer and the guarantors is not represented by any shares of capital stock, but rather is memorialized by the CFE Law and the decrees mandating the incorporation of such subsidiaries, respectively. Therefore, we have no authorized or outstanding shares of capital stock.

The establishment of our Board of Directors and the powers, attributions and responsibilities of this body and those of our *Director General* (General Director), the *Comité de Auditoría* (Audit Committee), the *Comité de Recursos Humanos y Remuneraciones* (Human Resources and Compensation Committee), the *Comité de Estrategia e Inversiones* (Strategy and Investment Committee) and the *Comité de Adquisiciones, Arrendamientos, Obras y Servicios* (Acquisitions, Leasing, Public Works and Services Committee) are contained in the CFE Law and the Regulations to the CFE Law. Several *Secretarios de Estado* (cabinet ministers) are members of the Board of Directors and its committees. For further information on the Board of Directors and committees of the Issuer, see “Management.”

Our access to financing is regulated by the CFE Law, pursuant to which new external and internal indebtedness must be authorized by the Board of Directors. The timing of our financing operations is agreed yearly with the Ministry of Finance (the “Financing Schedule”). We are authorized to carry out financing transactions additional to those included in the Financing Schedule or modify the timing thereunder, after notice in writing to the Ministry of Finance, to which the Ministry of Finance does not timely object. The Mexican Congress is still in charge of approving our net debt ceiling on an annual basis, and we must coordinate with the Ministry of Finance to establish an annual calendar to incur such indebtedness. Any indebtedness (internal or external) we incur must be registered with the *Registro de las Obligaciones Financieras* (Financial Obligations Registry) maintained by the Ministry of Finance. PIDIREGAS financings are also regulated by the CFE Law and the Federal Law of Public Debt, and as such are subject to the approval of the Ministry of Finance.

Under applicable laws and regulations, our five-year business plan and annual budget must be authorized by the Board of Directors. Our annual budget must also be submitted to the Ministry of Finance together with an estimation of our financial condition target and personal services expenditure ceiling for the relevant fiscal year. Our financial condition target and expenditure ceiling are reviewed by the Ministry of Finance and included in the Federal Budget, which is approved by the Mexican Chamber of Deputies on an annual basis.

As of January 1, 2016, we are subject to a new dividend policy that may require us to pay a dividend to the Mexican government on an annual basis, which will be approved and determined by the Ministry of Finance and approved by the Mexican Congress. In connection with this dividend, we will be required to submit a report to the Ministry of Finance each year disclosing our financial results for the previous fiscal year, investment and financing plans for the following five years and an analysis of the profitability of these plans and projections.

Our activities are also subject to Mexico’s environmental laws and regulations. See “—Environmental and Sustainability Matters” for a discussion of the environmental legal framework and our compliance efforts relating thereto.

We are not subject to the Commercial Bankruptcy Act or any Mexican reorganization or bankruptcy law, and thus cannot be declared in reorganization or bankrupt. Our liquidation and dissolution would be carried out pursuant to law, which would address the applicable rules and the manner in which our outstanding obligations would be met. See “Risk Factors—Risk Factors Related to the Notes—We are not subject to the bankruptcy laws of Mexico and certain of our assets cannot be attached by creditors.”

Private Participation in the Electricity Sector

Prior to the enactment of the Energy Reform Decree and the Electric Industry Law, the generation of electricity that did not qualify as a “public service” was the only sector of the Mexican electricity industry in which the private sector was permitted to participate. Private companies were permitted to make the following investments in the electricity generation sector:

- *Self-supply* – The generation of electrical energy by a private company in quantities limited to its own consumption requirements.
- *Co-generation* – The simultaneous production of electrical energy and heat (where, for example, the resulting heat is captured and used for heating purposes), or the production of electricity from thermal energy not used in the associated industrial processes, or generation of electricity using the fuels produced in the associated industrial process.
- *Production for export* – The generation of electrical energy by a private producer that has obtained a permit from the CRE, which energy must be used exclusively for export.
- *Small production* – The generation of power for its sale to CFE (limited to a generation capacity of 30 MW) and, alternatively, the self-supply of small rural communities or remote areas lacking in sufficient electrical energy services from us, with a maximum total capacity of 1 MW.
- *Importation* – Obtain permits to acquire electrical energy from foreign generation plants pursuant to agreements entered into directly between the foreign supplier and such private companies.
- *IPP* – Sale of capacity and energy to CFE (not subject to a maximum generation capacity limitation) under bilateral power purchase agreements resulting from bidding processes called by CFE.

Pursuant to the Electric Industry Law, private companies are now permitted to make the following investments in the electricity sector:

- *Generation* – Obtain permits to construct, own and operate generation plants with a generation capacity greater than or equal to 0.5 MW for purposes of selling electrical energy to authorized power suppliers, energy traders or qualified users in the MEM. The importation of electrical energy from generation plants outside of Mexico, and connected exclusively to the National Electric System only requires an authorization from the CRE, and the generation of electrical energy by a private company in quantities limited to its own consumption during emergencies or interruptions of power supply does not require a permit.
- *Transmission and Distribution* – Enter into partnerships or agreements with us or the Ministry of Energy for the financing, installation, maintenance, management, operation and expansion of transmission and distribution infrastructure. We continue to provide the public service of transmission and distribution of electricity and to be responsible for the National Transmission Grid and the General Distribution Grids.
- *Commercialization* – Obtain permits to supply electrical energy to end users under a regulated rate regime (basic supply or last resource) or under a free competition scheme (qualified supply) as well as to obtain authorizations to commercialize power-related products without providing power supply directly to end-users (*Comercializador No Suministrador*) in the MEM. Private generators may also sell electrical energy to qualified suppliers or qualified users participating in the MEM under freely negotiated power hedging purchase agreements, whereas, basic suppliers can only execute power hedging/purchase agreements as vested contracts for basic power supply or as a result of mid-term and long-term auctions. Power hedging agreements signed by CFE Suministrador de Servicios Básicos (*i.e.*,

the basic power supplier) as a result of the first and second long-term auctions, as well as the vested contracts for basic power supply signed between CFE Suministrador de Servicios Básicos and certain generation subsidiaries of the Issuer (as amended in November 2020), include the Issuer as a joint and several obligor (*obligado solidario*) of the subsidiary productive enterprises of CFE party to such power hedging agreements. The amendments to the vested contracts for basic power supply signed between CFE Suministrador de Servicios Básicos and CFE Generación I, CFE Generación II, CFE Generación III, CFE Generación IV and CFE Generación VI as of November 2020 (i) eliminate the periods for exercising or not exercising the option to acquire power under the contract (thus, allowing CFE Suministrador de Servicios Básicos to acquire energy from the generation subsidiaries for each hour on which the reference notional price is lower than the local marginal price in the spot market), which applies exclusively to thermal generation plants; (ii) allow the incorporation of new projects or additional capacity built by the generation subsidiaries so that the products from such new projects and additional capacity are captured under the contract for the benefit of CFE Suministrador de Servicios Básicos; (iii) provide for the updating of certain contractual values as well as certain components of the price formulas (to reflect values and costs offered by the power plants in the MEM); and (iv) change the performance guarantee thereunder from letter to credit to a corporate guarantee of CFE. These power hedging/purchase agreements should be registered with CENACE accordingly pursuant to the *Reglas del Mercado* (Market Regulations).

As of the date of this offering memorandum, most of the private sector participation in the generation of electricity continues to occur through IPPs that were awarded by the CFE to build, finance, operate and maintain electricity generation plants, provided that these plants met certain quality and technical standards promulgated by the competent government authorities in Mexico. The electricity generated by IPPs must be sold to CFE under long-term generation agreements at fixed prices. As of September 30, 2020, we were under contract to purchase electricity from 33 IPPs.

National Center for Energy Control (CENACE)

On August 28, 2014, the CENACE, a decentralized public entity of the Mexican government, was created to act as the independent operator of the National Electric System and the MEM, and ensure open and non-discriminatory access to the electric transmission grid and distribution systems. The CENACE is also responsible for submitting proposals to the Ministry of Energy to promote the expansion and upgrading of the National Transmission Grid and the General Distribution Grids. The MEM is expected to allow generators, suppliers, traders and qualified users to purchase and sell electricity through competitive processes managed by the CENACE, and the CENACE is also permitted to enter into contracts or partnerships with private companies for the provision of ancillary services related to the operation of the MEM.

Legal Proceedings

In the ordinary course of our business, we are party to various labor-related lawsuits filed against us by current and past employees. As of September 30, 2020, we had established a provision for employee benefits of Ps.13.2 billion (U.S.\$589.3 million) for our estimated liability in respect of these lawsuits, which provision is based on the trend of labor-related lawsuits resolved in the last five years. We do not believe that the resolution of these lawsuits will have a material adverse effect on our financial condition or results of operations.

Furthermore, in the ordinary course of our business, we are party to various criminal, tax, civil, commercial, administrative and agricultural lawsuits and arbitration proceedings. We believe that some of these proceedings may be relevant; however, given the different stages of such proceedings, we are not yet able to assess whether they would have a material adverse effect on our financial condition or results of operations. In particular, during the first months of 2020, we were involved in arbitration proceedings with four companies (IMG, TransCanada, Carso and IEnova), regarding the costs that CFE had incurred due to delays in the entry into operation of seven pipelines. We did not breach any provision under our contracts and we have reached agreements with all companies involved in the arbitration proceedings.

In addition, on June 22, 2020, an arbitral award was issued in CFE's arbitration proceeding with the Consortium, ordering CFE to pay U.S.\$226 million, which is approximately 3.4% of our cash and cash equivalents as of September 30, 2020. CFE has filed actions requesting the annulment of the arbitral award. A final ruling is still pending. CFE believes that it has meritorious defenses to the claims against it and, accordingly, is vigorously defending its rights and interests in this proceeding.

For more information on our legal and administrative proceedings, see Note 22 to our annual financial statements and Note 19 to our interim financial statements.

MANAGEMENT

The Board of Directors is located at the executive office of CFE, at Paseo de la Reforma 164, Col. Juárez, 06600 México, Ciudad de México, and consists of 10 members. The President of Mexico appoints five members, including the Minister of Finance and the Minister of Energy, who serves as the Chair of the Board of Directors. Four part-time independent board members are appointed by the President and ratified by the *Cámara de Senadores* (Senate), and the remaining board member is appointed by SUTERM, our labor union. The President of Mexico also appoints the Chief Executive Officer (General Director) of CFE. Except for the five independent members, who are appointed for a five-year term, the members of the Board of Directors are not appointed for a specific term. Board members, except for the independent members and those appointed by SUTERM, serve at the discretion of the President of Mexico. The following charts set forth the current membership of the Board of Directors and top management structure.

Board of Directors of CFE

<u>Name</u>	<u>Position</u>	<u>Year of Appointment</u>
Ing. Norma Rocío Nahle García	Minister of Energy	2018
Mtro. Arturo Herrera Gutiérrez	Minister of Finance	2019
Dra. Irma Eréndira Sandoval Ballesteros	Minister of Public Administration	2018
Mtra. Tatiana Clouthier Carrillo	Minister of Economy	2021
Ing. Octavio Romero Oropeza	Chief Executive Officer of PEMEX	2018
Mtro. Héctor Sánchez López	Independent Board Member	2019
Ing. Rubén Filemón Flores García	Independent Board Member	2014
Dra. María de Rocío Vargas Suárez	Independent Board Member	2020
Dr. Luis Fernando de la Calle Pardo	Independent Board Member	2014
Sr. Víctor Fuentes del Villar	General Secretary of SUTERM	2005

Biographical Information of the Board of Directors

Ing. Norma Rocío Nahle García – Minister of Energy

Norma Rocío Nahle García holds a Chemical Engineering degree, with a specialization in Petrochemicals, from the Universidad Autónoma de Zacatecas (UAZ). She further studied Chemical Process Engineering at the Universidad Nacional Autónoma de México (UNAM) and Economic Viability in Industrial Processes at the Universidad Veracruzana. She began her career in the petrochemicals complex of Pajaritos, Cangrejera and Morelos of PEMEX, where she worked in the administrative, financial, processing, planning and quality control areas. In addition, in the private sector, she worked in Industrias Resistol.

Mtro. Arturo Herrera Gutiérrez – Minister of Finance

Arturo Herrera Gutierrez holds a Ph.D. in Economics from New York University. He also has a bachelor's degree in Economics from Universidad Autónoma Metropolitana (UAM) and a master's degree in Economics from the Colegio de México. He began his career at the Ministry of Finance, later becoming the General Director for Financial Management and then Secretary of Finance for the Government of Mexico. He was also a Senior Public Sector Management Specialist, later becoming a Practice Manager, in the Public Sector Unit at the World Bank.

Dra. Irma Eréndira Sandoval Ballesteros – Minister of Public Administration

Irma Eréndira Sandoval Ballesteros holds a Ph.D. in Political Science from the University of California at Santa Cruz. She has two bachelor's degrees: one in Economics from UNAM and one in Sociology from the Universidad Autónoma Metropolitana (UAM). She also has a master's degree in Latin American Studies from the Political and Social Sciences Department at UNAM and in Political Science from the University of California. She served as a researcher at the Institute of Social Research of the UNAM.

Mtra. Tatiana Clouthier Carrillo – Minister of Economy

Tatiana Clouthier is a Mexican educator, politician and writer. She holds a bachelor's degree in English from Instituto Tecnológico de Monterrey and a master's degree in public administration from the Universidad Autónoma de Nuevo León. She has founded and held positions in several social service organizations, including the

Instituto Nacional de las Mujeres, and was one of the founders of Evolución Mexicana A.C. She has held various administrative positions for the government of the state of Nuevo León. In 2018 she was the campaign manager for the presidential campaign of Andrés Manuel López Obrador, and was later elected to the Chamber of Deputies, a position she held from December 1, 2018 to December 7, 2020, the date on which she was appointed by the president as Minister of Economy.

Ing. Octavio Romero Oropeza – Chief Executive Officer of PEMEX

Octavio Romero Oropeza is the current CEO of PEMEX and Chairman of the Board of Pemex Exploración y Producción, Pemex Transformación Industrial, Pemex Perforación y Servicios, Pemex Logística, Pemex Fertilizantes and Pemex Etileno, each, a subsidiary productive enterprise of PEMEX. He was President of the Morena Political State Council of Tabasco from January 2013 to March 2015. Mr. Oropeza was born in Jalapa, Tabasco on January 20, 1959. He graduated as an agronomist from the Colegio Superior de Agricultura Tropical of Cárdenas, Tabasco. He began his career as an academic at the College of Sciences and Humanities and at the Juárez Autonomous University of Tabasco. In addition, he had commercial and livestock activities in his home state.

Mtro. Héctor Sánchez López – Independent Board Member

Héctor Sánchez López has an electric engineering degree from Instituto Politécnico Nacional and a master's degree in constitutional law from Universidad del Suroeste. He is a founding member of the Oaxaca social and political organization *Coalición de Obreros, Campesinos y Estudiantes del Istmo* (Coalition of Workers, Peasants and Students of the Isthmus, COCEI). From 1989 to 1992, he was Municipal President of Juchitán. He represented the state of Oaxaca as a Senator from 1994 to 2000, during which he was Coordinator of the PRD caucus in the Senate. Afterwards, from 2000 to 2003, he served as a Federal Deputy in the LVIII Legislature. He has been a candidate for the Governor of Oaxaca twice. Currently, he is a member of the *Partido Alternativa Socialdemócrata y Campesina* (Alternative Social-Democratic and Peasant Party), as well as a member of its Federated Executive Committee, forming part of the peasant area.

Ing. Rubén Filemón Flores García – Independent Board Member

Rubén Filemón Flores García received his degree in mechanic electrical engineering from the ITESM, holds a master's degree in business administration from the Universidad Autónoma de Guadalajara (UAG) and has further studied power systems control chambers at the University of Sweden. For 18 years, he was a professor at the Instituto Tecnológico y de Estudios Superiores de Occidente, teaching mechanical electrical engineering, and he worked at CFE for 25 years, where his last position was director of Mexico's National Center for Energy Control (currently the CENACE). For several years, he served as General Director of Supply and Distribution of Electric Energy and Nuclear Resources and Vice-minister of Electricity at the Ministry of Energy.

Lic. Luis Fernando Gerardo de la Calle Pardo – Independent Board Member

Luis Fernando Gerardo de la Calle Pardo has a degree in economics from the Instituto Tecnológico Autónomo de México (ITAM), as well as master's and doctoral degrees in economics from the University of Virginia. His professional trajectory includes participating in the design and implementation of NAFTA and serving as Vice-minister of International Commercial Negotiations in the Ministry of Economy. Currently he is Vice-president of International Trade and Investment Policy at the International Chamber of Commerce, CEO and founding partner of the consulting firm De La Calle, Madrazo, Mancera, S.C., President of Hill & Knowlton Latino America and professor at the ITAM.

Dra. María del Rocío Vargas Suárez – Independent Board Member

María del Rocío Vargas Suárez has a degree in economics from the Universidad Autónoma Metropolitana (UAM), a Ph.D. in energy engineering from the UNAM, and a master's degree in economics and international politics from the Centro de Investigación y Docencia Económicas (CIDE). She is a full-time researcher at the Centro de Investigaciones sobre América del Norte (CISAN) and professor at UNAM, and has published several energy research papers including books, articles and other various publications. She has worked as an analyst both in the Ministry of Finance and in the Directorate of Industries of the then Ministry of Heritage and Industrial Development.

Víctor Fuentes del Villar – General Secretary of SUTERM

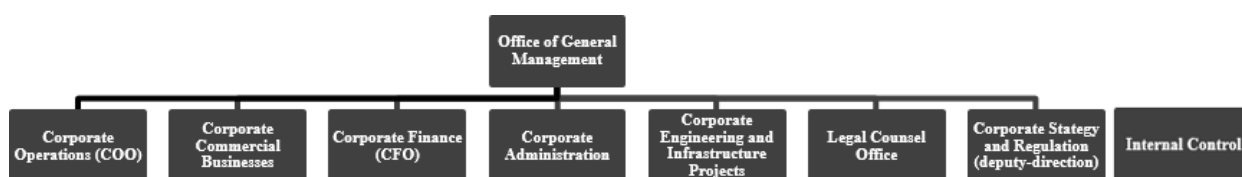
Víctor Fuentes del Villar has worked with CFE for more than 59 years, as he started working for the company from a very young age. After serving in many different positions within the company, including as Labor Secretary of SUTERM, he was appointed as General Secretary of SUTERM in 2005 and reappointed in 2007.

Compensation of Directors and Officers

For the year ended December 31, 2019, the total amount paid in staff salaries and benefits was Ps.69.0 billion. The total amount paid to our directors and senior officers was Ps.38.1 million.

CFE’s Management Structure

According to the *Estatuto Orgánico de la CFE* (Organizational Chart of the CFE) published in the Official Gazette on April 12, 2017, CFE’s management structure is:



Source: CFE.

CFE Board Committees

The Board of Directors appoints, on an annual basis, members to and convenes the four committees established by the CFE Law to support its work. Unless otherwise specified in the CFE Law, the memberships of these committees must consist of at least three, but no more than five, members of the Board of Directors, two of whom must be independent members of the Board of Directors. Each of the Minister of Energy, the Minister of Finance and any ministry-level secretary serving as a member of the Board of Directors may designate one or more alternates to take his or her place at committee meetings, provided that these alternates are public officials whose positions are not more than two levels below such minister’s position in the Mexican government.

The committees may authorize a representative of the Chief Executive Officer (General Director) to attend their meetings as a guest with the right to participate, but not vote, when deemed advisable for the performance of their duties.

Audit Committee

The Audit Committee of the Board of Directors is required to, among other duties set forth in the CFE Law or determined from time to time by the Board of Directors, oversee our management, evaluate our financial and operational performance, monitor the status of our internal control systems, as well as nominate our external auditors, whose appointments are approved by the Board of Directors.

The Audit Committee is chaired by an independent board member on a rotating, annual basis, as determined by the Board of Directors.

The Audit Committee currently has one vacancy and the following two members:

- Dr. Luis Fernando Gerardo de la Calle Pardo, independent member of the Board of Directors; and
- Ing. Rubén Flores García, independent member of the Board of Directors.

A representative of the Chief Executive Officer, the Comptroller, the General Counsel or any other person may attend the Audit Committee’s meetings as a guest with the right to participate, but not vote, when deemed advisable and appropriate given the subject matter to be discussed.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee is chaired by an independent member of the Board of Directors and includes the Minister of Finance. The duties of the Human Resources and Compensation Committee include, among others set forth in the CFE Law or determined from time to time by the Board of Directors, proposing the compensation mechanism of the Chief Executive Officer and other members of our senior management within three levels of the Chief Executive Officer, as well as proposing hiring policies, performance management guidelines and the compensation of all of our other employees.

The Human Resources and Compensation Committee consists of the following members:

- Dr. Luis Fernando Gerardo de la Calle Pardo, independent member of the Board of Directors and President of the Human Resources and Compensation Committee;
- Mtro. Héctor Sánchez López, independent member of the Board of Directors;
- Mtro. Arturo Herrera Gutiérrez, member of the Board of Directors;
- Mtra. Tatiana Clouthier Carrillo, member of the Board of Directors;
- Ing. Octavio Romero Oropeza, member of the Board of Directors; and
- Sr. Víctor Fuentes del Villar, member of the Board of Directors.

Strategy and Investment Committee

The Strategy and Investment Committee is chaired by an independent member of the Board of Directors on a rotating annual basis and is required to, among other duties set forth in the CFE Law or determined from time to time by the Board of Directors, analyze our business plan and assist the Board of Directors in the approval of guidelines, priorities and general policies related to investments made by us.

The Strategy and Investment Committee consists of the following members:

- Ing. Rubén Flores García, independent member of the Board of Directors and President of the Strategy and Investment Committee;
- Dr. Luis Fernando Gerardo de la Calle Pardo, independent member of the Board of Directors;
- Ing. Rocío Nahle García, member of the Board of Directors;
- Mtro. Arturo Herrera Gutiérrez, member of the Board of Directors;
- Mtra. Tatiana Clouthier Carrillo, member of the Board of Directors; and
- Sr. Víctor Fuentes del Villar, member of the Board of Directors.

Acquisitions, Leasing, Public Works and Services Committee

The Acquisitions, Leasing, Public Works and Services Committee is chaired by an independent member of the Board of Directors on a rotating annual basis and is required to, among other duties set forth in the CFE Law or determined from time to time by the Board of Directors, review, evaluate, monitor and develop recommendations regarding our annual programs for acquisition, construction and services contracts, and determines whether an exception to the public bidding process is applicable in specific cases.

The Acquisitions, Leasing, Public Works and Services Committee consists of the following members:

- Mtro. Héctor Sánchez López, independent member of the Board of Directors and President of the Acquisitions, Leasing, Public Works and Services Committee;
- Ing. Rubén Flores García, independent member of the Board of Directors;

- Dra. Irma Eréndira Sandoval Ballesteros, member of the Board of Directors;
- Mtra. Tatiana Clouthier Carrillo, member of the Board of Directors; and
- Sr. Víctor Fuentes del Villar, member of the Board of Directors.

Senior Management of CFE

Name	Position	Year of Appointment to Current Position
Lic. Manuel Bartlett Díaz	Chief Executive Officer	2018
Ing. Carlos Andrés Morales Mar	Director of Operations	2018
Lic. Rubén Cuevas Plancarte	Director of Administration	2020
Dr. Edmundo Sánchez Aguilar	Director of Finance	2020
Lic. César Alejandro Hernández Mendoza	Director of Commercial Business	2018
Lic. Luis Bravo Navarro	Manager of Corporate Communications	2018
Dr. Raúl Armando Jiménez Vázquez	General Counsel	2018

Biographical Information of our Senior Management

Manuel Bartlett Díaz – Chief Executive Officer

Manuel Bartlett Díaz graduated as a lawyer from the UNAM and holds postgraduate degrees in Public Law from the University of Paris (France) and in Public Administration from the University of Victoria (England). He also holds a Ph.D. from the Sciences Department at UNAM. He served as Managing Director of Governance in the Ministry of the Interior (1970-1976), Secretary of the Federal Electoral Commission (1970-1976), Minister of Foreign Affairs (1976-1979), Secretary General of the National Executive Committee of the Institutional Revolutionary Party (1981-1982), Minister of the Interior (1982-1988), President of the Federal Electoral Commission (1982-1988) and Minister of Education (1988-1992).

Carlos Andrés Morales Mar – Director of Operations

Carlos Andrés Morales Mar is a Mechanical Electric Engineer from the IPN. During his long career at CFE, he served as Superintendent of Operations in the CT Manzanillo, Deputy Manager of Thermoelectric Generation and Regional Manager of Production of the Southeast region. In 1995, he retired from CFE and pursued an academic career teaching several seminars and courses on energy, economics, administration and finance in different countries. He has a Diploma in Electric Power Cogeneration by the Postgraduate Studies Division of the UNAM. As a speaker, he has participated in several events, including the World Energy Conference in Cannes, France.

Rubén Cuevas Plancarte – Director of Administration

Rubén Cuevas Plancarte holds a master's degree in Public Administration, by the National Institute of Public Administration (INAP). He graduated in Political Science and Public Administration from the UNAM. He has 18 years of experience as a public servant in the Federal and State Public Administration, where he held various positions from Technical Analyst to State Secretary of the Comptroller's Office. Additionally, in the last 17 years he served as General Director of the Centro de Consultoría, Auditoría y Desarrollo Profesional, S.C. where he coordinated Audit, Consulting and Training activities throughout Mexico in connection with the administration of Federal Funds transferred to States and Municipalities (Branch 33 and Federal Agreements), engaged by the Federal and State Oversight Entities, as well as by the State and Municipal governments themselves.

Edmundo Sánchez Aguilar – Director of Finance

Edmundo Sánchez Aguilar holds a Ph.D. in Finance from Harvard University; and holds a master's degree in Administration, with a specialty in Business Policy, from Columbia University. He has a Diploma from the International Cooperation Program-Socioeconomic Development Strategy, from the University of Uppsala, Sweden, as well a Diploma in Industrial Engineering, by the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) in Mexico. He has served as Director of Economic Research for the Instituto Mexicano del Desarrollo, (IMED); as Partner of the Division of Corporate Finance and Investment Banking, in Servicios Integrados de

México, S.C., (SINTEMEX) and as Manager in the Department of International Financial Market (responsible for the Western Hemisphere), for The First National Bank of Chicago. He is a Professor of Finance and Business Policy at the Graduate School of Business Administration of Harvard University and professor of Industrial Planning for the ITESM in Monterrey, Mexico.

César Alejandro Hernández Mendoza – Director of Commercial Business

César Alejandro Hernández Mendoza holds a B.S. in Political Science and Public Administration, a master's degree in Political Science and a Ph.D. in Social Sciences. He served as coordinator of advisors of the PT-Morena Parliamentary Group in the Senate. In the National Institute of Public Administration (INAP), he conducted the investigation "The National Governors' Conference: Origins, Development and Perspectives." He serves as Secretary and teaches at the Political and Social Sciences Department at UNAM, where he has taught since 1994.

Luis Bravo Navarro – Manager of Corporate Communications

Luis Bravo Navarro holds a B.S. in Communication Sciences from Universidad Iberoamericana, Puebla. He started his career in Televisa, Puebla, as a sports broadcaster and Head of news information where he acted as anchorman and conducted several TV programs. In 1992 he moved to Mexico City where he joined Televisa Networks ECO information system led by Jacobo Zabludovsky, and where he also acted as anchorman and reporter. In 1993, he moved to New York City where he produced and directed the newscast "El mundo al Instante," intended for both the Mexican and Hispanic-American communities living in the NYC area. He also collaborated with Telemundo Networks as a reporter and editor. Back in Mexico in 1997, he ventured in the financial sector as a consultant on Forex and Derivatives strategies in various brokerage firms and financial institutions. In 2012, he became a candidate for State Congress for the 11th District of the City of Puebla representing the coalition called Movimiento Progresista formed by the Partido del Trabajo, Partido de la Revolución Democrática and Movimiento Ciudadano. In 2015, he ran again for State Congress for the 6th district of the City of Puebla representing the newly created Morena party. From 2012 to 2018, he served as Social Communications Coordinator of the PT-Morena Parliamentary Group in the Senate.

Raúl Armando Jiménez Vázquez – General Counsel

Raúl Armando Jiménez Vázquez holds a B.S. of Laws from the Law School of the UNAM where he also obtained a master's degree and a Ph.D. in Law, all with honors. He is a Professor at the UNAM Law School, where he teaches Human Rights and International Criminal Law to bachelor's degree students and Legal Epistemology to Postgraduate Students. He is a Member of the National System of Researchers (SNI) of CONACYT. He is author of numerous books and essays on the topics of his academic specialty and a permanent juridical jurist for the magazine "Siempre." For more than 20 years, he served in the Federal Public Administration occupying, among others, the following positions: Head of the Litigation Department of Income Tax of the Federal Prosecutor's Office (SHCP), Legal Director of Federal Tax Audit (SHCP), Director of "Amparos" (SHCP), General Coordinator of Regulations (SECOGEF), Boat Leasing Manager (PEMEX) and Executive Secretary of the Construction, Acquisition, Leasing and Chartering of Vessels (PEMEX).

DESCRIPTION OF THE NOTES

This section of this offering memorandum summarizes the material terms of the indenture (as defined under “—General—Indenture”), the notes and the guarantees. It does not, however, describe every aspect of the indenture, the notes or the guarantees. Upon request, we will provide you with a copy of the indenture.

See “—Certain Definitions” for certain defined terms used in this “Description of the Notes” section. References to “holders” mean those who have notes registered in their names on the books that the trustee maintains for this purpose, and not those who own beneficial interests in notes issued in book-entry form through DTC or other applicable clearing system or in notes registered in street name. Owners of beneficial interests in the notes should refer to “Form of Notes, Clearing and Settlement.”

The 2031 notes and the 2051 notes will constitute separate series of notes. The discussion of provisions of the notes, including the discussions set forth under “Optional Redemption,” “Redemption for Taxation Reasons,” “Defaults, Remedies and Waiver of Defaults,” “Modification and Waiver” and “Defeasance” below applies to each series separately, except as otherwise indicated.

General

Indenture

The notes will be issued under the indenture, dated as of June 16, 2015, between the Issuer and Deutsche Bank Trust Company Americas, as trustee (the “base indenture”), as amended and supplemented by the first supplemental indenture, dated as of January 30, 2017, among the Issuer, CFE Distribución, CFE Suministrador de Servicios Básicos, CFE Transmisión, CFE Generación I, CFE Generación II, CFE Generación III, CFE Generación IV, CFE Generación V, CFE Generación VI (collectively, the “guarantors”) and the trustee (the “first supplemental indenture”) and the second supplemental indenture, dated as of July 13, 2017, between the Issuer and the trustee (the “second supplemental indenture” and, together with the base indenture and the first supplemental indenture, the “indenture”). The indenture will be further supplemented for the purpose of adding CFE Telecomunicaciones e Internet para Todos as a guarantor of the notes. The trustee can enforce your rights against the Issuer and the guarantors if the Issuer or the guarantors default in respect of the notes. There are some limitations on the extent to which the trustee acts on your behalf, which is described under “—Default and Acceleration of Maturity.”

Principal and Interest

The aggregate principal amount of the 2031 notes offered hereby will initially be U.S.\$1,200,000,000. The 2031 notes will mature on February 9, 2031. The 2031 notes will bear interest at a rate of 3.348% per year.

The aggregate principal amount of the 2051 notes offered hereby will initially be U.S.\$800,000,000. The 2051 notes will mature on February 9, 2051. The 2051 notes will bear interest at a rate of 4.677% per year.

Interest on each series of the notes will be payable on February 9 and August 9 of each year, beginning on August 9, 2021, to the holders in whose names the notes are registered at the close of business on the February 8 or August 8 (whether or not a business day) immediately preceding the related interest payment date.

The Issuer will pay interest on the notes on the interest payment dates set forth above and on the applicable maturity date. Each payment of interest due on an interest payment date or on the applicable maturity date will include interest accrued from and including the last date to which interest has been paid or made available for payment, or from the issue date, if none has been paid or made available for payment, to but excluding the relevant payment date. The Issuer will compute interest on the notes on the basis of a 360-day year of twelve 30-day months.

Guarantors

On January 30, 2017, the Issuer entered into a guaranty agreement with the guarantors (the “guaranty agreement”), pursuant to which each of the guarantors unconditionally and irrevocably agreed to guarantee and become jointly and severally liable with the Issuer and each of the other guarantors for the payment in full of all obligations incurred by the Issuer under any international financial agreement, such as the indenture and the notes, designated in a certificate of designation executed by the Issuer.

The Issuer will execute a certificate of designation in respect of each of the guarantors as required under the guaranty agreement that designates the notes as benefitting from the guarantees set forth in the guaranty agreement. Pursuant to the guaranty agreement and such certificates of designation, each guarantor will, unconditionally and irrevocably, jointly and severally, guarantee (the “guarantees”) the full and punctual payment of principal, premium, if any, interest, Additional Amounts (as defined under “—Additional Amounts”) and any other amounts due in respect of the notes (whether on the applicable maturity date, upon redemption, purchase pursuant to an offer to purchase or acceleration or otherwise). If any such payments are subject to Mexican Withholding Taxes (as defined under “—Additional Amounts”), the applicable guarantor will pay such Additional Amounts to the holders of the notes as may be necessary to ensure that the net payment made in respect of the notes after such withholding or deduction for or on account of Mexican Withholding Taxes will not be less than the amount that would have been receivable in respect of the notes in the absence of such withholding or deduction as described under, and subject to the limitations set forth under “—Additional Amounts.”

If the Issuer or any guarantor creates any additional Subsidiaries in the future, any Subsidiary or Subsidiaries (1) to which the Issuer or a guarantor transfers all or substantially all of the Issuer and the guarantors’ assets, taken as a whole, or (2) which incurs any Public External Indebtedness or provides a guarantee of any Public External Indebtedness of the Issuer or any guarantor must also become a guarantor (an “additional guarantor”) of the notes as set forth under “—Affirmative Covenants—Future Guarantors.” Any additional guarantor will be required to execute and deliver a joinder in accordance with the guaranty agreement.

On August 2, 2019, the Issuer created a new *empresa productiva subsidiaria* (subsidiary productive enterprise), CFE Telecomunicaciones e Internet para Todos. Accordingly, CFE Telecomunicaciones e Internet para Todos will become an additional guarantor of the notes as provided under “—Affirmative Covenants—Future Guarantors,” and will execute and deliver a joinder to the guaranty agreement. We expect that CFE Telecomunicaciones e Internet para Todos will execute a and deliver the joinder and a supplemental indenture within 90 days from the date of this offering memorandum.

Each guarantor will be released and relieved of its obligations under its guarantee if it ceases to be a Subsidiary of the Issuer.

Status

The notes will constitute the Issuer’s direct, general, unconditional, unsecured and unsubordinated Public External Indebtedness. The notes will rank equally with all of the Issuer’s other unsubordinated Public External Indebtedness. It is understood that this provision shall not be construed so as to require the Issuer to make payments under the notes ratably with payments being made under any of the Issuer’s other Public External Indebtedness.

The guarantees will constitute direct, general, unconditional, unsecured and unsubordinated Public External Indebtedness of the guarantors. The payment obligations of each guarantor under the guarantees will rank equally with all of such guarantor’s other unsubordinated Public External Indebtedness. It is understood that this provision shall not be construed so as to require any guarantor to make payments under the notes ratably with payments being made under any of its other Public External Indebtedness.

The Mexican government does not guarantee or secure the Issuer’s obligations or those of the guarantors and has no obligation to pay the principal, interest or any other amounts payable on the notes in the event that the Issuer’s cash flows and/or assets or those of the guarantors are not sufficient to make any such payments. The notes do not grant in any way recourse against the Mexican government or rights over the ownership, control or assets of the Issuer or of the guarantors. The notes will not be secured by any of the assets or properties of the Issuer or the guarantors.

Form and Denominations

The notes will be issued only in fully registered book-entry form without coupons and in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

The notes will be issued in the form of global notes. Except in limited circumstances, the notes will not be issued in physical, certificated form. See “Form of Notes, Clearing and Settlement.”

Further Issues

The Issuer reserves the right, from time to time without the consent of holders of the notes, to issue additional notes of each series having the same terms and conditions as the notes of such series in all respects, except for the issue date, issue price and, if applicable, the date of first payment of interest, the date from which interest will accrue, CUSIP and/or other securities numbers and, to the extent necessary, certain temporary securities law transfer restrictions; *provided* that any such additional notes issued with the same CUSIP as the notes of such series offered hereby shall be (1) issued in a qualified reopening, (2) otherwise treated as part of the same “issue” of debt instruments as the notes of such series issued pursuant to this offering memorandum, or (3) issued with no more than *de minimis* original issue discount, in each case, for U.S. federal income tax purposes. Additional notes issued in this manner will increase the aggregate principal amount of, and be consolidated with and form a single series with, the previously outstanding notes of such series.

Payment of Principal and Interest

Principal of, and interest on, the notes will be payable at the offices or agencies maintained by the Issuer for such purpose (which will initially be the offices of the paying agent specified on the inside back cover page of this offering memorandum).

The Issuer will arrange for payments to be made on global notes on the specified payment dates by wire transfer to DTC or other applicable clearing system, or to its nominee, as the registered owner of the notes, which will receive the funds for distribution to the holders. An indirect holder’s or beneficial owner’s right to receive any such payments will be governed by the rules and practices of DTC or other applicable clearing system. See “Form of Notes; Clearing and Settlement.”

The Issuer will arrange for payments to be made on registered certificated notes on the specified payment dates to the registered holders of the notes. The Issuer will arrange for such payments by wire transfer or by check mailed to the holders at their registered addresses.

If any payment date on the notes is not a business day, the Issuer will make the payment on the next business day. Payments postponed to the next business day in this situation will be treated under the indenture as if they were made on the original due date and no interest on the notes will accrue as a result of any such delay in payment.

For purposes of all payments of interest, principal or other amounts contemplated herein, “business day” means any day that is not a Saturday or Sunday, and that is not a day on which banking institutions in New York City or Mexico City (or in the city where the relevant paying or transfer agent is located) are required or authorized by law, regulation or executive order to close.

Unclaimed Payments; Prescription

If any money that the Issuer or any guarantor pays to the trustee or any paying agent to make payments on any notes is unclaimed at the end of two years after the applicable payment was due and payable, then such money will be repaid to the Issuer or such guarantor upon request. The Issuer or such guarantor will hold such unclaimed money in trust for the relevant holders of those notes. After such repayment, neither the trustee nor any paying agent will be liable for the payment. However, the obligations of the Issuer and the guarantors, as applicable, to make payments on the notes as they become due will not be affected until the expiration of the prescription period, if any, specified in the notes.

To the extent permitted by law, claims against the Issuer or the guarantors for the payment of principal of, or interest or other amounts due on, the notes (including Additional Amounts) will become void unless made within five years of the date on which such payment first became due.

Redemption and Purchase

Neither the Issuer nor the guarantors will be permitted to redeem the notes, and you will not be entitled to require the Issuer or the guarantors to purchase your notes from you, before such notes’ applicable maturity date, except as set forth below.

Optional Redemption

Prior to the applicable Par Call Date, the Issuer will have the right, at its option, to redeem the outstanding notes of each series, in whole or in part, at any time or from time to time, on at least 30 days', but not more than 60 days' notice to the holders of the notes, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed and (2) the sum of the present values of the Remaining Payments, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 35 basis points, in case of the 2031 notes, or 45 basis points, in the case of the 2051 notes (in each case, the "make-whole" amount), plus, in each case, accrued and unpaid interest on the principal amount of the notes being redeemed (and Additional Amounts, if any) to the redemption date.

On or after the applicable Par Call Date, the Issuer will have the right, at its option, to redeem the outstanding notes of each series, in whole or in part at any time or from time to time, on at least 30 days', but not more than 60 days' notice to the holders of the notes, at a redemption price equal to the 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest on the principal amount of the notes being redeemed (and Additional Amounts, if any) to the redemption date.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the applicable Par Call Date of the series of notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the applicable Par Call Date of the series of notes to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the arithmetic average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the arithmetic average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by us.

"Par Call Date" means, in the case of the 2031 notes, November 9, 2030 (the date that is three months prior to the maturity of the 2031 notes) and, in the case of the 2051 notes, August 9, 2050 (the date that is six months prior to the maturity of the 2051 notes).

"Reference Treasury Dealer" means each of Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Mizuho Securities USA LLC, Barclays Capital Inc. and Citigroup Global Markets Inc. or their respective affiliates which are primary United States government securities dealers in New York City (each, a "Primary Treasury Dealer"); *provided* that, if any of the foregoing shall cease to be a primary United States government securities dealer in New York City, the Issuer will substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the third business day preceding such redemption date.

"Remaining Payments" means, with respect to the notes of a series to be redeemed, the remaining payments of principal of and interest on such notes that would be due after the related redemption date as if the notes were redeemed on the applicable Par Call Date. If the applicable redemption date is not an interest payment date with respect to the applicable series of notes, the amount of the next succeeding scheduled interest payment on the notes will be reduced by the amount of interest accrued on the notes to such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

On and after the redemption date, interest will cease to accrue on the notes or any portion of the notes called for redemption (unless the Issuer defaults in the payment of the redemption price and accrued interest). On or

before the redemption date, the Issuer will deposit with the trustee money sufficient to pay the redemption price of and (unless the redemption date shall be an interest payment date) accrued and unpaid interest thereon (and Additional Amounts, if any) to the redemption date on the notes to be redeemed on such date. If less than all of the outstanding notes of either series are to be redeemed, the notes to be redeemed shall be selected by the trustee on a pro rata basis or by lot (and, in the case of notes in global form, in accordance with the applicable procedures of DTC).

Redemption for Taxation Reasons

The notes may be redeemed at the Issuer's or any guarantor's option in whole, but not in part, at any time, at a price equal to 100% of the outstanding principal amount thereof (the "Tax Redemption Price"), plus accrued and unpaid interest thereon (and Additional Amounts, if any), to the date fixed for redemption (the "Tax Redemption Date"), on giving not less than 30 nor more than 60 days' notice to the holders (which notice shall be irrevocable), if:

- (a) The Issuer or such guarantor certifies to the trustee immediately prior to the giving of such notice that the Issuer or such guarantor has or will become obligated on the next succeeding interest payment date to pay Additional Amounts in excess of the Additional Amounts that the Issuer or such guarantor would be obligated to pay if payments (including payments of interest) on the notes were subject to a tax at a rate of 4.9%, as a result of any change in, or amendment to, or lapse of, the laws, rules or regulations of Mexico or any political subdivision or any taxing authority thereof or therein affecting taxation, or any change in, or amendment to, an official interpretation or application of such laws, rules or regulations, which change, amendment or lapse becomes effective on or after the date of issuance of the notes; and
- (b) prior to the publication of any notice of redemption, the Issuer or such guarantor delivers to the trustee (i) a certificate signed by an authorized officer of the Issuer or such guarantor stating that the obligation referred to in (a) cannot be avoided by the Issuer or such guarantor, taking reasonable measures available to the Issuer or such guarantor and (ii) an opinion of independent Mexican legal counsel of recognized standing to the effect that the Issuer or such guarantor has or will become obligated to pay such Additional Amounts as a result of such change, amendment or lapse, and the trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent described in (a) which event they shall be conclusive and binding on the holders of the notes; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or such guarantor would be obligated but for such redemption to pay such Additional Amounts if a payment in respect of such notes were then due and, at the time such notice is given, such obligation to pay such Additional Amounts remains in effect.

On the Tax Redemption Date fixed by the Issuer or the relevant guarantor, the Tax Redemption Price will become due and payable and the Issuer or such guarantor will be obligated to pay the Tax Redemption Price, together with accrued interest, and Additional Amounts due, on the notes to the Tax Redemption Date. If the notes are to be redeemed pursuant to the provisions described under this caption, then the notes will cease to bear interest on and after the Tax Redemption Date; *provided* that the Tax Redemption Price and such accrued interest (and Additional Amounts, if any), are duly paid or made available to a paying agent for payment to the holders. All notes redeemed by the Issuer or any guarantor under this provision will be cancelled.

Purchase at the Option of Holders

If at any time prior to maturity, the Issuer (and in the case of clause (d), the Issuer and the guarantors collectively) ceases to:

- (a) be a public-sector entity of the Mexican government;
- (b) be majority-owned by the Mexican government;
- (c) be a public entity created and appointed pursuant to the Mexican Constitution or Mexican federal laws with the right to generate, transmit, distribute and supply electricity in Mexico; or

- (d) at any time, generate, transmit and distribute at least 75% of the electricity generated, transmitted and distributed by public-sector entities, in each case within Mexico (unless, in the case of this clause (d), if permitted by Mexican law, the Mexican government shall have assumed or guaranteed the Issuer's obligations under the notes and the indenture)

(in each case, an "Optional Purchase Event"), then the Issuer will give the holders and the trustee written notice thereof not less than 60 days prior to the occurrence of such Optional Purchase Event or, if it is not possible to give 60 days' notice, then the Issuer will give the holders notice in a lesser number of days, but in no event less than 30 days, as shall be practicable given the circumstances. Such notice will contain a written, irrevocable offer (an "Optional Purchase Offer") by the Issuer to purchase, on the date specified in such Optional Purchase Offer (the "Optional Purchase Date"), the notes held by each holder in full, and not in part, at a price equal to the 100% of the outstanding principal amount thereof (the "Optional Purchase Price") plus accrued interest thereon to the Optional Purchase Date. The Optional Purchase Date will be (i) not less than 30 days and not more than 60 days after the date of such notice and (ii) not later than the date of such Optional Purchase Event. The Optional Purchase Price with respect to the notes of holders accepting such Optional Purchase Offer will become due and payable on the Optional Purchase Date, upon presentation and surrender of such notes.

On the Optional Purchase Date, there will become due and payable and the Issuer will be obligated to purchase and pay the Optional Purchase Price, plus accrued and unpaid interest thereon (and Additional Amounts, if any) to the Optional Purchase Date, with respect to each note for which the holder has validly and timely elected to have the Issuer purchase that holder's notes. Any note to be purchased as provided under this provision will cease to bear interest on and after the Optional Purchase Date; *provided* that the Optional Purchase Price and such accrued interest is duly paid or made available to a paying agent for payment to the holders entitled thereto. All notes purchased by the Issuer under this provision will be cancelled.

Purchases of Notes

The Issuer or any guarantor may at any time purchase notes at any price in the open market, in privately negotiated transactions or otherwise. The Issuer or any guarantor may not resell any notes that it purchases, unless the Issuer or such guarantor registers the resale under the Securities Act.

Affirmative Covenants

The following affirmative covenants will apply to the Issuer and the guarantors for so long as any notes remain outstanding. These covenants do not limit the ability of the Issuer or any guarantor to incur debt nor do they require the Issuer or any guarantor to comply with financial ratios or to maintain specified levels of net worth or liquidity.

Delivery of Financial Statements

The Issuer will deliver to the trustee, and the trustee will make available to the holders, as soon as available, but not later than 180 days after the end of each of the Issuer's fiscal years, a copy in the English language of the Issuer's and its Subsidiaries' audited consolidated balance sheet as at the end of such year and the related consolidated statements of results of operations, changes in equity and changes in cash flows and notes thereto for such year, setting forth in each case in comparative form the figures for the previous fiscal year, and accompanied by the opinion of an independent public accounting firm of recognized standing in Mexico, which opinion (a) will state that such consolidated financial statements present fairly the Issuer's and its Subsidiaries' consolidated financial position as at such dates and the consolidated results of the Issuer's and its Subsidiaries' operations, changes in equity and changes in cash flows for the respective periods then ended in accordance with IFRS, and (b) will not be qualified or limited because of a restricted or limited examination by such accounting firm of any material portion of the Issuer's and its Subsidiaries' records.

