COMISIÓN FEDERAL DE ELECTRICIDAD,
PRODUCTIVE STATE ENTERPRISE AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

AND CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020 AND 2019

INDEX

Crowe

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Comisión Federal de Electricidad, Productive State Enterprise,

Opinion

We have audited the consolidated financial statements of Comisión Federal de Electricidad, Productive State Enterprise and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2020, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Comisión Federal de Electricidad, Productive State Enterprise and Subsidiaries as of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Professional Ethics Code of Instituto Mexicano de Contadores Públicos, A.C. (the Mexican Institute of Public Accountants) along with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment Testing of Electricity Generating Plants

At the beginning of year 2020, a sanitary contingency was declared due to the COVID 19 pandemic; therefore, worldwide, there were a series of impairment indicators in the long-lived assets of the companies, and specifically, a series of probable indicators of impairment in long-lived assets that conform the totality of the assets of each one of the Electricity Generating Plants of the Group. With the support from external experts, the Group performed an assessment with the purpose of defining the fair value less disposal costs of the Electricity Generating Plants, in order to carry out the impairment analysis of long-lived assets, taking into consideration the new economic scenario determined by the COVID-19 pandemic. Impairment exists when the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable value, which is higher than its fair value less the sales costs and its value in use. The assessment on the impairment of the Electricity Generating Plants was complex and involved a high degree of judgement due to the significant estimates necessary to determine the fair value of the cash-generating units. In particular, the estimate of fair value was responsive to significant assumptions, such as the total to be valued, the discount rate, the electric energy generation and income projections, the operation margin, working capital and exchange rate.

Our audit procedures to address this matter were:

We obtained the understanding and assessed the significant judgements made by Management and external experts, reviewing the value in use of projected income and expenses and based on discounted flows, verifying the audited historic information and the impact of COVID. In addition, we assessed the reasonableness of the discount rate used, the useful life of assets and the disclosures of the consolidated financial statements. We also involved our experts in order to participate in the assessment of the significant assumptions and the methodology used by the Group. As mentioned in Note h) to the consolidated financial statements, the assessment concludes that there is no impairment in the Electricity Generating Plants.

Valuation of liabilities and assets of pensions of defined benefits

On August 19, 2020, the Comisión Federal de Electricidad (CFE) and SUTERM reached a new agreement on the Collective Labor Agreement (CLA) that will be current during the 2020-2022 biennium, which considers, among other aspects, the modification of the clause relative to the retirement conditions of CFE workers, applicable only to unionized personnel. Regarding the non-union staff, clause 40 of CLA 2020-2022 states that their retirement conditions will be communicated by the CFE Administration, through specific guidelines that will be published no later than six months after the new CLA is signed. As a result of this review, the labor liability of the Group was increased (see Note 16).

The valuation of the pension liabilities requires significant levels of judgment and technical expertise to select the appropriate hypothesis and assumptions. Changes in key assumptions, including retirement conditions, wage increases, inflation, discount rates and mortality increases, could have a material impact on the calculation of the liability.

Our audit procedures to address this matter were:

We challenged and evaluated the significant judgments made by Management and the expert actuaries hired by the Group, verifying that they were consistent with the previous period and with the changes approved for the CLA. We also evaluated the objectivity and competence of such expert actuaries. With the participation of our specialists, we evaluated the hypothesis used, the discount and inflation rates used in the valuation of pension liabilities as well as the wage increases and mortality rates.

Emphasis of Matter

Coronavirus (COVID-19) Pandemic

As mentioned in Note 1 of the accompanying consolidated financial statements, Management has performed the analyses and assessments that enable to conclude that despite the effects generated by the Coronavirus (COVID-19) Pandemic, there are no adverse situations that prevent the Group to continue operating as a going concern. In addition, Management has assessed and disclosed the relevant effects generated in their activities and in the attached financial statements resulting from this situation.

Other Matters

The consolidated financial statements of the Group, corresponding to the year ended on December 31, 2019, were audited by other independent auditors, who issued an unqualified opinion on such consolidated financial statements on July 28, 2020.

Other Information

Management is responsible for the other information. The other information comprises the information included in Annual Report corresponding to the annual report period ended on December 31, 2020, that shall be filed to the National Banking and Securities Commission and the Mexican Stock Exchange (Annual Report), but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is estimated will be available to us after the date of this auditor's report.

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

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

When we read the Annual Report, if we conclude that there is a material misstatement in the other information, we are required to report that fact to those charged with governance of the Group.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This Independent Auditor's Report and the consolidated financial statements have been translated from the Spanish language original and for the convenience of foreign/ English-speaking readers.

Gossler, S.C.

C.P.C. Leobardo Brizuela Arce
Partner

Mexico City
April 12, 2021

Comisión Federal de Electricidad,
Productive State Enterprise and Subsidiaries

Consolidated statements of financial position

As at December 31, 2020 and 2019

(Thousands of pesos)

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

Assets	**2020**	**2019**
Current assets:		
Cash and cash equivalents (note 5)	$ 111,914,270	$ 89,339,037
Accounts receivable, net (note 6)	109,765,404	86,672,574
Inventory of materials for operation, net (note 7)	11,888,280	21,533,937
Total current assets	233,567,954	197,545,548
Loans to employees	15,275,040	13,777,331
Plants, facilities and equipment, net (note 8)	1,203,814,126	1,211,303,643
Right-of-use assets, net (note 9)	477,711,898	474,376,421
Derivative financial instruments (note 11)	14,623,283	4,064,335
Intangibles and other assets (note 10)	50,876,166	38,638,865
Deferred tax assets (note 17)	164,451,532	167,193,651
	$ 2,160,319,999	$ 2,106,899,794

Liabilities and equity	**2020**	**2019**
Current liabilities:		
Short-term maturities of:		
Short-term debt (note 12)	$ 54,156,163	$ 53,896,802
Lease liabilities (note 13)	20,669,039	11,074,905
Other payables and accrued liabilities (note 14)	91,376,246	86,174,724
Income tax	6,393,400	6,187,526
Total current liabilities	172,594,848	157,333,957
Non-current:		
Long-term debt (note 12)	309,392,439	299,531,948
Lease liabilities (note 13)	588,086,102	556,838,326
Other long-term liabilities (note 15)	25,608,334	23,057,198
Long-term employees benefits (note 16)	487,324,896	426,860,559
Total non-current liabilities	1,410,411,771	1,306,288,031
Total liabilities	1,583,006,619	1,463,621,988
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	74,305,052	129,091,018
Other comprehensive income (note 18)	389,822,161	400,029,909
Total equity holders of the parent	559,136,881	624,130,595
Non-controlling interests	18,176,499	19,147,211
Contingencies and commitments (note 17)		
	$ 2,160,319,999	$ 2,106,899,794

The accompanying notes are an integral part of these financial statements.

