Comision Federal de Electricidad,
State Enterprise and subsidiaries

Consolidated financial statements

December 31, 2017

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

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Independent Auditor´s Report

To the Board of Directors of

Comision Federal de Electricidad, Productive State Enterprise:

(Thousands of pesos)

Opinion

We have audited the consolidated financial statements of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries ("the Entity"), which comprise the consolidated statement of financial position as at December 31, 2017 and 2016, 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 and subsidiaries as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Entity 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 Aduti 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.

Collectivity of trade accounts receivable for an amount of $64,844,779	
See note 6 to the consolidated financial statements	
Key Audit Matter	How our audit addressed the Key Audit Matter
The accounts receivable operational characteristics have a significant collectivity risk, which requires from management a high degree of judgment in assessing the valuation of accounts receivable collectivity.	Our procedures included, among others: testing operating effectiveness of the Entity's controls over accounts receivable collection processes, considering cash collection after the year end and testing the reasonableness of the Company's doubtful accounts allowance by evaluating the relevant assumptions such as historical collectivity data and experience. Additionally, we have reviewed the disclosures on the consolidated financial statements notes related to this matter.

Valuation of the pension liability for defined benefits and assets for an amount of $361,780,399	
See note 16 to the consolidated financial statements	
Key Audit Matter	How our audit addressed the Key Audit Matter
The Entity has established post-employment defined benefit plans for a certain sector of its employees. The valuation of the pension liabilities require significant levels of judgment and technical expertise to select the appropriate assumptions. Changes in key assumptions, including wage increases, inflation, discount rates, pensions and mortality increases, could have a material impact on the calculation of the liability.	As part of our audit procedures, we have challenged and evaluated the significant judgments made by Management and the expert actuaries hired by the Entity, as further described below, and also evaluated the objectivity and competence of such experts. With the participation of our specialists, we evaluate the hypothesis used. In addition, we reviewed the discount and inflation rates used in the valuation of pension liabilities were in line with internally developed benchmarks. We also compared wage increases and mortality rates assumptions to parameters available in the industry, confirming they were aligned. Additionally, we evaluate the consistency of judgments and assumptions made by Management, including a comparison with those used in previous years. Finally, we tested the employees' demographic information used to determine the liability. We also assess the disclosures in the notes to the Entity's consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the Annual Report corresponding to the annual period ended December 31, 2016, that shall be filed to the National Banking and Securities Commission and the Mexican Stock Exchange (Annual Report), but does not include the consolidated financial statements and our auditors' report thereon. It is estimated that the Annual Report will be available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

After reading the Annual Report, if we conclude that there is a material misstatement of this other information, we are required to report that fact to the Company's governing bodies.

Emphasis paragraphs

We draw attention to note 1 and 15c of the consolidated financial statements, which describes that on May 19, 2016, the Entity finalized their review of its Collective Labor Agreement terms. As a result of this review, various clauses, mainly related pension benefits were modified, causing a reduction in the Entity's labor liabilities. Our opinion is not modified with respect to this matter.

We draw attention to note 1 and 15d of the consolidated financial statements, which describes that on November 14, 2016, the Ministry of Finance and Public Credit ("SHCP" for its acronym in Spanish) published in the Official Federal Gazette of the Federation the "Agreement establishing the general provisions related to the assumption of the Entity's employee benefits liability by the Federal Government", by which the Federal Government, through the SHCP, assumes a portion of the obligation to settle employee benefits liabilities shown in Entity's consolidated financial statements, relating to obligations for employees hired before August 18, 2008. On December 19, 2016, by letter No. 35.-187/2016, the Public Credit Unit of the SHCP, communicated to the Entity the date of subscription and delivery of the related securities. Our opinion is not modified with respect to 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, april 23, 2018.

Comision Federal de Electricidad,
Productive State Enterprise and subsidiaries

December 31, 2017, 2016 and 2015

Consolidated statements of financial position

(Thousands of pesos)

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

Assets	2017	2016	2015
Current assets:			
Cash and cash equivalents (note 5)	$ 67,237,901	42,266,944	35,597,179
Accounts receivable, net (note 6)	101,271,617	69,714,266	86,356,231
Inventory of materials for operation, net (note 7)	14,642,993	14,025,765	15,531,321
Total current assets	183,152,511	126,006,975	137,484,731
Non current assets:			
Loans to employees	12,339,195	11,193,711	10,061,390
Plants, facilities and equipment, net (note 8)	1,252,938,487	1,287,172,275	1,061,861,929
Derivative financial instruments (note 10)	16,084,937	15,646,026	2,352,725
Intangible assets (note 9)	32,836,987	32,643,820	41,631,107
Deferred income tax (note 17)	76,867,662	-	-
	$ 1,574,219,779	1,472,662,807	1,253,391,882

Liabilities and equity	2017	2016	2015
Current liabilities:			
Current installments of documented debt (note 11)	$ 27,351,967	16,373,774	18,066,977
Current installments of PIDIREGAS debt and obligations for capital leases (note 12)	29,267,762	25,354,442	22,770,191
Other payables and accrued liabilities (note 13)	107,798,041	61,873,453	59,902,457
Taxes and duties payable (note 14)	5,305,326	3,111,857	2,083,279
Total current liabilities	169,723,096	106,713,526	102,822,904
Non-current liabilities:			
Documented debt (note 11)	181,003,413	193,239,697	164,273,277
PIDIREGAS debt and obligations for capital leases (note 12)	220,153,214	220,741,910	189,316,663
Other long-term liabilities (note 15)	23,424,666	50,156,845	41,948,809
Long-term employees benefits (note 16)	361,780,339	361,114,287	625,083,572
Total long-term liabilities	786,361,632	825,252,739	1,020,622,321
Total liabilities	956,084,728	931,966,265	1,123,445,225
Equity:			
Contributions received from the Federal Government	5,251	5,251	5,251
Contributions in kind received from the Federal Government	95,004,417	95,004,417	95,004,417
Accumulated results	106,344,931	(1,565,462)	(77,821,615)
Other comprehensive income (note 18)	416,780,451	447,252,336	112,758,604
Total Equity	618,135,051	540,696,542	129,946,657
Contingent liabilities and commitments (note 20)			
	$ 1,574,219,779	1,472,662,807	1,253,391,882

See accompanying notes to consolidated financial statements.

Comision Federal de Electricidad,
Productive State Enterprise and subsidiaries

For the years ended December 31, 2017, 2016 and 2015

Consolidated statements of comprehensive income

(Thousands of pesos)

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

		2017	2016	2015
Revenues:				
Total electricity supply service revenue	$	373,747,978	316,212,391	303,419,270
Third party fuel revenue		22,022,929	-	-
Freight revenue		883,121	2,170,632	-
Subsidy income		65,914,800	30,000,000	-
Other income, net		31,322,282	3,722,722	1,345,640
Total revenues		493,891,110	352,105,745	304,764,910
Costs:				
Energy and fuel supplies		251,856,432	158,291,870	138,444,675
Salaries and related costs		57,885,419	55,344,193	54,212,517
Maintenance, materials and general services		19,554,823	29,529,137	28,072,612
Tax and duties		2,603,543	2,576,311	1,996,068
Wholesale Electrical Market costs (MEM)		2,693,373	3,519,334	-
Total costs		334,593,589	249,260,845	222,725,872
Income before other operating costs		159,297,521	102,844,900	82,039,038
Other operating costs:				
Labor obligations cost (income)		47,903,316	(111,828,000)	68,564,000
Depreciation and amortization		59,467,421	53,383,792	45,472,915
Other expenses		4,379,433	19,192,778	2,556,772
Total other operating costs		111,750,170	(39,251,430)	116,593,687
Operating results		47,547,351	142,096,330	(34,554,649)
Financing costs, net:				
Interest expense		(23,548,524)	(32,185,638)	(24,978,344)
Other financial (loss) income, net		-	(906,878)	2,990,092
Foreign exchange loss		10,572,863	(32,747,661)	(37,369,112)
Total financing cost, net		(12,975,661)	(65,840,177)	(59,357,364)
Net income (loss) before income tax expense		34,571,690	76,256,153	(93,912,013)
Income tax (note 17):				
Current income		(3,528,959)	-	-
Deferred		76,867,662	-	-
Net income tax		73,338,703	-	-
Net income (loss)		107,910,393	76,256,153	(93,912,013)
Other comprehensive income (note 18):				
Items that are not subsequently reclassified to the results of the period:				
Revaluation of plant, facilities and equipment		(28,681,250)	210,725,169	(2,386,410)
Remeasurements of employee benefits liabilities		(12,192,264)	(44,064,000)	(24,596,000)
Recognition of the assumptions by the Federal Government in the settling of obligations for employee benefits liabilities		-	161,080,204	-
Items that are subsequently reclassified to the results of the period:				
Cash flow hedging		10,401,629	6,752,359	2,355,034
Total other comprehensive income		(30,471,885)	334,493,732	(24,627,376)
Comprehensive income (loss)	$	77,438,508	410,749,885	(118,539,389)

See accompanying notes to consolidated financial statements.

Comisión Federal de Electricidad,
Productive State Enterprise and subsidiaries

For the years ended December 31, 2017, 2016 and 2015

Consolidated statements of changes in equity

(Thousands of pesos)

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

		Contributions received from the Federal Goverment	Contributions in kind received from the Federal Goverment	Accumulated results	Other comprehensive income	Total
Balances as of December 31, 2015	$	5,251	95,004,417	(77,821,615)	112,758,604	129,946,657
Comprehensive income		-	-	76,256,153	334,493,732	410,749,885
Balance, December 31, 2016	$	5,251	95,004,417	(1,565,462)	447,252,336	540,696,542
Comprehensive income		-	-	107,910,393	(30,471,885)	77,438,508
Balances as of December 31, 2017	$	5,251	95,004,417	106,344,931	416,780,451	618,135,051

See accompanying notes to consolidated financial statements.

Comisión Federal de Electricidad,
Productive State Enterprise and subsidiaries

For the years ended December 31, 2017, 2016 and 2015

Consolidated statements of cash flows

(Thousands of pesos)

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

	2017	2016	2015
Cash flow from operating activities:			
Net income (loss) before other comprehensive income	$ 34,571,690	76,256,153	(93,912,013)
Items relating to investing activities:			
Depreciation	59,467,421	53,383,792	45,251,982
Disposals of plants, facilities and equipment	15,872,657	13,507,370	3,417,470
Labor obligation (income) loss	47,903,316	(111,828,000)	68,564,000
Unrealizad foreign exchange loss, interest expense and changes in financial derivative instruments' fair value	(671,532)	75,486,238	40,125,577
Subtotal	157,143,552	106,805,553	63,447,016
Changes in operating assets and liabilities:			
Accounts receivable	(31,557,351)	16,642,231	(4,745,119)
Inventory of materials for operation	(617,228)	1,505,556	5,748,215
Taxes and duties payable	2,193,469	1,028,578	(2,500,897)
Other assets	(1,338,651)	308,572	(2,884,755)
Other payables and accrued liabilities	19,192,409	10,178,187	15,648,837
Payments for pensions and retirement benefits	(35,045,000)	(35,162,080)	(32,129,021)
Net cash provided by operating activities	109,971,200	101,306,597	42,584,276
Cash flow from investing activities - Acquisitions of plants, facilities and equipment	(69,787,540)	(50,908,106)	(30,476,925)
Cash flow from financing activities:			
Proceeds from debt	61,201,355	48,016,302	49,201,098
Payments on debt	(46,789,232)	(75,339,572)	(47,630,680)
Interest paid	(26,093,619)	(15,696,658)	(13,847,708)
Cash from derivative financial instruments	5,734,135	2,562,159	1,081,009
Payments from derivative financial instruments	(9,265,343)	(3,270,957)	(1,633,592)
Net cash used in financing activities	(15,212,704)	(43,728,726)	(12,829,873)
Net increase (decrease) in cash and cash equivalents	24,970,957	6,669,765	(722,522)
Cash and cash equivalents:			
At beginning of period	42,266,944	35,597,179	36,319,701
At end of period	$ 67,237,901	42,266,944	35,597,179

See accompanying notes to consolidated financial statements.

1. Creation, purpose of the business of the Productive State Enterprise and relevant developments.

- **Creation and purpose of the Entity**

Comision Federal de Electricidad, Productive State Enterprise is a Mexican entity located in Mexico initially created as a Decentralized Public Entity of the Federal Government. It was created by Decree on August 14, 1937 published in the Official Gazette of the Federation ("DOF" for its acronym in Spanish) on August 24 of the same year. Its registered address is Paseo de la Reforma 164, Colonia Juarez, CP 06600, in Mexico City. These consolidated financial statements include those of Comision Federal de Electricidad, Productive State Enterprise and its subsidiaries (subsequently referred to as "the Entity" or "CFE").

Since its creation, the purpose of CFE has been to provide electricity-related services in Mexico, including generation, transformation, distribution, and commercialization of electricity to Mexican consumers.

The Comision Federal de Electricidad Law ("CFE Law") was published on August 11, 2014, and became effective on October 7, 2014. The CFE Law mandates the transformation of CFE into a Productive State Enterprise.

From the date of its transformation into a Productive State Enterprise, the purpose of CFE has been to provide the public service of transmission and distribution of electricity on behalf of the State. CFE also generates and commercializes electricity, and imports, exports, transports, storages and trades natural gas, among other activities.

- **Relevant developments**

<u>Trust in investment and infrastructure</u>

On Febraury 7, 2018 CFE through the creation of the first Investment Trust in Energy and Infrastructure or Fibra E, specialized in the Mexican electricity sector, placed fiduciary stock certificates for investment in energy and infrastructure through the Stock Exchange Mexican Securities. The issue was for a total of 16,388 million pesos and it is the first Fibra E in which national a foreign investors participated, highlighting the participation of institutional investors, private banking, investment funds from Mexico, United States, Canada, Australia and Europe.

Strict legal separation

The terms for the strict legal separation of CFE were published on January 11, 2016. The terms mandate CFE to perform the activities of generation, transmission, distribution, commercialization and supply of primary inputs in the market independently separate units, each with the purpose of generating economic value and profitability for the Mexican State as its owner.

As of January 1, 2017, CFE EPE, ceased to directly carry out the independent activity of transmission, distribution, basic supply, commercialization (other than basic supply) and supply of primary inputs and its participation in the Wholesale Electricity Market. Those activities are carried out by the corresponding EPS starting on that date.

As of February 1, 2017, CFE, EPE, ceased to directly carry out the independent activity of generation and its participation in the Wholesale Electricity Market. Those activities are carried out by the corresponding EPS starting on that date.

Incorporation of productive entities subsidiaries of CFE

On March 29, 2016 the resolutions for the incorporation of the “Productive Subsidiary Entities” (“EPS” for its acronym in Spanish) were published. These entities are as follows:

- CFE Distribucion EPS, established to provide the public service of electricity distribution, as well as to finance, install, maintain, manage, operate and enhance the required infrastructure pursuant to the CFE Law, the Electric Industry Law, the terms for the strict legal separation of CFE and other applicable regulations.

- CFE Transmision EPS, established to provide the public service of electricity transmission, as well as to finance, install, mantain, manage, operate and enhance the necessary infrastructure pursuant the CFE Law, the Electricity Industry Law, the terms for the strict legal separation of CFE and other applicable regulations.

- CFE Generacion I EPS, CFE Generacion II EPS, CFE Generacion III EPS, CFE Generacion IV EPS, CFE Generacion V EPS, and CFE Generacion VI EPS, each established to generate electricity within the Mexican territory using any available technology; as well as to commercialize electricity in accordance with the terms set forth in Article 45 of the Electricity Industry Law, except for the supply of electricity to end-users. Each one of these entities may represent power plants either under its control or those owned by third parties in the Wholesale Electricity Market.

- CFE Suministrador de Servicios Basicos EPS, established to provide the Basic Supply of electricity (i.e. electricity supplied under regulated tariffs) to any party requesting it in the terms of Electricity Industry Law.

Such creation resolutions set the rules for the operations, corporate governance, oversight and monitoring, as well as the responsibilities, disclosure obligations and oversight for mechanisms applicable to the EPSs.

Incorporation of the affiliated companies (as defined by the CFE law).

CFE International LLC was incorporated in the United States on January 20, 2015. It is the first international subsidiary of CFE, which holds 100% of its equity interest by means of an initial contribution of $100,000 dollars. CFE International LLC is expected to actively compete in the international fuel markets, attract clients and sell natural gas, coal, and other fuels.

CFEnergia, S. A. de C. V. was incorporated on August 11, 2015 as a subsidiary of CFE, which holds 100% of its equity interest. The purpose of CFEnergia, S A. de C. V. is to import, export, procure transport, store and trade natural gas, coal and any other fuel. This entity will also manage assets and fuel within the Mexican territory and abroad.

CFE Intermediacion de Contratos Legados S. A. de C. V. was incorporated on March 29, 2016, with an initial contribution by CFE of $99,900 on February 1, 2017. The purpose of this entity is to manage interconnection legacy contracts, agreements to purchase and sale electricity surplus and other associated contracts signed by CFE. Furthermore, without carrying out activities of supply and commercialization of electricity, it will represent the power plants and supply centers referred to in the legacy Interconnection contracts in the Wholesale Electricity Market.

CFE Calificados S. A. de C. V. was incorporated on May 23, 2016,. CFE made initial capital contributions of $19,980 and $10,020 on September 27 and 29, 2016, respectively. The purpose of this entity is to carry out activities of commercialization of electricity and related services in the Mexican territory and abroad.

Mexican Wholesale Electricity Market (MEM)

Following the beginning of operations of the Mexican Wholesale Electricity Market (MEM), and pursuant to Transitory Article Three of the Electricity Industry Law, the Ministry of Energy extended the term to December 31, 2016 and, in certain cases, to February 1, 2017, for Comision Federal de Electricidad to conduct its activities independently. Thereafter, the activities of generation, transmission, distribution and commercialization, including any participation on the Wholesale Electricity Market (MEM), must be performed through EPS.