The Issuer will deliver to the trustee, and the trustee will make available to the holders, as soon as available, but not later than 90 days after the end of each of the Issuer's fiscal quarters, a copy in the English language of the Issuer's and its Subsidiaries' unaudited condensed consolidated statement of financial position and unaudited condensed consolidated statement of comprehensive income as at the end of such quarter. The trustee shall have no responsibility whatsoever for the accuracy and contents of the financial statements delivered by the Issuer.

If neither the Issuer nor the guarantors are subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, at any time when the notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the guarantors (without duplication) will furnish to any holder of notes, or to any prospective purchaser designated by such holder, financial and other information described in Rule 144A(d)(4) with respect to the Issuer and the guarantors to the extent required to permit such holder to comply with Rule 144A in connection with any resale of notes held by such holder.

The Issuer acting through any of its officers will give the trustee notice of any Event of Default relating to the Issuer or any guarantor, or of any condition or event that with notice or the lapse of time would be an Event of Default relating to the Issuer or any guarantor, within 15 days after the occurrence of such Event of Default or such other event or condition becomes known to the Issuer, and of the measures that the Issuer or such guarantor, as applicable, is taking with respect thereto.

Maintenance of Government Approvals

Each of the Issuer and each guarantor will obtain and maintain in full force and effect any actions, orders, authorizations, consents, approvals, licenses, rulings, permits, certifications, exemptions, filings or registrations by or with any governmental authority that may be necessary under the laws of Mexico (each, a “Governmental Approval”) for the performance by the Issuer and each guarantor of its respective obligations under the indenture, the notes or the guarantees, as applicable, or for the validity or enforceability thereof and duly take all necessary and appropriate governmental and administrative action in Mexico in order to make all payments to be made thereunder as required by the indenture, the notes and the guarantees, as applicable.

Compliance with Applicable Laws and Governmental Approvals

Each of the Issuer and each guarantor will comply in all material respects with all applicable laws and all applicable Governmental Approvals, except where any failure (individually or in the aggregate) to comply could not reasonably be expected to have a material adverse effect on the ability of the Issuer or the guarantors to perform their respective obligations under the indenture, the notes or the guarantees, as applicable, or where the necessity of compliance with which is contested in good faith.

Performance of Obligations

Each of the Issuer and each guarantor will (a) perform all of its respective covenants and comply with all of its respective obligations contained in the indenture, the notes or the guarantees, as applicable, and (b) pay, discharge or otherwise satisfy on or before maturity all of its other material payment obligations except where (i) the amount or validity thereof is being contested in good faith and by appropriate proceedings and adequate reserves are or will be maintained with respect thereto in conformity with IFRS or (ii) the failure to pay, discharge or otherwise satisfy such obligation would not have a material adverse effect on the ability of the Issuer or such guarantor to perform its respective obligations under the indenture, the notes or the guarantees, as applicable.

Future Guarantors

Each of the Issuer and each guarantor will cause any Subsidiary or Subsidiaries:

- (1) to which the Issuer or any guarantor transfers all or substantially all of the assets of the Issuer and the guarantors, taken as a whole; or
- (2) which incurs any Public External Indebtedness or provides a guarantee of any Public External Indebtedness of the Issuer or any guarantor to promptly become a guarantor and provide for a full and unconditional guarantee of the notes as described under “—General—Guarantors.”

Negative Covenants

The following negative covenants will apply to the Issuer and the guarantors for so long as any notes remain outstanding. These covenants do not limit the ability of the Issuer or any guarantor to incur debt nor do they require the Issuer or any guarantor to comply with financial ratios or to maintain specified levels of net worth or liquidity.

Negative Pledge

Neither the Issuer nor any guarantor will create or permit to subsist any mortgage, pledge, hypothecation or other charge or encumbrance, including without limitation any equivalent thereof created or arising under the laws of Mexico (a “Lien”), upon the whole or any part of its or their present or future revenues or assets to secure any of its or their Public External Indebtedness, unless the notes are secured equally and ratably with such Public External Indebtedness; *provided* that the Issuer and the guarantors may create or permit to subsist, if permitted under Mexican law:

- (a) any Lien on the property of the Issuer or any guarantor securing or providing for the payment of Public External Indebtedness incurred in connection with any Project Financing; *provided* that the properties to which any such Lien shall apply are (i) properties which are the subject of such Project Financing or (ii) revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of or damage to such properties; and *provided, further*, that any such Liens shall be created within 365 days of the commencement of such Project Financing;
- (b) any Lien on the Accounts Receivable of the Issuer or any guarantor; *provided* that (i) the aggregate principal amount of the Public External Indebtedness secured by Liens referred to in this clause (b) will not exceed U.S.\$3,000.0 million (or its equivalent in other currencies) and (ii) the short-term portion of such indebtedness will not exceed U.S.\$1,000.0 million (or its equivalent in other currencies); and
- (c) any Lien on the Available Assets of the Issuer or any guarantor not permitted by any other paragraph of this “Negative Pledge” covenant; *provided* that, after giving effect to any such Lien, the aggregate amount of Public External Indebtedness secured by Liens referred to in this clause (c) will not exceed U.S.\$500.0 million (or its equivalent in other currencies).

Merger, Consolidation or Sale of Assets

Neither the Issuer nor any guarantor will:

- (a) consolidate or merge with or into any other Person; or
- (b) in a single transaction or a series of related transactions, sell, lease or otherwise transfer, directly or indirectly, all or substantially all of the assets of the Issuer and the guarantors, taken as a whole, to any other Person;

provided that, without limitation of the rights of the holders described under “—Redemption and Purchase—Purchase at the Option of the Holders,” the Issuer and any guarantor may, if permitted under Mexican law:

- i. merge with another Person if (x) the Issuer or such guarantor is the Person surviving such merger and (y) after giving effect to such merger, no Default or Event of Default shall have occurred and be continuing;
- ii. consolidate with or merge into another Person or sell, lease or otherwise transfer all or substantially all of the assets of the Issuer and the guarantors, taken as a whole, to another Person if (x) the Person formed by such consolidation or into which the Issuer or such guarantor is merged or the Person which acquires by sale, lease or transfer all or substantially all of the assets of the Issuer and the guarantors, taken as a whole, is a public entity of the Mexican government or a corporation, partnership or trust, organized and validly existing under the laws of Mexico, (y) such Person expressly assumes the obligations of the Issuer and the guarantors under the indenture, the notes and the guaranty agreement (in respect of the indenture and the notes), as applicable, and (z) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing;
- iii. terminate the corporate existence of any Subsidiary of the Issuer or any guarantor if (x) such Subsidiary transfers all of the material assets of the Issuer or such guarantor, as applicable, to

the Issuer, a guarantor or to another Subsidiary and (y) immediately after giving effect to such termination, no Default or Event of Default shall have occurred and be continuing; and

- iv. sell, lease or otherwise transfer all or substantially all of the assets of the Issuer and the guarantors, taken as a whole, to one or more of the Subsidiaries of the Issuer or any guarantor if (x) each such Subsidiary becomes a guarantor in accordance with the provisions set forth under “—Affirmative Covenants—Future Guarantors” and (y) immediately after giving effect to any such transaction, no Event of Default shall have occurred and be continuing.

Upon the occurrence of any event described in clause (ii) or (iv), the Issuer or such guarantor will execute and deliver, or cause any Person referred to in clause (ii) or (iv) above, as applicable, to execute and deliver, an opinion of counsel and officer’s certificate to the trustee stating that such event complies with the requirements described in this paragraph and the indenture.

Default and Acceleration of Maturity

Each of the following events is an “Event of Default” with respect to the notes:

- (a) any payment of principal of the notes is not made when due or any payment of interest on the notes is not made within 30 days of the date it was due;
- (b) the Issuer or any guarantor fails to perform any material obligation contained in the notes or the guarantees or, insofar as it concerns the notes or the guarantees, the indenture (other than any obligation specified in any other Event of Default) and such failure continues for 60 days after written notice thereof has been given to the Issuer or such guarantor, as applicable, by the trustee or the holders of not less than a majority in aggregate principal amount of the notes then Outstanding;
- (c) the Issuer or any guarantor fails to make a payment of principal of or interest on any Public External Indebtedness of, or guaranteed by, the Issuer or such guarantor in an aggregate principal amount exceeding U.S.\$75.0 million or its equivalent when due and such failure continues for more than the period of grace, if any, originally applicable thereto;
- (d) one or more final judgments, order or decrees is rendered against the Issuer or any guarantor involving in the aggregate a liability in excess of U.S.\$75.0 million and such judgments, orders or decrees continues unsatisfied, unvacated, unstayed or not bonded for a period of 60 days;
- (e) an involuntary case or other proceeding is commenced against the Issuer or any guarantor seeking liquidation, reorganization or other relief with respect to the Issuer or such guarantor or any of its respective debts under any *concurso mercantil*, bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, *interventor*, *síndico*, custodian or other similar official of the Issuer, a guarantor or any substantial part of the property or the Issuer and the guarantors, taken as a whole, and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 days;
- (f) the Issuer or any guarantor commences a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to the Issuer or such guarantor or any of its respective debts under any *concurso mercantil*, bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, *interventor*, *síndico*, custodian or other similar official of the Issuer or such guarantor or any substantial part of the property of the Issuer and the guarantors, taken as a whole, or the Issuer consents or any guarantor consents to any such relief or to the appointment of or taking possession by any such official in any involuntary case or other proceeding commenced against the Issuer or such guarantor, or the Issuer or any guarantor makes a general assignment for the benefit of creditors, or the Issuer or any guarantor fails generally to pay its respective debts as they become due, or the Issuer or any guarantor takes any corporate action to authorize any of the foregoing;
- (g) a decree is issued or other proceedings are commenced by a governmental authority or agency of Mexico seeking dissolution, liquidation, reorganization or other relief with respect to the Issuer or

its debts or any guarantor or such guarantor's debts under applicable law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, *interventor*, *sindico*, custodian or other similar official of the Issuer, a guarantor or any substantial part of the property of the Issuer and the guarantors, taken as a whole;

- (h) a general moratorium is agreed or declared in respect of any Public External Indebtedness of the Issuer or any Public External Indebtedness of a guarantor, which moratorium does not expressly exclude the notes or the guarantees;
- (i) any action, condition or situation (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or any guarantor to lawfully perform its respective obligations under the indenture, the notes, the guarantees and the guaranty agreement (as applicable) and (ii) to ensure that those obligations are legally binding and enforceable, is not taken, fulfilled or done within 30 days of its being so required;
- (j) it is or it becomes unlawful for the Issuer or a guarantor to perform or comply with one or more of its respective obligations under the indenture, the notes, the guarantees and the guaranty agreement (as applicable);
- (k) the payment obligations of the Issuer and any guarantor under the indenture, the notes, the guarantees and the guaranty agreement (as applicable) fail to constitute the unconditional general obligations of the Issuer or such guarantor that ranks without any preference among themselves and equally with all of the other unsecured and unsubordinated Public External Indebtedness of the Issuer or such guarantor, respectively; or
- (l) any event occurs which under the laws of Mexico has an analogous effect to any of the events referred to in paragraphs (e) to (g) above.

If any of the Events of Default described above occurs and is continuing, holders of at least 25% of the aggregate principal amount of the notes then Outstanding may declare all the notes to be due and payable immediately by giving written notice to the Issuer and the guarantors, with a copy to the trustee.

Holders holding notes representing in the aggregate more than 50% of the principal amount of the then-Outstanding notes may waive any existing Events of Default and their consequences on behalf of the holders of all of the notes if:

- (1) following the declaration that the principal of the notes has become due and payable immediately, the Issuer or any of the guarantors deposits with the trustee a sum sufficient to pay all outstanding amounts then due on the notes (other than principal due by virtue of the acceleration upon the Event of Default) together with interest on such amounts through the date of the deposit as well as the reasonable fees and compensation of the holders that declared the notes due and payable, the trustee and their respective agents, attorneys and counsel; and
- (2) all Events of Default (other than non-payment of principal that became due by virtue of the acceleration upon the Event of Default) have been remedied.

Suits for Enforcement and Limitations on Suits by Holders

If an Event of Default has occurred and is continuing, the trustee may, in its discretion, institute judicial action to enforce the rights of the holders of the notes. With the exception of a suit brought by a holder of the notes on or after the stated maturity date to enforce its absolute right to receive payment of the principal of and interest on the notes on the stated maturity date therefor (as such date may be amended or modified pursuant to the terms of the indenture and the notes, but without giving effect to any acceleration), a holder of the notes has no right to bring a suit, action or proceeding with respect to the notes unless: (1) such holder has given written notice to the trustee that an Event of Default with respect to the notes has occurred and is continuing; (2) holders of at least 25% of the aggregate principal amount of the Outstanding notes have instructed the trustee by specific written request to institute an action or proceeding and provided an indemnity satisfactory to the trustee; and (3) 60 days have passed since the trustee received the instruction, the trustee has failed to institute an action or proceeding as directed, and no

direction inconsistent with such written request shall have been given to the trustee by a majority of holders of the notes. Moreover, any such action commenced by a holder of the notes must be for the equal, ratable and common benefit of all holders of the notes.

Additional Amounts

The Issuer or any guarantor (as applicable) will make payments of principal and interest (or amounts deemed to be interest) on the notes without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Mexico, any political subdivision thereof or any taxing authority in Mexico (“Mexican Withholding Taxes”), unless such withholding or deduction is required by law or by the interpretation or administration thereof. If the Issuer or any guarantor is required to make any such withholding or deduction, the Issuer or such guarantor will pay such additional amounts (“Additional Amounts”) as may be necessary to ensure that the net payment made in respect of the notes after such withholding or deduction for or on account of Mexican Withholding Taxes will not be less than the amount that would have been receivable in respect of the notes in the absence of such withholding or deduction; *provided* that the foregoing obligation to pay Additional Amounts will not apply to:

- (a) any Mexican Withholding Taxes that would not have been imposed or levied on a holder or beneficial owner (or fiduciary, settlor or beneficiary of, or a person holding a power over, such holder or beneficial owner, if such holder or beneficial owner is an estate or a trust, or a member or shareholder of such holder or beneficial owner, if such holder or beneficial owner is a partnership or a corporation) of notes but for the existence of any present or former connection between the holder or beneficial owner (or such fiduciary, settlor, beneficiary, person holding a power, member or shareholder) of such notes and Mexico or any political subdivision or territory or possession thereof or area subject to its jurisdiction, including, without limitation, such holder or beneficial owner (or such fiduciary, settlor, beneficiary, person holding a power, member or shareholder) (i) being or having been a citizen or resident thereof, (ii) maintaining or having maintained an office, permanent establishment, fixed base or branch therein, or (iii) being or having been present or engaged in trade or business therein, except for a connection solely arising from the mere ownership of, or receipt of payment under, such notes;
- (b) any estate, inheritance, gift, sales, transfer, or personal property or similar tax, assessment or other governmental charge;
- (c) any Mexican Withholding Taxes that are imposed or levied by reason of the failure by the holder or beneficial owner of such notes to comply with any certification, identification, information, documentation, declaration or other reporting requirement that is required or imposed by a statute, treaty, regulation, general rule or published administrative practice, as a precondition to exemption from, or reduction in the rate of, the imposition, withholding or deduction of any Mexican Withholding Taxes; *provided* that at least 30 days prior to (i) the first payment date with respect to which the Issuer or such guarantor applies this clause (c) and (ii) in the event of a change in such certification, identification, information, documentation, declaration or other reporting requirement, the first payment date subsequent to such change, the Issuer or such guarantor has notified the trustee and the holders in writing that the holders or beneficial owners of notes will be required to comply with such certification, identification, information or documentation, declaration or other reporting requirement;
- (d) any Mexican Withholding Taxes that would not have been so imposed but for the presentation by the holder of such note for payment on a date more than 20 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent that the holder of such note would have been entitled to the Additional Amounts on presenting such note on any date during such 20-day period;
- (e) any payment on such note to any holder who is a fiduciary or partnership or other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such note;

- (f) any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on a note: or
- (g) any tax, assessment or governmental charge that would not have been imposed but for a failure by the holder or beneficial owner (or any financial institution through which the holder or beneficial owner holds any note or through which payment on the note is made) to comply with any certification, information, identification, documentation or other reporting requirements (including entering into and complying with an agreement with the Internal Revenue Service) imposed pursuant to, or under an intergovernmental agreement entered into between the United States and the government of another country in order to implement the requirements of, Sections 1471 through 1474 of the U.S. Internal Revenue Code as in effect on the date of issuance of the notes or any successor or amended version of these provisions, to the extent such successor or amended version is not materially more onerous than these provisions as enacted on such date.

All references in this “Description of the Notes” section to principal and interest in respect of notes will, unless the context otherwise requires, be deemed to mean and include all Additional Amounts, if any, payable in respect thereof as set forth in the first paragraph of this “Additional Amounts” section and in paragraphs (a) through (g) above.

The Issuer or any guarantor (as applicable) will also pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery, registration or the making of payments in respect of the notes or the guarantees, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Mexico other than those resulting from, or required to be paid in connection with, the enforcement of the notes following the occurrence of any Event of Default.

Notwithstanding the foregoing, the limitations on obligations of the Issuer and the guarantors to pay Additional Amounts set forth in clause (c) above will not apply if the compliance with the certification, identification, information, documentation, declaration or other reporting requirement described in such clause (c) would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a note (taking into account any relevant differences between United States and Mexican law, regulation or administrative practice) than comparable information or other applicable reporting requirements imposed or provided for under U.S. federal income tax law (including the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, and a Protocol thereto, both signed on September 18, 1992, as amended by Additional Protocols signed on September 8, 1994 and November 26, 2002), regulations (including proposed regulations) and published administrative practice. In addition, the limitations on the obligations of the Issuer or the guarantors to pay Additional Amounts set forth in clause (c) above will not apply if Article 166, Section II, paragraph a) of the Mexican Income Tax Law (or a substantially similar provision successor to such provision) is in effect, unless (i) the compliance with the certification, identification, information, documentation, declaration or other reporting requirement described in clause (c) above is expressly required by statute, regulation, general rules or published administrative practice in order to apply Article 166, Section II, paragraph a) (or a substantially similar successor provision to such provision), the Issuer or such guarantor cannot obtain such certification, identification, information, documentation, declaration or other evidence, or satisfy any other reporting requirements, on its own through reasonable diligence and the Issuer or such guarantor otherwise would meet the requirements for application of Article 166, Section II, paragraph a) (or such provision successor to such provision) or (ii) in the case of a holder or beneficial owner of a note that is a pension fund or other tax-exempt organization, such holder or beneficial owner would be subject to Mexican Withholding Taxes at a rate that is below the rate that is provided by Article 166, Section II, paragraph a) if the information, documentation or other evidence required under clause (c) above were provided. Clause (c) above will not be construed to require that a non-Mexican pension or retirement fund, a non-Mexican tax-exempt organization or a non-Mexican financial institution or any other holder or beneficial owner of a note register with the Mexican Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) or the Mexican Tax Administration Service (*Servicio de Administración Tributaria*) for the purpose of establishing eligibility for an exemption from or reduction of Mexican Withholding Taxes.

The Issuer or the respective guarantor will provide the trustee with a duly certified or authenticated copy of an original receipt evidencing the payment of Mexican Withholding Taxes that the Issuer or such guarantor has withheld or deducted in respect of any payments made under or with respect to the notes. The Issuer or such

guarantor will make copies of such documentation, and cause the trustee to make copies of such documentation, available to the holders of the notes upon request.

In the event that Additional Amounts actually paid with respect to any notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of Mexican Withholding Taxes in excess of the appropriate rate applicable to the holder of such notes, and, as a result thereof, such holder is entitled to make a claim for a refund or credit of such excess, then such holder will, by accepting such notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to the Issuer or the relevant guarantor. However, by making such assignment, the holder makes no representation or warranty that the Issuer or the relevant guarantor will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto.

Meetings, Amendments and Waivers — *Collective Action*

The Issuer may call a meeting of the holders of the notes at any time regarding the indenture or the notes. The Issuer will determine the time and place of the meeting and will notify the holders of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the meeting.

In addition, the Issuer or the trustee will call a meeting of holders of the notes if the holders of at least 10% in principal amount of all the notes then Outstanding have delivered a written request to the Issuer or the trustee (with a copy to the Issuer) setting out the purpose of the meeting. Within 10 days of receipt of such written request or copy thereof, the Issuer will notify the trustee and the trustee will notify the holders of the time, place and purpose of the meeting called by the holders, to take place not less than 30 and not more than 60 days after the date on which such notification is given.

Only holders of notes and their proxies are entitled to vote at a meeting of holders. The Issuer will set the procedures governing the conduct of the meeting and if additional procedures are required, the Issuer will consult with the trustee to establish such procedures as are customary in the market.

Modifications may also be approved by holders of the notes pursuant to written action with the consent of the requisite percentage of holders of the notes. The Issuer will solicit the consent of the relevant holders to the modification not less than 10 and not more than 30 days before the expiration date for the receipt of such consents as specified by the Issuer.

The holders of the notes may generally approve any proposal by the Issuer to modify the indenture or the terms of the notes with the affirmative vote (if approved at a meeting of the holders) or consent (if approved by written action) of holders of more than 50% of the Outstanding principal amount of the notes.

However, holders of any series of debt securities (including the notes) issued under the indenture may approve, by vote or consent through one of three modification methods, any modification, amendment, supplement or waiver proposed by the Issuer that would do any of the following (such subjects are referred to as “reserved matters”):

- change the date on which any amount is payable on the debt securities;
- reduce the principal amount of the debt securities (other than in accordance with the express terms of the debt securities and the indenture);
- reduce the interest rate on the debt securities;
- change the method used to calculate any amount payable on the debt securities (other than in accordance with the express terms of the debt securities and the indenture);
- change the currency or place of payment of any amount payable on the debt securities;
- modify the obligation of the Issuer to make any payments on the debt securities (including any redemption price therefor);

- modify any guarantor's obligation to make any payments on the debt securities (including any redemption price therefor) under its guarantee;
- change the identity of the obligor under the debt securities;
- change the definition of "Outstanding" debt securities or the percentage of affirmative votes or written consents, as the case may be, required to make a "reserved matter modification" (as defined in the indenture);
- change the definition of "uniformly applicable" or "reserved matter modification";
- authorize the trustee, on behalf of all holders of the debt securities, to exchange or substitute all the debt securities for, or convert all the debt securities into, other obligations or securities of the Issuer or any other Person; or
- change the legal ranking, governing law, submission to jurisdiction or waiver of immunities provisions of the terms of the debt securities.

A change to a reserved matter, including the payment terms of any series of debt securities (including the notes), can be made without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- the holders of more than 75% of the aggregate principal amount of the Outstanding notes insofar as the change affects the notes (but does not modify the terms of any other series of debt securities issued under the indenture);
- where such proposed modification would affect the Outstanding notes and at least one other series of debt securities issued under the indenture, the holders of more than 75% of the aggregate principal amount of the then Outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, if certain "uniformly applicable" requirements are met (defined in the indenture as "cross-series modification with single aggregated voting"); or
- where such proposed modification would affect the Outstanding notes and at least one other series of debt securities issued under the indenture, whether or not the "uniformly applicable" requirements are met, the holders of more than 66²/₃% of the aggregate principal amount of the then Outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, *and* the holders of more than 50% of the aggregate principal amount of the then Outstanding debt securities of each series affected by the modification, taken individually.

"Uniformly applicable," as used herein, means a modification by which holders of debt securities of all series affected by that modification (including the notes, if so affected) are invited to exchange, convert or substitute their debt securities on the same terms for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration. It is understood that a modification will not be considered to be uniformly applicable if each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification (or, where a menu of instruments or other consideration is offered, each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification electing the same option under such menu of instruments).

The Issuer may select, in its discretion, any modification method for a reserved matter modification in accordance with the indenture and to designate which series of debt securities will be included for approval in the aggregate of modifications affecting two or more series of debt securities. Any selection of a modification method or designation of series to be included will be final for the purpose of that vote or consent solicitation.

For so long as any series of debt securities (collectively, the “2011 debt securities”) issued under the indenture dated as of May 26, 2011 between the Issuer and the trustee (as supplemented from time to time, the “2011 indenture”) are outstanding, if the Issuer certifies to the trustee under the indenture and to the trustee under the 2011 indenture that a proposed modification affecting more than one series of debt securities issued under the indenture (a “cross-series modification”) is being sought simultaneously with a “2011 indenture reserved matter modification,” the 2011 debt securities affected by such 2011 indenture reserved matter modification shall be treated as “series affected by that proposed modification” as that phrase is used in the indenture (as described in the preceding paragraphs); *provided* that if the Issuer seeks a cross-series modification with single aggregated voting, in determining whether such modification will be considered uniformly applicable, the holders of any series of 2011 debt securities affected by the 2011 indenture reserved matter modification shall be deemed “holders of debt securities of all series affected by that modification,” for the purpose of the uniformly applicable definition. It is the intention that in such circumstances, the votes of the holders of the affected 2011 debt securities be counted for purposes of the voting thresholds specified in the indenture for the applicable cross-series modification as though those 2011 debt securities had been affected by that cross-series modification although the holders of any notes will be deemed to have acknowledged and agreed that the effectiveness of any modification, as it relates to the 2011 debt securities, shall be governed exclusively by the terms and conditions of those 2011 debt securities and by the 2011 indenture.

“2011 indenture reserved matter modification,” for these purposes, means any modification to a reserved matter affecting the terms and conditions of one or more series of the 2011 debt securities, pursuant to the 2011 indenture.

Before soliciting any consent or vote of any holder of debt securities (including the notes) for any change to a reserved matter, the Issuer will provide the following information to the trustee for distribution to the holders of debt securities of any series that would be affected by the proposed modification:

- a description of the Issuer’s economic and financial circumstances that are in the Issuer’s opinion relevant to the request for the proposed modification and a description of the Issuer’s existing debts;
- if the Issuer shall at the time have entered into an arrangement for financial assistance with major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the creditors, as applicable, a copy of the arrangement or agreement;
- a description of the Issuer’s proposed treatment of external debt instruments that are not affected by the proposed modification and the Issuer’s intentions with respect to any other major creditor groups; and
- if the Issuer is then seeking any reserved matter modification affecting any other series of debt securities, a description of that proposed modification.

The consent of the holders is not necessary under the indenture to approve the particular form of any proposed amendment, modification, supplement or waiver. It is sufficient if the consent approves the substance of the proposed amendment, modification, supplement or waiver. After an amendment, modification, supplement or waiver under the indenture becomes effective, the Issuer will mail to the affected holders a notice briefly describing the amendment, modification, supplement or waiver. However, the failure to give this notice or any defect in the notice, will not impair or affect the validity of the amendment, modification, supplement or waiver.

Other Amendments

The Issuer and the trustee may, without the vote or consent of any holder of debt securities of a series issued under the indenture (including the notes), amend the indenture or the debt securities of that series for the purpose of:

- adding to the Issuer’s or the guarantors’ covenants for the benefit of the holders of the debt securities of that series;
- surrendering any of the Issuer’s or the guarantors’ rights or powers with respect to the debt securities of that series;

- securing the debt securities of that series;
- curing any ambiguity or curing, correcting or supplementing any defective provision in the debt securities of that series or the indenture;
- amending the debt securities of that series or the indenture in any manner that the Issuer and the trustee may determine and that does not materially adversely affect the interests of any holders of the debt securities of that series;
- correcting a manifest error of a formal, minor or technical nature;
- reflecting the succession of another Person to the Issuer or any guarantor and the successor entity's assumption of its respective covenants and obligations under the debt securities of that series and the indenture in accordance with the provisions described under “—Negative Covenants—Merger, Consolidate or Sale of Assets”;
- providing, if permitted by Mexican law, for the guarantee of the debt securities of that series by any additional guarantor and related revisions to the indenture to reflect the terms of the covenant described under “—Affirmative Covenants—Future Guarantors”;
- providing for a successor trustee or co-trustee in accordance with the provisions of the indenture, or adding or changing any of the provisions of the indenture as shall be necessary to provide for or facilitate the administration of the trusts by more than one trustee in accordance with the indenture.

Defeasance

The Issuer may, at its option, elect to terminate (1) all of its and the guarantors' obligations with respect to the notes and the guarantees (“legal defeasance”), except for certain obligations, including those regarding any trust established for defeasance and obligations relating to the transfer and exchange of the notes, the replacement of mutilated, destroyed, lost or stolen notes and the maintenance of agencies with respect to the notes or (2) the Issuer and the guarantors' obligations under the covenants in the indenture, so that any failure to comply with such obligations will not constitute an Event of Default (“covenant defeasance”) in respect of the notes or the guarantees. In order to exercise either legal defeasance or covenant defeasance, the Issuer must irrevocably deposit with the trustee money or U.S. government obligations, or any combination thereof, in such amounts as will be sufficient (in the case of U.S. government obligations as determined by a nationally recognized firm of independent public accountants) to pay the principal, premium, if any, and interest (including Additional Amounts) in respect of the notes then Outstanding on the maturity date of the notes, and comply with certain other conditions, including, without limitation, the delivery of an officer's certificate stating the Issuer's election and an opinion of counsel as to specified tax and other matters.

If the Issuer elects either legal defeasance or covenant defeasance with respect to any notes, the Issuer must so elect it with respect to all of the notes.

Listing

Application will be made to admit the notes for listing on the Official List of the Luxembourg Stock Exchange. There can be no assurance that the notes will be listed on the Luxembourg Stock Exchange or, if the notes are listed on such exchange, that such listing will be maintained until the maturity of the notes.

Certain Definitions

The following are certain defined terms used in the indenture and in the notes.

“Accounts Receivable” means, as to any Person, amounts payable to such Person in respect of the sale, lease or other provision of goods, energy, services or the like, whether or not yet earned by performance.

“Available Assets” means, as to any Person, assets of such Person consisting of cash on hand or on deposit in banks, certificates of deposit and bankers' acceptances, debt securities and intangible assets (other than equity securities and Accounts Receivable).

“Default” means any event or circumstance that, with the giving of notice, the lapse of time, or both, would (if not cured, waived or otherwise remedied during such time) constitute an Event of Default.

“IFRS” means *Normas Internacionales de Información Financiera* (International Financial Reporting Standards) as issued by the International Accounting Standards Board, as in effect from time to time.

“Outstanding” means, as of any date of determination, in respect of the debt securities of any series issued under the indenture, the debt securities of such series authenticated and delivered pursuant to the indenture *except* for:

- (1) debt securities of that series theretofore canceled by the trustee or delivered to the trustee for cancellation or held by the trustee for reissuance but not reissued by the trustee;
- (2) debt securities of that series that have been called for redemption in accordance with their terms or which have become due and payable at maturity or otherwise and with respect to which monies sufficient to pay the principal thereof (and premium, if any) and any interest thereon shall have been made available to the trustee; *provided* that, if such debt securities are to be redeemed, notice of such redemption has been duly given pursuant to the indenture or provision therefor satisfactory to the trustee has been made; or
- (3) debt securities of that series in lieu of or in substitution for which other debt securities shall have been authenticated pursuant to the indenture;

provided, however, that, in determining whether the holders of the requisite principal amount of debt securities Outstanding have taken any action or instruction under the indenture or the debt securities, a debt security will be disregarded and deemed not to be outstanding, and may not be counted in a vote or consent solicitation for or against a proposed modification, if on the record date for the proposed modification or other action or instruction hereunder, the debt security is held by Mexico or by a Public Sector Instrumentality, or by a corporation, trust or other legal entity that is controlled by Mexico (including the Issuer or any of its Subsidiaries) or a Public Sector Instrumentality, except that (x) debt securities held by Mexico or any Public Sector Instrumentality or any corporation, trust or other legal entity controlled by Mexico or by a Public Sector Instrumentality that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the trustee the pledgee’s right so to act with respect to such debt securities and that the pledgee is not Mexico or a Public Sector Instrumentality (including the Issuer or any of its Subsidiaries), and in case of a dispute concerning such right, the advice of counsel shall be full protection in respect of any decision made by the trustee in accordance with such advice, and any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters or information that is in the possession of the trustee, upon the certificate, statement or opinion of or representations by the trustee; and (y) in determining whether the trustee will be protected in relying upon any such action or instructions hereunder, or any notice from holders, only debt securities that a responsible officer of the trustee knows to be so owned or controlled will be so disregarded.

As used in this definition, “Public Sector Instrumentality” means any department, secretary, ministry or agency of the Mexican government, and “control” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or to elect or to appoint a majority of the board of directors or other Persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.

“Person” means an individual, a corporation, a partnership, a limited liability company, a limited liability partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Project Financing” means any financing of the acquisition, construction or development of any properties in connection with a project if the Person or Persons providing such financing expressly agree to look to the properties financed and the revenues to be generated by the operation of, loss of or damage to, such properties as the principal source of repayment for the moneys advanced (with limited recourse, if any, to the Issuer or the guarantors) and have been provided with a feasibility study prepared by competent independent experts on the basis of which it was reasonable to conclude that such project would generate sufficient foreign currency income to repay substantially all of the principal of and interest on all Public External Indebtedness incurred in connection therewith.

“Public External Indebtedness” means, with respect to any Person, any Public Indebtedness of such Person that is payable by its terms or at the option of its holder in any currency other than the currency of Mexico (other than any such Public Indebtedness that is originally issued or incurred within Mexico).

“Public Indebtedness” means, with respect to any Person, any payment obligation, including any contingent liability, of such Person arising from bonds, debentures, notes or other securities that (a) are, or were intended at the time of issuance to be, quoted, listed or traded on any securities exchange or other securities market or were issued in a private placement to institutional investors (including, without limitation, securities issued pursuant to Section 4(2) of, or eligible for resale pursuant to Rule 144A under, the Securities Act (or any successor law or regulation of similar effect)) and (b) have an original maturity of more than one year or are combined with a commitment so that the original maturity of one year or less may be extended at such Person’s option to a period in excess of one year.

“Stated maturity date” means, when used with respect to any debt security or any installment of principal thereof or interest thereon, the date expressed in such debt security (as such debt security may be amended or modified pursuant to the indenture) as the fixed date on which the principal of such debt securities or interest thereon is due and payable, without giving effect to any acceleration of any payment dates pursuant to the terms of such debt securities or otherwise.

“Subsidiary” means, in relation to any entity, any other entity (whether or not now existing) which is controlled directly or indirectly, or more than 50% of whose issued equity share capital (or equivalent) is then held or beneficially owned by, the first Person and/or any one or more of the first Person’s Subsidiaries, and “control” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other Persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

Trustee

The indenture establishes the obligations and duties of the trustee, the right to indemnification of the trustee and the liability and responsibility, including limitations, for actions that the trustee takes. The trustee is entitled to enter into business transactions with the Issuer or any of its affiliates without accounting for any profit resulting from these transactions.

Paying Agent; Transfer Agent; Registrar

Until the notes are paid, the Issuer will maintain a principal paying agent, a transfer agent and a registrar in New York City. We have initially designated the corporate trust office of the trustee as the agency for each such purpose and as the place where the register will be maintained. In addition, from and after the date the notes are listed on the Luxembourg Stock Exchange we will maintain a transfer agent in Luxembourg so long as the rules of the Luxembourg Stock Exchange so require. We will give prompt notice to all holders of notes of any future appointment or any resignation or removal of any paying agent, transfer agent or registrar or of any change by any paying agent, transfer agent or registrar in any of its specified offices.

Notices

So long as DTC, or its nominee, is the registered holder of a global note, each owner of a beneficial interest in a global note must rely on the procedures of DTC to receive notices provided to DTC. Each owner of a beneficial interest in a global note that is not a participant in DTC must rely on the procedures of the participant through which such owner owns its interest to receive notices provided to DTC.

If the notes are issued in certificated form, the Issuer will mail notices to the holders of notes at their registered addresses, as reflected in the books and records of the trustee.

From and after the date the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, we will also publish all notices to the holders of the notes either in a newspaper with general circulation in Luxembourg, which is expected to be the Luxemburger Wort, or on the website of the Luxembourg Stock Exchange at www.bourse.lu or, if we determine that this is not practicable, in another manner permitted by the rules of the Luxembourg Stock Exchange.

Governing Law

The indenture, the notes, the guarantees and the guaranty agreement (in respect of the indenture and the notes) will be governed by, and construed in accordance with, the laws of the State of New York, except that matters relating to the authorization and execution of the indenture, the notes, the guarantees and the guaranty agreement by the Issuer and the guarantors, as applicable, will be governed by, and construed in accordance with, the laws of Mexico.

Consent to Service, Jurisdiction and Waiver of Immunity

In the indenture and the guaranty agreement, respectively, the Issuer and each of the guarantors have irrevocably designated, appointed and empowered the Consul General of Mexico (New York office), currently located at 27 East 39th Street, New York, New York 10016 (the “Authorized Agent”) as the authorized agent of the Issuer and each of the guarantors to accept and acknowledge on behalf of the Issuer and each guarantor service of any and all process which may be served in any suit, action or proceeding arising out of or based upon the notes, the guarantees or the indenture that may be instituted by the trustee or any holder in any U.S. federal or New York state court in the Borough of Manhattan, The City of New York. The Issuer and each of the guarantors have consented to process being served in any such action or proceeding by service of process upon the Authorized Agent. The Issuer, the guarantors and the trustee have each (i) irrevocably submitted to the jurisdiction of any such court in respect of any such action or proceeding, (ii) irrevocably waived any objection which any of them may now or hereafter have to the laying of venue of any such action or proceeding in any such court and (iii) irrevocably waived their right to any other jurisdiction to which they may be entitled by virtue of law, place of residence or domicile or for any other reason.

To the extent that the Issuer or any of the guarantors have or hereafter may acquire any immunity from jurisdiction of any of the courts referred to above or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to the Issuer, any of the guarantors or its or their property, in each case in respect of any action, claim or proceeding brought in respect of the indenture, the notes or the guarantees, the Issuer and each of the guarantors will irrevocably waive such immunity in respect of the Issuer and such guarantor’s obligations under the indenture, the notes and the guarantees to the fullest extent permitted by law, subject to certain restrictions pursuant to applicable Mexican law, including (i) the adoption of the CFE Law, the Electric Industry Law and any other new Mexican law or regulation or (ii) any amendment to, or change in the interpretation or administration of, any existing law or regulation, in each case, pursuant to or in connection with the Energy Reform Decree and the Secondary Legislation, by any governmental authority in Mexico with oversight or authority over the Issuer or the guarantors. Such restrictions include (a) under article 90 of the CFE Law, real property owned by the Issuer and the guarantors shall be deemed to be property of the public domain and, under Article 4 of the General Law of Public Property (*Ley General de Bienes Nacionales*), neither attachment prior to judgment nor attachment in aid of execution will be ordered by Mexican courts against the Issuer or the guarantors’ real property, and (b) under the Electric Industry Law (*Ley de la Industria Eléctrica*) the transmission and distribution of electric energy as a public service are reserved to the Mexican government, through the Issuer and the guarantors and, to that extent, the assets related thereto are subject to immunity. Without limiting the generality of the foregoing, the Issuer and each of the guarantors will agree that the waivers set forth in this paragraph will have force and effect to the fullest extent permitted under the U.S. Foreign Sovereign Immunities Act of 1976, as amended, and will be irrevocable for purposes of such Act; *provided, however*, that the Issuer and each guarantor will reserve the right to plead immunity under such Act in actions brought against the Issuer or any guarantor under the U.S. federal securities laws or any state securities laws.

Currency Indemnity

The obligations of the Issuer and the guarantors to any holder of notes that has obtained a court judgment affecting those notes or the related guarantees will be discharged, to the greatest extent permissible under applicable law, only to the extent that the relevant holder is able to purchase U.S. dollars (referred to as the “agreement currency”) with any other currency paid to that holder in accordance with the judgment currency. If the holder cannot purchase the agreement currency in the amount originally to be paid, the Issuer and the guarantors have agreed to pay the difference. The holder, however, agrees that, if the amount of the agreement currency purchased exceeds the amount originally to be paid to such holder, the holder will reimburse the excess to the Issuer or the respective guarantor. The holder will not be obligated to make this reimbursement if the Issuer or such guarantor is in default in respect of its obligations under the notes or the guarantees.

Our Relationship with the trustee

Deutsche Bank Trust Company Americas is initially serving as the trustee for the notes. Deutsche Bank Trust Company Americas and its affiliates may have other business relationships with the Issuer and/or the guarantors from time to time.

TAXATION

The following summary of certain Mexican federal and U.S. federal income tax considerations is based on the advice of Creel, García-Cuéllar, Aiza y Enriquez, S.C., with respect to Mexican federal taxes, and on the advice of Cleary Gottlieb Steen & Hamilton LLP, New York, New York, with respect to U.S. federal income taxes. This summary contains a description of certain Mexican federal and U.S. federal income tax consequences of the purchase, ownership and disposition of the notes, but does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the notes. This summary does not describe any tax consequences arising under the laws of any state, municipality, locality or taxing jurisdiction other than the federal laws of Mexico and the federal laws of the United States.

This summary is based on the federal tax laws of Mexico and the United States as in effect on the date of this offering memorandum. All of the foregoing is subject to change, which change could apply retroactively and could affect the continued validity of this summary.

Mexico has also entered into tax treaties with several countries (including the United States) and is negotiating tax treaties with various other countries. These tax treaties may have effects on holders of notes. This summary does not discuss the consequences (if any) of such treaties.

Prospective purchasers of notes should consult their own tax advisors as to the Mexican, United States or other tax consequences of the purchase, ownership and disposition of the notes, including, in particular, the application to their particular situations of the tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

Mexican Tax Considerations

This summary of certain Mexican federal tax considerations refers only to prospective holders of notes that are not residents of Mexico for Mexican tax purposes and that will not hold the notes or a beneficial interest therein through a permanent establishment for tax purposes in Mexico to which income under the notes is attributable (any such non-resident holder a “Foreign Holder”). For purposes of Mexican taxation, an individual is a resident of Mexico if he/she has established his/her primary residence (*casa habitación*) in Mexico, unless he/she has a primary residence (*casa habitación*) in another country, in which case such individual will be considered a resident of Mexico for tax purposes, if such individual has his/her center of vital interest in Mexico; an individual would be deemed to maintain his/her center of vital interest in Mexico if, among other things, (i) more than 50% of his/her total income for the calendar year results from Mexican sources, or (ii) his/her principal center of professional activities is located in Mexico. A legal entity is a resident of Mexico if it maintains its main place of management in Mexico or has established its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless such person can demonstrate the contrary. If a legal entity or individual has a permanent establishment for tax purposes in Mexico, such legal entity or individual shall be required to pay taxes in Mexico on income attributable to such permanent establishment in accordance with Mexican federal tax law.

Taxation of Interest and Principal

Under the *Ley del Impuesto Sobre la Renta* (“Mexican Federal Income Tax Law”), payments of principal under the notes, made by CFE to a Foreign Holder, will not be subject to any withholding or similar taxes imposed by Mexico.

Pursuant to the Mexican Federal Income Tax Law, payments of interest (or amounts deemed to be interest) made by CFE in respect of the notes to a Foreign Holder will be subject to a withholding tax imposed at a rate of 4.9% if, as expected: (i) the notes are placed outside of Mexico by a bank or broker dealer in a country with which Mexico has a tax treaty in effect, (ii) notice relating to the offering of the notes is given to the CNBV as required under the Securities Market Law and evidence of such notice is timely filed with the Tax Administration Service, and (iii) CFE timely files with the Tax Administration Service (a) certain information related to the notes and this offering memorandum and (b) information representing that no party related to CFE, directly or indirectly, is the beneficial owner of five percent (5%) or more of the aggregate amount of each such interest payment, and (iv) CFE maintains records that evidence compliance with (iii)(b) above. If these requirements are not satisfied, the applicable withholding tax rate will be higher.

Payments of interest made by CFE in respect of the notes to a non-Mexican pension or retirement fund will be exempt from Mexican withholding taxes; *provided* that any such fund: (i) is duly established pursuant to the laws of its country of establishment and is the beneficial owner of the interest paid; (ii) is exempt from income tax in respect of such payments in such country, and (iii) delivered to us certain information required by Mexican regulations, which we may in turn provide to the Tax Administration Service.

The Mexican Federal Income Tax Law provides that for a Foreign Holder to be entitled to the benefits under a tax treaty that Mexico has in effect, it is necessary for the Foreign Holder to meet the procedural requirements set forth in such laws.

Additional Amounts

CFE has agreed, subject to specified exceptions and limitations, to pay Additional Amounts to the holders of the notes in respect of the Mexican withholding taxes mentioned above. If CFE pays Additional Amounts in respect of such Mexican withholding taxes, any refunds received with respect to such Additional Amounts will be for the account of CFE, but holders of notes will not be required to take any action in respect of such refunds. See “Description of the Notes—Additional Amounts.”

Holders or beneficial owners of notes may be requested to provide certain information or documentation necessary to enable CFE to establish the appropriate Mexican withholding tax rate applicable to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not provided on a timely basis, the obligation of CFE to pay Additional Amounts will be limited. See “Description of the Notes—Additional Amounts.”

Taxation of Dispositions and Further Acquisitions of the Notes

Under the Mexican Federal Income Tax Law, gains resulting from the sale or other disposition of the notes by a Foreign Holder to another Foreign Holder are not subject to income or other tax in Mexico. Gains resulting from the sale of the notes by a Foreign Holder to a purchaser who is a Mexican resident for tax purposes, or to a Foreign Holder deemed to have a permanent establishment in Mexico for tax purposes, will be subject to Mexican federal income or other taxes pursuant to the rules described above in respect of interest payments (or amounts deemed to be interest), unless an applicable income tax treaty provides otherwise. The acquisition of the notes at a discount by a Foreign Holder will be deemed interest income, and subject to Mexican withholding taxes if the seller is a Mexican resident or foreign resident deemed to have a permanent establishment in Mexico.

Transfer and Other Taxes

Under current Mexican tax laws, there are no Mexican stamp, issue, registration, or similar federal taxes payable by CFE or a Foreign Holder in connection with the issuance, purchase, ownership or disposition of the notes. A Foreign Holder of notes will not be liable for Mexican estate, gift, inheritance or similar tax with respect to the notes.

United States Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to an investment in the notes. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular investor’s decision to invest in the notes. This summary addresses only U.S. federal income tax consequences, and does not address consequences arising under state, local or non-U.S. laws, estate or gift tax laws, the alternative minimum tax or the Medicare tax on net investment income, nor does it address the special timing rules prescribed under section 451(b) of the Code (as defined below). Investors should consult their own tax advisors in determining the tax consequences to them of holding notes under such tax laws, as well as the application to their particular situation of the U.S. federal income tax considerations discussed below.

In addition, except as noted below with respect to Non-U.S. Holders (as defined below), this summary deals only with investors that are U.S. Holders (as defined below) who acquire the notes in the United States as part of the initial offering of the notes (and at their initial offering price), who will own the notes as capital assets, and whose functional currency is the U.S. dollar. It does not address U.S. federal income tax considerations applicable to investors who may be subject to special tax rules, including but not limited to banks or other financial institutions, insurance companies, tax-exempt entities, partnerships or other pass-through entities (or persons that hold the notes

through such entities), traders in securities that elect to use the mark-to-market method of accounting for their securities, regulated investment companies, real estate investment trusts, dealers in securities or currencies, certain short-term holders of the notes, or persons that hedge their exposure in the notes or will hold the notes as a position in a “straddle” or “conversion” transaction or as part of a “synthetic security” or other integrated financial transaction for U.S. federal income tax purposes, U.S. expatriates, or nonresident alien individuals present in the United States for more than 182 days in a taxable year. Investors should be aware that the U.S. federal income tax consequences of holding the notes may be materially different for investors described in the previous sentence.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the “Code”), U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as in effect or available on the date of this offering memorandum. All of the foregoing are subject to change, and any such change may apply retroactively and could affect the tax consequences described below.

