



Sustainable Financing Framework

January 31, 2022

Contents

1. Introduction
2. Overview of CFE
3. CFE's Approach to Sustainability
4. Rationale for Issuance
5. Alignment with Market Principles
 - 5.1 Use of Proceeds
 - 5.2 Process for Evaluation and Selection
 - 5.3 Management of Proceeds
 - 5.4 Reporting
 - 5.5 External Review
6. Disclaimer



CFE's Hydroelectric Plant Ing. Alfredo Elías Ayub (La Yesca)

1. Introduction

One of the main drivers of the company's strategic planning considered in the 2022-2026 CFE's Business Plan is the commitment to foster Environmental, Social and Governance (ESG) culture and policies. Under these considerations, Comisión Federal de Electricidad ("CFE") is introducing sustainability concepts throughout its management, processes, and business strategies to create a long-term understanding of the economic and social impacts of these policies. CFE is also committed to guaranteeing compliance with existing environmental regulations in order to develop and promote friendly environment corporate policies, to improve its relations with groups affected by its business activities, and to strengthen its relations with investors. This is the first time that these efforts have been included in a corporate strategy aimed at all its subsidiaries, employees, and stakeholders.

In accordance with our sustainability strategy, we have developed this Sustainable Financing Framework in fulfillment of the following voluntary process guidelines that recommend transparency, disclosure and promote integrity for the best practices in this matter. It is a priority for CFE to appropriately manage its financing liabilities using traditional and non-traditional financial instruments, including green and social bonds, which can be used to finance clean, energy efficiency and social inclusion projects and activities, always complying with debt ceiling approved by the Mexican Congress. This document represents CFE's sustainable bond issuance guidance that we believe will catalyze positive environmental and/or social benefit and adhere to the Eligibility Criteria set in this Framework.

This Framework will be applied to any Sustainable Financing Instrument issued by CFE. In the event of an update to this Framework, any future projects will be in alignment with the eligible project categories recognized in this document. It is our intention to follow the best market practices as standards developed.

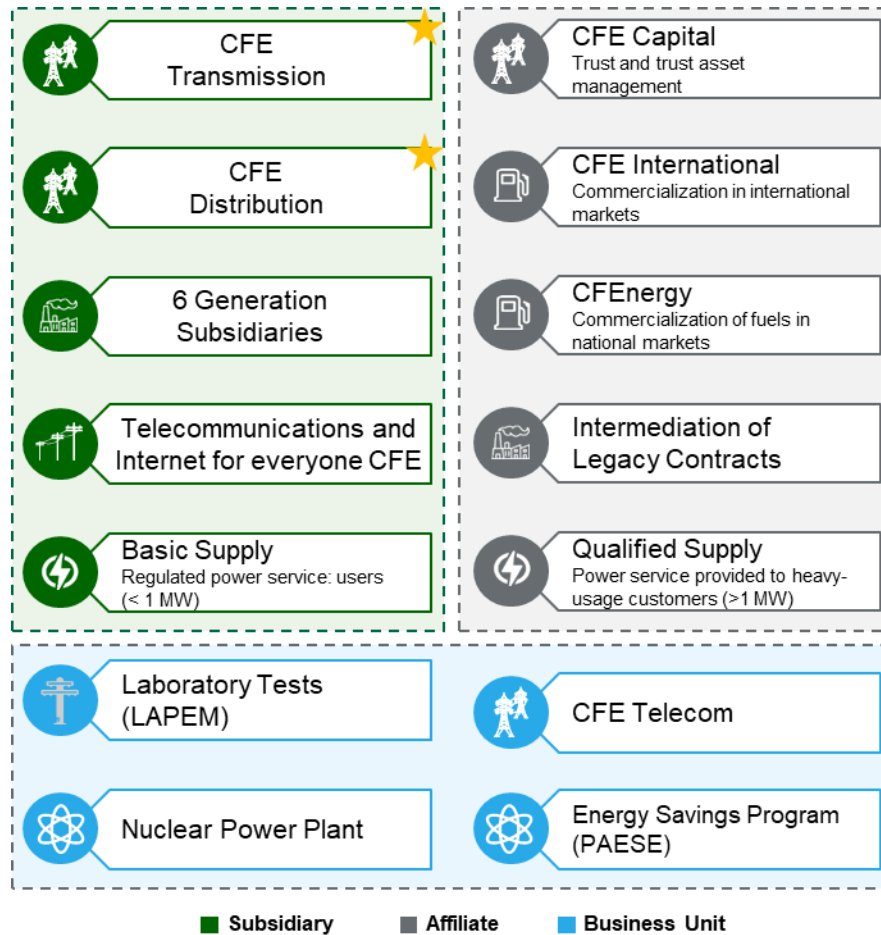
2. Overview of CFE¹

CFE is an electric power company operating as a Productive State Enterprise, wholly owned by the Mexican Federal Government. CFE generates, transmits, distributes and markets electricity to 46.4 million users, as of September 30, 2021. Founded in 1937, CFE now has a generation capacity of 58,897MW, a transmission, distribution and fiber optic grid of 110,333 km-circuits in high tension, 878,049 km-circuits in medium and low tension and 56,855 km, respectively. The total electricity generated for the full year 2020 was of 216 TeraWatt hour (TWh), and for the 9 months 2021 was 166.4 TWh, providing power to 99% of the population in the country.

The Company is divided into four main areas: generation, transmission, distribution and commercialization. Pursuant to the 2021-2035 Programa de Desarrollo del Sistema Eléctrico Nacional –PRODESEN- (National Electricity System Development Program 2021-2035 in English) prepared by the Ministry of Energy of the Mexican government, we generate approximately 67% of the electricity consumed in Mexico, including Independent Power Producers (IPPs). We have a 100% market share of the public transmission, distribution and basic supply markets.