Long Term Auctions and Clean Energy Certificates

The Wholesale Electricity Market allows for medium-term and long-term auctions of electricity, which are defined by the Wholesale Electricity Market Regulations as follows:

Section 2.1.134 states that long-term auctions are those in which domestic suppliers and other providers are allowed to enter into hedging agreements for power generation, cumulative electricity and clean energy certificates (“CELs” for its acronym in Spanish) with maturities of 15 and 20 years.

Section 2.1.135 states that medium-term auctions are those in which domestic services Suppliers and providers are allowed to enter into hedging agreements for power generation, cumulative electricity and CELs with maturity terms of 3 years.

The first long-term auction bid in 2015 resulted in 18 deferred winner offers among 11 companies. Together, these offers amount to 5.4 million MWh of energy and 5.3 million CELs (annually committed volume, with the exception of the first operation year which will have a different volume based on the commercial offer operation date). Hedging agreements related to this auction go into effect in 2018.

The second long-term auction bid in 2016 resulted in 56 deferred winner offers among 23 companies. Together, these offers amount to 1,187 yearly MW, 8.9 Million MWh of energy and 9.275 million CEL (annually committed volume, with the exception of the first operation year which will have a different volume based on the commercial offer operation date). Most of the hedging agreements related to this auction go into effect in 2019.

Amendments to the Collective Labor Agreement

On May 19, 2016, CFE and the Sole Union of Electricity Workers of the Mexican Republic ("SUTERM", for its acronym in Spanish) finalized their review of the terms of the Collective Labor Agreement.

As disclosed in note 16, as a result of this review, various clauses of the agreement, mainly related pension benefits were modified, causing a reduction in the Entity´s labor liabilities.

Assumption by the Federal Government of the obligations to settle pensions and retirement liabilities of CFE

On November 14, 2016, the Ministry of Finance and Public Credit ("SHCP" for its acronym in Spanish) published in the DOF the "Agreement establishing the general provisions related to the assumption of CFE´s employee benefits liability by the Federal Government", by which the Federal Government, through the SHCP, assumes a portion of the obligation to settle employee benefits liabilities shown in CFE´s consolidated financial statements, relating to obligations for employees hired before August 18, 2008.

It was also established that the settlement commitment of the Federal Government would be assumed by the SHCP through the subscription of credit certificates issued by the Federal Government in favor of CFE (securities) amounting to $161,080,204, and distributed in amounts to be delivered annually in order to meet the settlement commitment. Resources received for these securities shall be used solely for the settlement of the aforementioned employee benefits.

On December 19, 2016, by letter No. 35.-187/2016, the "Public Credit Unit" of the SHCP communicated to CFE the date of subscription and delivery of such securities.

The Federal Government had established that it would assume a portion of CFE´s employee benefits liabilities, and such portion would be equivalent to the reduction resulting from the negotiation and review of the Collective Labor Agreement with the SUTERM. Finally, on December 29, 2016, the Federal Government announced the conclusion of the review of the decrease in employee benefits obligations of CFE that occurred as a result of the amendments made to the Collective Labor Agreement.

Tax Obligations

With the enactment of the CFE Law", CFE became a State Productive Enterprise, and starting on February 16, 2015 began complying with its tax obligations in terms of the Title II of the Income Tax Law, which sets forth the general regime of legal entitie. The "Public Use Tax" established in Article 46 of the Public Service of Electricity Law (referred as "aprovechamiento" per the regulation) was repealed with the enactment of the CFE Law.

Public Telecommunications Network Concession

On September 24, 2015, by means of memo 77/2015, the Federal Ministry of Telecommunications ("IFT" for its acronym in Spanish) authorized the transfer terms of the concession to install, operate and exploit the public telecommunication network from CFE to TELECOMM.

The IFT issued the memo 3/2016 on January 21, 2016 in which it granted TELECOMM with a Commercial Use Concession as shared network wholesaler of telecommunications services. TELECOMM will hold the rights and obligations inherent to the concession and shall guarantee the continuity of telecommunication services under the terms and conditions mentioned therein.

Assets contributed by the Federal Government.

On October 7, 2015, the Ministry of Public Administration ("SFP" for its acronym in Spanish) through the Institute of Management and Valuation of Public Property ("INDAABIN" for its acronym in Spanish), terminated the commodatum agreement with CFE and transferred the assets detailed in the corresponding annexes to CFE.

Accordingly, CFE received the legal and physical possession of the corresponding assets. Procedures for their release from the Federal public domain regime began on that date. These assets were included in the consolidated statements of financial position as of December 31, 2015, for a total value of $95,004,417, as determined by the Asset Management and Divestiture Service ("SAE" for its acronym in Spanish). This amount may be adjusted, if required, as the detailed listing is integrated and reviewed by the corresponding significant area. In the consolidated financial statements such assets are included as part of the plants, facilities and equipment and other intangible assets (see notes 8 and 9). An additional amount of $63,000 was recorded in relation to these assets in 2016.

Revaluation of plants, facilities and equipment

As part of the activities related to the strict legal separation of CFE, during 2016 the Entity revalued its plants, facilities and equipment that will be contributed to the EPS as part of the spin-off process. As a result of this, a net increase in the value of these assets of $210,725,169, was recognized in other comprehensive income.

Creation of CFECapital

CFECapital, S. de R. L. de C. V. was incorporated on December 7, 2017. The Company can establish offices, agencies or branches of the Company anywhere in the United States.

The purpose of this entity is to carry out the administration of all types of trusts and their patrimony, including investment trusts in energy and infrastructure constituted in accordance with the current tax legislation, including, without limiting all activities and acts necessary and/or convenient for it such as, provide all kinds of services, administration operation, development and regulatory compliance.

2. Basis of preparation of the consolidated financial statements

a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis, except for certain derivative financial instruments and the plants, facilities and equipment, which are registered at fair value.

b) Functional and reporting currency

The consolidated financial statements and their notes are presented in Mexican pesos (reporting currency), which is the same as the functional currency.

For purposes of disclosure in the notes to the consolidated financial statements, reference to pesos or "$" refers to Mexican pesos, reference to dollars refers to dollars of the United States of America, reference to euros refers to legal currency of the European Union, reference to yen refers to the currency in legal course in Japan, and reference to Swiss francs refers to the legal currency in Switzerland. All information is presented in thousands of pesos and has been rounded to the nearest unit, except when otherwise indicated.

c) Consolidated statements of comprehensive income

CFE prepared consolidated statements of comprehensive income, and classified costs and expenses based on their nature, pursuant to the specific substance of the type of cost or expense of the Entity, as set forth in IAS 1 “Presentation of financial statements”.

3. Summary of significant accounting policies

The main accounting policies followed by the Company are described below:

a. Basis of consolidation

The consolidated financial statements include the accounts of CFE and those of its subsidiaries and trusts over which it exercise control.

The main subsidiaries and trusts, over which CFE exercise control as of December 31, 2017 and 2016, are as follows:

- CFE Distribution EPS, CFE Transmission EPS, CFE Generacion I EPS, CFE Generacion II EPS, CFE Generacion III EPS, CFE Generacion IV EPS, CFE Generacion V EPS, CFE Generacion VI EPS and CFE Suministrador de Servicios Basicos EPS. As of December 31, 2016, the corresponding initial contributions have not been made to these entities.

- CFE Calificados, S. A. de C. V.
- CFE International LLC.
- CFEnergia, S. A. de C. V.

  Those entities were incorporated and its mian activities are in Mexico, except, CFE International LLC, which is in United States of America.

- The trusts over which CFE maintains control are the following:

Trust	Equity of CFE			Type of project
	Trustor	Beneficiary of the trust:	Trustee	
Trust Management and Transfer of Ownership 2030	CFE	Primary beneficiaries: bidders awarded the contracts Secondary 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.	Power saving
Prior Expenses Trust	CFE	CFE	BANCOMEXT, S. N. C.	Direct investment

b. Transactions in foreign currency

Transactions in foreign currency are converted into the Entity's functional currency at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are converted to the functional currency at the exchange rate of the reporting date. The non-monetary assets and liabilities that are valued at fair value in a foreign currency are converted to the functional currency at the exchange rate on the date on which the fair value was determined. Non-monetary items that are measured in terms of historical cost are converted using the exchange rate on the date of the transaction. Differences in foreign currency translation are generally recognized in the results of operations.

Cash flow hedges are recognized in other comprehensive income, when the hedging is effective.

c. Cash and cash equivalents

They are represented by cash, bank deposits and short-term investments. Cash and bank deposits are presented at nominal value and interest is recognized in income as it accrues.

The cash equivalents correspond to investments with high liquidity and very short-term maturities. They are valued at fair value and have a low risk of change in their value.

d. Inventory of operating materials

Inventories of operating materials are measured at the lower of cost or net realizable value. Unit cost is determined using the formula of average cost.

Inventories are reviewed periodically to determine the existence of obsolete material, as well as to evaluate the sufficiency of the allowance or provision. When the case arises, the allowance is increased and recognized in the results of the year.

e. Plants, facilities and equipment

<u>Plants, facilities and equipment in operation (electric infrastructure).</u>

Plants, facilities and equipment used as infrastructure for the generation, transmission or distribution of electricity are subsequently revalued to adjust such cost to fair value, net from accumulated depreciation or accumulated impairment losses. The Entity periodically reviews the fair values of plants, facilities and operating equipment and every five years evaluates the need to perform appraisals so that the carrying amount of these assets does not differ significantly from the values we would have by using their fair values at end of the reporting period.

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 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.

Borrowing costs incurred in financing of both direct and general construction in progress for a period longer than 6 months are capitalized as part of the cost of such asset.

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

Depreciation on plants, facilities and equipment is calculated over the fair value or acquisition cost, as applicable, on the straight-line method over the estimated useful lives of the asset, starting the following month when the asset was ready for use. In case of 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 according to the total useful lives of assets, as determined by CFE´s technicians are as follow:

	Annual rate %
Geothermal power generation plant	From 2.00 to 3.70
Steam power generation plant	From 1.33 to 2.86
Hydroelectric power generation plant	From 1.25 to 2.50
Internal combustion power generation plant	From 1.33 to 3.03
Turbogas and combined cycle power generation plant	From 1.33 to 3.03
Nuclear power generation plant	2.50
Substations	From 1.33 to 2.56
Transmission lines	From 1.33 to 2.86
Distribution networks	From 1.67 to 3.33

Management periodically evaluates total useful lives, depreciation methods, and residual values of plants, facilities and equipment. In those cases where changes to estimations are deemed necessary, the effects are recognized prospectively.

When the items of plants, facilities and equipment are comprised by various components with different useful lives, the individually significant components are depreciated within their estimated useful life. Minor repairs and maintenance costs are expensed as incurred.

Property and assets allocated to offices and general services.

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

	Annual rate %
Buildings	5
Furniture and office equipment	10
Computer equipment	25
Transportation equipment	25
Other assets	10

Land is not depreciated.

An element of plants, facilities and equipment is retired when sold or when it is not expected to obtain future economic benefits derived from the continued use of the asset. The gain or loss generated by the sale or retirement of an item of property, plant and equipment is calculated as the difference between the sales proceeds and the carrying value of the asset, and it is recognized in the income statement.

The value of plants, facilities and equipment is reviewed annually by indications of impairment in the value of such assets. At December 31, 2017, the Company recognized an impairment loss for an amount of $28,681,250 which were reducted from the revaluation surplus.

For the years ended December 31, 2016 and 2015, no impairment losses were recognized.

f. Leased plants, facilities and equipment

Starting in 2000 and based on the Electric Power for Public Service Law ("LSPEE" for its acronym in Spanish), access to electricity generation related activities was given to independent power generating producers, which can only sell the electricity produced to CFE. The Entity evaluated that 23 of the total existing contracts with independent producers contain a lease component over the power generation plants, in accordance with IFRIC 12, "Service Concession Agreements", which in turn qualified as financial leases, in accordance with IAS 17 "Leases". Accordingly, those assets are recorded in a fixed asset account denominated Independent Producers, and the related liability that applies to the value of the asset is also recognized.

g. Intangible assets

Intangible assets with definite useful life acquired separately are recorded at acquisition cost and we estimate their total useful life. In those instances where the asset does not have a definite useful life, it is classified as an intangible asset with indefinite useful life. Intangible assets with definite useful life are amortized within their estimated useful life.

Amortization is recognized based on the straight-line method over the assets estimated useful life. Estimated useful life, residual value, and amortization method are reviewed every year end, and the effect of any change in the estimate recorded is recognized prospectively.

h. Financial assets and liabilities

Financial assets and liabilities are recorded initially at fair value plus transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability (other than financial assets and liabilities measured at fair value through gains or losses). Transaction costs directly attributable to a financial asset or liability at fair value with changes in losses or gains are immediately recognized in the income statement.

Financial assets

Financial assets are classified in any of the following categories: financial assets at fair value, financial assets and liabilities held-to-maturity, financial assets and liabilities available-for-sale, loans and accounts receivable, or hedging derivative financial instruments. The classification is made based upon the nature and purpose of the financial asset, and it is determined at the time of initial recognition.

Loans and receivables

Accounts receivable and loans are financial instruments, usually with a maturity less than a year with fixed or determinable payments, that are not listed on an active market. Loans and accounts receivable with maturities over a year (including accounts receivable, trade accounts receivable and other receivables) are valued at amortized cost, by using the effective interest method, and they are subject to impairment tests.

Items receivable are mainly comprised by public consumers, government consumers, other receivables, electricity in process of billing and loans to employees.

Interest income is recognized by applying the effective interest rate, except for the short-term receivables where the interest recognition is deemed immaterial.

- Financial assets at fair value throughout profits and losses

Financial assets which changes in fair value are recognized in profits and losses, including financial assets held for trading. Derivative financial instruments, including embedded derivatives that qualify to be recognized separately, are classified as held for trading unless they are designated as hedging instruments. Financial assets with changes in fair value recognized in profits and losses are recognized and presented in the balance sheet at their fair value and their changes in fair value are included in interest expense as part of the net financing cost in the results of the period.

- Financial assets held-to-maturity

These are investments which are intended to be held to maturity. Acquisition costs are recognized including expenses for purchase, premiums and discounts. Such costs are amortized over the term of the investment based on its outstanding balance net of any impairment. Interest and dividends on these investments are included as part of the net financing cost in interest expense, net in the results of the period.

- Financial instruments available-for-sale

Investments in these instruments are recognized at fair value and gains or losses are recognized within "other comprehensive income", net of income tax. Interest and dividends on these instruments are included in the net finance cost line. The fair values of these investments consider their market value. Foreign currency effects on securities on available-for-sale investments are recognized in the statement of comprehensive income in the period they arise.

- Derecognition of financial assets

Financial assets, a part of a financial asset or a part of a group of similar financial assets are derecognized when the rights to receive cash flows from the asset have expired, or have transferred or have assumed an obligation to pay the cash flows received without a material delay to a third party under a transfer agreement and have transferred substantially all risks and rewards of the asset, or have transferred control of the asset despite having retained substantially all the risks and benefits.

When we do not transfer or retain substantially all the risks and rewards of the asset, or retain control of the transferred asset, we continue to recognize the transferred asset to the extent of continuous involvement we maintain and recognize the associated liability. The assets and corresponding liabilities are measured on the basis that better reflects the rights and obligations that we have contracted.

Impairment of financial assets

At the end of each reporting period, an assessment is performed to ascertain whether there is any objective evidence that the value of a financial asset or group of financial assets has suffered any impairment. A financial asset or group of financial assets are considered impaired in value when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the investment have been adversely affected.

In the case of financial assets that have been recognized at amortized cost, Management performs a preliminary assessment as to whether there is objective evidence of impairment in value individually for assets that are significant by themselves or collectively for those that are not individually important. When there is no such evidence in the case of assets assessed individually, regardless of their importance, we include the asset in a group of assets with similar risk characteristics, and proceed to make a collective assessment to determine whether its value has suffered impairment. In those cases where we determine that some assets is individually impaired, we proceed to the recognition of the loss in value, and exclude the asset from collective testing.

- Financial liabilities

Financial liabilities are classified at fair value with changes in losses and gains or as other financial liabilities measured at their amortized cost, by using the effective interest method.

Financial liabilities of the Company include accounts payable to suppliers and contractors, other accounts payable and accrued liabilities, loans, unrealized revenue and derivative financial instruments. Derivative financial instruments are recognized at fair value; debt short and long term and other accounts payable are recognized as financial liabilities measured at amortized cost.

All liabilities are initially recognized at fair value and in the case of debt and accounts payable, net of transaction costs directly attributable.

The subsequent measurement of our financial liabilities is based on the following classification:

- Financial liabilities at fair value through profit or loss

Financial liabilities recognized at fair value with changes in value are reflected in the results, including financial liabilities held for trading and financial liabilities designated upon initial recognition as financial liabilities at fair value through profit and loss.

Financial liabilities are classified as held for trading if contracted for the purpose of trading in the near future. In this category, derivative financial instruments that are acquired and designated as non-hedging derivative instruments are included. In the case of the embedded derivatives, these are also classified as held for trading, except for those designated as hedging instruments.

Gains or losses on financial liabilities held for trading are recognized in the statement of comprehensive income.

- Debt and loans

After initial recognition, debt and interest-bearing loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when liabilities are disposed, as well as through the amortization process when applying the effective interest rate method.

The amortized cost is calculated taking into account any discount or premium in the issuance or acquisition, commissions and other directly attributable costs that are an integral part of the effective interest rate. The amortization of this is recognized as a financial cost in the statement of comprehensive income.

- Derecognition of financial liabilities

A financial liability is derecognized when the obligation arising from the liability has been settled, canceled or it has expired.

When a financial liability is replaced by another from the same creditor in terms substantially different, or when the terms of the existing liability are substantially modified, such replacement or modification is reflected by derecognizing the original liability and recognizing a new liability. The difference between the values of these liabilities is included in the statement of comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when the Company has a legal right to offset the amounts, and there is an intent to settle them on a net basis or realize the asset and settle the liability simultaneously.