As used herein, a “U.S. Holder” is a beneficial owner of a note that is an individual who is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income taxation on a net income basis in respect of the note. As used herein, a “Non-U.S. Holder” is a beneficial owner of a note that, for U.S. federal income tax purpose is an individual, corporation, estate or trust that is not a U.S. Holder.

Payments of Interest and Additional Amounts

Payments of the gross amount of stated interest and Additional Amounts (as defined in “Description of the Notes — Additional Amounts), including amounts withheld in respect of Mexican withholding taxes, with respect to a note will be taxable to a U.S. Holder as ordinary interest income at the time that such payments are accrued or are actually or constructively received, in accordance with the U.S. Holder’s method of tax accounting. It is expected, and this discussion assumes, that the notes will be issued without original issue discount (“OID”) for U.S. federal income tax purposes. In general, however, if the notes are issued with OID at or above a *de minimis* threshold, a U.S. Holder will be required to include OID in gross income, as ordinary income, under a “constant-yield method” before the receipt of cash attributable to such income, regardless of the U.S. holder’s regular method of accounting.

The Mexican withholding tax that is imposed on interest will be treated as foreign income tax eligible, subject to generally applicable limitations and conditions under U.S. tax law, (i) for credit against a U.S. Holder’s U.S. federal income tax liability or, (ii) at the U.S. Holder’s election, for deduction in computing such holder’s taxable income (provided that the U.S. Holder elects to deduct, rather than credit, all foreign income taxes paid or accrued for the relevant taxable year). Interest and Additional Amounts paid on the notes generally will constitute foreign source “passive category income.” A U.S. Holder may be denied a foreign tax credit for foreign taxes imposed with respect to the notes where such holder does not meet a minimum holding period requirement during which it is not protected from risk of loss. The calculation and availability of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign taxes, the availability of deductions, involves the application of complex rules that depend on a U.S. Holder’s particular circumstances. U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits or deductions in their particular situations.

Disposition of Notes

A U.S. Holder generally will recognize gain or loss on the sale, redemption or other disposition of the notes in an amount equal to the difference between the amount realized on such sale, redemption or other disposition (less any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the U.S. Holder’s adjusted tax basis in the notes. A U.S. Holder’s adjusted tax basis in a note generally will equal its cost for that note. Gain or loss realized by a U.S. Holder on such sale, redemption or other disposition generally will be capital gain or loss and will be long-term capital gain or loss if, at the time of the disposition, the notes have been held by such holder for more than one year. Long-term capital gains of individuals are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Capital gain or loss realized by a U.S. Holder on the sale or other disposition of a note generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes (except to the extent that the U.S. Holder establishes the right to treat gain as foreign-source income under the tax treaty, between the United States and Mexico). Accordingly, if Mexican tax is imposed on U.S. source gain from the sale or other disposition of the notes, such tax generally will not be available as a credit for the U.S. Holder against its U.S. federal income tax liability unless such holder has other income from foreign sources, in the appropriate category, for purposes of the foreign

tax credit rules. U.S. Holders should consult their advisors regarding the foreign tax credit implications of a disposition of the notes.

Specified Foreign Financial Assets

Individual U.S. Holders that own “specified foreign financial assets” with an aggregate value in excess of \$50,000 on the last day of the taxable year or \$75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the notes, including the application of the rules to their particular circumstances.

Information Reporting and Backup Withholding

Information returns will be filed with the U.S. Internal Revenue Service (the “IRS”) in connection with payments on the notes made to, and the proceeds of dispositions of notes effected by, certain U.S. Holders. In addition, certain U.S. Holders may be subject to backup withholding in respect of such amounts unless they provide their correct taxpayer identification numbers to the person from whom they receive payments and otherwise comply with applicable requirements of the backup withholding rules. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. Any amounts withheld under these rules will generally be allowed as a credit against such U.S. or Non-U.S. Holder’s U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

FORM OF NOTES, CLEARING AND SETTLEMENT

Global Notes

The notes will be issued in the form of one or more registered notes in global form, without interest coupons (the “global notes”), as follows:

- notes sold to qualified institutional buyers under Rule 144A will be represented by one or more Restricted global notes; and
- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by one or more Regulation S global notes.

Upon issuance, each of the global notes will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each global note will be limited to persons who have accounts with DTC (“DTC participants”), including Euroclear and Clearstream, or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

- upon deposit of each global note with DTC’s custodian, DTC will credit portions of the principal amount of the global note to the accounts of the DTC participants designated by the initial purchasers; and
- ownership of beneficial interests in each global note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the global note).

Beneficial interests in a Regulation S global note will initially be credited within DTC to Euroclear and Clearstream on behalf of the owners of such interests.

Investors may hold their interests in the global notes directly through DTC, Euroclear or Clearstream, if they are participants in those systems, or indirectly through organizations that are participants in those systems.

Beneficial interests in the global notes may not be exchanged for notes in physical, certificated form except in the limited circumstances described below.

Each global note and beneficial interests in each global note will be subject to restrictions on transfer as described under “Transfer Restrictions.”

Exchanges Between the Global Notes

Beneficial interests in a Regulation S global note may be transferred to a person who takes delivery in the form of a beneficial interest in the Restricted global note only if the transfer is made pursuant to Rule 144A and the transferor first delivers to the trustee a certificate (in the form provided in the indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Restricted global note may be transferred to a person who takes delivery in the form of a beneficial interest in a Regulation S global note only upon receipt by the trustee of a written certification (in the form provided in the indenture) from the transferor to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Transfers of beneficial interests within a global note may be made without delivery of any written certification or other documentation from the transferor or the transferee. Transfers of beneficial interests in a Regulation S global note for beneficial interests in a Restricted global note or vice versa will be effected by DTC by means of an instruction originated by the trustee through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any transfer, appropriate adjustments will be made to reflect a decrease in the

principal amount of a Regulation S global note and a corresponding increase in the principal amount of a Restricted global note or vice versa, as applicable. Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in another global note will, upon transfer, cease to be an interest in such global note and will become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for so long as it remains such an interest. Such transfer shall be made on a delivery free of payment basis and the buyer and seller will need to arrange for payment outside the applicable clearing system.

Book-Entry Procedures for the Global Notes

All interests in the global notes will be subject to the operations and procedures of DTC, Euroclear and Clearstream. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of us, the trustee or the initial purchasers are responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the New York State Banking Law;
- a “banking organization” within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a “clearing corporation” within the meaning of the New York Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the U.S. Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC’s participants include securities brokers and dealers, including the initial purchasers; banks and trust companies; clearing corporations; and certain other organizations. Indirect access to DTC’s system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC (including Euroclear or Clearstream).

So long as DTC or its nominee is the registered owner of a global note, DTC or its nominee will be considered the sole owner or holder of the notes represented by that global note for all purposes under the indenture. Except as provided below, owners of beneficial interests in a global note:

- will not be entitled to have notes represented by the global note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the registered owners or holders of the notes under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee under the indenture.

As a result, each investor who owns a beneficial interest in a global note must rely on the procedures of DTC to exercise any rights of a holder of notes under the indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest).

Payments of principal, premium, if any, and interest with respect to the notes represented by a global note will be made by the trustee to DTC’s nominee as the registered holder of the global note. Neither we nor the trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a global note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a global note will be governed by standing instructions and customary practices and will be the responsibility of those participants or indirect participants and not of DTC, its nominee or us.

Transfers between participants in DTC will be effected under DTC's procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream. To deliver or receive an interest in a global note held in a Euroclear or Clearstream account, an investor must send transfer instructions to Euroclear or Clearstream, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream, as the case may be, will send instructions to its DTC depository to take action to effect final settlement by delivering or receiving interests in the relevant global notes in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant that purchases an interest in a global note from a DTC participant will be credited on the business day for Euroclear or Clearstream immediately following the DTC settlement date. Cash received in Euroclear or Clearstream from the sale of an interest in a global note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account as of the business day for Euroclear or Clearstream following the DTC settlement date.

DTC, Euroclear and Clearstream have agreed to the above procedures to facilitate transfers of interests in the global notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither we nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Notes

Beneficial interests in the global notes may not be exchanged for notes in physical, certificated form unless:

- DTC notifies us at any time that it is unwilling or unable to continue as depository for the global notes and a successor depository is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934, as amended, and a successor depository is not appointed within 90 days;
- we, at our option, notify the trustee that we elect to cause the issuance of certificated notes; or
- certain other events provided in the indenture occur, including the occurrence and continuance of an event of default with respect to the notes.

In all cases, certificated notes delivered in exchange for any global note will be registered in the names, and issued in any approved denominations, requested by the depository and will bear a legend indicating the transfer restrictions of that particular global note.

For information concerning paying agents and transfer agents for any notes issued in certificated form, see "Description of the Notes—General—Payment of Principal and Interest."

TRANSFER RESTRICTIONS

The notes have not been registered, and will not be registered, under the Securities Act or any other securities laws, and the notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act.

Accordingly, the notes are being offered and sold only:

- (1) in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- (2) outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

The notes have not been and will not be registered with the *Registro Nacional de Valores* (Mexican National of Securities Registry) maintained by the CNBV, and, therefore, the notes may not be publicly offered or sold in Mexico. The notes may be offered in Mexico to investors that satisfy the requirements to be considered institutional or qualified investors under Mexican law, pursuant to the private placement exemption set forth in Article 8 of the Securities Market Law.

The notes are subject to restrictions on transfer as summarized below. By purchasing notes, you will be deemed to have made the following acknowledgements, representations to and agreements with us and the initial purchasers:

- (1) You acknowledge that:
 - the notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
 - the notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws.
- (2) You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:
 - you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing the notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the notes to you in reliance on Rule 144A; or
 - you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person and you are purchasing notes in an offshore transaction in accordance with Regulation S.
- (3) You acknowledge that neither we nor the initial purchasers nor any person representing us or the initial purchasers has made any representation to you with respect to us or the offering of the notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the notes. You agree that you have had access to such financial and other information concerning us and the notes as you have deemed necessary in connection with your decision to purchase notes, including an opportunity to ask questions of and request information from us.
- (4) If you are a purchaser of notes pursuant to Rule 144A, you represent that you are purchasing notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or

their control and subject to your or their ability to resell the notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act.

- (5) You agree, and each subsequent holder of the notes by its acceptance of the notes will agree, that the notes may be offered, sold or otherwise transferred only:
- to a person who the seller reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act purchasing for its own account or for the account of a qualified institutional buyer or buyers in a transaction meeting the requirements of Rule 144A;
 - in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act; or
 - pursuant to an exemption from registration under the Securities Act (if available).

As a condition to registration of transfer of the notes pursuant to the exemption referred to in clause (iii) above, we or the trustee may require delivery of any documents or other evidence that we or the trustee each, in our or its discretion, deems necessary or appropriate to evidence compliance with such exemption, and, in each case, in accordance with the applicable securities laws of the states of the United States and other jurisdictions.

- (6) You also acknowledge that:
- the above restrictions on resale are expected to apply from the issue date until the issuer decides to remove the below legend (in the case of Restricted global notes) or 40 days (in the case of Regulation S global notes) after the later of the issue date and the last date that we or any of our affiliates was the owner of the notes or any predecessor of the notes (the “resale restriction period”), and will not apply after the applicable resale restriction period ends; and
 - each Restricted global note will contain a legend substantially to the following effect:

NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER OR BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) AND, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. AS A CONDITION TO REGISTRATION OF TRANSFER OF THIS GLOBAL NOTE PURSUANT TO CLAUSE (3) ABOVE, COMISIÓN FEDERAL DE ELECTRICIDAD OR THE TRUSTEE MAY REQUIRE DELIVERY OF ANY DOCUMENTS OR OTHER EVIDENCE THAT IT, IN ITS DISCRETION, DEEMS NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH THE EXEMPTION REFERRED TO IN CLAUSE (3). THIS LEGEND MAY BE REMOVED SOLELY IN THE DISCRETION AND AT THE DIRECTION OF COMISIÓN FEDERAL DE ELECTRICIDAD.

- each Regulation S global note will contain a legend substantially to the following effect:

NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). NEITHER THIS GLOBAL NOTE NOR ANY BENEFICIAL INTEREST HEREIN MAY BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON, UNLESS THIS GLOBAL NOTE IS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF

IS AVAILABLE. THIS LEGEND MAY BE REMOVED SOLELY IN THE DISCRETION AND AT THE DIRECTION OF COMISIÓN FEDERAL DE ELECTRICIDAD.

The above legend may be removed solely in our discretion and at our direction.

- (7) You understand that the notes will be represented by one or more Restricted global notes and one or more Regulation S global notes, and that certification requirements may apply before an interest in one global note may be transferred to a person who takes delivery in the form of an interest in the other global note. See “Form of Notes, Clearing and Settlement—Exchanges Between Global Notes.”
- (8) You acknowledge that we, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of notes is no longer accurate, you will promptly notify us and the initial purchasers. If you are purchasing any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

PLAN OF DISTRIBUTION

BBVA Securities Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC and Mizuho Securities USA LLC are acting as global coordinators and joint book-running managers of the offering (the “global coordinators”). Barclays Capital Inc., Citigroup Global Markets Inc. and Santander Investment Securities Inc. are acting as joint book-running managers of the offering (together with the global coordinators, the “initial purchasers”). Subject to the terms and conditions set forth in a purchase agreement among us and the initial purchasers, we have agreed to sell to the initial purchasers, and each of the initial purchasers has agreed, severally and not jointly, to purchase from us, the principal amount of notes set forth opposite its name below:

Initial Purchasers	Principal Amount of the 2031 Notes	Principal Amount of the 2051 Notes
	<i>(in U.S.\$)</i>	<i>(in U.S.\$)</i>
BBVA Securities Inc.....	195,000,000	130,000,000
Goldman Sachs & Co. LLC	195,000,000	130,000,000
J.P. Morgan Securities LLC	195,000,000	130,000,000
Mizuho Securities USA LLC	195,000,000	130,000,000
Barclays Capital Inc.	140,000,000	93,333,000
Citigroup Global Markets Inc.	140,000,000	93,334,000
Santander Investment Securities Inc.	140,000,000	93,333,000
Total	1,200,000,000	800,000,000

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed, severally and not jointly, to purchase all of the notes sold under the purchase agreement, if any of these notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the several initial purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer’s certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part. The initial purchasers may offer and sell the notes through certain of their affiliates.

The initial purchasers have advised us that they propose initially to offer the notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

We have agreed that, for a period of 30 days from the date of delivery of the notes, we will not, without the prior written consent of the initial purchasers, offer, sell, pledge, contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any U.S. dollar-denominated debt securities issued or guaranteed by us or any of our subsidiaries (other than the notes).

Notes Are Not Being Registered

The notes have not been registered under the Securities Act or any U.S. state or other securities laws. The initial purchasers propose to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The initial purchasers will not offer or sell the notes except to persons they reasonably believe to be qualified institutional buyers or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under “Transfer Restrictions.”

The information contained in this offering memorandum is exclusively our responsibility and has not been reviewed or authorized by the CNBV. The notes have not been nor will otherwise be registered with the *Registro Nacional de Valores* (Mexican National Securities Registry) maintained by the CNBV and therefore the notes may not be publicly offered or sold in Mexico. The notes may be offered in Mexico to investors that satisfy the requirements to be considered institutional or qualified investors under Mexican law, pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the notes outside of Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes only, and the delivery of such notice to, and the receipt of such notice by, the CNBV, does not imply any certification as to the investment quality of the notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth herein. This offering memorandum may not be publicly distributed in Mexico.

New Issue of Notes

Each series of the notes is a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any national securities exchange or for inclusion of the notes on any automated dealer quotation system other than the Euro MTF Market of the Luxembourg Stock Exchange. We have been advised by the initial purchasers that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Short Positions

In connection with the offering, the initial purchasers may purchase and sell the notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing notes in the open market. A short position is more likely to be created if the initial purchasers are concerned that there may be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the initial purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor any of the initial purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Settlement

Delivery of the notes is expected on or about February 9, 2021, which will be the fifth business day following the date of pricing of the notes ("T+5") against payment for the notes. Under Rule 15c6-1 of the U.S. Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the delivery of the notes may be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their delivery date should consult their own advisors.

Other Relationships

The initial purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment

management, principal investment, hedging, financing and brokerage activities. Some of the initial purchasers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us for which they received or will receive customary fees and expenses. Affiliates of the initial purchasers are lenders under a number of our loan agreements.

In the ordinary course of their various business activities, the initial purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The initial purchasers and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Sales Outside the United States

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

European Economic Area

Prohibition of sales to EEA Retail Investors – The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “Prospectus Regulation”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

United Kingdom

Prohibition of sales to UK Retail Investors – The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the “FSMA”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the “UK Prospectus Regulation”). Consequently, no key information

document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

In the UK, this offering memorandum and any other material in relation to the notes described herein are being distributed only to, and are directed only at, persons who are “qualified investors” (as defined in the UK Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Order”), or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iii) persons to whom it would otherwise be lawful to distribute them, all such persons together being referred to as “Relevant Persons.” In the UK, the notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the notes will be engaged in only with, Relevant Persons. This offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by any recipients to any other person in the UK. Any person in the UK that is not a Relevant Person should not act or rely on this offering memorandum or its contents.

Mexico

The notes have not been and will not be registered with the Registro Nacional de Valores (Mexican National Securities Registry) maintained by the CNBV and, therefore, the notes may not be publicly offered or sold in Mexico. The notes may be offered in Mexico to investors that satisfy the requirements to be considered institutional or qualified investors under Mexican law, pursuant to the private placement exemption set forth in Article 8 of the Securities Market Law.

Switzerland

This offering memorandum is not intended to constitute an offer or solicitation to purchase or invest in the notes described herein. The notes may not be publicly offered, directly or indirectly, in, into or from Switzerland within the meaning of the Swiss Financial Services Act (“FinSA”) and no application has or will be made to admit the notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this offering memorandum nor any other offering or marketing material relating to the notes constitutes a prospectus pursuant to FinSA, and neither this offering memorandum nor any other offering or marketing material relating to the notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this offering memorandum nor any other offering or marketing material relating to the offering nor the notes have been or will be filed with or approved by any Swiss regulatory authority. The notes are not subject to the supervision by any Swiss regulatory authority (e.g., the Swiss Financial Markets Supervisory Authority FINMA), and investors in the notes will not benefit from protection or supervision by any such authority.

Chile

The offer of the notes is subject to General Rule No. 336 of the Chilean Securities Commission (*Comisión para el Mercado Financiero*, or CMF). The notes being offered will not be registered under the Chilean Securities Market Law (*Ley de Mercado de Valores*) in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) both kept by the CMF and, therefore, the notes are not subject to the oversight of the CMF. As unregistered securities in Chile, we are not required to disclose public information about the notes in Chile. Accordingly, the notes cannot and will not be publicly offered to persons in Chile unless they are registered in the corresponding Securities Registry. The notes may only be offered in Chile in circumstances that do not constitute a public offering under Chilean law or in compliance with General Rule No. 336 of the CMF. Pursuant to the Chilean Securities Market Law, a public offering of securities is an offering that is addressed to the general public or to certain specific categories or groups thereof. Considering that the definition of public offering is quite broad, even an offering addressed to a small group of investors may be considered to be addressed to a certain specific category or group of the public and therefore be considered public under applicable law and, as such, subject to registration in Chile. However, pursuant to General Rule No.336 of the CMF, the notes may be privately offered in Chile to certain “qualified investors” identified as such therein (which in turn are further described in General Rule No. 216, dated June 12, 2008, of the CMF).

CMF Rule 336 requires the following information to be provided to prospective investors in Chile:

1. Date of commencement of the offer: February 2, 2021. The offer of the notes is subject to Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012, issued by the CMF.
2. The subject matter of this offer are securities not registered with the Securities Registry (*Registro de Valores*), nor with the Foreign Securities Registry (*Registro de Valores Extranjeros*) both kept by CMF. As a consequence, the notes are not subject to the oversight of the CMF.
3. Since the notes are not registered in Chile, the issuer is not obliged to provide publicly available information about the notes in Chile.
4. The notes shall not be subject to public offering in Chile unless registered with the relevant Securities Registry kept by the CMF.

CMF Rule 336 further requires the following information to be included in the Spanish language: **Aviso a los Inversionistas Chilenos**

La oferta de los bonos se acoge a la Norma de Carácter General N°336 de la Comisión para el Mercado Financiero. Los bonos que se ofrecen no están inscritos bajo la Ley de Mercado de Valores en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Comisión para el Mercado Financiero, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de valores no inscritos en Chile, no existe obligación por parte del emisor de entregar en Chile información pública respecto de estos valores. Los bonos no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el Registro de Valores correspondiente. Los bonos solo podrán ser ofrecidos en Chile en circunstancias que no constituyan una oferta pública o cumpliendo con lo dispuesto en la Norma de Carácter General N° 336 de la Comisión para el Mercado Financiero. De conformidad con la Ley de Mercado de Valores Chilena, se entiende por oferta pública de valores la dirigida al público en general o a ciertos sectores o a grupos específicos de éste. Considerando lo amplio de dicha definición, incluso una oferta dirigida a un pequeño grupo de inversionistas puede ser considerada como una oferta dirigida a ciertos sectores o a grupos específicos del público y por lo tanto considerada como pública y sujeta a inscripción en Chile bajo la ley aplicable. Sin embargo, en conformidad con lo dispuesto por la Norma de Carácter General N°336, los bonos podrán ser ofrecidos privadamente a ciertos “inversionistas calificados,” identificados como tal en dicha norma (y que a su vez están descritos en la Norma de Carácter General N° 216 de la Comisión para el Mercado Financiero de fecha 12 de junio de 2008).

La siguiente información se proporciona a potenciales inversionistas de conformidad con la NCG 336:

1. *La oferta de los bonos comienza el 2 de febrero de 2021, y se encuentra acogida a la Norma de Carácter General N° 336, de fecha 27 de junio de 2012, de la CMF.*
2. *La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la CMF, por lo tanto, tales valores no están sujetos a la fiscalización de esa Comisión.*
3. *Por tratarse de valores no inscritos en Chile, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de los mismos.*
4. *Estos valores no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el Registro de Valores correspondiente.*

Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment hereto) contains a

misrepresentation; *provided* that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Hong Kong

This offering memorandum has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. The notes will not be offered or sold in Hong Kong other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) has been issued or will be issued in Hong Kong or elsewhere other than with respect to securities which are or are intended to be disposed of only to persons outside of Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The notes have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act. Accordingly, none of the notes nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any "resident" of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

Singapore

Each initial purchaser has acknowledged that this offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each initial purchaser has represented and agreed that it has not offered or sold any notes or caused the notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any notes or cause the notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, whether directly or indirectly, to any person in Singapore other than:

- (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA;
- (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA and in accordance with the conditions specified in Section 275 of the SFA; or
- (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or

as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA (Chapter 289 of Singapore), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the notes are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Colombia

The notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer privately the notes to their Colombian clients.

Dubai International Financial Centre

This offering memorandum relates to an exempt offer in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority (“DFSA”). This offering memorandum is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with exempt offers. The DFSA has not approved this offering memorandum nor taken steps to verify the information set forth herein and has no responsibility for this document. The notes offered hereby may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the notes offered should conduct their own due diligence in respect of the notes and the Issuer. If you do not understand the contents of this offering memorandum you should consult an authorized financial advisor.

In relation to its use in the Dubai International Financial Centre, this offering memorandum is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. Interests in the notes may not be offered or sold directly or indirectly to the public in the Dubai International Financial Centre.

Peru

The notes and the information contained in this offering memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the notes and therefore, the disclosure obligations set forth therein will not be applicable to the Issuer or the sellers of the notes before or after their acquisition by prospective investors. The notes and the information contained in this offering memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the

Superintendencia del Mercado de Valores (Peruvian capital market regulator, the “SMV”) nor have they been registered with the SMV’s *Registro Público del Mercado de Valores* (Securities Market Public Registry). Accordingly, the notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian law and regulations and complies with the provisions on private offerings set forth therein.

Italy

The offering of the notes has not been registered pursuant to Italian securities legislation and, therefore, no notes may be offered, sold or delivered, nor may copies of this offering memorandum or of any other document relating to the notes be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*) as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “*Financial Services Act*”) and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“*Regulation No. 11971*”); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the notes or distribution of copies of this offering memorandum or any other document relating to the notes in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the “*Banking Act*”); and
- (ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

In accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (a) and (b) above, the subsequent distribution of the notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

Taiwan

The notes have not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the notes in Taiwan.

LEGAL MATTERS

The validity of the notes will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, New York, New York. The validity of the notes will be passed upon for the initial purchasers by Simpson Thacher & Bartlett LLP. Certain matters of Mexican law relating to the notes will be passed upon for us by our General Counsel (*Abogado General*) and by Creel, García-Cuéllar, Aiza y Enríquez, S.C. Certain matters of Mexican law relating to the notes will be passed upon for the initial purchasers by Galicia Abogados, S.C.

INDEPENDENT AUDITORS

The consolidated financial statements of Comisión Federal de Electricidad, Productive State Enterprise, as of December 31, 2019, 2018 and 2017 and for the three years ended December 31, 2019, included herein, have been audited by KPMG Cárdenas Dosal, S.C., independent auditors, as stated in their reports appearing herein. Our interim financial statements have been subject to a limited review by Gossler, S.C., an independent accounting firm.

LISTING AND GENERAL INFORMATION

1. The Issuer will apply to have the notes admitted for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market of the Luxembourg Stock Exchange.

2. The notes have been accepted for clearance through DTC, Euroclear and Clearstream. The CUSIP numbers, ISIN numbers and Common Codes for the notes are as follows:

	<u>CUSIP Number</u>	<u>ISIN Number</u>	<u>Common Code</u>
Restricted Global Note (2031 notes)	200447 AH3	US200447AH32	229818961
Regulation S Global Note (2031 notes)	P29595 AD0	USP29595AD08	229809385
Restricted Global Note (2051 notes)	200447 AJ9	US200447AJ97	229818953
Regulation S Global Note (2051 notes)	P29595 AE8	USP29595AE80	229809288

3. The Issuer will have obtained all necessary consents, approvals and authorizations in Mexico in connection with the issuance of, and performance of our rights and obligations under, the notes, including the registration of the indenture and the form of notes attached to the indenture; provided that in connection with each issuance of notes under the indenture, the Issuer will register the notes and other necessary documentation with the Ministry of Finance. The Mexican Congress approved our total net indebtedness for 2021 under the Ley de Ingresos de la Federación para el Ejercicio Fiscal de 2021 (Federal Revenue Law for 2021), published in the Official Gazette on November 25, 2020.

4. Except as disclosed in this offering memorandum, there are no pending actions, suits or proceedings against or affecting us or any of our properties, which, if determined adversely to us would individually or in the aggregate have an adverse effect on our financial condition or would adversely affect our ability to perform our obligations under the notes or which are otherwise material in the context of the issue of the notes, and, to the best of our knowledge, no such actions, suits or proceedings are threatened.

5. Except as disclosed in this offering memorandum, since December 31, 2019, there has been no change (or any development or event involving a prospective change of which we are or might reasonably be expected to be aware) which is materially adverse to our financial condition.

6. KPMG Cárdenas Dosal, S.C., an independent auditor, has agreed to the inclusion of its audit report in this offering memorandum in the form and context in which it is included. Gossler, S.C., an independent auditor, has agreed to the inclusion of its limited review report in this offering memorandum in the form and context in which it is included.

7. For so long as any of the notes are outstanding and admitted for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market of the Luxembourg Stock Exchange, copies of the following items in English will be available free of charge from Deutsche Bank Luxembourg S.A., our Luxembourg listing agent, at its office at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg:

- our annual audited financial statements as of and for the years ended December 31, 2019, 2018 and 2017;
- our interim financial information as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019;
- our annual audited consolidated financial statements as of future dates and for future years; and
- any related notes to the items listed above.

8. For so long as any of the notes are outstanding, the indenture, our by-laws, the *Acuerdo de Creación de las Subsidiarias* (the Creation Resolution of Subsidiaries) and a copy of the CFE Law which provides for the regulatory framework of CFE will be available for inspection at the offices of the trustee.

9. We currently publish unaudited condensed consolidated interim financial information on a quarterly basis. These financial statements are available on our website (www.cfe.mx). Information on our website is not a part of this offering memorandum.

10. This offering memorandum will be published on the website of the Luxembourg Stock Exchange, being www.bourse.lu.

11. The Issuer was created in 1937 by presidential decree, and then converted by the Mexican Congress in 1949 into an *organismo descentralizado de la Administración Pública Federal* (decentralized public entity of the Mexican government). Pursuant to the CFE Law, in accordance with the Energy Reform Decree and Secondary Legislation, the Issuer was converted into a productive state enterprise on October 7, 2014. Our principal executive office is located at Paseo de la Reforma 164, Col. Juárez, 06600 Ciudad de México, México. Our telephone number at that address is +1(5255) 5229-4400. The Issuer's LEI code is 4469000001BFPONMPF32.

12. The addresses of the registered offices of the guarantors are: (i) CFE Distribución: Río Ródano no. 14, tercer piso, sala 303, Colonia Cuauhtémoc C.P. 06598, Ciudad de México, México, (ii) CFE Suministrador de Servicios Básicos: Río Ródano no. 14, quinto piso, sala 501, Colonia Cuauhtémoc C.P. 06598, Ciudad de México, México, (iii) CFE Transmisión: Don Manuelito No. 32, Colonia Olivar de los Padres, Alcaldía Álvaro Obregón, C.P. 01780, Ciudad de México, México, (iv) CFE Generación I: Av. Real de los Reyes no. 265, Colonia Los Reyes Coyoacán, C.P. 04330, Ciudad de México, México, (v) CFE Generación II: Calle Gabrielle D'Annunzio no. 5001, Colonia Prados Vallarta, Zapopan, C.P. 45020, Jalisco, México, (vi) CFE Generación III: Calle Matamoros 24 sur, Colonia Centro, Hermosillo, C.P. 83000, Sonora, México, (vii) CFE Generación IV: Ave. Pablo A. González no. 650 Poniente, Colonia San Jerónimo, C.P. 64640, Monterrey, México, (viii) CFE Generación V: Don Manuelito no. 11 PB, Colonia Olivar de los Padres, Alcaldía Álvaro Obregón, C.P. 01780, Ciudad de México, México, and (ix) CFE Generación VI: Km. 7.5 Carretera Veracruz-Medellín, Dos Bocas, C.P. 94271, Veracruz, México.

13. The address of the registered office of CFE Telecomunicaciones e Internet para Todos is Av. Paseo de la Reforma 164, Colonia Juárez, Delegación Cuauhtémoc, C.P. 06600, Ciudad de México, México.

14. The trustee for the notes is Deutsche Bank Trust Company Americas, having its office at 60 Wall Street, New York, New York, 10005, United States. The terms and conditions of our appointment of Deutsche Bank Trust Company Americas as trustee, including the terms and conditions under which Deutsche Bank Trust Company Americas may be replaced as trustee, are contained in the indenture available for inspection at the offices of Deutsche Bank Trust Company Americas.

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**COMISIÓN FEDERAL DE ELECTRICIDAD,
PROUCTIVE STATE ENTERPRISE AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION**

AS AT SEPTEMBER 30, 2020

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Gossler, S.C.

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**Independent Auditors' Report
on review of condensed consolidated interim financial information**

**To the Board of Directors of
Comisión Federal de Electricidad, Productive State Enterprise**

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Comisión Federal de Electricidad, Productive State Enterprise (“the Entity”), which comprise the condensed consolidated statement of financial position as at September 30, 2020, the condensed consolidated statements of comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2020, the condensed consolidated statements of changes in equity for the nine-month period ended September 30, 2020, the condensed consolidated statements of cash flows for the nine-month period ended September 30, 2020 and notes to the interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 30, 2020 condensed consolidated interim financial information, is not prepared, in all material respects, in accordance with IAS 34, “Interim Financial Reporting”.


1.



Comparative information

The condensed consolidated statement of financial position of the Entity as at December 31, 2019, have been derived from Entity' s annual consolidated financial statements as at and for the year ended December 31, 2019, which were audited by other auditors whose report dated June 30, 2020, expressed an unmodified opinion on those consolidated financial statements.

We have not reviewed the accompanying condensed consolidated statements of comprehensive income (loss), changes in equity and cash flows of the Entity for the three-month and nine-month period ended September 30, 2019, and accordingly do not express a review conclusion on them.

GOSSLER S.C.

C.P.C. Leobardo Brizuela Arce
Audit Partner

Mexico City
January 9, 2021

**Comisión Federal de Electricidad,
Productive State Enterprise and subsidiaries**

Condensed consolidated statements of financial position
Balances as of September 30, 2020 and December 31, 2019

(Thousands of pesos)

These financial statements have been translated from the Spanish language original and for the convenience of foreign/ English-speaking

Assets	2020	2019	Liabilities and equity
Current assets:			Current liabilities:
Cash and cash equivalents (note 5)	\$ 150,016,795	\$ 89,339,037	Short-term maturities of:
Accounts receivable, net (note 6)	102,588,696	86,672,574	Short-term debt (note 12)
Inventory of materials for operation, net (note 7)	16,252,407	21,533,937	Lease liabilities (note 13)
Total current assets	268,857,898	197,545,548	Other payables and accrued liabilities (note 14)
Loans to employees	14,804,031	13,777,331	Income tax
Plants, facilities and equipment, net (note 8)	1,195,991,298	1,211,303,643	Total current liabilities
Right-of-use assets, net (note 9)	494,719,690	474,376,421	Non-current liabilities:
Derivative financial instruments (note 11)	37,538,735	4,064,335	Long-term debt (note 12)
Intangibles and other assets (note 10)	45,414,736	38,638,865	Lease liabilities (note 13)
Deferred tax assets	168,230,246	167,193,651	Other long-term liabilities (note 15)
			Long-term employees benefits (note 16)
			Total non-current liabilities
			Total liabilities
			Equity:
			Contributions received from the Federal Government
			Contributions in kind received from the Federal Government
			Retained earnings
			Other comprehensive income items
			Total controlling
			Non-controlling interest
			Contingencies and commitments (note 17)
	\$ 2,225,556,634	\$ 2,106,899,794	

See accompanying notes to condensed consolidated financial statements

**Comisión Federal de Electricidad,
Productive State Enterprise and subsidiaries**

Condensed consolidated statements of comprehensive income

For the 9-month period ended September 30, 2020 and 2019

(Thousands of pesos)

These financial statements have been translated from the Spanish language original and for the convenience of foreign/ English-speaking readers.

	For the 9-month period ended September		For the 3-month period ended September	
	2020	2019	2020	2019
Revenues:				
Electricity supply service revenue (note 18)	\$ 280,066,204	312,887,936	99,606,565	116,493,291
Subsidy income	63,000,000	41,668,640	21,000,000	15,625,740
Third party fuel revenue	11,879,456	33,136,194	2,173,790	9,950,769
Freight revenue	15,880,113	6,799,517	10,818,555	1,049,189
Other income, net	15,692,879	14,358,231	5,296,409	6,510,856
Total revenues	386,518,652	408,850,518	138,895,319	149,629,845
Costs:				
Energy and other fuel supplies	117,647,915	199,927,765	45,075,930	63,890,347
Energy and other fuel supplies - Third party	18,096,828	32,027,945	7,043,182	20,989,458
Salaries and related costs	50,760,639	49,756,377	18,227,593	17,308,926
Maintenance, materials and general services	15,335,436	3,709,151	5,741,496	(5,709,044)
Taxes and duties	1,643,858	1,752,969	397,903	486,184
Wholesale Electricity Market costs (MEM)	2,381,881	2,408,361	853,044	881,096
Employee benefits costs	102,751,238	26,050,400	84,540,432	8,683,401
Depreciation	51,788,379	51,763,678	17,108,443	16,969,173
Other expenses	8,102,821	2,228,834	4,017,796	1,599,318
Total costs	368,508,995	369,625,480	183,005,819	125,098,859
Operating results	18,009,657	39,225,038	(44,110,500)	24,530,986
Comprehensive financing result, net:				
Interest expenses	39,094,712	33,214,461	31,348,455	21,370,134
Finance expenses, net	5,782,871	4,300,836	(18,097,996)	(8,820,316)
Foreign exchange loss (gain), net	110,411,928	(1,092,983)	(15,724,911)	10,731,168
Total comprehensive financing results, net	155,289,511	36,422,314	(2,474,452)	23,280,986
(Loss) income before income tax other comprehensive income	(137,279,854)	2,802,724	(41,636,048)	1,250,000
Income tax	5,628,882	2,330,881	4,491,450	(2,262,850)
Net (loss) Income	(142,908,736)	471,843	(46,127,498)	3,512,850
Net (loss) income for the year attributable to:				
Equity holder of the parent	(143,530,087)	(5,379,992)	(46,802,133)	(2,338,985)
Non-controlling interest	621,351	5,851,836	674,635	5,851,836
	(142,908,736)	471,843	(46,127,498)	3,512,850
Other comprehensive income:	19,365,638	(2,658,261)	8,207,566	(340,025)
Comprehensive income for the period	\$ (123,543,098)	\$ (2,186,418)	\$ (37,919,932)	\$ 3,172,825

See accompanying notes to condensed consolidated financial statements

Comisión Federal de Electricidad
Productive State Enterprise and subsidiaries

Condensed consolidated statements of changes in equity
For the 9-month period ended September 30, 2020 and 2019

(Thousands of pesos)

These financial statements have been translated from the Spanish language original and for the convenience of foreign/ English-speaking

	Contributions received from the Federal Government	Contributions in kind from the Federal Government	Acumulated results	Other comprehensive income (loss) items	Total equity controlling interests
Balances at December 31, 2018	\$ 5,251	\$ 95,004,417	\$ 108,125,282	\$ 466,085,725	\$ 669,220,675
Comprehensive income of the period	-		471,843	(2,658,261)	(2,186,418)
Dividend decree	-	-	-	-	-
Balances at September 30, 2019	\$ 5,251	\$ 95,004,417	\$ 108,597,125	\$ 463,427,464	\$ 667,034,257
Balances at December 31, 2019	\$ 5,251	\$ 95,004,417	\$ 129,091,018	\$ 400,029,909	\$ 624,130,595
Comprehensive income of the period	-	-	(143,530,087)	19,365,638	(124,164,449)
Issue of shares	-	-	-	-	-
Dividend decree	-	-	-	-	-
Balances at September 30, 2020	\$ 5,251	\$ 95,004,417	\$ (14,439,069)	\$ 419,395,547	\$ 499,966,146

See accompanying notes to condensed consolidated financial statements

Comisión Federal de Electricidad
Productive State Enterprise and subsidiaries

Condensed consolidated statements of cash flows

For the 9-month period ended September 30, 2020 and 2019

(Thousands of pesos)

These financial statements have been translated from the Spanish language original and for the convenience of foreign/ English-speaking readers.

	2020	2019
Cash flows from operating activities:		
Net loss	\$ (142,908,736)	\$ 471,844
Operating activities:		
Employee benefits costs	102,751,238	26,050,400
Increase in provisions of deferred and current income tax	5,628,882	2,330,880
Investing activities:		
Depreciation and right-of-use assets	51,788,379	51,763,678
Disposal of plants, facilities and equipment	3,685,666	919,538
Foreign exchange loss, interest expense and changes in financial derivative instruments fair value of financial instruments	165,996,541	12,254,833
Changes in other operating assets and liabilities:		
Accounts receivable and loans to employees	(16,942,822)	(18,836,054)
Inventory of materials of operation	5,281,530	(2,386,463)
Other assets	(6,775,871)	(10,990,824)
Other payables and accrued liabilities	(1,752,675)	(6,672,923)
Payments to employees benefits	(28,027,931)	(23,948,296)
Net cash flows from operating activities	<u>138,724,201</u>	<u>30,956,613</u>
Cash flows from investing activities:		
Acquisition of plants, facilities and equipment	<u>(18,641,868)</u>	<u>(35,054,467)</u>
Cash flows from financing activities:		
Proceeds from debt	38,572,285	34,992,513
Non-controlling interest contribution Fibra E	(1,135,894)	(1,359,983)
Payment of debt	(31,569,451)	(28,957,355)
Interest paid	(39,094,712)	(6,170,017)
Payment of lease obligations	(31,904,659)	(24,253,108)
Payment of financial instruments	17,968,059	8,606,063
Net cash from financing activities	<u>(59,404,575)</u>	<u>(17,141,887)</u>
Cash excess of financing activities	60,677,758	(21,239,741)
Cash and cash equivalents:		
At beginning of the period	<u>89,339,037</u>	<u>78,483,263</u>
At end of period	<u>\$ 150,016,795</u>	<u>\$ 57,243,522</u>

See accompanying notes to condensed consolidated financial statements

COMISIÓN FEDERAL DE ELECTRICIDAD
Productive State Enterprise and Subsidiaries
Notes to the condensed consolidated financial statements
for the nine-month period ended September 30, 2020 and December 31, 2019
(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

1. Incorporation, Business Purpose and Relevant Events

- **Incorporation and business purpose**

Comisión Federal de Electricidad, Productive State Enterprise, its subsidiaries, affiliates and trusts (CFE or the Company) is a Mexican entity that was incorporated by Decree as a Decentralized Public Entity of the Federal Government on August 14, 1937 and published in the Official Gazette on August 24, 1937. The condensed consolidated financial statements accompanying these notes include Comisión Federal de Electricidad, Productive State Enterprise (as the ultimate controlling entity of the economic group to which it belongs) and its subsidiaries, affiliates and trusts over which it exercises control.

The Comisión Federal de Electricidad Law (CFE Law) was published on August 11, 2014 and became effective on October 7, 2014. The CFE Law mandated the transformation of CFE into a Productive State Enterprise.

CFE's business purpose is to provide public transmission and distribution of electricity services on behalf of the Mexican State. CFE also engages in activities related to the generation and commercialization of electricity, as well as activities related to the import, export, transportation, storage and trading of natural gas, among others.

- **Relevant Events**

Asset reorganization

On May 24, 2019, through Official Communication DG/131/2019, the proposal for the reallocation of assets and power generation contracts corresponding to productive subsidiary companies (EPS, Spanish acronym) I, II, III, IV and VI, as well as the proposal related to the Laguna Verde Power Plant and Mobile Emergency Units, were submitted for consideration.

The objectives of the reorganization of assets and power generation contracts included:

- To enhance the operational and administrative efficiency of each regional company based on the organization that was in place prior to the entry into force of the Terms for the Strict Legal Separation of CFE.
- The operational regionalization of the assets of the hydroelectric plants should be grouped in a way that favors the common river basins in order to ensure the security and optimal management of the water supply and reservoirs.
- The redistribution only considered the plants operated by the EPS's of CFE and did not involve any of the external legacy plants that are part of EPS Generación V.
- In light of the high degree of reliability and security required by the National Electric System, it was decided to centralize the Mobile Emergency Units within the Unregulated Business Office in order to facilitate faster decision-making and the rapid mobilization of assets in response to the needs of the National Electric System in the various regions of the country.

- To maintain in the Company the business unit that includes the Laguna Verde Power Plant that participates in the Wholesale Electricity Market (MEM).
- The existence of Legacy Contracts with CFE Suministrador de Servicios Básicos (SSB).

As part of the asset reorganization, the Company conducted a study as of December 31, 2019 to determine the fair value of the plants that were involved in the reorganization. This analysis resulted in an impairment charge of \$57,016,640 and revaluation of power plants in the amount of \$84,480,710. These amounts were recognized in other comprehensive income. The reorganization of assets took effect as of January 1st, 2020.

CFE Telecomunicaciones e Internet para Todos

On August 2, 2019, “CFE Telecomunicaciones e Internet para Todos, EPS, was created. The corporate purpose of this company is to provide non-profit telecommunications services pursuant to its wider effort to guarantee the right to access information and communications technologies, including broadband internet.

In terms of its budget, debt obligations, acquisitions, leases, services and projects, administrative responsibilities, remunerations, assets and the state dividend, the Company shall operate in accordance with the special regime provided for this purpose by law. CFE Telecomunicaciones e Internet para Todos shall manage its assets based on its budget and authorized programs, in accordance with the applicable legal provisions and with the special regime established by law. The EPS started operations in 2020.

Amendments to the Collective Labor Agreement

On May 19, 2016, CFE carried out a review of the terms of the Collective Labor Agreement it entered into with the Sole Union of Electricity Workers of the Mexican Republic (“SUTERM”, Spanish acronym).

As a result of this review, various clauses were modified that mainly affect the retirement category, presenting themselves as a reduction in the Company's labor liability.

On August 19, 2020, CFE carried out a review of the clauses and conditions of the Collective Labor Agreement for the 2020-2022 biennium, which the CFE and SUTERM have entered into.

As shown in note 16, derived from this review, various clauses were modified that mainly affect the retirement caption, the effects are under the quantification process.

Appointment of the Corporate Finance Director

On August 19, 2020, the General Director of the CFE, Lic. Manuel Bartlett Díaz, appointed Dr. Edmundo Sánchez Aguilar, as Corporate Finance Director, replacing Dr. Jose Antonio Rojas Nieto. The appointment was ratified on the Board of Directors' Meeting on December 8, 2020.

Assets contributed by the Federal Government

On October 7, 2015, the Ministry of Public Administration (SFP, Spanish acronym) through the Institute of Management and Valuation of National Assets (INDAABIN, Spanish acronym), terminated the commodatum agreement of the assets contributed by the Federal Government, and delivered the assets with a certificate of delivery that includes annexes for the different types of assets to CFE.

CFE also obtained the legal and physical possession of the related assets, as per the aforementioned annexes. The procedures for the legal divestiture of these assets from the Federal public domain regime began as of such date. These assets were included in the consolidated statements of financial position as at December 31, 2015, at a value of \$95,004,417, as determined by the Asset Management and Divestiture Service (SAE, Spanish acronym), which will be adjusted based on the detailed breakdown by each of the corresponding areas. In 2016, these assets are included in the Plants, facilities and equipment and Other intangible assets captions (see Notes 8 and 9), and an additional amount of \$63,000 was recognized related to these types of assets. As at December 31, 2019, this activity is still ongoing.

Assumption of the Company's employee benefits liability by the Federal Government

On November 14, 2016, the Ministry of Finance and Public Credit (SHCP, Spanish acronym) published the "Agreement through which the general provisions related to the assumption by the Federal Government of CFE's employee benefits liability are issued" in the Official Gazette, whereby the Federal Government through the SHCP, assumes a portion of the pension and retirement payment obligation actuarially recognized and accounted for in CFE's financial statements, that correspond to the workers that were hired on or prior to August 18, 2008.

The Federal government had stated that it would assume a portion of CFE's labor liabilities, and this would be equal, peso by peso, to the reduction that would be achieved from the labor obligations liability at the time the Collective Labor Agreement is renegotiated. On December 29, 2016, the Federal Government announced that it had completed its review process of the amount of savings related to CFE's labor obligations as a result of the amendments to the collective labor agreement.

On December 19, 2016, through official document No. 35.-187/2016, the Public Credit Unit of the SHCP informed CFE that the Federal Government's commitment to pay would be assumed by the SHCP through the issue of debt instruments by the Federal Government in favor of CFE for a total amount of \$161,080,204, distributed in amounts that will be delivered annually to cover such commitment.