CFE's business units are split as follows:

¹ Information will be regularly updated and readily available on: <https://www.cfe.mx/finanzas/financial-economic-information/Pages/investor-presentation.aspx>

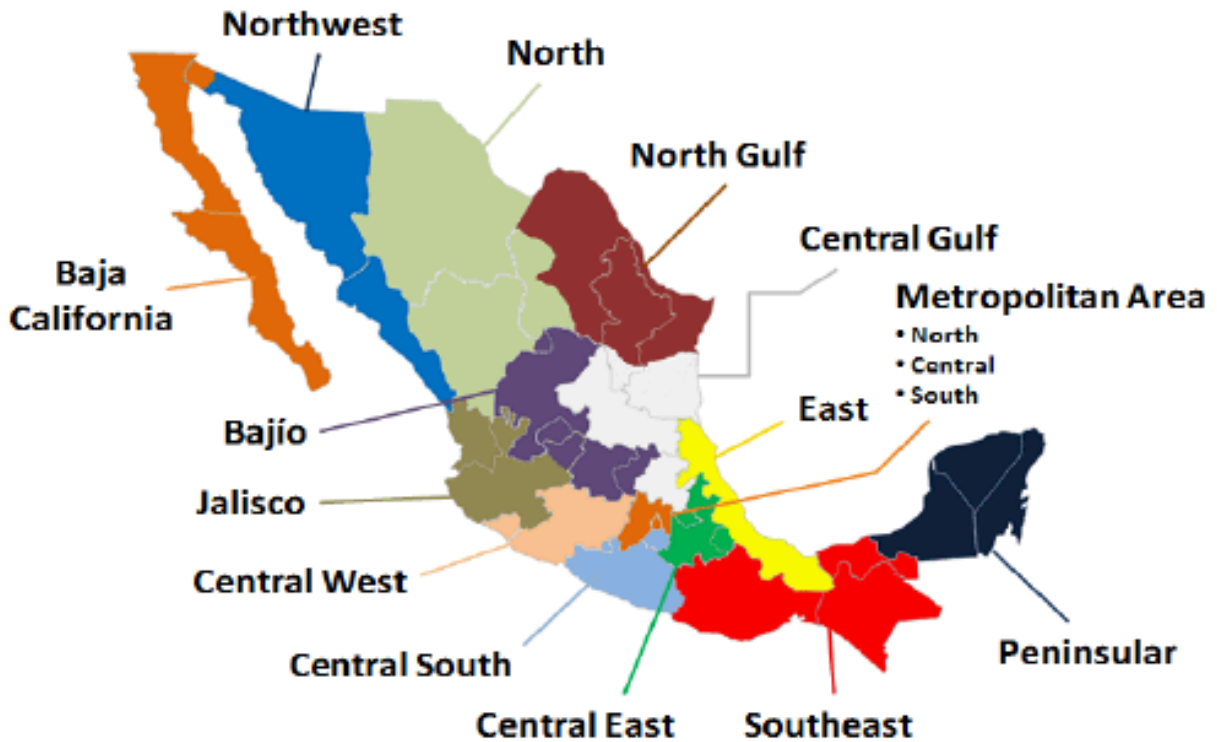


★ Activity exclusively reserved for CFE under the Mexican Constitution

Source: CFE.

We continually invest in electricity generation, transmission and distribution infrastructure in order to address Mexico’s growing electricity demand. In 2020, we invested a net amount of Ps.38.1 billion (~U.S.\$1.9 billion) in the acquisition of plants, facilities and equipment, and as of September 30, 2021 we had invested with budgetary resources a net amount of Ps. 17.9 billion (U.S.\$ 867 million, see OM). It is worth to mention that CFE has other financing schemes to complement its investments expenditures. The Board of Directors defines our five year business plan, determines our annual budget and approves investment priorities and projects. Our *financial balance* (financial condition target), *wage and salary* expenditure ceiling (*techo de gasto de servicios personales*) and net debt ceiling (*techo de endeudamiento neto*) are updated annually and require the approval of the Mexican Congress. Our investment budget for 2021, approved as part of the Mexican Federal Budget for 2021, was approximately Ps. 51.6 billion (~U.S.\$ 2.5 billion) of which Ps. 17.9 billion (U.S.\$ 867 million) had been invested as of September 30, 2021.

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



Source: CFE.

3. Approach to Sustainability

CFE is proud to support our customers and communities, committed to preserving and protecting our environment, and dedicated to the safety, health, and wellbeing of our employees, customers, and suppliers. CFE's mission is to provide energy inputs and goods required for the productive and social development of the country in an efficient, sustainable, economic and inclusive way, through a policy that prioritizes national energy security and sovereignty, and strengthens the public electricity service.

As part of CFE's 2022-2026 Business Plan², we will contribute to sustainable development and the reduction of GreenHouse Gas (GHG) emissions while strengthening internal control processes, through a comprehensive risk management framework. We are also committed to fighting corruption and promoting institutional management.

CFE intends to maximize electricity generation through the optimization, flexibility, diversification and location of its generation power plants in the country, and also by the incorporation of friendly environmental new technologies, and the rehabilitation and modernization of its existent clean energy underperforming power plants³, in particular, the hydroelectric power plants located in different hydrological basins.

2022-2026 Business Plan: investments and goals

As part of our 2022-2026 Business Plan, we have several objectives focused on environmental, social and governance initiatives:

- **Objective 1: Increase CFE's productivity to generate economic value and profitability for the Mexican state**

The electricity sector is strategic for the country's development. Therefore, CFE must make its substantive processes more efficient to promote economic growth and improve the living conditions of the population throughout the country. We intend to achieve this by optimizing all

² For more information on CFE's Business Plan for 2022- 2026, please visit <https://cdn.cfe.mx/cdn/2019/Archivos/Plan%20de%20Negocios%202022-2026%20V48%20PUBLICA.pdf>

³ Existing coal plants will not be rehabilitated or modernized

CFE's processes and capabilities from generation to commercialization, not only to increase economic value, but also to assure a safe supply of electricity throughout the country, bringing about social profitability as well.

▪ **Objective #3: Contribute to sustainable development in Mexico and the reduction of Greenhouse Gas emissions**

The Plan Nacional de Desarrollo 2019-2024 (National Development Plan 2019-2024, NDP, in English) establishes that the Energy Policies of Mexico will promote sustainable development by incorporating people and communities in the energy generation process with sustainable sources. The energy transition will promote the emergence of a new social sector and will encourage the reindustrialization of the country.

CFE must help fulfill the international commitments acquired by Mexico on GHG emissions and must comply with the objectives established in the General Law on Climate Change and the Energy Transition Law, which establish that Mexico must generate 35% of its electricity with renewable sources by 2024.

To achieve these goals, CFE's 2022-2026 Business Plan actions consist of:

- Reduce CO₂ emissions in electricity generation. The commitments established in the General Law on Climate Change define the public policies on climate change and GHG emissions, which for the electric industry are measured through the reduction of the amount of CO₂ emissions, mostly in electricity generation.
- Develop energy efficient projects. The "Programa de Ahorro de Energía del Sector Eléctrico (PAESE)" Business Unit (Energy Savings Program for Electricity Sector in English), has among its main objectives the development, planning, and control of the energy savings and efficient use strategies among CFE's corporate offices, its Subsidiaries and Affiliates.
- Expand Electromobility in Mexico. Under the supervision of the "PAESE", CFE will install Electrical Vehicles (EV) charging stations on selected cities and strategic routes within Mexico to reduce the impact of GHG emissions related to motor vehicles.
- Modernize and diversify the electricity generation process through sustainable sources, always prioritizing the reliability of the National Electric System by promoting clean energy projects and modernizing and enhancing existing hydroelectric plants.