Comisión Federal de Electricidad,
Productive State Enterprise and Subsidiaries

Consolidated statements of comprehensive income

For the years ended December 31, 2020 and 2019

(Thousands of pesos)

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

	2020	2019
Revenues:		
Electricity supply service revenue (note 22)	$ 370,888,288	$ 412,452,304
Subsidy income	70,000,000	75,185,800
Third party fuel revenue	21,497,865	38,308,467
Freight revenue	14,989,282	12,996,560
Other income, net	25,483,190	21,090,630
Total revenue	**502,858,625**	**560,033,761**
Costs:		
Energy and other fuel supplies	158,005,203	228,436,030
Energy and other fuel supplies - Third party	25,294,428	35,544,104
Salaries and related costs	70,623,442	69,018,628
Maintenance, materials and general services	24,076,874	24,724,394
Taxes and duties	1,962,386	2,281,474
Wholesale Electricity Market costs (MEM)	3,142,319	3,156,925
Employee benefits costs	120,790,014	35,900,194
Depreciation	65,487,160	65,753,190
Other expenses	14,637,225	14,553,178
Total costs	**484,019,051**	**479,368,117**
Operating results	**18,839,574**	**80,665,644**
Comprehensive financing result, net:		
Interest expense	50,500,295	42,037,479
Finance cost	7,967,738	7,888,470
Foreign exchange loss (income)	33,921,683	(21,961,332)
Total comprehensive financing results, net	**92,389,716**	**27,964,617**
(Loss) income before income tax other comprehensive income	(73,550,142)	52,701,027
Income tax (note 17)	12,446,226	27,027,331
Net income	**(85,996,368)**	**25,673,696**
Net income attributable to:		
Controlling interests	(87,503,307)	20,965,736
Non-controlling interests	1,506,939	4,707,960
	(85,996,368)	25,673,696
Other comprehensive income (note 18):	22,509,593	(66,055,816)
Comprehensive income	$ **(63,486,775)**	$ **(40,382,120)**

The accompanying notes are an integral part of these financial statements.

Comisión Federal de Electricidad
Productive State Enterprise and Subsidiaries

Consolidated statements of changes in equity

For the years ended December 31, 2020 and 2019

(Thousands of pesos)

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

	Contributions received from the Federal Government	Contributions in kind from the Federal Government	Acumulated results	Other comprehensive income (loss)	Total equity controlling interests	Total equity non-controlling interest	Total equity
Balances at December 31, 2018	$ 5,251	$ 95,004,417	$ 108,125,282	$ 466,085,725	$ 669,220,675	$ 17,496,643	$ 686,717,318
Comprehensive income of the period	-		20,965,736	(66,055,816)	(45,090,080)	4,707,960	(40,382,120)
Issue of shares (Fibra E)	-	-	-	-	-	(905,969)	(905,969)
Dividend decree (Fibra E)	-	-	-	-	-	(2,151,423)	(2,151,423)
Balances at December 31, 2019	5,251	95,004,417	129,091,018	400,029,909	624,130,595	19,147,211	643,277,806
Recycling of other comprehensive income	-	-	32,717,341	(32,717,341)	-	-	-
Comprehensive income of the period	-	-	(87,503,307)	22,509,593	(64,993,714)	1,506,939	(63,486,775)
Issue of shares (Fibra E)	-	-	-	-	-	(821,250)	(821,250)
Dividend decree (Fibra E)	-	-	-	-	-	(1,656,401)	(1,656,401)
Balances at December 31, 2020	$ **5,251**	$ **95,004,417**	$ **74,305,052**	$ **389,822,161**	$ **559,136,881**	$ **18,176,499**	$ **577,313,380**

The accompanying notes are an integral part of these financial statements.

Comisión Federal de Electricidad, Productive State Enterprise and Subsidiaries

Consolidated statements of cash flows

For the years ended 31 December 2020 and 2019

(Thousands of pesos)

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

	2020	2019
Cash flows from operating activities:		
Net (loss) income	$ (85,996,368)	$ 25,673,696
Operating activities:		
Employee benefits costs	120,790,014	35,900,194
Increase in provisions of deferred and current income tax	12,446,226	27,027,331
Investing activities:		
Depreciation and right-of-use assets	65,487,160	65,753,190
Disposal of plants, facilities and equipment	5,200,346	6,321,114
Foreign exchange loss, interest expense and changes in financial derivative instruments fair value of financial instruments	83,942,010	21,022,946
Changes in operating assets and liabilities:		
Accounts receivable and loans to employees	(24,590,539)	12,503,321
Inventory of materials of operation	9,645,657	(5,996,472)
Other assets	(12,237,301)	(5,759,522)
Other payables and accrued liabilities	(2,059,940)	(27,676,638)
Payments to employees benefits	(44,191,939)	(40,239,930)
Net cash flows from operating activities	128,435,326	114,529,230
Cash flows from investing activities:		
Acquisition of plants, facilities and equipment	(38,138,453)	(49,003,397)
Cash surplus to apply in investing activities	90,296,873	65,525,833
Cash flows from financing activities:		
Proceeds from debt	58,119,679	44,163,417
Non-controlling interest contribution Fibra E	(821,250)	(905,969)
Dividends paid	(1,656,401)	(2,151,422)
Payment of debt	(51,798,914)	(38,017,119)
Interest paid	(21,705,830)	(21,925,609)
Payment of lease obligations	(46,105,694)	(40,455,722)
Payments of financial instruments	(13,430,450)	(9,505,643)
Collections from financial instruments	9,677,220	14,128,008
Net cash used in financing activities	(67,721,640)	(54,670,059)
Net increase in cash and cash equivalents	22,575,233	10,855,774
Cash and cash equivalents:		
At beginning of period	89,339,037	78,483,263
At end of period	$ 111,914,270	$ 89,339,037

The accompanying notes are an integral part of these financial statements.

