Comisión Federal de Electricidad,
Productive State Enterprise and Subsidiaries

Unaudited Condensed Consolidated Statements of Financial Position

(Thousands of Mexican pesos)

Assets		**30 September 2018**	**31 December 2017 (restated)**
Current assets:			
Cash and cash equivalents (Note 5)	$	40,315,627	67,237,901
Accounts receivable, net (Note 6)		101,991,586	95,067,520
Inventory of operating materials (Note 7)		14,952,956	14,642,993
Total current assets		157,260,169	176,948,414
Loans to employees		12,042,524	12,339,195
Plants, facilities and equipment, net (Note 8		1,237,626,889	1,252,938,487
Derivative financial instruments (Note 10)		9,835,112	16,084,937
Intangible assets (Note 9)		33,688,879	32,836,987
Deferred income tax (Note 18)		86,602,360	76,867,662
	$	1,537,055,933	1,568,015,682

Liabilities and equity		**30 September 2018**	**31 December 2017 (restated)**
Current liabilities:			
Current installments of documented debt (Note 11)	$	20,358,589	27,351,967
Current installments of PIDIREGAS debt and capital lease obligations (Note 12)		25,606,493	29,267,762
Other payables and accrued liabilities (Note 13)		92,865,912	107,798,041
Taxes and duties payable (Note 14)		14,249,197	5,305,326
Total current liabilities		153,080,191	169,723,096
Long-term liabilities:			
Documented debt (Note 11)		206,217,616	181,003,413
PIDIREGAS debt and capital lease obligations (Note 12)		220,370,855	220,153,214
Other long-term liabilities (Note 15)		19,128,696	23,424,668
Long-term employee benefits (Note 17)		358,654,272	361,780,339
Total long-term liabilities		804,371,439	786,361,634
Total liabilities		957,451,630	956,084,730
Equity:			
Contributions received from the Federal Government		5,251	5,251
Contributions in kind received from the Federal Government		95,004,417	95,004,417
Retained earnings (loss)		63,040,786	100,140,833
Other components of comprehensive income		406,798,909	416,780,451
Non-controlling interest (Note 19 (b))		14,754,940	-
Total equity		579,604,303	611,930,952
Contingencies and commitments (Note 21)			
	$	1,537,055,933	1,568,015,682

See accompanying notes to unaudited condensed consolidated financial statements

Comisión Federal de Electricidad,
Productive State Enterprise and Subsidiaries

Unaudited condensed consolidated statements of comprehensive (loss) income

For the nine-month period ended 30 September 2018 and 2017

(Thousands of Mexican pesos)

		2018	2017
Revenues:			
Electricity supply services	$	266,479,087	277,063,122
Subsidies		37,256,618	34,491,200
Sale of fuel		40,439,262	11,108,419
Transmission and distribution services		1,736,558	330,751
Other income, net (Note 16)		15,480,556	36,498,329
Total revenues		361,392,081	359,491,821
Costs:			
Energy and fuel supplies		259,586,870	189,464,236
Employee compensation and benefits		47,929,598	41,907,268
Maintenance, materials and general services		14,194,980	13,375,759
Taxes and duties		2,148,533	2,026,995
Wholesale Electricity Market (MEM) costs		2,099,131	4,634,205
Total costs		325,959,112	251,408,463
Income before other operating costs		35,432,969	108,083,358
Other operating costs			
Employee benefits costs		11,826,063	32,666,541
Depreciation		44,267,676	40,138,161
Other expenses		8,983,587	(892,199)
Total other operating costs		65,077,326	71,912,503
Operating (loss) income		(29,644,357)	36,170,855
Financing income (loss), net		8,420,749	789,764
(Loss) income before income tax and other comprehensive (loss) income		(38,065,106)	36,960,619
Income tax		(258,789)	1,136,776
Net (loss) income		(37,806,317)	35,823,843
Other comprehensive income		(9,981,543)	4,181,558
Comprehensive (loss) income	$	(47,787,860)	38,642,218

See accompanying notes to unaudited condensed consolidated financial statements

Comisión Federal de Electricidad,
Productive State Enterprise and Subsidiaries

Unaudited Condensed Consolidated Statements of Changes in Equity

For the nine-month period ended 30 September 2018 and 2017

(Thousands of Mexican pesos)

	Contributions received from the Federal Government	Contributions in kind received from the Federal Government	Accumulated results	Other comprehensive income	Non-controlling interest	Total
Balances as at 1 January 2018 (as originally reported)	$ 5,251	95,004,417	100,140,833	416,780,451	-	611,930,952
Non-controlling interest contribution (Note 19 (b))	-	-	-	-	14,754,940	14,754,940
Recognice IFRS						-
Comprehensive income (Note 19(a))	-	-	(37,806,316)	(9,275,273)		(47,081,589)
Balances as at 30 September 2018	$ 5,251	95,004,417	62,334,517	407,505,178	14,754,940	579,604,303
						-

See accompanying notes to unaudited condensed consolidated financial statements

Comisión Federal de Electricidad,
Productive State Enterprise and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

For the nine-month period ended 30 September 2018 and 2017

(Thousands of Mexican pesos)

		2018	2017
Cash flow from operating activities:			
Net (loss) income of the period	$	(37,806,316)	108,184,373
Income taxes and other comprehensive (loss) income		(258,789)	
Items related to operating activities:			
Employee benefits cost		11,826,063	47,903,316
Items related to investing activities:			
Depreciation		41,939,421	59,467,421
Retirements of plants, facilities and equipment		3,462,466	15,872,658
Unrealized loss on foreign exchange, interest expense and changes in the fair value of financial instruments		(3,047,065)	(74,010,235)
Subtotal		16,115,780	157,417,533
Changes in other operating assets and liabilities:			
Accounts receivable		(6,217,795)	(31,831,331)
Inventory of operating materials		(309,963)	(617,228)
Taxes and duties payable		(6,086,745)	2,193,469
Other assets		(555,223)	(1,338,651)
Other payables and accrued liabilities		(19,228,099)	19,192,409
Payments for employee benefits		(26,072,130)	(35,045,000)
Net cash flows from operating activities		(42,354,175)	109,971,201
Cash flow from investing activities-Acquisition of plants, facilities and equipment, net		(30,090,288)	(69,787,540)
Cash flow from financing activities:			
Proceeds from debt		74,873,273	61,201,355
Non-controlling interest contributions		15,496,010	-
Payments on debt		(46,922,536)	(46,789,232)
Interest expense		(741,070)	(26,093,619)
Proceeds from derivative fiananical instruments		2,816,512	(3,531,208)
Net cash flows from financing activities		45,522,190	(15,212,704)
Net decrease in cash and cash equivalents		(26,922,273)	24,970,957
Cash and cash equivalents:			
At beginning of period		67,237,901	42,266,944
At end of period	$	40,315,627	67,237,901

See accompanying notes to unaudited condensed consolidated financial statements

1. Incorporation, Business Purpose of the Productive State Enterprise and Relevant Events

- **Incorporation and business purpose of the Entity**

Comisión Federal de Electricidad, Productive State Enterprise, is a Mexican entity located in Mexico that was initially incorporated by Decree as a Decentralized Public Entity of the Federal Government on August 14, 1937 and published in the *Official Gazette* on August 24, 1937. The Entity's registered address is Paseo de la Reforma 164, Colonia Juárez, C.P. 06600, in Mexico City. The accompanying unaudited condensed consolidated financial statements include the accounts of Comisión Federal de Electricidad, Productive State Enterprise, and its subsidiaries (hereinafter referred to as the Entity or CFE).

Since the date of its incorporation, the business purpose of CFE is to provide electricity-related services in Mexico which include the generation, transformation, transmission, distribution and commercialization of electricity to consumers in Mexico.

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

The business purpose of CFE as of the date of its transformation into a Productive State Enterprise is to provide public transmission and distribution of electricity services on behalf of the Mexican State. CFE also engages in activities related to the generation and commercialization of electricity, as well as activities related to the import, export, transportation, storage and trading of natural gas, among others.

- **Relevant events**

<u>Infrastructure investment trust</u>

On February 7, 2018, CFE placed an issue for the first Energy and Infrastructure Investment Trust or Fibra E, specialized in the Mexican electricity sector. The total placement was for 16,388 million pesos and it is the first Fibra E in which domestic and foreign investors participated, highlighting the participation of institutional investors, private banking and investment funds from Mexico, the United States, Canada, Australia and Europe.

<u>Promoted Trust</u>

The Promoted Trust was incorporated on January 22, 2018 with the purpose of acquiring the collection rights derived from the Agreement for the Technical and Commercial Operation of Electricity Transmission entered into with the National Energy Control Center (CENACE) on March 28, 2016.

As part of the structure of the Promoted Trust, CFE Transmisión, Productive State Enterprise, will irrevocably transfer and assign to the Promoted Trust the collection rights of the Agreement entered into with the CENACE for a period of 30 years. In exchange for the assignment of such collection rights, the Promoted Trust will grant full title of the trust rights to CFE Transmisión 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 Promoted Trust are as follows:

1. Receive, manage and hold the collection rights contributed;
2. Open, manage and maintain the trust bank accounts;
3. Make the transfers and payments set out 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 other rights derived from the agreement entered into with the CENACE;
6. Exercise any other rights arising from the agreement entered into with the CENACE;
7. Comply with the 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 irrevocable Trust No. CIB-2919 CI Banco, S. A., Institución de Banca Múltiple (FIBRA E) was incorporated on January 22, 2018, as a trust for the issuance of Fiduciary Stock Certificates (CBFEs).

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

1. Investing in assets and projects related to the generation, transmission and distribution of electric energy, and infrastructure projects.

2. Investing in or performing any other activity provided for in the tax regulation related to the FIBRA E, as well as in Rule 3.21.3.9. of the Miscellaneous Tax Rules or any other tax regulation that replaces it.

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

Incorporation of the Productive Subsidiary Entities of CFE

On January 11, 2016, the Ministry of Energy published the terms for the strict legal separation of CFE. The terms mandate CFE to carry out the activities related to the generation, transmission, distribution, commercialization and supply of primary inputs in the market independently through its separate units to generate economic value and profitability for the Mexican State as its owner.

As of January 1, 2017, CFE no longer carries out the independent activities related to the transmission, distribution, basic supply and commercialization (other than basic supply and supply of primary inputs) of electricity. These activities are carried out by the Productive Subsidiary Entities as of such date.

As of February 1, 2017, CFE no longer carries out the independent activity related to the generation of electricity nor does it participate in the Wholesale Electricity Market. These activities are carried out by the Productive Subsidiary Entities as of such date.

The resolutions for the incorporation of the following Productive Subsidiary Entities (EPS, Spanish acronym) were published on March 29, 2016 in the *Official Gazette*:

- CFE Generación I EPS, CFE Generación II EPS, CFE Generación III EPS, CFE Generación IV EPS, CFE Generación V EPS and CFE Generación VI EPS, whose business purpose is to generate electricity using any type of technology in Mexico, as well as to commercialize electricity in conformity with the terms set forth in Article 45 of the Electric Industry Law, excluding the supply of electricity to end users. These entities may represent, fully or partially, the power plants under their control or those owned by third parties in the Wholesale Electricity Market.

- CFE Distribución EPS, whose business purpose is to carry out the activities necessary to provide public distribution of electricity services, as well as to finance, install, maintain, manage, operate and enhance the required infrastructure to provide the public distribution of electricity services as set forth in the CFE Law, the Electrical Industry Law, the Terms for the Strict Separation of the CFE and other applicable legal provisions.

- CFE Transmisión EPS, whose business purpose is to carry out the activities required to provide the public transmission of electricity services, as well as to finance, install, maintain, manage, operate and enhance the required infrastructure to provide the public transmission of electricity services as set forth in the CFE Law, the Electrical Industry Law, the Terms for the Strict Separation of the CFE and other applicable legal provisions.

- CFE Suministrador de Servicios Básicos, whose business purpose is to provide the basic supply of electricity services set forth under the Electric Industry Law to any person who requests such services in terms of such Law.