▪ **Objective 4: Increase and diversify CFE's income through the development of new business lines**

To help promote economic and social development in Mexico, CFE will establish several plans and programs to optimize the use of its assets aiming to increase income and social services through the development of new businesses, such as Telecommunications and Internet for All ("Telecomunicaciones e Internet para Todos" in Spanish), which will use CFE's existing infrastructure. The Company will develop this project with its Subsidiary "CFE Telecomunicaciones e Internet para Todos" with the intent to guarantee the right of access to information technologies, communication, and broadband internet and reduce the Digital Divide in the country.

▪ **Objective 6: Strengthen the internal control of processes through a comprehensive management of risks, counter corruption, and institutional management, while fostering human capital development.**

Focuses on strengthening internal controls and processes, with the intention of further developing human capital. By year-end 2024, CFE intends to implement its new anticorruption program (Programa Anticorrupcion in Spanish, "PANT") across all of its operations which will be overseen by the Coordinacion de Control Interno (Internal Control Coordination, CCI, in English). The PANT is focused on strengthening CFE's anticorruption practices related to the consolidation of acquisitions and improvements in CFE's electronic system for new contracts.

The PANT will also hold a review of CFE's General Practices, it seeks to optimize its contracting area and, to promote the best global practices, it will have active inclusion of the Union of Electricity Workers of Mexico (Sindicato Único de Trabajadores Electricistas de la Republica Mexicana, "SUTERM", the official name in Spanish). Moreover, this objective includes the implementation of CFE's Gender Equality and Inclusion Program (Programa de Igualdad de Género e Incusión in Spanish). The company intends to execute different action plans with the goal of (1) increasing the number of gender destined electricity projects (2) promoting an inclusive work environment (3) increasing the number of women in senior leadership positions and (4) preventing sexual harassment in the work place.

▪ **Objective 7: Improve user satisfaction and our institutional image on a nationwide basis**

CFE focuses on increasing the quality of its services and positioning its brand among its customers by promoting a social sense in all its processes, with the belief that user satisfaction relies on the principles of quality, reliability, continuity, safety, and sustainability of the services provided.

To address this, CFE will carry out the following activities:

- Improve customer care and service by increasing coverage and cost-benefit ratio. CFE's Basic Supply Provider (Suministrador de Servicios Básicos) will implement the actions needed to improve customer services with new technologies aimed at having a closer contact with the users to achieve greater customer satisfaction and better brand positioning.

- Increase the coverage of energy services based on the principles stated above. As of June 30th, 2021, 99.12% of the country was electrified, about one million inhabitants in 12,380 communities throughout Mexico's 32 States lack access to electricity. To address this, CFE's Distribution Subsidiary has established connections with local and federal authorities to identify and prioritize the expansion needs.
- Community approach. The energy policies of the Mexican government are aimed at promoting and consolidating a sustainable national development with the direct involvement of the population and communities affected by the expansion, modernization and consolidation of the CFE's electric infrastructure in the different business lines.
- Implement Social Responsibility policies. CFE is addressing specific criteria in the decision-making processes related to its Strategic Objectives by using its framework to better manage and report issues related to its Environmental, Social and Corporate Governance. Social factors related to assessing the potential impact that infrastructure expansion projects may have on communities and on non-financial results of CFE will play a fundamental role on investment decisions for both local and foreign lenders. This makes the implementation of ESG criteria in all of CFE's processes a priority for complying with its future expansion and corporate agenda.

■ **Objective 8: Improve CFE's financial profitability and cash flow generation**

CFE must undertake the necessary actions to be recognized as a Socially Responsible Company and enforce the compliance with its ESG non-financial framework policies.

CFE plans to incorporate the concept of sustainability into its organizational culture by sharing and promoting the ESG Framework among its employees.

CFE is committed to guaranteeing compliance with existing environmental regulations, to develop and promote friendly environmental corporate policies, to improve its relations with groups affected by its business activities and to strengthen its relations with the investors. This is the first time that these efforts have been included in a corporate strategy aimed at all its subsidiaries, employees, and stakeholders.

To incorporate this vision into CFE's corporate agenda and address the growing concerns of investors regarding ESG issues, CFE will introduce sustainability concepts throughout its management, processes, and business strategies to create a long-term understanding of the economic and social impacts of these policies.

For CFE it is a priority to appropriately manage its financing liability and financial risks by improving its debt maturity profile, using traditional and non-traditional financial instruments, including green and social bonds, which can be used to finance clean, energy efficiency and social inclusion projects and activities, always complying with debt ceiling approved through expected investment returns, and by hedging exchange rate, interest rates and commodity price volatility risks.

Among the objectives of CFE's business plan is to renew its generation infrastructure, replacing less efficient generation plants with more efficient plants, to face the challenges of the wholesale electricity market and to guarantee the supply of electricity throughout the country, and to reduce CO₂ emissions and work to achieve the sustainability goals undertaken by the Mexican state in international agreements. Between 2022 and 2026, we plan to build combined cycle plants for an aggregate amount of approximately U.S.\$2.4 billion, along with the modernization of at least 14 hydroelectric plants, which are expected to increase generation efficiency, useful life and expand our generation capacity in 315 MW. The first stage includes 9 hydroelectric plants, for an accumulated increase of 264 MW by 2024. Additionally, our generation subsidiaries are also implementing a maintenance program in order to increase the efficiency of the current generation plants.

CFE's Business Plan for 2022-2026 considers a total amount of Ps. 582 bn that will drive the development of different lines of business, reaffirming the Company's foundations. Part of 2021 activities have been dedicated to the National Transmission Network (Red Nacional de Transmisión in Spanish) by improving efficiencies in the operative levels and increasing maintenance projects. The Distribution process has been focusing on: (1) growth, modernizing and developing *smart* grids (2) reducing technical losses and (3) maximizing operation efficiencies, maintenance and commercial services.

As the largest producer of electrical energy in Mexico, CFE is committed to furthering long-term sustainable energy projects. CFE aims to:

Reduce CFE and PIE's CO₂ emissions intensity (CO₂ emissions/ Kw Hours) by over 18% by year end 2026, going from 494 gr / Kw hour in 2020, as measured by Secretary of the Environment and Natural Resources (Secretaría de Medio Ambiente y Recursos Naturales in Spanish, SEMARNAT) to 324 gr / Kw hour by year end 2026.