Fair value of financial instruments

At each reporting date, the fair value of financial instruments traded in active markets is determined considering quoted market prices, or the prices quoted by brokers, without any deduction of transaction costs.

For financial instruments that are not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include the use of market transactions under the arm's length principle referenced to the current fair value of another financial instrument that is similar, analysis of discounted cash flows or other valuation models.

i. Derivative financial instruments

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. In line with the risk strategy entered into, derivative financial instruments are entered into to mitigate foreign exchange rate and interest rate exposure, through contracting interest rate swaps, cross-currency swaps and forward foreign currency.

The policies include formal documentation of all transactions between hedging instruments and hedged positions, the objectives of risk management and the strategies to execute hedging transactions.

The effectiveness of derivative financial instruments designated as hedges is determined at the inception of the transaction as well as during the hedging period, which is reassessed at least quarterly. If the hedge is not highly effective, the derivative financial instrument ceases to be treated as a hedge.

The effective portion of the changes in fair value of derivative financial instruments designated as cash flow hedges is recognized in equity under the caption of other items of comprehensive income, while the ineffective portion is directly recognized in income. The effective portion recognized in equity is recycled to the results of the period at the time the hedged item affects our results and is presented in the same caption item of the statement in which we present the corresponding primary position.

Hedging policies require that derivative financial instruments that do not qualify as hedges, are classified as held for trading instruments, so that changes in fair value are recognized immediately in the results of the period.

Due to the nature of the Entity´s business. The Entity has exposure to the following risks:

- Interest rate risk

The Entity is exposed to interest rate for loans borrowed at variable interest rates, which are calculated in reference with TIIE rate, in the case of the debt denominated in pesos. At December 31, 2017, 2016 and 2015 we have covered $4,833, $3,480 and $5,129 million pesos of the debt denominated in pesos with variable interest rates.

- Exchange rate risk

A significant portion of CFE's debt is denominated in foreign currency, mainly in US dollars, while most of our assets and revenues are denominated in pesos. As a result of this, we are exposed to the risk of devaluation of the peso against the dollar. As part of our risk management policy we have contracted cross-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, 2017, 2016 and 2015, CFE maintains cross-currency swaps as a hedge of our foreign currency debt for $72,135 in 2017, $53,663 in 2016 and $33,324 in 2015, respectively.

Likewise, CFE contracted a derivative financial instrument in 2012 to hedge the exchange rate risk of our debt by $32 billion yen. To hedge the exchange rate risks of our yen debt, CFE entered into a series of exchange rate forwards under which we acquired Japanese yen based on a fixed US dollar exchange rate. We also acquired a "call option" for the purchase of Japanese yen at the end of the transaction. The market value of this transaction at December 31, 2017, 2016 and 2015 is ($438), ($494) and ($1,000) million peso, respectively. These derivative instruments were not designated as hedges.

- Commodity price risk

As part of the electricity generation process, CFE requires commodities such as natural gas and therefore we are exposed to the impact of potential increases in comodity prices. During the years ended December 31, 2017, 2016 and 2015 CFE did not enter into agreement to mitigate this types of risks.

- Credit risk

The Entity is exposed to the risk of our counterparties (customers, financial entities) do not be in compliance with the financial obligations to our Entity.

j. Labor obligations

Various benefits are granted to employees, which for purposes of the financial statements have been classified as direct employees benefits and pension benefits, seniority premiums and termination benefits.

Direct employee benefits

Such benefits are valued in proportion to the services rendered considering current salaries and the corresponding liability is recognized as accrued. It mainly includes productivity incentives, vacations, vacation premium, bonuses, and seniority recognition for temporary and permanent workers.

Employee benefits for pensions and others

The Company has a policy of granting retirement pensions to cover eligible employees.

A defined benefit pensions plan is given to employees who started their employment relationship before August 18, 2008, and a defined contribution pensions plans is given to employees who began their employment after August 19, 2008.

In addition, there are plans to defined contribution pension established by the Federal Government and which must make contributions on behalf of workers.

These costs for defined contribution plans are calculated by applying the percentages indicated in the corresponding regulations on the amount of wages and eligible salaries, and deposited with the fund retirement managers chosen by our employees and to the Mexican Social Security Institute.

According to the Federal Labor Law, there is a requirement to cover for a seniority premium, as well as to make certain payments to employees that cease providing their services under certain circumstances.

The costs of pensions, seniority premiums and other related benefits are recognized based on independent actuaries' calculations considering the projected unit credit method and using nominal financial assumptions.

k. Income taxes

The income tax payable for the year is determined in accordance with current tax legislation and is presented, when applicable, in short-term liabilities.

The deferred income tax is determined using the asset and liability method, based on temporary differences between the amounts in the financial statements of the Entity assets and liabilities and their respective tax values at the date of the statement of financial position.

In determining the amount of deferred tax assets, the Entity considers tax rates in effect in the year in which the Entity estimates that the asset will be materialized or the liabilities be settled based on the tax laws and by applying the tax rates that are enacted or which approval is to be completed at the date of the statement of financial position.

The carrying value of deferred tax assets are reviewed at each reporting date and is reduced to the extent that it is unlikely that sufficient future taxable profits are obtained to allow the materialization of all or a portion of deferred tax assets. Deferred tax assets that are not recognized are assessed at each reporting date and are recognized to the extent that it is probable that sufficient future taxable income would be available for allowing their realization.

Deferred taxes related to items that recognize out of net income, are recognized thereof. The deferred tax attributable to other comprehensive income are part of these items.

l. Revenue recognition

Revenues are recognized in the period in which electric power services are rendered to customers; consequently, the electricity delivered that is in the process of being billed is considered as revenue for the period, and its amount is estimated based on the actual billing of the two preceding months.

m. Transactions in foreign currency

Transactions in foreign currency are recorded at current exchange rate in the date of its celebration. The monetary assets and liabilities in foreign currency are valued in the functional currency with the current exchange rate at the date of the consolidated financial statements, the exchange fluctuations between the date of its conclusion and that its collection or payment is recognized in the results as part of the financial cost.

The financial statements of foreign operations are translated into the reporting currency by initially determining if the functional currency and the currency for recording the foreign operations are different and then translating the functional currency to the reporting currency, using the historical exchange rate and/or the exchange rate at year end.

n. Deferred income

Until December 31, 2016, the contributions received from customers to provide connection and supply service of electricity are recorded as a deferred income and recognized in profit or losses on a systematic basis considering the useful lives of the fixed assets financed by said contributions. Due to the electricity supply service contracts have an indefinite term, which is recognized in the in profit or losses of the period in accordance with the useful lives of the assets that financing said contributions.

The contributions received from State and Municipal Governments to electrify rural and popular colonies, and for expansions of the distribution network, are recorded as a deferred revenue and recognized in profit or losses as income on a systematic basis considering the useful lives of the fixed assets financed by said contributions.

From January 1, 2017 derived from legal separation of the Entity in various legal entities and the changes in the laws, which allow the existence of qualified suppliers different of the Entity, the contributions received from customers to provide connection and supply service of electricity, are recorded as a deferred income and recognized as income in the consolidated statement of comprehensive income once the Entity has concluded the customer connection to the network. The customer can select between the Entity or another entity to supply them service of electricity.

Considering the previous, the liability balance for deferred income, recorded as contributions from third parties into the account Other long-term liabilities at January 1, 2017 for an amount of $33,701,253 has been recognized in the consolidated statement of comprehensive income in 2017.

o. Provisions and contingent liabilities

Management recognizes provisions for liabilities uncertain as to timing and amount, but that corresponds to present obligations resulting from past events and which settlement requires the outflow of resources that can be reasonably measured and is probable to occur.

In those cases where the effect of the time value of money is important, Management considers an estimation of the disbursements necessary to settle the obligation, along with a pre-tax discount rate that reflects the market conditions at the reporting date, as well as, the specific risks of the corresponding liability. In this case, the increase of the provision is recognized as a financial cost.

In case of contingent liabilities, the corresponding provision is recognized only when an outflow of resources for its settlement is probable.

p. Use of judgments and estimates

In the preparation of the financial statements, estimates are made for certain items, some of which are highly uncertain and their estimation involves opinions reached based on the information available. In the following paragraphs, Management discloses matters identified which could materially affect our financial statements if they were using different estimates to the ones reasonably used, or if the Entity changes its estimates in the future due to changes in circumstances and facts that may occur in the future.

Our analysis covers only those estimates that the Company considers most important, taking into account the degree of uncertainty and the likelihood of a significant impact if different estimates were used. There are other areas involving uncertain matters, but where the Company believes that the effect of changing our estimate would not significantly impact the financial statements.

- Fair value of assets and liabilities

The Entity has substantial assets and financial liabilities recognized at fair value that are an estimate of the amount to which the assets and liabilities could be exchanged in a current transaction between parties willing to do so. The methodologies and assumptions used to estimate fair value vary according to the financial instrument as follows:

a) The Entity recognizes the cash and cash equivalents, trade accounts receivable and trade accounts payable, and other liabilities at the date of the statement of financial position at their nominal value.

b) The Entity recognizes instruments listed on markets at prices on those markets at the date of the statement of financial position.

c) Financial instruments not listed on any market, such as bank loans and finance lease obligations are recognized by discounting future cash flows using interest rates for similar instruments.

d) The Entity applies various valuation techniques, such as performing calculations of present value for derivative financial instruments.

The use of different methodologies or the use of different assumptions to calculate the fair value of the Entity´s assets and financial liabilities assumptions could significantly impact its financial results, as we have reported.

- Useful life of our plants, facilities and equipment

The Entity´s plants, facilities and equipment in operation are depreciated considering an estimated useful life of each asset individually.

In determining the useful life, we consider the particular conditions of operation and maintenance of each of our assets and the historical experience with each type of asset, and we consider changes in technologies and various other factors, including the practices of other energy companies. Annually, the useful lives of the Company´s assets are reviewed in order to determine whether or not to modify them. The useful life could be modified by changes in the number of years in which the Company uses the assets, or by changes in technology, the market or other factors. Should the life of the Company´s assets be shortened, a greater expense for depreciation would be recognized.

- Impairment of our long-lived assets

The Company´s plants, facilities and equipment represent a significant portion of total assets. The International Financial Reporting Standards establish the requirement to determine the impairment of long-lived assets when circumstances indicate that there is a potential detriment to the value of these assets.

- Deferred taxes

The Company is required to estimate income taxes for the year, as well as to recognize the temporary differences between the financial carrying amount of existing assets and liabilities and their respective tax basis, such as depreciation, tax losses and other tax credits.

These points generate deferred tax assets and liabilities, which are included in the Company´s statement of financial position, when applicable. As part of this process, the Company assesses at each fiscal year-end the realization of its assets and deferred tax liabilities, and whether or not there is taxable income in those periods to support the recognition of deferred tax assets. This involves the application of Management´s judgment which impacts the provisions of the income tax payable and the amounts of deferred tax assets and liabilities. If the Entity´s estimates differ from the results finally obtained, or if the estimates are adjusted in the future, the results and the financial position of the Entity could be affected significantly.

Deferred tax assets are recognized considering the amount that is most likely to be materialized. In this estimation, Management considers taxable income for future years based on its tax projections, as well as the benefits of tax strategies.

If our estimates of future profits and the expected benefits of tax strategies are reduced or if there are changes in tax laws that impose restrictions on the opportunity to use the tax benefits of tax losses in the future, the amount of deferred tax assets may decrease, and thereby increasing the expense for income taxes.

- Provisions

Provisions are recognized when there is a present obligation, which results from past events, it is probable (more likely than not) that an outflow of resources will be required to settle the obligation and that a reasonable amount of the outflow of resources can be reliably estimated. The amount of provisions recognized is the Management´s best estimate of the expense we will incur to meet the obligations, taking into account all the information available at the date of the consolidated financial statements, including in some cases the opinion of external experts as legal advisers or consultants. Provisions are adjusted to recognize changes in the circumstances or current facts and the occurrence of new obligations.

In those cases in which the Entity cannot reliably quantify the obligation, no provision is recognized, however, our notes to the financial statements include the relevant information.

The amounts recognized may be different from the amount we finally incurred given the uncertainties inherent to them.

- Labor obligations

The amounts for pension and retirement plan obligations and other postretirement obligations recognized as liabilities in the statement of financial situation and as expenses in profit or losses, are calculated annually by actuaries considering assumptions and estimations over the postretirement benefits.

The assumptions that are majorly impacted by such estimations are as follows:

a) Rate of compensation/salaries increase;
b) Discount rate to determine the present value of future obligations;
c) Rate of expected inflation;
d) Expected return on pension plan assets.

Such estimations are determined by our independent experts who prepares the actuarial calculation by using the projected unit credit method.

- Allowance for doubtful accounts

We recognize an allowance for accounts where probability of recovery is estimated as low, as well as for the amount of the estimated losses for the lack of payment by our customers. For the preparation of such estimations, Management considers the individual conditions of each sector of our customer portfolio. Among other factors, Management considers the payment delay elapsed and the results of the negotiations held with our customers to achieve recoverability of the corresponding receivables. The estimated amount for the doubtful accounts may differ from the actual results.

q. Reclassifications

Certain figures of the 2015 financial statements have been reclassified to conform them to the presentation used for 2016.

4. Non-Derivative Financial Instruments - Fair Value and Risk Management

Fair values

The carrying value amounts of financial instruments recognized as of December 31, 2017, 2016 and 2015, are included below:

		2017	2016	2015
Financial assets:				
Cash and cash equivalents (1)	$	67,237,901	42,266,944	35,597,179
Accounts and notes receivable from customers and other debtors (2)		101,271,618	69,714,266	86,356,231
Long-term loans to workers (2)		12,339,193	11,193,711	10,061,390
Derivative financial instruments (1)		16,084,937	15,646,026	2,352,725
Financial liabilities:				
Documented debt (2)	$	208,355,380	209,613,471	182,340,254
PIDIREGAS debt and obligations for capital leases (2)		249,420,976	246,096,352	212,086,854
Suppliers and contractors (1)		59,849,154	17,888,728	17,443,697
Deposits from customers and contractors (1)		22,974,717	21,103,369	20,042,429
Accounts payable MEM (1)		-	2,011,804	-
Other liabilities (1)		21,460,352	17,103,987	19,020,805
Contributions from third parties		39,465,287	33,707,331	-

(1) At fair value; (2) at amortized cost.

Objectives of financial risk management

Part of the Entity's Financial Office functions is to implement strategies, coordinate access to domestic and international financial markets, and supervise and manage financial risks related to the Entity's operations through the use of internal reports and market risk reports, which analyze the degree and magnitude of the exposure to those risks. These risks include market risk (including currency exchange and interest rate risks), credit risk and liquidity risk.

The Entity aims to mitigate the effects of the debt related risks by using hedge derivative financial instruments.

The treasury department's function is directed by the SHCP's policies as to the cash management, which holds that investments are not made long-term and are made in low risk instruments. Status reports are made in a monthly basis to the Treasury’s Investments Committee.

Credit risk management

Credit risk is the risk that one counterparty of a financial instrument causes a financial loss to the other counterparty when it fails to meet its contractual obligations. The Entity is subject to credit risk mainly on the financial instruments referred to as cash and temporary investments, loans and accounts receivables, and derivative financial instruments. In order to mitigate credit risk for cash, temporary investments, and derivative financial instruments, the Company only carries out operations with parties having high solvency, creditworthiness and standing. The Company obtains sufficient guarantees, when appropriate, to mitigate the risk of financial loss caused by non-performance.

For credit risk management purposes, loans and accounts receivable from consumers are deemed by the Company to have a limited risk. The Entity accounts for an allowance for doubtful accounts under the incurred losses model.

The aging analysis of the past due receivables, over which an allowance has not been deemed necessary at December 31, 2017, 2016 and 2015, is as follows:

	2017	2016	2015
Less than 90 days	$ 21,834,568	$ 23,561,010	$ 18,592,175
From 90 to 180 days	4,659,630	2,298,047	2,700,403
More than 180 days	5,469,617	3,003,099	3,281,623
Total	**$ 31,963,815**	**$ 28,862,156**	**$ 24,574,201**

Liquidity risk

Liquidity risk is the risk that an Entity faces difficulties in meeting its obligations associated with financial liabilities settled with cash or other financial asset.

The financing obtained by the Entity is mainly through debt, the leasing of plants, facilities, equipment and PIDIREGAS. In order to manage liquidity risk, the Entity periodically performs cash flow analysis and maintains open credit lines with financial institutions and contractors. In addition, the Entity is subject to a budgetary control exerted by the Federal Government, having a net debt ceiling authorized by the Federal Congress in a yearly basis based on its budgeted revenues.

The following table shows the contractual maturities of the Entity's financial liabilities (not including derivative financial instruments) based on the payment terms:

At December 31, 2017	Less than 1 year	More than 1 year and less than 3	More than 3 years and less than 5	More than 5 years	Total
Documented debt	$ 27,351,967	$ 29,320,404	$ 20,473,272	$ 131,209,737	$ 208,355,380
Interest payable of documented debt	12,101,655	21,733,041	16,630,583	61,325,343	111,790,622
PIDIREGAS debt and Obligations for capital leases	29,267,762	15,312,426	19,880,773	184,960,015	249,420,976
Interest payable of PIDIREGAS debt	7,854,887	11,743,205	8,363,221	23,300,233	51,261,546
Suppliers and contractors	59,849,154	-	-	-	59,849,154
Other liabilities	21,460,352	-	-	-	21,460,352
Contributions from third parties	-	39,465,287	-	-	39,465,287
Deposits from customers and Contractors	22,974,717	-	-	-	22,974,717
Total	$ 180,860,494	$ 117,574,363	$ 65,347,849	$ 400,795,328	$ 764,578,034

At December 31, 2016	Less than 1 year	More than 1 year and less than 3	More than 3 years and less than 5	More than 5 years	Total
Documented debt	$ 16,373,774	$ 29,963,324	$ 40,316,209	$ 122,960,164	$ 209,613,471
Interest payable of documented debt	11,649,717	20,990,298	17,517,821	64,302,533	114,460,369
PIDIREGAS debt and obligation for capital leases	25,354,442	15,335,882	21,394,210	184,011,818	246,096,352
Interest payable of PIDIREGAS debt	5,806,029	8,897,601	5,976,378	14,915,297	35,595,305
Suppliers and contractors	17,888,728	-	-	-	17,888,728
Deposits from customers and contractors	21,103,369	-	-	-	21,103,369
Total	$ 98,176,059	$ 75,187,105	$ 85,204,618	$ 386,189,812	$ 644,757,594

At December 31, 2015		Less than 1 year		More than 1 year and less than 3		More than 3 years and less than 5		More than 5 years		Total
Documented debt	$	18,066,977	$	35,461,814	$	24,846,391	$	103,965,072	$	182,340,254
PIDIREGAS debt and obligation for capital leases		22,770,191		35,287,449		28,687,290		125,341,924		212,086,854
Suppliers and contractors		17,443,697		-		-		-		17,443,697
Deposits from customers and contractors (note 13)		20,042,429		-		-		-		20,042,429
Total	$	78,323,294	$	70,749,263	$	53,533,681	$	229,306,996	$	431,913,234

Market Risks

The Entity's activities have exposure to foreign currency exchange and interest rate risks.