1. Incorporation, Business Purpose and Relevant Events

- **Incorporation and business purpose**

Comisión Federal de Electricidad, Productive State Enterprise, its subsidiaries, affiliates and trusts (CFE or the Company) is a Mexican entity that was incorporated by Decree as a Decentralized Public Entity of the Federal Government on August 14, 1937 and published in the Official Gazette (DOF Spanish acronym) on August 24, 1937. The consolidated financial statements accompanying these notes include Comisión Federal de Electricidad, Productive State Enterprise (as the ultimate controlling entity of the economic group to which it belongs) and its subsidiaries, affiliates and trusts over which it exercises control (See Note 3a).

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

CFE's business purpose is to provide public transmission and distribution of electricity services on behalf of the Mexican State. CFE also engages in activities related to the generation and commercialization of electricity, as well as activities related to the import, export, transportation, storage and trading of natural gas, among others.

- **Relevant Events**

COVID-19

Due to the COVID-19 pandemic declared by the World Health Organization, the identified risks that the pandemic poses for CFE were of various kinds but classified in three main categories:

a) economic-financial risks;
b) operational risks, and
c) labor risks.

In all three cases, the impacts were variable and with different intensity, but it is important to note that the energy sector is "defensive" compared to other economy sectors. CFE has implemented several specific actions to mitigate the financial, operational and labor risks posed by the health crisis.

An explanation of each of the three risk cases and the impact on the Company is provided below.

a) Economic-financial risks

The economic-financial risks of the pandemic may be classified into two types based on their potential impact for the Company.

The risks representing a negative potential impact were:
1) lower electricity consumption and reductions in electricity sales, and
2) variations in exchange rates.

The risks representing a positive potential impact include:
3) lower interest rates, and
4) lower fuel prices.

a.1) Lower electricity consumption and reduction in electricity sales,

The measures that have been implemented to control the spread of the SARS-COV-2 virus in the country, which in turn has led to a reduction in the consumption and sales of electricity across Mexico's industrial, commercial and service sectors. However, demand for electricity in the residential market is expected to grow as the large portion of the Mexican population that is forced to stay at home during the lock down will engage in additional activities at home, including professional and educational activities and entertainment. During 2020, the electricity demand was decreased compared to 2019 (see note 22).

a.2) Exchange rates

As a consequence of the world economic events described above, the Mexican peso has decreased its value against the U.S. dollar in the year, reaching an exchange rate of $19.9487 compared to $18.8452 pesos per dollar in December 2019; this represented a depreciation of 5.8%, which generated an exchange loss reflected in the statement of comprehensive income of 2020.

a.3) Reduction in interest rates

In response to the contraction of economic activity in Mexico and around the world, the central banks of the largest developed and emerging economies have initiated a cycle of reducing their reference interest rates as a measure to stimulate growth in consumer consumption and investment in their countries.

a.4) Lower fuel prices

On March 6, 2020, the Organization of the Petroleum Exporting Countries (OPEP), did not reach an agreement to reduce production and reduction in fuel prices, which resulted in a significant decrease in the oil price globally, which positively represented the Company's consumption with respect to this fuel; the Company no business concentration in relation to suppliers as of December 31, 2020. The electricity prices are not established by the Company, they are governed by the Centro Nacional de Control de Energía (CENACE, Spanish acronym), regulated by the Comisión Reguladora de Energía (CRE, Spanish acronym) and the Secretaría de Energía (SENER, Spanish acronym).

a.5) Impairment losses

Due to of the world economic events, changes in the electricity market, changes in the interest rates that affect the discount rate used to determine the value in use, exchange rate and the fact that return on assets is lower than expected, there are signs of impairment losses of assets.

The Company conducted an assessment with an external specialist to determine the fair value of the assets. The results concluded that there is no impairment in the assets (see note 8).

b) Operating risks

Since power generation and supply is deemed an essential activity for Mexico, throughout the health crisis, CFE has continued to operate across all its processes, from power generation to power distribution to power supply to end users. In essence, CFE has continued to produce electricity for the entire country 24 hours per day, 7 days a week.

This has been achieved by implementing different actions in the "Health Safety Protocol for the reincorporation to activities in the work centers of Comisión Federal de Electricidad".

c) Labor risk

The Company has introduced a number of actions and measures designed to reduce the spread of the SARS virus in its different work centers throughout the country, to promote social distancing on the job, whether this be in the form of face-to-face work, remote work or a mix of the two, with workers reporting to their work centers on a sporadic basis and with older or physically vulnerable employees reporting to their offices or work centers only when strictly required in order to reduce the number of COVID-19 infections.

For this purpose, CFE's senior management issued the "Health Safety Protocol for the Reincorporation to Activities in the Work Centers of the Federal Electricity Commission", with the purpose that all of the Company's areas take actions to maintain and strengthen the preventive and protection measures to all collaborators.

Appointment of the Corporate Finance Director

On August 19, 2020, the General Director of the CFE, Lic. Manuel Bartlett Díaz, appointed Dr. Edmundo Sánchez Aguilar, as Corporate Finance Director, replacing Dr. Jose Antonio Rojas Nieto. The appointment was ratified on the Board of Directors' Meeting on December 8, 2020.

Asset Reorganization

On May 24, 2019, through Official Communication DG/131/2019, the proposal for the reallocation of assets and power generation contracts corresponding to productive subsidiary companies (EPS, Spanish acronym) I, II, III, IV and VI, as well as the proposal related to the Laguna Verde Power Plant and Mobile Emergency Units, were submitted for consideration.