- ✓ Between 2022 and 2026, CFE expects to execute 126 energy efficiency projects in order to generate energy savings of approximately 211,527 MWh thereby avoiding approximately 104,494 tons of CO₂ emissions.

- ✓ Promote the expansion of electric vehicles charging stations, easily available to the public in strategic zones across Mexico in order to reduce the use of fossil fuels. CFE expects to install at least seven, level 3 electric car charging stations per year for the period 2022-2026⁴
- ✓ Increase hydroelectric energy generation capacity by 264 MW by 2024
- ✓ Contribute to the country's goal of 35% generation derived from clean sources by 2024
- ✓ Modernize & enhance at least 14 hydroelectric generation plants in order to expand CFE's capacity for clean energy projects
- ✓ Continue developing programs to strengthen CFE's organizational structure by incorporating sustainability concepts, with particular focus towards ESG issues

Renewable Energy projects:

CFE is committed to transitioning to cleaner and more efficient energy generation sources. To do so, we are increasing our investment in renewable energy, modernizing the grid to optimize technology advancements, reducing emissions through increasing use of natural gas, continuing our industry-leading, robust research and development efforts, and investing in energy efficiency projects.

As of September 30, 2021, approximately 26.1% of total installed capacity, including IPPs, was derived from clean energy sources including hydroelectric, geothermal, solar and wind, among others, where CFE is planning further investments. For 2022-2026 we will undertake the modernization and enhancement of at least 14 hydroelectric generation plants, 9 of which were awarded via public tenders in the second semester of 2021 and are expected to begin construction in the following weeks. All hydroelectric projects will increase their useful life, and most of them will also increase their installed capacity. CFE also plans to build the largest photovoltaic generation plant in Mexico, located in the state of Sonora, which is expected to add 1,000 MW of installed capacity upon the completion of its 4 phases. A new geothermal plant in Puebla, is expected to be completed in 2023.

Transmission and distribution of electricity remain strategic activities for the Mexican government and are part of our core business line. Our business plan includes a package of over 200 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.144 billion (~U.S.\$6.9 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. We also intend to invest in our smart grid and in metering systems for the Wholesale Electricity Market.

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 2020 to 11.1% 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.

Summary of CFE's Clean Energy Generation Projects (2021 – 2024)

Project Name	Location	Technology	Expected Useful life (Years)
CH Malpaso	Tecpatán, Chiapas	Hydroelectric (repowering)	50
CFV Puerto Peñasco (Phase 1)	Puerto Peñasco, Sonora	Photovoltaic	25
CH Caracol	Apaxtla, Guerrero	Hydroelectric (repowering)	40
CH Zimapán	Zimapán, Hidalgo	Hydroelectric (repowering)	40
CH Mazatepec	Tlatlauquitepec, Puebla	Hydroelectric (repowering)	50
CH Peñitas	Ostuacán, Chiapas	Hydroelectric (repowering)	40
CG Humeros	Chignautla, Puebla	Geothermal	30

⁴ For more information, please visit: Cfe.mx/paese/serviciospaese/Pages/electrolinieras.aspx

Project Name	Location	Technology	Expected Useful life (Years)
CH La Villita	Lázaro Cárdenas, Michoacán	Hydroelectric (repowering)	40
CH Amata	Cosalá, Puebla	Hydroelectric (equipment)	50
CH Infiernillo	La Unión, Guerrero	Hydroelectric (repowering)	50
CH Humaya	Badiraguato, Sinaloa	Hydroelectric (repowering)	N/A
CH Portezuelo I	Ocuycan, Puebla	Hydroelectric (repowering)	50
CH Portezuelo II	Atlixco, Puebla	Hydroelectric (repowering)	50

Source: CFE.

Modernization of our equipment and technology, including the replacement of aging substations and power lines, is integral to providing reliable electricity service to our users. 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 includes a two-way digital communication system between our users and us, through which we will be able to monitor the electricity needs of our users 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 Wholesale Electricity Market.

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.

CFE Telecomunicaciones e Internet para Todos (CFE’s Telecom and Internet for All)

As of September 2021, we had approximately 56,855 kilometers (35,328 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 counties and 55 million people, and facilitates the deployment of solutions for technical and administrative networks, including voice, data, video and smart power grid.

CFE Telecomunicaciones e Internet para Todos, was incorporated in August 2, 2019 and aims to serve underprivileged communities throughout Mexico by providing free internet access across 10,000 isolated locations, using CFE’s fiber optic grid.

CFE Telecomunicaciones e Internet para Todos expect to have 200,000 access points to provide internet service to 130,000 localities across the country by 2025. The strategy considers five implementation phases, starting with the states and regions in Mexico with the lowest Internet penetration levels.

CFE seeks to use both government transfers and its assets to provide internet access across Mexico and especially in marginalized areas, through CFE Telecom and Internet for All. CFE seeks to further assist broadband internet access and technology to all by creating synergies between transmission and distribution infrastructure and optical fiber net grid.

Compliance with Environmental Regulations

CFE participates in the implementation of all programs attending Sustainability, Environmental and Climate Change Impacts from conceptualization of projects to closing. Mexico’s General Law of Climate Change (Ley General de Cambio Climático in Spanish) establishes that alongside the Energy Ministry (Secretaría de Energía in Spanish, SENER), FE and all other electricity generators in Mexico collectively achieve 35% of all net electricity generated from renewable sources by 2024. Furthermore, CFE is aligned to the Programa Especial de Cambio Climático 2020-2024 (Mexican government’s Special Climate Change Program for 2020-2024 in English) (which establishes the objective of reduction of 50% of GHG emissions by 2050⁵. CFE’s participation is based on the reduction of its technical and non technical losses, along with solar distributed generation.

⁵ <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Mexico%20First/MEXICO%20INDC%2003.30.2015.pdf>

Additionally, CFE is subject to an extense catalog of environmental regulations including the Ley General del Equilibrio Ecológico y Protección al Medio Ambiente⁶ (General Law of Environmental Equilibrium and Protection in English) that include regulation on emissions, discharges for environmental protection including that of water and waste management, noise pollution, among others. Failure to comply with this law results in governmental fees; however, CFE has maintained appropriate compliance with the law. 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 CFE, or the "PICS in English), 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.

CFE, alongside the SEMARNAT and Deutsche Gesellschaft für Internationale Zusammenarbeit created and participate in the "Preparación de un Sistema de Comercio de Emisiones en México" (Preparation of a Comercial System for Emissions in Mexico in English) derived from the Climate Change General Law to create cost effective ways to reach sustainable goals throughout the country. In furtherance of that, the aforementioned group developed a Learning Network (Red de Aprendizaje in Spanish), which will develop projects to reduce emissions in the Electrical Generation Units.