The aforementioned resolutions establish the rules regarding the business activities, corporate governance, oversight and monitoring, as well as the responsibilities, disclosure obligations and oversight mechanisms applicable to the Productive Subsidiary Entities.

Mexican Wholesale Electricity Market

Derived from the operation of the Mexican Wholesale Electricity Market (MEM), the Ministry of Energy in exercising its power set forth in the Third Transitory Article of the Electricity Industry Law extended the term for CFE to continue carrying out, on an independent basis, the activities related to the transmission, distribution, basic supply and commercialization (other than basic supply and supply of primary inputs) of electricity services, including its participation in the Wholesale Electricity Market to December 31, 2016. The Ministry of Energy also extended the term for CFE to continue carrying out, on an independent basis, the activities related to the generation of electricity services to February 1, 2017. After the aforementioned dates, the Productive Subsidiary Entities must carry out these activities.

Long-Term Auctions and Clean Energy Certificates

The Wholesale Electricity Market allows for Medium and Long-term Auctions, which are defined by the Wholesale Electricity Market Rules as follows:

Section 2.1.134 states that long-term auctions are those in which Basic Service Suppliers and other Load Serving Entities are allowed to enter into hedging agreements for power generation, Electricity Certificates, Cumulative Energy and Clean Energy Certificates (CELs, Spanish acronym) with maturity terms of 15 and 20 years.

Section 2.1.135 states that medium-term auctions are those in which Basic Service Suppliers and other Load Serving Entities are allowed to enter into hedging agreements for power generation, Cumulative Energy and CELs with maturity terms of 3 years.

The first Long-term Auction in 2015 resulted in 18 awarded bids deferred among 11 companies. Altogether, these bids amount to 5.4 million MWh of energy and 5.3 million of CELs (annual committed volume, except for the first year which will have a different volume based on the Commercial Operation Date). The hedging agreements related to this Auction will enter into effect in 2018.

The second long-term auction in 2016 resulted in 56 awarded bids among 11 companies. Altogether, these bids amount to 1,187 MW per year of energy, 8.9 Million MWh of energy, and 9.275 million of CELs (annual committed volume, except for the first year which will have a different volume based on the Commercial Operation Date). The hedging agreements related to this Auction will enter into effect in 2019.

Assets contributed by the Federal Government

On October 7, 2015, the Ministry of Public Administration (SFP, Spanish acronym) through the Institute of Management and Valuation of National Assets (INDAABIN, Spanish acronym), terminated the commodatum agreement and transferred to the CFE the assets with a certificate of delivery that includes annexes for the different types of assets.

CFE also obtained the legal and physical possession of the related assets, as per the aforementioned annexes. The procedures for their legal divestiture from the Federal public domain regime began as of such date. These assets were included in the consolidated statements of financial position as at 31 December 2015, for a total value of $95,004,417, as determined by the Asset Management and Divestiture Service (SAE, Spanish acronym). This amount may be adjusted, if required, based on the detailed breakdown by each of the corresponding areas. As at 31 August 2018, this activity continues to be on going. Also, in 2016 these assets are included in the Plants, Facilities and Equipment and Other Intangible Assets captions (see Notes 8 and 9), and an additional amount of $63,000 was recorded in relation to these types of assets.

Incorporation of CFECapital

CFECapital, S. de R.L. de C.V. was incorporated in on December 7, 2017, and its business address is in Mexico City. The company can set up offices, agencies or branches anywhere in the United States.

The primary purpose of this entity is to manage all types of trusts and their patrimony, including energy and infrastructure investment trusts incorporated in conformity with current tax legislation, including but not limited to, all activities and acts deemed necessary or suitable by it to provide all types of services, such as management, operation, development and regulatory compliance.

Deferred revenue

Through 31 December 2016, the contributions received from customers to provide electricity connection and supply services were recorded as deferred income and recognized in profit or loss on a systematic basis over the useful lives of the fixed assets financed by said contributions, since the electricity supply services contracts entered into with such customers were for an indefinite term.

Contributions received from the State and Municipal Governments to electrify rural villages and poor neighborhoods, to expand the distribution network, as well as other contributions, were recorded as deferred revenue and recognized in profit or loss as income on a systematic basis over the useful lives of the fixed assets financed by said contributions.

Because of the legal separation of the Entity into several legal entities and the changes in the laws that allow for the existence of other qualified suppliers besides the Entity, as of 1 January 2017 contributions received from customers and the State and Municipal Governments to provide electricity connection and supply services are recorded as income in the statement of comprehensive income after the Entity has completed the customer’s connection to the network, since customers now have the option to choose their electricity provider between either the Entity or another company.

2. Basis of preparation of the unaudited condensed consolidated interim financial information

a) Basis of preparation

The accompanying unaudited condensed interim financial information has been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and does not include all the information required for a complete set of annual financial statements prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

This financial information should be read in conjunction with the financial statements as at 31 December 2017.

The unaudited condensed consolidated interim financial information has been prepared on an historical cost basis, except for certain derivative financial instruments and plants, facilities and equipment, which are recognized at fair value.

b) Functional and reporting currency of the unaudited condensed consolidated interim financial information

The accompanying unaudited condensed consolidated interim financial information and notes thereto are presented in Mexican pesos (reporting currency), which is the same as the functional currency.

For purposes of disclosure in the notes to the unaudited condensed consolidated financial information, all references to “pesos” or "$" refer to Mexican pesos, all references to “dollars” refer to U.S. dollars, all references to “euros” refer to the legal currency of the European Union, all references to “yen” refer to the legal currency of Japan; and all references to “Swiss francs” refer to the legal currency of Switzerland. The financial information is presented in thousands of pesos and has been rounded to the nearest unit, except where otherwise indicated.

c) Unaudited condensed consolidated statements of comprehensive income

CFE prepared the unaudited condensed consolidated statements of comprehensive income by classifying costs and expenses based on their nature, since such classification allows for an accurate assessment of the Entity’s costs and expenses based on their specific nature, as set forth in IAS 1 Presentation of Financial Statements.

3. Summary of Significant Accounting Policies

The accounting policies applied in the preparation of the unaudited condensed consolidated interim financial information are the same as those applied by the Entity in the consolidated financial statements for the year ended 31 December 2017, except for those referred to below:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard supersedes IAS 39 Financial Instruments: Recognition and Measurement

i. Classification – Financial Assets

The classification and measurement of financial assets under IFRS 9 is determined by both the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. IFRS 9 sets out three major classifications for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 eliminates the existing categories under IAS 39 of held-to-maturity, loans and receivables and available for sale.

Under IFRS 9, embedded derivatives with host contracts that are financial assets in the scope of the standard are not bifurcated. Instead, the hybrid financial instrument is assessed as a whole for classification under the standard.

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. This will require considerable judgment as to how changes in macroeconomic factors will affect ECLs, which is determined on a weighted average basis.

The new impairment model is applicable to financial assets measured at amortized cost or at FVOCI.

Under IFRS 9, loss allowances are measured on one of the following bases:

Measurement of lifetime ECLs is applied if the credit risk of the financial asset at the reporting date has increased significantly since initial recognition and measurement of 12-month ECLs is applied if the credit risk has not increased. The 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 lifetime expected credit losses is always applicable for trade receivables or contract assets that do not contain a significant financing component. The Entity has decided to apply this policy for trade receivables. The effects of the adoption of this standard are explained in Note 21 and detailed information regarding the calculation of the ECL is included in Note 4.

IFRS 15 Revenue from Contracts with Customers

The Entity recognizes revenue primarily from the following sources:

Electricity supply services: revenue is recognized at a point in time, in the period in which electricity is delivered to the customers. Electricity that was delivered at the end of the period and that is in the process of being billed is recognized as revenue in profit and loss and the related amount is estimated based on the actual billing of the previous two-month period.

Sale of fuel: revenue is recognized at a point in time, in the period in which the fuels are delivered to customers.

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

Third-party contributions: revenue from the contributions received from customers to connect them to the national transmission and distribution network is recorded in the statement of comprehensive income after the Entity has completed the customer's connection to the network. Customers have the option to choose their electricity provider between either the Entity or another company.

Subsidies: revenue from subsidies received from the Ministry of Finance and Public Credit is recognized at a point in time, when the subsidies are received by the Entity.

The effects of the adoption of this standard are described in Note 21.

4. Financial Instruments – Fair Value and Risk Management

Fair value

An analysis of the carrying amounts and fair values of the financial instruments recognized as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

		30 September 2018		31 December 2017		1 January 2017
Financial assets:						
Cash and cash equivalents (1)	$	40,315,627	$	67,237,901	$	42,266,944
Accounts receivable (2)		101,991,586		95,773,791		62,325,469
Loans to employees (2)		12,042,524		12,339,193		11,193,711
Derivative financial instruments (1)		9,835,112		16,084,937		15,646,026
Financial liabilities:						
Documented debt (2)	$	226,576,205	$	208,355,380	$	209,613,471
PIDIREGAS debt and capital lease obligations (2)		245,977,348		249,420,976		246,096,352
Suppliers and contractors (1)		52,564,723		59,849,154		17,888,728
Deposits from users and contractors (1)		24,442,740		22,974,717		21,103,369
Accounts payable MEM (1)		0		0		2,011,804
Other liabilities (1)		10,821,939		20,761,051		17,103,988
Third-party contributions (1)		3,367,475		8,039,903		33,707,331

(1) Fair value
(2) Amortized cost

Objectives of financial risk management

The Entity's Financial Officer's functions include, among others, implementing strategies, coordinating access to domestic and international financial markets, and supervising and managing financial risks related to the Entity's operations through internal and market risk reports that analyze the degree and magnitude of the Entity's exposure to financial risks. These risks include market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

To mitigate the effects of its debt related risks, the Entity uses hedging derivatives.

The Treasury Department is bound by the Ministry of Finance and Public Credit cash management policies that hold that investments must be made in low-risk short-term instruments. Monthly status reports are issued to the Treasury Investment Committee.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation. The Entity is subject to credit risk mainly on the financial instruments referred to as cash and temporary investments, loans and accounts receivable, and derivative financial instruments. To mitigate credit risk on cash, temporary investments, and derivative financial instruments, the Entity only carries out transactions with parties who are creditworthy and in good standing. The Entity also obtains sufficient guarantees, when appropriate, to mitigate the risk of financial losses due to non-performance.

For credit risk management purposes, the Entity considers that the credit risk on loans and accounts receivable from consumers is limited. The Entity determines the allowance for doubtful accounts based on the expected losses (EL) model.

The EL Model requires entities to estimate the expected credit losses based on their past collection experience and on current economic conditions and reasonable forecasts of future economic conditions.

Impairment is quantified based on the result of three main parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are estimated based on the accumulation and interpretation of historical information available regarding each of the Entity's customers, which are grouped into the different generic or specific segments depending on their characteristics.

PD is a measure that is calculated for a customer or segment to forecast its probability of default for 12 months. LGD is a measure that calculates the percentage risk of exposure that is not expected to be recovered in the event of default. EAD is the amount of the outstanding account receivable or debt at the time the allowance is calculated.

The Entity performed an analysis to identify its collections and estimate the recovery of its accounts receivable based on its accounts receivable portfolio that provides a monthly backlog of its accounts receivable over the last three years. This evaluation concludes that the Objective Evidence of Impairment (OEI) gap is after the 360-day term given that, the historical probability of recovery after this term is estimated at 4%, and is determined by the accumulated frequency of the averages of recovery of the stages current at 330 days, where the current term recovers approximately 90% of the accounts receivable, and for the remaining accounts receivable, the probabilities decreased exponentially to a minimum value of 0.1% located within the 330-day term.

Regarding the LGD parameter, the Entity performed an analysis to estimate the recovery of the amounts on OEI using the recovery allocation information provided by external agents. After the analysis, the Entity identified that in one year it manages to recover an average of 0% of its portfolio more than 360 days overdue, resulting in a loss severity of 100%.