Foreign currency exchange risk management

The Entity borrows credits preferably in local currency when market conditions are favorable; therefore, most of the debt is denominated in Mexican pesos.

The Entity also carries out foreign currency transactions. Consequently, exposures to foreign currency exchange arises.

	Total debt (million of pesos)					
		2017		2016		2015
Local currency	$	169,449	$	159,278	$	110,052
Foreign currency		163,047		159,866		169,128

The Entity primarily uses interest rate and foreign currency exchange swaps and foreign currency exchange forward contracts to manage the exposure to interest rate and foreign currency fluctuations in accordance with its internal policies.

Carrying amounts of monetary assets and liabilities denominated in foreign currency at the end of the reporting periods are shown in note 19.

Sensitivity analysis of foreign currency

The Entity is mainly exposed to exchange rate variances between the Mexican peso, the US dollar and the Japanese yen.

The following table includes the Entity’s sensitivity analysis considering a 5% increase and decrease in the Mexican peso currency exchange rate against the other relevant foreign currencies. The 5% represents the sensitivity rate used when the exchange risk is internally reported to key management personnel and it further represents Management's evaluation about a fair change in exchange rates.

The sensitivity analysis only includes monetary open items denominated in foreign currency, adjusting its translation by a 5% change in foreign exchange rates at period end. The sensitivity analysis includes external loans, as well as loans derived from foreign operations within the Entity, where the loan is in a currency other than the loaner or the borrower currency. A positive amount (as observed in the below table) indicates a gain when the Mexican peso strengthens 5% against the corresponding currency. If a weakening of 5% in the Mexican peso with respect to the corresponding currency occurred, then there would be a loss and the following figures would be negative:

	Million of pesos		
	31/12/2017	31/12/2016	31/12/2015
Results	$ 8,018	$ 8,415	$ 6,392

The sensitivity analysis has been estimated based on the fair value of the loans denominated in foreign currency.

In Management's view, the impact of the inherent exchange risk affects electricity rates in the long-term due to inflation adjustments and fuel formula adjustments that consider the peso/dollar exchange rate.

Interest rate risk management

The Entity is exposed to interest rate risks for loans borrowed at variable interest rates. The Entity manages this risk by maintaining an appropriate combination between fixed rate and variable rate loans and by contracting derivative financial instruments designated as interest rate hedges.

	Total debt (million of pesos)		
	31/12/2017	31/12/2016	31/12/2015
Fixed rate	$ 220,887	$ 220,990	$ 156,792
Variable rate	111,610	118,153	122,388

Interest rate sensitivity analysis

The following sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the period reported. For variable rate liabilities, an analysis is prepared under the assumption that the amount of the liability reported at the end of the period was the amount in effect throughout the entire year. For reporting the interest rate risk internally to key management personnel, a 0.50 point increase or decrease is used for the Mexican Equilibrium Interbank Interest Rate (EIIR or TIIE by its acronym in Spanish) and 0.01 points increase or decrease for the LIBOR. These changes represent the Management's evaluation about a fair change in interest rates.

	Million of pesos		
	31/12/2017	**31/12/2016**	**31/12/2015**
Gain or loss	$ 114	$ 119	$ 83

The sensitivity analysis of the debt no considering the derivatives financial instruments has been estimated in accordance to the loans fair value.

The sensitivity analysis of the derivatives financial instruments is detailed in note 10.

Fair value of financial instruments

Fair value of financial instruments recorded at amortized cost

The carrying values of the following financial assets and liabilities recognized at amortized cost in the financial statements are considered to approximate their fair value, as shown below:

Valuation techniques and assumptions applied for determining fair values

		December 31, 2017		December 31, 2016		December 31, 2015	
		Carrying Value	Fair value	Carrying value	Fair Value	Carrying value	Fair Value
Accounts receivable	$	98,356,962	98,356,962	69,714,266	69,714,266	86,356,231	86,356,231
Loans to employees		12,339,193	12,339,193	11,193,711	11,193,711	10,061,390	10,061,390
Documented debt		208,355,380	208,355,380	209,613,471	209,613,471	182,340,254	182,340,254
Obligations for capital leases and PIDIREGAS		249,420,976	249,420,976	246,096,352	246,096,352	212,086,854	212,086,854

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and liabilities with standard terms and conditions that are negotiated in active markets are determined by reference to quoted prices on those markets.

- The fair value of other financial assets and liabilities (without including derivative financial instruments) is determined in accordance with generally accepted price determination models, which are based on analysis of discounted cash flows, transaction prices observable on the market and quotes for similar instruments.

- Pursuant to the terms in which the ISDA (International Swaps and Derivatives Association) contracts were signed, the counterparties or bank institutions are the appraisers who calculate and inform, on a monthly basis, the Mark-to-Market (which is the monetary valuation of the agreed upon transaction at a given time). CFE monitors this value and if there is any doubt or abnormal variance in the market value, it requests a revision from its counterparty.

Valuations at fair value recognized in the consolidated statement of financial position

The following table provides an analysis of the financial instruments valued at fair value subsequent to their initial recognition, grouped in levels from 1 to 2, based on the degree at which their fair value is observable:

		2017	2016	2015
Financial assets available for sale	$			
Temporary investments		25,232,468	19,127,508	17,437,881

The analysis of the fair value of derivative financial assets grouped in level 2 based on the degree at which their fair value is observable, is included in note 10.

The levels referred to above are considered as follows:

- Level 1 valuations at fair value are those derived from quoted prices (not adjusted) on asset markets for liabilities or identical assets.
- Level 2 valuations at fair value are those derived from indicators other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 valuations at fair value are those derived from unobservable indicators for the asset or liability.

5. Cash and cash equivalents

At December 31, 2017, 2016 and 2015, cash and cash equivalents are summarized as follows:

		2017		2016		2015
Cash on hand and in banks	$	41,996,612	$	23,130,615	$	18,150,477
Temporary investments		25,232,468		19,127,508		17,437,881
Stock certificates		8,821		8,821		8,821
Total	$	67,237,901	$	42,266,944	$	35,597,179

6. Accounts receivable, net

At December 31, 2017, 2016 and 2015, accounts receivable are summarized as shown below:

	2017	2016	2015
Public consumers	$ 81,085,444	$ 70,638,993	$ 66,259,514
Government agencies consumers	20,887,093	18,559,103	22,168,411
	101,972,537	89,198,096	88,427,925
Allowance for doubtful accounts	(36,684,350)	(33,632,871)	(18,032,594)
	65,288,187	55,565,225	70,395,331
Other accounts receivable	33,512,181	14,149,041	15,535,342
Value added tax recoverable	2,471,249	-	425,558
Total	**$ 101,271,617**	**$ 69,714,266**	**$ 86,356,231**

(*) Revenues estimate for electricity supply services pending to be billed are included.

At December 31, 2017, 2016 and 2015, the balances and movements of the allowance for doubtful accounts are summarized as follows:

	2017	2016	2015
Opening balance	$ 33,632,871	$ 18,032,594	$ 18,697,261
Increases	5,229,270	28,646,865	5,810,887
Applications	(2,177,791)	(13,046,588)	(6,475,554)
Ending balance	$ 36,684,350	$ 33,632,871	$ 18,032,594

7. Inventory of materials for operation

At December 31 2017, 2016 and 2015, materials for operation are summarized as follows:

	2017	2016	2015
Spare parts and equipment	$ 2,570,001	$ 3,097,062	$ 3,802,741
Fuel and Lubricants	11,481,771	8,229,058	8,431,973
Nuclear fuel	3,994,473	3,226,186	4,159,020
	18,046,245	14,552,306	16,393,734
Allowance for obsolescence	(3,403,252)	(526,541)	(862,413)
Total	$ 14,642,993	$ 14,025,765	$ 15,531,321

8. Plants, facilities and equipment

Carrying value of plants, facilities and equipment at December 31, 2017, 2016 and 2015 are summarized below:

Investment at December 31, 2017:

	Plants, Facilities and Equipment in Operation	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances **01/Jan/17**	$2,036,909,423	$6,367,288	$18,433,272	$10,856,715	$2,072,566,698
Acquisitions and transfers	66,682,159	866,157	1,474,663	764,561	$69,787,540
Retirements	(19,676,856)	-	-	-	($19,676,856)
Balances 31/Dec/17	$2,083,914,726	$7,233,445	$19,907,935	$11,621,276	$2,122,677,382

Accumulated depreciation at December 31, 2017

	Plants, Facilities and Equipment in Operation	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances 01/Jan/17	($783,175,240)	($2,219,184)	-	-	($785,394,424)
Net Balances 01/Jan/17	1,253,734,183	4,148,104	18,433,272	10,856,715	1,287,172,274
Depreciation of the period	(59,097,557)	(369,864)	-	-	($59,467,421)
Depreciation on retirements	3,804,200	-	-	-	$3,804,200
Net Depreciation	(55,293,357)	(369,864)	-	-	(55,663,221)
Impairment	(28,681,250)	-	-	-	(28,681,250)
Balances 31/Dec/17	(838,468,597)	(2,589,048)	-	-	(841,057,645)
Net Balances 31/Dec/17	$1,216,764,879	$4,644,397	$19,907,935	$11,621,276	$1,252,938,487

At December 31, 2017 the Company applied an impairment test to Genco VI and recognized a loss for impairment for an amount of $28,681,250 related to plant and equipment.

Investment at December 31, 2016

	Plants, Facilities and Equipment in Operation	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances 01/Jan/16	$1,782,810,425	$7,420,410	$22,218,146	$10,912,877	$1,823,361,858
Acquisitions	60,660,664	-	-	-	60,660,664
Revaluation of the period	210,725,169	-	-	-	210,725,169
Retirements	(35,252,369)				(35,252,369)
Capitalization	4,894,158	(1,053,122)	(3,784,874)	(56,162)	-
Other additions	13,071,376				13,071,376
Balances 31/Dec/16	$2,036,909,423	$6,367,288	$18,433,272	$10,856,715	$2,072,566,698

Accumulated depreciation at December 31, 2016

	Plants, Facilities and Equipment in Operation	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances 01/Jan/16	$(759,650,609)	$(1,849,320)	-	-	$(761,499,929)
Net Balances 01/Jan/16	1,023,159,816	5,571,090	22,218,146	10,912,877	1,061,861,929
Depreciation of the period	(45,269,628)	(369,864)	-	-	(45,639,492)
Depreciation on retirements	21,744,997	-	-	-	21,744,997
Net Depreciation	(23,524,631)		-	-	(23,524,631)
Balances 31/Dec/16	(783,175,240)	(2,219,184)	-	-	(785,394,424)
Net Balances 31/Dec/16	$1,253,734,184	$4,148,104	$18,433,272	$10,856,715	$1,287,172,275

Investment at December 31, 2015

	Plants, Facilities and Equipment in Operation	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances 01/Jan/15	$1,674,558,948	$8,949,003	$26,579,381	$13,231,208	$1,723,318,540
Acquisitions	28,056,875	-	15,026,356	-	43,083,231
Revaluation of the period	70,982,956	-	-	-	70,982,956
Retirements	(12,440,097)	-	-	-	(12,440,097)
Capitalization	21,651,743	(1,528,593)	(19,387,591)	(2,318,331)	(1,582,772)
Balances 31/Dec/15	$1,782,810,425	$7,420,410	$22,218,146	$10,912,877	$1,823,361,858

Accumulated depreciation at December 31, 2015

	Plants, Facilities and Equipment in Operation	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances 01/Jan/15	$(723,791,118)	$(1,479,456)	.	-	$(725,270,574)
Net Balances 01/Jan/15	950,767,830	7,469,547	$26,579,381	13,231,208	998,047,966
Depreciation of the period	(44,882,118)	(369,864)	-	-	(45,251,982)
Depreciation on retirements	9,022,627	-	-	-	9,022,627
Net Depreciation	(35,859,491)	(369,864)	-	-	(36,229,355)
Balances 31/Dec/15	(759,650,609)	(1,849,320)	-	-	(761,499,929)
Net Balances 31/Dec/15	$1,023,159,816	$5,571,090	$22,218,146	$10,912,877	$1,061,861,929

Based on the periodic review of the fair values of plants, facilities and equipment in operation of CFE, the revaluation of the assets was carried out, so that the value in books does not differ materially from what would have been calculated using the reasonable values at the end of the reporting period.

Therefore, it is necessary to make an analysis of the fixed assets, with the objective to revalue the assets and to review the useful lives assigned to them, as well as to their useful life, and to establish the process for the calculation of the impairment in the value thereof.

During the year ended December 31, 2016, the Entity recorded a revaluation of $210,725,169 as part of its review of the assets' value and useful lives.

Construction in progress - The balances of construction in progress at December 31 2017, 2016 and 2015, are as follows:

Plant:	**2017**	**2016**	**2015**
Steam	$ 326	$ 9,569	$ 424,456
Hydro electric	1,248,917	2,040,347	4,316,364
Nuclear power	1,316,029	1,273,489	341,051
Turbo gas and combined cycle	416,051	326,893	648,714
Geothermal	1,220,462	1,147,109	1,468,241
Internal combustion	682	107,694	218,379
Transmission lines, networks and substations	14,594,645	12,673,648	14,038,598
Offices and general facilities	1,110,823	854,523	762,343
Total	$ 19,907,935	$ 18,433,272	$ 22,218,146

The amount of financing costs capitalized at December 31, 2017, 2016 and 2015, were $214,186, $2,248,247 and $5,695,953, respectively.

Fair value measurement

As mentioned in note 1, during 2016 an assessment was made of the plants, facilities and equipment. Derived from this process, a net increase in the value of these assets of $210,725,169 was recognized in other comprehensive income.

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 the property, plant and equipment category that was the subject of the appraisal. Independent external appraisers provide the fair value of plants, facilities and equipment as of December 31, 2016.

The fair value of investment property has been classified as a fair value Level 3 based on the input data of the valuation technique used.

ii. Valuation technique and significant non-observable input data

The table below shows the valuation technique used to measure the fair value of the investment property as well as the significant non-observable input data used.

Valuation technique	Significant non-observable input data	Interrelation between data non-observable input and measurement of the fair value
Discounted cash flows: The valuation model considers the present value of the net cash flows that will be generated by the plants, facilities and equipment, considering the rate of expected growth of the income. Net cash flows expected are discounted using discount rates adjusted for risk.	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 greater (less) - The discount rate adjusted for risk was lower (higher)

9. Intangible assets

As of December 31, 2017, 2016 and 2015, the other assets are integrated as follows:

	2017	2016	2015
Rights of way	$ 29,979,671	$ 29,903,611	$ 38,963,420
Deposits and advances	2,533,946	2,434,810	2,567,245
Other	323,370	305,399	100,442
Total	**$ 32,836,987**	**$ 32,643,820**	**$ 41,631,107**

(1) Includes rights of way in an amount of $24,064,610 that are part of the assets contributed by the Federal Government to the Company through INDAABIN.

10. Derivative financial instruments

CFE, in accordance with the risk management strategy, enters into derivative financial instruments to mitigate exchange rate and interest rate exposure. CFE's hedging policies establish that derivative financial instruments that do not qualify as hedges are classified as held for trading purposes.

The fair value of the total derivative financial position as of December 31, 2017, 2016 and 2015, amounted to $16,085, $15,646 and $3,240 million, respectively.

- ***Financial instruments for trading purposes -*** As of December 31, 2017, 2016 and 2015, CFE maintained designated derivative financial instruments whose fair value represented a liability of $438, $494 and $ 1,000 million, respectively.

  The transaction consists of a series of currency "Forwards" that allow to fix the exchange rate yen/dollar, during the agreed term of the operation in 54.0157 yen per one US dollar. As a result of the transaction, CFE pays an interest rate equivalent to 8.42% per annum in US dollars. These instruments have not been designated as hedges under the requirements of the financial reporting standard, which is why their valuation effect is recorded as part the financial cost; a gain (loss) in said value offsets a loss (gain) in the underlying liability.

  In addition, as part of these two instruments that have been classified for trading purposes, a long " European call ", by which CFE has the right to buy Japanese yen at maturity, at market price, in case the yen/dollar exchange rate is quoted below 118.75 yen per dollar. In addition, a short "European call" of 27.80, if the exchange rate prevailing at the settlement date is above this level.