Moreover, CFE has an internal program for Environmental Quality and Safety in the Workspace (Programa de Gestión de la Calidad, Gestión Ambiental y Gestión de la Seguridad y Salud en el Trabajo in Spanish) overlooked by the Operations Corporate Management area. To ensure our compliance with environmental guidelines, we seek SEMARNAT's authorization in matters of environmental impact and risk, such as in the operation of thermoelectric generation plants, in gas pipelines, in transmission lines and in electrical substations. CFE must demonstrate that impacts and environmental risks are well mitigated and that operations do not cause environmental unbalances. Additionally, CFE and SEMARNAT perform periodic studies on soil usage, social impacts and polluting dispersions. To reduce the risk in rural areas, due to installations, and to avoid effects on communities, CFE has another instrument related to environmental risk called Accident Prevention Program (Programa para la Prevención de Accidentes in Spanish) () that requires the SEMARNAT to complete a full evaluation on risks. This program also defines prevention measures, control and mitigation protocols. Finally, CFE works with shareholders and affected communities prior to the development of new projects, providing social and community development projects. In parallel to environmental compromises CFE complies with the ILO 169 Agreement and the Electricity Industry Law. In order to comply with the ILO and *Electricity Industry Law*⁷, CFE must obtain SENER's⁸ approval for every project by providing a Social Impact Assessment and for some projects, an Indigenous People Consultation.

Other permits and environmental resolutions obtained in 2020 include:

- "Autorización de Impacto Ambiental (AIA) del proyecto Instalación de UMEs en la CCI-BCS" (Authorization of Environmental Impact from the installation of Baja California Project)
- "AIA del proyecto Instalación de Unidades Aeroderivadas en al CT Punta Prieta" (Installation of Aero derivative Units project in the Punta Prieta CT)
- "Aprobación del programa de Vigilancia Ambiental y de la Supervisión Ambiental por parte de la SEIA-GPA" (Approval of the Environmental Surveillance and Environmental Supervision program by the SEIA-GPA)
- "Instalación de Unidades Móviles Eléctricas en la CCI Baja California Sur" (Installation of Mobile Electric Units in the CCI Baja California Sur)
- "Aprobación del programa de Vigilancia Ambiental y de la Supervisión Ambiental por parte de la SEIA-GPA del proyecto" (Approval of the Environmental Surveillance and Environmental Supervision program by the SEIA-GPA of the Project)
- "Instalación y Puesta en Servicio de las Unidades de Generación Aeroderivadas Móviles en la CT Punta Prieta" (Installation and Commissioning of the Mobile Aero Derivative Generation Units in the Punta Prieta CT)
- "Revalidación por 15 años de la vigencia de la autorización de impacto ambiental, para la etapa de operación, de las siguientes instalaciones de la Gerencia Regional de Transmisión Sureste, de CFE Transmisión, ubicadas en los estados de Chiapas, Oaxaca y Veracruz: LT Manuel Moreno Torres-Juile, LT Juile – Cerro de Oro, LT Cerro de Oro – Entronque Temascal II – Juile, SE Juile Ampliación, SE Cerro de Oro Maniobras" (Revalidation for 15 years of the validity of the environmental impact authorization, for the operation stage, of the following facilities of the Southeast Transmission Regional Management, of CFE Transmission, located in the states of Chiapas, Oaxaca and Veracruz: LT Manuel Moreno Torres-Juile, LT Juile - Cerro de Oro, LT Cerro de Oro - Temascal II Junction - Juile, SE Juile Expansion, SE Cerro de Oro Maneuvers)
- "Revalidación de la autorización de impacto ambiental para la construcción del proyecto LAT GUAYABO – FISISA" (Revalidation of the environmental impact authorization for the construction of the LAT GUAYABO - FISISA project.)

⁶ <http://www.ordenjuridico.gob.mx/Documentos/Federal/html/wo83191.html>

⁷ For more information, please visit: https://www.diputados.gob.mx/LeyesBiblio/pdf/LCFE_110814.pdf

- "Autorizaciones en materia de Evaluación de Impacto Social" (Authorizations regarding Social Impact Assessment)
- "Instalación y Operación de Cuatro UMEs en la CCI BCS" (Installation and Operation of Four UMEs in the CCI BCS)
- "LT Monte Real Entq Aeropuerto-San José del Cabo, SE Monte Real Banco 1 y Líneas Asociadas CIRCUITO CJM53070-CJM26 CT, Santa Fe, Cuajimalpa, CDMX
Circuito Águilas" (Línea de media Tensión Subterránea y Aérea) (LT Monte Real Entq Airport-San José del Cabo, SE Monte Real Bank 1 and Associated Lines CIRCUIT CJM53070-CJM26 CT, Santa Fe, Cuajimalpa, CDMX Águilas Circuit (Underground and Overhead Medium Voltage Line))

To ensure compliance with the requirements of environmental legislation, CFE also submits the projects to SEMARNAT for review and authorization. Therefore, CFE must demonstrate that the environmental impacts and risks generated do not exceed the permissible limits of the legislation or generate ecological imbalances that compromise ecosystems or human populations. Likewise, SEMARNAT also undergoes review studies of land use change in forest lands, social impact assessment and pollutant dispersion studies that involve monitoring the environmental resolutions authorized for CFE projects.

Awards

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 certifications. 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).

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.



CFE's C.H. Belisario Dominguez

4. Rationale for Issuance

In 2019, the Federal Government published the NDP 2019- 2024 , its purpose is to specify the national objectives, strategy, and priorities for Mexico's comprehensive, equitable, inclusive, and sustainable development. This document leads and coordinates the strategic planning and action lines defined by the whole government in order to achieve the goals defined by the President on it. Given its nature, the PND is aligned with the United Nations 2030 Sustainable Development Goals (SDGs). CFE's strategy is in line with the guiding principles established by the National Development Plan related to equality, austerity, and social and economic inclusion, as well as the specific guidelines established in the Pronafide.

We recognize our role as transformation agents and promoters of social development. CFE is committed to developing clean energy projects that will modernize our current operations, giving room for additional green initiatives and achieving a lower carbon footprint. **Our business remains at the centre of one of the greatest challenges of the 21st century: enabling the transition to clean energy delivered in a fair and affordable way for all the communities we serve without compromising reliability.**

We recognize the role of sustainable finance in supporting the transition to a low carbon and more resource-efficient economy. Under the Framework, we and/or our subsidiaries may raise from time to time, bond, loan, or other debt-like financing for specific assets and projects that we believe will catalyze positive environmental and/or social benefit and that adhere to the Eligibility Criteria set forth in Section 5.1 (such financing, "Sustainable Financing Instruments"). We hope that issuance of Sustainable Financing Instruments will encourage others to join us in investing in the low-carbon transition and in the expansion of essential services for the most vulnerable and underserved.