The objectives of the reorganization of assets and power generation contracts included:

- To enhance the operational and administrative efficiency of each regional company based on the organization that was in place prior to the entry into force of the Terms for the Strict Legal Separation of CFE.

- The operational regionalization of the assets of the hydroelectric plants shall be grouped in a way that gives priority to the common river basins so as to ensure the security and optimal management of the water supply and reservoirs.

The redistribution shall affect only the plants operated by the EPSs of CFE and shall not involve any of the external legacy plants that are part of EPS Generación V.

In light of the high degree of reliability and security of the National Electric System (SEN, Spanish acronym), it was decided to have the Mobile Emergency Units be part of the Unregulated Business Office in order to facilitate faster decision-making and the rapid mobilization of assets in response to the needs of the National Electric System in the various regions of the country.

As part of the asset reorganization, the Company conducted a study to determine the fair value of the plants that were involved in the reorganization. This analysis resulted in an impairment charge of $57,014,443 and an unrealized gain on revaluation of power plants of $84,480,718. These amounts were recognized in other comprehensive income. The asset reorganization took effect as of January 1, 2020, this reorganization originated a recycling in the Other Comprehensive Results in 2020 for $32,717,341 (see note 18).

Amendments to the Collective Labor Agreement

On May 19, 2016, CFE carried out a review of the terms of the Collective Labor Agreement (CCT Spanish acronym) for the 2016-2018 biennium; it was entered into with the Sole Union of Electricity Workers of the Mexican Republic (SUTERM, Spanish acronym), where various clauses were modified that mainly affected the retirement category, presenting themselves as a reduction of the Company's labor liability and on November 14, 2016, the Ministry of Finance and Public Credit (SHCP, Spanish acronym) published the "Agreement through which the general provisions related to the assumption by the Federal Government of CFE's employee benefits liability was issued" in the Official Gazette, whereby the Federal Government through the SHCP, assumes a portion of the pension and retirement payment obligation actuarially recognized and accounted for in CFE's financial statements, that correspond to the workers that were hired on or prior to August 18, 2008.

The Federal Government had established that it would assume a portion of CFE's labor liabilities, and this would be equal, peso by peso, to the reduction that would be achieved from the labor obligations liability at the time the Collective Labor Agreement is renegotiated. On December 29, 2016, the Federal Government announced that it had completed its review process of the amount of savings related to CFE's labor obligations as a result of the amendments to the collective labor agreement.

On December 19, 2016, through official document No. 35.-187/2016, the Public Credit Unit of the SHCP informed CFE that the Federal Government's commitment to pay would be assumed by the SHCP through the issuance of debt instruments by the Federal Government in favor of CFE for a total amount of $161,080,204, distributed in amounts that will be delivered annually to cover such commitment.

On August 19, 2020, the CFE and SUTERM reached a new agreement on the Collective Labor Agreement that will be current during the 2020-2022 biennium, which considers, among other aspects, the modification of clause 69 relative to the retirement conditions of CFE workers, applicable only to unionized personnel.

Regarding the confinement staff, clause 40 of CCT 2020-2022 states that their retirement conditions will be communicated by the CFE Administration, through specific guidelines that will be published no later than six months after the new CCT is signed.

As a result of this review, various clauses were reversed, which had an incremental effect on the Company's labor liability (see note 16).

In compliance with the Ninth Provision, second paragraph of the "*Agreement by which the provisions of a general character are issued relative to the assumption by the Federal Government of obligations to pay pensions and retirements in charge of the CFE*" (“Agreement”), published in the DOF on November 14, 2016, the CFE communicated to the Public Credit Unit of the SHCP, through official letter DCF / 0202/2020 dated September 2, 2020, the modification before indicated to the CCT. The impact on labor liabilities for the Company will be evaluated by an independent expert.

In accordance with the Ninth Provision, third paragraph, of the “Agreement”, on November 30, 2020, the CFE sent the SHCP, through official letter DCF / 0274/2020, the document that contains the financial impact of the modification to the requirements of retirement for workers.

In addition, it indicates that the expiration of the obligation reviewed by the independent expert will serve as the basis for establishing the applicable payment profiles for the issuance of Titles. The result of the review must be delivered by the independent expert within three months from the date of their hiring. To date, we are awaiting the observations or opinion of the SHCP and / or its expert, for the financial impact on the CFE labor liability.

According the modifications to the CCT for 2020-2022 biennium, and once the estimates of the impact on labor liabilities have been reconciled between SHCP and CFE, the SHCP will adjust the value of the Titles, according to the new payment profile, that means a credit to the bank account that CFE provides at least 15 business days in advance of the expiration date of each Title.

CFE Telecomunicaciones e Internet para Todos

On August 2, 2019, CFE Telecomunicaciones e Internet para Todos, EPS was created. The corporate purpose of this company is to provide non-profit telecommunications services pursuant to its wider effort to guarantee the right to access to information and communication technologies, including broadband internet.

In terms of its budget, debt obligations, acquisitions, leases, services and projects, administrative responsibilities, remunerations, assets and the state dividend, the Company shall operate in accordance with the special regime provided for this purpose by law. CFE Telecomunicaciones e Internet para Todos shall manage its assets based on its budget and authorized programs, in accordance with the applicable legal provisions and with the special regime established by law. The EPS started operations in 2020.

Assets contributed by the Federal Government

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

CFE also obtained the legal and physical possession of the related assets globally, in accordance with the aforementioned annexes. The procedures for the legal divestiture of these assets from the Federal public domain regime began as of such date. These assets were included in the consolidated statements of financial position at December 31, 2015, at a value of $95,004,417, as determined by the Asset Management and Divestiture Service (SAE, Spanish acronym), which will be adjusted based on the detailed breakdown by each of the corresponding areas. In 2016, these assets were included in the Plants, facilities and equipment and Other intangible assets captions (see notes 8 and 10), and an additional amount of $63,000 was recognized related to these types of assets. At December 31, 2020, this activity is still ongoing.