  In the event that CFE decides to cancel this economic hedge (currency forwards on yen/dollar exchange rate) in advance, an estimated extraordinary loss would occur at December 31, 2017, 2016 and 2015, as follows:

			Thousands of pesos		
Instrument	**Underlying**	**Maturity**	**2017**	**2016**	**2015**
FWD JPY/USD	Exchange rate and interest rate	2036	438,115	494,776	58,158
		Total	438,115	494,776	58,158

- ***Financial instruments for hedging purposes –*** As of December 31, 2017, 2016 and 2015, CFE maintains its designated hedges on, exchange rate and interest rate hedging position, as described below:

Instrument	Underlying	Hedging type	Maturity	Thousands of pesos 2017	2016	2015
CCS	Exchange rate and interest rate	Cash Flow	2021	339,264	478,920	337,147
CCS	Exchange rate and interest rate	Cash Flow	2022	93,469	125,767	83,569
CCS	Exchange rate and interest rate	Cash Flow	2023	3,971,843	4,843,314	186,820
CCS	Exchange rate and interest rate	Cash Flow	2024	5,081,986	5,623,271	
CCS	Exchange rate and interest rate	Cash Flow	2027	2,589,860		
CCS	Exchange rate and interest rate	Cash Flow	2032	(427,998)		
CCS	Exchange rate and interest rate	Cash Flow	2036	4,763,554	4,927,130	1,655,629
Call spread	Exchange rate and interest rate	Cash Flow	2027	(108,664)		
Forwards	Exchange rate	Cash Flow	Less than 1 year	105,058	41,329	(20,252)
IRS	Interest rate	Cash Flow	2017		(1,805)	(8,347)
IRS	Interest rate	Cash Flow	2018		(1,045)	(65,618)
			Subtotal	**16,523,091**	**16,139,238**	**2,721,924**
CCS	Exchange rate JPY/Rate USD	Negotiation		(438,115)	(494,776)	(58,158)
			Total	16,084,976	15,644,462	2,663,766

IRS = Interest Rate Swaps
CCS = Cross Currency Swap

The previous table includes the mark to market of the hedging derivatives. At December 31, 2017 the total mark to market corresponding to the hedging and negotiation derivatives was $16,084 million pesos for the carrying value.

The results of the effectiveness tests for these hedging instruments showed that relationships are highly effective. CFE estimated that the amount of ineffectiveness for them is minimum.

At December 31, 2017, the OCI effect for the follow years (portfolio actual) are detailed as follows:

	Million of pesos		
Year	**MtM**	**OCI**	**Result (interest and exchange rate)**
2018	14,438	13,904	534
2019	15,686	15,335	351
2020	18,556	18,068	488
2021	21,298	20,805	494
2022	24,067	23,550	517

a. Fair value Measurement

The techniques for estimating the fair value of derivative instruments are described in the accounting policy described above, depending on the derivative instrument at which the fair value is estimated, CFE uses the corresponding technique to estimate said value.

Adjustment of Fair Value or Mark to Market by Credit Risk

The net of the fair value of derivative financial instruments (Mark to Market) effective as of December 31, 2017, before considering credit risk, amounted to $16,208 which is included in the balance sheet and consists of ($438) from fair value financial instruments to results and $15,770 from fair value to OCI.

The net of the fair value of derivative financial instruments (Mark to Market) effective as of December 31, 2016, before considering credit risk, amounted to $15,839 which is included in the balance sheet and consists of ($494) from fair value financial instruments to results and $16,333 from fair value to OCI.

The net of the fair value of derivative financial instruments (Mark to Market) effective as of December 31, 2015, before considering credit risk, amounted to $2,676 which is included in the balance sheet and consists of ($58) from fair value financial instruments to results and $2,735 from fair value to OCI.

The Company applies an adjustment (Credit Value Adjustment, CVA) to reflect the creditworthiness of the counterparty of the derivative financial instrument. The CVA is the fair value of the counterparty credit risk and reflects the estimated fair value of the hedging required to cover the counterparty credit risk included in these instruments.

Methodology to adjust Fair Value or Mark to Market by Credit Risk.

This mechanism was approved at the time 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 to the fair value of derivative financial instruments.

As of December 31, 2017, the adjustment to fair value by the CVA is detailed as follows:

Counterparty	Fair value MTM	Adjusted fair value MTM	Adjustment at December 31, 2017
Credit Suisse	234,887	233,994	893
Deutsche Bank	2,973,993	2,958,353	15,640
Morgan Stanley	2,678,187	2,667,769	10,418
Santander	2,755,476	2,748,865	6,611
BNP Paribas	1,411,728	1,409,163	2,566
BBVA Bancomer	1,987,436	1,981,617	5,819
Goldman Sachs	2,243,630	2,234,522	9,109
Citibanamex	129,006	128,596	410
Credit Agricole	14,686	14,663	24
HSBC	15,502	15,447	25
JP Morgan	5,933	5,915	18
Barclays Bank	1,758,115	1,752,344	5,771
Total (thousands of pesos)	**16,208,580**	**16,151,276**	**57,304**

As of December 31, 2016, the adjustment to fair value by the CVA is detailed as follows:

Counterparty	Fair value MTM	Adjusted fair value MTM	Adjustment at December 31, 2016
Credit Suisse	63,702	62,991	711
Deutsche Bank	3,680,308	3,616,013	64,295
Morgan Stanley	2,514,752	2,507,685	7,067
Santander	3,287,138	3,235,793	51,345
BNP Paribas	1,718,447	1,699,269	19,178
BBVA Bancomer	2,278,255	2,235,287	42,968
Goldman Sachs	2,199,037	2,192,088	6,949
Citibanamex	49,583	49,411	172
Credit Agricole	20,013	19,817	196
HSBC	20,149	20,019	130
JP Morgan	7,678	7,653	25
Total (thousands of pesos)	**15,839,062**	**15,646,026**	**193,036**

As of December 31, 2015, the adjustment to fair value by the CVA is detailed as follows:

Counterparty	Fair value MTM	Adjusted fair value MTM	Adjustment at December 31, 2015
Credit Suisse	42,026	41,640	387
Deutsche Bank	1,341,434	1,326,691	14,743
Morgan Stanley	161,311	160,000	1,311
Santander	171,166	169,979	1,187
BNP Paribas	157,007	156,231	776
BBVA Bancomer	239,531	237,708	1,822
Goldman Sachs	717,101	710,950	6,151
Total (thousands of pesos)	**2,829,576**	**2,803,198**	**26,378**

The fair value adjustment corresponds to position with positive market value

Fair Value hierarchy or Mark-to-Market

In order to increase consistency and comparability of fair value measurements and their disclosures, IFRS set forth a fair value hierarchy that prioritizes on three levels of inputs to valuation techniques used. This hierarchy grants the highest priority to quoted prices (unadjusted) on the active markets for assets and liabilities (level 1) and the lowest priority for unobservable inputs (level 3).

The availability of relevant information and its relative subjectivity may affect the appropriate selection of the valuation technique. However, the fair value hierarchy prioritizes inputs based upon valuation techniques.

Level 2 input information

As was explained above, and according to the terms in which the ISDA contracts were entered into the counterparties or banking institutions are the appraisers that calculate and send the Mark-to-Market calculation in a monthly basis.

Therefore, the hierarchy level of the Company's Mark-to-Market for derivatives financial instruments at December 31, 2017 is level 2 by the following:

a) Inputs other than quoted prices, and it includes level one information which is directly and indirectly observable.

b) Quoted prices for similar assets and liabilities on active markets.c) Inputs other than prices quoted and observable.

d) Information mainly derived from observable information and correlated through other means.

b. Financial Risk Management

CFE is exposed to the following financial risks for maintaining and using derivative financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

Credit risk

Credit risk associated with financial derivative instruments is the risk of experiencing a financial loss if a counterparty to these financial instruments fails to meet its financial obligations.

The carrying amount of derivative financial assets represents the maximum exposure to credit risk. As of December 31, 2017, 2016 and 2015 this amounted to $16,208, $15,839 and $2,829, respectively.

Liquidity risk

The liquidity risk associated with financial derivative instruments is the risk that CFE finds it difficult to meet its financial obligations arising from these instruments.

Exposure to liquidity risk by holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of December 31, 2017, 2016 and 2015, this amounted to $549, $497 and $94, respectively.

The follow table shows the maturities of the financial liabilities of the Company associated to financial instruments derivatives, based on terms of payment:

December 31, 2017	Lower than 1 year	Higher than 1 year and less than 5 years	Total
Payable cash flow			
IRS	1,425	1,431	2,856
CCS	5,676	22,395	28,071
Forwards	6,070	-	6,070
Total	**13,171**	**23,826**	**36,997**
Receivable cash flow			
IRS	1,013	1,762	2,775
CCS	5,210	22,865	29,075
Forwards		-	-
Total	**6,223**	**25,627**	**31,849**

December 31, 2016	Lower than 1 year	Higher than 1 year and lower than 5 years	Total
Payable cash flow			
IRS	216	2,972	3,188
CCS	5,452	17,466	22,918
Forwards	3,456	-	3,456
Total	**9,124**	**20,438**	**31,179**
Receivable cash flow			
IRS	256	2,913	3,168
CCS	3,738	18,110	21,848
Forwards	1,600	-	1,600
Total	**5,594**	**21,023**	**26,616**

Market Risks

The market risk associated with derivative financial instruments is the risk that changes in market prices, such as exchange rates and interest rates, affect CFE's income because of the holding of derivative financial instruments.

CFE uses financial derivative instruments to manage market risk, generally seeking access to hedge accounting to control or immunize the volatility that might arise in the results.

a) Currency exchange risks.

50% of CFE's debt is denominated in foreign currency, mainly in US dollars, while most of our assets and revenues are denominated in pesos. As a result of this, we are exposed to the risk of devaluation of the peso against the dollar. As part of our risk management policy we have contracted cross-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. CFE maintains cross-currency swaps as a hedge of our foreign currency debt for $72,135 in 2017, 53,663 in 2016 and $33,330 in 2015.

Likewise, CFE contracted a derivative financial instrument in 2012 to hedge the exchange rate risk of our debt by $32 billion yen. The market value of this transaction at December 31, 2017, 2016 and 2015, is ($438), ($494) and $(58), respectively. These derivative instruments were not designated as hedges.

Sensitivity analysis for exchange rate effect

A possible and reasonable strengthening (weakening) of the MXN / USD and JPY / USD exchange rates as of December 31, 2017 would have affected the fair value of the total position of foreign currency derivative financial instruments, and thus, the results of the period and the other comprehensive income (as some of them are designated as hedges), in the amounts shown as follows:

31/12/17	**Instrument**	**+ 1 cent**	**- 1 cent**
	Cross currency	75,781	(68,489)
	JPY/USD	269	(269)
	FWD	6,376	(5,763)
	Total	**82,426**	**(74,521)**

This analysis assumes that the other variables, in particular interest rates, remain constant.

b) Interest rate risk

An important part of our debt accrues interest at variable rates, which are calculated by reference to the TIIE rate in the case of debt denominated in pesos. As of December 31, 2017, 2016 and 2015, we have covered $4,833, $3,390 and $5,129, respectively, million of our peso-denominated debt bearing variable interest rates.

Sensitivity analysis for interest rates

A possible and reasonable strengthening (weakening) of interest rates as of December 31, 2017 would have affected the fair value of the total position of derivative financial instruments associated with a variable interest rate, and therefore the results of the period and the other comprehensive income (as some of them are designated as hedge), in the amounts shown below:

	Results	
31/12/17	**+ 1 base point**	**- 1 base point**
Interest Rate swaps	416	(320)

This analysis assumes that the other variables, in particular interest rates, remain constant.

11. Documented debt

The documented debt balances at December 31, 2017, 2016 and 2015 are as follows:

Foreign Debt	Type of credit	Weighted Interest rate	Maturities	2017 Local currency	2017 Foreign Currency (thousands)	2016 Local currency	2016 Foreign currency (thousands)	2015 Local currency	2015 Foreign currency (thousands)
In US dollars at the exchange rate per dollar of $19.7867 at December 2017, $20.7314 at December 2016 and $17.2065 at December 2015	Bilateral	Fixed and variable - 1.51%	Various through 2023	1,720,886	86,962	2,696,259	130,057	3,264,831	189,744
	Bonds	Fixed and variable - 5.12%	Various through 2045	97,696,627	5,206,964	107,124,453	5,436,730	66,735,410	3,878,500
	Revolving	Fixed and variable - 2.65%	Various through 2020	2,660,379	134,453	1,529,348	73,770	2,658,491	154,505
Total US dollars				102,077,692	5,428,378	111,350,060	5,640,557	72,658,732	4,222,749
In Euros at exchange rate per euros of 23.6062 at December 2017, $21.7534 at December 2016 and $18.7873 at December 2015	Bilateral	Fixed and variable - 2%	Various through 2024	41,741	1,768	44,622	2,051	59,058	3,144
	Revolving	Fixed and variable - 1.93%	Various through 2020	4,946	210	9,859	577	16,902	900
Total Euros				46,687	1,978	54,481	2,628	75,960	4,044
In Swiss francs at the exchange rate per Swiss franc of $20.1721 at December 2017, $20.2936 at December 2016 and $17.2452 at December 2015	Revolving	Fixed and variable - 0.55%	Various through 2021	909,359	45,080	1,575,319	77,626	1,911,573	110,847
Total Swiss francs				909,359	45,080	1,575,319	77,626	1,911,573	110,847
In Japanese Yens at the exchange rate per Japanese Yen of $0.1746 at December 2017, $0.1768 at December 2016 and of $0.1433 at December 2015	Bilateral	Fixed and variable - 1.52%	Various through 2021	676,485	3,874,487	1,034,732	5,852,554	378,320	2,640,053
				676,485	3,874,487	1,034,732	5,852,554	378,320	2,640,053
Bond		Fixed - 3.83%	2032	5,587,200	32,000,000	5,657,600	32,000,000	4,585,600	32,000,000
Assets received for financial instruments net (Nota 10b)				(255,199)		(71,027)		51,104	
				5,332,001	32,000,000	5,586,573	32,000,000	4,636,704	32,000,000
Total Japanese yen				6,008,486	35,874,487	6,621,305	37,852,554	5,015,024	34,640,053
Total foreign debt				109,042,224		119,601,165		79,661,289	

Domestic debt	Type of credit	Weighted Interest rate	Maturities	2017 Local currency	2017 Foreign Currency (thousands)	2016 Local currency	2016 Foreign Currency (thousands)	2015 Local currency	2015 Foreign Currency (thousands)
Local currency	Bank loans	Fixed and variable –6.79%	Various through 2023	7,600,000		18,700,000		31,800,000	
	Securities market	Fixed and variable 7.5%	Various through 2027	79,000,000		66,500,000		66,500,000	
Total Mexican pesos:				86,600,000		85,200,000		98,300,000	
In UDIS: at the exchange rate per UDI of $5.9313 at December 2017 and $5.269 at December, 2016	Securities market	Fixed - 4.46%	Various through 2032	11,141,672		5,196,355		5,027,889	
Total UDIS				11,141,672		5,196,355		5,027,889	
Total domestic debt				97,741,672		90,396,355		103,327,889	
Summary									
Total foreign debt				109,042,224		119,601,165		79,661,289	
Total domestic debt				97,741,672		90,396,510		103,327,889	
Interest payable				2,476,342		1,936,494		1,504,477	
Expenses for amortization of debt				(2,338,310)		(2,320,698)		(2,153,401)	
Total documented debt				206,921,929		209,613,471		182,340,254	
Short-term debt				23,442,173		14,437,280		16,562,500	
Short term Interest payable				2,476,342		1,936,494		1,504,477	
CFEnergia				1,433,451		-		-	
Total short -term				27,351,967		16,373,774		18,066,977	
Long-Term Debt				183,341,723		195,560,395		166,426,678	
Expenses for amortization of debt				(2,338,310)		(2,320,698)		(2,153,401)	
Total long term				181,003,413		193,239,697		164,273,277	
Total short and long term				208,355,380		209,613,471		182,340,254	

The short-term and long-term documented debt liabilities mature as follows :

31-12-2017	Amount
2018	27,351,967
2019	7,689,452
2020	21,630,952
2021	20,215,510
2022	257,762
2023 and subsequent	131,209,737
TOTAL	208,355,380

Documented debt

The integration of the financing available for the period from January to December is shown below:

Domestic debt

In April and July 2017, $2,500 million of a revolving credit suscribed with Banco Santander (Mexico), S. A., were arranged, in addition in July 2017 $2,500 million were arranged paying montly interest to TIIE 28 days plus 0.13%. Said disbursements were amortized in October 2017.

In July 2017, two issuances of Stock Certificates were placed in the national markets:

1-From the CFE 17 series, Stock Certificates were auctioned for an amount of $7,000 million, which paid monthly interest to a fixed rate of 8.18%, with maturity in December 2027.

2-From the CFE 17-2 series, Stock Certificates were auctioned for an amount of $1,000 million, which paid monthly interest to a variable rate of 28-day TIIE plus 0.40%, with maturity in July 2020.

In August 2017, $2,500 million of a revolving credit subscribed with BBVA Bancomer, S. A., was arranged at a 28-day TIIE rate plus 0.48%, with monthly interest payments, which was amortized in November 2017.

In October 2017, three issuances of Stock Certificates were placed:

1-First reopening of CFE 17 series, for an amount of $3,000 million, which pay monthly interest to a fixed rate of 8.18%, with maturity in December 2027.

2-First reopening of CFE 17-2 series, for an amount of $1,500 million, which pay monthly interest to a variable rate of 28-day TIIE plus 0.40%, with maturity in July 2020.

3-Base placement of CFE 17U series, for an amount of 944,092,800 UDIS to a fixed rate of 4.54%, with maturity in September 2032.

In November 2017, $2,500 million of a revolving credit subscribed with Banco Santander (México), S. A., was arranged at a 28-day TIIE rate plus 0.13%, with monthly interest payments, which was amortized in December 2017.

In November 2015, two lines of credit, one per $2,500,000 million and other per $500,000, the first with maturity in November 2025, with an fixed rate of 7.35 and the second with maturity in 2020 was arranged at a 28-day TIIE rate plus 20; likewise a third line of credit with Indeval per 934 million UDIS which will have its last amortization in November 2017 with a fixed rate of 4.37

In June 2015, two lines of credit, one per $9,000,000 million and the other per $1,000,000 million, the first with an interest rate of 7.35 and maturiry in Noember 2025, the second with an interest rate of TIIE 28 + .20 and maturity in June 2020.