Examples of Sustainable Financing Instruments include, but are not limited to, the following:

- Green Bonds
- Social Bonds

- Sustainable Bonds (combination of green and social eligible projects)
- Green Loans
- Social Loans
- Sustainable Loans (combination of green and social eligible projects)



CFE's Wind Park La Venta

5. Alignment with Market Principles

In accordance with our sustainability strategy, we have developed this Sustainable Financing Framework (the "Framework") in fulfillment of the following voluntary process guidelines that recommend transparency, disclosure and promote integrity for best practices:

- International Capital Markets Association (ICMA) Green Bond Principles, 2021 ("GBP")⁹
- International Capital Markets Association (ICMA) Social Bond Principles, 2021 ("SBP")¹⁰
- International Capital Markets Association (ICMA) Sustainable Bond Guidelines, 2021 ("SBG", and together with the GBP and SBP, the "ICMA Principles")¹¹
- LMA, APLMA, and LSTA Green Loan Principles 2020 ("GLP")¹²

This Framework addresses the core components and key recommendations of the Principles:

Core Components:

- 1) Use of Proceeds
- 2) Process for Project Evaluation and Selection
- 3) Management of Proceeds
- 4) Reporting

⁹ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

¹⁰ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

¹¹ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf>

¹² https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

Key Recommendations:

- 1) Use of Frameworks
- 2) External Reviews

This Framework may be updated in the future and will be applied to any Sustainable Financing Instrument issued by CFE. In the event of an update to this Framework, any future projects will be in alignment with the eligible project categories recognized by the Principles. It is our intention to follow best market practice as standards develop.




CFE's C.H. Angel Albino Corzo (Peñitas)

5.1 Use of Proceeds

We intend to allocate an amount equal to the net proceeds from the sale of any Sustainable Financing Instrument issuance to finance or refinance, in whole or in part, one or more new or existing Eligible Green and or Eligible Social Projects as defined below. Eligible Green and or Eligible Social Projects will include those for which CFE or its subsidiaries made disbursements beginning with the issuance date of any Sustainable Financing Instrument, or in the 24 months prior to any such issuance.

Eligible Green Projects:

GBP Category	Eligible Green Projects and Examples	SDG Alignment
	<p>Expenditures that help supply energy from renewable and low-carbon sources. Renewable energy sources include:</p> <ul style="list-style-type: none"> ▪ Wind: (onshore and offshore) <ul style="list-style-type: none"> ○ Construction of new wind energy facilities ○ Development, expansion, production, maintenance, refurbishment and/or repowering of existing wind energy facilities ○ Acquisition of wind energy facilities or business 	

GBP Category	Eligible Green Projects and Examples	SDG Alignment
<p>Renewable Energy</p>	<ul style="list-style-type: none"> ▪ Solar: (photovoltaic and CSP¹³) <ul style="list-style-type: none"> ○ Construction of new solar energy facilities ○ Development, expansion, production, maintenance, refurbishment and/or repowering of existing solar energy facilities ○ Acquisition of solar energy facilities or businesses ▪ Geothermal: <ul style="list-style-type: none"> ○ Construction of new Geothermal energy facilities ○ Development, expansion, production, maintenance, refurbishment and/or repowering of existing geothermal energy facilities ○ Acquisition of geothermal energy facilities or businesses ○ Geothermal projects shall only be eligible if their direct emissions will be less than 100g CO₂/kWh ▪ Hydroelectric: <ul style="list-style-type: none"> ○ Construction of new run-of-river and other hydroelectricity facilities¹⁴ ○ Refurbishment, modernization, and/or maintenance of existing hydroelectricity facilities with the purpose of increasing generation efficiency, operational life span and/or renewable energy output while maintaining or improving the level of operational safety ○ Acquisition of hydroelectricity facilities or businesses, including pumped storage assets ○ A hydropower facility in operation before 2020 is eligible if it has either: <ul style="list-style-type: none"> ▪ A power density > 5W/m² ; OR ▪ GHG emissions intensity < 100g CO₂e/kWh ○ A hydropower facility commencing operation in 2020 or after is eligible if it has either: <ul style="list-style-type: none"> ▪ A power density > 10W/m² ; OR ▪ GHG emissions intensity < 50g CO₂e/kWh. • The purchase of renewable energy from wind and solar power facilities, pursuant to long-term (≥ 5 years) power purchase agreements (PPAs), including those entered into prior to the issuance of our Sustainable Financing Instrument as well as later extensions • Investments in the installation of electricity transmission lines¹⁵ that facilitate increased development and connection of renewable electricity generation sources, including: <ul style="list-style-type: none"> ○ Capital investments into integrating the grid through interconnections across Mexico in order to: <ul style="list-style-type: none"> ▪ Improve transmission of low-carbon and renewable energy sources into the grid, specifically solar, wind, hydro¹⁶ and geothermal¹⁷ ▪ Reduce the curtailment of existing renewable electricity generation capacity ▪ Facilitate the development of new renewable energy generation through better connecting regions with high renewable generation potential and low demand with areas of high demand and low potential 	






¹³ To be eligible, CSP plants must generate at least 85% of electricity from solar sources

¹⁴ To determine if construction of new hydroelectricity facilities constitute as an Eligible Investment, CFE will assess the size, location, carbon intensity scoring, risk (including environmental and social risks) and the criteria set forth for construction of facilities post 2020. The Company's assessment will be subject to review by a reputable third party.