With respect to the PD, the Entity uses a roll-rate model which allows it to calculate the probability of default of each of the overdue stages of the accounts receivable portfolio balances.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

The financing obtained by the Entity is mainly through contracted debt, the leasing of plants, facilities, and equipment and PIDIREGAS. To manage liquidity risk, the Entity periodically performs cash flow analyses and maintains open lines of credit with financial institutions and suppliers. In addition, the Entity's budget is controlled by the Federal Government, consequently, the net debt ceiling authorized on an annual basis by the Federal Congress based on the Entity's budgeted revenues, cannot be exceeded.

The following table shows the contractual maturities of the Entity's financial liabilities based on the payment terms:

As at 30 September 2018	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	$ 20,358,589	$ 51,509,418	$ 19,896,868	$ 134,811,331	$ 226,576,206
Interest payable on documented debt	12,730,086	22,911,241	17,956,771	56,860,972	110,459,070
PIDIREGAS debt and capital lease obligations	25,606,493	38,901,246	38,017,998	143,451,611	245,977,348
Interest payable on PIDIREGAS debt	8,187,338	12,677,527	9,291,926	29,455,949	59,612,740
Suppliers and contractors	52,564,723	-	-	-	52,564,723
Other liabilities	25,501,818	-	-	-	25,501,818
Third-party contributions	-	3,367,475	-	-	3,367,475
Deposits from users and contractors	24,442,740	-	-	-	24,442,740
Total	$ 154,711,908	$ 129,366,907	$ 85,163,563	$ 364,579,863	$ 733,822,241

As at 31 December 2017	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	$ 27,351,967	$ 29,320,404	$ 20,473,272	$ 131,209,737	$ 208,355,380
Interest payable on documented debt	12,101,655	21,733,041	16,630,583	61,325,343	111,790,622
PIDIREGAS debt and capital lease obligations	29,267,762	15,312,426	19,880,773	184,960,015	249,420,976
Interest payable on 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	20,761,051	-	-	-	20,761,051
Third-party contributions	-	8,039,903	-	-	8,039,903
Deposits from users and contractors	22,974,717	-	-	-	22,974,717
Total	$ 180,161,193	$ 86,148,979	$ 65,347,849	$ 400,795,328	$ 732,453,349

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

As at 1 January 2017		Less than one year		More than 1 year and less than 3 years		More than 3 years and less than 5 years		More than 5 years		Total
Documented debt	$	16,373,774	$	29,963,324	$	40,316,209	$	122,960,164	$	209,613,471
Interest payable on documented debt		11,649,717		20,990,298		17,517,821		64,302,533		114,460,369
PIDIREGAS debt and capital lease obligations		25,354,442		15,335,882		21,394,210		184,011,818		246,096,352
Interest payable on 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 users and contractors		21,103,369		-		-		-		21,103,369
Total	$	98,176,059	$	75,187,105	$	85,204,618	$	386,189,812	$	644,757,594

Market risk

Because of its activities, the Entity has exposure to foreign currency and interest rate risks.

Foreign currency exchange risk management

The Entity preferably borrows credit in local currency.

The Entity preferably carries out transactions in local currency although it does carry out transactions in foreign currency. Consequently, the Entity's exposure to exchange rate fluctuations arises.

	Total debt as at 30 September 2018 millions of pesos
Local currency	166,260
Foreign currency	190,712

	Total debt as at 31 December 2017 millions of pesos
Local currency	169,449
Foreign currency	163,047

	Total debt as at 1 January 2017 millions of pesos
Local currency	159,278
Foreign currency	159,866

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

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

The carrying amounts of the Entity's foreign currency denominated monetary assets and monetary liabilities at the end of the period are discussed in Note 18.

- **Foreign currency sensitivity analysis**

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

The Entity's sensitivity analysis considers a 5% increase and decrease in the Mexican peso exchange rate against the other relevant foreign currencies. This 5% is the sensitivity rate used internally when the exchange risk is reported to key management personnel and represents Management's assessment of a reasonably possible change in exchange rates.

The sensitivity analysis only includes open items denominated in foreign currency and adjusts their translation for a 5% change in foreign currency exchange rates at period end. The sensitivity analysis includes foreign loans as well as loans from foreign operations within the Entity, where the loan is denominated in a currency other than the loaner's or borrower's currency. A positive number (as observed in the table below) indicates an increase in profit where the Mexican peso strengthens 5% against the relevant currency. For a 5% weakening of the Mexican peso against the relevant currency, there would be a comparable impact on the profit, and the balances below would be negative.

	Millions of pesos		
	30/09/2018	**31/12/2017**	**01/01/2017**
Gain or loss	$6,878	$8,018	$8,415

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

Management believes that the impact of the inherent exchange risk is reflected in the electricity rates in the long-term through inflation adjustments and the peso to dollar exchange rate.

- **Interest rate risk management**

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

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

	Total debt as at 30 September 2018 millions of pesos
Fixed rate	237,681
Variable rate	119,291

	Total debt as at 31 December 2017 millions of pesos
Fixed rate	220,887
Variable rate	111,610

	Total debt as at 1 January 2017 millions of pesos
Fixed rate	156,792
Variable rate	122,388

- **Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates for derivative and non-derivative financial instruments at the end of the reporting period.

For variable rate liabilities, an analysis is prepared assuming that the amount of the liability reported at the end of the period was the amount in effect throughout the whole year. When reporting interest rate risk internally to key management personnel, a 0.50-point increase or decrease is used for the Mexican Equilibrium Interbank Interest Rate (EIIR or TIIE, Spanish acronym) and a 0.01-point increase or decrease for the LIBOR. These changes represent Management's assessment of a reasonably possible change in interest rates.

	Millions of pesos		
	30/09/2018	**31/12/2017**	**01/01/2017**
Gain or loss	$ 66	$ 114	$ 119

The sensitivity analysis has been estimated based on the fair value of the loans.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

Fair value of financial instruments

Fair value of financial instruments recognized at amortized cost

Management believes that the carrying amount of the financial assets and liabilities recognized at amortized cost in the Entity's condensed consolidated financial information approximates fair value, including the following:

Valuation techniques and assumptions used in determining fair value

	30 September 2018		31 December 2017		1 January 2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Accounts receivable	$ 101,991,586	$ 101,991,586	$ 95,773,791	$ 95,773,791	$ 62,325,469	$ 62,325,469
Loans to employees	12,042,524	12,042,524	12,339,193	12,339,193	11,193,711	11,193,711
Documented debt	226,576,205	226,576,205	208,355,380	208,355,380	209,613,471	209,613,471
PIDIREGAS debt and capital lease obligations	245,977,348	245,977,348	249,420,976	249,420,976	246,096,352	246,096,352

The fair value of the Entity's financial assets and liabilities is determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions that are traded on active liquid markets are determined by references to quoted market prices.

- The fair value of other financial assets and liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models, which are based on an analysis of discounted cash flows using current transaction prices observable in active markets and quoted prices for similar instruments.

- In conformity with the terms under which the ISDA (International Swaps and Derivatives Association) contracts were entered into, the counterparties or banking institutions are the appraisers who calculate and send the Mark-to-Market (which is the monetary valuation of the agreed upon transaction at a given time) on a monthly basis. CFE monitors this value and if there is any doubt or abnormal variance in the market value, CFE will request that the counterparty provide a new valuation.

Valuations at fair value recognized in the statement of financial position

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

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

		Level 1	
	30 September 2018	**31 December 2017**	**1 January 2017**
Available-for-sale financial assets			
Temporary investments	$ 2,023,568	$ 25,232,468	$ 19,127,508
Total	$ 2,023,568	$ 25,232,468	$ 19,127,508

An analysis of the fair value of the derivative financial assets grouped in level 2, based on the degree to which their fair value is observable, is included in Note 10.

The levels referred to above are considered as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs are unobservable inputs for the asset or liability.

5. Cash and cash equivalents

An analysis of Cash and cash equivalents as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

	30 September 2018	**31 December 2017**	**1 January 2017**
Cash on hand and cash in banks	$ 38,283,238	$ 41,996,612	$ 23,130,615
Temporary investments	2,023,568	25,232,468	19,127,508
Stock certificates	8,821	8,821	8,821
Total	$ 40,315,627	$ 67,237,901	$ 42,266,944

6. Accounts receivable, net

An analysis of Accounts receivable, net as at 30 June 2018, 31 December 2017 and 1 January 2017 is as follows:

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

		30 September 2018		31 December 2017		1 January 2017
Public consumers (*)	$	58,895,297	$	75,587,616	$	63,250,196
Government agency consumers (*)		22,093,740		20,887,093		18,559,103
		80,989,037		96,474,709		81,809,299
Allowance for doubtful accounts		(27,941,852)		(36,684,350)		(33,632,871)
		53,047,185		59,790,360		48,176,428
Other receivables		34,006,705		33,512,183		14,149,041
Value added tax		14,937,696		2,471,248		-
Total	**$**	**101,991,586**	**$**	**95,773,790**	**$**	**62,325,469**

(*)Includes estimates of revenue for electricity supply services that are in the process of being billed.

For the nine-month period ended 30 September 2018 and 2017, an analysis of the allowance for doubtful accounts is as follows:

		September 2018		December 2017		January 2017
Beginning balance	$	36,684,350	$	33,632,871	$	18,032,594
Increase		21,275,340		13,342,955		28,646,865
Charges		(30,017,838)		(10,291,476)		(13,046,588)
Ending balance	**$**	**27,941,852**	**$**	**36,684,350**	**$**	**33,632,871**

7. Inventory of Operating Materials

An analysis of Inventory of operating materials as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

	30 September 2018	31 December 2017	1 January 2017
Spare parts and equipment	$ 1,578,248	$ 2,570,001	$ 3,097,062
Fuel and lubricants	13,035,887	11,481,771	8,229,058
Nuclear fuel	3,737,181	3,994,473	3,226,186
	18,351,316	18,046,245	14,552,306
Allowance for obsolescence	(3,398,360)	(3,403,252)	(526,541)
Total	$ 14,952,956	$ 14,642,993	$ 14,025,765

8. Plants, Facilities and Equipment, net

An analysis of Plants, facilities and equipment, net as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

As at 30 September 2018

	Plants, facilities and equipment, net				
	31 December 2017	Acquisitions	Retirements	Depreciation for the period	30 September 2018
Plants, facilities and equipment	$2,087,721,243	$28,634,161	3,454,674		$2,112,900,730
Spare parts	7,233,446		7,791		7,225,655
Construction in progress	19,907,935	144,070			20,052,005
Advances and materials for construction	11,621,276	1,312,057			12,933,333
Subtotal	2,126,483,900	30,090,288	3,462,465	0	2,153,111,723
Accumulated depreciation	-873,545,413			-41,939,421	-915,484,834
Total	$1,252,938,487	$30,090,288	$3,462,465	($41,939,421)	$1,237,626,889

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

As at 31 December 2017

	Plants, facilities and equipment, net				
	31 December 2016	Acquisitions	Retirements	Depreciation for the period	31 December 2017
Plants, facilities and equipment	2,040,715,940	66,682,159	19,676,856		2,087,721,243
Spare parts	6,367,288	866,157	0		7,233,446
Construction in progress	18,433,272	1,474,663			19,907,935
Advances and materials for construction	10,856,715	764,561			11,621,276
Subtotal	2,076,373,215	69,787,540	19,676,856	0	2,126,483,900
Accumulated depreciation	-789,200,941			-84,344,471	--873,545,413
Total	$1,287,172,274	$69,787,540	$19,676856	-$84,344,471	$1,252,938,487

As at 31 December 2017 the Entity applied an impairment test to Genco VI and recognized a loss for impairment in other comprehensive income of $28,681,250 related to plant and equipment.

Based on the periodic review of the fair values of plants, facilities and equipment in operation, CFE revalues its assets to ensure that the carrying amount does not differ significantly from the amount that would have been calculated using fair values at the end of the reporting period.

Therefore, an analysis of fixed assets must be carried out to revalue the assets and review the useful life assigned to such, as well as to their useful life.