Foreign debt

During January 2017, $126.3 million dollar of the credit line suscribed with Banco Santander, (Mexico), S. A. were arranged to finance enriched uranium for the Laguna Verde Central, for a term of three years, amortizations and semi-annual interest payments, to a rate of LIBOR 6m USD + 1.75%.

In February 2017, $200 million dollar of the syndicated loan was arranged, in which BBVA Bancomer, S. A. has the character of Administrative Agent, at a rate of USD LIBOR plus 1.15% and that will be amortized in the last quarter of the year.

In addition, in order to finance various payments of Financed Public Work (OPF per its acronym in Spanish), $750 million dollar were placed throguh the issuance of an international bond. Such bond bears an interest rate of 5.15%, having its last amortization in September 2047.

Finally, in order to finance imports from Japan, Canada and Switzerland, respectively $115,488,810 JPY (equivalent to 1.0 million dollar) were arranged from the credit line with Japan Bank for International Cooperation (JIBC), $2.1 million dollar from the credit line with Export Development of Canada (EDC), as well as $218,049.75 CHF (equivalent to $229,745.80 million dollar) from the credit line with UBS Switzerland AG (UBS).

On January 13, 2016, a syndicated loan of $1,250 million was arranged with BBVA Bancomer, S.A., acting as the administrative agent. The loan bears an interest rate of LIBOR USD plus 1.15% and matures in November 2016.

On September 29, 2016, $300 million of US dollars were placed through a private bond with Morgan Stanley & Co. acting as the placement agent. Such bond bears an interest rate of 4.39%, having a 20-year term and a maturity in September 2036.

On October 18, 2016, a fixed rate bond of $1,000 million of US dollars was placed with Deustche Bank Trust Company Americas. This bond was contracted at a coupon fixed rate of 4.75%, with a term of 10 years and four months, and a maturity in February 2027.

On October 19, 2016, $375 million of US dollars were placed through a fixed rate bond under the Regulation S, with Deustche Bank Trust Company Americas. This bond was contracted at a fixed coupon rate of 5.00%, with a term of 20 years and a maturity in September 2036.

On the first quarter of 2016, proceeds of $16.6 million of US dollars (in its equivalent in JPY) were obtained from a credit line executed with the Japan Bank for International Cooperation (JBIC).

In the second quarter of 2016, proceeds of $0.73 million of US dollars (in its equivalent in JPY) were obtained from a credit line signed with JBIC.

In the second quarter of 2016, proceeds of $23.5 million of US dollars (in its equivalent JPY and CHF) were obtained from a credit line executed with JBIC, Banco Bilbao Vizcaya (BBVA), UBS, and Export Development Canada (EDC).

In the third quarter of 2016, proceeds of $7.5 million of US dollars (in its equivalent JPY and CHF) were obtained from a credit line executed with JBIC.

12. Debt for long-term Productive Infrastructure projects (PIDIREGAS by its acronym in Spanish) and obligations for capital lease

The balances of PIDIREGAS (direct investment) debt and obligations for capital leases as of December 31, 2017, 2016 and 2015 are comprised and mature as follows:

	Direct investment PIDIREGAS	Obligations for capital leases (PEE's)	Total 2017	Total 2016	Total 2015
Short-Term	$ 21,145,914	8,121,848	$ 29,267,762	25,354,442	22,770,191
Long-Term					
2017	688,164	6,107,591	6,795,755	5,780,384	15,583,785
2018	1,705,968	6,810,704	8,516,672	9,555,498	19,703,664
2019	293,720	7,601,640	7,895,360	9,460,320	15,041,440
2020	3,493,333	8,492,080	11,985,413	11,933,890	13,645,850
2021	2,154,690	9,495,334	11,650,024	9,373,246	13,252,745
2022	5,748,122	10,626,585	16,374,707	16,702,876	12,597,002
Subsequent years	91,965,399	64,969,884	156,935,283	157,935,696	99,492,177
Total long-term	$ 106,049,396	114,103,818	220,153,214	$ 220,741,910	189,316,663
Total	$ 127,195,310	122,225,666	249,420,976	$ 246,096,352	212,086,854

PIDIREGAS debt (Direct Investment)

At December 31, 2017, 2016 and 2015, the debt corresponding to the acquisition of plants, facilities and equipment through PIDIREGAS was accounted for in accordance with IFRS, and is summarized as follows:

Value of the credit:	Term of the agreement	Balances at December 31, 2017 (Thousands)				Balances at December 31, 2016 (Thousands)				Balances at December 31,2015			
		Local currency		Foreign 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	Short-term	Long-term	Short-term	Long-term
Foreign Debt													
621.94 MoD	2016	-	-			-	.			2,479,816	-	144,121	
24.84 MoD	2017	-	-			-	-	-	-	37,172	37,172	2,160	2,160
384.19 MoD	2018					44,787	-	2,160	-	364,746	1,009,107	21,198	58,647
701.22 MoD	2019	539,009	145,636	27,241	7,360	498,499	717,332	24,046	34,601	469,760	1,644,159	27,301	95,555
259.36 MoD	2020	540,203	810,304	27,301	40,952	565,994	1,414,985	27,301	68,253	469,964	5,983,776	27,313	347,763
	2026	89,540	716,320	4,525	36,202								
491.64 MoD	2029	540,438	5,800,198	27,313	293,136	566,240	6,643,364	27,313	320,449	1,036,524	9,500,127	60,240	552,124
745.13 MoD	2032	1,191,956	8,540,805	60,240	431,644	1,248,866	10,197,445	60,240	491,884	350,382	7,007,634	20,363	407,267
907.39 MoD	2036	840,265	15,660,160	42,466	791,449	798,249	16,980,848	38,504	819,088				
726.00 MoD	2042	1,397,362	23,595,288	70,621	1,192,482	-	-	-	-				
Total foreign debt		5,138,773	55,268,711	259,707	2,793,225	3,722,636	35,953,974	179,565	1,734,276	5,208,364	25,181,975	302,696	1,463,516

Value of the credit:		Term of the agreement	Balances at December 31, 2017 (Thousands) Local currency Short-term	Long-term	Foreign currency Short-term	Long-term	Balances at December 31, 2016 (Thousands) Local currency Short-term	Long-term	Foreign currency Short-term	Long-term	Balances at December 31,2015 (Thousands) Local currency Short-term	Long-term	Foreign currency Short-term	Long-term
Domestic Debt														
6,771.70	MoP	2016	-	-			-	36,598			880,825	36,598		
2,265.65	MoP	2017	-	-			88,611	-	-	-	189,909	88,611		
27,197.87	MoP	2018	1,915,888				669,445	3,156,305			1,295,819	3,977,772		
9,181.55	MoP	2019	1,011,552	542,528			778,024	1,607,113			731,760	2,354,951		
9,232.98	MoP	2020	1,143,268	895,664			910,344	2,554,330			975,257	3,455,168		
1,147.26	MoP	2021	181,999	293,720			121,828	475,719			145,502	597,547		
17,030.49	MoP	2022	2,265,874	3,493,333			1,702,554	6,754,195			1,780,306	8,607,777		
4,676.80	MoP	2023	792,720	2,154,690			486,945	2,336,413			419,435	3,003,445		
12,405.15	MoP	2024	1,578,043	5,748,122			1,099,555	5,826,698			1,353,503	8,161,653		
5,512.25	MoP	2025	644,745	2,736,176			670,430	4,035,698			963,767	7,647,619		
21,863.37	MoP	2026	2,550,125	12,027,493			2,120,550	16,085,716			-	-		
13,532.59	MoP	2027	1,612,159	9,360,896			-	-						
5,232.09	MoP	2032	-				526,735	2,258,328			429,234	2,752,888		
2,491.18	MoP	2036	83,664	1,505,959			83,664	1,589,623			83,664	1,673,288		
16,048.53	MoP	2042	753,698	12,013,283			726,944	12,766,982			700,193	13,493,927		
Total domestic debt			14,533,735	50,771,864			9,985,631	59,483,717			9,949,174	55,851,244		
Payable interest			1,473,412				1,018,221				1,202,451			
CEBURES				8,821				8,821				8,821		
Total PIDIREGAS Debt			21,145,914	106,049,396			14,726,488	95,446,512			16,359,989	81,042,040		

At December 31 2017, 2016 and 2015 the minimum payment commitments for PIDIREGAS amounted to:

		2017	2016	2015
PIDIREGAS	$	176,974,622	144,741,264	124,475,859
less:				
Unaccrued interest		49,788,133	34,577,085	28,285,102
Present value of obligations		127,186,489	110,164,179	96,190,757
less:				
Current portion of obligations		21,145,914	14,726,488	15,157,538
Long-term portion of PIDIREGAS		106,040,575	95,437,691	81,033,219
CEBURES		8,821	8,821	8,821
Total CEBURES and PIDIREGAS a largo plazo	$	106,049,396	$95,446,512	81,042,040

Obligations for capital lease (conditional investment)

As of December 31, 2017, 27 contracts have been signed with private investors, denominated independent energy producers. Such contracts include an obligation for CFE to pay certain considerations in exchange for a guaranteed electricity supply service, based on an agreed generation capacity provided by power generation plants financed and built by those investors.

The future payment obligations include: a) rules for quantifying the amount of acquiring the generation plants when a force majeure event occurred in the terms of each contract, from the construction stage of each project until the termination of the contracts; and b) fixed charges for power generation capacity, as well as variable charges for operation and maintenance of the generation plants, which are determined in accordance with the variable terms set forth in the contracts, applicable from the start-up and testing stage until the termination of the contracts.

a)Classified as lease

The Company has evaluated that 23 of the contracts with independent producers have an embedded lease on the power generation plant in accordance with IFRIC 4 "Determination whether an arrangement contains a lease" and IFRIC 12 "Service Concession Agreements". In turn, those leases qualify as financial leases in accordance with IAS 17 "Leases".

The lease agreements have a term of 25 years. The average annual interest rate on those lease agreements is 11.19%.

	Minimum lease payments			Present value of lease payments		
	31/12/2017	**31/12/2016**	**31/12/2015**	**31/12/2017**	**31/12/2016**	**31/12/2015**
Short-term	15,631,775	22,473,286	14,304,540	8,121,848	$ 10,627,954	6,410,202
Between one and five years	86,151,051	102,490,749	64,825,462	38,507,349	36,140,956	20,283,765
More than five years	103,923,053	144,744,587	122,295,964	75,596,469	89,154,442	87,990,858
Total accumulated	205,705,879	$269,708,622	201,425,966	122,225,666	$135,923,352	114,684,825

At December 31, 2017, the obligation for capital lease is comprised as follows:

			Foreign currency		Local currency	
Name	Start of operations	Historical value of the obligation	Short-term	Long-term	Short-term (1)	Long-term
CT MERIDA III	Jun-00	242,685	13,242	137,496	262,009	2,720,595
CC HERMOSILLO	Oct-01	156,144	7,141	105,716	141,305	2,091,775
CC SALTILLO	Nov-01	152,383	6,956	96,493	137,646	1,909,286
TUXPAN II	Dec-01	283,133	12,340	194,327	244,163	3,845,097
EL SAUZ BAJIO	Mar-02	399,773	16,084	294,686	318,254	5,830,858
CC MONTERREY	Mar-02	330,440	15,007	185,914	296,930	3,678,617
CC ALTAMIRA II	May-02	233,234	8,704	179,995	172,223	3,561,505
CC RIO BRAVO II	May-02	232,108	10,169	147,145	201,218	2,911,521
CC CAMPECHE	May-03	196,554	7,851	134,569	155,345	2,662,681
CC TUXPAN III Y IV	May-03	587,064	22,419	424,183	443,603	8,393,187
CC MEXICALI	Jul-03	569,345	23,685	351,385	468,654	6,952,746
CC CHIHUAHUA III	Sep-03	275,327	11,351	169,856	224,602	3,360,888
CC NACO NOGALES	Oct-03	238,016	10,002	118,551	197,914	2,345,728
CC ALTAMIRA III Y IV	Dec-03	600,897	23,595	395,997	466,859	7,835,472
RIO BRAVO III	Apr-04	312,602	10,920	230,948	216,071	4,569,701
CC LA LAGUNA II	Mar-05	367,578	11,755	281,391	232,598	5,567,790
CC RIO BRAVO IV	Apr-05	270,697	8,100	214,258	160,282	4,239,457
CC VALLADOLID III	Jun-06	288,160	8,805	221,004	174,224	4,372,941
CC TUXPAN V	Sep-06	284,997	6,779	241,450	134,127	4,777,494
CC ALTAMIRA V	Oct-06	284,997	10,556	470,524	208,860	9,310,110
CC TAMAZUNCHALE	Jun-07	482,562	11,509	406,292	227,735	8,039,184
CCC NORTE	Aug-10	450,097	11,692	373,278	231,354	7,385,931
CCC NORTE II	Jan-14	427,733	8,393	391,235	166,073	7,741,255
Total			277,057	5,766,693	5,482,050	114,103,818

(1) The short-term balance does not include interest in the amount of $2,639,799, $5,467,739 and 2,558,973 at December 31, 2017, 2016 and 2015, respectively.

b) Other contracts with independent energy producers

There are three contracts in operation with wind farm private investors in which, as opposed to the contracts aforementioned, the obligation established to CFE is to pay only for the wind energy that was generated and delivered; therefore, these are not consideredcapital leases.

The contracts are as follows:

C E Oaxaca I
C E Oaxaca II, III y IV
C E La Venta III
C E Sureste I

c) Service provider contracts

Pemex-Valladolid Gas Pipeline
Coal terminal

These service provider contracts are not considered financial leases as their characteristics do not comply with the provisions of IFRS for this particular treatment.

13. Other accounts payable and accrued liabilities

Other accounts payable and accrued liabilities at December 31, 2017, 2016 and 2015, are as follows:

	2017	2016	2015
Suppliers and contractors	$ 59,849,154	$ 17,888,728	$ 17,443,697
Accounts payable MEM	-	2,011,804	-
Employees	4,213,117	3,765,564	3,395,526
Deposits	22,974,717	21,103,369	20,042,429
Other liabilities	20,761,053	17,103,988	19,020,805
Total	$ 107,798,041	$ 61,873,453	$ 59,902,457

14. Taxes and duties payable

Taxes and duties payable at December 31, 2017, 2016 and 2015 are summarized as follows:

	2017	2016	2015
Payable			
Income tax payable	$ 2,828,070	$ -	$ -
Income tax payable on behalf of third parties	411,290	270,792	279,769
Contributions to the IMSS	698,046	680,038	715,781
Rights for use and development of national waters	370,375	224,741	256,090
Payroll Tax	45,556	54,574	42,602
Contributions to INFONAVIT	12,481	10,895	12,775
VAT payable	-	985,948	-
Subtotal	4,365,818	2,226,988	1,307,017
Withholdings			
Income tax withheld from employees	738,923	693,591	651,667
Withholdings of value added tax	68,441	67,946	74,754
Income tax on interest paid abroad	27,993	26,846	21,802
Income tax on foreign residents	45,677	57,698	2,681
0.5% to contractors	50,404	18,010	16,846
Income tax on professional fees and rent to individuals	7,101	6,302	8,083
0.2% to contractors	547	342	345
Others	422	14,134	84
Subtotal	939,508	884,869	776,262
Total	**$ 5,305,326**	**$ 3,111,857**	**$ 2,083,279**

15. Other long-term liabilities

As of December 31, 2017, 2016 and 2015, other long-term liabilities are as follows:

	2017	2016	2015
Contributions from third parties	$ 8,039,903	$ 33,707,331	$ 29,599,684
Retirement asset obligation	11,101,187	12,888,114	9,013,006
Other provisions	4,283,576	3,561,400	3,336,119
	$ 23,424,666	**$ 50,156,845**	**$ 41,948,809**

16. Long-term employee benefits

Employees' benefit plans have been established in relation to the termination of the employees relationship and for retirement due to causes other than restructuring. Retirement benefit plans consider the years of service completed by the employees and their remunerations at the date of retirement. Retirement plan benefits include the seniority bonus and pension that the employees are entitled to receive upon termination of the employment 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.

a. The economic assumptions in nominal and real terms used are as follows:

	2017	2016	2015
Discount rate	7.75%	8.00%	8.00%
Expected rate of return on assets	7.75%	8.00%	8.00%
Wages increase rate	4.02%	4.02%	6.10%

b. Net cost for the period is as follows:

		2017	2016	2015
Cost of services of the year	$	7,463,000	11,174,000	14,963,000
Financial cost		40,348,000	43,205,000	43,925,000
Past services recognition		92,316	1,340,000	9,676,000
Plan modifications adjustments		-	(167,547,000)	-
Net period cost (income)	$	47,903,316	(111,828,000)	68,564,000

The net actuarial gain or loss for the period amounted to $44,064,000 in 2017, originates from the variations in assumptions used by the actuary for the determination of labor liabilities, as a result of the average wage increase rate and the increase in pensions.

The amount included as a liability in the statements of financial position is as follows:

		2017	2016	2015
Defined benefit obligations	$	529,248,000	527,780,000	630,371,000
Fair value of the plan assets		(6,000,000)	(5,585,000)	(5,287,428)
Assets for promissory notes received from the Federal Government (see note 2)		(161,467,661)	(161,080,713)	-
Projected net liability	$	361,780,339	361,114,287	625,083,572

(2) As mentioned in note 1, the Federal Government subscribed in favor of the Entity credit certificates supporting the settlement commitment of the Federal Government to assume part of CFE´s employee benefit liability, certificates which were considered by the Entity´s Management as a decrease in labor liabilities.

c. Reconciliation between the initial and final balances of the present value of the defined benefits obligation:

	2017	2016	2015
Initial balance (nominal)	$ 527,784,000	$ 630,371,000	569,360,052
Current service labor cost	7,463,000	11,174,000	14,963,000
Financial cost	40,348,000	43,205,000	43,903,948
Past service cost	92,316	1,340,000	9,676,000
Actuarial gains and losses	(12,192,264)	44,064,000	24,596,000
Benefits paid	(35,045,000)	(35,162,080)	(32,128,000)
Plan modification adjustments	-	(167,547,000)	-
Other	797,948	-	-
Defined benefit obligations	$ 529,248,000	$ 527,780,000	$ 630,371,000

d. Reconciliation between the initial and final balances of the fair value of plan assets:

	2017	2016	2015
Initial balance (nominal)	$ 5,585,509	5,287,428	5,307,459
Return on assets included in the plan	(32,000)	(122,000)	(417,000)
Expected returns	447,000	420,081	396,969
Plant assets	$ 6,000,509	5,585,509	5,287,428

e. The most significant assumptions used in determination of the net current service cost are as follows:

	2017	2016	2015
Discount rate	7.75%	8.00%	8.00%
Expected rate of return on assets	7.75%	8.00%	8.00%
Wages increase rate	4.02%	4.02%	6.10%

Resulting from the review on the Collective Labor Agreement in May 2016, several clauses affecting the pension and retirement concepts were modified, causing a decrease in the employee benefits liabilities, and therefore; a positive effect in the results of operations.