¹⁵ To be eligible, Transmission lines would be either dedicated exclusively to renewable energy power plants or would carry at least 90% renewable energy

¹⁶ To be eligible, project must follow threshold criteria for Hydro Renewable Energy outlined above

¹⁷ To be eligible, project must follow threshold criteria for Geothermal Renewable Energy outlined above


GBP Category	Eligible Green Projects and Examples	SDG Alignment
<p>Energy Efficiency</p>	<p>Expenditures related to projects that could result in increased energy efficiency, using best efforts basis to ensure all projects achieve at least a 30% energy efficiency improvement.</p> <p>Eligible Projects include, but are not limited to:</p> <ul style="list-style-type: none"> ▪ Financing of electric powered machinery or incorporation of energy saving technologies, including LED lighting technology ▪ Energy storage systems and smart grids¹⁸ ▪ Energy efficient heating, ventilation, air conditioning (HVAC¹⁹), refrigeration, and electrical equipment ▪ Investments for optimization of energy consumption and reducing energy loss and such as energy management systems for POPs and automated metering ▪ Investments in energy consumption measurement and control systems, including industrial thermometers ▪ Equipment to increase the controllability and observability of the electricity system and enable the integration of renewable energy sources (sensors and measurement tools, including advanced software and control rooms, automation of substations or feeders, and voltage control capabilities) 	
<p>Clean Transportation</p>	<ul style="list-style-type: none"> ▪ Expenditures related to the acquisition, modernization, and maintenance of our transport fleet, including transportation with zero direct emissions (i.e. electric vehicles) and low GHG emissions ²⁰ (i.e Hybrid vehicles) <ul style="list-style-type: none"> ○ Eligible projects include, but are not limited to: <ul style="list-style-type: none"> • Electric passenger and freight vehicles • Rolling stock and vehicles for electrified public transport, such as electrified rail, trams, trolleybuses and cable cars • Buses (fully electric) ▪ Expenditures related to the installation, acquisition, modernization and maintenance of infrastructure projects associated with electric vehicles, including charging stations 	 
<p>Green Buildings</p>	<ul style="list-style-type: none"> ▪ Expenditures related to the acquisition, financing, construction or retrofitting of buildings in line with Green Building Standards (planning and design, energy efficiency, green roofs, water efficiency and conservation, material conservation and resource efficiency, environmental quality) <ul style="list-style-type: none"> • Building is eligible when at least one of the following criteria is met: <ul style="list-style-type: none"> • 30% or more emissions/energy performance improvements over baseline such as ASHRAE 90.1 2010 or equivalent • The level of energy performance of the building belongs to the top 15% of the national stock (based on Primary Energy Demand and or Carbon Emissions Intensity) • The Building receives/targets a Design, Post-Construction or In-Use environmental certification. Eligible Certification standards include: LEED Gold certified or higher, BREEAM Excellent or higher, HQE Excellent or higher 	 

¹⁸ Battery storage will only be applicable to those generated by renewable energy

¹⁹ HVAC / refrigeration and other equipment powered by fossil fuel will be excluded from eligibility

²⁰ To be eligible, hybrid passenger vehicle must meet threshold of 50gCO₂/km and hybrid freight vehicles (such as heavy trucks) must meet threshold of 25gCO₂/km

Eligible Social Projects:

SBP Category	Eligible Social Projects and Examples	SDG ²¹ Alignment
<p>Access to Free or Subsidized Essential Services (Digital Inclusion)</p> <p>Target Population: Low-Income and underserved populations in Mexico²²</p>	<p>Expenditures related to funding the construction, improvement, acquisition, or maintenance and operation of facilities and equipment needed to provide fixed wireless broadband service in areas without availability of wired services.</p> <p>Example projects include, but are not limited to:</p> <ul style="list-style-type: none"> ▪ CFE Telecomunicaciones e Internet para Todos²¹ expansion projects that seek to create 200,000 access points to provide internet service to 130,000 localities across Mexico by 2025 	

Exclusionary Criteria:

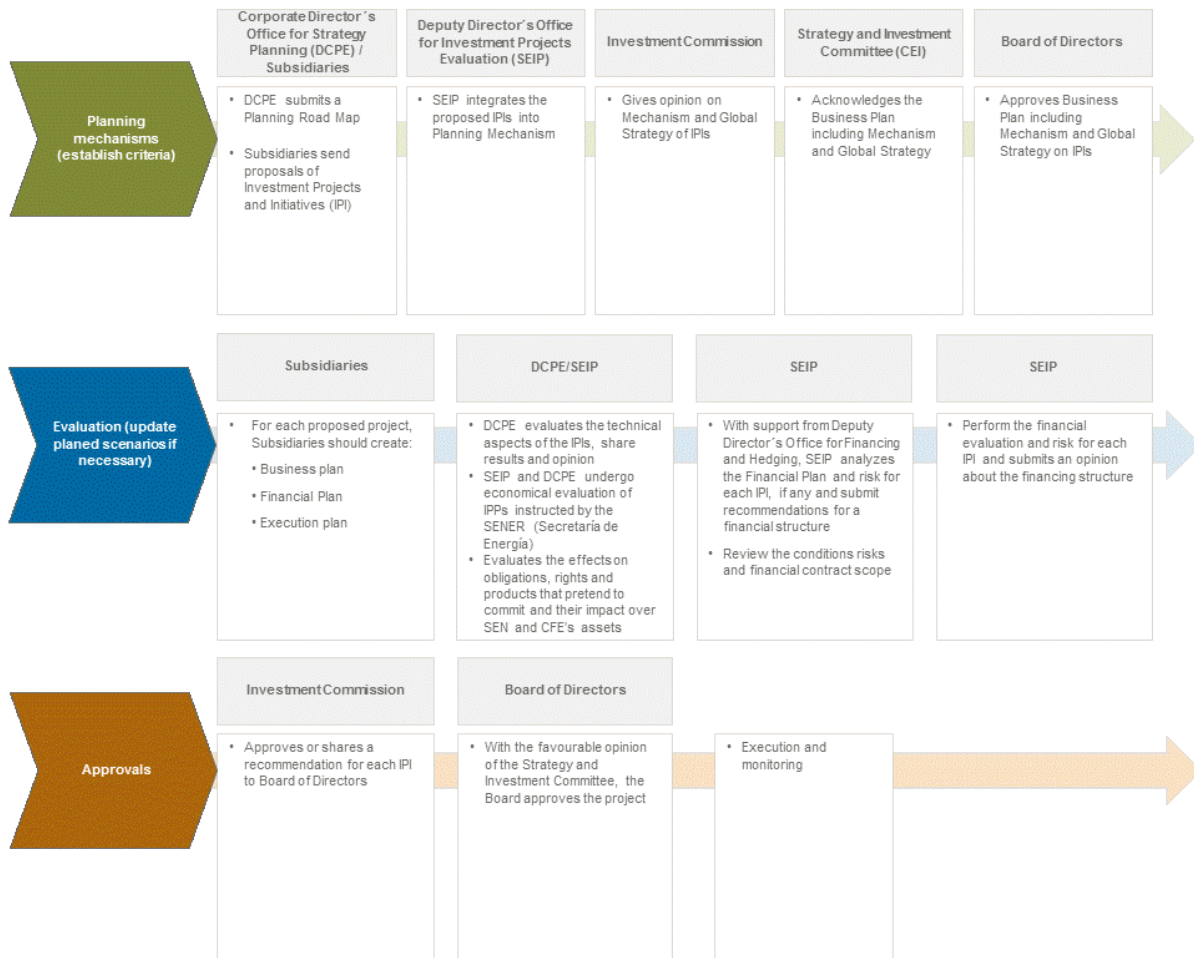
We will not knowingly allocate proceeds from the issuance of our Sustainable Financing Instrument to activities involving the violation of human rights. Moreover proceeds from CFE’s Sustainable Financing Instruments will not be allocated to fossil fuel related projects.