Construction in progress - The construction in progress balances as at 30 September 2018, 31 December 2017 and 1 January 2017 are as follows:

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

Plant:		**30 August 2018**		**31 December 2017**	**1 January 2017**
Steam	$	19,375	$	326	9,569
Hydroelectric		1,258,571		1,248,917	2,040,347
Nuclear power		1,322,291		1,316,029	1,273,489
Turbo gas and combined cycle		303,469		416,051	326,893
Geothermal		1,219,078		1,220,462	1,147,109
Internal combustion		682		682	107,694
Transmission lines, networks and substations		13,728,652		14,594,645	12,673,648
Offices and general facilities		2,199,887		1,110,823	854,523
Total	$	20,052,005	$	19,907,935	18,433,272

9. Intangible assets

An analysis of Intangible assets as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

		30 September 2018		**31 December 2017**		**1 January 2017**
Rights of way (1)	$	30,103,663	$	29,979,671	$	29,903,611
Deposits and advances		3,585,216		2,857,316		2,740,209
Total	$	33,688,879	$	32,836,987		32,643,820

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

10. Derivative Financial Instruments

a. Accounting classifications and fair values

CFE, in accordance with its risk management strategy, uses derivative financial instruments to mitigate its exchange rate and interest rate exposure. The hedging policies of CFE establish that derivative financial instruments that do not qualify as hedges are classified as held-for-trading.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

The fair value of the total derivative financial position as at 30 September 2018 and 31 December 2017 amounts to $9,835,112 and $16,084,937, respectively.

Derivative financial instruments for trading purposes - As at 30 September 2018 and 31 December 2017, CFE maintains its position in derivative financial instruments for trading purposes, the fair value of which represented an asset of $90,675 as at 30 September 2018 and a liability of $438,115 as at 31 December 2017.

The transaction consists of a series of currency forwards that allow to fix the yen/dollar exchange rate during the agreed term of the transaction at 54.0157 yen per one US dollar, CFE pays an interest rate equal to 8.42% per annum in US dollars on this transaction. These instruments have not been designated as hedges as required by the financial reporting standard, consequently, the valuation effect of these instruments is recognized in financial cost; a gain (loss) in said value offsets a loss (gain) in the underlying liability.

In addition to the series of forwards, the derivative instrument includes two options: a long European call option through which CFE has the right to purchase Japanese yens upon maturity in the spot market in case the yen/dollar exchange rate is quoted below 118.75 yens per dollar, and a short European call option through which CFE is required to sell dollars at the yen/dollar exchange rate of 27.80, if the prevailing exchange rate at the settlement date exceeds this level.

If CFE decides to cancel this economic hedge (currency forwards on the yen/dollar exchange rate), it would give rise to an estimated extraordinary loss at 30 September 2018 and 31 December 2017 as follows:

		Thousands of pesos			
Instrument	**Underlying**	**Maturity**	**30/09/2018**	**31/12/2017**	**1/01/2017**
FWD JPY/USD	Exchange rate and interest rate	2036	(90,675)	(438,115)	(494,776)
		Total	**(90,675)**	**(438,115)**	**(494,776)**

Financial instruments for hedging purposes – As at 30 September 2018 and 31 December 2017, CFE maintains its hedging derivative position on exchange rates and interest rates, as shown below:

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

Instrument	Underlying	Type of hedge	Maturity	30 September 2018	31 December 2017
CCS	Exchange rate and interest rate	Cash flow	2021	298,657	339,264
CCS	Exchange rate and interest rate	Cash flow	2022	66,653	93,469
CCS	Exchange rate and interest rate	Cash flow	2023	1,206,198	3,971,843
CCS	Exchange rate and interest rate	Cash flow	2024	3,325,648	5,081,946
CCS	Exchange rate and interest rate	Cash flow	2027	1,088,959	2,589,860
CCS	Exchange rate and interest rate	Cash flow	2032	66,614	(427,998)
CCS	Exchange rate and interest rate	Cash flow	2036	3,772,492	4,763,554
CCS	Exchange rate and interest rate	Cash flow	2042	139,504	-
CCS	Exchange rate and interest rate	Cash flow	2047	(88,985)	-
CCS	Exchange rate and interest rate	Cash flow	2048	153,408	-
Participating Swap	Exchange rate and interest rate	Cash flow	2027	(170,837)	(108,664)
Forwards	Exchange rate	Cash flow	Less than one year	(5,311)	105,058
IRS	Interest rate	Cash flow	2020	72,787	114,720
			Subtotal	**9,925,787**	**16,523,052**
CCS	Exchange rate JPY/USD	Trading		**(90,675)**	**(438,115)**
Total thousands of Mexican pesos				**9,835,112**	**16,084,937**

The table above includes the mark to market of the hedging derivatives. As at 30 September 2018 the total mark to market corresponding to the hedging and trading derivatives was $9,835,112 based on their carrying amount.

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

Fair value (Mark to market - MTM) is determined using valuation techniques at present value to discount future cash flows, which are estimated using observable market data. The carrying amount of OCI includes the fair value (mark to market) and the reclassifications to profit and loss correspond to accrued interest and currency hedging (gain or loss).

b. Fair value measurement

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

Adjustment of fair value or Mark to Market by credit risk

The net of the fair value of the derivative financial instruments (Mark to Market) effective as at 30 September 2018, before considering credit risk, amounts to $10,767,156 which is included in the balance sheet and represents the amount in favor of the Entity with the counterparties.

The net of the fair value of derivative financial instruments (Mark to Market) effective as at 31 December 2017, before considering credit risk, amounts to $17,112,665 which is included in the balance sheet and represents the amount in favor of the Entity with the counterparties.

CFE applies a credit valuation adjustment (CVA) to reflect the creditworthiness of the counterparty of the derivative financial instrument. The CVA is the market value of the counterparty credit risk and reflects the estimated fair value of the hedging required to cover the counterparty credit risk included in such instruments

Methodology to adjust fair value or Mark to Market by credit risk

This mechanism was approved by the Interinstitutional Delegate Committee for Financial Risk Management associated to the financial position and price of fossil fuels (CDIGR), as the methodology for adjusting derivative financial instruments to fair value.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

As at 30 September 2018, the adjustments to fair value based on the CVA (Credit Valuation Adjustment) are shown below:

	Thousands of pesos		
Counterparty	**Fair value MTM subject to CVA**	**Adjusted fair value MTM**	**Adjustment as at 30 September 2018**
BBVA BANCOMER	1,377,777	1,377,777	-
BNP PARIBAS	979,949	974,637	5,311
CITIBANAMEX	34,178	-2,169	36,347
CREDIT AGRICOLE	8,777	8,777	-
CREDIT SUISSE	170,609	170,609	-
DEUTSCHE BANK	2,664,337	2,664,337	-
GOLDMAN SACHS	1,738,561	1,448,449	290,112
HSBC	9,131	9,131	-
JP MORGAN	70,092	70,092	-
MORGAN STANLEY	1,286,787	844,926	441,861
SANTANDER	1,583,536	1,456,954	126,582
BARCLAYS BANK	843,422	811,592	31,831
	10,767,156	**9,835,112**	**932,044**

As at 31 December 2017, the adjustments to fair values based on the CVA (Credit Valuation Adjustment) are shown below:

	Thousands of pesos		
Counterparty	**Fair value MTM subject to CVA**	**Adjusted fair value MTM**	**Adjustment as at 31 December 2017**
CREDIT SUISSE	233,994	233,994	0
DEUTSCHE BANK	3,102,561	3,102,561	0
MORGAN STANLEY	2,811,977	2,663,721	148,256
SANTANDER	3,133,420	3,133,420	0
BNP PARIBAS	1,409,163	1,408,675	488
BBVA BANCOMER	2,270,034	2,270,034	0
GOLDMAN SACHS	2,234,522	2,234,522	0
CITIBANAMEX	128,596	128,426	170
CREDIT AGRICOLE	14,663	14,663	0
HSBC	15,476	4,875	10,601
JP MORGAN	5,915	-424,143	430,058
BARCLAYS BANK	1,752,344	1,752,304	40
J Aron (Trading)	0	-438,115	438,115
	17,112,665	**16,084,937**	**1,027,728**

Fair Value hierarchy or Mark-to-Market

To increase consistency and comparability of fair value measurements and related disclosures, IFRS established a fair value hierarchy that categorizes into three levels the inputs to valuation techniques. This hierarchy grants the highest priority to quoted prices (unadjusted) in active markets for assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs to valuation techniques.

Level 2 inputs

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

Therefore, the hierarchy level of the Entity's Mark-to-Market for derivatives financial instruments as at 30 September 2018 is level 2 due to the following:

a) Inputs are other than quoted prices and include inputs within Level 1 that are observable, either directly or indirectly

b) Quoted prices for similar assets or liabilities in active markets

c) Inputs other than quoted prices that are observable for the assets or liabilities

c. Financial risk management

CFE 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. To mitigate credit risk, the Entity only trades instruments with highly creditworthy counterparties.

To manage credit risk, the Entity monitors the credit rating and the probability of default of the counterparty, which is applied to the market value of the derivative.

The carrying amount of the derivative financial assets represents the maximum exposure to credit risk. As at 30 September 2018 and 31 December 2017, this amounted to $10,767,157 and $17,112,665, respectively.

Liquidity risk

The liquidity risk associated with financial derivative instruments is the risk that CFE may encounter difficulties in meeting the financial obligations arising from these instruments.

To manage credit risk, the Entity monitors the market value of the derivative and the use by the operating lines (threshold).

Exposure to liquidity risk for holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As at 30 September 2018 and 31 December 2017, this amounted to $932,044 and $589,533, respectively.

Market risk

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

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

a) Currency exchange risk

53.4% of CFE's debt is denominated in foreign currency, mainly in US dollars, whereas most of CFE's assets and revenues are denominated in pesos. As a result, CFE is exposed to devaluation risks of the peso against the dollar. In conformity with its risk management policy, CFE has contracted currency swaps to reduce the impact of currency fluctuations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay a fixed rate in pesos. As at 30 September 2018 and 31 December 2017, CFE maintains foreign exchange swaps as a hedge of its debt in foreign currency of $105,044 and $72,135 million pesos, respectively.

To cover the exchange risks of the $32 billion debt in yens, CFE uses a series of exchange rate forwards under which it purchases Japanese yens. The market value of this transaction as at 30 September 2018 and 31 December 2017 was $(90,675) and $(438,115), respectively. These derivative instruments were not designated as hedges.

Sensitivity analysis for exchange rate effects

A possible and reasonable strengthening (weakening) of the MXN/USD and JPY/USD exchange rate as at 30 September 2018 would have affected the fair value of the total position of the derivative financial instruments in foreign currency, and thus, profit and loss of the period and other comprehensive income (since some of them are designated as hedges), as shown in the following table:

30/Sept/18	Instrument	+100 pips	-100 pips
	Cross Currency	55,583	(55,583)
	JPY/USD	2,694	(2,694)
	FWD	39	(39)
	Total	58,316	(58,316)

This analysis assumes that the other variables, specifically interest rates, remain constant (amounts in thousands of pesos).

b) Interest rate risk

33.4% of CFE's debt accrues interest at variable rates, which is calculated at the TIIE rate in the case of debt denominated in pesos. As at 30 September 2018 and 2017, CFE hedged $4,262 and $4,833, respectively, of its debt denominated in pesos bearing variable interest rates.

Interest rate sensitivity analysis

A potential and reasonable strengthening (weakening) of interest rates as at 30 September 2018 would have affected the fair value of the total position of derivative financial instruments associated with variable interest rates, and thus, profit and loss of the period and other comprehensive income (since some of them are designated as hedges), as shown in the following table:

30 September 2018	+100 basis points	+100 basis points
Interest rate swaps	42,623	(42,623)

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

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

11. Documented Debt

a) Short-term debt and current portion of long-term debt.