Employees meeting age and/or seniority requirements for retirement as of May 2016 or during the rest of 2016, may elect to exercise their right to retirement under the terms provided in the effective Collective Labor Agreement for 2014-2016.

Starting January 1, 2017, any employee may request and obtain, through the SUTERM, his or her retirement with 100% of the average salary of the last four years worked for the CFE, according to the following criteria: men will be candidates as long as a) they have completed 30 years of service and are at least 65 years old, or b) they have completed 40 years of service without age limit; women will be candidates as long as a) they have completed 30 years of service and are at least 60 years old, or b) they have completed 35 years of service without age limit.

f. Sensitivity analysis.

In order to carry out the sensitivity analysis, a modification of +/- .5 points in the discount rate was considered, as such, the considered scenarios contemplated the following financial assumptions:

	Scenario		
	Lower discount rate	**Base**	**Higher discount rate**
Long-term inflation	3.50% annual	3.50% annual	3.50% annual
Discount rate	7.25% annual	7.75% annual	8.25% annual
Wages increase rate	4.02% annual	4.02% annual	4.02% annual
Minimum increase wages rate	3.50% annual	3.50% annual	3.50% annual

Based on these assumptions, the following liabilities were determined (figures in millions of pesos):

	Scenario		
	Lower discount rate	**Base**	**Higher discount rate**
Seniority premium	$ 22,328	21,208	20,185
Severance payments	1,693	1,647	1,602
Pensions and Retirements	530,321	502,666	477,431
Seniority bonus	3,879	3,727	3,584
Total	**$ 558,221**	**529,248**	**502,802**

The percentage difference between the liabilities determined in the two additional scenarios, with respect to the base scenario, is presented in the tables below:

	Scenario		
	Base	**Lower discount rate**	**Variation**
Seniority Premium	$ 21,208	$ 22,328	4.75%
Severance payments	1,647	1,693	3.25%
Pensions and Retirements	502,666	530,321	5.56%
Seniority bonus	3,727	3,879	3.58%
Total	**$ 529,248**	**$ 558,221**	

	Scenario		
	Base	**Higher discount rate**	**Variation**
Seniority premium	$ 21,208	20,185	-4.40%
Severance payments	1,647	1,602	-2.36%
Pensions and Retirements	502,666	477,431	-5.08%
Seniority bonus	3,727	3,584	-4.51%
Total	**$ 529,248**	**502,802**	

17. Income tax

During 2015, CFE was transformed into a Productive State Enterprise from having been a Decentralized Public Entity. This situation consequently lead CFE to no longer apply for the regime included in Title III of the Income Tax Law (Non-Profit Legal Entities), and rather, to apply the provisions in Title II of the above Law (General regime for corporations and legal entities).

As of December 31, 2017 recognized deferred tax assets are comprised of the following items:

	2017	**2016**	**2015**
Provisions	$ 1,932,596	4,024,396	3,287,713
Doubtful accounts allowance	10,900	10,089,862	5,409,778
Inventories	117,647	157,962	258,724
Deferred income for contributions received from third parties	-	10,064,658	9,539,445
Customer advances	-	6,326,532	6,010,919
Asset retirement obligation	406,018	-	-
Tax losses – carry forwards	-	22,947,625	6,622,500
Labor obligation	81,960,603	158,334,086	177,886,629
	$84,427,764	**211,945,121**	**209,015,708**

	2017	**2016**	**2015**
Deferred assets	$84,427,764	$211,945,121	209,015,708
Deferred liabilities: Prepaids	(7,560,102)		
Total deferred asset	**$76,867,662**	**-**	**-**

As of December 31, 2016 and 2015 deferred tax assets were not recognized.

18. Other comprehensive income

The balances of other comprehensive income as of December 31, 2017, 2016 and 2015 are as follows:

		Items that are not subsequently reclassified to the result of the period			Items that are subsequently reclassified to income for the period	
		Revaluation of plants, facilities and equipment	Remeasurements of employee benefits liabilities	Recognition of the assumption by the Federal Government in the settling of obligations for employees benefits liabilities	Cash Flow Hedging	Total other comprehensive income
Balances at January 1st, 2015	$	180,270,226	(42,926,852)	-	42,606	137,385,980
Net comprehensive income		(2,386,410)	(24,596,000)	-	2,355,034	(24,627,376)
Balances as of December 31, 2015		177,883,816	(67,522,852)	-	2,397,640	112,758,604
Net comprehensive income		210,725,169	(44,064,000)	161,080,204	6,752,359	334,493,732
Balances as of December 31, 2016		388,608,985	(111,586,852)	161,080,204	9,149,999	447,252,336
Net comprehensive income		(28,681,250)	(12,192,264)	-	10,401,629	(30,471,885)
Balances as of December 31, 2017	$	359,927,735	(123,779,116)	161,080,204	19,551,628	416,780,451

19. Foreign currency position

As of December 31, 2017, 2016 and 2015, CFE had assets and liabilities denominated in foreign currency as follows:

2017

	Assets	Liabilities				
	Cash and cash equivalents	Trade payables	Domestic Debt	External Debt	Obligations for capital leases and PIDIREGAS	Short position in foreign currency
US dollars	1,215,536	21,659		5,428,378	9,096,684	13,331,184
Euros	505			2,360		1,855
Japanese yen	1,335,513			3,874,487		5,210,000
Swiss francs	31,644			45,080		13,436

2016

	Assets	Liabilities				
	Cash and cash Equivalents	Trade Payables	Domestic Debt	External Debt	Obligations for capital leases and PIDIREGAS	Short position In foreign currency
US dollars	248,696	139,595		5,640,557	8,206,499	13,737,956
Euros				2,628		2,628
Japanese yen	102,217			5,852,554		5,750,337
Swiss francs				77,626		77,626

2015

	Assets	Liabilities				
	Cash and cash Equivalents	Trade Payables	Domestic Debt	External Debt	Obligations for capital leases and PIDIREGAS	Short position In foreign currency
US dollars	48,214	31,392		4,492,223	8,282,695	12,758,096
Euros				4,043		4,043
Japanese yen	455			34,640,053		34,639,598
Swiss francs				110,847		110,847

Note: The 32 billion of the bond in yen is included in the external debt of JPY.

Note: The PIDIREGAS dollar debt includes the amount of 6,043,750 million dollars of the capital lease debt with External Producers (as per IFRS)

These assets and liabilities in foreign currency were converted into local currency at the exchange rate established by Banco de Mexico in the DOF effective December 31, 2017, 2016 and 2015 as follows:

Currency		Dec 2017	Dec 2016	Dec 2015
US dollars	$	19.7867	20.7314	17.2065
Euros		23.6062	21.7534	18.7873
Japanese yen		0.1746	0.1768	0.1433
Swiss francs		20.1721	20.2936	17.2452

20. Contingent liabilities and commitments

Contingent liabilities

The Entity is involved in several lawsuits and claims derived from the normal course of its operations, which are not expected to have a material effect in the financial position and future results.

Commitments

a. Natural gas supply contracts

The Entity has entered into contracts to provide services of reception, storage, transportation, regasification and supply of liquefied natural gas. Such contractual commitments consist of acquiring, during the supply period, daily amounts of natural gas as agreed upon the respective contracts.

b. Financed Public Works contracts

As of December 31, 2017, CFE has signed a number of financed public works contracts whose committed payments will commence on the dates when private investors complete the construction of each of the investment projects and deliver to the Entity the related assets for their operation. The estimated amounts of these financed Public Works contracts and the estimated dates of completion of the construction and start of operations are shown in the table included on the next page.

Transmission lines and sub-stations:

Project	Capacity Kmc	Capacity MVA	Estimated amount of the contract in million of : US dollars	Estimated amount of the contract in million of : Mexican Pesos	Operation stage
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F4 (DIST)			32.28	638.79	05-jul-17
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F7 (DIST)	870.17	309.50	222.73	4,407.15	09-jul-17
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F6 (DIST)	158.00	62.10	65.88	1,303.63	17-jul-17
260 SE 1520 Distribución Norte F3	1.10	30.00	5.55	109.80	30-jul-17
314 LT 1911 Red de Trasmisión Asociada al CC Empalme II	118.90	1,750.00	90.00	1,780.80	01-ago-17
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F1 (DIST)	36.62	11.70	10.97	217.10	10-ago-17
209 SE 1212 Sur - Peninsular F9 (DIST)	20.31	20.00	8.17	161.64	12-ago-17
260 SE 1520 Distribución Norte F4 C2 (DIST)	0.25	30.00	4.24	83.80	13-ago-17
307 SLT 1802 Subestaciones y Líneas de Transmisión del Norte F2	158.80		35.20	696.49	15-ago-17
234 SLT 1302 Transmisión y Transformación Noreste F1	25.20	500.00	29.79	589.49	16-ago-17
297 LT 1811 Red de Transmisión Asociada al CC Empalme I	425.60		86.70	1,715.51	23-ago-17
215 SLT 1201 Transmisión y Transformación Baja California F5	31.24		12.50	247.33	30-ago-17
322 SLT 1921 Reducción de Pérdidas de Energía en Distribución F7 (DIST)	334.90	111.60	56.47	1,117.35	31-ago-17
321 SLT 1920 Subestaciones y Líneas de Distribución F5	1.42	30.00	5.46	107.98	31-ago-17
310 SLT 1821 Divisiones de Distribución F1 (DIST)		50.00	4.69	92.80	01-sep-17
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F8 (DIST)	156.00	46.50	85.35	1,688.79	06-sep-17
259 SE 1521 Distribución Sur F5 (DIST)	9.00	30.00	8.84	174.87	08-sep-17
253 SE 1420 Distribución Norte F3	0.50	30.00	4.62	91.39	13-sep-17
273 SE 1621 Distribución Norte-Sur F3	23.77		4.75	94.01	18-oct-17
213 SE 1211 Noreste - Central F4 (DIST)	42.65	60.00	14.00	276.93	21-oct-17
310 SLT 1821 Divisiones de Distribución F2 (DIST)	17.51	60.00	6.33	125.23	28-oct-17
274 SE 1620 Distribución Valle de México F2	26.20	420.00	89.80	1,776.85	31-oct-17
288 SLT 1722 Distribución Sur F2	4.30	40.00	7.13	141.06	08-nov-17
282 SLT 1720 Distribución Valle de México F1	1.00	120.00	11.74	232.26	15-nov-17
259 SE 1521 Distribución Sur F6 C2	2.20	30.00	4.98	98.58	18-nov-17
322 SLT 1921 Reducción de Pérdidas de Energía en Distribución F4 (DIST)	427.54	102.42	139.88	2,767.76	31-dic-17
283 LT 1723 Red de Transm. Asoc. A CC Norte III	21.10		17.40	344.29	30-ene-18
188 SE 1116 Transformación del Noreste F4	97.60	500.00	50.00	989.34	30-ene-18
280 SLT 1721 Distribución Norte F4	17.20	30.00	6.49	128.38	31-ene-18
281 LT 1716 Red de Transmisión Asociada al CC Noreste	128.10		45.91	908.49	01-feb-18
321 SLT 1920 Subestaciones y Líneas de Distribución F4	42.40	50.00	11.74	232.22	10-feb-18
321 SLT 1920 Subestaciones y Líneas de Distribución F1 C2 (DIST)	0.18	20.00	2.88	57.06	25-feb-18
328 LT Red de Transmisión Asociada a la CG Los Azufres III F2 C2 (2011)	1.45		4.48	88.64	05-mar-18
209 SE 1212 Sur - Peninsular F6 C2 (DIST)	0.90	20.00	4.35	86.03	01-abr-18
309 SLT 1820 Divisiones de Distribución del Valle de México	5.20	360.00	48.15	952.73	19-abr-18
253 SE 1420 Distribución Norte F7 (DIST)	2.70	20.00	3.02	59.83	03-may-18
242 SE 1323 Distribución Sur F2 C2 (DIST)	3.26	50.00	9.77	193.30	04-may-18
336 SLT 2001 Subestaciones y Líneas Baja California Sur - Noroeste F1	225.00	950.00	44.50	880.41	25-may-18
274 SE 1620 Distribución Valle de México F1	16.10	780.00	94.60	1,871.82	31-may-18
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F5 C2 (DIST)	1,185.00	162.30	169.89	3,361.56	06-jun-18
350 SLT 2121 Reducción de Pérdidas de Energía en Distribución F3 (DIST)	353.20	45.90	38.53	762.46	07-jun-18
350 SLT 2121 Reducción de Pérdidas de Energía en Distribución F2 (DIST)			36.56	723.34	10-jun-18
273 SE 1621 Distribución Norte-Sur F4 C3 (DIST)	0.54	20.00	3.46	68.40	11-ago-18
338 SLT 2020 Subestaciones, Líneas y Redes de Distribución F1 (DIST)	25.33		10.75	212.73	11-ago-18
350 SLT 2121 Reducción de Pérdidas de Energía en Distribución F1 (DIST)	3.10	2.51	1.36	26.89	26-ago-18
304 LT 1805 Línea de Transmisión Huasteca - Monterrey	441.80		126.83	2,509.55	31-ago-18
321 SLT 1920 Subestaciones y Líneas de Distribución F2 (DIST)	0.72	20.00	3.40	67.25	16-sep-18
338 SLT 2020 Subestaciones, Líneas y Redes de Distribución F6 (DIST)	129.35		3.03	59.91	20-sep-18
266 SLT 1603 Subestación Lago	80.40	660.00	91.20	1,804.51	22-sep-18
337 SLT 2002 Subestaciones y Líneas de las Áreas Norte - Occidental F1	208.70	975.00	35.84	709.06	19-oct-18
288 SLT 1722 Distribución Sur F3	3.96	40.00	6.00	118.66	23-feb-19
336 SLT 2001 Subestaciones y Líneas Baja California Sur - Noroeste F2	50.80	300.00	15.87	314.03	01-mar-19
	5,937.27	8,849.53	1,934.04	38,268.3	

Generation:

Proyecto	Capacity MVA	Estimated amount of the contract in million of:: US dollars	Mexican pesos	Operation stage
268 CCI Guerrero Negro IV	7.52	20.63	408.2	01-abr-17
296 CC Empalme I	770.22	476.84	9,435.2	06-nov-17
298 CC Valle de México II	615.23	425.31	8,415.5	31-ene-18
38 CC Norte III (Juárez) C2	906.71	562.37	11,127.4	13-abr-18
313 CC Empalme II	791.17	397.00	7,855.3	28-abr-18
327 CG Azufres III F2 (DIST)	25.00	51.29	1,014.8	15-jun-18
43 CC Noreste	857.18	345.46	6,835.5	01-jul-18
289 CH Chicoasén II	240.00	386.42	7,646.0	12-sep-18
42 CC Noroeste (Topolobanpo II) C2	887.39	334.50	6,618.7	02-ene-19
45 CC Topolobampo III C2	665.88	630.87	12,482.8	01-ene-20
	5,766.29	3,630.69	71,839.3	

Rehabilitation and modernization:

Project name (Original name in Spanish)	Estimated amount of the contract in millions of: US dollars	Mexican pesos	Operation stage
311 RM CCC Tula Paquetes 1 y 2	323.1	6,392.7	02/09/2017
312 RM CH Temascal Unidades 1 a 4 (GEN)	26.5	524.3	18/09/2018
278 RM CT José López Portillo (GEN)	214.0	4,234.4	27/02/2019
258 RM CT Altamira U1 y 2	380.0	7,518.7	01/07/2019
	943.6	18,670.1	

These projects are registered under the PIDIREGAS scheme (long-term productive infrastructure projects).

c. Trust Funds

1 Area of competence.

1.1. CFE currently participates in the capacity of Trustor or beneficiary in 13 (thirteen) Trust Funds, 2 (two) of which are in the process of termination.

1.2. In conformity with its purpose and operating characteristics, the trust funds can be categorized in the following groups:

a. Energy saving
b. Prepaid expenses
c. Management contracts
d. Indirect participation trust funds

a. Energy saving

Those organized to promote energy saving programs.

Trust Fund	Role of CFE		
	Trustor	Trustee	Beneficiary of the trust fund:
Trust fund for Energy Savings (FIDE), created August 14, 1990	Organization: Confederacion de Camaras Industriales (CONCAMIN), Camara Nacional de la Industria de Transformacion (CANACINTRA), Camara Nacional de Manufacturas Electricas (CANAME), Camara Nacional de la Industria de la Construccion (CNIC), Camara Nacional de Empresas de Consultoria (CNEC) and Sindicato Unico de Trabajadores Electricistas de la Republica (SUTERM)	Nacional Financiera, S.N.C.	**a.** Electric energy consumers who are beneficiaries of the services rendered by the Trust fund. **b.** CFE, only for the materials that would have formed part of the infrastructure of public energy service.
Mexicali Housing Thermal Isolation Trust (FIPATERM), created on October 19, 1990	CFE	Banco Nacional de Obras y Servicios Publicos, S.N.C.;	CFE

As of December 31, 2017 and 2016, the Trust fund for Housing Thermal Isolation (FIPATERM) has assets amounting to $1,487,051 and $1,395,711 and liabilities of $70,634 and $34,044.

b. Prepaid expenses

Those created for financing and covering expenses prior to the execution of projects, subsequently recoverable and charged to whoever realizes them to be adjusted to the framework applicable to the type of project.