5.2 Process of Project Evaluation and Selection

We continuously analyze the environmental and social impacts of our businesses and assess how we can mitigate impacts on communities in which we operate. 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 – PICS- (Institucional Program for the Competitiveness and Sustainability of the Comisión Federal de Electricidad in English), 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 each of which is consistent with the Programa Especial de Cambio Climático 2009-2012 which establishes the objective of reduction of 50% of GHG emissions by 2050. 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 SEMARNAT. We conduct extensive due diligence when evaluating potential new opportunities and monitoring of our investment positions.

Selected members of CFE’s Corporate Director’s Office for Strategic Planning will select projects that align with our Framework. These will subsequently be reviewed by different areas and committees such as Deputy Director’s Office for Investment Evaluation Projects, the Investments Commission, the Strategy and Investments Committee and ultimately, the final allocation will be reviewed and approved by CFE’s Board of Directors. Eligible projects will be evaluated for environmental and social risks in line with company-level policies and procedures, and a Business Case, a Financial Case and an Execution plan will be developed for each Project. On an annual basis, the Investments Commission will review the list of Eligible Green and or Eligible Social Projects against the Eligibility and Exclusion Criteria. In the event that a project no longer meets the Eligibility Criteria, CFE will reallocate funds from the ineligible project to other Eligible Green and or Eligible Social Projects.

²² The Framework’s design is based on definition of “poverty per income” and open data collected through the Census of Population and Housing, and analyzed by The National Council for Evaluation of Social Development Policy (Consejo Nacional de Evaluación de la Política de Desarrollo Social, or “CONEVAL”), to target the most needed territories and populations. CONEVAL, 2021. <https://www.coneval.org.mx/Medicion/Paginas/Glosario.aspx>. Some examples of regions and municipalities, that take into consideration poverty levels, and are officially listed as “Priority Attention Zones” (ZAP in Spanish): http://dof.gob.mx/2020/BIENESTAR/ZONAS_PRIORITARIAS_2021.pdf. Poverty per Income: Previous estimates to measure income poverty have changed because the General Law of Social Development (“Ley General de Desarrollo Social”) requires that the measurement of poverty in the country be carried out with a multi-dimensional approach. Income poverty consists of comparing people’s income with the monetary values of access to nutrition, economic capacities and assets



Source: CFE.

5.3 Management of Proceeds

Members of the Corporate Director's Office of Finance ("Dirección Corporativa de Finanzas") will track actual amounts of net proceeds from any Sustainable Financing Instrument spent on Eligible Green and or Eligible Social Projects by establishing and maintaining a specific investment folder that gathers all expenses and documentation based on a unique project code identifier. Pending the allocation of the net proceeds of any Sustainable Financing Instrument to Eligible Green and or Eligible Social Projects, all or a portion of the net proceeds may be used for the payment of outstanding indebtedness, other capital management activities or will be held on the Company's balance sheet, invested in Cash, Cash Equivalents and/or other liquid instruments, in accordance with CFE's Investment Policy. Any payment of principal and interest on any Sustainable Financing Instrument will be made from our general corporate account and will not be linked to the performance of any Eligible Green and or Eligible Social Project. Complete allocation of the proceeds from any Sustainable Financing Instrument is expected within 24 months from the date of the issuance.

5.4 Reporting

Allocation Reporting

Annually, until all the proceeds have been fully allocated, and thereafter on a timely basis in case of material developments, we will publish a Sustainable Financing instruments Report within our Annual Report on our website²³

²³ <https://www.cfe.mx/finanzas/financial-economic-information/pages/esg.aspx>

Annual allocation reporting will commence with the first annual report that is filed after 12 months have elapsed since the first Sustainability Financing Instrument issuance

The report will include:

- (i) the amount of net proceeds allocated to each Eligible Green and or each Eligible Social Projects either individually or by category, subject to confidentiality considerations;
- (ii) the share of proceeds used for financing vs refinancing;
- (iii) expected impact metrics, where feasible;
- (iv) a selection of brief project descriptions; and
- (v) the outstanding amount of net proceeds to be allocated to Eligible Green Projects and or to Eligible Social Projects at the end of the reporting period.

Impact Reporting

Examples of expected impact metrics may include, where feasible:

Green Project Category	Example Key Performance Indicator
Renewable Energy	<ul style="list-style-type: none"> ▪ Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent ▪ Annual renewable energy generation in MWh (electricity) and GJ (other energy) ▪ Capacity of renewable energy plant(s) to be served by transmission systems (MW)
Energy Efficiency	<ul style="list-style-type: none"> ▪ Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings)
Green Buildings	<ul style="list-style-type: none"> ▪ LEED, BREEAM, HQE or equivalent environmental certification scores ▪ Annual energy savings in MWh (electricity) and GJ (other energy savings)
Clean Transportation	<ul style="list-style-type: none"> ▪ Annual GHG emissions reduced/avoided in t CO₂ –e p.a.

Social Project Category	Example Key Performance Indicator
Access to Free or Subsidized Essential Services (Digital Inclusion)	<ul style="list-style-type: none"> ▪ Number of additional low-income and underserved homes with fixed wireless broadband service ▪ Number of additional access points created low-income and underserved localities ▪ Number of low-income and underserved localities provided with access to internet service

5.5 External Review

Second Party Opinion

CFE has obtained and will make publicly available a Second Party Opinion (“SPO”) from Sustainalytics, a consultant with recognized environmental and social expertise, to provide an opinion on the environmental and social benefits of this Framework as well as the alignment to the GBP, the SBP, the SBG and the GLP. The SPO will be available on the SPO provider’s website.

Assurance

We expect that our Sustainable Financing Instrument Report will be accompanied by:

- I. assertions by management that an amount equal to the net proceeds of an offering of Bonds/Loans was allocated to Eligible Green Projects and to Eligible Social Projects, and
- II. an attestation report from an independent third party who will examine and review Management’s decisions regarding the use of net proceeds from any Sustainable Financing Instrument and provide assurance as to which portion or all of the net proceeds from any Sustainable Financing Instrument have been allocated consistent with the eligibility criteria set forth in this Framework.

6. Disclaimer

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