2. Basis of preparation and of the consolidated financial statements

a) Basis of accounting

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

b) Basis of measurement

The consolidated financial statements have been prepared on the historical-cost basis except for the Company's derivative financial instruments, right-of-use assets, plants, facilities and equipment, as well as its debt and lease liabilities, which are recognized at fair value, and the defined benefit plans which are recognized at the present value of the defined benefit obligation less the fair value of the plan assets.

c) Functional currency and presentation of financial statements

The consolidated financial statements and notes thereto are presented in Mexican pesos, the Company's reporting currency, which is the same as its functional currency.

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

d) Judgments and estimates use.

In preparing these consolidated financial statements, estimates have been made for certain items, some of which are highly uncertain, and their estimation involves judgments made based on the information available. The following discussion includes some of the matters that could materially affect the consolidated financial statements if (1) the estimates that are used are different to the ones that could reasonably have been used, or (2) the estimates change in the future in response to changes that are likely to occur.

The discussion below addresses only those estimates that the Company considers most important based on the degree of uncertainty and the likelihood of a material impact if a different estimate were used. There are many other areas in which the Company uses estimates about uncertain matters, but the reasonably likely effect of using different estimates is not material to the Company's financial presentation of these areas.

1) Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 3 a) - Consolidation: whether the Company has de facto control over an investee.
- Note 3 m) - Revenue recognition: whether revenue from unbilled electricity delivered is recognized over time or at a specific point in time.
- Note 3 n) - Leases: whether an arrangement contains a lease and classification of leases.

2) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at December 31, 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the notes as follows:

- Note 3 (d) - Measurement of the expected credit losses for trade receivables: key assumptions in determining the weighted-average loss rate;
- Notes 3 (h) and 9 - Impairment test of property, plant and equipment: key assumptions underlying recoverable amounts, including the recoverability and magnitude of an outflow of economic resources and key assumptions in determining their useful lives;
- Notes 3 (i) and 10 - Impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts, including the recoverability and magnitude of an outflow of economic resources and key assumptions in determining their useful lives;
- Note 3 (j) and 17 - Measurement of defined benefit obligations: key actuarial assumptions;
- Note 3 (k) and 18 - Recognition of deferred tax assets: availability of future taxable profit against which the deductible temporary differences and tax losses carried forward can be utilized;
- Note 3 (l) - Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 3 (m)- Revenue recognition: estimate of revenue from unbilled electricity delivered; and
- Note 21 - Contingencies and commitments.

Measurement of fair values

Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

CFE has an established control with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

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

When measuring the fair value of an asset or a liability, the Company uses observable market data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows;

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

e) Consolidated statements of comprehensive income

The Company has elected to present comprehensive income using a 'one-statement' approach that includes all of its profit or loss and other comprehensive income (OCI) items, called Statement of Comprehensive Income.

The accompanying consolidated statements of comprehensive income present ordinary costs and expenses based on their nature, since management believes that this structure results in clearer information for the reader. The consolidated statements of comprehensive income include a line item for operating result, which represents CFE's revenue minus costs, since management believes that including this item facilitates the reader's understanding of the Company's economic and financial performance.

3. The significant accounting policies followed by the Company in the preparation of the financial statements are summarized below:

a) Basis of consolidation

The consolidated financial statements include the subsidiaries, affiliates and trusts over which the Company exercises control. The financial statements of the subsidiaries were prepared for the same reporting period and using the same accounting policies as those of the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

CFE reassesses whether or not it controls an entity and whether the facts and circumstances indicate that there are changes in one or more of the control elements.

The subsidiaries are consolidated on an item-by-item basis as of the date on which CFE obtained control. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated. Unrealized gains arising from transactions with equity method investees are eliminated proportionally to the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The equity interest in the main subsidiaries (productive subsidiary companies, affiliated entities and trusts), over which CFE retains control as of December 31, 2020 and 2019 is as follows:

Subsidiary Companies

- CFE Distribución, EPS; CFE Transmisión, EPS; CFE Generación I, EPS; CFE Generación II, EPS; CFE Generación III, EPS; CFE Generación IV, EPS; CFE Generación V, EPS; CFE Generación VI, EPS, and CFE Suministrador de Servicios Básicos, EPS and CFE Telecomunicaciones e Internet Para Todos, EPS.

Affiliated Entities

- CFE Suministro Calificados, S. A. de C. V., CFE International, LLC., CFEnergía, S. A. de C. V., CFE Intermediación de Contratos Legados, S. A. de C. V., and CFE Capital, S. de R. L. de C. V.

The entities listed above were incorporated and their main place of business is in Mexico, except for CFE International LLC, which is located in the United States.

The Company’s equity interest in the entities mentioned above is 100%.

The trust funds controlled by CFE are as follows:

Trust fund	Role of CFE			Type of project
	Trustor	Trust Beneficiary	Trustee	
Trust Management and Transfer of Ownership 2030	CFE	Primary beneficiary: contract awardees. Second beneficiary: CFE	BANOBRAS, S. N. C.	Conditioned investment
Trust for the establishment of a Revolving Financing Fund for the Housing Thermal Isolation Program of the Valley of Mexicali, B.C.	CFE	CFE	BANOBRAS, S. N. C.	Energy saving
Prior Expense Trust	CFE	CFE	BANCOMEXT, S. N. C.	Direct investment

Non-controlling interest

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The non-controlling interest in consolidation do not represent 1% of assets.

b) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of CFE's companies at the exchange rates on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate on the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance costs.

However, foreign currency differences arising from the translation of the following items are recognized in other comprehensive income (OCI):

- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective.

- Qualifying cash flow hedges to the extent that the hedges are effective.

The financial statements of foreign operations are translated into the reporting currency, initially determining whether the functional currency and reporting currency of the foreign operation are different and, subsequently, the functional currency is translated into the reporting currency using the historical exchange rate and/or the closing exchange rate at the end of the year.

Transactions in foreign currencies are translated at the exchange rate prevailing on the date of the related transactions. Monetary assets and liabilities denominated in foreign currencies are valued in local currency at the closing exchange rate prevailing on the date of the consolidated financial statements and at the historical or average exchange rate in profit or loss; exchange differences between the transaction date and the payment or collection date are recognized in profit or loss and presented within finance costs.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits, foreign currencies, and short-term temporary investments. Cash and bank deposits are presented at nominal value and the returns on these investments are recognized in the income statement as they accrue.