An analysis of documented debt as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

FOREIGN DEBT -

-

Foreign debt	Type of credit	Weighted interest rate	Maturities	30 September 2018 Local currency	30 September 2018 Foreign currency (thousands)	31 December 2017 Local currency	31 December 2017 Foreign currency (thousands)	1 January 2017 Local currency	1 January 2017 Foreign currency (thousands)
In US Dollars: at an exchange rate									
of $18.8986 per U.S. dollar at September 2018 and of	BILATERAL	Fixed and variable – 1.92%	Various through 2023	1,521,130		1,720,686		2,696,259	
$19.7867 at December 2017	BONDS	Fixed and variable – 5.26%	Various through 2045	91,795,225		97,696,627		107,124,453	
	REVOLVING	Fixed and variable – 2.96%	Various through 2020	1,403,528		2,660,379		1,529,348	
	SYNDICATED	Fixed and variable – 3.31%	2023	17,008,740		-		-	
TOTAL IN U.S. DOLLARS:				111,728,623		102,077,692		111,350,060	
IN EUROS: at an exchange rate of	BILATERAL	Fixed and variable – 2%	Various through 2024	28,102		41,741		44,622	
$21.7431 per Euro at September 2018 and of	REVOLVING	Fixed and variable – 1.79%	Various through 2020	2,232		4,946		9,859	
$23.6062 at December 2017									
TOTAL EUROS				30,334		46,687		54,481	
IN SWISS FRANCS: at an exchange rate of	BILATERAL	Fixed and variable – 0%	Various through 2015	-		-		-	
$19.1649 per Swiss franc at September 2018 and of									
$20.1721 at December 2017	REVOLVING	Fixed and variable – 0.97%	Various through 2021	473,617		909,359		1,575,319	
TOTAL IN SWISS FRANCS:				473,617		909,359		1,575,319	
IN JAPANESE YENS: at an exchange rate of									
$0.1648 per Japanese yen at September 2018 and of	BILATERAL	Fixed and variable – 1.43%	Various through 2021	413,787		676,485		1,034,732	
$0.1746 at December 2017									
				413,787		676,485		1,034,732	
Bond		Fixed - 3.83%	2032	5,273,600		5,587,200		5,657,600	
Assets received for financial instruments, net (Note 10b)				(180,919)		(255,199)		(71,027)	
				5,092,681		5,332,001		5,586,573	

TOTAL IN JAPANESE YENS:	5,506,469	6,008,487	6,621,305
TOTAL FOREIGN DEBT	117,739,042	109,042,224	119,601,165

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

DOMESTIC DEBT -

Domestic debt			Maturities	30 September 2018 Local currency	31 December 2017 Local currency	1 January 2017 Local currency
LOCAL CURRENCY	BANKING	Fixed and variable – 8.77%	Various through 2023	17,500,000	7,600,000	18,700,000
	STOCK MARKET	Fixed and variable – 7.9%	Various through 2027	70,987,330	79,000,000	66,500,000
TOTAL IN MEXICAN PESOS:				88,487,330	86,600,000	85,200,000
IN UDIS: at the exchange rate of						
$6.1051 per UDI at September 2018 and of $5.269 at December 2017	STOCK MARKET	Fixed - 4.49%	2032	19,663,154	11,141,672	5,196,355
TOTAL IN UDIS				19,663,154	11,141,672	5,196,355
TOTAL DOMESTIC DEBT				108,150,484	97,741,672	90,396,355

Summary

	30 September 2018	31 December 2017	1 January 2017
Total foreign debt	117,739,042	109,042,224	119,601,165
Total domestic debt	108,150,484	97,741,672	90,396,355
Interest payable	3,024,990	2,476,342	1,936,494
Unamortized debt expenses	(2,338,310)	(2,338,310)	(2,320,543)
CFE Energía	0	1,433,451	
Total documented debt	226,576,206	208,355,379	209,613,471
Total short-term	20,358,589	27,351,967	16,373,774
Total long-term	206,217,616	181,003,413	193,239,697
Total short- and long-term	226,576,205	208,355,380	209,613,471

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

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

30 September 2018	Amount
2018	20,358,589
2019	7,692,617
2020	21,724,497
2021	24,104,468
2022	220,642
2023	26,425,247
2024	23,784,259
SUBSEQUENT YEARS	102,265,887
TOTAL	226,576,205

Documented debt

An analysis of the financing obtained in the nine-month period ending 30 September 2018 is as follows:

Domestic debt

In February, CFE drew down 2,500 million pesos against its revolving line of credit with BBVA Bancomer, S. A. and in March it drew down 2,500 million pesos, that bear monthly interest at the 28-day TIIE rate plus 0.48%.

In May, CFE drew down 5,000 million pesos against its revolving line of credit with Banco Santander, S.A., that bears monthly interest at the 28-day TIIE rate plus 0.20%.

In June, CFE placed three Stock Certificate issuances in the domestic market for a total amount of 15,290.0 million pesos.

1. Second reopening of the CFE 17 series for an amount of 2,550.0 million pesos, that bears semi-annual interest at a fixed rate of 8.18% and matures in December 2027.
2. First reopening of the CFE 17 series for an amount of 2,286,414,200 UDIS, equal to 8,053.020 million pesos, that bears semiannual interest at a fixed rate of 4.54% and matures in September 2032.
3. Of the CFE 18 series, Stock Certificates were auctioned for an amount of 4,687.33 million pesos that bears variable interest at the 28-day TIIE rate plus 0.30% and matures in June 2021.

In July, CFE drew down 4,000 million pesos against its revolving line of credit with Banco Santander, S.A., that bears monthly interest at the 28-day TIIE rate plus 0.20% and 3,000 million pesos against its revolving line of credit with BBVA Bancomer, S.A., that bears monthly interest at the 28-day TIIE rate plus 0.30%, both with monthly interest payments.

Foreign debt

In July, CFE drew down $20.87 million US dollars against its line of credit with Banamex, S.A. to finance enriched uranium for the Laguna Verde Central, for a term of three years and semiannual payments and interest payments, at the 6-month USD LIBOR rate + 1.90%.

In July, CFE drew down $300 million US dollars against the syndicated loan (BBVA Bancomer, S.A. is the Administrative Agent), at the USD LIBOR rate plus 1.15%, This amount was repaid in August 2017.

In August, CFE drew down $900 million US dollars against the syndicated revolving loan signed in July 2018 for a total of $1,260 million US dollars with Mizuho Bank, LTD., as the administrative agent, at the USD LIBOR rate plus 0.95%, for a term of 5 years.

In September, CFE drew down $5.2 million US dollars against the line of credit with BBVA, S.A. Madrid, to finance Spanish goods and services with a guaranty of Compañía Española de Seguros de Crédito a la Exportación (the Spanish Export Credit Agency).

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

b) Debt for long-term Productive Infrastructure Projects (PIDIREGAS, Spanish acronym) and capital lease obligations

An analysis of the balances and maturities of the PIDIREGAS (direct investment) debt and capital lease obligations as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

		Direct investment	Conditioned investment	Total	Total	Total
	Documented debt	PIDIREGAS	PEE's	30 September 2018	31 December 2017	1 January 2017
Short-term	$ 20,358,589	$ 17,043,004	$ 8,563,489	$ 45,965,082	$ 56,619,729	$ 41,728,216
Long-term						
2018						22,872,739
2019	7,692,617	62,014	6,317,835	14,072,466	14,485,207	12,870,969
2020	21,724,497	691,232	7,051,110	29,466,839	30,147,623	28,491,542
2021	24,104,468	232,063	7,876,663	32,213,194	28,110,870	30,840,485
2022	220,642	2,614,223	8,806,850	11,641,715	12,243,175	12,408,242
2023	26,425,247	1,824,776	9,855,766	38,105,789	21,123,907	19,066,580
2024	23,784,259	4,754,413	10,498,853	39,037,525	41,326,791	43,055,116
Subsequent years	102,265,887	105,355,076	54,429,981	262,050,944	253,719,054	244,375,935
Total long-term	$ 206,217,617	$ 115,533,797	$ 104,837,058	$ 426,588,472	$ 401,156,627	$ 413,981,607
Total	$ 226,576,206	$ 132,576,801	$ 113,400,547	$ 472,553,554	$ 457,776,357	$ 455,709,823

Direct investment (PIDIREGAS)

As at 30 September 2018, 31 December 2017 and 1 January 2017, the debt corresponding to the acquisition of plants, facilities and equipment through PIDIREGAS was recognized in accordance with International Financial Reporting Standards, an analysis is as follows:

Credit amount		Term of the agreement	As at 30 September 2018 (amounts in thousands of the corresponding currency)				Balance as at 31 December 2017 (amounts in thousands of the corresponding currency)				Balance as at 1 January 2017 (amounts in thousands of the corresponding currency)			
			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														
		2018									44,787	-	2,160	-
14.5	million dollars	2019	273,891	-	14,493	-	539,009	145,636	27,241	7,360	498,499	717,332	24,046	34,601
41.0	million dollars	2020	515,956	257,978	27,301	13,651	540,203	810,304	27,301	40,952	565,994	1,414,985	27,301	68,253
38.5	million dollars	2026	85,521	641,409	4,525	33,939	89,540	716,320	4,525	36,202	-	-	-	-
293.1	million dollars	2029	516,181	5,023,683	27,313	265,823	540,438	5,800,198	27,313	293,136	566,240	6,643,364	27,313	320,449
461.8	million dollars	2032	1,138,457	7,588,234	60,240	401,524	1,191,956	8,540,805	60,240	431,644	1,248,865	10,197,445	60,240	491,884
849.0	million dollars	2036	1,101,342	14,944,001	58,276	790,746	840,265	16,301,098	43,951	823,841	798,249	16,980,848	38,504	819,088
150.0	million dollars	2038	141,740	2,693,051	7,500.00	142,500.00	-	-	-	-	-	-	-	-
803.2	million dollars	2047	1,000,963	14,178,451	52,965	750,238	1,397,362	22,954,350	69,136	1,160,090	-	-	-	-
1,210.3	million dollars	2048	847,279	22,025,075	44,833	1,165,434	-	-	-	-	-	-	-	-
Total foreign debt			5,621,330	67,351,882	297,446	3,563,855	5,138,773	55,268,711	259,707	2,793,225	3,722,634	35,953,974	179,564	1,734,275
Domestic debt														
-	million pesos	2016	-	-			-	-			-	36,598		
-	million pesos	2017	-	-			-	-			88,611	-		
-	million pesos	2018	-	-			1,915,888	-			669,445	3,156,305		
794.0	million pesos	2019	731,941	62,014			1,011,552	542,528			778,024	1,607,113		

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

1,102.4	million pesos	2020	669,178	433,254	1,143,268	895,664	910,344	2,554,330
353.9	million pesos	2021	121,828	232,063	181,999	293,720	121,828	475,719
3,924.5	million pesos	2022	1,310,282	2,614,223	2,265,874	3,493,333	1,702,554	6,754,195
2,408.6	million pesos	2023	583,782	1,824,776	792,720	2,154,690	486,945	2,336,413
6,053.4	million pesos	2024	1,299,005	4,754,413	1,578,043	5,748,122	1,099,555	5,826,698
2,649.4	million pesos	2025	491,312	2,158,070	644,745	2,736,176	670,430	4,035,698
12,580.0	million pesos	2026	2,051,277	10,528,704	2,550,125	12,027,493	2,120,550	16,085,716
9,893.1	million pesos	2027	1,424,368	8,468,721	1,612,159	9,360,896	-	-
4,651.3	million pesos	2028	442,789	4,208,533	-	-	-	-
-	million pesos	2032	-	-	-	-	526,735	2,258,328
1,547.8	million pesos	2036	83,664	1,464,127	83,664	1,505,959	83,664	1,589,623
12,151.1	million pesos	2042	726,944	11,424,197	753,698	12,013,283	726,944	12,766,982
Total domestic debt			9,936,370	48,173,099	14,533,735	50,771,864	9,985,619	59,483,718
Interest payable			1,485,304		1,473,412		1,018,221	
CEBURES				8,821		8,821		8,821
Total PIDIREGAS debt			17,043,004	115,533,798	21,145,914	106,049,395	14,726,474	95,446,513

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

a. As at 30 September 2018, 31 December 2017 and 1 January 2017, minimum payment commitments on PIDIREGAS are as follows:

	30 September 2018	31 December 2017	1 January 2017
PIDIREGAS	192,180,720	176,974,622	144,741,264
less:			
Unaccrued interest	59,612,740	49,788,133	34,577,085
Present value of obligations	132,567,980	127,186,489	110,164,179
less:			
Current portion of obligations	17,043,004	21,145,914	14,726,488
Long-term portion of PIDIREGAS	115,524,976	106,040,575	95,437,691
CEBURES	8,821	8,821	8,821
Total CEBURES and PIDIREGAS	$115,533,798	$106,049,396	$95,446,512

Capital lease obligations (conditioned investment)

As at 30 September 2018, CFE has entered into 26 contracts with private investors, called independent energy producers (PIE, Spanish acronym). Such contracts establish an obligation for CFE to pay various considerations to the PIEs in exchange for the PIEs to guarantee the provision of electricity supply services, based on a previously agreed-upon generation capacity through power generation plants financed and built by said investors.