2. Basis of preparation of the condensed consolidated financial statements

a) Basis of accounting

The condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

b) Basis of preparation

The consolidated financial statements have been prepared on the historical-cost basis except for the Company's derivative financial instruments, right-of-use assets, plants, facilities and equipment, as well as its debt and lease liabilities, which are recognized at fair value, and the defined benefit plans which are recognized at the present value of the defined benefit obligation less the fair value of the plan's assets.

c) Functional currency and presentation of the condensed consolidated financial statements

The condensed consolidated financial statements and notes thereto are presented in Mexican pesos, the Company's reporting currency, which is the same as its functional currency.

For purposes of disclosure in the notes to the condensed consolidated financial statements, all references to "pesos" or "\$" refer to Mexican pesos; all references to "dollars" refer to U.S. dollars; all references to "euros" refer to the legal currency of the European Union; all references to "yen" refer to the legal currency of Japan; and all references to "Swiss francs" refer to the legal currency of Switzerland. The financial information is presented in thousands of pesos and has been rounded to the nearest unit, except where otherwise indicated.

d) Condensed consolidated statements of comprehensive income

The Company has elected to present comprehensive income using a 'one-statement' approach that includes all of its profit or loss and other comprehensive income (OCI) items, called Statement of Comprehensive Income.

The accompanying condensed consolidated statements of comprehensive income present ordinary costs and expenses based on their nature, since CFE believes that this structure results in clearer information for the reader. The consolidated statements of comprehensive income include a line item for operating profit (loss), which represents the result of CFE's revenue minus costs, since it believes that including this item facilitates the reader's understanding of the Company's economic and financial performance.

3. The significant accounting policies followed by the Company in the preparation of the financial statements are summarized below:

a) Basis of consolidation

The consolidated financial statements include the subsidiaries, affiliates and trusts over which the Company exercises control. The Company controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Non-controlling interest

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The non-controlling interests in the consolidation do not represent 1% of the assets.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits, foreign currencies, and short-term temporary investments. Cash and bank deposits are presented at nominal value and the returns on these investments are recognized in the income statement as they accrue.

Cash equivalents include short-term highly liquid investments and are valued at fair value, and are subject to a low risk of changes in their value.

c) Financial instruments

i) Initial recognition and measurement

Accounts receivable and debt instruments issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is an account receivable without a significant financing component) or financial liability is initially measured at fair value plus, in case of an item not measured at fair value through profit or loss with changes in results, transaction costs that are directly attributable to its acquisition or issue. An account receivable without a significant financing component is initially measured at the transaction price.

ii) Classification and subsequent measurement - Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; at fair value through other comprehensive income - debt investment; at fair value with changes posted to other comprehensive income - equity investment; or at fair value with changes posted to profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets are classified, in their initial recognition, as measured subsequently to amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

The Company measures financial assets at amortized cost if it meets both of the following conditions:

1. The financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding amount.

All the financial assets not classified as measured at amortized cost or at fair value with changes through other comprehensive income as described above are measured at fair value with changes through profit or loss. This includes all derivative financial instruments. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value with changes through other comprehensive income as at fair value with changes through profit or loss if doing so eliminates or significantly reduces a measurement or recognition mismatch that would otherwise arise.

iii) Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized at fair value in the statement of financial position. The fair value of derivative financial instruments is determined based on generally accepted valuation techniques. Consistent with the risk strategy, the Company enters into derivative financial instruments contracts to mitigate foreign exchange and interest rate risks, through Interest-Rate Swaps, Cross-Currency Swaps and Foreign Exchange Forwards.

The policies include formal documentation of all the transactions between the hedging instrument and the hedged item, the risk management objectives, and strategies for undertaking the hedge.

The effectiveness of derivative financial instruments designated as hedges is assessed prior to their designation, as well as over the hedging period, which depends on the hedging characteristics. When it is determined that a derivative is not highly effective as a hedge, hedge accounting stops being applied in respect to identified derivative financial instruments in a prospective manner.

The Company suspends cash flow hedge accounting when the derivative expires, is not effective enough to offset the changes in the fair value or cash flows of the hedged item, or when the Company decides to cancel the hedging designation. The gains or losses recognized in other comprehensive income and accumulated in Equity, remain in Equity, and are recognized when the forecast transaction is ultimately recognized in profit or loss.

The effective portion of changes in the fair value of the derivative financial instruments designated as cash-flow hedges is recognized in Equity in the other comprehensive income caption, while any ineffective portion is recognized in profit or loss. The effective portion recognized in Equity is recycled in the income statement in the periods when the hedged item affects profit or loss and is presented in the same caption of such statement where the corresponding primary position is presented.

d) Plants, facilities and equipment

i) Recognition and measurement

Plants, facilities and equipment are initially measured at cost.

Plants, facilities and equipment in operation, used for the generation, transmission and/or distribution of electricity are recognized in the statement of financial position at their revalued amount, and fair value is determined as of the revaluation date, less any accumulated depreciation and impairment losses. CFE periodically reviews the fair values of its plants, facilities and equipment in operation, and every 5 years it evaluates the need to revalue its assets to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in the revaluation of plants, facilities and equipment is recognized as a revaluation surplus in other comprehensive income, except when such increase reverses a revaluation deficit of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss to the extent that it reduces the expense of the previous loss. Any decrease in the carrying amount resulting from the revaluation of such plants, facilities and operating equipment is recognized in profit or loss to the extent that it exceeds the revaluation surplus, if any.

Borrowing costs incurred in direct and general financing of constructions in progress for a period greater than 6 months are capitalized as part of the cost of such asset.

In addition to the purchase price and costs directly attributable to preparing an asset in terms of its physical location and condition for use as intended by the Company's technicians, the cost also includes the estimated costs for the decommissioning and removal of the asset and for restoration of the site where it is located, if such obligation exists.

ii) Depreciation

Depreciation of plants, facilities and equipment in operation is calculated at the fair value or acquisition cost of the asset, as the case may be, using the straight-line method over the estimated useful lives of the assets, beginning the month after the assets are available for use. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings.

Depreciation of plants, facilities and equipment in operation is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings.

The depreciation rates based on the useful lives of the assets, determined by the Company's technicians are as follows.

	<u>Useful life (years)</u>
Geothermal power plants	27 to 50
Steam power plants	34 to 75
Hydroelectric power plants	40 to 80
Internal combustion power plants	34 to 75
Turbo gas and combined cycle power plants	34 to 75
Nuclear power plants	40
Substations	39 to 75
Transmission lines	34 to 75
Distribution Networks	30 to 59

The Company periodically evaluates the useful lives, depreciation methods, and residual values of its plants, facilities and equipment. In the event of changes in the estimates used, the related effects are recognized prospectively.

When the plants, facilities and equipment items are comprised of various components, and their useful lives are different, the significant individual components are depreciated over their estimated useful lives. Maintenance and minor repair costs and expenses are recognized in profit or loss when they are incurred.

In 2019, the Company conducted a fair value analysis of its assets. This test yielded an impairment charge, a reversal of previously recognized impairment, and an unrealized gain on revaluation of the plants, resulting in a net gain of \$27,464,070, which was determined as of December 31, 2019.

iii. Property and assets for offices and general services.

Property and assets for offices and general services are depreciated at the following rates:

	<u>Useful life (in years)</u>
Buildings	20
Office furniture and equipment	10
Computer equipment	4
Transportation equipment	4
Other assets	10

Land is not depreciated.

An item of plant, facilities and equipment is derecognized upon disposal or when no future economic benefits are expected from its continuing use. The gain or loss on the sale or retirement of an item of property, plant and equipment is calculated as the difference between its net selling price and its net carrying amount and is recognized in the income statement.

iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

e) Leases

The Company has right-of-use assets in terms of IFRS 16 derived from its contracts with creditors for rentals of office space, furniture, reserved capacity gas pipelines for a fixed price, as well as contracts with independent power generation plants that provide power generation services to CFE.

At contract inception, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease included in IFRS 16.

As a lessee

At inception or reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as of the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate the lease early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

The Company recognizes lease payments received from operating leases as income on a linear basis during the lease term as part of 'other income'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16, except for the classification of the sublease entered into in the current reporting period, which resulted in a classification of a finance lease.

f) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

CFE has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of Standards, including the level in the fair value hierarchy in which the valuations should be classified.

4. Financial Instruments – Fair value and risk management

Fair values

Set out below are the carrying amounts and fair values of financial instruments recognized for the nine-month period ended as of September 30, 2020 and as of December 31, 2019:

	<u>2020</u>	<u>2019</u>
Financial assets		
Cash and cash equivalents (2)	\$ 150,016,795	\$ 89,339,037
Accounts receivable (2)	102,588,696	86,672,574
Loans to employees (2)	14,804,031	13,777,331
Derivative financial instruments (1)	<u>37,538,735</u>	<u>4,064,335</u>
Financial liabilities		
Short-term debt (2)	\$ 68,176,777	\$ 53,896,802
Long-term debt (2)	327,053,532	299,531,948
Short-term lease liability (1)	22,682,201	11,074,905
Long-term lease liability (1)	670,349,528	556,838,326
Suppliers and contractors (2)	39,990,284	37,808,697
Deposits from customers and contractors (2)	<u>30,315,095</u>	<u>28,945,790</u>

(1) Fair value

(2) Amortized cost

Objectives of financial risk management

The Company's Financial Officer's functions include, among others, implementing strategies, coordinating access to domestic and international financial markets, and monitoring and managing financial risks related to the Company's operations through internal and market risk reports that analyze the degree and magnitude of the Company's exposure to financial risks. These risks include market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

To mitigate the effect of its debt related risks, the Company uses derivative financial instruments to hedge such risk.

The Treasury Department is bound by the Ministry of Finance and Public Credit cash management policies that hold that investments must be made in low-risk short-term instruments. Monthly status reports are issued to the Treasury Investment Committee.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk mostly in respect of its financial instruments comprising cash and short-term investments, loans and accounts receivable, and derivative financial instruments. In order to mitigate the credit risk in its cash, short-term investments and derivative financial instruments, the Company conducts transactions only with counterparties that are financially solvent and that have a good reputation and high credit quality. The Company also obtains sufficient guarantees, when appropriate, to mitigate the risk of financial loss due to non-performance.

The carrying amounts of the Company's financial assets represent the maximum credit exposure.

For credit risk management purposes, the Company considers that the credit risk on loans and accounts receivable from consumers is limited. The Company determines the allowance for doubtful accounts based on expected credit loss model.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The financing obtained by the Company is mainly through contracted debt, the leasing of plants, facilities, equipment and PIDIREGAS. To manage liquidity risk, the Company periodically performs cash flow analyses and maintains open lines of credit with financial institutions and suppliers.

In addition, the Company's budget is controlled by the Federal Government; consequently, the net debt ceiling authorized on an annual basis by the Federal Congress based on the Company's budgeted revenues, cannot be exceeded.

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The following table provides information about the contractual maturities of the Company's financial liabilities based on the payment terms and projected interest payments:

As of September 30, 2020	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	\$ 53,095,834	\$ 19,244,425	\$ 37,606,388	\$ 120,409,693	\$ 230,356,340
PIDIREGAS debt	15,080,943	27,114,967	24,091,296	98,586,763	164,873,969
Lease liabilities	22,682,201	30,331,747	31,904,461	608,113,320	693,031,729
Suppliers and contractors	39,990,284	-	-	-	39,990,284
Other liabilities	30,315,095	-	-	-	30,315,095
	<u>161,164,357</u>	<u>76,691,139</u>	<u>93,602,145</u>	<u>827,109,776</u>	<u>1,158,567,417</u>
Interest payable on documented debt	\$ 11,593,733	\$ 19,056,412	\$ 15,418,427	\$ 50,121,052	\$ 96,189,624
Interest payable on PIDIREGAS debt	8,612,819	14,786,100	11,855,466	42,526,763	77,781,148
Interest payable on lease liabilities	21,579,744	41,926,800	39,460,131	214,657,401	317,624,076
As of December 31, 2019	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	\$ 39,171,577	\$ 24,962,181	\$ 44,681,062	\$ 107,982,189	\$ 216,797,009
PIDIREGAS debt	14,159,869	23,470,069	21,767,411	76,669,036	136,066,385
Lease liabilities	11,074,904	8,682,410	21,774,620	526,381,297	567,913,231
Suppliers and contractors	37,808,697	-	-	-	37,808,697
Other liabilities	28,682,716	-	-	-	28,682,716
Total	<u>\$ 123,897,763</u>	<u>\$ 57,114,660</u>	<u>\$ 88,223,093</u>	<u>\$ 711,032,522</u>	<u>\$ 980,268,038</u>
Interest payable on documented debt	\$ 12,559,195	\$ 18,535,377	\$ 16,046,256	\$ 49,584,844	\$ 96,725,672
Interest payable on PIDIREGAS debt	8,234,010	13,881,007	10,880,563	32,779,177	65,774,757
Interest payable on lease liabilities	18,507,917	18,223,575	35,147,849	210,624,872	282,504,213

Market risk

Due to its activities, the Company has exposure to foreign currency and interest rate risks.

Foreign currency exchange risk management

To fund its working capital requirements and public works financing, the Company contracts debt and carries out foreign currency-denominated transactions, consequently, it is exposed to exchange rate risk.

	Total debt as of September 30, 2020 (amounts in millions of pesos)	Total debt as of December 31, 2019 (amounts in millions of pesos)
Local currency	145,539	162,662
Foreign currency	247,735	188,430

In accordance with its policies, the Company mostly uses interest rate and foreign currency swaps and foreign currency forward contracts to mitigate its exposure to interest rate and foreign currency risks.

Fair value of financial instruments

Measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in setting a transaction price.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price is the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Fair value of financial instruments recognized at amortized cost

The Company considers that the carrying amount of the financial assets and liabilities recognized at amortized cost in the financial statements approximates fair value, including those mentioned below.

Valuation techniques and assumptions used in determining fair value

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$ 150,016,795	\$ 150,016,795	\$ 89,339,037	\$ 89,339,037
Accounts receivable	102,588,696	102,588,696	86,672,574	86,672,574
Loans to workers	14,804,031	14,804,031	13,777,331	13,777,331
Suppliers and contractors	39,990,284	39,990,284	37,808,697	37,808,697
Lease liabilities	693,031,729	693,031,729	567,913,231	567,913,231
Documented debt	230,356,340	263,645,700	217,362,365 *	240,066,531
PIDIREGAS debt	164,873,969	211,832,706	136,066,385	189,227,258

*Includes debt contracted by CFE International LLC with Credit Agricole-CIB NY Branch for \$565,356

The fair value of the Company's financial assets and liabilities is determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions that are traded on active liquid markets are determined by references to quoted market prices.
- The fair value of other financial assets and liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models, which are based on an analysis of discounted cash flows using current transaction prices observable in active markets and quoted prices for similar instruments.
- In conformity with the terms of the ISDA (International Swaps and Derivatives Association) contracts that were entered into, the counterparties or banking institutions are the appraisers, and they calculate and send the Mark-to-Market (which is the monetary valuation of breaking agreed-upon transaction at any given time) on a monthly basis. CFE monitors this value and if there is any doubt or abnormal variance in the market value, CFE requests the counterparty to provide a new valuation.

Valuations at fair value recognized in the statement of financial position

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, except for the financial instruments whose carrying amount is reasonably equivalent to their fair value, grouped into Levels 1 to 3, based on the degree to which the fair value is observable:

	Level 1	
	2020	2019
Available-for-sale financial assets		
Temporary investments	\$ 59,985,948	\$ 21,280,686

An analysis of the fair value of the derivative financial assets grouped into level 1, based on the degree to which the inputs to estimate their fair value are observable, is included in note 11.

The levels referred to above are considered as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. For the fair values of the Documented Debt, the observed changes are obtained from the Company's price provider, which furnishes the dirty price valuations reflected in the stock exchange certificates listed on the Mexican Stock Exchange.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from unobservable inputs for the asset or liability, for the fair values of the Documented Debt and Pidiregas Debt, the reasonably possible changes at the Balance Sheet date are determined by measuring the present value of the maturities in the source currency of the lines of credit discounted using CFE's yield curve. For this purpose, the Company's price provider furnishes the curves and risk factors related to the interest rates, exchange rates and inflation to which the debt is exposed.

5. Cash and cash equivalents

An analysis of Cash and cash equivalents as of September 30, 2020 and December 31, 2019 is as follows:

	2020	2019
Cash on hand and cash in banks	\$ 90,022,026	\$ 68,049,530
Short-term investments	59,985,948	21,280,686
Stock certificates	8,821	8,821
Total	\$ 150,016,795	\$ 89,339,037

6. Accounts receivable, net

An analysis of accounts receivable as of September 30, 2020 and December 31, 2019 is as follows:

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	<u>2020</u>	<u>2019</u>
Public consumers (*)	\$ 62,946,484	\$ 52,546,042
Government agency consumers (*)	<u>24,908,448</u>	<u>24,118,163</u>
	87,854,932	76,664,205
Impairment of receivables	<u>(31,133,680)</u>	<u>(27,328,830)</u>
	56,721,250	49,335,375
Other accounts receivable	34,869,761	28,690,189
Value added tax	<u>10,997,685</u>	<u>8,647,010</u>
Total	\$ <u>102,588,696</u>	\$ <u>86,672,574</u>

(*) Includes estimates of revenue for electricity supply services that are in the process of being billed.

An analysis of balances and changes in the impairment of receivables as of September 30, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Opening balance	\$ (27,328,830)	\$ (28,446,893)
Increase	(3,804,850)	(361,980)
Charges	-	1,480,043
Ending balance	<u>\$ (31,133,680)</u>	<u>\$ (27,328,830)</u>

7. Inventory of materials for operation

An analysis of the inventory of operating materials as of September 30, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Spare parts and equipment	\$ 3,496,288	\$ 2,797,498
Fuel and lubricants	12,129,773	19,140,583
Nuclear fuel	<u>3,628,742</u>	<u>3,969,405</u>
	19,254,803	25,907,486
Allowance for obsolescence	<u>(3,002,396)</u>	<u>(4,373,549)</u>
Total	\$ <u>16,252,407</u>	\$ <u>21,533,937</u>

8. Plants, facilities and equipment, net

An analysis of Plants, facilities and equipment, net as of September 30, 2020 and December 31, 2019 is as follows:

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Plants, facilities and equipment, net							
	<u>December 31, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Assets reorganization</u>	<u>Depreciation for the period</u>	<u>Capitalization</u>	<u>September 30, 2020</u>
Plants, facilities and equipment	\$ 2,146,097,218	\$ 17,101,785	\$ (20,966,342)	\$ (337,043,732)	\$ -	\$ 742,243	\$ 1,805,931,172
Capitalized spare parts	7,451,766	836,034	-	-	-	-	8,287,800
Construction in progress	26,130,582	704,049	-	-	-	-	26,834,631
Advances and materials for construction	<u>11,310,744</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(742,243)</u>	<u>10,568,501</u>
Subtotal	2,190,990,310	18,641,868	(20,966,342)	(337,043,732)	-	-	1,851,622,104
Accumulated depreciation	(896,064,974)	-	17,280,676	293,570,877	(30,268,547)	-	(615,481,968)
Impairment	<u>(83,621,693)</u>	<u>-</u>	<u>-</u>	<u>43,472,856</u>	<u>-</u>	<u>-</u>	<u>(40,148,837)</u>
Total	<u>\$ 1,211,303,643</u>	<u>\$ 18,641,868</u>	<u>\$ (3,685,666)</u>	<u>\$ -</u>	<u>\$ (30,268,547)</u>	<u>\$ -</u>	<u>\$ 1,195,991,298</u>

Plants, facilities and equipment, net								
	<u>December 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Depreciation for the period</u>	<u>Revaluation</u>	<u>Impairment</u>	<u>Capitalization</u>	<u>December 2019</u>
Plants, facilities and equipment in operation	\$ 2,012,933,547	\$ 48,858,544	\$ (8,968,366)	\$ -	\$ 84,480,718	\$ -	\$ 8,792,775	\$ 2,146,097,218
Capitalized spare parts	7,306,913	144,853	-	-	-	-	-	7,451,766
Construction in progress	32,189,380	-	-	-	-	-	(6,058,798)	26,130,582
Advances and materials for construction	<u>14,044,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,733,977)</u>	<u>11,310,744</u>
Subtotal	2,066,474,561	49,003,397	(8,968,366)	-	84,480,718	-	-	2,190,990,310
Accumulated depreciation	(853,277,053)	-	2,647,252	(45,435,173)	-	-	-	(896,064,974)
Impairment	<u>(26,607,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,014,443)</u>	<u>-</u>	<u>(83,621,693)</u>
Total	<u>\$ 1,186,590,258</u>	<u>\$ 49,003,397</u>	<u>\$ (6,321,114)</u>	<u>\$ (45,435,173)</u>	<u>\$ 84,480,718</u>	<u>\$ (57,014,443)</u>	<u>\$ -</u>	<u>\$ 1,211,303,643</u>

As of December 31, 2019, the results of the analysis of the fair value of assets are shown below:

Revaluation of property, plant and equipment	\$ 73,788,098
Reversal of impairment of property, plant and equipment	<u>10,692,620</u>
Subtotal revaluation and reversal of impairment	84,480,718
Impairment of property, plant and equipment	<u>(57,014,443)</u>
Total	<u>\$ 27,466,275</u>

Based on IFRS 13, the fair value measurement of the assets is classified as a Level 3 input within the fair value hierarchy.

As of December 31, 2019, CFE recognized impairment losses of \$57,014,443, which were reduced from the revaluation surplus.

The Company identified each generation plant as a cash generating unit (CGU).

As of September 30, 2020, the useful lives of the plants with modern technology are as follows:

Power stations	Estimated useful life
Combined cycle (with natural gas), thermoelectric plants, turbo gas and internal combustion	30 years
Carboelectric	40 years
Geothermal	30 years
Nuclear power	60 years
Hydroelectric	80 years
Wind and solar	25 years

Construction in progress - the construction in progress balances as of September 30, 2020 and December 31, 2019 are as follows:

Plant:	2020	2019
Steam	\$ 44,690	\$ 5,380
Hydroelectric	1,124,470	1,183,167
Nuclear power	199,460	248,696
Turbo gas and combined cycle	11,661,130	11,258,752
Geothermal	176,395	176,395
Transmission lines, networks and substations	11,724,210	11,650,574
Offices and general facilities	1,904,276	1,607,618
Total	\$ 26,834,631	\$ 26,130,582

Fair value measurement

i. Fair value hierarchy

The fair value of plants, facilities and equipment in operation was determined by independent external appraisers with a recognized professional capacity and experience in terms of the property, plant and equipment that underwent the appraisal.

ii. Valuation technique and relevant unobservable inputs

The following table shows the valuation technique used to measure the fair value of investment properties, as well as the significant unobservable inputs used.

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	<u>December 2018</u>	<u>Additions</u>	<u>Effect from translation</u>	<u>Depreciation for the year</u>	<u>December 2019</u>
Real estate	\$ 546,838	\$ 62,626	\$ -	\$ -	\$ 609,464
Infrastructure	112,010,062	23,175,744	-	-	135,185,806
Gas pipelines	<u>315,882,435</u>	<u>128,452,826</u>	<u>(3,797,328)</u>	<u>-</u>	<u>440,537,933</u>
Subtotal	<u>428,439,335</u>	<u>151,691,196</u>	<u>(3,797,328)</u>	<u>-</u>	<u>576,333,203</u>
Accumulated depreciation	<u>(81,638,765)</u>	<u>-</u>	<u>-</u>	<u>(20,318,017)</u>	<u>(101,956,782)</u>
	\$ <u>346,800,570</u>	\$ <u>151,691,196</u>	\$ <u>(3,797,328)</u>	\$ <u>(20,318,017)</u>	\$ <u>474,376,421</u>

10. Intangibles and other assets

An analysis of intangibles and other assets as of September 30, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Rights of way (1)	\$ 32,688,231	\$ 29,394,733
Deposits and advances	<u>12,726,505</u>	<u>9,244,132</u>
Total	\$ <u>45,414,736</u>	\$ <u>38,638,865</u>

(1) Includes rights of way in the amount of \$24,064,610 that are part of the assets contributed by the Federal Government to the Company through INDAABIN.

The Company has right-of-way assets, which represents a legal right-of-way for the Company to access and inspect transmission lines by air or underground in order to verify the continued transmission of electricity over the power lines.

11. Derivative financial instruments

a. Accounting classifications and fair values

CFE is exposed to interest rate and foreign currency translation risks which it tries to mitigate through a hedging program that includes using derivative financial instruments. The Company mainly uses foreign exchange "Cross Currency Swaps" and "Forwards" to mitigate its foreign currency risk. To reduce its interest rate risk exposure, the Company uses interest rate swaps.

In addition, for the nine-month period ended September 30, 2020 and December 31, 2019, the derivative financial instruments have been designated as and qualify mainly as cash flow hedges since they are referenced to the contracted debt. The effective portion of gains or losses on cash flow derivatives is recognized in equity in the "Effects on the fair value of derivatives" line item, and the ineffective portion is charged to profit or loss of the period.

The fair value of the Company's financial instrument position as of September 30, 2020 and December 31, 2019 amounted to \$37,538,735 and \$4,064,335, respectively.

Derivative Financial Instruments Held for Trading

As of September 30, 2020 and December 31, 2019, CFE had derivatives designated as held for trading whose fair value represented a liability of \$995,298 and \$382,435, respectively.

This transaction consists of a series of currency forwards that allow the Company to lock in a JPY/USD exchange rate of 54.0157 JPY per USD over the established term of the transaction.

As part of this transaction, CFE pays annual interest in U.S. dollars at a rate of 8.42%. These instruments have not been designated as hedges as required by the financial reporting standard, consequently, the valuation effect of these instruments is recognized in financial cost; a gain (loss) in said value offsets a loss (gain) in the underlying liability. In addition to the series of forwards, the derivative instrument includes two options: a long European call option through which CFE has the right to purchase Japanese yens upon maturity in the spot market in case the yen/dollar exchange rate is quoted below 118.75 yens per dollar, and a short European call option through which CFE is required to sell dollars at the yen/dollar exchange rate of 27.80, if the prevailing exchange rate at the settlement date exceeds this level.

The Company suspends cash flow hedge accounting when the derivative expires, is not effective enough to offset the changes in the fair value or cash flows of the hedged item, or when the Company decides to cancel the hedging designation. The gains or losses recognized in other comprehensive income and accumulated in Equity, remain in Equity and are recognized when the forecast transaction is ultimately recognized in profit or loss.

If CFE decides to cancel this economic hedge (currency forwards on the yen/dollar exchange rate), it would give rise to an estimated extraordinary loss as of September 30, 2020 and December 31, 2019 as follows:

Instrument	Underlying	Maturity	2020	2019
FWD JPY/USD	Exchange rate and interest rate	2036	\$ (995,298)	\$ (383,356)
IRS	Interest rate	2020		921
		Total	\$ <u>(995,298)</u>	\$ <u>(382,435)</u>

Hedging instruments

As of September 30, 2020 and December 31, 2019, CFE maintains its hedging derivative position on exchange rates and interest rates, as follows.

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Instrument	Underlying	Type of hedge	Maturity	Primary position (lines/bonds)	Hedge ratio	September 30, 2020	December 31, 2019
CCS	Exchange rate and interest rate	Cash flow	2021	1100000074 to 76	100%	\$ 654,677	\$ 285,635
CCS	Exchange rate and interest rate	Cash flow	2022	1100000077 to 79	100%	38,501	46,273
CCS	Exchange rate and interest rate	Cash flow	2023	1100000080	100%	2,307,348	218,468
CCS	Exchange rate and interest rate	Cash flow	2024	1100002956	100%	5,965,564	112,010
CCS	Exchange rate and interest rate	Cash flow	2027	1100003606	100%	5,484,746	378,283
CCS	Exchange rate and interest rate	Cash flow	2032	1200002801 1200000551	100%	2,458,884	(69,692)
CCS	Exchange rate and interest rate	Cash flow	2036	Pidiregas line	100%	3,311,342	2,428,905
CCS	Exchange rate and interest rate	Cash flow	2042	Bond 2042	55.3%	2,750,927	138,159
CCS	Exchange rate and interest rate	Cash flow	2047	Formosa 1 Bond	100%	2,921,881	(620,163)
CCS	Exchange rate and interest rate	Cash flow	2048	Formosa 2 Bond	100%	3,947,127	(576,661)
Participating Swap	Exchange rate and interest rate	Cash flow	2027	Bond 2027	100%	249,062	(101,611)
CCS	Exchange rate and interest rate	CCS	2045	Bond 2045	67%	5,386,572	2,340,350
CCS	Exchange rate and interest rate	CCS	2029	Formosa 2 Bond	30%	2,425,800	(37,310)
Forwards	Exchange rate	Cash flow	Less than one year	Sale of energy 1100003807, 1200001251 and 1200001451	100%	217	(69)
IRS	Interest rate	Cash flow	2020	Nafin line	100%	-	3,230
IRS	Interest rate	Cash flow	2023	1100004506	100%	570,814	(97,305)
IRS	Interest rate	Cash flow	2029		100%	53,116	-
CCS	Exchange Rate/commodities	Cash flow	2020	Sale of energy	100%	-	(1,732)
CCS	Exchange Rate/commodities	Cash flow	2021	Sale of energy	100%	3,136	-
CCS	Exchange Rate/commodities	Cash flow	2022	Sale of energy	100%	4,319	-
				Subtotal		38,534,033	4,446,770
CCS	Exchange rate JPY/USD	Trading		Line of credit in yens	N/A	(995,298)	(383,356)
IRS	Interest rate		2020	1200001251		-	921
				Total in thousands of Mexican pesos		\$ 37,538,735	\$4,064,335

The table above includes the Mark to Market of the hedging derivatives. As of September 30, 2020 and December 31, 2019 the total Mark to Market value of the hedging and trading derivatives amounts to \$37,538,735, and \$4,064,335, respectively, based on their carrying amount.

The results of the effectiveness tests for these hedging instruments showed that the relationships are highly effective, and the amount of ineffectiveness is minimal.

Fair value (Mark to Market - MTM) is determined using valuation techniques at present value to discount future cash flows, which are estimated using observable market data. The carrying amount of OCI includes the fair value (mark to market), and the reclassifications to profit and loss correspond to accrued interest and currency hedging (gain or loss).

As of September 30, 2020, the OCI effect for future periods (current portfolio) is shown below:

Year	M-Tm	OCI	Profit and Loss (Interest and Exchange Rate)
2020	6,070	5,088	982
2021	7,588	5,511	2,077
2022	9,484	6,067	3,417
2023	11,855	7,505	4,351
2024	14,819	10,512	3,865

b. Fair value measurement

The valuation techniques for estimating the fair value of derivative instruments are described in the accounting policy mentioned above, depending on the derivative instrument for which the fair value is estimated. CFE uses the corresponding technique to estimate such value.

Adjustment of fair value or Mark to Market by credit risk

To reflect counterparty risk, the valuation is adjusted based on the probability of default and recovery rate with the counterparties of the derivative positions.

The net fair value of derivative financial instruments (Mark-To-Market) effective as of September 30, 2020, before considering credit risk, amounts to \$40,231,796, which is included in the balance sheet and represents the amount in favor of the Company with the counterparties.

The net fair value of derivative financial instruments (Mark-To-Market) effective as of December 31, 2020, before considering credit risk, amounts to \$4,088,633, which is included in the balance sheet and represents the amount in favor of the Company with the counterparties.

CFE applies a Credit valuation adjustment (CVA) to reflect the creditworthiness of the counterparty of the derivative financial instrument. The CVA is the market value of the counterparty credit risk and reflects the estimated fair value of the hedging required to cover the counterparty credit risk included in such instruments.

Method for adjusting Fair Value

This method was approved by the Interinstitutional Delegate Committee for Financial Risk Management associated to the financial position and price of fossil fuels (CDIGR), as the methodology for adjusting derivative financial instruments to fair value.

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As of September 30, 2020, fair values adjustments based on the CVA (Credit Valuation Adjustment) are shown below:

Counterparty	Fair value MTM subject to CVA	Adjusted fair value MTM	Adjustment as of September 30, 2020
Goldman Sachs	\$ 10,173,091	\$ 9,326,527	\$ 846,564
CitiBanamex	7,414,366	6,928,272	486,094
Morgan Stanley	5,133,558	4,826,069	307,489
Barclays Bank	4,516,739	4,193,340	323,399
Deutsche Bank	2,842,862	2,633,457	209,405
JP Morgan	2,589,153	2,445,410	143,743
SANTANDER	2,463,769	2,330,727	133,042
BBVA BANCOMER	1,785,562	1,703,863	81,699
Bank of America	1,784,748	1,696,261	88,487
BNP PARIBAS	1,292,270	1,233,342	58,928
Credit Suisse	235,452	221,250	14,202
Bank of Tokio	226	217	9
	\$ 40,231,796	\$ 37,538,735	\$ 2,693,061

As of December 31, 2019, the adjustments to fair values based on the CVA (Credit Valuation Adjustment) are shown below:

Counterparty	Fair value MTM subject to CVA	Adjusted fair value MTM	Adjustment as of December 31, 2019
BBVA Bancomer	\$ 326,002	\$ 325,295	\$ 707
BNP Paribas	231,857	231,477	380
CitiBanamex	1,084,420	1,080,022	4,398
Credit Agricole	792	791	1
Credit Suisse	79,210	79,006	204
Deutsche Bank	1,910,192	1,901,563	8,629
Goldman Sachs	1,193,832	1,187,199	6,633
HSBC	(96,504)	(96,505)	1
JP Morgan	(69,387)	(69,388)	1
Morgan Stanley	99,476	98,047	1,429
SANTANDER	(623,280)	(623,361)	81
Barclays Bank	77,136	75,888	1,248
Bank of America	258,311	257,727	584
MONEX	(69)	(69)	-
Goldman Sachs Trading	(383,356)	(383,357)	1
	\$ 4,088,632	\$ 4,064,335	\$ 24,297

Fair Value hierarchy or Mark-to-Market

To increase consistency and comparability in fair value measurements and related disclosures, IFRS sets out a fair value hierarchy that categorizes into three levels the inputs used in valuation techniques. This hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs to valuation techniques.

Level 2 inputs

As explained above, based on the terms of the ISDA contracts, the counterparties or banking institutions are the valuation agents, and they calculate and send the Mark-to-Market monthly.

Therefore, the hierarchy level of the Company's Mark-to-Market for derivative financial instruments as of September 30, 2020 is level 2 due to the following.

- a) Inputs are other than quoted prices and include inputs within Level 1 that are observable, either directly or indirectly.
- b) Quoted prices for similar assets or liabilities in active markets.
- c) Inputs other than quoted prices that are observable for the assets or liabilities.

c. Financial risk management

CFE has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. To mitigate its credit risk, the Company's policy is to maintain a significant portion of its positions with investment grade counterparties and substantially limit its positions with below investment grade counterparties.

To manage credit risk, the Company monitors the credit rating and the probability of default of the counterparty, which is applied to the market value of the derivative.

The carrying amount of the derivative financial assets represents the maximum exposure to credit risk. As of September 30, 2020 and December 31, 2019, this amounted to \$37,538,735 and \$4,064,335, respectively.

Liquidity risk

The liquidity risk associated with financial derivative instruments is the risk that CFE may encounter difficulties in meeting the financial obligations arising from these instruments.

To manage credit risk, the Company monitors the market value of the derivative and the use by the operating lines (threshold).

Exposure to liquidity risk for holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of September 30, 2020 and December 31, 2019, \$1,031,217 and \$3,220,141, respectively.

Market risk

The market risk associated with derivative financial instruments is the risk that changes in market prices, such as exchange rates and interest rates, will affect CFE's income for holding derivative financial instruments.

CFE uses I derivative financial instruments to manage market risk, generally seeking access to hedge accounting to control or immunize the volatility that could arise in the results.

a) Currency exchange risk

62.8% of CFE's debt is denominated in foreign currency, mainly in US dollars, whereas most of CFE's assets and revenues are denominated in pesos. As a result, CFE is exposed to devaluation risks of the peso against the dollar. In conformity with its risk management policy, CFE has contracted currency swaps to reduce the impact of currency fluctuations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay a fixed rate in pesos. As of September 30, 2020 and December 31, 2019, CFE maintained foreign exchange swaps to hedge its foreign currency debt of \$147,314 and \$121,094 million pesos, respectively.

To hedge the exchange risks of the \$32 billion debt in yens, CFE uses a series of exchange rate forwards under which it purchases Japanese yens. The market value of this transaction as of September 30, 2020 and December 31, 2019 was (\$995,297) and (\$383,356), respectively. These derivative instruments were not designated as hedges.

Sensitivity analysis of the effect on exchange rates

A possible and reasonable strengthening (weakening) of the MXN/USD and JPY/USD exchange rate as of September 30, 2020 would have affected the fair value of the total position of the derivative financial instruments in foreign currency, and thus, profit and loss of the period and other comprehensive income (since some of them are designated as hedges), as shown in the following table.

September 30, 2020	Instrument	+100 pips		-100 pips	
	Cross Currency	\$	65,597	\$	(65,597)
	JPY/USD		2,694		(2,694)
	FWD		12		(12)
	Total	\$	68,303	\$	(68,303)

This analysis assumes that all other variables, in particular interest rates, remain constant (amounts in thousands of pesos).

b) Interest rate risk

26.7% of CFE's debt bears interest at variable rates, which are determined by reference to the TIIE rate for debt denominated in pesos. As of September 30, 2020 the debt expired and as of December 31, 2019, CFE hedged \$5,350 of its variable interest rate debt denominated in pesos.

Interest rate sensitivity analysis

A potential and reasonable strengthening (weakening) of interest rates as of September 30, 2020 would have affected the fair value of the total position of derivative financial instruments associated with variable interest rates, and thus, profit and loss of the period and other comprehensive income (since some of them are designated as hedges), as shown in the following table:

September 30, 2020	+ 100 basis points	- 100 basis points
Interest rate swaps	\$ 53,498	\$ (53,498)

This analysis assumes that all other variables, in particular interest rates, remain constant.

12. Short-term and long-term debt

An analysis of the Company's debt as of September 30, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Bank loans	\$ -	\$ 565,356
Documented debt	53,095,834	39,171,577
PIDIREGAS debt	15,080,943	14,159,869
Total short-term debt	68,176,777	53,896,802
Documented debt	177,260,506	177,625,432
PIDIREGAS debt	149,793,026	121,906,516
Total long-term debt	327,053,532	299,531,948
Total debt	\$ 395,230,309	\$ 353,428,750

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An analysis of the debt by item is as follows:

Type of debt	Balance as of December 31,2019	Drawdowns	Payments	Foreign currency exchange and interest rate differences	Balance as of September 30, 2020
Bank loan	\$ 565,356	-	(565,356)	-	-
Documented debt	216,797,009	12,335,022	(20,946,516)	22,170,825	230,356,340
Pidiregas debt	136,066,385	26,237,263	(10,057,579)	12,627,900	164,873,969
Total	\$ 353,428,750	38,572,285	(31,569,451)	34,798,725	395,230,309

Type of debt	Balance as of December 31, 2018	Drawdowns	Payments	Foreign currency exchange and interest rate differences	Balance as of December 31,2019
Bank loan	\$ 7,494,715	171,083	(7,100,442)	-	565,356
Documented debt	216,045,238	21,341,290	(16,207,183)	(4,382,336)	216,797,009
Pidiregas debt	131,085,031	22,651,044	(14,709,494)	(2,960,197)	136,066,385
Total	\$ 354,624,984	44,163,417	(38,017,119)	(7,342,533)	353,428,750

Documented debt

An analysis of the documented debt balances as of September 30, 2020 and December 31, 2020, is shown in the next page.

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Foreign debt	Type of credit	Weighted interest rate	Maturities	2020	
				National currency	Foreign currency (thousands)
In US dollars at the Exchange rate US dollar of 22.4573 as of September 2020 and \$18.8452 as of December 2019	BILATERAL BONDS REVOLVERS SINDICATED	Fixed and variable- 1.62% Fixed and variable- 5.27% Fixed and variable- 3.67% Fixed and variable-1.69%	Mature in 2023 Mature in 2049 Mature in 2025 2023	\$ 10,238,197 109,500,222 224,570 13,474,380	45,000,000 4,870,000 1,000,000 60,000,000
TOTAL US DOLLARS				<u>133,437,369</u>	<u>5,940,000</u>
In EUROS at the Exchange rate Euros of \$25.9691 as of September 2020 and \$21.175 as of December 2019	BILATERAL REVOLVERS	Fixed and variable - 2% Fixed and variable - 0%	Mature in 2024 Mature in 2020	10,936 0	
TOTAL EUROS				<u>10,936</u>	
In SWISS FRANCS at the Exchange rate Swiss Franc of \$24.1013 as of September 2020 and \$19.4791 as of December 2019	REVOLVERS	Fixed and variable - 0.5%	Mature in 2021	1,625	
TOTAL SWISS FRANC				<u>1,625</u>	
In JAPANESE YENS at the Exchange rate Japanese Yen of \$0.2098 as of September 2020 and \$0.1736 as of December 2019	BILATERAL	Fixed and variable- 1.46%	Mature in 2021	27,052	12,000,000
Bond		Fixed-3.83%	2032	6,713,600	32,000,000
Assets received for financial instruments, net				(661,942)	
TOTAL JAPANESE YENS				<u>6,051,658</u>	<u>32,000,000</u>
				<u>6,078,010</u>	<u>32,120,000</u>
			TOTAL FOREIGN DEBT	\$ 139,528,640	

Notes to the condensed consolidated financial statements

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				2020	
Domestic debt	Type of credit	Weighted interest rate	Maturities	National currency	Foreign currency (thous)
NATIONAL CURRENCY					
	BANK CONTRACTS	Fixed and variable – 5.72%	Mature in 2023	\$ 7,500,000	
	STOCK MARKET	Fixed and variable - 7.56%	Mature in 2027	61,487,330	
TOTAL PESOS:				<u>68,987,330</u>	
In UDIS at the Exchange rate					
UDI of \$6.4438 as of September 2020 and \$6.399 as of December 2019	STOCK MARKET	Fixed - 4.49%	2032	21,094,467	
TOTAL UDIS				<u>21,094,467</u>	
TOTAL INTERNAL DEBT				\$ <u>90,081,797</u>	
Summary					
Total foreign debt				\$ 139,528,640	
Total domestic debt				90,081,797	
Interest payable				3,170,564	
Unamortized debt expenses				<u>(2,424,661)</u>	
Total documented debt				\$ <u>230,356,340</u>	
Short-term debt				49,925,270	
Long-term debt				179,685,167	
Interest payable				3,170,564	
Unamortized debt expenses				<u>(2,424,661)</u>	
Total debt				\$ <u>230,356,340</u>	

The short and long term liability for documented debt matures as follows:

September 30, 2020	Amount
2020	\$ 21,920,301
2021	28,276,473
2022	1,673,523
2023	24,144,917
2024	29,480,978
2025	22,375,335
2026	1,374,560
Subsequent years	<u>101,110,253</u>
Total	\$ <u>230,356,340</u>

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i) Debt on long-term productive infrastructure projects (PIDIREGAS, Spanish acronym)

An analysis of the balances and maturities of the PIDIREGAS (direct investment) debt and capital lease liability as of September 30, 2020 and December 31, 2019 is as follows:

Credit value	Contract term	Balances as of September 30, 2020				Balances as of December 31, 2019			
		(Thousands of units)				(Thousands of units)			
		National currency		Foreign currency		National currency		Foreign currency	
		Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
Foreign debt									
- millions of dollars	2019	\$ -	\$ -	-	-	\$ -	\$ -	-	-
- millions of dollars	2020	-	-	-	-	257,249	-	-	-
29 millions of dollars	2026	101,625	558,939	4,525	24,889	85,279	511,677	-	-
252 millions of dollars	2029	613,380	4,742,907	27,313	211,197	514,722	4,494,765	-	-
341 millions of dollars	2032	1,352,834	6,311,468	60,240	281,043	1,135,240	5,863,933	-	-
770 millions of dollars	2036	987,029	15,768,814	43,951	702,169	828,273	13,868,907	-	-
51 millions of dollars	2039	-	1,151,723	-	51,285	-	966,476	-	-
625 millions of dollars	2047	1,117,391	12,595,905	49,756	560,882	937,666	11,173,343	-	-
1,307 millions of dollars	2048	1,028,138	24,674,152	45,782	1,098,714	1,010,913	24,246,530	-	-
499 millions of dollars	2049	651,920	16,338,374	29,029	727,531	301,669	8,702,624	-	-
900 millions of dollars	2050	673,720	19,537,850	30,002	870,000	-	-	-	-
Total foreign debt		\$ 6,526,037	\$101,680,132	290,598	4,527,710	\$ 5,071,011	\$ 69,828,255		

**Comisión Federal De Electricidad
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Credit value	Contract term	Balances as of September 30,2020				Balances as of		
		(Thousands of units)				(Thousa		
		National currency		Foreign currency		National currency		
		Short term	Long term	Short term	Long term	Short term	Long term	
Domestic debt								
- millions of pesos	2019	\$	-	-		\$	-	
22 millions of pesos	2020		-	-		23,258		
1 millions of pesos	2021		743	-		1,486	743	
984 millions of pesos	2022		480,779	438,871		505,897	719,852	
55 millions of pesos	2023		30,197	36,439		27,223	41,128	
2,235 millions of pesos	2024		544,694	1,634,082		541,567	2,166,266	
533 millions of pesos	2025		193,308	319,740		193,308	435,972	
21,424 millions of pesos	2026		3,408,194	17,074,324		3,683,640	19,210,836	
- millions of pesos	2027		-	-		-	-	
3,828.58 millions of pesos	2028		513,798	3,910,229		413,028	3,487,726	
15,171 millions of pesos	2033		1,413,117	13,335,434		1,340,813	14,038,816	
- millions of pesos	2034		-	-		-	-	
1,380 millions of pesos	2036		83,664	1,296,798		83,664	1,338,630	
10,971 millions of pesos	2042		684,874	10,058,156		681,961	10,629,470	
Total domestic debt		\$	7,353,368	48,104,073		\$	7,495,845	52,069,435
Interest payable			1,201,538			1,593,094		
CEBURES				8,821			8,821	
Total PIDIREGAS debt		\$	15,080,943	149,793,026		\$	14,159,869	121,906,515

Notes to the condensed consolidated financial statements

As of September 30, 2020 and December 31, 2019, minimum payment commitments on PIDIREGAS are as follows:

	<u>2020</u>	<u>2019</u>
PIDIREGAS	\$ 241,444,757	\$ 200,239,308
less:		
Unaccrued interest	<u>76,579,609</u>	<u>65,774,757</u>
Present value of obligations	164,865,148	134,464,551
less:		
Current portion of obligations	<u>15,080,943</u>	<u>12,566,856</u>
Long-term portion of PIDIREGAS	149,784,205	121,897,695
CEBURES	<u>8,821</u>	<u>8,821</u>
Total CEBURES and PIDIREGAS	\$ <u>149,793,026</u>	\$ <u>121,906,516</u>

As of December 31, 2019, CFE International LLC had a bank loan with third parties in the amount of \$565,356.

The loan agreement stipulates affirmative and positive loan covenants that the Company must adhere to. These loan covenants require the Company to refrain from doing the following until the loan has been repaid in full:

- a) Modify its corporate purpose, except for adding complementary or secondary activities to its main activity;
- b) Modify its line of business and the nature of its main activities or cease engaging in them altogether;
- c) Initiate its dissolution or liquidation;
- d) Merge into another company or carry out a corporate transformation or spin-off, etc.;

The Company agrees that its non-compliance with any of these obligations would be sufficient cause for the Bank to demand the immediate settlement of the loan, plus all accrued interest and related accessory charges.