Cash equivalents include short-term highly liquid investments and are valued at fair value, and the risk of changes in their value is insignificant.

d) Financial instruments

i) Initial recognition and measurement

Receivable accounts are recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions.

A financial asset (unless it is an account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. An account receivable without a significant financing component is initially measured at the transaction price.

ii) Classification and subsequent measurement - Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; at fair value through other comprehensive income - debt investment; at fair value through other comprehensive income - equity investment; or at fair value through profit or loss.

Financial assets are not reclassified after their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets are classified as measured, subsequent to their initial recognition, at amortized cost, fair value through other comprehensive income and fair value through profit or loss.

The company measures financial assets at amortized cost, if the following conditions are met

1. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.

2. The contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All the financial assets not classified as measured at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial instruments (see note 11 (a)).

On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition mismatch that would otherwise arise.

Business model assessment:

The Company makes an assessment of the objective of the business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to the Company's management;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and its expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and those whose performance is evaluated on a fair value basis are measured at fair value through profit or loss.

<u>Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest:</u>

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features;
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

<u>Financial Assets - Subsequent measurement and gains and losses:</u>

Financial assets at fair value through profit or loss

- These assets are subsequently measured at fair value. Net gains and losses, including any interest income, are recognized in profit and loss. However, for derivatives designated as hedging instruments, these are recognized in stockholers' equity. (see note 11).

Financial assets at amortized cost

- These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss

Financial liabilities - Classification, subsequent measurement and gains and losses:

Financial liabilities are classified as measured at amortized cost or fair value through profit or loss. A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest income and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

iii) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual rights are paid,canceled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In which case, a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

v) Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized at fair value in the statement of financial position. The fair value of derivative financial instruments is determined using generally accepted valuation techniques. Consistent with the risk strategy, the Company enters into derivative financial instrument contracts to mitigate foreign exchange and interest rate risks, through Interest-Rate Swaps, Cross-Currency Swaps and Foreign Exchange Forwards.

The policies include formal documentation of all the transactions between the hedging instrument and the hedged item, the risk management objective, and strategy for undertaking the hedge.

The effectiveness of derivative financial instruments designated as hedges is assessed prior to their designation, as well as over the hedging period, which depends on the features of the hedge. When it is determined that a derivative is not highly effective as a hedge, the Company discontinues hedge accounting prospectively.

The Company discontinues cash flow hedge accounting when the derivative expires, is terminated or exercised, when the derivative is not highly effective in achieving offsetting changes in the fair value or cash flows attributable to the hedged item, or when the Company decides to cancel the hedging designation. The gains or losses recognized in other comprehensive income and accumulated in Equity, remain in Equity and are recognized when the forecast transaction is ultimately recognized in profit or loss.

The effective portion of changes in the fair value of the derivative financial instruments designated as cash-flow hedges is recognized in Equity in the Other comprehensive income caption, while any ineffective portion is recognized in profit or loss. The effective portion recognized in Equity is recycled in the income statement in the periods when the hedged item affects profit or loss and is presented in the same caption of such statement where the corresponding primary position is presented.

The hedging policies establish that derivative financial instruments that do not qualify as hedges are classified as held-for-trading; therefore, the changes in the fair value are recognized immediately in profit or loss.

a) Fair value of financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

The Company designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation.

At inception of designated hedging relationships, the Company documents the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and the hedging instrument are expected to offset each other.

The hedged portion of derivative financial instruments is documented in the Hedge File, which includes assessments of economic relationship criteria designed to identify the relationship between the notional amount of the hedging instrument and the notional amount of the hedged item.

b) Cash flow hedges

When a derivative instrument is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The Company designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is separately accounted for as a cost of hedging and recognized in a costs of hedging reserve within equity.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognized.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

For all cash flow hedges, including hedges of transactions resulting in the recognition of non-financial items, the amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affected profit or loss.

e) Impairment in value

i. Non-derivative financial assets

Financial instruments and contract assets

The Company recognizes loss allowances for expected credit losses for:

- Financial assets measured at amortized cost;
- Debt investments measured at fair value with changes in other comprehensive income; and
- Contract assets.

The Company also recognizes the loss allowance for expected credit losses from lease receivables, which are disclosed as part of trade receivables and other accounts receivable.

The Company measures the loss allowance at an amount equal to lifetime expected credit losses, except for the those included in the page below, which are measured at an amount equal to 12-month expected credit losses.

- Debt securities that are determined to have low credit risk at the reporting date; and

- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets and contract assets are always measured at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk of a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full; or

- The financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Measurement of expected credit losses

Measurement of lifetime ECLs is applied if the credit risk of the financial asset at the reporting date has increased significantly since initial recognition and measurement of 12-month ECLs is applied if the credit risk has not increased. The Company may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date.

However, the measurement of lifetime expected credit losses always applies for trade receivables or contract assets that do not contain a significant financing component. The Company has elected to apply this policy for trade receivables and contract assets with a significant financing component.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit losses. The Company also considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at fair value through other comprehensive income are credit impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Company considers the following observable data as evidence that a financial asset is credit-impaired:

- Significant financial difficulty of the issuer or debtor;

- A breach of contract such as a default or being more than 90 days past due;

- Restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;

- It is becoming probable that the debtor will enter bankruptcy or financial reorganization; or

- The disappearance of an active market for the financial asset because of financial difficulties.

Presentation of allowance for expected credit losses in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at fair value through other comprehensive income, the loss allowance is charged to profit or loss and is recognized in other comprehensive income.

All financial assets not classified as measured at fair value through profit or loss were assessed at each reporting date to determine if there was objective evidence of impairment losses.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.

The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

ii. *Non-financial assets*

At each reporting date, the Company reviews the carrying amounts of its financial assets (other than operating materials and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

f) Finance income and finance costs

The Company's finance income and finance costs include:

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

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

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

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

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

g) Inventory of operating materials

Inventory of operating materials is recognized at the lower of acquisition cost or net realizable value. The unit costs of the operating materials inventory are calculated using the average cost method.