The future payments obligation includes: a) rules for quantifying the acquisition amount of the power generating plants whenever a contingent event occurs that, under the terms of each contract, is considered an event of force majeure, applicable 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 the 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 testing stage until the termination of the contracts.

a) Classification as leases

The Entity has assessed that 23 of the contracts with independent producers have an embedded lease on the power generation plant in accordance with IFRIC 4 Determining Whether an Arrangement Contains a Lease, and IFRIC 12 Service Concession Agreements, and such leases, in turn, qualify as financial leases in accordance with IAS 17 Leases.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

The lease agreements are for 25-year terms. The average annual interest rate on these lease agreements is 11.19%.

	Minimum lease payments			Present value of minimum lease payments		
	30/09/2018	31/12/2017	31/12/2016	31/08/2018	31/12/2017	31/12/2016
Short-term	$18,103,949	$15,631,775	$22,473,286	$8,130,259	$8,121,848	$10,627,954
From one to five years	83,338,889	86,151,051	102,490,749	39,546,545	38,507,349	36,140,956
More than five years	98,336,124	103,923,053	144,744,587	67,081,221	75,596,469	89,154,442
Total accumulated equity	$199,778,962	$205,705,879	$269,708,622	$114,758,025	$122,225,666	$135,923,352

	Minimum lease payments			Present value of minimum 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
From one to 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 equity	$205,705,879	$269,708,622	$201,425,966	$122,225,666	$135,923,352	$114,684,825

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

An analysis of the capital lease obligation as at 30 September 2018 is as follows:

			Foreign currency		Local currency	
Name	Start up of operations	Original amount of the obligation	Short term	Long term	Short term	Long term
CT MERIDA III	JUN-00	242,685	14,050	130,263	265,526	2,461,790
CC HERMOSILLO	OCT-01	156,144	7,917	99,678	149,613	1,883,774
CC SALTILLO	NOV-01	152,383	7,777	88,716	146,978	1,676,612
TUXPAN II	DEC-01	283,133	13,186	187,516	249,201	3,543,782
EL SAUZ BAJIO	MAR-02	399,773	18,713	275,973	353,642	5,215,506
CC MONTERREY	MAR-02	330,440	16,229	169,685	306,696	3,206,811
CC ALTAMIRA II	MAY-02	233,234	10,278	169,717	194,236	3,207,415
CC RIO BRAVO II	MAY-02	232,108	11,265	135,880	212,897	2,567,944
CC CAMPECHE	MAY-03	196,554	8,522	128,091	161,061	2,420,738
CC TUXPAN III & IV	MAY-03	587,064	24,639	405,416	465,647	7,661,798
CC MEXICALI	JUL-03	569,345	24,656	338,809	465,969	6,403,017
CC CHIHUAHUA III	SEP-03	275,327	12,031	160,745	227,376	3,037,864
CC NACO NOGALES	OCT-03	238,016	10,272	110,813	194,119	2,094,211
CC ALTAMIRA III AND IV	DEC-03	600,897	24,660	383,395	466,040	7,245,622
RIO BRAVO III	APR-04	312,602	11,572	224,994	218,692	4,252,081
CC LA LAGUNA II	MAR-05	367,578	12,808	271,648	242,061	5,133,770
CC RIO BRAVO IV	APR-05	270,697	8,628	209,808	163,051	3,965,080
CC VALLADOLID III	JUN-06	288,160	9,464	213,821	178,856	4,040,925
CC TUXPAN V	SEP-06	284,997	7,496	235,734	141,672	4,455,046
CC ALTAMIRA V	OCT-06	532,113	11,886	461,435	224,634	8,720,473
CC TAMAZUNCHALE	JUN-07	482,562	12,590	396,710	237,942	7,497,257
CCC NORTE	AUG-10	450,097	12,309	363,968	232,615	6,878,477
CCC NORTE II	JAN-14	427,733	8,862	384,529	167,473	7,267,064
Total			299,810	5,547,344	5,665,997	104,837,017

(1) The short-term balance does not include interest in the amount of $2,897,491 and $2,639,798 as at 30 September 2018 and 31 December 2017, respectively.

a) Other contracts with independent power producers

Currently, the CFE has three contracts in operation with wind farm private investors under which, as opposed to the contracts mentioned in the note above, the obligation established for CFE is to only pay for the wind energy that was generated and delivered; therefore, these contracts are not considered capital leases. The contracts are as follows:

C E Oaxaca I
C E Oaxaca II, III and IV
CE La Venta III
CE Sureste I

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

b) Service provider contracts

Gasoducto Pemex-Valladolid
Coal terminal

These service provider contracts are not considered financial leases since they do not meet the requirements of IFRS for such specific treatment.

12. Other Accounts Payable and Accrued Liabilities

An analysis of Other accounts receivable as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

	30 September 2018	31 December 2017	1 January 2017
Suppliers and contractors	$ 52,564,723	$ 59,849,154	$ 17,888,728
Accounts payable CENACE	0	0	2,011,804
Employees	5,036,508	4,213,117	3,765,564
Deposits from users and contractors	24,442,740	22,974,717	21,103,369
Other liabilities	10,821,939	20,761,051	17,103,988
Total	**92,865,910**	**107,798,040**	**61,873,453**

13. Taxes and Duties Payable

An analysis of Taxes and duties payable as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

Payable by CFE	**30 September 2018**	**31 December 2017**	**1 January 2017**
Income tax	11,857,309	2,828,070	0
Income tax payable on behalf of third parties	544,101	411,290	270,792
Mexican Social Security Institute (IMSS) contributions	409,959	698,046	680,038
Rights for the use and exploitation of national waters	581,731	370,375	224,741
Payroll tax	47,015	45,556	54,574
Federal Housing Financing Agency (INFONAVIT) contributions	41	12,481	10,895
Value added tax payable	-		985,948
Subtotal	13,440,156	4,365,818	2,226,988

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

Withholdings			
Income tax withheld from employees	693,318	738,923	693,591
Withheld value added tax	35,348	68,441	67,946
Income tax on interest paid abroad	50,777	27,993	26,846
Income tax on foreign residents	1,099	45,677	57,698
0.5% to contractors	23,855	50,404	18,010
Income tax on professional fees and rent to individuals	3,907	7,101	6,302
0.2% to contractors	509	547	342
Other	228	422	14,134
	809,041	939,508	884,869
Total taxes and duties	14,249,197	5,305,326	3,111,857

14. Other Long-term Liabilities

An analysis of Other long-term liabilities as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

		30 September 2018	31 December 2017	1 January 2017
Third-party contributions	$	3,367,475	8,039,903	33,707,331
Asset retirement obligation		11,291,101	11,101,187	12,888,114
Other provisions		4,470,120	4,283,577	3,561,400
Total	**$**	**19,128,696**	**23,424,666**	**50,156,845**

15. Long-term Employee Benefits

CFE has employee benefits plans for terminations of employee relationships and for retirements for reasons other than a restructuring event. The retirement benefits plan considers the number of years of service completed by the employee and the employee’s compensation at the retirement date. The retirement benefits plan includes the seniority bonus that employees are entitled to receive upon termination of the employee relationship, as well as other defined benefits.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

The actuarial valuations of the plan assets and the present value of the defined benefit obligation are performed annually by independent actuaries using the projected unit credit method.

No significant changes or amendments were made to the plans during the six-month period ended as at 30 September 2018 and 2017.

16. Income tax

CFE was transformed into a Productive State Enterprise and is no longer a Decentralized Public Company; consequently, it no longer is eligible for the tax regime set out in Title III of the Income Tax Law (Non-Profit Legal Entities) but rather applies the provisions set out in Title II of the aforementioned Law (general regime for corporations and legal entities).

17. Other Equity Items

a. Other comprehensive income

An analysis of items included in Other comprehensive income for the six-month period ended 30 September 2018 and 2017, is as follows:

.	Revaluation of plants, facilities and equipment	Remeasurement of employee benefit liabilities	Recognition of the assumption by the Federal Government of the benefits and retirement payment obligations	Cash flow hedges	Other comprehensive income	Deferred tax in other comprehensive income	Total other comprehensive income
Balance as at 31 December 2016	$ 388,608,985	$ - 111,586,852	$ 161,080,204	$ 9,149,999	$ -	$	$ 447,252,336
Comprehensive income (loss) for the period	- 28,681,250	- 12,192,264		10,401,629	-		- 30,471,885
Balance as at 31 December 2017	359,927,735	- 123,779,116	161,080,204	19,551,628			416,780,451
Comprehensive income (loss) for the period		13,058,283		- 16,847,598		- 4,968,932	- 8,758,247
Balance as at 30 September 2018	**$ 359,927,735**	**$ - 110,720,833**	**$ 161,080,204**	**$ 2,704,030**	**$ -**	**$ - 4,968,932**	**$ 408,022,204**

b. Non-controlling interest Management September 2018

As mentioned in Note 1, on February 7, 2018, an Energy and Infrastructure Investment Trust (also referred to as Fibra-E), specialized in the Mexican electricity sector was incorporated. Such Trust issued infrastructure investment trust stock certificates, for which it received contributions from the Entity and other investors.

The Entity's management has evaluated and concluded that it exerts control over the net assets of the Trust, and thus, such assets are consolidated as part of the financial statements. The non-controlling interest in the amount of $15,454,653 represents the equity in this Trust that is not attributable directly or indirectly to the parent entity.

On February 8, 2018 the Trust made a global primary placement public offer for the subscription of 862,500,000 Series A CBFEs (considering 112,500,000 Series A CBFEs object of the overallotment option). The resources obtained from the Global Offer were mainly used to finance the acquisition of the Trust Rights of the Promoted Trust. The Issuing Trust may, subject to the provisions of the National Banking and Securities Commission’s *Circular Única* for Issuers and in accordance with the terms and conditions of the Trust Agreement, carry out additional issues of CBFEs. The Ticker Symbol was FCFE18 (Series A CBFEs) and FCFE18-2 (Series B CBFEs).

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

18. Foreign Currency Position

An analysis of CFE's foreign currency denominated assets and liabilities as at 30 September 2018, 31 December 2017 and 1 January 2017 is as follows:

	2018					
	Assets	Liabilities				
	Cash and cash equivalents	Suppliers	Domestic debt	Foreign debt	Capital lease Obligations and PIDIREGAS	Short foreign currency position
U.S. dollars	37,070	487,945		6,181,479	9,708,458	16,340,812
Euros	0			1,395		1,395
Japanese yens	-			2,510,845		2,510,845
Swiss francs	0			24,713		24,713

	2017					
	Assets	Liabilities				
	Cash and cash equivalents	Suppliers	Domestic debt	Foreign debt	Capital lease Obligations and PIDIREGAS	Short foreign currency position
U.S. dollars	1,215,536	21,659		5,428,378	9,096,684	13,331,184
Euros	505			2,360		1,855
Japanese yens	- 1,335,513			3,874,487		5,210,000

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

Swiss francs	31,644	45,080	13,436

	Assets	1 January 2017			
	Cash and cash equivalents	Suppliers	Foreign debt	Capital lease obligations and PIDIREGAS	Short foreign currency position
U.S. dollars	$ 248,696	$ 139,595	$ 5,640,557	$ 8,206,499	$ 13,737,955
Euros	-	-	2,628	-	2,628
Japanese yens	102,217	-	5,852,554	-	5,750,337
Swiss francs	-	-			

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

Note: The JPY foreign debt includes the 32 billion bond in yens.