13. Lease liabilities

An analysis of lease liabilities as of September 30, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
January 1st	\$ 567,913,231	\$ 456,445,995
Additions	23,394,102	151,694,307
Interest	22,938,753	23,889,828
Payments	(31,904,659)	(40,455,722)
Foreign currency translation reserve	17,161,161	(4,032,853)
Exchange difference	93,529,141	(19,628,324)
Total liabilities	693,031,729	567,913,231
Less portion of short-term liabilities	22,682,201	11,074,905
Total long-term liabilities	\$ 670,349,528	\$ 556,838,326

14. Other accounts payable and accrued liabilities

Other accounts payable and accrued liabilities as of September 30, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Suppliers and contractors	\$ 39,990,284	\$ 37,808,697
Employees	5,921,777	5,054,394
Deposits from users and contractors	30,315,095	28,945,790
Other taxes and duties	5,045,600	2,273,976
Value added tax	-	9,126,331
Other liabilities	5,923,945	2,965,536
Total	\$ 87,196,701	\$ 86,174,724

15. Other long-term liabilities

An analysis of other long-term liabilities as of September 30, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Third-party contributions	\$ 10,731,907	7,162,731
Decommissioning provision	9,074,311	14,090,661
Other provisions	5,850,908	1,803,806
Total	\$ 25,657,126	23,057,198

16. Employee benefits

CFE has employee benefit plans for employee terminations and retirements due to causes other than a restructuring event. The retirement benefit plan considers the number of years of service completed by the employee and the employee's compensation at the retirement date. The retirement benefit plan includes the seniority bonus that employees are entitled to receive upon termination of the employe relationship, as well as other defined benefits.

The actuarial valuations of the plan assets and the present value of the defined benefit obligation were performed by independent actuaries using the projected unit credit method.

Due to the revision of the collective labor agreement for the 2020-2022 biennium, some modifications carried out in 2016 were reverted, among the main modifications, restored the worker's years to access their right to retirement and from the signing of the collective agreement and within a period not exceeding 180 days, the CFE will issue a work regulation of the trusted staff.

17. Contingencies and Commitments

Contingencies

CFE is party to several lawsuits and claims filed against it in the normal course of its business. The amounts of such lawsuits are deemed immaterial with respect to the Company's current financial position and its expected financial performance in the following years.

Commitments

a. Natural gas supply contracts

The Company has entered into contracts for services related to the reception, storage, transportation, regasification and supply of liquefied natural gas. The contractual commitments consist of acquiring, during the supply period, daily base amounts of natural gas as set forth in the respective contracts.

b. Financed public work contracts

As of September 30, 2020, CFE has entered into several financed public work contracts and the payment commitments will begin on the dates when the private investors complete the construction of each of the investment projects and deliver the related assets to CFE for their operation. The estimated amounts of such financed public work contracts and the estimated dates of construction completion and startup of operations are as follows:

Transmission lines and substations:

Capacity		Estimated amount of the contract expressed in millions of:	
Kmc	MVA	Dollars	Pesos
231.57	1,432.51	168.55	3,785.1

Generation:

	Estimated amount of the contract expressed in millions of:	
MVA capacity	Dollars	Pesos
1,528.63	1,463.23	32,860.2

Renovation and/or modernization

Estimated amount of the contract expressed in millions of:	
Dollars	Pesos
380.0	8,533.5

These projects are registered under the PIDIREGAS scheme (long-term productive infrastructure projects).

c. Trusts

1 Scope of action

- 1.1. CFE currently participates as Trustor or Beneficiary in 10 (ten) Trust Funds, of which two (two) are in the process of termination.
- 1.2. In conformity with its purpose and operating characteristics, the trust funds can be classified in the following groups:
 - a. Energy saving
 - b. Prior expenses
 - c. Construction Works contract management
 - d. Indirect participation trust funds

a. Energy saving

Trust funds to promote energy saving programs.

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Trust fund	Role of CFE		
	Trustor	Trustee	Trust Beneficiary
Trust Fund for Energy Savings (FIDE), created on August 14, 1990	Creation of Trust: Confederación de Cámaras Industriales (CONCAMIN), Cámara Nacional de la Industria de Transformación (CANACINTRA), Cámara Nacional de Manufacturas Eléctricas (CANAME), Cámara Nacional de la Industria de la Construcción (CNIC), Cámara Nacional de Empresas de Consultoría (CNEC) and Sindicato Único de Trabajadores Electricistas de la República (SUTERM)	Nacional Financiera, S.N.C.	<p>a. Electric energy consumers who are beneficiaries of the services rendered by the Trust fund.</p> <p>b. CFE, only for the materials that will form part of the public energy services infrastructure.</p>
Mexicali Housing Thermal Isolation Trust (FIPATERM), created on October 19, 1990	CFE	Banco Nacional de Obras y Servicios Públicos, S.N.C.	CFE

As of September 30, 2020 and December 31, 2019, the Housing Thermal Isolation Program (FIPATERM) Trust has assets of \$1,681,792 and \$1,621,252 and liabilities of \$83,868 and \$63,241, respectively.

b. Prior expenses

Those created for financing and covering expenses prior to the execution of projects which are subsequently recovered and charged to the entity that incurred in such expense to comply with the regulations applicable to the type of project.

Trust fund	Role of CFE			Type of project
	Trustor	Trust Beneficiary	Trustee	
CPTT prepaid expense management, created on August 11, 2003	CFE	CFE	Banco Nacional de Comercio Exterior, S.N.C.	Direct investment
Management and transfer of ownership 2030, created on September 30, 2000	CFE	<p>Primary beneficiary: Contract winners</p> <p>Second beneficiary: CFE</p>	Banobras, S.N.C.	Conditioned investment

As of September 30, 2020 and December 31, 2019, the Administration of Prior Expenses Trust has assets of \$3,400,297 and \$3,186,199, and liabilities of \$3,080,787 and \$3,008,885, respectively.

The Administration and Transfer of Ownership Trust 2030 has assets of \$493,515.

c. Construction Works contract management

At the beginning of the '90s, the Federal Government implemented several off-budget schemes to continue investing in infrastructure projects. The schemes were designed under two modalities:

- Turnkey Projects (1990)
- Building, Leasing and Transferring Projects (1996)

Turnkey Projects. - Under this scheme, works were carried out for the construction of power generation plants and installation of transmission lines, through an irrevocable management and transfer of ownership trust, linked to a lease agreement. Under this modality, the trustee is responsible for the following:

Contracting credits, managing the trust property (assets), receiving the lease payments from CFE, and transferring the asset at no cost to CFE after the leases have been paid in an amount sufficient to pay the contracted credits.

CFE participates in the payment of the leases to the trustee, based on the credits contracted by the trust, instructing the trustee to pay the contractors receiving, in exchange, invoices approved by the construction area, payment of taxes and other charges, including trustee fees.

The trusts for managing and transferring ownership were carried out in accordance with the Guidelines for the performance of thermoelectric projects with off-budget funds, as well as with the Guidelines for the performance of transmission lines and substations with off-budget funds issued by the Ministry of Public Administration (formerly known as the Ministry of Comptrollership and Administrative Development).

The Trust shown below has completed its payment commitments; therefore, it is in process of termination by the General Counsel.

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Topolobampo II (Electrolyser, S. A. de C. V.), created on November 14, 1991	Bufete Industrial Construcciones, S. A. de C. V. and Electrolyser, S. A. de C. V., with respect to its contribution to the Trust	Primary beneficiary: Electrolyser, S. A. de C. V., with respect to its contribution to the Trust and Second beneficiary: CFE	Santander, S. A.

Building, Leasing and Transferring Projects (“CAT”, Spanish acronym). - The transition stage to carry out the CAT trusts began in 1996, whereby the trustee manages the trust property (assets) and transfers it to CFE after the lease payments have been covered. Credits are contracted directly with a consortium that is a special purpose entity, for which there is an irrevocable management and transfer of ownership trust contract.

In these types of trusts, CFE participates in making the lease payments based on quarterly amortization tables presented by the consortiums in their bids. Most of these tables include forty quarterly payments.

The only project under this mode that has settled its financial obligations and is in the process of termination is the CC Samalayuca II project; therefore, it is in the process of being terminated by the Office of the General Counsel.

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
C.T. Samalayuca II, created on May 2, 1996	Compañía Samalayuca II, S.A. de C.V.	<p>Primary beneficiary: The foreign bank that is the common representative of the creditors;</p> <p>Second beneficiary: Compañía Samalayuca II, S.A. de C.V.</p> <p>Third beneficiary: CFE</p>	Banco Nacional de México, S. A.

As of September 30, 2020 and December 31, 2019, CFE has fixed assets amounting to \$21,995,856 and \$21,995,856, respectively, related to the CAT trusts referred to above.

Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elias Calles.

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elias Calles (Petacalco) was created on November 22, 1996	Techint, S. A., Grupo Mexicano de Desarrollo, S.A. de C.V. and TechintCompagnia Tecnica Internazionale S.P.A.	<p>Primary beneficiary: Carbonser, S.A. de C.V</p> <p>Second beneficiary: CFE</p>	Banco Nacional de México, S. A. (Banamex)

The irrevocable management, guarantee, and transfer of ownership trust agreement number 968001 was entered into 1996 which, among other considerations, sets forth that the trustee will enter into a service contract with CFE.

Upon the entry into force of the coal management service contract between CFE and Banco Nacional de México, S. A. (Banamex) as trustee of the Petacalco Trust, comprised of Techint Compagnia Tecnica Internazionale S.P.A., Grupo Mexicano de Desarrollo, S. A. de C. V., and Techint, S. A. that was entered into on November 22, 1996, in accordance with clause 8.1, CFE will pay the invoice amounts related to the fixed charge for capacity.

Facility	Fixed charge for capacity for Jan-Sep 2020
Petacalco Coal	\$103,217

d. Indirect participation trust funds

Additionally, CFE maintains an indirect relationship since it is not a Trustor, but it participates as a beneficiary in two guarantee and loan payment Trusts, created by Financial Institutions as Trustors and Trust Beneficiaries for the issue of securities linked to credits granted to CFE. CFE is named as Second Beneficiary of the Trust, due to the specific possibility that it may acquire some of the certificates issued and it maintains representation in its Technical Committees in conformity with the contractual provisions. (See note 11).

CFE is required to reimburse to the Trust in the terms of the Indemnity Contract that forms part of the Trust Contract, the expenses incurred by the Trust for the issue of securities and their management.

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Trust No. 232246 created on November 3, 2006	Banco Nacional de Mexico, S.A., a member entity of Grupo Financiero Banamex	Primary beneficiary: Each of the preferred holders of each issue. Second beneficiary: CFE	HSBC México, S.A., Grupo Financiero HSBC
Trust No. 411 created on August 6, 2009	Banco Nacional de Mexico, S.A., a member entity of Grupo Financiero Banamex	Primary beneficiary: Each of the preferred holders of each issue. Second beneficiary: CFE	Banamex

As of September 30, 2020, available funds in trust No. 232246 amount to \$8,821.

2 Legal nature

2.1 In conformity with the Federal Public Administration Act, none of the trusts are considered Public Trusts with the status of an "entity", pursuant to the following:

- a. In six of the Trusts, CFE is not a Trustor in their creation.
- b. The four remaining trusts do not have an organic structure similar to the state-owned entities that comprise them as "entities" in terms of the Law.

2.2 The SHCP has maintained a record for purposes of the Federal Budget and Financial Responsibility Law, of 4 (four) of the Trusts, due to the allocation of federal funds or the contribution of land owned by CFE where the works will be carried out.

Registration of Trusts with SHCP		
No.	Trusts	Record
1	Mexicali Housing Thermal Isolation Trust (FIPATERM)	700018TOQ058
2	Prior Expense Trust	200318TOQ01345
3	Trust Management and Transfer of Ownership 2030	200318TOQ01050
4	Trust for Power Savings (FIDE)	700018TOQ149

18. Segment information

Information regarding the operating segments

The information presented to the Board of Directors to obtain budget and investment approval and measure compliance with the business objectives set out by the Board is condensed consolidated financial information and not for each operating activity of the Company.

Information by type of service

REVENUE	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Domestic services	\$ 62,567,566	\$ 56,808,297
Commercial services	34,685,360	38,391,104
Services	10,238,904	11,274,977
Agricultural services	6,341,736	5,694,961
Industrial services	<u>162,063,480</u>	<u>192,176,517</u>
Total sales	275,897,046	304,345,856
Block for resale	<u>590,137</u>	<u>1,130,732</u>
Total electricity supply revenue	<u>276,487,183</u>	<u>305,476,588</u>
OTHER PROGRAMS		
Consumption in the process of being billed	-	2,689,932
Illegal uses	1,834,974	1,943,281
Measurement failure	1,094,099	1,778,703
Billing error	<u>649,948</u>	<u>999,432</u>
Total income obtained from other programs	<u>3,579,021</u>	<u>7,411,348</u>
Total revenue from the sale of electricity	\$ <u>280,066,204</u>	\$ <u>312,887,936</u>

19. Standards issued but not yet effective

Other standards

The Company does not expect the following amended standards and interpretations to have a significant impact on its financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Definition of a Business (Amendments to IFRS 3)
- IFRS 17 Insurance Contracts

20. Subsequent events

COVID-19

On March 11, 2020, the World Health Organization declared a pandemic due to the global spread of the virus called SARS-COV-2, which originated in China at the end of 2019 and began to appear in Mexico in February 2020. Governments around the globe have been taking steps to contain the spread of the virus, including requiring the quarantine of their citizens, implementing social distancing measures, restricting travel, and declaring health emergencies. The spread of SARS-COV-2 has led to a downturn in the global economy and by extension, to a general reduction in the economic activity of most countries.

The SARS-COV-2 health contingency could have more of an impact on the Company from an economic and financial standpoint.

The risks that the pandemic poses for CFE may be classified into three main types:

- a) economic-financial risks;
- b) operational risks, and
- c) labor risks.

Management has estimated that the potential effects of all three types of risk vary qualitatively and in their degree of intensity, but it is important to note that the electricity sector is "defensive" with respect to other sectors of the economy. CFE has implemented several specific measures to mitigate the financial, operational and labor risks posed by the health crisis.

An explanation of each of the three risks that management believes may have an impact on the Company is provided below.

a) Economic-financial risks

The economic-financial risks of the pandemic may be classified into two types based on their potential impact for the Company. The risks representing a negative potential impact are a.1) lower electricity consumption and reductions in sales of electricity, and a.2) variations in exchange rates. The risks representing a positive potential impact include: a.3) lower interest rates, and a.4) lower fuel prices.

a.1) Lower electricity consumption and reduction in sales of electricity

The measures that have been implemented to control the spread of the SARS-COV-2 virus in the country, including the self-isolation of the population, the suspension of non-essential activities, companies and industries, and the introduction of social distancing measures, have led to a slowdown in the country's economic activity, which in turn has led to a reduction in the consumption and sales of electricity across Mexico's industrial, commercial and service sectors.

However, demand for electricity in the residential market is expected to grow as the large portion of the Mexican population that is forced to stay at home during the lock down will engage in additional activities at home, including professional and educational activities and entertainment. No

significant reductions in electricity consumption in the agricultural sector is expected since agriculture is considered an essential activity.

During 2020, CFE's electricity sales and revenue from the sale of electricity decreased compared to 2019, caused by social distancing and the paralysis of activities due to the COVID-2019 pandemic, although electricity consumption in households has increased as a result of social confinement, but the work stoppage in industries such as the automotive and cement industries, among others, has led to a drop in electrical demand.

It is expected that the return of activities will be gradual, which directly affects the trend of behavior and growth of electricity demand in the country.

a.2) Variations in exchange rates

As a result of the world economic events described above, as of March 2020, the Mexican peso has experienced a significant depreciation against the dollar. As of September 30, 2020, the peso to dollar exchange rate is \$23.1325 pesos per dollar, which compared to the exchange rate as of December 31, 2019 of \$18.8452 pesos per dollar, represents a depreciation of 20%.

The Company has leases in foreign currency, which represented a loss of \$ 107,062 million pesos, which is reflected in the income statement as of September 2020.

a.3) Reduction in interest rates

In response to the contraction of economic activity in Mexico and around the world, the central banks of the largest developed and emerging economies have initiated a cycle of reducing their reference interest rates as a measure to stimulate growth in consumer consumption and investment in their countries.

a.4) Lower fuel prices

On March 6, 2020, the Organization of the Petroleum Exporting Countries (OPEC) led by Saudi Arabia, Russia and another group of oil partners, failed to reach an agreement to reduce production and support oil prices, which resulted in a significant drop in the global price of crude oil, which represents a positive consumption of this fuel by the Company. It is important to point out that there is no business concentration with respect to its suppliers as of September 30, 2020.

In addition, the Company does not set electrical energy prices, such prices are governed by the National Energy Control Center (CENACE) and are regulated by the Energy Regulating Commission (CRE) and the Ministry of Energy (SENER). At date, no changes have been published that could have a significant impact on the Company's figures.

b) Operating risks

Since power generation and supply is deemed an essential activity for Mexico, throughout the health crisis CFE has continued to operate across all its processes, from power generation to power distribution to power supply to end users. In essence, CFE has continued to produce electricity for the entire country 24 per day, 7 days a week.

CFE has achieved this continued capacity to operate by implementing the actions set forth in the "Health Safety Protocol for the Reincorporation of Activities in the Work Centers of Comisión Federal de Electricidad".

c) Occupational hazards

The Company has introduced a number actions and measures designed to reduce the spread of the SARS virus in its different work centers throughout the country, to promote social distancing on the job, whether this be in the form of face-to-face work, remote work or a mix of the two, with workers reporting to their work centers on a sporadic basis and with older or physically vulnerable employees reporting to their offices or work centers only when strictly required in order to reduce the number of infections of SARS-COV-2

For this purpose, CFE's senior management issued the "Health Safety Protocol for the Reincorporation of Activities in the Work Centers of the Federal Electricity Commission", whose aim is to ensure that all of the Company's areas take steps to maintain and strengthen the preventive and protection measures in place.

Given the changes in the economic environment of the country, changes in the electricity market, changes in the interest rate that impacts the discount rate used to determine the use value, exchange rate and the performance of the assets that are lower than expected, there are signs of impairment. Management has hired an external specialist to update the market value and impairment of long-lived assets. Results will be available until year-end closing.

Amendments to the collective labor agreement

On August 19, 2020, CFE and SUTERM reached a new agreement on the Collective Labor Agreement that shall govern the 2020-2022 period considering, among other aspects, the amendment of Clause 69 regarding retirement conditions of CFE's employees, exclusively applicable to unionized personnel.

Regarding trusted staff, Clause 40 of the Collective Labor Agreement 2020-2022 indicates that their retirement conditions will be communicated by the board of CFE through specific guidelines that shall be published no later than six months after the signature of the new Collective Labor Agreement.

In compliance with the Ninth Provision, second paragraph of the "*Agreement through which are issued the general provisions regarding the assumption of the Federal Government of pension and retirement liabilities in charge of Comisión Federal de Electricidad*" ("Agreement"), published in the Official Gazette of the Federation on November 14, 2016, CFE informed the Public Credit Unit of SHCP, through official document DCF/0202/2020 of September 2, 2020, the amendment to the Collective Labor Agreement mentioned before. An independent expert will make the assessment of the impact on the labor liability of the Company.

In accordance with the Ninth Provision, third paragraph of the "Agreement", on November 30, 2020 the CFE sent to SHCP, through official document DCF/0274/2020, the report that includes the financial impact of the amendment to the retirement requirements for unionized employees of CFE.

In addition, it indicates that the maturity profile of the liability reviewed by the independent expert shall serve as the basis to establish the payment profiles applicable for the issuance of securities. The result of the review shall be delivered by the independent expert within three months following to their hiring date. As of this date, the Company is waiting for the observations and opinion of SHCP and/or of the expert in regards to the report on the financial impact of the labor liability of CFE.

Once reconciled the impact assessment of the amendments to the Collective Labor Agreement 2020-2022 on the labor liability, the SHCP shall adjust the securities' value in accordance with the new payments' profile through credit to the bank account provided by CFE at least 15 business days before the maturity date of each security.

Fiscal impact of the new portfolio

Management of CFE is negotiating with the Ministry of Finance and Public Credit (SHCP) an official statement regarding taxation which would prevent taxation on the reorganization of the portfolio of the six generation EPSs published on the Official Gazzette of the Federation on November 29, 2019, as it occurred in the first portfolio assignment since, among other issues, such reorganization seeks in first instance, correcting those organizational decisions that since the Energy Reform functionally affected the productivity of the generation process. As of this date, the company is waiting for the opinion of SHCP.

21. Issuance of the condensed consolidated financial information

The condensed consolidated interim financial statements and notes will be approved by the Board of Directors. The Board of Directors has the power to amend the accompanying consolidated financial information. Subsequent events were considered as of November 30, 2020.

**COMISIÓN FEDERAL DE ELECTRICIDAD,
Productive State Enterprise its subsidiaries and
affiliates and trusts**

Consolidated financial statements

December 31, 2019, 2018 and 2017

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

To the Board of Directors of

Comision Federal de Electricidad, Productive State Enterprise:

Opinion

We have audited the consolidated financial statements of Comisión Federal de Electricidad, Productive State Enterprise its subsidiaries and affiliates and trusts (“the Group”), which comprise the consolidated statement of financial position as at December 31, 2019, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Comision Federal de Electricidad, Productive State Enterprise its subsidiaries and affiliates and trusts as at December 31, 2019, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis por opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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.



Determination and recognition of rights of use assets and lease liabilities

See note 4 to the consolidated financial statements

Key audit matter

As of December 31, 2019, the Group has recognized rights-of-use assets of \$474,376,421 and lease liabilities of \$567,913,231, derived from leases of real estate and gas pipelines under the figure of lessee.

The adoption of IFRS 16 method used by the Group was the full retrospective, which involved reformulating the financial information for the years 2018 and 2017, considering as the date of initial adoption, January 1, 2017.

The right-of-use asset is initially measured at cost and is subsequently depreciated using the straight-line method from the start date of the contract and until the end of the useful life of the right-of-use asset or at the end of the lease term, which occurs first.

The lease liability is initially measured at the present value of the remaining lease payments at the commencement date, using a discount rate for each asset.

With the support of external valuation specialist, the Group carried out the review of the contracts of lease to analyze which of them comply with applicable accounting standards and determine the amounts to be recognized by right-of-use assets and liabilities for lease.

We consider as a key issue of our audit, the appropriate determination of the asset and liability for each lease, given the importance of the impacts on the financial statements derived from the adoption method used by the Group and the inherent judgment required to determine the assumptions used in the calculation of the applicable rights and obligations thereof.

How the key matter was addressed in our audit

As part of our audit procedures, we have evaluated and questioned the significant judgments made by Management and the external valuation specialists hired by the Company as described below, and evaluated the objectivity and competence of the latter.

Together with our valuation specialists, we evaluated:

- The process followed by Management for the adoption and determination of the effects of the regulations in force in the year on leases.
- We evaluate the integrity of the lease contracts.
- The reasonableness of the analysis made by Management on whether the contracts contain the characteristics of an operating lease.
- The reasonableness of calculations of the assets by right of use and liabilities by right of use, considering the methodology of the applicable regulations.
- We assess that the discount rates applicable to the lease contracts used by Management were appropriate in accordance with the guidelines established in the current regulation.
- We assess the reasonable certainty to exercise the lease term option in accordance with the conditions of each contract to exercise the lease term option in accordance with the conditions of each contract.
- The adequacy of the disclosures in the notes to the Group's consolidated financial statements.



Determination of the fair value of plants, facilities and equipment

See note 9 to the consolidated financial statements

Key Audit Matter

How the key matter was addressed in our audit

During 2019 it was carried out the transfer of plants used for the generation of electrical energy between the Group companies, in accordance with the agreement published on March 25, 2019, in the Official Gazette.

Derived from this reassignment, and based on current regulations, the plants used for the generation of electrical energy were revalued to determine and record the corresponding fair value.

With the support of external valuation specialists, the Group carried out the review of the fair values considering the market conditions and information.

The plant revaluation process is a complex process that involves a high degree of judgment, based on assumptions that may be affected by future economic and market conditions, such as, among others, the income rates to be used by the different cash generating units in the short and long term, their costs, projected profit margins and discount rate.

Taking into account the description of the aforementioned process, we evaluate the determination of fair value as our key audit matter.

As part of our audit procedures, we have evaluated:

The assumptions used by the Group, particularly those related to income, costs, and profit margins, as well as the discount rate and the significant judgments made by Management and their external valuation specialists.

The objectivity and competence of the external valuation specialists hired by the Group.

With the participation of our valuation specialists, the assumptions and the methodology used by the Group, particularly those related to the reasonableness of the valuation method used and the determination of the discount rate.

The adequacy of the disclosures in the notes to the Group's consolidated financial statements.

Emphasis of Matter – Comparative information

During 2019, accounting changes were made that are disclosed in Note 4 to the consolidated financial statements. As a result, the consolidated financial statements as of December 31, 2018, and 2017 and the statement of financial position as of January 1, 2017, were restated retrospectively. Our opinion has not been modified in respect of this matter.



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 IFRS 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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 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 auditors' 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. .

KPMG Cárdenas Dosal S. C.



Eduardo Palomino

Mexico City, June 30, 2020.

**Comisión Federal de Electricidad,
Productive State Enterprise its subsidiaries and affiliates and trusts**

For the years ended December 31, 2019, 2018 and 2017

Consolidated statements of comprehensive income

(Thousands of pesos)

	2019	2018 (restated)	2017 (restated)
Revenues			
Electricity supply service revenue (note 22)	\$ 415,314,988	375,707,624	365,358,887
Subsidy income	75,185,800	81,405,300	65,914,800
Third party fuel revenue	38,308,467	59,571,662	22,022,929
Freight revenue	4,537,438	6,176,843	4,986,642
Other income, net	<u>22,805,635</u>	<u>24,484,835</u>	<u>31,322,284</u>
Total revenue	556,152,328	547,346,264	489,605,542
Costs:			
Energy and other fuel supplies	234,999,995	259,644,225	216,120,744
Energy and other fuel supplies - Third party	35,544,104	50,993,057	19,138,000
Salaries and related costs	69,018,628	63,152,703	57,885,419
Maintenance, materials and general service	14,278,998	23,348,610	19,554,823
Taxes and duties	2,281,474	3,800,709	2,603,543
Wholesale Electricity Market costs (MEM)	3,156,925	3,015,572	2,693,373
Employee benefits costs	35,900,194	20,539,778	47,903,316
Depreciation	65,753,190	70,350,100	69,895,200
Other expenses	<u>14,553,176</u>	<u>7,673,382</u>	<u>(180,117)</u>
Total costs	475,486,684	502,518,136	435,614,301
Operating results	80,665,644	44,828,128	53,991,241
Comprehensive financing result, net:			
Interest expense	42,037,479	47,766,777	33,911,066
Finance income	(3,671,690)	(602,944)	-
Finance cost	11,560,160	4,415,580	-
Foreign exchange (income) loss	<u>(21,961,332)</u>	<u>(2,205,941)</u>	<u>(14,325,740)</u>
Total comprehensive financing results, net	27,964,617	49,373,472	19,585,326
Income (loss) before income tax other comprehensive income	52,701,027	(4,545,344)	34,405,915
Income tax (note 18)	27,027,331	(66,170,650)	(73,302,892)
Net income	25,673,696	61,625,306	107,708,807
Net income attributable to:			
Controlling interests	20,965,736	58,375,279	107,708,807
Non-controlling interests	<u>4,707,960</u>	<u>3,250,027</u>	<u>-</u>
	25,673,696	61,625,306	107,708,807
Other comprehensive income (note 19):			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of plants, facilities and equipment	27,466,275	1,580,651	(28,681,250)
Remeasurements of defined benefit liabilities	(103,819,133)	39,591,661	(12,192,264)
Deferred comprehensive income tax	<u>16,982,786</u>	<u>20,505,785</u>	<u>-</u>
	(59,370,072)	61,678,097	(40,873,514)
Items that may be reclassified subsequently in profit or loss			
Effect of translation into the functional currency	-	(37,393)	(82,933)
Cash flow hedging	<u>(6,685,744)</u>	<u>(12,252,497)</u>	<u>10,401,629</u>
	(6,685,744)	(12,289,890)	10,318,696
Total other comprehensive (loss) income	(66,055,816)	49,388,207	(30,554,818)
Comprehensive result	\$ (40,382,120)	111,013,513	77,153,989

See accompanying notes to consolidated financial statements

Comisión Federal de Electricidad
Productive State Enterprise its subsidiaries and affiliates and trusts

For the years ended December 31, 2019, 2018 and 2017

Consolidated statements of changes in equity

(Thousands of pesos)

	Contributions received from the Federal Government	Contributions in kind from the Federal Government	Acumulated results	Other comprehensive income (loss)	Total equity controlling interests
Balances at December 31, 2016	\$ 5,251	95,004,417	(8,043,541)	447,252,336	534,218,46
Adjustments from adoption of IFRS 16 (note 4)	-	-	(49,915,263)	-	(49,915,26
Balance at January 1st, 2017	5,251	95,004,417	(57,958,804)	447,252,336	484,303,20
Comprehensive income of the period	-	-	107,708,807	(30,554,818)	77,153,98
Balances at December 31, 2017 restated	5,251	95,004,417	49,750,003	416,697,518	561,457,18
Non-controlling interest	-	-	-	-	-
Comprehensive income of the period	-	-	58,375,279	49,388,207	107,763,48
Distributions to Fibra E shareholders	-	-	-	-	-
Balances at December 31, 2018 restarted	5,251	95,004,417	108,125,282	466,085,725	669,220,67
Comprehensive income of the period	-	-	20,965,736	(66,055,816)	(45,090,08
Issue of shares	-	-	-	-	-
Dividend decree	-	-	-	-	-
Balances at December 31, 2019	\$ 5,251	95,004,417	129,091,018	400,029,909	624,130,59

See accompanying notes to consolidated financial statements

Comisión Federal de Electricidad
Productive State Enterprise its subsidiaries and affiliates and trusts
For the years ended 31 December 2019, 2018 and 2017

Consolidated statements of cash flows

(Thousands of pesos)

	<u>2019</u>	<u>2018</u> <u>(restated)</u>	<u>2017</u> <u>(restated)</u>
Cash flows from operating activities:			
Net income	\$ 25,673,696	61,625,306	107,708,807
Adjustments for:			
Employee benefits costs	35,900,194	20,539,778	47,903,316
Increase in provisions of deferred and current income tax	27,027,331	(66,170,650)	(73,302,892)
Depreciation and right-of-use assets	65,753,190	70,350,100	69,895,200
Loss on disposal of plants, facilities and equipment	6,321,114	1,008,377	15,872,657
Foreign exchange loss, interest expense and changes in financial derivative instruments fair value of financial instruments	21,022,946	44,408,342	5,938,133
Changes in operating assets and liabilities:			
Accounts receivable and loans to employees	12,503,321	(4,108,373)	(31,831,331)
Inventory of materials of operation	(5,996,472)	(894,472)	(617,228)
Other assets	(5,759,522)	(1,480,495)	(1,338,651)
Other payables and accrued liabilities	(27,676,638)	(7,233,368)	21,385,878
Payments to employees benefits	(40,239,930)	(39,534,335)	(35,045,000)
Net cash flows from operating activities	<u>114,529,230</u>	<u>78,510,210</u>	<u>126,568,889</u>
Cash flows from investing activities:			
Acquisition of plants, facilities and equipment	<u>(49,003,397)</u>	<u>(46,114,216)</u>	<u>(69,787,540)</u>
Cash flows from financing activities:			
Proceeds from debt	44,163,417	91,373,548	61,201,355
Proceeds from issue of shares- Non-controlling interest	(905,969)	15,494,065	-
Dividends paid	(2,151,422)	(1,247,450)	-
Payment of debt	(38,017,119)	(78,934,168)	(46,789,232)
Interest paid	(21,925,609)	(22,053,366)	(26,093,619)
Payment of lease obligations	(40,455,722)	(24,741,358)	(16,597,688)
Payments of financial instruments	(9,505,643)	(10,893,772)	(9,265,343)
Collections from financial instruments	14,128,008	9,851,869	5,734,135
Net cash from financing activities	<u>(54,670,059)</u>	<u>(21,150,632)</u>	<u>(31,810,392)</u>
Cash and cash equivalents:			
At beginning of period	<u>78,483,263</u>	<u>67,237,901</u>	<u>42,266,944</u>
At end of period	<u>\$ 89,339,037</u>	<u>78,483,263</u>	<u>67,237,901</u>

See accompanying notes to consolidated financial statements

1. Incorporation, Business Purpose and Relevant Events

- **Incorporation and business purpose**

Comisión Federal de Electricidad, Productive State Enterprise, its subsidiaries, affiliates and trusts (CFE or the Company) is a Mexican entity that was incorporated by Decree as a Decentralized Public Entity of the Federal Government on August 14, 1937 and published in the Official Gazette on August 24, 1937. The consolidated financial statements accompanying these notes include Comisión Federal de Electricidad, Productive State Enterprise (as the ultimate controlling entity of the economic group to which it belongs) and its subsidiaries, affiliates and trusts over which it exercises control (See Note 3a).

The Comisión Federal de Electricidad Law (CFE Law) was published on August 11, 2014 and became effective on October 7, 2014. The CFE Law mandated the transformation of CFE into a Productive State Enterprise.

CFE's business purpose is to provide public transmission and distribution of electricity services on behalf of the Mexican State. CFE also engages in activities related to the generation and commercialization of electricity, as well as activities related to the import, export, transportation, storage and trading of natural gas, among others.

Assets contributed by the Federal Government

On October 7, 2015, the Ministry of Public Administration (SFP, Spanish acronym) through the Institute of Management and Valuation of National Assets (INDAABIN, Spanish acronym), terminated the commodatum agreement of the assets contributed by the Federal Government, and delivered the assets with a certificate of delivery that includes annexes for the different types of assets to CFE.

In the same act, CFE also obtained the legal and physical possession of the related assets, as per the aforementioned annexes. As of the same date, the legal procedures for the divestiture of these assets from the Federal public domain regime started. These assets were included in the consolidated statements of financial position as at December 31, 2015, at a value of \$95,004,417, as determined by the Asset Management and Divestiture Service (SAE, Spanish acronym), which will be adjusted based on the detailed breakdown by each of the corresponding areas. During 2016, CFE obtained legal possession of additional assets at a value of \$63,000, these assets are included in the Plants, facilities and equipment and Other intangible assets captions (see Notes 8 and 9). As at December 31, 2019, this activity is still ongoing.

Amendments to the Collective Labor Agreement

On May 19, 2016, CFE carried out a review of the terms of the Collective Labor Agreement it entered into with the Sole Union of Electricity Workers of the Mexican Republic ("SUTERM", Spanish acronym).

COMISIÓN FEDERAL DE ELECTRICIDAD, Productive State Enterprise its subsidiaries and affiliates and trusts
Notes to the consolidated financial statements for the three years ended December 31, 2019, 2018 and 2017
(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

As shown in Note 15, as a result of this review, various clauses that mainly affect the retirements caption were amended and are presented as a reduction in the Company's labor obligations.

Assumption of the Company's employee benefits liability by the Federal Government

On November 14, 2016, the Ministry of Finance and Public Credit (SHCP, Spanish acronym) published the "Agreement through which the general provisions related to the assumption by the Federal Government of CFE's employee benefits liability are issued" in the Official Gazette, whereby the Federal Government through the SHCP, assumes a portion of the pension and retirement payment obligation actuarially recognized and accounted for in CFE's financial statements, that correspond to the workers that were hired on or prior to August 18, 2008.

The Federal government had stated that it would assume a portion of CFE's labor liabilities, and this would be equal, peso by peso, to the reduction that would be achieved from the labor obligations liability at the time the Collective Labor Agreement is renegotiated. On December 29, 2016, the Federal Government announced that it had completed its review process of the amount of savings related to CFE's labor obligations as a result of the amendments to the collective labor agreement.

On December 19, 2016, through official document No. 35.-187/2016, the Public Credit Unit of the SHCP informed CFE that the Federal Government's commitment to pay would be assumed by the SHCP through the issue of debt instruments by the Federal Government in favor of CFE with a maturity date until 2085 for a total amount of \$161,080,204, distributed in amounts that will be delivered annually to cover such commitment.

• **Relevant Events**

Asset Reorganization

On May 24, 2019, through Official Communication DG/131/2019, the proposal for the transfer of assets and power generation contracts corresponding to productive subsidiary companies (EPS, Spanish acronym) I, II, III, IV and VI, as well as well as the proposal related to the Laguna Verde Power Plant and Mobile Emergency Units, were submitted for consideration.

The objectives of the reorganization of assets and power generation contracts included:

- To enhance the operational and administrative efficiency of each regional company based on the organization that was in place prior to the entry into force of the Terms for the Strict Legal Separation of CFE.
- The operational regionalization of the assets of the hydroelectric plants shall be grouped in a way that gives priority to the common river basins so as to ensure the security and optimal management of the water supply and reservoirs.
- The redistribution shall affect only the plants operated by the EPS's of CFE and shall not involve any of the external legacy plants that are part of EPS Generación V.

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- In light of the high degree of reliability and security of the National Electric System, it was decided to have the Mobile Emergency Units be part of the Unregulated Business Office in order to facilitate faster decision-making and the rapid mobilization of assets in response to the needs of the National Electric System in the various regions of the country.
- To maintain in the Company the business unit that includes the Laguna Verde Power Plant that participates in the Wholesale Electricity Market (MEM).
- The existence of Legacy Contracts with CFE Suministrador de Servicios Básicos (SSB).

As part of the asset reorganization, the Company conducted a study to determine the fair value of the plants that were involved in the reorganization. This analysis resulted in an impairment charge of \$57,016,640 and an unrealized gain on revaluation of power plants of \$84,480,710. These amounts were recognized in other comprehensive income within the caption "Revaluation of plants, facilities and equipment".

As shown in Note 9, the main effects of this asset reorganization were adjusted and disclosed.

Infrastructure investment trust

On February 7, 2018, CFE placed an issue for the first Energy and Infrastructure Investment Trust or Fibra E, (Fiduciary Stock Certificates [CBFEs] for investment in energy and infrastructure) through the Mexican Stock Exchange. The total placement was for a total amount of \$16,388 million pesos and it is the first Fibra E in which domestic and foreign investors participated, highlighting the participation of institutional investors, private banks and investment funds from Mexico, United States, Canada, Australia and Europe.

The Fibra E structure is comprised of the Irrevocable Trust of Administration and Source of Payment No. 80757 (hereinafter the Promoted Trust), the Irrevocable Trust of Issuance of Stock Certificates CIB/2919 (hereinafter Fibra E) and CFE Capital.

A detailed description of the activities of each of these Trusts and CFE Capital Trusts is as follows:

Promoted Trust

The irrevocable Trust of Administration and Source of Payment No. 80757 was incorporated on January 22, 2018 to acquire the collection rights derived from the Agreement for the Technical and Commercial Operation of Electricity Transmission entered into with the National Energy Control Center (CENACE, Spanish acronym) on March 28, 2016

As part of the structure of the Promoted Trust, CFE Transmisión irrevocably ceded and transferred to the Promoted Trust the collection rights pursuant to the Contract entered into with CENACE for a period of 30 years; in exchange for these rights, the Promoted Trust issued full ownership of the trustee rights to CFE Transmisión. Subsequently, through funding provided by the issuance of Fibra E in the market, Fibra E purchased up to 6.78% of the instruments in exchange for \$15,454,653 in cash, net of issuance costs totaling \$756,060, and securities totaling \$5,403,571 ceded to CFE Transmisión, equal to 25% of the total number of shares issued by Fibra E.

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The main activities of the Promoted Trust include:

1. Receiving, managing, and maintaining the contributed collection rights;
2. Opening, managing, and maintaining fiduciary bank accounts;
3. Making the transfers and payments established in the trust agreement;
4. Evaluating any reimbursements of unbudgeted expenditures requested by CFE Transmisión;
5. Receiving payments made against the collection rights and any other rights derived from the agreement with CENACE;
6. Exercising any other rights arising from the agreement with CENACE;
7. Complying with the instructions provided by the Trustor, the Technical Committee, or the beneficiaries to the extent that they are authorized to do so in accordance with the terms of the trust agreement.

Issuing Trust (Fibra E)

The Fibra E trust entered into by CI Banco, S. A., Institución de Banca Múltiple, Monex Casa de Bolsa, S.A. de C.V. and Monex Grupo Financiero (FIBRA E) was created on January 22, 2018, as a trust for the issuance of Fiduciary Stock Certificates (CBFEs).

The primary purpose of the Trust is to invest in eligible entities, whose exclusive activity consists of:

1. Investing in assets and projects related to Generation, Transmission and Distribution of Electricity, and Infrastructure Projects.
2. Investing in or performing any other activity provided for in the FIBRA E tax regulations, as well as in Rule 3.21.3.9. of the Miscellaneous Tax Resolutions or any other tax law that replaces such.

The initial asset of the Trust consists of Beneficiary Rights that have an economic ownership interest in the Promoted Trust.

CFE Capital

The primary purpose of this entity is to manage all types of trusts and their property, including the Fibra E and the Promoted energy and infrastructure investment trusts created in conformity with current tax legislation, including but not limited to, all the activities and acts deemed necessary or suitable for such purpose, and to provide all types of administration, operation, development and regulatory compliance services.

CFE Telecomunicaciones e internet para todos

On August 2, 2019, CFE Telecomunicaciones e Internet para Todos, EPS was created. The corporate purpose of this company is to provide non-profit telecommunications services pursuant to its wider effort to guarantee the right to access to information and communications technologies, including broadband internet.

In terms of its budget, debt obligations, acquisitions, leases, services and projects, administrative responsibilities, remunerations, assets and the state dividend, the Company shall operate in accordance with the special regime provided for this purpose by law. CFE Telecomunicaciones e Internet para Todos shall manage its assets based on its budget and authorized programs, in accordance with the applicable legal provisions and with the special regime established by law.

2. Basis of preparation and of the consolidated financial statements

a) Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

b) Basis of measurement

The consolidated financial statements have been prepared on the historical-cost basis except for the Company's derivative financial instruments, right-of-use assets, plants, facilities and equipment, as well as its debt and lease liabilities, which are recognized at fair value, and the defined benefit plans which are recognized at the present value of the defined benefit obligation less the fair value of the plan assets.

c) Functional currency and presentation of financial statements

The consolidated financial statements and notes thereto are presented in Mexican pesos, the Company's reporting currency, which is the same as its functional currency.

For purposes of disclosure in the notes to the consolidated financial statements, all references to "pesos" or "\$" refer to Mexican pesos; all references to "dollars" refer to U.S. dollars; all references to "euros" refer to the legal currency of the European Union; all references to "yen" refer to the legal currency of Japan; and all references to "Swiss francs" refer to the legal currency of Switzerland. The financial information is presented in thousands of pesos and has been rounded to the nearest unit, except where otherwise indicated.

d) Use of judgments and estimates

In preparing these consolidated financial statements, estimates have been made for certain items, some of which are highly uncertain and their estimation involves judgments made based on the information available. The following discussion includes some of the matters that could materially affect the consolidated financial statements if (1) the estimates that are used are different than the ones that could reasonably have been used, or (2) the estimates change in the future in response to changes that are likely to occur.

The discussion below addresses only those estimates that the Company considers most important based on the degree of uncertainty and the likelihood of a material impact if a different estimate were used. There are many other areas in which the Company uses estimates about uncertain matters, but the reasonably likely effect of using different estimates is not material to the Company's financial presentation of these areas.

1) Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 3 m) - revenue recognition: whether revenue from unbilled electricity delivered is recognized over time or at a point in time;
- Note 3 n) - leases: whether an arrangement contains a lease and classification of leases.
- Note 3 a) - consolidation: whether the Company has de facto control over an investee.

2) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at December 31, 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the notes on the following page.

- Note 3(m)- revenue recognition: estimate of revenue from unbilled electricity delivered;
- Note 3(j) and 17 - measurement of defined benefit obligations: key actuarial assumptions;
- Note 3(k) and 18 - recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized;
- Notes 3(h) and 9 - impairment test of property, plant and equipment: key assumptions underlying recoverable amounts, including the recoverability and magnitude of an outflow of economic resources and key assumptions in determining their useful lives.
- Notes 3(i) and 10 - impairment test of intangible assets key assumptions underlying recoverable amounts, including the recoverability and magnitude of an outflow of economic resources and key assumptions in determining their useful lives.
- Note 3(l) - recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 3(d) - measurement of the expected credit losses for trade receivables: key assumptions in determining the weighted-average loss rate; and
- Note 21 - contingencies and commitments.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

CFE has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the Standards, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

e) Consolidated statements of comprehensive income

The Company has elected to present comprehensive income using a 'one-statement' approach that includes all of its profit or loss and other comprehensive income (OCI) items, called Statement of Comprehensive Income.

The accompanying consolidated statements of comprehensive income present ordinary costs and expenses based on their nature, since management believes that this structure results in clearer information for the reader. The consolidated statements of comprehensive income include a line item for operating profit (loss), which represents CFE's revenue minus costs, since management believes that including this item facilitates the reader's understanding of the Company's economic and financial performance.

3. The significant accounting policies followed by the Company in the preparation of the financial statements are summarized below:

a) Basis of consolidation

The consolidated financial statements include the subsidiaries, affiliates and trusts over which the Company exercises control. The financial statements of the subsidiaries were prepared for the same reporting period and using the same accounting policies as those of the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

CFE reassesses whether or not it controls an entity and whether the facts and circumstances indicate that there are changes in one or more of the control elements.

The subsidiaries are consolidated on an item-by-item basis as of the date on which CFE obtained control. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated. Unrealized gains arising from transactions with equity method investees are eliminated proportionally to the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The equity interest in the main subsidiaries (productive subsidiary companies, affiliated entities and trusts), over which CFE retains control as of December 31, 2019, 2018 and 2017 is as follow:

Subsidiary Companies

- CFE Distribución, EPS; CFE Transmisión, EPS; CFE Generación I, EPS; CFE Generación II, EPS; CFE Generación III, EPS; CFE Generación IV, EPS; CFE Generación V, EPS; CFE Generación VI, EPS, and CFE Suministrador de Servicios Básicos, EPS.

Affiliated Entities

- CFE Suministro Calificados, S. A. de C. V., CFE International, LLC., CFEEnergía, S. A. de C. V., CFE Intermediación de Contratos Legados, S. A. de C. V., and CFE Capital, S. de R. L. de C. V.

The entities listed above were incorporated and their main place of business is in Mexico, except for CFE International LLC, which is located in the United States.

The Company's equity interest in the entities mentioned above is 100%.

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The trust funds controlled by CFE are as follows:

Trust fund	Role of CFE			Type of project
	Trustor	Trust Beneficiary	Trustee	
Trust Management and Transfer of Ownership 2030	CFE	Primary beneficiary: contract awardees. Second beneficiary: CFE	BANOBRAS, S. N. C.	Conditioned investment
Trust for the establishment of a Revolving Financing Fund for the Housing Thermal Isolation Program of the Valley of Mexicali, B.C.	CFE	CFE	BANOBRAS, S. N. C.	Energy saving
Prior Expense Trust	CFE	CFE	BANCOMEXT, S. N. C.	Direct investment

Non-controlling interest

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

b) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of CFE's companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance costs.

However, foreign currency differences arising from the translation of the following items are recognized in other comprehensive income (OCI):

- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective.

- Qualifying cash flow hedges to the extent that the hedges are effective.

The financial statements of foreign operations are translated into the reporting currency, initially determining whether the functional currency and reporting currency of the foreign operation are different and, subsequently, the functional currency is translated into the reporting currency using the historical exchange rate and/or the closing exchange rate at the end of the year.