When required, the Company records provisions to recognize write downs in the value of its inventories due to impairment, obsolescence, low turnover and other circumstances that indicate that the recoverable amounts of inventories are less than their carrying amounts.

h) Plants, facilities and equipment

i) <u>Recognition and measurement</u>

Plants, facilities and equipment are initially measured at cost.

Plants, facilities and equipment in operation, used for the generation, transmission and/or distribution of electricity are recognized in the statement of financial position at their revalued amount, and fair value is determined as at the revaluation date, less any accumulated depreciation and impairment losses. CFE periodically reviews the fair values of its plants, facilities and equipment in operation, and every 5 years it assesses the need to revalue its assets to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in the revaluation of plants, facilities and equipment is recognized as a revaluation surplus in other comprehensive income, except when such increase reverses a revaluation deficit of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss to the extent that it reduces the expense of the previous loss. Any decrease in the carrying amount resulting from the revaluation of such plants, facilities and operating equipment is recognized in profit or loss to the extent that it exceeds the revaluation surplus, if any.

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

In addition to the purchase price and costs directly attributable to preparing an asset in terms of its physical location and condition for use as intended by our technicians, the cost also includes the estimated costs for the decommissioning and removal of the asset and for restoration of the site where it is located, if such obligation exists.

ii) <u>Depreciation</u>

Depreciation of plants, facilities and equipment in operation is calculated at the fair value or acquisition cost of the asset, as the case may be, using the straight-line method over the estimated useful lives of the assets, beginning the month after the assets are available for use. In the event of a subsequent sale or retirement of the revalued properties, the revaluation surplus attributable to the remaining property revaluation reserve is transferred directly to retained earnings.

Depreciation of plants, facilities and operating equipment is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings.

The depreciation rates based on the useful lives of the assets, determined by the Company's technicians are as follows:

	Useful life (years)
Geothermal power plants	27 to 50
Steam power plants	34 to 75
Hydroelectric power plants	40 to 80
Internal combustion power plants	34 to 75
Turbo gas and combined cycle power plants	34 to 75
Nuclear power plants	40
Substations	39 to 75
Transmission lines	34 to 75
Networks	30 to 59

The Company periodically evaluates the useful lives, depreciation methods, and residual values of its plants, facilities and equipment. In the event of changes in the estimates used, the related effects are recognized prospectively.

When the plants, facilities and equipment items are comprised of various components, and their useful lives are different, the significant individual components are depreciated over their estimated useful lives. Maintenance and minor repair costs and expenses are recognized in profit or loss when they are incurred.

As of December 31, 2020, an impairment analysis was performed, concluding that there were no effects; and as of December 31, 2019, losses due to impairment, reversal of impairment and revaluation of plants, resulting in a net gain of $ 27,464,070.

iii. Property and assets for offices and general services.

Property and assets for offices and general services are depreciated at the following rates:

	Useful life (in years)
Buildings	20
Office furniture and equipment	10
Computer equipment	4
Transportation equipment	4
Other assets	10

Land is not depreciated.

An item of plant, facilities and equipment is derecognized upon disposal or when no future economic benefits are expected from its continuing use. The gain or loss on the sale or retirement of an item of property, plant and equipment is calculated as the difference between its net selling price and its net carrying amount, and is recognized in the income statement.

iv. *Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

i) Intangibles and other assets

Intangible assets acquired separately are recognized at cost and CFE estimates the useful life of each intangible asset. Intangibles with an indefinite useful life are classified as intangible assets with indefinite useful lives; the Company mainly has rights of way with indefinite useful lives.

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

j) Employee benefits

The Company provides various employee benefits to its employees that for purposes of the financial statements, are classified as direct employee benefits and pension benefits, seniority premiums and termination benefits.

Short-term direct employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Direct employee benefits

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

Pension benefits and other benefits

The Company provides retirement pensions to its employees.

The Company has a defined benefit pension plan in place for employees who began working for the Company on or before August 18, 2008 and a defined contribution pension plan for employees who began working for the Company on or after August 19, 2008.

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

Additionally, there are defined contribution pension plans mandated by the Federal government to which the Company is required to make contributions on behalf of its employees. The Company's contributions to these defined contribution plans are calculated by applying the percentages indicated in the related regulations to the amounts of eligible wages and salaries. The contributions are remitted to the retirement fund administrators (AFORE) selected by each employee and to the Mexican Social Security Institute (IMSS, Spanish acronym).

In accordance with the Federal Labor Law, the Company is required to pay a seniority premium and to make certain payments to personnel who leave the Company under certain circumstances.

The Company recognizes annually the cost of pensions, seniority premiums and termination benefits based on independent actuarial computations applying the projected unit credit method using assumptions net of inflation.

The cost of defined contribution pension plans are recognized in profit or loss as they are incurred.

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

Defined benefit plans

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

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

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

Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

k) Income tax

Income tax expense comprises current and deferred tax.

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any

It is measured using tax rates enacted or substantively enacted at the reporting date

Current tax assets and liabilities are offset only if certain criteria are met.

ii. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the individual subsidiaries of CFE. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

At the end of each reporting period, the Company reassesses its unrecognized deferred tax assets and records deferred tax assets when it is determined that the Company will have sufficient taxable earnings in the future against which to apply its tax losses.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

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

l) Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and there is uncertainty about the timing or amount, but a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are based on the best estimate of the disbursements that would be required to settle the related obligation.

Provisions are discounted using a pre-tax rate that reflects the current market conditions at the date of the statement of financial position and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision is recognized as a finance cost.

Provisions for contingent liabilities are recognized only when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

m) Revenue recognition

The Company's revenue recognition policies are as follows:

Sale of electricity - revenue is recognized when the electricity is delivered to the customers, which is considered to be the point in time at which the customer accepted the electricity and the related risks and rewards of ownership transferred. Other criteria applied for revenue recognition include that both the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing involvement with the goods.

Sale of fuel - revenue is recognized at a point in time because this is when the fuels are delivered to the customers.