Trust Fund	Role of CFE			Type of projects
	Trustor	Beneficiary of the trust fund:	Trustee	
CPTT prepaid expense management, organized on August 11, 2003	CFE	CFE	Banco Nacional de Comercio Exterior, S.N.C.	Direct investment
Management and transfer of ownership 2030, organized on September 30, 2000	CFE	**Primary beneficiary** Winners of the contracts. **Secondary beneficiary** CFE	Banobras, S.N.C.	Conditioned investment

As of December 31, 2017 and 2016, the Prepaid Expenses Management Trust has assets of $3,763,171 and $4,656,963 and liabilities of $3,356,828 and $4,321,908, respectively.

The Domain Transfer and Administration Trust 2030 has assets of $407,853 and libailities of $531,000 at December 31, 2017 and 2016.

c. Management of Construction Contracts

Beginning in the 90s, the Federal Government implemented several off-budget schemes in order to continue to invest in infrastructure projects. Those schemes were designed under two modalities:

- Turnkey Projects (1990)
- Building, Leasing, and Transferring Projects (CAT) (1996)

Turnkey Projects. - Under this scheme, works were carried out for constructing power generation centrals and installing transmission lines, through an irrevocable management and transfer of ownership trust, linked to a lease agreement. In this modality, the trustee discharges the following duties:

- Contracting credits, managing the trust property (assets), receiving the leases payments from CFE, and transferring the asset for free to CFE with no charge, once those leases have been covered in a sufficient amount 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. In exchange, receiving invoices approved by the construction area, payment of taxes and other charges, including trustee fees.

These trust for managing and transferring ownership were carried out in accordance with the "Guidelines for the performance of thermoelectric projects with extra budget funds", as well as with "Guidelines for the performance of transmission lines and substations with extra budget funds" issued by the SFP (formerly known as Ministry of Controlling and Administrative Development).

The Trusts shown below have concluded with their payment commitments; therefore, one of them remains only in process of extinction.

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary	
Topolobampo II (Electrolyser, S. A. de C. V.), formed on de 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 and Secondary Beneficiary: CFE	Santander, S. A.

Building, Leasing and Transferring Projects (CAT, per its acronym in Spanish).- The transition stage to carry out the trusts denominated CAT started in 1996, in which the trustee manages the trust property (assets) and transfers it to CFE once the lease payment have been covered. Credits are contracted directly with a consortium which is a special purpose entity, existing for these purposes set forth in the irrevocable Management and Transfer of Ownership trust.

In this type of trust, CFE participates in the realization of the payment of leases based on quarterly amortization tables presented by the consortiums in their bids. Most of these tables include forty quarterly payments. The projects under this modality that are in the process of termination are as follows:

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary of the trust:	
C.C.C. Chihuahua, formed on December 8, 1997	Norelec del Norte, S.A. de C.V. and CFE.	CFE	Nacional Financiera, S.N.C.
C.C.C. Rosarito III (8 and 9), formed on August 22, 1997	CFE and Rosarito Power, S.A. de C.V.	CFE	BANCOMEXT

The only project under this modality that is still in operation is:

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary of the trust:	
C.T. Samalayuca II, formed on May 2, 1996	Compañía Samalayuca II, S. A. de C. V.	**Firstly:** Foreign bank common agent foreign bank of the debtors; **Secondly:** Compañía Samalayuca II, S. A. de C. V. **Thirdly:** CFE	Banco Nacional de México, S. A.

As of December 31, 2017, CFE has fixed assets of $ 21,255,499 and liabilities of $684,644 corresponding to the CATs of the aforementioned trusts.

Coal Terminal CT Presidente Plutarco Elías Calles:

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary of the trust:	
Presidente Plutarco Elias Calles Coal Terminal TC (Petacalco), formed on November 22, 1996	Techint, S. A., Grupo Mexicano de Desarrollo, S.A. de C.V. and TechintCompagnia Tecnica Internazionale S.P.A.	**Firstly:** Carbonser, S.A. de C.V **Secondly:** CFE	Banco Nacional de Mexico, S.A, (Banamex)

An irrevocable Management, Guarantee, and Transfer of Ownership trust agreement number 968001 was entered into in 1996, which, among other considerations, set forth that the trustee will enter into a service contract with CFE.

Upon the entry into effect of the coal Management service contract between CFE and Banco Nacional de Mexico, S. A. (Banamex) as trustee of the Petacalco Trust, conformed by Techint Compagnia Tecnica Internazionale S.P.A., Grupo Mexicano de Desarrollo, S. A. de C. V., and Techint, S. A. signed on November 22, 1996, in accordance with the clause 8.1, CFE will pay the amounts of the invoices related to the fixed charge for capacity.

Facility	Fixed charge for capacity of Jan-Dec 2017
Petacalco	$118,621

d. Indirect equity participation trusts

Additionally, CFE maintains an indirect relationship since it is not a Trustor, but it participates as a beneficiary in four trusts for Guarantee and Payment of Financing, incorporated by Financial Institutions as Trustor and Beneficiaries of Trusts for the issuance of securities linked to credits granted to CFE. CFE itself is nominated as a Secondary Beneficiary of a Trust, due to the specific eventuality that it may acquire some of the certificates issued and maintain representation of Technical Committees, in conformity with the contractual provisions (see Note 11).

CFE is obliged to reimburse to the Trust, in the terms of the "Indemnification Contract" that forms part of the Trust Agreement, the expenses incurred for the issue of securities and their management.

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary of the trust:	
Trust No. 194 created on May 3, 2004	**Firstly:** ING (Mexico), S. A. de C. V. and Casa de Bolsa, ING Grupo Financiero **Secondly:** Deutsche Securities, S. A. de C. V. and Casa de Bolsa.	**Firstly:** Each one of the preferred holders of each issue **Secondly:** CFE	Banamex
Trust No. 232246 created on November 3, 2006	Banco Nacional de Mexico, S.A, Member of Grupo Financiero Banamex.	**Firstly:** Each one of the preferred holders of each issue **Secondly:** CFE	HSBC Mexico, S.A., Grupo Financiero HSBC
Trust No. 411 created on August 6, 2009	Banco Nacional de Mexico, S.A, Member of Grupo Financiero Banamex.	**Firstly:** Each one of the preferred holders of each issue **Secondly:** CFE	Banamex

As of December 31, 2017, there are funds available in trust No. 232246 for $ 8,821.

2 Legal nature.

2.1 In conformity with the Federal Public Administration Act, none of the trusts are considered as Public Trusts with the status of "entity", pursuant to the following:

a. In 8 of them, CFE does not have the capacity of Trustor in their constitution.

b. The 4 remaining trusts do not have a similar organic structure to the State entities that conform 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, only for 5 (five) of them, due to the assignment of federal funds or the contribution of land owned by CFE where the works take place.

Registry of Trusts with SHCP		
No.	Trusts	Record
1	Mexicali Housing Thermal Isolation Trust, FIPATERM	700018TOQ058
2	Prior Expenses Trust	200318TOQ01345
3	Trust Management and Transfer of Ownership 2030	200318TOQ01050
4	Trust for Power Savings (FIDE)	700018TOQ149
5	C. C.C. Chihuahua*	199818TOQ00857

*The record of this trust is in the process of being retired before the SHCP, due to their recent extinction.

21. Segment information

Information about the operating segments

Management identified the following two operating segments where the Entity performs business activities, generates income and expenses, there is financial information available, and the operations' results are regularly reviewed by the Board of Directors and the Chief Executive Officer in order to make decisions about the resources allocated to the segment and to evaluate its performance.

• Electricity services
• Optical fiber network services

The "Electricity services" segment is mainly comprised by the service of electricity supply, which consists of: generation, conduction, transformation, distribution and supply of electricity to consumers in Mexico, as well as planning and carrying out all the works required by the National Electricity System in terms of planning, executing, operating and maintaining it with the collaboration of the independent energy producers, in accordance with the Public Electric Energy Service Law and its regulations.

The “Optic fiber network services” segment represents 0.26% of the Entity´s total activity, Management does not consider this segment information to be significant in the context of the financial statements.

Information by type of services

		2017		2016	2015
Domestic service	$	68,590,937		66,467,649	64,658,261
Commercial service		61,378,282		41,696,428	38,826,637
Public lighting service		22,397,891		22,170,355	21,233,845
Agricultural service		6,955,262		6,055,920	4,874,494
Industrial service		194,979,300		161,972,897	157,140,006
Export services		-		779,971	1,322,590
Total electricity services billed		354,301,672		299,143,220	288,055,833
Other programs:					
Consumptions in process of billing		(813,321)		4,665,734	3,912,766
Illicit uses		4,629,406		4,608,745	3,684,552
Failure of measuring		1,156,938		1,033,936	1,428,036
Billing error		1,877,566		1,380,077	2,226,458
Total income from others programs		6,850,589		11,668,492	11,251,812
Sub-total	**$**	**361,152,261**		**310,831,712**	**299,307,645**
Other operating products		12,492,615		5,380,680	4,111,625
Total Electricity supply revenue service	**$**	**373,644,876**	**$**	**316,212,392**	**303,419,270**

Information by geographical area

a. Revenues per geographical area

	2017	2016	2015
Baja California	$ 22,890,949	$ 18,534,646	17,486,383
Northwest	23,434,105	20,141,526	19,274,193
North	25,196,692	20,600,487	19,547,554
North Gulf	49,124,155	41,001,584	39,774,468
Central West	15,139,497	11,576,871	11,165,541
Central South	14,502,707	12,174,289	11,708,514
East	16,365,301	14,993,431	14,765,675
Southeast	15,061,422	13,870,627	13,014,045
Bajio	37,753,626	30,632,540	29,135,874
Central Gulf	15,435,937	13,647,574	13,071,851
Central East	20,684,225	17,099,138	16,655,617
Peninsular	17,504,200	14,917,793	13,923,680
Jalisco	24,587,824	20,516,425	19,598,943
North Valley of Mexico	19,311,156	16,528,630	16,416,316
Central Valley of Mexico	17,765,277	15,505,782	15,164,937
South Valley of Mexico	19,544,612	16,621,906	16,029,652
Subtotal retail revenue	354,301,685	298,363,249	286,733,243
Export sales	-	779,971	1,322,590
Electricity service revenue billed	354,301,685	299,143,220	288,055,833

	2017	2016	2015
Other programs:			
Consumptions in process of being billed	(813,321)	4,665,734	3,912,766
Illegal Uses	4,629,406	4,608,745	3,684,552
Measurement failure	1,156,938	1,033,936	1,428,036
Billing error	1,877,566	1,380,077	2,226,458
	6,850,589	11,688,492	11,251,812
Total electricity service revenue	**361,152,274**	**310,831,711**	**299,307,645**
Other Operating Products	12,492,615	5,380,680	4,111,625
Total electricity supply revenue service	**$373,644,876**	**316,212,392**	**303,419,270**

B. Non-current assets by geographical area

Non-current assets used in the different activities involved in the process of electricity supply (generation, transmission, and distribution) are not managed in homogeneous geographical areas due to specific operational needs. Therefore, the Company does not have information available to disclose for that purposes. The process of obtaining such information would result in an excessive cost. There is no a significant amount of assets located abroad.

22. Recently issued financial reporting standards

A. IFRS 9 "Financial Instruments”

IFRS 9 *Financial Instruments* establishes the requirements for the recognition and measurement of financial assets, financial liabilities and another purchase or sale contracts of non financial items. This new standar replaces IAS 39 , *Financial Instruments: Recognition and Measurement.*

i. Clasification – Financial assets

IFRS 9 contains a new approach of classification and measurement for the financial asstes which reflects a business model in that assets are managed and its cash flow characteristics. IFRS 9 includes 3 categories of main clasification for the financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The new standar eliminates the categories of IAS 39 maintained until maturity, loans, receivable items and available for sale.

Under IFRS 9 the derivatives incorporated in contracts in which the principal is a financial asset within the scope of the standard never forks.

Based on its evaluation, the Entity does not consider that the new requirements of classification will have a material impact over figures of commercial debtors and loans that are managed over a fair value basis.

ii. Impairment value – financial assets and assets by contracts

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL). This requires to apply considerable judgment respect to how the changes in economic factors affect the ECL, what is determined on a weight average basis.

The new impairment model will be applied to financial assets that are measured at amortized cost or at FVOCI.

Under IFRS 9 the provisions for losses will be measured using one of the follow basis:

The measurement of the ECL during the life time applies if the credit risk of the financial asset at the reporting date has increased significantly since the initial recognition and the measurement of the expected credit losses of 12 months applies if this risk has not increased . The entity may determine that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk at the reporting date. However, the measurement of expected credit losses over the life time is always applicable for commercial accounts receivable and contract assets without a significant financing component; The Entity has chosen to apply this policy for trade accounts receivable.

ii. Impairment of value – Financial assets

The Entity considers that impairment losses are likely to increase and become more volatile for assets within the scope of the impairment model of IFRS 9.

iii. Information to disclose

IFRS 9 will require extensive disclosures, particulary respect to hedge accounting, credit risk and expected credit loss. The Entity evaluation included an analysis to identity data gaps ot current processes and the Entily plans to implement the changes in the system and the controls that it considers will be necessary to capture the required data.

iv. Transition

The changes in the accounting policies that resulting of the IFRS adoption will be applied retrospectively.

B. IFRS 15 "Customer contract income"

IFRS 15 establishes a complete conceptual framework for determining whether to recognize Income from ordinary activities, when to recognize it and in what amount. This standard replaces the existing revenue recognition guideline, including IAS 18 *“Income from Ordinary Activities”* and IAS 11 *“Construction Contracts”* and the IFRIC 13.

The two trasition methods accepted under the new standard are the complete retrospective method and the modified retrospective approach. The entity selected to use the complete retrospective method.

i. Electric power sales

For electric power sales, currently revenues are recognized when the electric power services are rendered to customers; considering this as the moment in that the customer accepts the energy and the corresponding risks and benefits related with the transfer of the property. Other elements for income recognition are that both revenues and costs can be reliably measured, the recovery of the consideration is probable and there is no continuous involvement in relation to the assets.

In accordance with IFRS 15, income is recognized when the customer obtains control of the goods and services, the first step being the identification of a contract. Among other features, this standard requires that a contract be collected in order to be recognized as income. The Entity has identified that in certain divisions there are problems of social resistance and regularization of rates for which the client no longer has the capacity or intention to pay the amount owed. Due to the foregoing, the Entity has made a new evaluation of these contracts, preliminarily determining that they do not meet the requirements to recognize the relative income, so it does not recognize the income for the energy delivered to said customers since it does not expect to collect for the same. The Entity is in the process of concluding its adoption of the IFRS.

C. IFRS 16 "Leases"

IFRS 16 replaces existing lease guidance including IAS 17 *“Leases”*, IFRIC 4 I, the SIC-15 *“Operational Leases-Incentives”* and SIC 27 *“Evaluation of the substance of transactions that take the legal form of a lease”*.

This standar is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted to entities that apply IFRS 15 in the date of initial adoption of IFRS 16 or before thi date

IFRS 16 introduces a lease accounting model only for leassees. Leassees will recognize an asset representing the right to use the underlying asset during the lease term and a liability to make lease payments. There are exemptions for leases of short-term or low value. Leassor accounting is substantially unchanged from today´s accounting. Leassors will continue using the same leases classification as finance leases and operating.

The Entity is in the process of to determine the potential impacts in the financial statements due to the adoption of this standar.

D. Other standards

The Entity does not expect any significant impact as a result of the follow standards and modified pronouncements over its financial statements:

- Annual improvements to IFRS 2014-2016 – Modifications to IFRS 1 and IAS 28
- Clasification and Measurement of Share- based Payment (Amendments to IFRS 2)
- Transfer of Investment Property (Amendments to IAS 40
- Sale or Contibution of Assets between an Investor and Its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

23. Subsequent events

The Irrevocable Trust of Administration and Source of Payment No. 80758 or "the Promoted Trust" was incorporated on January 22, 2018 in Mexico City. The Promoted Trust was incorporated with the purpose of acquiring the Collection Rights derived from the Agreement for the Technical and Commercial Operation of Electricity Transmission dated as of March 28, 2016.

As part of the structure of the Promoted Trust, CFE Transmisión, EPS would irrevocably transfer the aforementioned collections rights for a period of 30 years. In exchange for the cession of collection rights, the Promoted Trust will grant full title (100%) of the trust rights to CFE Transmission and to the Irrevocable Trust No. CIB/2919 (Cibanco, S. A., Institución de Banca Múltiple, Monex Casa de Bolsa, S. A. de C. V. Monex Grupo Financiero ("FIBRA E") as beneficiaries of the Trust.

The main activities of the Trust are to:

1. receive, manage and hold collection rights contributed
2. open, manage and maintain the trust bank accounts
3. make the transfers and payments established in the trust agreement
4. evaluate the reimbursement of non-budgeted expenses requested by CFE Transmisión
5. receive any payments arising from the collection rights and any other rights derived from the CENACE agreement
6. exercise any other rights arising from the CENACE agreement
7. comply with any instructions given to it 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.

The Trust No. CIB/2919 (CI Banco, S. A., Institución de Banca Múltiple) "FIBRA E" was incorporated on January 22, 2018, as an Investment Trust for the issuance of Fiduciary Stock Certificates ("CBFE"). Its offices are located in Mexico City.

The primary purpose of the Trust is to invest in eligible entities, which exclusive activity consists of:

1. investing in assets or projects of generation, transmission and distribution of electric energy and infrastructure projects
2. investing in or performing any other activity as stated in accordance with tax regulation related to the Trust as well as in Rule 3.21.3.9. of the Reglamento Misceláneo Fiscal ("RMF" per its acronym in Spanish) or any tax regulation that replaces it.

The initial asset of the Trust will consist of Beneficiary Rights representing an economic ownership interest in the Irrevocable Trust of Administration and Source of Payment No. 80758, the Promoted Trust.