Transactions in foreign currencies are translated at the exchange rate prevailing on the date of the related transactions. Monetary assets and liabilities denominated in foreign currencies are valued in local currency at the closing exchange rate prevailing at the date of the consolidated financial statements and at the historical or average exchange rate in profit or loss; exchange differences between the transaction date and the payment or collection date are recognized in profit or loss and presented within finance costs.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits, foreign currencies, and short-term temporary investments. Cash and bank deposits are presented at nominal value and the returns on these investments are recognized in the income statement as they accrue.

Cash equivalents include short-term highly liquid investments and are valued at fair value, and the risk of changes in their value is insignificant.

d) Financial instruments

i) Initial recognition and measurement

Accounts receivable are recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is an account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. An account receivable without a significant financing component is initially measured at the transaction price.

ii) Classification and subsequent measurement - Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; at fair value through other comprehensive income - debt investment; at fair value through other comprehensive income - equity investment; or at fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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Financial assets are classified as measured, subsequent to their initial recognition, at amortized cost, fair value through other comprehensive income and fair value through profit or loss.

The Company measures financial assets at amortized cost if it meets both of the following conditions:

1. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.
2. The contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All the financial assets not classified as measured at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial instruments (see Note 11 (a)). On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition mismatch that would otherwise arise.

Business model assessment:

The Company makes an assessment of the objective of the business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and its expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

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Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial Assets - Subsequent measurement and gains and losses:

Financial assets at fair value through profit or loss

- These assets are subsequently measured at fair value. Net gains and losses, including any interest income, are recognized in profit or loss. However, for derivatives designated as hedging instruments.

Financial assets at amortized cost

- These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses:

Financial liabilities are classified as measured at amortized cost or fair value through profit or loss. A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest income and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

iii) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual rights are paid or canceled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In which case, a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

v) Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized at fair value in the statement of financial position. The fair value of derivative financial instruments is determined using generally accepted valuation techniques. Consistent with the risk strategy, the Company enters into derivative financial instruments contracts to mitigate foreign exchange and interest rate risks, through Interest-Rate Swaps, Cross-Currency Swaps and Foreign Exchange Forwards.

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The policies include formal documentation of all the transactions between the hedging instrument and the hedged item, the risk management objective, and strategy for undertaking the hedge.

The effectiveness of derivative financial instruments designated as hedges is assessed prior to their designation, as well as over the hedging period, which depends on the features of the hedge. When it is determined that a derivative is not highly effective as a hedge, the Company discontinues hedge accounting prospectively.

The Company discontinues cash flow hedge accounting when the derivative expires, is terminated or exercised, when the derivative is not highly effective in achieving offsetting changes in the fair value or cash flows attributable to the hedged item, or when the Company decides to cancel the hedging designation. The gains or losses recognized in Other comprehensive income and accumulated in Equity, remain in Equity and are recognized when the forecast transaction is ultimately recognized in profit or loss.

The effective portion of changes in the fair value of the derivative financial instruments designated as cash-flow hedges is recognized in Equity in the Other comprehensive income caption, while any ineffective portion is recognized in profit or loss. The effective portion recognized in Equity is recycled in the income statement in the periods when the hedged item affects profit or loss and is presented in the same caption of such statement where the corresponding primary position is presented.

The hedging policies establish that derivative financial instruments that do not qualify as hedges are classified as held-for-trading; therefore, the changes in the fair value are recognized immediately in profit or loss.

a) Fair value of financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

The Company designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation

At inception of designated hedging relationships, the Company documents the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and the hedging instrument are expected to offset each other.

The hedged portion of derivative financial instruments is documented in the Hedge File, which includes assessments of economic relationship criteria designed to identify the relationship between the notional amount of the hedging instrument and the notional amount of the hedged item.

b) Cash flow hedges

When a derivative instrument is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The Company designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is separately accounted for as a cost of hedging and recognized in a costs of hedging reserve within equity.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognized.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

For all cash flow hedges, including hedges of transactions resulting in the recognition of non-financial items, the amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affected profit or loss.

e) Impairment in value

i. Non-derivative financial assets

Financial instruments and contract assets

The Company recognizes loss allowances for expected credit losses for:

- financial assets measured at amortized cost;
- debt investments measured at fair value with changes in other comprehensive income; and
- contract assets.

The Company also recognizes the loss allowance for expected credit losses from lease receivables, which are disclosed as part of trade receivables and other accounts receivable.

The Company measures the loss allowance at an amount equal to lifetime expected credit losses, except for the those included in the page below, which are measured at an amount equal to 12-month expected credit losses.

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets and contract assets are always measured at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk of a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full; or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of expected credit losses

Measurement of lifetime ECLs is applied if the credit risk of the financial asset at the reporting date has increased significantly since initial recognition and measurement of 12-month ECLs is applied if the credit risk has not increased. The Company may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date.

However, the measurement of lifetime expected credit losses always applies for trade receivables or contract assets that do not contain a significant financing component. The Company has elected to apply this policy for trade receivables and contract assets with a significant financing component.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit losses. The Company also considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at fair value through other comprehensive income are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Company considers the following observable data as evidence that a financial asset is credit-impaired:

- significant financial difficulty of the issuer or debtor;
- a breach of contract such as a default or being more than 90 days past due;
- restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the debtor will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for the financial asset because of financial difficulties.

Presentation of allowance for expected credit losses in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at fair value through other comprehensive income, the loss allowance is charged to profit or loss and is recognized in other comprehensive income.

All financial assets not classified as measured at fair value through profit or loss were assessed at each reporting date to determine if there was objective evidence of impairment losses.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

ii. Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its financial assets (other than operating materials and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or cash-generating unit.

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

f) Finance income and finance costs

Finance income and finance costs include the Company's finance income and finance costs. The Company's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses (and reversals) on investments in debt securities carried at amortized cost or fair value through other comprehensive income;
- interest expense on lease liabilities;
- hedge ineffectiveness recognized in profit or loss; and
- the reclassification of net gains and losses previously recognized in other comprehensive income on cash flow hedges of interest rate risk and foreign currency risk for borrowings.

Interest income or expense is recognized using the effective interest method. Dividend income is recognized in profit or loss on the date on which the Company's right to receive payment is established.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

g) Inventory of operating materials

Inventory of operating materials is recognized at the lower of acquisition cost or net realizable value. The unit costs of the operating materials inventory are calculated using the average cost method.

When required, the Company records provisions to recognize write downs in the value of its inventories due to impairment, obsolescence, low turnover and other circumstances that indicate that the recoverable amounts of inventories are less than their carrying amounts.

h) Plants, facilities and equipment

i) Recognition and measurement

Plants, facilities and equipment are initially measured at cost.

Plants, facilities and equipment in operation, used for the generation, transmission and/or distribution of electricity are recognized in the statement of financial position at their revalued amount, and fair value is determined as at the revaluation date, less any accumulated depreciation and impairment losses. CFE periodically reviews the fair values of its plants, facilities and equipment in operation, and every 5 years it evaluates the need to revalue its assets to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in the revaluation of plants, facilities and equipment is recognized as a revaluation surplus in other comprehensive income, except when such increase reverses a revaluation deficit of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss to the extent that it reduces the expense of the previous loss. Any decrease in the carrying amount resulting from the revaluation of such plants, facilities and operating equipment is recognized in profit or loss to the extent that it exceeds the revaluation surplus, if any.

Borrowing costs incurred in direct and general financing of constructions in progress for a period greater than 6 months are capitalized as part of the cost of such asset.

In addition to the purchase price and costs directly attributable to preparing an asset in terms of its physical location and condition for use as intended by our technicians, the cost also includes the estimated costs for the decommissioning and removal of the asset and for restoration of the site where it is located, if such obligation exists.

ii) Depreciation

Depreciation of plants, facilities and equipment in operation is calculated at the fair value or acquisition cost of the asset, as the case may be, using the straight-line method over the estimated useful lives of the assets, beginning the month after the assets are available for use. In the event of a subsequent sale or retirement of the revalued properties, the revaluation surplus attributable to the remaining property revaluation reserve is transferred directly to retained earnings.

Depreciation of plants, facilities and operating equipment is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings.

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The depreciation rates based on the useful lives of the assets, determined by the Company's technicians are as follows:

	Useful life (years)
Geothermal power plants	27 to 50
Steam power plants	34 to 75
Hydroelectric power plants	40 to 80
Internal combustion power plants	34 to 75
Turbo gas and combined cycle power plants	34 to 75
Nuclear power plants	40
Substations	39 to 75
Transmission lines	34 to 75
Networks	30 to 59

The Company periodically evaluates the useful lives, depreciation methods, and residual values of its plants, facilities and equipment. In the event of changes in the estimates used, the related effects are recognized prospectively.

When the plants, facilities and equipment items are comprised of various components, and their useful lives are different, the significant individual components are depreciated over their estimated useful lives. Maintenance and minor repair costs and expenses are recognized in profit or loss when they are incurred.

In fiscal year 2019, the Company conducted a fair value analysis of its assets. This test yielded an impairment charge, a reversal of previously recognized impairment, and an unrealized gain on revaluation of the plants, resulting in a net gain of \$27,466,275, which was determined as of December 31, 2019.

In 2018, CFE did not recognize impairment losses on plants, facilities and operating equipment; however, it recognized the partial reversal of the impairment recognized in 2017 in the amount of \$2,074,323, which was determined as of December 31, 2018.

The carrying amount of plant, facilities and equipment is reviewed annually for indicators of impairment in the value of such assets. As of December 31, 2017, CFE recognized impairment losses of \$28,681,250, which were reduced from the revaluation surplus.

iii. Property and assets for offices and general services.

Property and assets for offices and general services are depreciated at the following rates:

	<u>Useful life (in years)</u>
Buildings	20
Office furniture and equipment	10
Computer equipment	4
Transportation equipment	4
Other assets	10

Land is not depreciated.

An item of plant, facilities and equipment is derecognized upon disposal or when no future economic benefits are expected from its continuing use. The gain or loss on the sale or retirement of an item of property, plant and equipment is calculated as the difference between its net selling price and its net carrying amount and is recognized in the income statement.

iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

i) Intangibles and other assets

Intangible assets acquired separately are recognized at cost and CFE estimates the useful life of each intangible asset. Intangibles with an indefinite useful life are classified as intangible assets with indefinite useful lives; the Company mainly has rights of way with indefinite useful lives.

The Other assets line item is largely comprised of security deposits provided under real estate leases, as well as guarantees provided to third parties under agreements for goods and/or services provided.

j) Employee benefits

The Company provides various employee benefits to its employees that for purposes of the financial statements, are classified as direct employee benefits and pension benefits, seniority premiums and termination benefits.

Short-term direct employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Direct employee benefits

Direct employee benefits are determined based on services provided and considering the current salaries of employees. The related liability is recorded as the benefits accrue. Direct employee benefits are mainly comprised of productivity incentives, vacation days, vacation premiums, seniority bonuses and awards granted to the Company's temporary, contingent and permanent staff.

Pension benefits and other benefits

The Company provides retirement pensions to its employees.

The Company has a defined benefit pension plan in place for employees who began working for the Company on or before August 18, 2008 and a defined contribution pension plan for employees who began working for the Company on or after August 19, 2008.

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Additionally, there are defined contribution pension plans mandated by the Federal government to which the Company is required to make contributions on behalf of its employees. The Company's contributions to these defined contribution plans are calculated by applying the percentages indicated in the related regulations to the amounts of eligible wages and salaries. The contributions are remitted to the retirement fund administrators (AFORE) selected by each employee and to the Mexican Social Security Institute.

In accordance with the Federal Labor Law, the Company is required to pay a seniority premium and to make certain payments to personnel who leave the Company under certain circumstances.

The Company recognizes annually the cost of pensions, seniority premiums and termination benefits based on independent actuarial computations applying the projected unit credit method using assumptions net of inflation.

The cost of defined contribution pension plans are recognized in profit or loss as they are incurred.

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

Defined benefit plans

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

k) Income tax

Income tax expense comprises current and deferred tax.

a) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any

It is measured using tax rates enacted or substantively enacted at the reporting date

Current tax assets and liabilities are offset only if certain criteria are met.

b) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the individual subsidiaries of CFE. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

At the end of each reporting period, the Company reassesses its unrecognized deferred tax assets and records deferred tax assets when it is determined that the Company will have sufficient taxable earnings in the future against which to apply its tax losses.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred taxes are recognized in profit or loss except for the items related to Other Comprehensive Income (OCI).

l) Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and there is uncertainty about the timing or amount, but a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are based on the best estimate of the disbursements that would be required to settle the related obligation. Provisions are discounted using a pre-tax rate that reflects the current market conditions at the date of the statement of financial position and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision is recognized as a finance cost.

Provisions for contingent liabilities are recognized only when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

m) Revenue recognition

The Company's revenue recognition policies are as follows:

Sale of electricity - revenue is recognized when the electricity is delivered to the customers, which is considered to be the point in time at which the customer accepted the electricity and the related risks and rewards of ownership transferred. Other criteria applied for revenue recognition include that both the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing involvement with the goods.

Sale of fuel: revenue is recognized at a point in time because this is when the fuels are delivered to the customers.

Transmission and distribution services - revenue is recognized over time, as the public electricity transmission services are provided.

Third-party contributions - revenue from the contributions received from customers to connect them to the national transmission and distribution network is recorded in the statement of comprehensive income at a point in time after the Company has completed the customer's connection to the network. Customers have the option to choose either the Company or another company to supply them electricity. Revenues are presented as part of the Other income caption.

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As a result of the legal separation of the Company into several legal entities and the changes in the laws that allow for the existence of other qualified suppliers besides the Company, as of January 1st, 2017 contributions received from customers and the State and Municipal Governments to provide electricity connection and supply services are recorded as income in the statement of comprehensive income after the Company has completed the customer's connection to the network, since customers now have the option to choose either the Company or another company to supply them electricity.

In view of the above, the deferred income liability was recognized as Third party contributions in the Other long-term liabilities item.

Revenue from subsidies: revenue from subsidies received from the Ministry of Finance and Public Credit is recognized at a point in time when the subsidies are received by the Company.

Subsidy. Certain electricity rates have been historically set at levels below our operating costs. To avoid absorbing the impact of subsidies granted to consumers by the Mexican government, we receive transfers from the Mexican government to compensate for the subvention of such electricity rates.

n) Leases

The Company has right-of-use assets in terms of IFRS 16 derived from its contracts with creditors for rentals of office space, furniture, reserved capacity gas pipelines for a fixed price, as well as contracts with independent power generation plants that provide power generation services to CFE.

At contract inception, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease included in IFRS 16.

i. As a lessee

At inception or reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease on the basis of their relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

The Company recognizes lease payments received from operating leases as income on a linear basis during the lease term as part of 'other income'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16, except for the classification of the sublease entered into in the current reporting period, which resulted in a classification of a finance lease.

o) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Several of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

CFE has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of Standards, including the level in the fair value hierarchy in which the valuations should be classified.

4. Changes in accounting policies

The accounting policies applied in the preparation of the consolidated financial statements for the year ended December 31, 2019 are consistent with those used in the preparation of the Company's annual consolidated financial statements for the years ended December 31, 2018 and 2017.

A) IFRS 16 Leases

A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The standard includes two recognition exemptions for lessees – leases of “low-value” assets and short-term leases. Lessor accounting is substantially unchanged from today's accounting (i.e., lessors will continue to classify all leases as either operating or finance leases).

IFRS 16 replaces the current guidance on leases, including IAS 17 Leases; IFRIC 4 Determining whether an Arrangement contains a Lease; SIC-15 Operating Leases-Incentives; and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

i. Transition

The Company initially applied IFRS 16 at January 1st, 2017, using the full retrospective method.

Certain amounts shown in the 2018 and 2017 consolidated financial statements have been reclassified for uniformity of presentation, as a result of the application of the standard. The effects of these adjustments were applied retrospectively to the financial information as of December 31, 2018 and 2017.

Annual impacts of the adoption of IFRS 16

The Company applied IFRS 16 "Leases" retrospectively at January 1st, 2017. The effects of the adoption of the new accounting pronouncement are presented as of January 1st, 2017 is as follows:

Impact on the Consolidated Statement of Financial Position:

Right-of-use asset	\$	166,169,815
Right-of-use liability		(216,085,078)
Retained earnings (accumulated deficit)		49,915,263

IFRS 16 introduces significant changes to lessee accounting as it removes the distinction between operating and finance leases and requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases except for short-term leases and leases of low value assets. In contrast to lessee accounting, lessor accounting requirements remain largely unchanged.

Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether a customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on "risks and rewards" in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after the dates of the financial statements.

Impact on lessee accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments.

Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers, small items of office furniture and telephones, the Company has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

(ii) Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Company recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's consolidated financial statements.

This standard introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets.

In contrast to lessee accounting, lessor accounting requirements remain largely unchanged.

Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether a customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on "risks and rewards" in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after the dates of the financial statements.

Impact on lessee accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments.

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Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers, small items of office furniture and telephones, the Company has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

The cumulative effect of the adoption of new accounting pronouncements IFRS 15 and IFRS 9 at December 31, 2018 and 2017 is as follows:

	December 31, 2017 (as originally reported)	Effects of IFRS 16 prior years	Effects of IFRS 16 for the year	Reclassifications	Balance as at December 31, 2017 (restated)
Current assets	\$ 176,948,416	\$ -	\$ -	-	176,948,416
Plants, facilities and equipment	1,252,938,487	-	-	(62,090,184)	1,190,848,303
Right-of-use asset	-	166,169,815	80,961,077	62,090,184	309,221,076
Deferred tax assets	76,867,662	-	(35,811)	-	76,831,851
Other asset accounts	61,261,116	-	-	-	61,261,116
Total assets	\$ 1,568,015,681	\$ 166,169,815	\$ 80,925,266	\$ -	1,815,110,762
Current liabilities					
Short-term debt	\$ 56,619,730	\$ -	\$ -	(8,121,848)	48,497,882
Short-term lease liabilities	-	-	7,605,117	8,121,848	15,726,965
Other short-term liability accounts	113,103,366	-	-	-	113,103,366
Total current liabilities	169,723,096	-	7,605,117	-	177,328,213
Long-term debt	401,156,627	-	-	(114,103,818)	287,052,809
Long-term lease liabilities	-	216,085,078	73,878,649	114,103,818	404,067,545
Other long-term liability accounts	385,205,006	-	-	-	385,205,006
Total long-term liabilities	786,361,633	216,085,078	73,878,649	-	1,076,325,360
Total liabilities	\$ 956,084,729	\$ 216,085,078	\$ 81,483,766	\$ -	1,253,653,573
Other equity items	95,009,668	-	-	-	95,009,668
Retained earnings (accumulated deficit)	100,140,833	(49,915,263)	(475,567)	-	49,750,003
Other comprehensive income (loss) items	416,780,451	-	(82,933)	-	416,697,518
Total equity	611,930,952	(49,915,263)	(558,500)	-	561,457,189
Total liabilities and equity	\$ 1,568,015,681	\$ 166,169,815	\$ 80,925,266	\$ -	1,815,110,762

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	December 31, 2017 (as originally reported)	Effects of IFRS 16 for the year	Balance as at December 31, 2017 (restated)
Revenue	\$ 489,605,542	\$ -	\$ 489,605,542
Energy and other fuels	232,718,432	(16,597,688)	216,120,744
Depreciation	59,467,421	10,427,779	69,895,200
Other cost accounts	149,598,357	-	149,598,357
Total other costs	<u>441,784,210</u>	<u>(6,169,909)</u>	<u>435,614,301</u>
Operating income	\$ 47,821,332	\$ 6,169,909	\$ 53,991,241
Finance expense	23,548,524	10,362,542	33,911,066
Foreign exchange gain	(10,572,863)	(3,752,877)	(14,325,740)
Net finance income	<u>\$ 12,975,661</u>	<u>\$ 6,609,665</u>	<u>\$ 19,585,326</u>
Income tax	(73,338,703)	35,811	(73,302,892)
Net income (loss)	<u>108,184,374</u>	<u>(475,567)</u>	<u>107,708,807</u>
Other comprehensive income items	(30,471,885)	(82,933)	(30,554,818)
Comprehensive income (loss)	<u>\$ 77,712,489</u>	<u>\$ (558,500)</u>	<u>\$ 77,153,989</u>

	December 31, 2018 (as originally reported)	Effects of IFRS 16 prior years	Effects of IFRS 16 for the year	Reclassifications	Balance as at December 31, 2018 (restated)
Current assets	\$ 193,196,623	\$ -	\$ -	\$ -	193,196,623
Plants, facilities and equipment	1,243,525,992	-	-	(56,935,734)	1,186,590,258
Right-of-use asset	-	247,130,892	42,733,944	56,935,734	346,800,570
Deferred tax assets	157,561,570	(35,811)	13,807,413	-	171,333,172
Other asset accounts	64,439,816	-	-	-	64,439,816
Total assets	<u>\$ 1,658,724,001</u>	<u>\$ 247,095,081</u>	<u>\$ 56,541,357</u>	<u>\$ -</u>	<u>1,962,360,439</u>

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	December 31, 2018 (as originally reported)	Effects of IFRS 16 prior years	Effects of IFRS 16 for the year	Reclassifications	Balance as at December 31, 2018 (restated)
Current liabilities					
Short-term debt	\$ 48,406,140	\$ -	\$ -	\$ (8,576,870)	\$ 39,829,270
Short-term lease liabilities	-	7,605,117	10,674,737	8,576,870	26,856,724
Other short-term liability accounts	116,668,358	-	-	-	116,668,358
Total current liabilities	<u>165,074,498</u>	<u>7,605,117</u>	<u>10,674,737</u>	<u>-</u>	<u>183,354,352</u>
Long-term debt	422,225,594	0	-	(107,429,880)	314,795,714
Long-term lease liabilities	-	289,963,727	32,195,665	107,429,880	429,589,272
Other long-term liability accounts	347,903,784	-	-	-	347,903,784
Total long-term liabilities	<u>770,129,378</u>	<u>289,963,727</u>	<u>32,195,665</u>	<u>-</u>	<u>1,092,288,770</u>
Total liabilities	<u>\$ 935,203,876</u>	<u>\$ 297,568,844</u>	<u>\$ 42,870,402</u>	<u>\$ -</u>	<u>\$ 1,275,643,122</u>
Retained earnings (accumulated deficit)	144,807,764	(50,390,830)	13,708,348	-	108,125,282
Other comprehensive income (loss) items	466,206,051	(82,933)	(37,393)	-	466,085,725
Other equity items	95,009,668	-	-	-	95,009,668
Total equity	<u>706,023,483</u>	<u>(50,473,763)</u>	<u>13,670,955</u>	<u>-</u>	<u>669,220,675</u>
Non-controlling interest	17,496,642	-	-	-	17,496,642
Total liabilities and equity	<u>\$ 1,658,724,001</u>	<u>\$ 247,095,081</u>	<u>\$ 56,541,357</u>	<u>\$ -</u>	<u>\$ 1,962,360,439</u>

	December 31, 2018 (as originally reported)	Effects of IFRS 16 for the year	Balance at December 31, 2018 (restated)
Revenue	\$ 547,346,264	\$ -	\$ 547,346,264
Energy and other fuels	284,385,583	(24,741,358)	259,644,225
Depreciation	57,535,932	12,814,168	70,350,100
Other cost accounts	172,523,811	-	172,523,811
Total other costs	<u>514,445,326</u>	<u>(11,927,190)</u>	<u>502,518,136</u>
Operating income	<u>\$ 32,900,938</u>	<u>11,927,190</u>	<u>44,828,128</u>

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	December 31, 2018 (as originally reported)	Effects of IFRS 16 for the year	Balance at December 31, 2018 (restated)
Finance expense	3,812,636	-	3,812,636
Foreign exchange (gain) loss	(1,598,453)	(607,488)	(2,205,941)
Interest expense	35,133,034	12,633,743	47,766,777
Net finance income	\$ 37,347,217	12,026,255	49,373,472
Income tax	(52,363,237)	(13,807,413)	(66,170,650)
Net income (loss)	\$ 47,916,958	13,708,348	61,625,306
Other comprehensive income items	49,425,600	(37,393)	49,388,207
Comprehensive income (loss)	\$ 97,342,558	\$ 13,670,955	\$ 111,013,513

5. Financial Instruments – Fair Values and Risk Management

Fair values

Set out below are the carrying amounts of financial instruments recognized at December 31, 2019, 2018 and 2017:

	2019	2018	2017
Financial assets			
Cash and cash equivalents (2)	\$ 89,339,037	\$ 78,483,263	\$ 67,237,901
Accounts receivable (2)	86,672,574	99,175,895	95,067,522
Loans to employees (2)	13,777,331	12,367,878	12,339,193
Derivative financial instruments (1)	4,064,335	17,783,141	16,084,937
Financial liabilities			
Short-term debt (2)	\$ 53,896,802	\$ 39,829,270	\$ 48,497,882
Long-term debt (2)	299,531,948	314,795,714	287,052,809
Short-term lease liability (1)	11,074,905	26,856,724	15,726,965
Long-term lease liability (1)	556,838,326	429,589,272	404,067,545
Suppliers and contractors (2)	30,808,697	60,196,912	59,849,154
Deposits from customers and contractors (2)	\$ 28,945,790	\$ 25,619,843	\$ 22,974,717

(1) Fair value

(2) Amortized cost

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Objectives of financial risk management

The Company's Financial Officer's functions include, among others, implementing strategies, coordinating access to domestic and international financial markets, and monitoring and managing financial risks related to the Company's operations through internal and market risk reports that analyze the degree and magnitude of the Company's exposure to financial risks. These risks include market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

To mitigate the effect of its debt related risks, the Company uses derivative financial instruments to hedge such risk.

The Treasury Department is bound by the Ministry of Finance and Public Credit cash management policies that hold that investments must be made in low-risk short-term instruments. Monthly status reports are issued to the Treasury Investment Committee.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk mostly in respect of its financial instruments comprising cash and short-term investments, loans and accounts receivable, and derivative financial instruments. In order to mitigate the credit risk in its cash, short-term investments and derivative financial instruments, the Company conducts transactions only with counterparties that are financially solvent and that have a good reputation and high credit quality. The Company also obtains sufficient guarantees, when appropriate, to mitigate the risk of financial loss due to non-performance.

The carrying amounts of the Company's financial assets represent the maximum credit exposure.

For credit risk management purposes, the Company considers that the credit risk on loans and accounts receivable from consumers is limited. The Company determines the allowance for doubtful accounts based on the incurred loss model.

An aging analysis of the past due receivables, for which an allowance has not been deemed necessary as of December 31, 2019, 2018 and 2017, is as follows:

	<u>2019</u>		<u>2018</u>		<u>2017</u>
Less than 90 days	\$ 3,109,708	\$	3,778,989	\$	2,431,134
From 90 to 180 days	3,370,571		3,498,198		2,350,281
More than 180 days	14,500,981		13,812,362		10,795,106
	<u>\$ 20,981,260</u>	\$	<u>21,089,549</u>	\$	<u>15,576,521</u>

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The Company's maximum exposure to credit risk for trade receivables by item as of December 31, 2019, 2018 and 2017, is as follows:

	2019	2018	2017
Cash count	\$ 16,606,067	\$ 16,283,615	\$ 12,403,078
Bad debts	2,095,514	2,418,777	2,452,983
Agreement	2,043,146	2,129,269	3,233,455
Government	6,082,539	6,852,679	6,253,062
Total	\$ 26,827,266	\$ 27,684,340	\$ 24,342,578

An analysis of the Company's exposure to credit risk from its trade receivables and contract assets is as follows:

	2019		2018		2017	
	Noncredit-impaired	Credit-impaired	Noncredit-impaired	Credit-impaired	Noncredit-impaired	Credit-impaired
Other customers:						
History of transactions with the Company	\$ 45,148,968	\$ 21,515,057	\$ 47,269,908	\$ 22,512,787	\$ 48,628,069	\$ 22,512,787
Total						
Allowance for credit losses	\$ 5,740,902	\$ 21,086,364	\$ 5,691,092	\$ 21,993,247	\$ 723,061	\$ 21,993,247

Comparative information under IAS 39

An analysis of the credit quality of the trade receivables that were neither past due nor impaired, and the aging of the trade receivables that were past due, but not impaired as of December 31, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Current, but not impaired	\$ 35,461,566	\$ 37,292,423	\$ 41,844,177
Past due, but not impaired			
Past due between 1 and 30 days	\$ 1,809,004	\$ 2,276,899	\$ 1,488,668
Past due between 31 and 60 days	\$ 1,300,703	\$ 1,502,090	\$ 942,465
Past due between 61 and 90 days	\$ 1,030,506	\$ 1,172,461	\$ 748,433
Past due between 91 and 120 days	\$ 912,866	\$ 927,051	\$ 608,564
Past due between 121 and 150 days	\$ 803,936	\$ 749,160	\$ 527,013
Past due between 151 and 180 days	\$ 623,263	\$ 649,526	\$ 466,272
Past due between 181 and 210 days	\$ 717,918	\$ 549,533	\$ 431,419
Past due between 211 and 240 days	\$ 572,968	\$ 500,011	\$ 372,830
Past due between 241 and 270 days	\$ 502,221	\$ 467,930	\$ 334,327
Past due between 271 and 300 days	\$ 490,051	\$ 431,567	\$ 293,870
Past due between 301 and 330 days	\$ 458,521	\$ 360,649	\$ 280,744
Past due between 331 and 360 days	\$ 465,445	\$ 390,608	\$ 289,287
Total, trade receivables not impaired	\$ 45,148,968	\$ 47,269,908	\$ 48,628,069

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Trade receivables impaired as of December 31, 2017 amounted to a gross carrying amount of \$20,732,129. Impairment loss as of December 31, 2017 is comprised of customer balances more than 330 days past due for cash count. For bad debts, regularization note receivables, and state and federal government consumer accounts more than 730 days past due, the impaired balance was fully reserved.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The financing obtained by the Company is mainly through contracted debt, the leasing of plants, facilities, equipment and PIDIREGAS. To manage liquidity risk, the Company periodically performs cash flow analyses and maintains open lines of credit with financial institutions and suppliers.

In addition, the Company's budget is controlled by the Federal Government; consequently, the net debt ceiling authorized on an annual basis by the Federal Congress based on the Company's budgeted revenues, cannot be exceeded.

The following table provides information about the contractual maturities of the Company's financial liabilities based on the payment terms: An analysis of the contractual maturities of the derivative financial instruments is included in Note 12:

As of December 31, 2019	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	\$ 39,171,577	\$ 24,962,181	\$ 44,681,062	\$ 107,982,189	\$ 216,797,009
Interest payable on documented debt	12,559,195	18,535,377	16,046,256	49,584,844	96,725,672
PIDIREGAS debt	14,159,869	23,470,069	21,767,411	76,669,036	136,066,385
Interest payable on PIDIREGAS debt	8,234,010	13,881,007	10,880,563	32,779,177	65,774,757
Lease liabilities	11,074,904	8,682,410	21,774,620	526,381,297	567,913,231
Interest payable on lease liabilities	18,507,917	18,223,575	35,147,849	210,624,872	282,504,213
Suppliers and contractors	30,808,697	-	-	-	30,808,697
Other liabilities	28,682,716	-	-	-	28,682,716
Total	\$ 163,198,885	107,754,619	150,297,761	1,004,021,415	1,428,272,680

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As of December 31, 2018	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	\$ 15,554,180	\$ 47,006,781	\$ 21,496,201	\$ 131,988,076	\$ 216,045,238
Interest payable on documented debt	12,751,923	22,239,932	17,887,246	56,627,971	109,507,072
PIDIREGAS debt	16,780,375	25,402,698	19,973,829	68,928,129	131,085,031
Interest payable on PIDIREGAS debt	7,979,683	12,824,805	9,391,087	30,219,922	60,415,497
Lease liabilities	26,847,724	14,711,981	12,743,649	402,142,642	456,445,996
Interest payable on lease liabilities	13,286,270	25,348,761	23,994,588	114,724,232	177,353,851
Suppliers and contractors	60,196,912	-	-	-	60,196,912
Other liabilities	18,007,260	-	-	-	18,007,260
Total	\$ 171,404,327	147,534,958	105,486,600	804,630,972	1,229,056,857

As of December 31, 2017,	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	\$ 25,918,516	\$ 29,320,404	\$ 20,473,272	\$ 131,209,737	\$ 206,921,929
Interest payable on documented debt	12,101,655	21,733,041	16,630,583	61,325,343	111,790,622
PIDIREGAS debt	21,145,588	26,125,588	20,171,431	59,752,703	127,195,310
Interest payable on PIDIREGAS debt	7,854,887	11,743,205	8,363,221	23,300,233	51,261,546
Lease liabilities	15,726,965	21,905,178	10,640,991	371,521,376	419,794,510
Interest payable on lease liabilities	11,443,704	21,989,153	20,740,765	101,774,697	155,948,319
Suppliers and contractors	59,849,154	-	-	-	59,849,154
Other liabilities	22,974,717	-	-	-	22,974,717
Total	\$ 177,015,186	132,816,569	97,020,263	748,884,089	1,155,736,107

Market risk

Due to its activities, the Company has exposure to foreign currency and interest rate risks.

Foreign currency exchange risk management

To fund its working capital requirements and public works financing, the Company contracts debt and carries out foreign currency-denominated transactions, consequently, it is exposed to exchange rate risk.

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	Total debt as of December 31, 2019 (amounts in millions of pesos)	Total debt as of December 31, 2018 (amounts in millions of pesos)	Total debt as of December 31, 2017 (amounts in millions of pesos)
Local currency	162,662	154,334	169,449
Foreign currency	188,430	191,061	163,047

In accordance with its policies, the Company mostly contracts interest rate and foreign currency swaps and foreign currency forward contracts to mitigate its exposure to interest rate and foreign currency risks.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the period are presented in Note 18.

Foreign currency sensitivity analysis

The Company is mainly exposed to exchange rate differences between the Mexican peso, the US dollar and the Japanese yen.

The Company's sensitivity analysis considers a 5% increase and decrease in the Mexican peso exchange rate against the other relevant foreign currencies. This 5% is the sensitivity rate used internally when the exchange risk is reported to key management personnel and represents Management's assessment of a reasonably possible change in exchange rates.

The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates.

The sensitivity analysis includes foreign loans as well as loans from the foreign operations within the Company, where the loan is denominated in a currency other than the currency of the loaner or borrower. A positive figure indicates an increase in profit where the Mexican peso strengthens 5% against the relevant currency. If there is a 5% weakening of the Mexican peso against the relevant currency, there would be a comparable impact on profit, and the balances on the following page would be negative. The sensitivity analysis of the derivative financial instruments is described in Note 12.

As of December 31, 2019			
	Documented	PIDIREGAS	Total
EUR	640	-	640
MXN	1,106,895	59,949	1,166,844
USD	7,827,009	3,078,287	10,905,296
CHF	1,634	-	1,634
JPY	2,365	-	2,365
Total	8,938,543	3,138,236	12,076,779

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As of December 31, 2018			
	Documented	Pidiregas	Total
EUR	1,323	-	1,323
MXN	1,088,341	97,156	1,185,497
USD	5,537,034	3,155,278	8,692,312
CHF	16,394	-	16,394
JPY	18,093	-	18,093
Total	6,661,185	3,252,434	9,913,619

As of December 31, 2017			
	Documented	Pidiregas	Total
EUR	2,181	-	2,181
MXN	(12,044)	(7,577)	(19,621)
USD	6,509,112	3,434,535	9,943,647
CHF	40,864	-	40,864
JPY	29,285	-	29,285
Total	6,569,398	3,426,958	9,996,356

The sensitivity analysis was estimated based on the fair value of the loans denominated in foreign currency.

Management believes that the impact of the inherent exchange risk is reflected in the electricity rates in the long-term through inflation adjustments and the peso to dollar exchange rate.

Interest rate risk management

The Company is exposed to interest rate risks for loans borrowed at variable interest rates. The Company manages this risk by maintaining an appropriate mix of fixed and variable rate loans and by contracting derivative financial instruments designated as interest rate hedges.

	Total debt as of December 31, 2019 (amounts in millions of pesos)	Total debt as of December 31, 2018 (amounts in millions of pesos)	Total debt as of December 31, 2017 (amounts in millions of pesos)
Fixed rate	243,181	242,971	169,449
Variable rate	107,911	102,423	163,047

Interest rate sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rates for derivative and non-derivative financial instruments at the end of the reporting period.

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For floating-rate liabilities, the analysis is prepared assuming that the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. When reporting interest rate risk internally to key management personnel, a 0.50-point increase or decrease is used for the Mexican Weighted Interbank Interest Rate (EIR or TIIE, Spanish acronym) and a 0.01-point increase or decrease for the LIBOR. These changes represent Management's assessment of reasonably possible change in interest rates.

2019	Documented	Pidiregas	Total
Fixed rate	135,541,656	60,505,621	196,047,277
Variable rate	465,285	-	465,285
	<u>136,006,941</u>	<u>60,505,621</u>	<u>196,512,562</u>

2018	Documented	Pidiregas	Total
Fixed rate	54,246,845	20,982,217	75,229,062
Variable rate	6,905,058	9,814,947	16,720,005
	<u>61,151,903</u>	<u>30,797,164</u>	<u>91,949,067</u>

2017	Documented	Pidiregas	Total
Fixed rate	92,505,411	29,479,408	121,984,819
Variable rate	5,051,063	19,077,222	24,128,285
	<u>97,556,474</u>	<u>48,556,630</u>	<u>146,113,104</u>

The sensitivity analysis of the debt without considering the derivative financial instruments was estimated based on the fair value of the loans.

The sensitivity analysis of the derivative financial instruments is described in Note 12.

Therefore, the hierarchy level of the Company's Mark-to-Market for derivative financial instruments as of December 31, 2019 is level 2 due to the following:

- a) Inputs are other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- b) Quoted prices for similar assets or liabilities in active markets.
- c) Inputs other than quoted prices that are observable for the assets or liabilities.

Fair value of financial instruments

Measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Fair value of financial instruments recognized at amortized cost

The Company considers that the carrying amount of the financial assets and liabilities recognized at amortized cost in the financial statements approximates fair value, including those on the following page:

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Valuation techniques and assumptions used in determining fair value

	2019		2018		2017	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 89,339,037	\$ 89,339,037	\$ 78,483,263	\$ 78,483,263	\$ 67,237,901	\$ 67,237,901
Accounts receivable	86,672,574	86,672,574	99,175,895	99,175,895	95,067,522	95,067,522
Loans to employees	\$ 13,777,331	\$ 13,777,331	\$ 12,367,878	\$ 12,367,878	12,339,193	12,339,193
Suppliers and contractors	37,808,897	37,808,897	60,196,912	60,196,912	59,849,154	59,849,154
Lease liabilities	567,913,231	567,913,231	456,445,996	456,445,996	419,794,510	419,794,510
Documented debt	216,797,009	240,066,531	216,045,238	270,631,391	206,921,929	223,791,475
PIDIREGAS debt	\$ 136,066,385	189,227,258	\$ 131,085,031	108,424,484	\$ 127,195,310	132,577,493

The fair value of the Company's financial assets and liabilities is determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions that are traded on active liquid markets are determined by references to quoted market prices.
- The fair value of other financial assets and liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models, which are based on an analysis of discounted cash flows using current transaction prices observable in active markets and quoted prices for similar instruments.
- In conformity with the terms of the ISDA (International Swaps and Derivatives Association) contracts that were entered into, the counterparties or banking institutions are the appraisers, and they calculate and send the Mark-to-Market (which is the monetary valuation of breaking agreed-upon transaction at any given time) on a monthly basis. CFE monitors this value and if there is any doubt or abnormal variance in the market value, CFE requests that the counterparty provide a new valuation.

Valuations at fair value recognized in the statement of financial position

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, except for the financial instruments whose carrying amount is reasonably equivalent to their fair value, grouped into Levels 1 to 3, based on the degree to which the fair value is observable:

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	<u>2019</u>	<u>Level 1 2018</u>	<u>2017</u>
Available-for-sale financial assets			
Temporary investments	\$ <u>21,280,686</u>	\$ <u>14,666,617</u>	\$ <u>25,232,468</u>

Fair value measurement as of December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Plan assets	\$ -	210,818,107	-	210,818,107
Derivative financial instruments	-	4,064,335	-	4,064,335
Total	-	214,882,442	-	214,882,442
<u>Liabilities</u>				
Debt	178,982,740	-	112,152,544	291,135,284
Total	\$ <u>178,982,740</u>	<u>-</u>	<u>112,152,544</u>	<u>291,135,284</u>

Fair value measurement as of December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Plan assets	\$ -	195,389,375	-	195,389,375
Derivative financial instruments	-	17,783,141	-	17,783,141
Total	-	213,172,516	-	213,172,516
<u>Liabilities</u>				
Debt	177,457,151	-	153,496,535	330,953,686
Total	\$ <u>177,457,151</u>	<u>-</u>	<u>153,496,535</u>	<u>330,953,686</u>

Fair value measurement as of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Plan assets	\$ -	167,467,661	-	167,467,661
Derivative financial instruments	-	16,084,937	-	16,084,937
Total	-	183,552,598	-	183,552,598
<u>Liabilities</u>				
Debt	196,023,229	-	160,345,739	356,368,968
Total	\$ <u>196,023,229</u>	<u>-</u>	<u>160,345,739</u>	<u>356,368,968</u>

An analysis of the fair value of the derivative financial assets grouped into level 2, based on the degree to which the inputs to estimate their fair value are observable, is included in Note 10.

The levels referred to above are considered as follows:

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- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. For the fair values of the Documented Debt, the observed changes are obtained from the Company's price provider, which as at December 31, furnishes the dirty price valuations reflected in the stock exchange certificates listed on the Mexican Stock Exchange.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from unobservable inputs for the asset or liability, for the fair values of the Documented Debt and PIDIREGAS, the reasonably possible changes at the Balance Sheet date are determined by measuring the present value of the maturities in the source currency of the lines of credit discounted using CFE's yield curve. For this purpose, the Company's price provider furnishes the curves and risk factors related to the interest rates, exchange rates and inflation to which the debt is exposed.

Sensitivity analyses

To test the fair values of CFE's debt, the reasonably possible changes at the balance sheet date in one of the significant unobservable inputs would have the following effects if all other input remained constant.

	+ 5%	- 5%
Expected cash flow change of 5% in exchange rates in original currency	8,796	(8,796)
Expected cash flow change of 5% in interest rate	196	(196)

6. Cash and cash equivalents

An analysis of Cash and cash equivalents as of December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>		<u>2018</u>		<u>2017</u>
Cash on hand and cash in banks	\$ 68,049,530	\$	63,807,825	\$	41,996,612
Short-term investments	21,280,686		14,666,617		25,232,468
Stock certificates	<u>8,821</u>		<u>8,821</u>		<u>8,821</u>
Total	\$ <u>89,339,037</u>	\$	<u>78,483,263</u>	\$	<u>67,237,901</u>

7. Accounts receivable, net

An analysis of the accounts receivable affected by the impact of the adoption of IFRS 9 and IFRS 15 as of December 31, 2019, 2018 and 2017 is as follows:

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Financial instruments			
Public consumers (*)	\$ 52,546,042	\$ 57,453,309	\$ 60,335,248
Government agency consumers (*)	24,118,163	22,060,633	20,887,093
	76,664,205	79,513,942	81,222,341
Impairment of receivables	-27,328,830	-28,446,893	-25,049,197
Other accounts receivable (**)	28,690,189	37,205,453	33,512,184
Total financial instruments	78,025,564	\$ 88,272,502	\$ 89,685,328
<u>Total non-financial instruments - Value added tax</u>	<u>8,647,010</u>	<u>10,903,393</u>	<u>5,382,194</u>
Total accounts receivable	\$ 86,672,574	\$ 99,175,895	\$ 95,067,522

(*) Includes estimates of revenue for electricity supply services that are in the process of being billed.

(**) Includes assets mainly from trusts and other debtors.

An analysis of the impairment of receivables as of December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Opening balance	\$ (28,446,893)	\$ (25,049,197)	\$ (26,557,269)
Increase	(361,980)	(5,149,559)	(5,229,270)
IFRS 9 adjustment	-	-	4,559,551
Adjusted increase	(361,980)	(5,149,559)	(669,719)
Charges	1,480,043	1,751,863	2,177,791
Ending balance	\$ (27,328,830)	\$ (28,446,893)	\$ (25,049,197)

8. Inventory of operating materials

An analysis of inventory of operating materials as of December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Spare parts and equipment	\$ 2,797,498	\$ 1,974,821	\$ 2,570,001
Fuel and lubricants	19,140,583	13,607,510	11,481,771
Nuclear fuel	3,969,405	4,160,798	3,994,473
	25,907,486	19,743,129	18,046,245
Allowance for obsolescence	(4,373,549)	(4,205,664)	(3,403,252)
Total	\$ 21,533,937	\$ 15,537,465	\$ 14,642,993

The Company recognizes in costs the spare parts and fuels used for its day-to-day operations.

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9. Plants, facilities and equipment, net

An analysis of Plants, facilities and equipment, net as of December 31, 2019, 2018 and 2017 is as follows:

		Plants, facilities and equipment, net							
		December 31, 2018	Additions	Retirements	Depreciation for the period	Revaluation	Impairment	Capitalization	December 31, 2019
Plants, facilities and equipment in operation		\$ 2,012,933,547	\$ 48,858,544	\$ (8,968,366)	\$ -	\$ 84,480,718	\$ -	\$ 8,792,775	\$ 2,146,097,218
Capitalized spare parts		7,306,913	144,853	-	-	-	-	-	7,451,766
Construction in progress		32,189,380	-	-	-	-	-	(6,058,798)	26,130,582
Materials for construction		14,044,721	-	-	-	-	-	(2,733,977)	11,310,744
Subtotal		2,066,474,561	49,003,397	(8,968,366)	-	84,480,718	-	-	2,190,990,310
Accumulated depreciation		(853,277,053)	-	2,647,252	(45,435,173)	-	-	-	(896,064,974)
Impairment		(26,607,250)	-	-	-	-	(57,014,443)	-	(83,621,693)
Total		\$ 1,186,590,258	\$ 49,003,397	\$ (6,321,114)	\$ (45,435,173)	\$ 84,480,718	\$ (57,014,443)	\$ -	\$ 1,211,303,643

		December 31, 2017	Additions	Retirements	Depreciation for the period	Reversal of asset impairment	Reclassification of PEEs	December 31, 2018
Plants, facilities and equipment		\$ 1,990,250,148	\$ 31,335,858	\$ (9,596,057)	\$ -	\$ 943,598	\$ -	2,012,933,547
Capitalized spare parts		7,233,445	73,468	-	-	-	-	7,306,913
Construction in progress		19,907,935	12,281,445	-	-	-	-	32,189,380
Materials for construction		11,621,276	2,423,445	-	-	-	-	14,044,721
Subtotal		2,029,012,804	46,114,216	(9,596,057)	-	943,598	-	2,066,474,561
Accumulated depreciation		(809,483,251)	-	8,587,680	(57,535,932)	-	5,154,450	(853,277,053)
Impairment		(28,681,250)	-	-	-	2,074,000	-	(26,607,250)
Total		\$ 1,190,848,303	\$ 46,114,216	\$ (1,008,377)	\$ (57,535,932)	\$ 3,017,598	\$ 5,154,450	1,186,590,258

		Plants, facilities and equipment, net						
		December 31, 2016	Additions	Retirements	Depreciation for the period	Impairment	Reclassification	December 31, 2017
Plants, facilities and equipment in operation		\$ 2,040,715,940	\$ 66,682,159	\$ (19,676,856)	\$ -	\$ -	(97,471,095)	\$ 1,990,250,148
Capitalized spare parts		6,367,290	866,157	-	-	-	-	7,233,447
Construction in progress		18,433,272	1,474,663	-	-	-	-	19,907,935
Materials for construction		10,856,713	764,561	-	-	-	-	11,621,274
Subtotal		2,076,373,215	69,787,540	(19,676,856)	-	-	(97,471,095)	2,029,012,804
Accumulated depreciation		(789,200,941)	-	-	(55,663,221)	-	35,380,911	(809,483,251)
Impairment		-	-	-	-	(28,681,250)	-	(28,681,250)
Total		\$ 1,287,172,274	\$ 69,787,540	\$ (19,676,856)	\$ (55,663,221)	\$ (28,681,250)	(62,090,184)	\$ 1,190,848,303

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As of December 31, 2019, 2018 and 2017, the results of the analysis of the fair value of assets are shown below:

	December 2019	December 2018	December 2017
Revaluation of property, plant and equipment	\$ 73,788,098	943,598	
Impairment of property, plant and equipment	(57,014,443)		(28,681,250)
Reversal of impairment of property, plant and equipment	10,692,620	2,074,000	
Total	\$ 27,466,275	3,017,598	(28,681,250)

The main effects by type of technology are shown in the following table.