Note: The PIDIREGAS debt in dollars includes 6,043,750 million dollars of the financial lease debt with External Producers (as per IFRS).

As at 30 September 2018, 31 December 2017 and 1 January 2017, the foreign currency denominated assets and liabilities were translated to local currency at the exchange rate published in the *Official Gazette* by Banco de México, as shown below:

Currency		**30 September 2018**		**31 December 2017**		**1 January 2017**
U.S. dollars	$	18.8986	$	19.7867	$	20.731
Euros		21.7431		23.6062		21.753
Japanese yens		0.1648		0.1746		0.1768
Swiss francs		19.1649		20.1721		20.294

19. Contingencies and Commitments

Contingencies

CFE is party to several lawsuits and claims filed against it in the normal course of its business. The amounts of such lawsuits are deemed immaterial with respect to the Entity's current financial position and its expected financial performance in the following years.

Commitments

a. Natural gas supply contracts

The Entity has entered into contracts for services related to the reception, storage, transportation, regasification and supply of liquefied natural gas. The contractual commitments consist of acquiring, during the supply period, daily base amounts of natural gas as set forth in the respective contracts.

b. Long-term auctions

In 2017, the Entity participated as a buyer in the long-term auction announced by CENACE for the month of November 2017, acquiring through the auction a commitment to purchase energy of 539.8 (MW / year) for 15 years, purchase of energy of 5,003,133.78 (MWh/year) for 15 years and to purchase CELs of 5,422,143.18 for 20 years. On April 13, 2018, CFE entered into the agreement with the Chamber of Compensation (who acts as the counterparty).

As at 31 December 2017, the Entity has the obligation to acquire 5% of the CELs that cover the production of the electricity generating companies for 2018, and 5.8% for 2019.

c. Financed public work contracts

As at 30 September 2018, CFE has entered into several financed public work contracts and the payment commitments will begin on the dates when the private investors complete the construction of each of the investment projects and deliver the related the assets to CFE for their operation. The estimated amounts of such financed public work contracts and the estimated dates of construction completion and start up of operations are shown in the table included on the next page.

Transmission lines and substations:

Project	Capacity		Estimated amount of the contract expressed in millions of:		Operation stage
	Kmc	MVA	Dollars	Pesos	
283 LT 1723 Red de Transm. Asoc. a CC Norte III	21.10		17.40	328.84	31-MAR-17
188 SE 1116 Transformación del Noreste F4	97.60	500.00	50.00	944.93	31-MAY-17
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F6 (DIST)	158.00	62.10	65.88	1,245.12	17-JUL-17
209 SE 1212 Sur - Peninsular F9 (DIST)	20.31	20.00	8.17	154.38	12-AUG-17
321 SLT 1920 Subestaciones y Lineas de Distribución F5	1.42	30.00	5.46	103.13	31-AUG-17
274 SE 1620 Distribución Valle de México F2	26.20	420.00	89.80	1,697.09	31-OCT-17
304 LT 1805 Línea de Transmisión Huasteca - Monterrey	441.80		126.83	2,396.91	30-JAN-18
281 LT 1716 Red de Transmisión Asociada al CC Noreste	128.10		45.91	867.71	01-FEB-18
321 SLT 1920 Subestaciones y Líneas de Distribución F4	42.40	50.00	11.74	221.79	10-FEB-18
310 SLT 1821 Divisiones de Distribución F1 (DIST)		50.00	4.69	88.63	01-MAR-18
309 SLT 1820 Divisiones de Distribución del Valle de México	5.20	360.00	48.15	909.97	19-APR-18
336 SLT 2001 Subestaciones y Líneas Baja California Sur - Noroeste F1	225.00	950.00	44.50	840.89	25-MAY-18
274 SE 1620 Distribución Valle de México F1	16.10	780.00	94.60	1,787.81	31-MAY-18
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F5 C2 (DIST)	1,185.00	162.30	169.89	3,210.68	06-JUN-18
350 SLT 2121 Reducción de Pérdidas de Energía en Distribución F3 (DIST)	353.20	45.90	38.53	728.24	07-JUN-18
337 SLT 2002 Subestaciones y Líneas de las Áreas Norte - Occidental F2	205.40	200.00	31.13	588.39	29-JUL-18
338 SLT 2020 Subestaciones, Líneas y Redes de Distribución F1 (DIST)	25.33		10.75	203.18	11-AUG-18
350 SLT 2121 Reducción de Pérdidas de Energía en Distribución F1 (DIST)	3.10	2.51	1.36	25.68	26-AUG-18
321 SLT 1920 Subestaciones y Líneas de Distribución F2 (DIST)	0.72	20.00	3.40	64.24	16-SEP-18
338 SLT 2020 Subestaciones, Líneas y Redes de Distribución F6 (DIST)	129.35		3.03	57.22	20-SEP-18
266 SLT 1603 Subestación Lago	80.40	660.00	91.20	1,723.51	22-SEP-18
337 SLT 2002 Subestaciones y Líneas de las Áreas Norte - Occidental F1	208.70	975.00	35.84	677.23	19-OCT-18
349 SLT 2120 Subestaciones y Lineas de Distribución F1 (DIST)	5.70	70.00	5.97	112.86	21-NOV-18
310 SLT 1821 Divisiones de Distribución F6 (DIST)	54.98		4.58	86.56	12-JAN-19
338 SLT 2020 Subestaciones, Líneas y Redes de Distribución F2 (DIST)	4.84	60.00	8.51	160.86	19-FEB-19
288 SLT 1722 Distribución Sur F3	3.96	40.00	6.00	113.33	23-FEB-19
336 SLT 2001 Subestaciones y Líneas Baja California Sur - Noroeste F2	50.80	300.00	15.87	299.94	01-MAR-19
300 LT 1812 Red de Transmisión Asociada al CC Topolobampo III	276.00		24.49	462.88	13-MAR-19
	3,770.71	5,757.81	1,063.68	20,102.0	

Generación

Project	Capacity MVA	Estimated amount of the contract expressed in millions of: Dollars	Pesos	Operation stage
268 CCI Guerrero Negro IV	7.52	20.63	389.9	01-APR-17
296 CC Empalme I	770.22	476.84	9,011.7	06-NOV-17
298 CC Valle de México II	615.23	425.31	8,037.8	31-JAN-18
38 CC Norte III (Juárez) C2	906.71	562.37	10,628.0	13-APR-18
313 CC Empalme II	791.17	397.00	7,502.7	28-APR-18
327 CG Azufres III F2 (DIST)	25.00	51.29	969.2	15-JUN-18
43 CC Noreste	857.18	345.46	6,528.7	01-JUL-18
289 CH Chicoasén II	240.00	386.42	7,302.8	12-SEP-18
42 CC Noroeste (Topolobanpo II) C2	887.39	334.50	6,321.6	02-JAN-19
45 CC Topolobampo III C2	665.88	630.87	11,922.6	01-JAN-20
	5,766.29	3,630.69	68,614.9	

Renovation and/or modernization

Project	Estimated amount of the contract expressed in millions of: Dollars	Pesos	Operation stage
311 RM CCC Tula Paquetes 1 y 2	323.1	6,105.8	02/09/2017
312 RM CH Temascal Unidades 1 a 4 (GEN)	26.5	500.8	18/09/2018
278 RM CT José López Portillo (GEN)	214.0	4,044.3	27/02/2019
258 RM CT Altamira U1 y 2	380.0	7,181.3	01/07/2019
	943.6	17,832.2	

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

d. Trusts

1 Area of competence

1.1. CFE currently participates as Trustor or Beneficiary in 11 (eleven) Trust Funds, of which 1 (one) is in the process of termination.

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

a. Energy saving
b. Prepaid expenses
c. Construction contract management
d. Indirect participation in trust funds

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

a. Energy saving

Trust funds to promote energy saving programs.

Trust fund	Role of CFE		
	Trustor	Trustee	Trust Beneficiary
Trust fund for Energy Savings (FIDE), created on August 14, 1990	Creation of the Trust: Confederación de Cámaras Industriales (CONCAMIN), Cámara Nacional de la Industria de Transformación (CANACINTRA), Cámara Nacional de Manufacturas Eléctricas (CANAME), Cámara Nacional de la Industria de la Construcción (CNIC), Cámara Nacional de Empresas de Consultoría (CNEC) and Sindicato Único de Trabajadores Electricistas de la República Mexicana (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 will form part of the public energy services infrastructure.
Mexicali Housing Thermal Isolation Trust (FIPATERM), created on October 19, 1990	CFE	Banco Nacional de Obras y Servicios Públicos, S.N.C.	CFE

As at 30 September 2018, the Trust fund for Housing Thermal Isolation (FIPATERM) has assets amounting to $1,517,372 and liabilities amounting to $55,908.

b. Prepaid expenses

Prepaid expenses finance and cover expenses prior to the execution of projects and are subsequently recoverable and charged to the entity that incurs such expenses to comply with the regulations applicable to the type of project.

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

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

As at 30 September 2018, the Prepaid Expenses Management Trust fund has assets amounting to $3,775,681 and liabilities amounting to $3,356,899.

As at 30 September 2018, the Domain Transfer and Administration Trust 2030 has assets amounting to $429,136.

c. Construction contract management

At the beginning of the '90s, the Federal Government implemented several off-budget schemes to continue to invest in infrastructure projects. The schemes were designed under two modalities:

- Turnkey Projects (1990)
- Build, Lease and Transfer Projects (1996)

Turnkey Projects. - Under this scheme, works were carried out for the construction of power generation plants and installation of transmission lines, through an irrevocable management and transfer of ownership trust, linked to a lease agreement. Under this modality, the trustee is responsible for the following:

Contracting credits, managing the trust property (assets), receiving the lease payments from CFE, and transferring the asset at no cost to CFE after the leases have been paid in an amount sufficient to pay the contracted credits.

CFE participates in the payment of the leases to the trustee, based on the credits contracted by the trust, instructing the trustee to pay the contractors receiving, in exchange, invoices approved by the construction area, payment of taxes and other charges, including trustee fees.

The trusts for managing and transferring ownership were carried out in accordance with the Guidelines for the performance of thermoelectric projects with off-budget funds, as well as with the Guidelines for the performance of transmission lines and substations with off-budget funds issued by the Ministry of Public Administration (formerly known as the Ministry of Comptrollership and Administrative Development).

The Trust shown below has completed its payment commitments; therefore, it is in process of termination by the General Counsel.

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Topolobampo II (Electrolyser, S. A. de C. V.), created on November 14, 1991	Bufete Industrial Construcciones, S. A. de C. V. and Electrolyser, S. A. de C. V., with respect to its contribution to the Trust	**Primary beneficiary:** Electrolyser, S. A. de C. V.,with respect to its contribution to the Trust and **Second beneficiary:** CFE	Santander, S. A.

Build, Lease and Transfer Projects ("CAT", Spanish acronym).- The transition stage to carry out the CAT trusts began in 1996, whereby the trustee manages the trust property (assets) and transfers it to CFE after the lease payments have been covered. Credits are contracted directly with a consortium that is a special purpose entity, for which there is an irrevocable management and transfer of ownership trust contract.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

In these types of trusts, CFE participates in making the lease payments based on quarterly amortization tables presented by the consortiums in their bids. Most of these tables include forty quarterly payments.

The only project under this modality that is still in force is the one related to the CT Samalayuca II trust fund:

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
C.T. Samalayuca II, created on May 2, 1996	Compañía Samalayuca II, S.A. de C.V.	**Primary beneficiary:** The foreign bank that is the common representative of the creditors; **Second beneficiary:** Compañía Samalayuca II, S.A. de C.V. **Third beneficiary:** CFE	Banco Nacional de México, S.A.

As at 30 September 2018, CFE has fixed assets amounting to $21,706,678 and liabilities amounting to $273,891 related to the CAT trusts referred to above.

Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elias Calles

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elías Calles (Petacalco) was created on November 22, 1996	Techint, S. A., Grupo Mexicano de Desarrollo, S.A. de C.V. and Techint Compagnia Tecnica Internazionale S.P.A.	**Primary beneficiary:** Carbonser, S.A. de C.V **Second beneficiary:** CFE	Banco Nacional de México, S. A. (Banamex)

The irrevocable management, guarantee, and transfer of ownership trust agreement number 968001 was entered into 1996 which, among other considerations, sets forth that the trustee will enter into a service contract with CFE.

Upon the entry into force of the coal management service contract between CFE and Banco Nacional de México, S. A. (Banamex) as trustee of the Petacalco Trust, comprised of Techint Compagnia Tecnica Internazionale S.P.A., Grupo Mexicano de Desarrollo, S. A. de C. V., and Techint, S. A. that was entered into on November 22, 1996, in accordance with clause 8.1, CFE will pay the invoice amounts related to the fixed charge for capacity.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

Facility	Fixed charge for capacity for Jan-Sep 2018
Petacalco	$89,487

d. Indirect participation in trust funds

Additionally, CFE maintains an indirect relationship since it is not a Trustor, but it participates as a beneficiary in four guarantee and loan payment Trusts, created by Financial Institutions as Trustors and Trust Beneficiaries for the issue of securities linked to credits granted to CFE. CFE is named as Second Beneficiary of the Trust, due to the specific possibility that it may acquire some of the certificates issued and it maintains representation in its Technical Committees in conformity with the contractual provisions.

CFE is required to reimburse to the Trust in the terms of the Indemnity Contract that forms part of the Trust Contract, the expenses incurred by the Trust for the issue of securities and their management.

Trust fund	Role OF CFE		Trustee
	Trustor	Trust Beneficiary	
Trust No. 194 created on May 3, 2004	**Primary beneficiary:** ING (México), S. A. de C. V. and Casa de Bolsa, ING Grupo Financiero. **Second beneficiary:** Deutsche Securities, S. A. de C. V. and Casa de Bolsa.	**Primary beneficiary:** Each of the preferred holders of each issue **Second beneficiary:** CFE	Banamex
Trust No. 232246 created on November 3, 2006	Banco Nacional de México, S.A., a member entity of Grupo Financiero Banamex	**Primary beneficiary:** Each of the preferred holders of each issue **Second beneficiary:** CFE	HSBC México, S.A., Grupo Financiero HSBC
Trust No. 411 created on August 6, 2009	Banco Nacional de México, S.A., a member entity of Grupo Financiero Banamex	**Primary beneficiary:** Each of the preferred holders of each issue **Second beneficiary:** CFE	Banamex

As at 30 September 2018, available funds in trust No. 232246 amount to $8,821.

2 Legal nature

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

a. In six of the Trusts, CFE is not a Trustor in their creation.

b. The four remaining trusts do not have an organic structure similar to the state-owned entities that comprise them as “entities” in terms of the Law.

c.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

d.

2.2 The SHCP has maintained a record for purposes of the Federal Budget and Financial Responsibility Law, of 4 (four) of the Trusts, due to the allocation of federal funds or the contribution of land owned by CFE where the works will be carried out.

Registration of Trusts with SHCP		
No.	Trusts	Record
1	Mexicali Housing Thermal Isolation Trust (FIPATERM)	700018TOQ058
2	Prior Expense Trust	200318TOQ01345
3	Trust Management and Transfer of Ownership 2030	200318TOQ01050
4	Trust for Power Savings (FIDE)	700018TOQ149

20 . Segment Information

Information regarding the operating segments

Management identified the following two operating segments through which the Entity performs business activities, generates income and expenses, there is financial information is available, and the results of operations are regularly reviewed by the Board of Directors and the Chief Executive Officer 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 of electricity supply services, which consist of the generation, conduction, transformation, distribution and supply of electricity to users in Mexico, as well as in planning and carrying out all the installations and works required by the National Electricity System in terms of planning, executing, operating and maintaining it in collaboration with the independent energy producers, in accordance with the Public Electric Energy Service Law and its regulations.

Since the Optic fiber network services segment represents 0.26% of the Entity's total revenues, Management does not consider this segment information to be significant in the context of the financial statements.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

Information by type of services

	September 2018	September 2017
Domestic service	51,970,730	48,025,167
Commercial service	34,676,716	38,110,824
Public lighting service	10,158,610	17,269,003
Agricultural service	5,509,638	5,609,189
Industrial service	159,943,993	156,404,064
Block for resale	111,739	
Total electricity service billed	$ 262,371,426	$ 265,418,247
Other programs:		
Consumption in the process of being billed	$ -5,629,354	$ -773,511
Illegal uses	961,002	1,037,044
Measurement failure	343,849	298,814
Billing error	552,131	558,677
Total income obtained from other programs	$ **3,772,372**	$ **1,894,535**
Total revenue from the sale of electricity	$ **258,599,054**	$ **266,539,271**
Other operating income	**7,880,033**	**10,523,851**
Revenue from the sale of electricity	$ **266,479,087**	$ **277,063,122**

	September 2018	September 2017
Baja California	$ 15,055,301	$ 17,321,428
Northeast	16,636,982	17,368,259
North	19,365,866	19,306,601
North Gulf	38,093,277	37,706,553
Central West	11,664,694	11,456,105
Central South	10,944,926	10,774,720
East	12,227,263	12,389,658
Southeast	9,013,062	9,446,197
Bajío	28,553,908	28,570,392
Central Gulf	11,463,504	11,702,713

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

Central East		15,744,108		15,646,138
Peninsular		13,600,888		13,298,924
Jalisco		19,077,619		18,475,923
Northern Valley of Mexico		14,517,143		14,310,691
Central Valley of Mexico		11,892,864		13,159,508
Southern Valley of Mexico		14,408,282		14,484,436
Block for resale		111,739		
Subtotal retail sales	**$**	**262,371,425**	**$**	**265,418,247**
Other programs:				
Consumption in the process of being billed	**$**	-5,629,354	**$**	-773,510.62
Illegal uses		961,002		1,037,044.46
Measurement failure		343,849		298,814.46
Billing error		552,131		558,677
Total income obtained from other programs	**$**	**3,772,372**	**$**	**1,894,536**
Revenue from the sale of electricity	**$**	**258,599,053**	**$**	**266,539,272**
Other operating income		**7,880,033**		**10,523,851**
Revenue from the sale of electricity	**$**	**266,479,087**	**$**	**277,063,122**

21. Restatement due to the adoption of new accounting pronouncements

The accumulated effect of the adoption of new accounting pronouncements IFRS 15 and IFRS 9 as at 31 December and 1 January 2017 is as follows:

		Accumulated as at 1 January 2017		Accumulated as at 31 December 2017
Total IFRS 15	$	(15,750,304)	$	(20,750,196)
Total IFRS 9		8,361,507		12,341,421
Total	$	7,388,797	$	8,408,775

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

A. IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard supersedes IAS 39 Financial Instruments: Recognition and Measurement

i. Transition

Impairment in the value of financial assets

Retrospective effect of IFRS 9 in the Consolidated Statement of Financial Position (increase/(decrease)) as at 31 December 2017 and 1 January 2017:

	Adjustments	31 December 2017	1 January 2017
Assets			
Accounts receivable, net (allowance for doubtful accounts)	a)	$3,979,914	$8,361,507
Equity			
Accumulated deficit		-	$8,361,507
Net income for the period		$3,979,914	

B. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a conceptual framework to determine whether income from an entity's ordinary activities should be recognized, when it should be recognized and the amount to be recognized. The new revenue standard supersedes all current revenue recognition guidance included in IAS 18 Revenue; IAS 11 Construction Contracts; and Interpretation of the International Financial Reporting Interpretation Committee (IFRIC) 13 Customer Loyalty Programmes.

The two transition methods allowed under the new standard are the full retrospective approach and the modified retrospective approach. The Entity chose to apply the full retrospective approach; for purposes of the unaudited condensed consolidated financial information herein, the effects of the initial adoption of IFRS 15 were recognized in retained earnings as at 1 January 2017.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

i. Electricity supply services

Revenue from electricity supply services is currently recognized when the electricity is delivered to the customers, which is considered to be the point in time at which the customer accepts the electricity and the risks and benefits related to the transfer of ownership. Other criteria applied in recognizing revenue includes that both the revenue and costs can be measured reliably by the entity, it is probable that the economic benefits associated with the transaction will flow to the entity and the entity does not retain continuing involvement over the goods sold.

Under IFRS 15, revenue is recognized when a customer obtains control of a good or service, and the first step is the identification of a contract. Among other requirements, IFRS 15 requires that the collectability of a contract be reasonably assured to be able to recognize it as revenue. The Entity identified that certain divisions experience problems related to the regularization of rates and social resistance and the customers can no longer pay or are not willing to pay the amount owed. In view of the above, the Entity performed a new assessment of these contracts, and has preliminarily determined that they do not meet the revenue recognition requirements and therefore, the Entity does not recognize revenue on the electricity delivered to these customers since it does not expect to make any collections from such.

Estimated effects of the adoption of IFRS 15.

Effect of IFRS 15 in the Consolidated Statement of Financial Position (increase/(decrease)) as at 31 December 2017 and 1 January 2017:

	Adjustments	31 December 2017	1 January 2017
Assets			
Accounts receivable, net	a)	$(4,999,892)	$(15,750,304)
Equity			
Accumulated deficit			$(15,750,304)
Net income for the period		$(4,999,892)	

a) Cancellation of revenue that does not meet the requirements under IFRS 15 Step 1, identifying the contract, since an assessment was made and it was determined that certain contracts correspond to revenue that will not be collected even though the electricity is delivered, since the revenues correspond to areas that experience problems related to the regularization of rates and social resistance and the uncollected amounts are more than one year overdue.

(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)

ii. Revenue from contracts with customers

An analysis of the Entity's Revenue from contracts with customers is as follows:

		September 2018		September 2017
Domestic service		51,970,730		48,025,167
Commercial service		34,676,716		38,110,824
Public lighting service		10,158,610		17,269,003
Agricultural service		5,509,638		5,609,189
Industrial service		159,943,993		156,404,064
Block for resale		111,739		
Total electricity service billed	$	262,371,426	$	265,418,247
Other programs:				
Consumption in the process of being billed	$	-5,629,354	$	-773,511
Illegal uses		961,002		1,037,044
Measurement failure		343,849		298,814
Billing error		552,131		558,677
Total income obtained from other programs	$	**3,772,372**	$	**1,894,535**
Total revenue from the sale of electricity	$	**258,599,054**	$	**266,539,271**
Other operating income		**7,880,033**		**10,523,851**
Revenue from the sale of electricity	$	**266,479,087**	$	**277,063,122**
Revenue from the sale of fuel to third parties		40,439,262		11,108,419
Transmission revenue		1,736,558		330,751
Subsidy income		37,256,618		34,491,200
Other income and gains		15,480,557		36,828,898
Total	$	**361,392,082**	**$**	**359,822,390**

Revenue recognition date:	$	**30 September 2018**	$	**30 September 2017**
Goods transferred at a point in time		361,392,082		359,491,639
Services transferred over time		-		330,751
Total revenue from contracts with customers	$	**361,392,082**	$	**359,822,390**

22. New Accounting Pronouncements Not Yet Effective

A. IFRS 16 Leases

IFRS 16 supersedes the current guidance on leases, including IAS 17 Leases; IFRIC 4 Determining whether an Arrangement contains a Lease; SIC-15 Operating Leases-Incentives; and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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

IFRS 16 introduces a lease accounting model only for lessees. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The standard includes two recognition exemptions for lessees – leases of "low-value" assets and short-term leases. Lessor accounting is substantially unchanged from today's accounting (i.e., lessors will continue to classify all leases as either operating or finance leases).

The Entity is in the process of determining the potential effects on the financial statements due to the adoption of this standard.

B. Other standards

The Entity does not expect the following standards and interpretations to have a significant impact on its financial statements:

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

23. Issuance of the condensed consolidated interim financial information

The issuance of the condensed consolidated interim financial statements and notes thereto were approved by Management on October 25, 2018. The Board of Directors has the power to modify the accompanying condensed consolidated interim financial information. Subsequent events were considered through October 25, 2018.