Technology	No. of Power Stations	Impairment	Revaluation	Reversal
Carboelectric	3	12,582,203	-	-
Combined cycle	20	27,249,885	3,437,269	146,300
Internal combustion	5	801,973	1,034,919	
Wind	2	564,442	-	
Photovoltaic	2	213,540	-	
Geothermoelectric	4	4,714,256	383,992	
Hydroelectric	61	2,940,321	66,237,478	9,920,255
Nuclear power	1	-	996,545	
Thermoelectric	20	5,013,490	528,168	4,015
Turbo-gas	40	2,934,333	1,169,727	622,050
Total	158	57,014,443	73,788,098	10,692,620

In fiscal year 2019, the Company conducted a fair value analysis of its assets. This test yielded an impairment charge, a reversal of previously recognized impairment, and an unrealized gain on revaluation of the plants, resulting in a net gain of \$27,466,275, which was determined as of December 31, 2019.

In 2018, CFE did not recognize impairment losses on plants, facilities and operating equipment; however, it recognized the partial reversal of the impairment recognized in 2017 in the amount of \$2,074,323, which was determined as of December 31, 2018.

In addition to the reversal, the Company also recorded assets retired due to impairment totaling \$943,598 as of December 31, 2018.

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For the asset valuation study, the Company considered the same aggregation to identify the cash-generating unit, both for the recoverable amount estimated in past valuations and in the current valuation for recognition in 2019.

The recoverable amount of the cash generating units was considered the fair value of the asset less costs of disposal.

Based on IFRS 13, the fair value measurement of the assets is classified as a Level 3 input within the fair value hierarchy.

The events and circumstances that led to the impairment charge, the unrealized gain on revaluation and the reversal of impairment relate to current and future conditions of the Mexican Electricity Market and changes in power generation technology.

It is worth noting that over the last three years Mexico's power generation market has evolved, with major changes including the startup of a new gas pipeline network that has significantly expanded the availability of natural gas at the regional level and the introduction of renewable energy sources, as well as the general improvements that this network is undergoing day by day.

As of December 31, 2019, and 2017, CFE recognized impairment losses of \$57,014,443 and \$28,681,250, which were reduced from the revaluation surplus.

The Company identified each generation plant as a cash generating unit (CGU).

As of December 31, 2019, the useful lives of the plants with modern technology are as follows:

<u>Power Stations</u>	<u>useful life</u>
Combined cycle (with natural gas), thermoelectric plants, turbo-gas and internal combustion	30 years
Carboelectric	40 years
Geothermal	30 years
Nuclear power	60 years
Hydroelectric	80 years
Wind and solar	25 years

The projections used to measure the fair value of the power plants are based on an income approach applied using the so-called Plexos model to run a simulation of the Mexican electricity market via the incorporation of multiple algorithms to optimize the country's power generation system, which takes into account the availability fuel and hydraulic resources in a variety of time frames, thus generating forecasts of power production levels, costs and investments over a given time horizon.

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The income approach is based on the projection of the structure of free cash flow that permits the reproduction of the free cash flow derived from the operation of the business and the behavior of the various aspects that comprise it, following the conditions set out in all the proposed scenarios and considering as well their respective assumptions.

The estimate was determined using a nominal pre-tax discount rate: 8.36%, 7.92% and 7.30%, which were applied based on the size of the plants, as determined based on their Revalued Book Value 2019.

The key assumptions considered in the calculation of fair value minus disposal costs were revenue from power generation and capacity, operating costs, general and administrative expenses, operational safety maintenance expenses, the discount rate and the analysis horizon.

Construction in progress - the construction in progress balances as of December 31, 2019, 2018 and 2017 are as follows:

Plant:	2019	2018	2017
Steam power plants	5,380	24,587	326
Hydroelectric power plants	1,183,167	1,180,110	1,248,917
Nuclear power plants	248,696	589,870	1,316,029
Turbo gas and combined cycle power plants	11,258,752	11,171,320	416,051
Geothermal power plants	176,395	870,738	1,220,462
Internal combustion power plants	-	682	682
Transmission lines, networks and substations	11,650,574	16,698,221	14,594,645
Offices and general facilities	1,607,618	1,653,852	1,110,823
Total	26,130,582	32,189,380	19,907,935

Fair value measurement

i. Fair value hierarchy

The fair value of plants, facilities and equipment in operation was determined by independent external appraisers with a recognized professional capacity and experience in terms of the property, plant and equipment that underwent the appraisal. The independent appraisers provided the fair value of the plants, facilities and equipment as of December 31, 2017 and 2019.

ii. Valuation technique and relevant unobservable inputs

The following table shows the valuation technique used to measure the fair value of investment properties, as well as the significant unobservable inputs used.

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Valuation technique	Significant unobservable inputs	Interrelationship between the key unobservable inputs and the measurement of fair value
Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by plants, facilities and equipment, considering the expected income growth rate. Net expected cash flows are discounted using risk-adjusted discount rates.	Generation Useful life of the assets (30-60 years) Discount rate 7.67%-8.68% Transmission Useful life of the assets (30 years) Discount rate 7.67% Distribution Useful life of the assets (30 years) Discount rate 7.67%	The estimated fair value would increase (decrease) if: - Income growth was higher (lower) - The useful life was higher (lower) - The risk-adjusted discount rate was lower (higher)

As mentioned in Note 2d) and Note 3i), CFE conducts impairment tests on the value of its long-term assets if circumstances indicate that the assets might be impaired.

The impairment analysis for long-lived assets requires the Company to estimate the recoverable amount of its assets, which is the greater of its fair value (minus any disposal costs) and its value in use.

As of December 31, 2017, the Company recognized an impairment of \$28,681,250 since the value in use of some generation plants did not recover the carrying amount of the investment. In 2018, the Company detected that indicators of impairment were not present at some of these plants, which resulted in a partial reversal of \$3,017,598.

10. Right-of-use asset

The Company adopted IFRS 16 Leases using the full retrospective method for the periods presented in the annual financial statements. Consequently, the cumulative effect of adopting IFRS 16 was recognized as an adjustment to the opening balance of retained earnings as of January 1st, 2017.

The net balances of Right-of-use assets as of December 31, 2019, 2018 and 2017 are as follows.

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	<u>2018</u>	<u>Additions</u>	<u>Effect from translation</u>	<u>Depreciation for the year</u>	<u>2019</u>
Property	\$ 546,838	\$ 62,571	\$ -	\$ -	\$ 609,409
Infrastructure	112,010,062	23,157,121	-	-	135,167,183
Gas pipelines	<u>315,882,435</u>	<u>128,471,504</u>	<u>(3,797,328)</u>	<u>-</u>	<u>440,556,611</u>
Subtotal	<u>428,439,335</u>	<u>151,691,196</u>	<u>(3,797,328)</u>	<u>-</u>	<u>576,333,203</u>
Property	(295,289)	-	-	(136,286)	(431,575)
Infrastructure	(43,673,049)	-	-	(6,189,152)	(49,862,201)
Gas pipelines	<u>(37,670,427)</u>	<u>-</u>	<u>-</u>	<u>(13,992,579)</u>	<u>(51,663,006)</u>
Total depreciation	<u>(81,638,765)</u>	<u>-</u>	<u>-</u>	<u>(20,318,017)</u>	<u>(101,956,782)</u>
	<u>\$ 346,800,570</u>	<u>\$ 151,691,196</u>	<u>\$ (3,797,328)</u>	<u>\$ (20,318,017)</u>	<u>\$ 474,376,421</u>
	<u>2017</u>	<u>Additions</u>	<u>Effect from translation</u>	<u>Depreciation for the year</u>	<u>2018</u>
Real estate	\$ 319,999	\$ 226,839	\$ -	\$ -	\$ 546,838
Infrastructure	112,010,062	-	-	-	112,010,062
Gas pipelines	<u>260,561,217</u>	<u>55,674,583</u>	<u>(353,365)</u>	<u>-</u>	<u>315,882,435</u>
Subtotal	<u>372,891,278</u>	<u>55,901,422</u>	<u>(353,365)</u>	<u>-</u>	<u>428,439,335</u>
Property	(159,962)	-	-	(135,327)	(295,289)
Infrastructure	(37,975,978)	-	-	(5,697,071)	(43,673,049)
Gas pipelines	<u>(25,534,262)</u>	<u>-</u>	<u>-</u>	<u>(12,136,165)</u>	<u>(37,670,427)</u>
Total depreciation	<u>(63,670,202)</u>	<u>-</u>	<u>-</u>	<u>(17,968,563)</u>	<u>(81,638,765)</u>
	<u>\$ 309,221,076</u>	<u>\$ 55,901,422</u>	<u>\$ (353,365)</u>	<u>\$ (17,968,563)</u>	<u>\$ 346,800,570</u>

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	<u>2016</u>	<u>Additions</u>	<u>Effect from translation</u>	<u>Depreciation for the year</u>	<u>2017</u>
Real estate	\$ 294,643	\$ 25,356	\$ -	\$ -	\$ 319,999
Infrastructure	102,616,410	9,393,652	-	-	112,010,062
Gas pipelines	<u>178,500,090</u>	<u>85,521,375</u>	<u>(3,460,248)</u>	-	<u>260,561,217</u>
Subtotal	<u>281,411,143</u>	<u>94,940,383</u>	<u>(3,460,248)</u>	-	<u>372,891,278</u>
Property	(66,078)	-	-	(93,884)	(159,962)
Infrastructure	(32,310,219)	-	-	(5,665,759)	(37,975,978)
Gas pipelines	<u>(15,711,675)</u>	-	-	<u>(9,822,587)</u>	<u>(25,534,262)</u>
Total depreciation	<u>(48,087,972)</u>	-	-	<u>(15,582,230)</u>	<u>(63,670,202)</u>
	<u>\$ 233,323,171</u>	<u>\$ 94,940,383</u>	<u>\$ (3,460,248)</u>	<u>\$ (15,582,230)</u>	<u>\$ 309,221,076</u>

The reconciliation of lease rights payable is as follows:

	<u>December 2019</u>	<u>December 2018</u>	<u>December 2017</u>
Closing balance	\$ 456,445,996	\$ 419,794,510	\$ 351,914,789
Additions	151,674,080	51,450,114	93,664,635
Interest	23,889,828	22,114,211	17,942,019
Payments	(40,455,722)	(34,928,753)	(30,257,183)
Effect from translation	(4,032,854)	(315,972)	(3,377,314)
Exchange difference	<u>(19,608,097)</u>	<u>(1,668,114)</u>	<u>(10,092,436)</u>
Total liabilities	<u>\$ 567,913,231</u>	<u>\$ 456,445,996</u>	<u>\$ 419,794,510</u>

The Company has entered into leasing contracts for the rental of real estate, vehicles and infrastructure. These leases shall commence over the course of 2020. The lease agreements will require CFE to recognize lease assets and liabilities in accordance with IFRS 16.

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11. Intangibles and other assets

An analysis of intangibles and other assets as of December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>		<u>2018</u>		<u>2017</u>
Rights of way (1)	\$ 29,394,733	\$	30,444,834	\$	29,979,671
Deposits and advances	<u>9,244,132</u>		<u>3,843,963</u>		<u>2,857,315</u>
Total	\$ <u>38,638,865</u>	\$	<u>34,288,797</u>	\$	<u>32,836,986</u>

As of December 31, 2019, 2018 and 2017, the Company has right-of-way assets, which represents a legal right-of-way for the Company to access and inspect transmission lines by air or underground in order to verify the continued transmission of electricity over the power lines. An analysis of these right-of-way assets is shown below:

Right of way	Opening balance	Increase	Cancellations	Ending balance
2019	30,444,834	193,882	(1,243,983)	29,394,733
2018	29,979,671	584,632	(119,469)	30,444,834
2017	27,815,351	3,134,533	(970,213)	<u>29,979,671</u>

(1) Includes rights of way in the amount of \$24,064,610 that are part of the assets contributed by the Federal Government to the Company through INDAABIN.

Intangible assets with indefinite useful lives mainly include rights of way. These assets are considered to have indefinite useful lives due to the fact that they are subject to no legal, regulatory or contractual restrictions that would limit how long they may be used. The assets are tested annually for impairment whenever there is evidence of impairment.

The Company conducted a fair value analysis of the long-lived assets of CFE Transmission. This testing was performed using a financial model that reproduces and simulates the cash flows generated on the operation of the assets. In order for the financial model to be able to simulate the operation of the business that is being tested, information must be fed into the free cash flow using financial projections and an analysis horizon, surrender value and discount rate must be determined for the impairment test December 31, 2019. As a result of this impairment test, no impairment was determined for the year.

The description of the long-term asset was formulated based information provided by CFE Transmisión, with the National Electric System Development Program 2019 - 2033 (PRODESEN 2019 - 2033).

12. Financial instruments

a. Accounting classifications and fair values

CFE is exposed to interest rate and foreign currency translation risks which it tries to mitigate through a hedging program that includes using derivative financial instruments. The Company mainly uses foreign exchange "Cross Currency Swaps" and "Forwards" to mitigate its foreign currency risk. To reduce its interest rate risk exposure, the Company uses interest rate swaps.

Also, for the years ended December 31, 2019, 2018 and 2017, the derivative financial instruments have been designated as and qualify mainly as cash flow hedges since they are referenced to contracted debt. The effective portion of gains or losses on cash flow derivatives is recognized in equity under the concept of "Effects on the fair value of derivatives", and the ineffective portion is charged to profit or loss of the period.

The fair value of the Company's financial instrument position as of December 31, 2019 amounted to \$4,064,335. As of December 31, 2018, and 2017 it amounted to was \$17,783,141 and \$16,084,937, respectively.

Derivative Financial Instruments Held for Trading

As of December 31, 2019, 2018 and 2017, CFE had derivatives designated as held for trading whose fair value represented a liability of \$382,435 as of December 31, 2019, an asset of \$24,963 as of December 31, 2018, and a liability of \$438,115 as of December 31, 2017.

This transaction consists of a series of currency forwards that allow the Company to lock in a JPY/USD exchange rate of 54.0157 JPY per USD over the established term of the transaction. As part of this transaction, CFE pays annual interest in U.S. dollars at a rate of 8.42%. These instruments have not been designated as hedges as required by the financial reporting standard, consequently, the valuation effect of these instruments is recognized in financial cost; a gain (loss) in said value offsets a loss (gain) in the underlying liability. In addition to the series of forwards, the derivative instrument includes two options: a long European call option through which CFE has the right to purchase Japanese yens upon maturity in the spot market in case the yen/dollar exchange rate is quoted below 118.75 yens per dollar, and a short European call option through which CFE is required to sell dollars at the yen/dollar exchange rate of 27.80, if the prevailing exchange rate at the settlement date exceeds this level.

On September 20, 2019, the Company refinanced a number of lines of credit with BBVA Bancomer for up to \$ 8.811 billion pesos, including line of credit No. 1200001251, which was refinanced with a 7-year term maturing on September 18, 2026. For this reason, the hedge that CFE acquired through an interest rate swap contracted with the banks Credit Agricole, CitiBanamex, Santander and HSBC were reclassified as held for trading and the effects of the revaluation to market value of the hedges were recognized in profit or loss.

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The Company suspends cash flow hedge accounting when the derivative expires, is not effective enough to offset the changes in the fair value or cash flows of the hedged item, or when the Company decides to cancel the hedging designation. The gains or losses recognized in Other comprehensive income and accumulated in Equity, remain in Equity and are recognized when the forecast transaction is ultimately recognized in profit or loss.

If CFE decides to cancel this economic hedge (currency forwards on the yen/dollar exchange rate), it would give rise to an estimated extraordinary loss as of December 31, 2019, 2018 and 2017 as follows:

Instrument	Underlying	Maturity		December/31/2019	December/31/2018	January/01/2018
FWD JPY/USD	Exchange rate and interest rate	2036	-	(383,356)	24,963	(438,115)
IRS	Interest rate	2020		921		
Total				(382,435)	24,963	(438,115)

Hedging instruments

As of December 31, 2019, 2018 and 2017, CFE maintains its hedging derivative position on exchange rates and interest rates, as shown below:

Instrument	Underlying	Type of hedge	Maturity	Primary position (Lines/Bonds)	Hedge Ratio	Fair value 2019	Fair value 2018	Fair value 2017
CCS	Exchange rate and interest rate	Cash flow	2021	1100000074 to 76	100%	285,635	237,481	339,264
CCS	Exchange rate and interest rate	Cash flow	2022	1100000077 to 79	100%	46,273	71,531	93,469
CCS	Exchange rate and interest rate	Cash flow	2023	1100000080	100%	218,468	1,815,259	3,971,843
CCS	Exchange rate and interest rate	Cash flow	2024	1100002956	100%	112,010	3,835,201	5,081,946
CCS	Exchange rate and interest rate	Cash flow	2027	1100003606	100%	378,283	2,585,145	2,589,860
CCS	Exchange rate and interest rate	Cash flow	2032	1200002801	100%	(69,692)	387,053	(427,998)
CCS	Exchange rate and interest rate	Cash flow	2036	1200000551 Pidiregas Line	100%	2,428,905	4,718,366	4,763,554
CCS	Exchange rate and interest rate	Cash flow	2042	Bond 2042	55.3%	138,159	1,015,880	-
CCS	Exchange rate and interest rate	Cash flow	2047	Formosa 1 Bond	100%	(620,163)	1,210,485	-
CCS	Exchange rate and interest rate	Cash flow	2048	Formosa 2 Bond	100%	(576,661)	1,714,359	-
Participating Swap	Exchange rate and interest rate	Cash flow	2027	Bond 2027	100%	(101,611)	83,185	(108,664)

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Instrument	Underlying	Type of hedge	Maturity	Primary position (Lines/Bonds)	Hedge Ratio	Fair value 2019	Fair value 2018	Fair value 2017
CCS	Exchange rate and interest rate	CCS	2045	Bond 2045	67%	2,340,350	-	-
CCS	Exchange rate and interest rate	CCS	2029	Formosa 3 Bond	30%	(37,310)	-	-
Forwards	Exchange rate	Cash flow	Less than one year	Sale of energy	100%	(69)	115	105,058
IRS	Interest rate	Cash flow	2020	1100003807, 1200001251 and 1200001451	100%	3,230	84,118	114,720
IRS	Interest rate	Cash flow	2023	Nafin line	100%	(97,305)	-	-
CCS	Exchange Rate/Commoditie s	Cash flow	2020	Sale of energy	100%	(1,732)	-	-
Subtotal						4,446,770	17,758,178	16,523,052
CCS	Exchange rate JPY/USD	Trading		Line of credit in yens	N/A	(383,356)	24,963	(438,115)
IRS	Interest rate		2020	1200001251		921		
Total in thousands of Mexican pesos						4,064,335	17,783,141	16,084,937

The table above includes the Mark to Market of the hedging derivatives. As of December 31, 2019, the total Mark to Market value of the hedging and trading derivatives amounts to \$4,064,335 based on their carrying amount.

The results of the effectiveness tests for these hedging instruments showed that the relationships are highly effective. The amount of ineffectiveness is minimal; therefore, no hedge ineffectiveness was recognized.

Fair value (Mark to Market - MTM) is determined using valuation techniques at present value to discount future cash flows, which are estimated using observable market data. The carrying amount of OCI includes the fair value (mark to market), and the reclassifications to profit and loss correspond to accrued interest and currency hedging (gain or loss).

As of December 31, 2019, the effects of OCI in the upcoming years (current portfolio) is as follows:

Millions of pesos			
Year	MTM	OCI	Results (Interest and exchange rate)
2020	19,590	10,368	9,222
2021	26,365	9,530	16,835
2022	32,854	9,241	23,613
2023	37,226	7,295	29,931
2024	31,218	5,564	25,654

b. Fair value measurement

The valuation techniques for estimating the fair value of derivative instruments are described in the accounting policy mentioned above, depending on the derivative instrument for which the fair value is estimated. CFE uses the corresponding technique to estimate such value.

Adjustment of fair value or Mark to Market by credit risk

To reflect counterparty risk, the valuation is adjusted based on the probability of default and recovery rate with the counterparties of the derivative positions.

The net fair value of derivative financial instruments (Mark-To-Market) effective as of December 31, 2019, before considering credit risk, amounts to \$4,088,632, which is included in the balance sheet and represents the amount in favor of the Company with the counterparties.

The net fair value of derivative financial instruments (Mark-To-Market) effective as of December 31, 2018, before considering credit risk, amounts to \$18,027,897, which is included in the balance sheet and represents the amount in favor of the Company with the counterparties.

The net fair value of derivative financial instruments (Mark-To-Market) effective as of December 31, 2017, before considering credit risk, amounts to \$17,112,665, which is included in the balance sheet and represents the amount in favor of the Company with the counterparties.

CFE applies a Credit valuation adjustment (CVA) to reflect the creditworthiness of the counterparty of the derivative financial instrument. The CVA is the market value of the counterparty credit risk and reflects the estimated fair value of the hedging required to cover the counterparty credit risk included in such instruments

Method for adjusting Fair Value

This method was approved by the Interinstitutional Delegate Committee for Financial Risk Management associated to the financial position and price of fossil fuels (CDIGR), as the methodology for adjusting derivative financial instruments to fair value.

As at December 31, 2019, fair values adjustments based on the CVA (Credit Valuation Adjustment) are shown below:

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Counterparty	Thousands of pesos		
	Fair value MTM subject to CVA	Adjusted fair value MTM	Adjustment as at December 31, 2019
BBVA Bancomer	326,002	325,295	707
BNP Paribas	231,857	231,477	380
CitiBanamex	1,084,420	1,080,022	4,398
Credit Agricole	792	791	1
Credit Suisse	79,210	79,006	204
Deutsche Bank	1,910,192	1,901,563	8,629
Goldman Sachs	1,193,832	1,187,199	6,633
HSBC	(96,504)	(96,505)	1
JP Morgan	(69,387)	(69,388)	1
Morgan Stanley	99,476	98,047	1,429
SANTANDER	(623,280)	(623,361)	81
Barclays Bank	77,136	75,888	1,248
Bank of America	258,311	257,727	584
MONEX	(69)	(69)	0
Goldman Sachs (Trading)	(383,356)	(383,357)	1
	4,088,632	4,064,335	24,297

As at December 31, 2018, the adjustments to fair values based on the CVA (Credit Valuation Adjustment) are shown below:

Counterparty	Thousands of pesos		
	Fair value MTM subject to CVA	Adjusted fair value MTM	Adjustment as at December 31, 2018
CREDIT SUISSE	227,559	225,761	1,798
DEUTSCHE BANK	3,051,653	2,977,803	73,850
MORGAN STANLEY	2,232,949	2,146,936	86,013
SANTANDER	1,687,633	1,679,195	8,438
BNP PARIBAS	771,993	767,593	4,400
BBVA BANCOMER	1,081,491	1,074,569	6,922
GOLDMAN SACHS	5,035,369	4,976,669	58,700
CITIBANAMEX	1,088,699	1,082,711	5,988
CREDIT AGRICOLE	7,694	7,650	44
HSBC	7,793	7,763	30
JP MORGAN	392,195	390,156	2,039
BARCLAYS BANK	2,442,869	2,421,372	21,497
GOLDMAN SACHS (Trading)	-	24,963	-24,963
	18,027,897	17,783,141	244,756

As of December 31, 2017, the adjustments to fair values based on the CVA (Credit Valuation Adjustment) are shown in the page below:

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Counterparty	Thousands of pesos		
	Fair value MTM subject to CVA	Adjusted fair value MTM	Adjustment as at December 31, 2017
CREDIT SUISSE	233,994	233,994	-
DEUTSCHE BANK	3,102,561	3,102,561	-
MORGAN STANLEY	2,811,977	2,663,721	148,256
SANTANDER	3,133,420	3,133,420	-
BNP PARIBAS	1,409,163	1,408,675	488
BBVA BANCOMER	2,270,034	2,270,034	-
GOLDMAN SACHS	2,234,522	2,234,522	-
CITIBANAMEX	128,596	128,426	170
CREDIT AGRICOLE	14,663	14,663	-
HSBC	15,476	4,875	10,601
JP MORGAN	5,915	(424,143)	430,058
BARCLAYS BANK	1,752,344	1,752,304	(40)
J Aron (Trading)	-	(438,115)	438,115
	17,112,665	16,084,937	1,027,648

Fair Value hierarchy or Mark-to-Market

To increase consistency and comparability in fair value measurements and related disclosures, IFRS sets out a fair value hierarchy that categorizes into three levels the inputs used in valuation techniques. This hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs to valuation techniques.

Level 2 inputs

As explained above, based on the terms of the ISDA contracts, the counterparties or banking institutions are the valuation agents, and they calculate and send the Mark-to-Market monthly.

Therefore, the hierarchy level of the Company's Mark-to-Market for derivative financial instruments as of December 31, 2019 is level 2 due to the following:

- a) Inputs are other than quoted prices included within Level 1 that are observable, either directly or indirectly.

- b) Quoted prices for similar assets or liabilities in active markets.
- c) Inputs other than quoted prices that are observable for the asset or liability.
- d) Financial risk management

CFE has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. To mitigate its credit risk, the Company's policy is to maintain a significant portion of its positions with investment grade counterparties and substantially limit its positions with below investment grade counterparties.

To manage credit risk, the Company monitors the credit rating and the probability of default of the counterparty, which is applied to the market value of the derivative. These transactions are carried out with solvent and well-known parties that have AAA+ credit rating on a local scale, and BBB+ on a global scale, according to S&P, Moody's and Fitch.

The carrying amount of the derivative financial assets represents the maximum exposure to credit risk. As of December 31, 2019, 2018 and 2017, this amounted to \$4,088,632, \$18,027,897 and \$17,112,665, respectively.

Liquidity risk

The liquidity risk associated with financial derivative instruments is the risk that CFE may encounter difficulties in meeting the financial obligations arising from these instruments.

To manage credit risk, the Company monitors the market value of the derivative and the use by the operating lines (threshold).

Exposure to liquidity risk for holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of December 31, 2019, 2018 and 2017, this amounted to \$3,220, \$72,615 and \$589,533, respectively.

The table below lists the contractual maturities of the derivative financial instruments based on payments terms.

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	Amounts in millions of pesos		
	Less than one year	More than 1 year and less than 5 years	Total
December 31, 2019			
IRS	187	476	663
CCS	13,400	81,535	94,935
Total payable	13,587	82,011	95,598
IRS	88		88
CCS	8,930	80,201	89,131
Total receivable	9,018	80,201	89,219

	Amounts in millions of pesos		
	Less than one year	More than 1 year and less than 5 years	Total
December 31, 2018			
IRS	266	105	371
CCS	9,818	51,020	60,838
Total payable	10,084	51,125	61,209
IRS	334	128	462
CCS	6,675	45,868	52,543
Total receivable	7,009	45,996	53,005

	Amounts in millions of pesos		
	Less than one year	More than 1 year and less than 5 years	Total
December 31, 2017			
IRS	1,425	1,431	2,856
CCS	5,676	22,395	28,071
Forwards	6,070	-	6,070
Total payable	13,171	23,826	36,997
IRS	1,013	1,762	2,775
CCS	5,210	23,865	29,075
Total receivable	6,223	25,627	31,850

Market risk

The market risk associated with derivative financial instruments is the risk that changes in market prices, such as exchange rates and interest rates, will affect CFE's income for holding derivative financial instruments.

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CFE uses financial derivative instruments to manage market risk, generally seeking access to hedge accounting to control or immunize the volatility that could arise in the results.

a) Currency exchange risk

53.7% of CFE's debt is denominated in foreign currency, mainly in US dollars, whereas most of CFE's assets and revenues are denominated in pesos. As a result, CFE is exposed to devaluation risks of the peso against the dollar. In conformity with its risk management policy, CFE has contracted currency swaps to reduce the impact of currency fluctuations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay a fixed rate in pesos. As of December 31, 2019, 2018 and 2017, CFE maintains foreign exchange swaps to hedge its foreign currency debt of \$121,094, \$108,837 and \$72,135, million pesos, respectively.

To cover the exchange risks of the \$32 billion debt in yens, CFE uses a series of exchange rate forwards under which it purchases Japanese yens. The market value of this transaction as of December 31, 2019, 2018 and 2017 was (\$383,356), \$24,973 and (\$438,115), respectively. These derivative instruments were not designated as hedges.

Sensitivity analysis of the effect on exchange rates

A possible and reasonable strengthening (weakening) of the MXN/USD and JPY/USD exchange rate as of December 31, 2019 would have affected the fair value of the total position of the derivative financial instruments in foreign currency, and thus, profit and loss of the period and other comprehensive income (since some of them are designated as hedges), as shown in the following table:

Instrument	Effect on profit or loss		Effect on equity	
	+100 pips	-100 pips	+100 pips	-100 pips
Cross Currency JPY/USD	63,418	(63,418)	2,694	(2,694)
FWD	18	(18)		
Total	63,436	(63,436)	2,694	(2,694)

This analysis assumes that all other variables, in particular interest rates, remain constant (amounts in thousands of pesos).

b) Interest rate risk

30.7% of CFE's debt bears interest at variable interest rates, which are determined by reference to the TIIE rate for debt denominated in pesos. As of December 31, 2019, 2018 and 2017, CFE hedged \$5,350, \$3,912 and \$4,833, respectively, of its variable interest rate debt denominated in pesos.

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Interest rate sensitivity analysis

A potential and reasonable strengthening (weakening) of interest rates as of December 31, 2019 would have affected the fair value of the total position of derivative financial instruments associated with variable interest rates, and thus, profit and loss of the period and other comprehensive income (since some of them are designated as hedges), as shown in the following table:

31/12/19	Effect on equity	
	+ 100 basis points	- 100 basis points
Interest rate swaps	53,498	(53,498)

This analysis assumes that all other variables, in particular interest rates, remain constant.

13. Short-term and long-term debt

An analysis of the Company's debt as of December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Bank loan	\$ 565,356	\$ 7,494,715	\$ 1,433,452
Documented debt	39,171,577	15,554,180	25,918,516
PIDIREGAS debt	<u>14,159,869</u>	<u>16,780,375</u>	<u>21,145,914</u>
Total short-term debt	53,896,802	39,829,270	48,497,882
Documented debt	177,625,432	200,491,057	181,003,413
PIDIREGAS debt	<u>121,906,516</u>	<u>114,304,657</u>	<u>106,049,396</u>
Total long-term debt	<u>299,531,948</u>	<u>314,795,714</u>	<u>287,052,809</u>
Total debt	\$ 353,428,750	\$ 354,624,984	\$ 335,550,691

Movements in debt for the years ended December 31, 2019, 2018 and 2017, are as follows:

Type of debt	Balance as of December 31, 2018	Drawdowns	Payments	Foreign exchange and interest rate differences	Balance as of December 31, 2019
Bank Loan	7,494,715	171,083	(7,100,442)	-	565,356
Documented debt	216,045,238	21,341,290	(16,207,183)	(4,382,336)	216,797,009
PIDIREGAS debt	131,085,031	22,651,044	(14,709,494)	(2,960,196)	136,066,385
Total	354,624,984	44,163,417	(38,017,119)	(7,342,532)	353,428,750

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Type of debt	Balance as of December 31, 2017	Drawdowns	Payments	Foreign exchange and interest rate differences	Balance as of December 31, 2018
Bank loan	1,433,452	14,495,387	(8,480,324)	46,200	7,494,715
Documented debt	206,921,928	61,988,412	(52,561,284)	(303,818)	216,045,238
PIDIREGAS debt	127,195,311	23,323,873	(19,919,623)	485,470	131,085,031
Total	335,550,691	99,807,672	(80,961,231)	227,852	354,624,984

Type of debt	Balance as of December 31, 2016	Drawdowns	Payments	Foreign exchange and interest rate differences	Balance as of December 31, 2017
Bank loan	-	1,433,452	-	-	1,433,452
Documented debt	209,613,471	29,097,192	(28,143,335)	(3,645,400)	206,921,928
PIDIREGAS debt	110,173,004	30,670,710	(14,115,711)	467,308	127,195,311
Total	319,786,475	61,201,354	(42,259,046)	(3,178,092)	335,550,691

Documented debt

An analysis of drawdowns against loans as of December 31, 2019, 2018 and 2017 is as follows:

A) Foreign debt

On April 10, 2019, the Company drew down USD 300 million against a revolving syndicated loan of USD 1.26 billion obtained in July 2018, with Mizuho Bank, LTD. as the loan's administrative agent, which bears interest equal to the USD LIBOR plus 0.95% and is repayable in 5 years.

On November 14, 2019, the Company drew down USD 25.2 million against the line of credit obtained from Banamex, S. A., whose proceeds were used to finance the purchase of enriched uranium for the Laguna Verde Nuclear Power Plant. This loan is for a term of three years, with repayments and interest payments due every six months, and bearing interest equal to the six-month USD LIBOR plus 0.90%.

In July 2018, the Company drew down USD 21 million against the line of credit obtained from Banamex, S.A., whose proceeds were used to finance the purchase of enriched uranium for the Laguna Verde Nuclear Power Plant. This loan is for a term of three years, with repayments and interest payments due every six months, and bearing interest equal to the six-month USD LIBOR plus 0.90%.

In July 2018, the Company drew down USD 300 million against the syndicated loan (BBVA Bancomer, S.A. as the Administrative Agent), bearing interest equal to the USD LIBOR plus 1.15%. This amount was repaid in August 2018.

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In August 2018, the Company drew down USD 900 million against a revolving syndicated loan of USD 1.26 billion obtained in July 2018, with Mizuho Bank, LTD. as the loan's administrative agent, which bears interest equal to the USD LIBOR plus 0.95% and is repayable in 5 years.

In September, the Company drew down USD 5 million against the line of credit obtained from BBVA, S.A. Madrid, to finance the purchase of goods and services from Spain, guaranteed by Compañía Española de Seguros de Crédito a la Exportación (the Spanish Export Credit Agency).

In November, the Company drew down USD 212 million against the line of credit obtained from Banamex, S.A. whose proceeds were used to finance the purchase of enriched uranium for the Laguna Verde Nuclear Power Plant. This loan is for a term of three years, with repayments and interest payments due every six months, and bearing interest equal to the six-month USD LIBOR plus 0.90%.

In January, the Company drew down USD 126 million dollars against its line of line of credit obtained from Banco Santander, (Mexico), S. A. whose proceeds were used to finance the purchase of enriched uranium for the Laguna Verde Nuclear Power Plant. This loan is for a term of three years, with repayments and interest payments due every six months, and bearing interest equal to the six-month USD LIBOR plus 1.5%.

In February, the Company drew down USD 200 million against its syndicated loan (BBVA Bancomer, S.A. as the Administrative Agent), bearing interest equal to the USD LIBOR plus 1.2%. This amount was repaid in November 2017.

In addition, to finance various payments of Financed Public Work (OPF, Spanish acronym) projects, USD 750 million were placed through the issue of an international bond. Such bond bears a fixed interest rate of 5.2%, and the last payment will be in September 2047.

Lastly, to finance imports from Japan, Canada and Switzerland, CFE drew down JPY 115,488,810 (equal to USD 1 million) against the line of credit obtained from Japan Bank for International Cooperation (JBIC), USD 2 million against the line of credit obtained from Export Development of Canada (EDC), and CHF 218,050 (equal to USD 229,745 million) against the line of credit obtained from UBS Switzerland AG (UBS).

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Type of credit	Weighted interest rate	Maturities	2019		2018		2017	
			Local currency	Foreign currency (thousands)	Local currency	Foreign currency (thousands)	Local currency (thousands)	Foreign currency
IN US DOLLARS: at an exchange rate of \$18.8452 per U.S. dollar at Dec 2019 and \$19.6829 at Dec 2018								
BILATERAL	Fixed and variable – 2.3%	Various through 2023	1,531,535	81,269	1,892,101	96,129	1,720,686	86,962
BONDS	Fixed and variable – 5.27%	Various through 2049	94,909,175	5,036,252	96,020,078	4,878,350	97,696,627	5,206,964
REVOLVING	Fixed and variable – 3.01%	Various through 2020	525,712	27,896	1,459,081	74,129	2,660,379	134,453
SYNDICATED	Fixed and variable – 2.95%	2023	11,307,120	600,000	11,809,740	600,000	-	-
TOTAL IN U.S. DOLLARS			108,273,543	5,745,418	111,181,000	5,648,609	102,077,691	5,428,378
IN EUROS: at an exchange rate of \$21.175 per euro at 31 Dec 2019 and \$22.4691 at Dec 2018								
BILATERAL	Fixed and variable – 2%	Various through 2024	13,212	624	24,710	1,100	41,741	1,768
REVOLVING	Fixed and variable – 1.8%	Various through 2020	45	2	2,307	103	4,946	210
TOTAL EUROS			13,257	626	27,017	1,202	46,687	1,978
IN SWISS FRANCS: at an exchange rate of \$19.4791 per Swiss franc at Dec 2019 and \$19.944 at Dec 2018								
BILATERAL	Fixed and variable – 0%	Various through 2015	-	-	-	-	-	-
REVOLVING	Fixed and variable – 1.28%	Various through 2021	34,019	1,746	338,458	16,970	909,359	45,080
TOTAL SWISS FRANCS			34,019	1,746	338,458	16,970	909,359	45,080
IN JAPANESE YENS: at an exchange rate of \$0.1736 per Japanese yen at December 2019 and \$0.179 at December 2018								
BILATERAL	Fixed and variable – 1%	Various through 2021	131,887	759,720	388,555	2,170,700	676,485	3,874,487
			131,887	759,720	388,555	2,170,700	676,485	3,874,487
Bond	Fixed - 3.83%	2032	5,555,200	32,000,000	5,728,000	32,000,000	5,587,200	32,000,000
			(476,909)		(423,970)		(255,199)	
			5,078,291	32,000,000	5,304,030	32,000,000	5,332,001	32,000,000
TOTAL JAPANESE YENS			5,210,179	32,759,720	5,692,585	34,170,700	6,008,487	35,874,487
Assets received for financial instruments, net (Note 10b)								
TOTAL FOREIGN DEBT			113,530,998	38,507,510	117,239,060	39,837,481	109,042,224	41,349,923

B) Domestic debt

On August 28, 2019, the Company drew down MXN 2.5 billion against the loan taken out with BBVA Bancomer on August 2, 2019, which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.80% and which has a maturity date of July 18, 2020 and is repayable in 4 years 2 months.

On December 2, 2019, the Company drew down MXN 4 billion against the loan taken out with Banco Santander on July 18, 2018, which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.25% and which has a maturity date of July 18, 2020.

On December 11, 2019, the Company drew down MXN 5.5 billion against the loan taken out with BBVA Bancomer on December 9, 2019, which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.20% and which has a maturity date of March 9, 2020 and which has a maturity date of March 9, 2020.

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In February 2018, the Company drew down MXN 2.5 billion against the revolving line of credit obtained from BBVA Bancomer, S.A., and in March it drew down an additional MXN 2.5 billion against such line of credit, which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.48%.

In May 2018, the Company drew down MXN 5 billion against the revolving line of credit obtained from Banco Santander, S.A., which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.20%.

In June 2018, the Company placed three Stock Certificate issues in the domestic market for a total amount of MXN 15,290 million.

1. Second reopening of the CFE 17 series in the amount of MXN 2.55 billion, which bears semi-annual interest at a fixed rate of 8.18% and matures in December 2027.
2. First reopening of the CFE 17 series in the amount of UDIS 1,342,321,400, equal to MXN 8.053 billion, that bears semiannual interest at a fixed rate of 4.54% and matures in September 2032.
3. Of the CFE 18 series, Stock Certificates were auctioned in the amount of MXN 4.687 billion, which bears variable interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.30% and matures in June 2021.

In July 2018, the Company drew down MXN 4 billion against the revolving line of credit obtained from Banco Santander, S.A., which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.20%, and MXN 3 billion against the revolving line of credit obtained from BBVA Bancomer, S.A., which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.30%, both with monthly interest payments.

In October, the Company drew down MXN 4 billion against the revolving line of credit obtained from Banco Santander, S.A., which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.25%, and MXN 3 billion against the revolving line of credit obtained from BBVA Bancomer, S.A., which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.30%, both with monthly interest payments.

In April 2017, the Company drew down MXN 2.5 billion against the revolving line of credit obtained from Banco Santander (México), S.A., and in July 2017 it drew down an additional MXN 2.5 billion, which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.1%. These amounts were repaid in October 2017.

In July 2017, the Company placed two Stock Certificate issues:

1. Of the CFE 17 series, Stock Certificates were auctioned in the amount of MXN 7 billion at a fixed interest of 8.2%, which matures in December 2027.
2. Of the CFE 17-2 series, Stock Certificates were auctioned in the amount of MXN 1 billion bearing variable interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.25% and which matures in July 2020.

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In August 2017, the Company drew down MXN 2.5 billion against the revolving line of credit obtained from BBVA Bancomer, S. A., which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.5%. This amount was repaid in November 2017.

In October 2017, the Company placed three Stock Certificate issues:

1. First reopening of the CFE 17 series in the amount of MXN 3 billion, which bears monthly interest at a fixed rate of 8.2% and matures in December 2027.
2. First reopening of the CFE 17-2 series in the amount of MXN 1.5 billion, which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.4% and matures in July 2020.
3. Base placement of the CFE 17U series in the amount of UDIS 944,092,800, that bears interest at a fixed rate of 4.5%, and matures in September 2032.

In November 2017, the Company drew down MXN 2.5 billion against the revolving line of credit obtained from Banco Santander (México), S.A., which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.1%. This amount was repaid in December 2017.

Domestic debt			2019	2018	2017
Type of credit	Weighted interest rate	Maturities	L. Curr.	L. Curr.	L. Curr.
BANKING	Fixed and variable – 8.09%	Various through 2023	17,000,000	7,500,000	7,600,000
STOCK MARKET	Fixed and variable – 7.81%	Various through 2027	65,487,330	70,987,330	79,000,000
		Total	82,487,330	78,487,330	86,600,000
IN UDIS: at and exchange rate of \$6,399 Dec 2019 and \$6.2266 Dec 2018					
STOCK MARKET	Fixed - 4.49%	2032	20,609,740	20,054,478	11,141,672
			20,609,740	20,054,478	11,141,672
TOTAL DOMESTIC DEBT			103,097,070	98,541,808	97,741,672
			2019	2018	2017
Total foreign debt			113,530,998	117,239,060	109,042,224
Total domestic debt			103,097,070	98,541,808	97,741,672
Interest payable			2,529,070	2,602,680	2,476,343
Unamortized debt expenses			- 2,360,129	- 2,338,310	- 2,338,310
Total documented debt			216,797,009	216,045,238	206,921,929
Short-term debt			36,642,507	12,951,500	23,442,173
Short-term interest payable			2,529,070	2,602,680	2,476,343
Total short-term			39,171,577	15,554,180	25,918,516
Long-term debt			179,985,561	202,829,368	183,341,723
Unamortized debt expenses			- 2,360,129	- 2,338,310	- 2,338,310
Total long-term			177,625,432	200,491,058	181,003,413
Total short- and long-term			216,797,009	216,045,238	206,921,929

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The maturity dates of the documented debt are as follows:

The documented debt liabilities mature as follows:

	Amount
2020	39,171,577
2021	24,463,456
2022	498,726
2023	20,843,562
2024	23,837,499
2025	21,280,638
2026	280,638
Subsequent years	86,420,913
Total	216,797,009

i) Debt on long-term productive infrastructure projects (PIDIREGAS, Spanish acronym)

An analysis of the balances and maturities of the PIDIREGAS (direct investment) debt as of December 31, 2019, 2018 and 2017 is as follows:

	Total 2019	Total 2018	Total 2017
<u>Short term</u>	\$ 14,159,869	\$ 16,780,375	21,145,914
<u>Long term</u>			
2018	-	-	688,164
2019	-	-	1,705,968
2020	-	479,952	293,720
2021	743	171,891	3,493,333
2022	719,852	2,196,057	2,154,690
2023	41,128	1,577,996	5,748,122
2024	2,166,266	4,520,686	-
2025	435,972	-	-
Subsequent years	118,542,555	105,358,075	91,965,399
Total long-term	\$ 121,906,516	\$ 114,304,657	106,049,396
Total	\$ 136,066,385	\$ 131,085,032	127,195,310

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-Direct investment (PIDIREGAS):

As of December 31, 2019, 2018 and 2017, the debt for the acquisition of plants, facilities and equipment through financing agreements recognized in accordance with International Financial Reporting Standards, an analysis is as follows:

	Term of the agreement	Balance as of December 31, 2019 (thousands of units)				Balance as of December 31, 2018 (thousands of units)				Local currency	
		Local currency		Foreign currency		Local currency		Foreign currency			
		Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term		
Foreign debt											
-	million dollars	2019	-	-	-	-	144,872	-	7,360	-	539,000
14	million dollars	2020	257,249	-	13,651	-	537,369	268,684	27,301	13,651	540,200
32	million dollars	2026	85,279	511,677	4,525	27,152	89,070	623,492	4,525	31,677	89,500
266	million dollars	2029	514,722	4,494,765	27,313	238,510	537,603	5,232,168	27,313	265,823	540,400
371	million dollars	2032	1,135,240	5,863,933	60,240	311,163	1,185,703	7,310,297	60,240	371,403	1,191,900
780	million dollars	2036	828,273	13,868,907	43,951	735,938	865,091	15,350,493	43,951	779,890	869,600
51	million dollars	2039	-	966,476	-	51,285	-	-	-	-	-
643	million dollars	2047	937,666	11,173,343	49,756	592,901	983,500	12,765,641	49,967	648,565	1,367,900
1,340	million dollars	2048	1,010,912	24,246,530	53,643	1,286,616	1,072,434	26,855,367	54,487	1,364,401	-
478	million dollars	2049	301,670	8,702,624	16,008	461,795	-	-	-	-	-
Total foreign debt			5,071,011	69,828,255	269,087	3,705,360	5,415,642	68,406,142	275,144	3,475,410	5,138,700

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	Term of the agreement	Balance as of December 31, 2019 (thousands of units)				Balance as of December 31, 2018 (thousands of units)				
		Local currency		Foreign currency		Local currency		Foreign currency		
		Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term	
Domestic debt										
-	million pesos	2018	-	-	-	-	-	-	-	1,91
-	million pesos	2019	-	-	554,554	-	-	-	-	1,01
23	million pesos	2020	23,258	-	656,653	211,268	-	-	-	1,14
2	million pesos	2021	1,486	743	121,828	171,891	-	-	-	18
1,226	million pesos	2022	505,897	719,852	1,298,802	2,196,057	-	-	-	2,26
68	million pesos	2023	27,223	41,128	576,694	1,577,996	-	-	-	79
2,708	million pesos	2024	541,567	2,166,266	1,302,860	4,520,686	-	-	-	1,57
629	million pesos	2025	193,308	435,972	491,312	1,985,983	-	-	-	64
22,894	million pesos	2026	3,683,640	19,210,836	2,051,277	9,566,386	-	-	-	2,55
-	million pesos	2027	-	-	1,332,149	7,364,884	-	-	-	1,61
3,900.75	million pesos	2028	413,028	3,487,726	261,525	1,714,698	-	-	-	
15,380	million pesos	2033	1,340,813	14,038,817	444,262	3,871,210	-	-	-	
1,422	million pesos	2036	83,664	1,338,630	83,664	1,422,294	-	-	-	8
11,311	million pesos	2042	681,880	10,629,470	726,944	11,286,338	-	-	-	7
Total domestic debt			7,495,764	52,069,440	9,902,524	45,889,691				14.53
Interest payable			1,593,094		1,462,209					1,47
CEBURES				8,821		8,821				
Total PIDIREGAS debt			14,159,869	121,906,516	16,780,375	114,304,654				21.14

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a. As of December 31, 2019, 2018 and 2017, minimum payment commitments on PIDIREGAS are as follows:

	2019	2018	2017
PIDIREGAS	200,239,308	190,029,498	176,974,622
less:			
Unaccrued interest	65,774,757	60,415,497	49,788,133
Present value of obligations	134,464,551	129,614,001	127,186,489
less:			
Current portion of obligations	12,566,856	15,318,165	21,145,914
Long-term portion of PIDIREGAS	121,897,695	114,295,836	106,040,575
CEBURES	8,821	8,821	8,821
Total CEBURES and PIDIREGAS	121,906,516	114,304,657	106,049,396

As at December 31, 2019, 2018 and 2017, the following affiliated entities have bank loans with third parties:

	2019	2018	2017
CFE Internacional LLC	566,461	394,273	-
CFEnergía	-	7,100,442	1,433,452
Total bank loans	566,461	7,494,715	1,433,452

C) CFE Internacional LLC

In September 2019, CFE International LLC obtained a short-term loan of USD 100 million from Credit Agricole-CIB NY Branch, which CFE International LLC received in two drawdowns, as follows: the first drawdown of USD 30 million payable in 90 days, with a maturity date of December 2, 2019 and interest equal to the LIBOR rate of 2.12413% plus a spread of 0.90%, resulting in a total rate of 3.02413%; and the second drawdown of USD 70 million payable in 91 days, with a maturity date of December 23, 2019 and interest equal to the LIBOR rate of 2.15888% plus a spread of .90%, resulting in a total rate of 3.05888%. For the first drawdown of USD 30 million, CFE International LLC requested an extension in the maturity to an additional 91 days, with the new maturity date being March 2, 2020.

In December 2018 CFE International LLC acquired a short-term loan from JPMorgan Chase Bank NA that is repayable in a term of 30 days, with repayment due by January 17, 2019, and which bears interest at a rate equal to the LIBOR plus a margin of 1.25%.

D) CFenergía

- i. An analysis of bank loans at December 31, 2018 is as follows:
 - Drawdowns made against the line of credit obtained from BANORTE on December 27 in the amounts of \$4,450 and \$150, which will mature on January 28, 2019. Interest accrued on the drawdowns mentioned above amounted to \$4,860, which was recognized as part of comprehensive financing cost. The Company repaid the principal plus accrued interest on this loan on January 22, 2019.
 - As at December 31, CFenergía obtained a one-time special line of credit from BANORTE in the amount of \$2,000,000, which will mature on February 4, 2019. This drawdown will bear interest at a rate equal to the Mexican weighted interbank rate (TIIE) plus 1 percentage point. The Company repaid the principal plus accrued interest on this loan on January 28, 2019.
 - On December 27, 2018, the Company drew down \$495,000 against the line of credit obtained from MONEX. This drawdown will mature on January 28, 2019. Accrued interest on the drawdown amounted to \$582, which was recognized as part of comprehensive financing cost. the Company repaid the principal plus accrued interest on this loan on January 22, 2019.
- ii. On December 20, 2018, CFenergía contracted a revolving line of credit with Monex for up to USD 25 million, which may be drawn down in U.S. dollars or Mexican pesos. Drawdowns in Mexican pesos bear interest equal to the Mexican weighted interbank rate (TIIE) + 2 percentage points and drawdowns in U.S. dollars bear interest equal to the LIBOR + 1.75 percentage points, as indicated on the corresponding promissory notes.
- iii. On December 27, 2017, CFenergía drew down USD 65 million and 150 million pesos, both of which mature on January 22, 2018.

CFenergía repaid the drawdowns in due time and form in January 2019.

- iv. On December 22, 2017, CFenergía contracted a revolving line of credit with Grupo Financiero Banorte for up to USD 85 million, which may be drawn down in U.S. dollars or Mexican pesos. Drawdowns in Mexican pesos bear interest equal to the 28-day Mexican weighted interbank rate (TIIE) + 95 and drawdowns in U.S. dollars bear interest equal to the one-month London Interbank Offered Rate (LIBOR) + 195.

On August 17, 2018, CFenergía entered into an agreement with Banorte to amend the current account loan agreement entered into on December 22, 2017 in order to increase the available line of credit to USD 250,000.

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The loan agreement stipulates affirmative and positive loan covenants that the Company must adhere to. These loan covenants require the Company to refrain from doing the following until the loan has been repaid in full:

- a) Modify its corporate purpose, except for adding complementary or secondary activities to its main activity;
- b) Modify its line of business and the nature of its principal activities or cease engaging in them altogether;
- c) Initiate its dissolution or liquidation;
- d) Merge into another company or carry out a corporate transformation or spin-off, etc;

The Company agrees that its non-compliance with any of these obligations would be sufficient cause for the Bank to demand the immediate settlement of the loan, plus all accrued interest and related accessory charges.

14. Lease Liabilities

Lease liabilities as of December 31, 2019 are, as follows:

	2019	2018	2017
January 1st	\$ 456,445,996	\$ 419,794,510	\$ 351,914,789
Additions	151,674,080	51,450,114	93,664,635
Interest	23,889,828	22,114,211	17,942,019
Payments	- 40,455,722	- 34,928,753	- 30,257,183
Effect from translation	- 4,032,854	- 315,972	- 3,377,314
Exchange difference	- 19,608,097	- 1,668,114	- 10,092,436
Total liabilities	\$ 567,913,231	\$ 456,445,996	\$ 419,794,510
Less portion of short-term liabilities	11,074,905	26,856,724	15,726,965
Total long-term liabilities	\$ 556,838,326	\$ 429,589,272	\$ 404,067,545

Lease payments as of December 31, 2019 are, as follows:

	2019	2018	2017
Less than one year	11,074,905	26,847,724	15,726,965
More than 1 year and less than 3 years	8,682,411	14,711,981	21,905,178
More than 3 years and less than 5 years	21,774,620	12,743,649	10,640,991
More than 5 years	526,381,295	402,142,642	371,521,376
Total lease liabilities (undiscounted)	567,913,231	456,445,996	419,794,510

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15. Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities as of December 31, 2019, 2018 and 2017 is, as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Suppliers and contractors	\$ 37,808,697	\$ 60,196,912	\$ 59,849,154
Employees	5,054,394	4,680,424	4,213,117
Deposits from users and contractors	28,945,790	25,619,843	22,974,717
Other taxes and duties	2,273,976	3,610,547	2,477,256
Other liabilities	2,965,536	13,996,163	12,198,773
Value added tax	<u>9,126,331</u>	<u>4,740,750</u>	<u>8,562,279</u>
Total	\$ <u>86,174,724</u>	\$ <u>112,844,639</u>	\$ <u>110,275,296</u>

Other Long-term Liabilities

An analysis of Other long-term liabilities as of December 31, 2019, 2018 and 2017 is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Third-party contributions	\$ 7,162,731	\$ 5,839,143	\$ 8,039,903
Decommissioning provision (a)	14,090,661	13,744,939	15,329,206
Other provisions	<u>1,803,806</u>	<u>867,113</u>	<u>55,558</u>
Total	\$ <u>23,057,198</u>	\$ <u>20,451,195</u>	\$ <u>23,424,667</u>

(a) Decommissioning provision

	<u>Opening balance</u>	<u>Increase</u>	<u>Reversals</u>	<u>Ending balance</u>
2019	13,744,939	345,722	-	14,090,661
2018	15,329,206	508,347	2,092,614	13,744,939
2017	12,888,114	4,804,859	2363767	15,329,206

As of December 31, 2019, 2018 and 2017, other long-term liabilities include decommissioning provisions, which are required to demonstrate the availability of resources for the Company to decommission radioactive elements in accordance with the Nuclear Regulatory Commission (NRC) Standard. Decommissioning provisions are measured at present value using a discount rate of 3% and they also cover likely losses arising from the Company's obligations related to environmental remediation.

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16. Employee Benefits

CFE has employee benefits plans for employee terminations and retirements due to causes other than a restructuring event. The retirement benefits plan considers the number of years of service completed by the employee and the employee's compensation at the retirement date. The retirement benefits plan includes the seniority bonus that employees are entitled to receive upon termination of the employee relationship, as well as other benefits defined in the collective labor agreement.

The actuarial valuations of the plan assets and the present value of the defined benefit obligation are performed by independent actuaries using the projected unit credit method.

- a. The economic assumptions in nominal and real terms used in the years ended December 31, 2019, 2018 and 2017 are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rate	7.25%	9.00%	7.75%
Expected return rate on plan assets	7.25%	9.00%	7.75%
Salary increase rate	4.02%	4.02%	4.02%

- b. An analysis of the net period cost for the three years ended December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Service cost	8,333,222	7,698,916	7,463,000
Interest cost	45,156,842	40,475,082	40,348,000
Interest on the Plan Assets	(17,589,870)	(28,178,282)	-
Recognition of past service	-	544,062	92,316
Net period cost	<u>35,900,194</u>	<u>20,539,778</u>	<u>47,903,316</u>

The net actuarial gains or losses derive from changes in the assumptions used by the actuary to calculate the labor liabilities, as a result of the increase in the average wage rate and the increase in pensions. The net gains and losses recognized in the years ended December 31, 2019, 2018 and 2017 are disclosed in paragraph d., below.

The amount included as a liability in the Statement of Financial Position for each of the years ended December 31, 2019, 2018 and 2017 with respect to the Company's liability for its defined benefit plan is as follows.

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Defined benefit obligation	\$ 637,678,666	\$ 522,841,964	\$ 529,248,000
Fair value of the plan assets and promissory notes issued by the Ministry of Finance and Public Credit (SHCP, Spanish acronym).	210,818,107	195,389,375	167,467,661
Net projected obligation	\$ <u>426,860,559</u>	\$ <u>327,452,589</u>	\$ <u>361,780,339</u>

c. A reconciliation from the opening to the ending balances for the present value of the defined benefits obligation for the three years ended December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Opening balance (nominal amount)	\$ 522,841,964	\$ 529,248,000	\$ 527,784,000
Current service cost	7,168,244	7,698,916	7,463,000
	45,156,842	40,475,082	40,348,000
Interest cost	42	40,475,082	40,348,000
Past service cost	1,164,978	544,062	92,316
Actuarial gain (loss)	101,586,568	(15,588,861)	(12,192,264)
Benefits paid	(40,239,930)	(39,534,335)	(35,045,000)
Other		(900)	797,948
Defined benefit obligation	\$ <u>637,678,666</u>	\$ <u>522,841,964</u>	\$ <u>529,248,000</u>

d. A reconciliation from the opening to the ending balances for the fair value of the plan assets for the three years ended December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Opening balance (nominal amount)	195,389,375	167,467,661	166,665,713
Return on plan assets	53,625	(63,916)	(32,000)
Interest on Plan assets	17,589,870	27,985,630	833,948
Remeasurement of losses on the return on plan assets	(2,214,763)	-	-
	<u>210,818,107</u>	<u>195,389,375</u>	<u>167,467,661</u>

Trust to manage the Pension and Retirement Reserve funds.

On October 31, 2019, CFE received from the Ministry of Finance and Public Credit the first promissory note of \$1,445,977,409, which generated returns of \$367,717,321.

On October 31, 2018, CFE received from the Ministry of Finance and Public Credit the first promissory note of \$ 892,729,928, which generated returns of \$116,252,404.

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CFE created the Scotiabank Inverlat S.A. FID 11040961 Trust that manages the Pension and Retirement Reserve funds. As of December 31, 2019, and 2018 the trust balance amounts to \$9,633,597 and \$5,939,719, respectively.

- e. The most significant assumptions used in determining the net period cost of the pension plans for the three years ended December 31, 2019, 2018 and 2017, are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rate	7.25%	9.00%	7.75%
Expected return rate on plan assets	7.25%	9.00%	7.75%
Salary increase rate	4.02%	4.02%	4.02%

Employees who as of the effective date of the Agreement and in 2016 meet the age and/or seniority requirements for retirement set forth in the terms of the Collective Labor Agreement for 2014-2016, may elect to exercise their right to retirement.

As of January 1st, 2017, employees may request and be granted, through the SUTERM, their retirement with 100% of their average salary over the last four years that they worked for CFE, according to the following criteria: men will be candidates provided, a) they have completed 30 years of service and are at least 65 years old, or b) they have completed 40 years of service with no age limit; women will be candidates provided, a) they have completed 30 years of service and are at least 60 years old, or b) they have completed 35 years of service with no age limit.

- f. Sensitivity analysis

In order to carry out the sensitivity analysis, the Company considered a +/- .5 points change in the discount, as such, the scenarios considered took into account the following financial assumptions:

Concept	Scenario		
	<u>Lower discount rate</u>	<u>Base</u>	<u>Higher discount rate</u>
Long-term inflation	3.5% annual	3.5% annual	3.5% annual
Discount rate	6.75% annual	7.25% annual	7.75% annual
Salary increase rate	4.2% annual	4.2% annual	4.2% annual
Minimum wage increase rate	3.5% annual	3.5% annual	3.5% annual

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Based on these assumptions, the following liabilities were determined (amounts in millions of pesos):

	Scenario		
	Lower discount rate	Base	Higher discount rate
Defined Benefit Obligation			
Seniority premium	29,436	27,852	26,404
Severance pay and compensations	2,866	2,801	2,731
Pensions and retirements	635,471	602,036	570,875
Seniority bonus	5,190	4,989	4,802
Total	672,963	637,678	604,812

The percentage differences on the liabilities determined in the two additional scenarios, with respect to the base scenario, are shown in the following tables:

Concept	Scenario		
	Base	Lower discount rate	Variance
Seniority premium	27,852	29,436	5.69%
Severance pay and compensations	2,801	2,866	2.32%
Pensions and retirements	602,036	635,471	5.55%
Seniority bonus	4,989	5,190	4.03%
Total	637,678	672,963	5.53%

Concept	Scenario		
	Base	Higher discount rate	Variance
Seniority premium	27,852	26,404	-5.20%
Severance pay and compensations	2,801	2,731	-2.50%
Pensions and retirements	602,036	570,875	-5.18%
Seniority bonus	4,989	4,802	-3.75%
Total	637,678	604,812	-5.15%

17. Income Tax

Since 2015, CFE was transformed into a Productive State Enterprise and is no longer a Decentralized Public Company; consequently, it no longer is eligible for the tax regime set out in Title III of the Income Tax Law (Non-Profit Legal Entities) but rather applies the provisions set out in Title II of the aforementioned Law (general regime for Corporations and Legal Entities).

An analysis of the income tax (benefit) expense recognized in the years ended December 31, 2019, 2018 and 2017 is as follows.

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current income tax	\$ 7,023,817	\$ 7,824,886	\$ 3,528,959
Deferred income tax	<u>20,003,514</u>	<u>(73,995,536)</u>	<u>(76,831,851)</u>
Income tax	<u>\$ 27,027,331</u>	<u>\$ (66,170,650)</u>	<u>\$ (73,302,892)</u>

The deferred tax related to items recognized in comprehensive income in the years ended December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Labor obligations	\$ (16,982,786)	\$ (20,505,785)	\$ -

An analysis of deferred taxes recognized in the statement of financial position as of December 31, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Deferred tax assets			
Labor obligations	\$ 127,829,407	\$ 128,495,379	\$ 81,960,603
Provisions	2,273,086	1,167,952	1,896,785
Tax losses from prior years	2,138,573	6,500,850	-
Allowance for doubtful accounts	272,545	351,718	10,900
Decommissioning provision	2,661,800	3,057,014	406,018
Customer advances	316,681	-	-
Allowance for obsolete inventories	967,953	60,827	-
Deposits	-	39,702	-
Inventories	-	-	117,647
Fixed assets asset	6,670,391	13,880,982	-
Lease liabilities	22,187,945	13,771,602	-
Benefit for the deduction of intangible assets for tax purposes	85,309,299	89,725,979	-
Other	122,652	-	-
Deferred revenue	139,859	1,698,475	-
Total deferred tax assets on the page below	<u>\$ 250,890,191</u>	<u>\$ 258,750,480</u>	<u>\$ 84,391,953</u>

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Deferred tax assets			
Total deferred tax assets from the page above	\$ 250,890,191	\$ 258,750,480	\$ 84,391,953
Deferred tax liabilities			
Fixed asset liabilities	\$ 82,939,863	\$ 86,534,271	\$ -
Accounts receivable	451,905	804,423	-
Distributions receivable	-	10,225	-
Deposits and advances	304,772	68,389	7,560,102
Total deferred tax liabilities	83,696,540	87,417,308	7,560,102
Total deferred income tax asset	\$ <u>167,193,651</u>	\$ <u>171,333,172</u>	\$ <u>76,831,851</u>

Changes in the deferred tax amounts for the years ended December 31, 2019, 2018 and 2017 are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 171,333,172	\$ 76,831,851	\$ -
Deferred tax benefit	<u>(4,139,521)</u>	<u>94,501,321</u>	<u>76,831,851</u>
Balance at end of year	\$ <u>167,193,651</u>	\$ <u>171,333,172</u>	\$ <u>76,831,851</u>

An analysis of the items that comprise unrecognized deferred tax assets is shown on the following page:

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	As of December 31,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Labor obligations	\$ 50,704,309	\$ 22,508,363	\$ 41,353,810
Provisions	4,547,624	68,815	1,578,617
Losses from prior years	69,107,330	62,025,419	45,363,420
Allowance for doubtful accounts	8,053,473	8,306,765	11,152,450
Decommissioning provision	1,083,884	617,251	3,838,253
Deposits	1,454,868	-	-
Customer advances	2,155,999	2,094,092	8,368,235
Allowance for obsolete inventories	53,986	13,237	790,380
Fixed assets asset	7,456,142	10,424,087	(2,740,482)
Deposits and advances	(301,715)	-	-
Lease liabilities	(72,240)	1,384,296	-
Accounts receivable	(2,696,811)	-	-
Other	(1,670,593)	-	39,124
Deferred revenue	-	-	1,255,905
Total deferred tax assets	\$ <u><u>139,876,256</u></u>	\$ <u><u>107,442,325</u></u>	\$ <u><u>110,999,712</u></u>

As of December 31, 2019, the available tax loss carryforward expire as follows:

Year	Amount	Deferred tax asset
2029	34,467,450	10,340,235
2028	91,376,184	27,412,855
2027	104,514,132	31,354,240
	<u><u>230,357,766</u></u>	<u><u>69,107,330</u></u>

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Reconciliation of the effective tax rate

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income (loss) before income tax	\$ 52,591,067	\$ (4,545,344)	\$ 34,405,915
Expected expense (benefit)	15,811,373	(1,363,603)	10,321,774
Annual inflation adjustment	5,321,131	8,245,149	4,254,966
Non-deductible expenses	3,085,760	4,701,597	736,779
Tax-exempt income - Subsidy income (1)	(22,555,740)	(24,421,590)	(19,774,440)
Effect of unrecognized deferred taxes from prior periods (2)	-	(53,039,264)	(69,009,709)
Elimination of deferred tax assets (3)	25,190,136	-	-
Other	<u>174,671</u>	<u>(257,124)</u>	<u>131,927</u>
Total	\$ <u>27,027,331</u>	\$ <u>(66,134,835)</u>	\$ <u>(73,338,703)</u>

(1) Related to a government-contribution that qualifies as a tax-exempt income.

(2) Related deferred taxes not recognized during 2018 and 2017.

(3) Represents the cancelation of deferred taxes of revaluation of plants, related to the entities CFE Generación II, CFE Generación IV and CFE Generación VI.

18. Other comprehensive income

Other comprehensive income as of December 31, 2019, 2018 and 2017 is as follows:

	Revaluation of plants, facilities and equipment	Remeasurements of net defined benefit obligation	Recognition of the assumption by the Federal Government of CFE's benefits and retirement obligations.	Cash flow hedges	Effect of translation into the functional currency	Deferred income tax from comprehensive income	Total other comprehensive income (loss)
Balance as at December 31, 2016	\$ 388,608,985	(111,586,852)	161,080,204	9,149,999	\$ -	\$ -	447,252,336
Comprehensive income (loss) for the period	<u>(28,681,250)</u>	<u>(12,192,264)</u>	-	10,401,629	(82,933)	-	(30,554,818)
Balance as at December 31, 2017	359,927,735	(123,779,116)	161,080,204	19,551,628	(82,933)	-	416,697,518
Comprehensive income (loss) for the period	<u>1,580,651</u>	<u>39,591,661</u>	-	<u>(12,252,497)</u>	<u>(37,393)</u>	<u>20,505,785</u>	<u>49,388,207</u>
Balance as at December 31, 2018	\$ 361,508,386	\$ (84,187,455)	\$ 161,080,204	\$ 7,299,131	\$ (120,326)	\$ 20,505,785	\$ 466,085,725
Comprehensive income (loss) for the period	<u>27,466,275</u>	<u>(103,819,133)</u>	-	(6,685,744)	-	16,982,786	(65,055,816)
Balance as at December 31, 2019	\$ <u>388,974,661</u>	\$ <u>(188,006,588)</u>	\$ <u>161,080,204</u>	\$ <u>613,387</u>	\$ <u>(120,326)</u>	\$ <u>37,488,571</u>	\$ <u>400,029,900</u>

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19. Foreign Currency Position

As of December 31, 2019, 2018 and 2017, CFE had the following foreign currency denominated assets and liabilities:

2019						
Assets	Liabilities					
Cash and cash equivalents	Suppliers	Domestic debt	Foreign Debt	Capital lease and PIDIREGAS	Foreign currency short position	
U.S. dollars	78,315	350,467	-	6,014,892	9,432,479	15,719,523
Euros	-	-	-	626	-	626
Japanese yens	-	-	-	759,720	-	759,720
Swiss francs	-	-	-	1,746	-	1,746

2018						
Assets	Liabilities					
Cash and cash equivalents	Suppliers	Domestic debt	Foreign debt	Capital lease and PIDIREGAS	Foreign currency short position	
U.S. dollars	127,920	234,417	-	5,918,083	9,517,257	15,541,837
Euros	-	-	-	1,202	-	1,202
Japanese yens	-	-	-	2,170,700	-	2,170,700
Swiss francs	-	-	-	16,970	-	16,970

2017						
Assets	Liabilities					
Cash and cash equivalents	Suppliers	Domestic debt	Foreign debt	Capital lease and PIDIREGAS	Foreign currency short position	
U.S. dollars	1,215,536	21,659	-	5,428,378	9,096,684	13,331,184
Euros	505	-	-	2,360	-	1,855
Japanese yens	1,335,513	-	-	3,874,487	-	5,210,000
Swiss francs	31,644	-	-	45,080	-	13,436

Note: The JPY foreign debt includes the \$32 billion bond in yens.

Note: The PIDIREGAS debt in dollars includes \$5,766,703 million dollars of the financial lease debt with External Producers (as per IFRS).

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These foreign currency denominated assets and liabilities were translated to local currency at the exchange rate published in the Official Gazette by Banco de Mexico as of December 31, 2019, 2018 and 2017, as shown below:

Currency	2019	2018	2017
U.S. dollar	18.8452	19.6829	19.7867
Japanese yen	0.1736	0.1790	0.1746
Swiss francs	19.4791	19.9440	20.1721
Euro	21.1750	22.4691	23.6062

20. Transactions with PEMEX

As of December 2018, Mr. Manuel Bartlett Diaz, CEO of CFE, was appointed member of the Board of Directors of Petróleos Mexicanos.

As of December 31, 2019, and 2018, CFE through its affiliated entity CF Energía, S.A. de C.V. carried out transactions with Pemex for the acquisition of fuel in the following amounts:

	<u>2019</u>	<u>2018</u>
<u>Sale of energy</u>		
Pemex Transformación Industrial	\$ 1,058,422	\$ 869,211
<u>Accounts receivable from the sale of energy</u>		
Pemex Transformación Industrial	\$ 564,376	\$ 428,145
<u>Accounts receivable</u>		
Pemex Transformación Industrial	\$ 625,676	\$ 3,338,542
P.M.I. Trading Designated Activity Company	68,343	-
Pemex Fertilizantes	183,710	-
<u>Revenue</u>		
Pemex Transformación Industrial	3,041,678	2,878,053
PMI Trading Designated Activity Company	60,068	-
Pemex Fertilizantes	158,371	-
<u>Account payable</u>		
Pemex Transformación Industrial	\$ 1,620,096	5,510,007
<u>Purchases</u>		
Pemex Transformación Industrial	38,548,183	60,415,053
PMI Trading México	957,928	833,335
P.M.I. Trading Designated Activity Company	5,662,164	-
PMI Trading Limited	-	7,419,842

Benefits paid to CFE's main officers in the fiscal years ended December 31, 2019 and 2018, amounted to approximately \$38,117 and \$46,023, respectively.

21. Contingencies and Commitments

Contingencies

CFE is party to several lawsuits and claims filed against it in the normal course of its business. The amounts of such lawsuits are deemed immaterial with respect to the Company's current financial position and its expected financial performance in the following years.

Commitments

a. Natural gas supply contracts

The Company has entered into contracts for services related to the reception, storage, transportation, regasification and supply of liquefied natural gas. The contractual commitments consist of acquiring, during the supply period, daily base amounts of natural gas as set forth in the respective contracts.

b. Financed public work contracts

As of December 31, 2019, CFE has entered into several financed public work contracts and the payment commitments will begin on the dates on which the private investors complete the construction of each of the investment projects and deliver the related assets to CFE for their operation. The estimated amounts of the financed public work contracts and the estimated dates of construction completion and startup of operations are shown in the table below:

Transmission lines and substations:

Capacity Kmc MVA		Estimated amount of the contract expressed in millions of:	
		Dollars	Pesos
500.96	3,327.51	331.91	6,254.9

Generation:

MCA capacity	Estimated amount of the contract expressed in millions of:	
	Dollars	Pesos
2,435.34	2,025.60	38,172.9

Renovation and/or modernization

Estimated amount of the contract expressed in millions of:
Dollars Pesos
380.0 7,161.0

These projects are registered under the PIDIREGAS scheme (long-term productive infrastructure projects).

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c. Trusts

1 Scope of action

- 1.1. CFE currently participates as Trustor or Beneficiary in 10 (ten) Trust Funds, of which two (two) are in the process of termination.
- 1.2. In conformity with its purpose and operating characteristics, the trust funds can be classified in the following groups:
- a. Energy saving
 - b. Prior expenses
 - c. Work contract management
 - d. Indirect participation trust funds

a. Energy saving

Trust funds to promote energy saving programs.

Trust fund	Role of CFE		
	Trustor	Trustee	Trust Beneficiary
Trust fund for Energy Savings (FIDE), created on August 14, 1990	Creation of the Trust: Confederación de Cámaras Industriales (CONCAMIN), Cámara Nacional de la Industria de Transformación (CANACINTRA), Cámara Nacional de Manufacturas Eléctricas (CANAME), Cámara Nacional de la Industria de la Construcción (CNIC), Cámara Nacional de Empresas de Consultoría (CNEC) and Sindicato Único de Trabajadores Electricistas de la República (SUTERM)	Nacional Financiera, S.N.C.	<p>a. Electric energy consumers who are beneficiaries of the services rendered by the Trust fund.</p> <p>b. CFE, only for the materials that will form part of the public energy services infrastructure.</p>
Mexicali Housing Thermal Isolation Trust (FIPATERM), created on October 19, 1990	CFE	Banco Nacional de Obras y Servicios Públicos, S.N.C.	CFE

As of December 31, 2019, 2018 and 2017, the Housing Thermal Isolation Program (FIPATERM) Trust has assets of \$1,621,252, \$1,532,366 and \$1,487,051, and liabilities of \$63,241, \$56,188 and \$70,634, respectively.

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b. Prepaid expenses

Those created for financing and covering expenses prior to the execution of projects which are subsequently recovered and charged to the entity that incurred in such expense to comply with the regulations applicable to the type of project.

Trust fund	Role of CFE			Type of project
	Trustor	Trust Beneficiary	Trustee	
CPTT prepaid expense management, created on August 11, 2003	CFE	CFE	Banco Nacional de Comercio Exterior, S.N.C.	Direct investment
Management and transfer of ownership 2030, created on September 30, 2000	CFE	Primary beneficiary: Contract winners Second beneficiary: CFE	Banobras, S.N.C.	Conditioned investment

As of December 31, 2019, 2018 and 2017 the Administration of Prior Expenses Trust has assets of \$3,186,199, \$3,533,406 and \$3,763,171, and liabilities of \$3,104,881 and \$3,356,828, respectively.

The Administration and Transfer of Ownership Trust 2030 has assets of \$473,795.

c. Work contract management

At the beginning of the '90s, the Federal Government implemented several off-budget schemes to continue investing in infrastructure projects. The schemes were designed under two modalities:

- Turnkey Projects (1990)
- Building, Leasing and Transferring Projects (1996)

Turnkey Projects. - Under this scheme, works were carried out for the construction of power generation plants and installation of transmission lines, through an irrevocable management and transfer of ownership trust, linked to a lease agreement. Under this modality, the trustee is responsible for the following:

Contracting credits, managing the trust property (assets), receiving the lease payments from CFE, and transferring the asset at no cost to CFE after the leases have been paid in an amount sufficient to pay the contracted credits.

CFE participates in the payment of the leases to the trustee, based on the credits contracted by the trust, instructing the trustee to pay the contractors receiving, in exchange, invoices approved by the construction area, payment of taxes and other charges, including trustee fees.

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The trusts for managing and transferring ownership were carried out in accordance with the Guidelines for the performance of thermoelectric projects with off-budget funds, as well as with the Guidelines for the performance of transmission lines and substations with off-budget funds issued by the Ministry of Public Administration (formerly known as the Ministry of Comptrollership and Administrative Development).

The Trust shown below has completed its payment commitments; therefore, it is in process of termination by the General Counsel.

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Topolobampo II (Electrolyser, S. A. de C. V.), created on November 14, 1991	Bufete Industrial Construcciones, S. A. de C. V. and Electrolyser, S. A. de C. V., with respect to its contribution to the Trust	Primary beneficiary: Electrolyser, S. A. de C. V., with respect to its contribution to the Trust and Second beneficiary: CFE	Santander, S. A.

Building, Leasing and Transferring Projects (“CAT”, Spanish acronym).- The transition stage to carry out the CAT trusts began in 1996, whereby the trustee manages the trust property (assets) and transfers it to CFE after the lease payments have been covered. Credits are contracted directly with a consortium that is a special purpose entity, for which there is an irrevocable management and transfer of ownership trust contract.

In these types of trusts, CFE participates in making the lease payments based on quarterly amortization tables presented by the consortiums in their bids. Most of these tables include forty quarterly payments.

The only project under this mode that has settled its financial obligations and is in the process of termination is the CC Samalayuca II project; therefore, it is in the process of being terminated by the Office of the General Counsel.

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
C.T. Samalayuca II, created on May 2, 1996	Compañía Samalayuca II, S.A. de C.V.	Primary beneficiary: The foreign bank that is the common representative of the creditors; Second beneficiary: Compañía Samalayuca II, S.A. de C.V. Third beneficiary: CFE	Banco Nacional de México, S. A.

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As of December 31, 2019, 2018 and 2017, CFE has fixed assets of \$21,995,856, \$21,706,678 and liabilities of \$144,871 and \$684,644 as of December 31, 2018 and 2017, respectively, corresponding to the total annual costs of the aforementioned trusts.

Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elias Calles

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elias Calles (Petacalco) was created on November 22, 1996	Techint, S. A., Grupo Mexicano de Desarrollo, S.A. de C.V. and Techint Compagnia Tecnica Internazionale S.P.A.	Primary beneficiary: Carbonser, S. A. de C.V. Second beneficiary: CFE	Banco Nacional de México, S. A. (Banamex)

The irrevocable management, guarantee, and transfer of ownership trust agreement number 968001 was entered into 1996 which, among other considerations, sets forth that the trustee will enter into a service contract with CFE.

Upon the entry into force of the coal management service contract between CFE and Banco Nacional de México, S. A. (Banamex) as trustee of the Petacalco Trust, comprised of Techint Compagnia Tecnica Internazionale S.P.A., Grupo Mexicano de Desarrollo, S. A. de C. V., and Techint, S. A. that was entered into on November 22, 1996, in accordance with clause 8.1, CFE will pay the invoice amounts related to the fixed charge for capacity.

Facility	Fixed charge for capacity for Jan-Dec 2018
Petacalco Coal	\$120,711

d. Indirect participation trust funds

Additionally, CFE maintains an indirect relationship since it is not a Trustor, but it participates as a beneficiary in two guarantee and loan payment Trusts, created by Financial Institutions as Trustors and Trust Beneficiaries for the issue of securities linked to credits granted to CFE.

CFE is named as Second Beneficiary of the Trust, due to the specific possibility that it may acquire some of the certificates issued and it maintains representation in its Technical Committees in conformity with the contractual provisions. (See Note 11).

CFE is required to reimburse to the Trust in the terms of the Indemnity Contract that forms part of the Trust Contract, the expenses incurred by the Trust for the issue of securities and their management.

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Trust No. 232246 created on November 3, 2006	Banco Nacional de México, S.A., a member entity of Grupo Financiero Banamex	Primary beneficiary: Each of the preferred holders of each issue. Second beneficiary: CFE	HSBC México, S.A., Grupo Financiero HSBC

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Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Trust No. 411 created on August 6, 2009	Banco Nacional de Mexico, S.A., a member entity of Grupo Financiero Banamex	Primary beneficiary: Each of the preferred holders of each issue. Second beneficiary: CFE	Banamex

Regarding Trust N° 194, created on May 3, 2004 by ING (México), S.A. de C.V. Casa de Bolsa, ING Grupo Financiero and Deutsche Securities S.A. de C.V. Casa de Bolsa, first and second Trustors, respectively, with the participation of CFE as Second Beneficiary, on January 10, 2018, the parties, CFE as Secondary Trustor and Acciones y Valores Banamex, S.A. de C.V., Casa de Bolsa, Member of the Banamex Financial Group, as alternate trustor of Bank of America, S.A., Institución de Banca Múltiple, alternate trustor of The Royal Bank of Scotland México, S.A., Institución de Banca Múltiple, formerly ABN Amro Bank (México), S.A., Institución de Banca Múltiple, alternate trustor of Bank of America México, S.A., Institución de Banca Múltiple, universal successor-in-title of Bankboston, S.A., Institución de Banca Múltiple y Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero as agent under the Management Agreement, (as assignee of ING Bank (México), S.A., Institución de Banca Múltiple, ING Grupo Financiero (currently Corporación General de Servicios Especializados, S.A., en Liquidación), entered into a Termination and Extinguishment Agreement of the Trust in view of the fact that the Preferred Stock Certificates issued were issued fully paid in and the purpose for which it was created was met. In the Termination and Extinguishment Agreement referred to above, the Trustee was instructed to transfer the remaining cash of the Trust Property to the Second Trust Beneficiary, as well as the ownership of credit rights, if any, in the Common Fund and, any remaining Trust Property, which occurred on October 4, 2018.

As of December 31, 2019, available funds in trust No. 232246 of \$8,821.

2 Legal nature

2.1 In conformity with the Federal Public Administration Act, none of the trusts are considered Public Trusts with the status of an "entity", pursuant to the following:

- a. In six of the Trusts, CFE is not a Trustor in their creation.
- b. The four remaining trusts do not have an organic structure similar to the state-owned entities that comprise them as "entities" in terms of the Law.

2.2 The SHCP has maintained a record for purposes of the Federal Budget and Financial Responsibility Law, of 4 (four) of the Trusts, due to the allocation of federal funds or the contribution of land owned by CFE where the works will be carried out.

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Registration of Trusts with SHCP		
No.	Trusts	Record
1	Mexicali Housing Thermal Isolation Trust (FIPATERM)	700018TOQ058
2	Prior Expense Trust	200318TOQ01345
3	Trust Management and Transfer of Ownership 2030	200318TOQ01050
4	Trust for Power Savings (FIDE)	700018TOQ149

Long-term auctions

In 2017, the Company participated as a buyer in the long-term auction announced by CENACE for the month of November 2017, acquiring through the auction a commitment to purchase energy of 539.8 (MW/year) for 15 years, purchase of energy of 5,003,133.78 (MWh/year) for 15 years and to purchase CELs of 5,422,143.18 for 20 years. On April 13, 2018, CFE entered into the agreement with the Chamber of Compensation (who acts as the counterparty).

22. Segment Information

Information regarding the operating segments

The information presented to the Board of Administration to obtain budget and investment approval and measure compliance with the business objectives set out by the Board is consolidated financial information and not for each operating activity of the Company.

Information by type of services

Income	For the year ended December 31, 2019	For the year ended December 31, 2018	For the year ended December 31, 2017
Industrial services	255,962,727	242,019,269	205,771,593
Domestic service	77,105,587	64,341,733	63,038,771
Commercial service	52,384,201	49,248,017	50,632,378
Services	14,850,451	14,673,174	22,397,891
Agricultural service	6,853,704	6,311,891	6,955,262
Total sales	407,156,670	376,594,084	348,795,895
Block for resale	430,026	964,853	
Total electricity supply revenue	407,586,696	377,558,937	348,795,895
Other programs			
Consumption in the process of being billed	3,203,156	(6,383,586)	8,899,082
Income from irregular customers	2,506,714	1,406,756	4,629,406
Measurement failure	738,565	2,262,148	1,156,938
Billing error	1,279,857	863,369	1,877,566
Total income obtained from other programs	7,728,292	(1,851,313)	16,562,992
Total revenue from the sale of electricity	415,314,988	375,707,624	365,358,887

23. Standards issued but not yet effective

A. Other standards

The Company does not expect the following amended standards and interpretations to have a significant impact on its financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of Material (Amendments to IAS 1 and IAS 8).
- Definition of a Business (Amendments to IFRS 3)
- IFRS 17 Insurance Contracts

24. Subsequent Events

On March 25, 2019, the Ministry of Energy issued the agreement amending the Terms for the Strict Legal Separation of Comisión Federal de Electricidad which were published in the Official Gazette on January 11, 2016.

As of the date of publication of this Agreement in the Official Gazette, CFE submitted to the Ministry of Energy its proposal for the reallocation of assets and power generation contracts to the EPS and Affiliated Entities that it considers best contribute to efficiency.

As part of this asset reorganization process, the Company conducted a study to determine the fair value of the plants that were involved in the reorganization. This analysis resulted in an impairment charge of \$57,016,640 and an unrealized gain on revaluation of power plants of \$84,480,710. These amounts were recognized in profit or loss and other comprehensive income in 2019. The reorganization was effective on January 1, 2020. As a result, since January 1st, 2020, the EPS's have been operating with the new portfolio of assets stated at fair value. In 2020, the Company will continue with the transfer of the assets and liabilities related to this asset reallocation.

COVID-19

On March 11, 2020, the World Health Organization declared a pandemic due to the global spread of the virus called SARS-COV-2, which originated in China at the end of 2019 and began to appear in Mexico in February 2020. Governments around the globe have been taking steps to contain the spread of the virus, including requiring the quarantine of their citizens, implementing social distancing measures, restricting travel, and declaring health emergencies. The spread of SARS-COV-2 has led to a downturn in the global economy and by extension, to a general reduction in the economic activity of most countries.

Despite the impact of SARS-COV-2 virus on individual countries and the global economy at large, the virus is not expected to have a significant impact on any technical or operational aspects of CFE, since throughout the pandemic the industry has continued to operate normally and has been declared an essential industry for Mexico. Against this backdrop, as it has stated in recent months, CFE is committed to guaranteeing the continued supply of electricity to all communities in the country.

The SARS-COV-2 health contingency could have more of an impact on the Company from an economic and financial standpoint.

The risks that the pandemic poses for CFE may be classified into three main types: a) economic-financial risks; b) operational risks, and c) labor risks. Management has estimated that the potential effects of all three types of risk vary qualitatively and in their degree of intensity, but it is important to note that the electricity sector is "defensive" with respect to other sectors of the economy. CFE has implemented several specific measures to mitigate the financial, operational and labor risks posed by the health crisis. An explanation of each of the three risks that management believes may have an impact on the Company is provided below.

a) Economic-financial risks

The economic-financial risks of the pandemic may be classified into two types based on their potential impact for the Company. The risks representing a negative potential impact are a.1) lower electricity consumption and reductions in sales of electricity, and a.2) variations in exchange rates. The risks representing a positive potential impact include: a.3) lower interest rates, and a.4) lower fuel prices.

a.1) Lower electricity consumption and reduction in sales of electricity

The measures that have been implemented to control the spread of the SARS-COV-2 virus in the country, including the self-isolation of the population, the suspension of non-essential activities, companies and industries, and the introduction of social distancing measures, have led to a slowdown in the country's economic activity, which in turn has led to a reduction in the consumption and sales of electricity across Mexico's industrial, commercial and service sectors. However, demand for electricity in the residential market is expected to grow as the large portion of the Mexican population that is forced to stay at home during the lock down will engage in additional activities at home, including professional and educational activities and entertainment. No significant reductions in electricity consumption in the agricultural sector is expected since agriculture is considered an essential activity. During the January-May 2020 period, CFE's electricity sales and revenue from the sale of electricity decreased by 3.0% and 3.7%, respectively. As the expected economic recovery takes shape during the second half of 2020, the volume of electricity consumed and CFE's sales could see an annualized reduction of between 0.0% and 3.0%.

a.2) Variations in exchange rates

To mitigate the impact of the measures implemented to contain the spread of the SARS-COV-2 virus by different countries, global governments have introduced a series of measures related to fiscal and monetary policy. These changes in fiscal and monetary policy have led to a high degree of volatility in currency prices and in the strength of the Mexican peso in particular.

During the period in which the spread of the virus spiked, on a year-to date basis the Mexican peso lost 33% of its value against the U.S. dollar. The Mexican peso has rebounded over the last few months and as such, the year-over-year variance in the exchange rate at June 30, 2020 is 21.9%. Once the effects of the lock down have taken full effect and the country begins to transition towards economic and social normalcy, the Mexican peso is expected to recover and perhaps return to levels seen prior to the health crisis.

CFE has a hedging in place to mitigate the foreign exchange risk associated with its debt contracted in foreign currencies. As of December 31, 2019, the percentage of CFE's debt balance exposed to foreign exchange risk was just 20.7%. The Company's hedging strategy proposed for fiscal year 2020 aims to reduce this exposure to 15%. CFE has other commitments and obligations in foreign currencies (fuel payments and plant and gas pipeline lease payments, among others), which is where the Company is most exposed to foreign exchange risks.

a.3) Reduction in interest rates

In response to the contraction of economic activity in Mexico and around the world, the central banks of the largest developed and emerging economies have initiated a cycle of reducing their reference interest rates as a measure to stimulate growth in consumer consumption and investment in their countries.

These measures have pushed down interest rates in financial markets in the short-, medium- and long-term. This reduction in interest rates is expected to lead to a reduction in the cost of any new debt or refinancing that CFE may seek over the next few months to fund its investment program or to help it achieve its strategic and institutional goals.

a.4) Lower fuel prices

The reduced mobility of the population resulting from less time spent engaging in all types of activities, including recreational, professional, cultural, educational and medical activities, among others, within Mexico's cities and across the country's many localities and regions and internationally as well, together with the temporary suspension of all non-essential activities, has caused a drop in the demand for fuel to levels never before seen. The reduction in fuel prices is also a result of the fact that current fuel supply volumes are equal to the supply volumes in the market prior to the health crisis. Energy prices are expected to continue to decline during this adjustment period as the demand for fuel and total fuel supply level out.

The reduction in fuel consumption brought on by the health contingency has put downward pressure on oil and gas prices globally, leading to historic lows in recent years. Natural gas is CFE's main production input. As of December 31, 2019, CFE purchased 34.596 billion cubic meters of natural gas in the domestic and international gas markets. These purchases represent the Company's largest expenditure. If this downward trend in fuel prices continues, CFE may need to spend considerably less on its natural gas purchases, leading to significant savings for the Company.

b) Operating risks

Since power generation and supply is deemed an essential activity for Mexico, throughout the health crisis CFE has continued to operate across all its processes, from power generation to power distribution to power supply to end users. In essence, CFE has continued to produce electricity for the entire country 24 per day, 7 days a week.

CFE has achieved this continued capacity to operate by implementing the actions set forth in the "Health Safety Protocol for the Reincorporation of Activities in the Work Centers of Comisión Federal de Electricidad". These measures include:

- Communication of personal protection and social distancing measures that should be followed inside CFE's facilities.
- The installation of access checkpoints where employees have their temperatures taken before entering the facilities and are checked for symptoms of COVID-19.
- The use of sanitizing floor mats.
- Actions to reduce movement of staff throughout the workday and to encourage social distancing in common areas.
- Encouraging the use of digital communication to reduce face-to-face work meetings.
- Providing personal protection equipment (masks, face shields and gloves) to cleaning staff.
- Mandatory mask rule for all personnel inside the facilities.
- Staggered work schedules to reduce the number of workers entering facilities at any one time.
- Periodic cleaning of property and transportation equipment.
- Demarcation of work areas.
- The installation of acrylic shields in customer service modules.
- Restricting the number of people allowed on elevators at any one time and barring employees who work on the first two floors of their buildings from using the elevator, except for individuals who are physically unable to use the stairs.

c) Occupational hazards

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The Company has introduced a number actions and measures designed to reduce the spread of the SARS virus in its different work centers throughout the country, to promote social distancing on the job, whether this be in the form of face-to-face work, remote work or a mix of the two, with workers reporting to their work centers on a sporadic basis and with older or physically vulnerable employees reporting to their offices or work centers only when strictly required in order to reduce the number of infections of COVID-19.

For this purpose, CFE's senior management issued the "Health Safety Protocol for the Reincorporation of Activities in the Work Centers of the Federal Electricity Commission", whose aim is to ensure that all of the Company's areas take steps to maintain and strengthen the preventive and protection measures in place.

Additionally, the Company held a video conference with approximately 3,000 employees and members of management of CFE's subsidiary companies in order to explain to these individuals the preventive measures in place and how the Ministry of Health's traffic light monitoring system will work.

CFE has approved an investment of \$57 million for purchases of cleaning materials and personal protection equipment for its personnel.

As of June 22, 2020, CFE had a total of 674 employees infected with COVID-19. This total number of infected individuals represents just 0.8% of CFE's total headcount. Out of the total population of suspected COVID-19 cases, eight individuals are currently hospitalized and three are in intensive care, while the remainder are recovering at home. Unfortunately, 32 of these infected individuals have died from the virus.

25. Issue of the Consolidated Financial Information

The consolidated financial statements and notes thereto were approved by Management on June 30, 2020. The financial information will be approved by the Board of Directors at a subsequent date. The Board of Directors has the power to amend the accompanying consolidated financial information. Subsequent events were considered through June 30, 2020.

ISSUER

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