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

Third-party contributions - revenue from the contributions received from customers to connect them to the national transmission and distribution network is recorded in the statement of comprehensive income at a point in time after the Company has completed the customer’s connection to the network. Customers have the option to choose either the Company or another company to supply them electricity. Revenues are presented as part of the Other income caption.

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

In view of the above, the deferred income liability was recognized as Third party contributions in the Other long-term liabilities item.

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

n) Leases

The Company has right-of-use assets in terms of IFRS 16 derived from its contracts with creditors for rentals of office space, furniture, reserved capacity gas pipelines for a fixed price, as well as contracts with independent power generation plants that provide power generation services to CFE.

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

i. *As a lessee*

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

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

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

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

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

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

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

– fixed payments, including in-substance fixed payments;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable under a residual value guarantee; and

– the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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

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

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

ii. *Short-term leases and leases of low-value assets*

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

The Company recognizes lease payments received from operating leases as income on a linear basis during the lease term as part of 'other income'.

o) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

CFE has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer

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

4. Financial Instruments – Fair Values and Risk Management

Fair values

Set out below are the carrying amounts of financial instruments recognized at December 31, 2020 and 2019:

		2020		2019
Financial assets				
Cash and cash equivalents [(2)]	$	111,914,270	$	89,339,037
Accounts receivable [(2)]		109,765,404		86,672,574
Loans to employees [(2)]		15,275,040		13,777,331
Derivative financial instruments [(1)]		14,623,283		4,064,335
Financial liabilities				
Short-term debt [(2)]	$	54,156,163	$	53,896,802
Short-term lease liability [(1)]		20,669,039		11,074,905
Long-term debt [(2)]		309,392,439		299,531,948
Long-term lease liability [(1)]		588,086,102		556,838,326
Suppliers and contractors [(2)]		36,324,045		30,808,697
Deposits from customers and contractors [(2)]	$	30,698,012	$	28,945,790

[(1)] Fair value

[(2)] Amortized cost

Objectives of financial risk management

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

To mitigate the effect of its debt related risks, the Company uses derivative financial instruments to hedge such risk.

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

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk mostly in respect of its financial instruments comprising cash and short-term investments, loans and accounts receivable, and derivative financial instruments. In order to mitigate the credit risk in its cash, short-term investments and derivative financial instruments, the Company conducts transactions only with counterparties that are financially solvent and that have a good reputation and high credit quality. The Company also obtains sufficient guarantees, when appropriate, to mitigate the risk of financial loss due to non-performance.

The carrying amounts of the Company's financial assets represent the maximum credit exposure.

For credit risk management purposes, the Company considers that the credit risk on loans and accounts receivable from consumers is limited. The Company determines the allowance for doubtful accounts based on the incurred loss model.

An aging analysis of the past due receivables, for which an allowance has not been deemed necessary as of December 31, 2020 and 2019, is as follows:

		2020		2019
Less than 90 days	$	3,438,170	$	3,109,708
From 90 to 180 days		3,940,440		3,370,571
More than 180 days		18,970,143		14,500,981
	$	26,348,752	$	20,981,260

The Company's maximum exposure to credit risk for trade receivables by item as of December 31, 2020 and 2019, is as follows:

		2020		2019
Cash count	$	21,435,142	$	16,606,067
Bad debts		2,057,674		2,095,514
Agreement		1,774,171		2,043,146
Government		6,032,075		6,082,539
Total	**$**	**31,299,062**	**$**	**26,827,266**

An analysis of the Company's exposure to credit risk from its trade receivables and contract assets is as follows:

	2020		2019	
	Non credit-impaired	Credit-impaired	Non credit-impaired	Credit-impaired
Other customers:				
History of transactions with the Company Total	$ 44,006,291	$ 25,221,949	$ 45,148,968	$ 21,515,057
Allowance for credit losses	$ 6,660,073	$ 24,638,989	$ 5,740,902	$ 21,086,364

Comparative information under IAS 39

An analysis of the credit quality of the trade receivables that were neither past due nor impaired, and the aging of the trade receivables that were past due, but not impaired as of December 31, 2020 and 2019 is as follows:

		2020	2019
Current, but not impaired	$	33,015,568	35,461,566
Past due, but not impaired			
Past due between 1 and 30 days		1,989,384	1,809,004
Past due between 31 and 60 days		1,448,785	1,300,703
Past due between 61 and 90 days		1,206,915	1,030,506
Past due between 91 and 120 days		1,049,407	912,866
Past due between 121 and 150 days		882,867	803,936
Past due between 151 and 180 days		801,250	623,263
Past due between 181 and 210 days		737,469	717,918
Past due between 211 and 240 days		689,259	572,968
Past due between 241 and 270 days		606,180	502,221
Past due between 271 and 300 days		555,976	490,051
Past due between 301 and 330 days		516,593	458,521
Past due between 331 and 360 days		506,638	465,445
Total, trade receivables not impaired	**$**	**44,006,291**	**45,148,968**

Liquidity risk

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

The financing obtained by the Company is mainly through contracted debt, the leasing of plants, facilities, equipment and PIDIREGAS. To manage liquidity risk, the Company periodically performs cash flow analyses and maintains open lines of credit with financial institutions and suppliers.

In addition, the Company's budget is controlled by the Federal Government; consequently, the net debt ceiling authorized on an annual basis by the Federal Congress based on the Company's budgeted revenues, cannot be exceeded.

The following table provides information about the contractual maturities of the Company's financial liabilities based on the payment terms: An analysis of the contractual maturities of the derivative financial instruments is included in note 11:

As of December 31, 2020	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	$ 39,830,932	$ 28,188,384	$ 49,613,505	$ 113,878,518	$ 231,511,339
Interest payable on documented debt	10,955,582	20,040,689	16,355,216	51,579,525	98,931,013
PIDIREGAS debt	14,325,231	23,268,563	22,202,880	72,240,589	132,037,263
Interest payable on PIDIREGAS debt	6,758,165	11,457,212	9,007,299	29,822,921	57,045,596
Lease liabilities	20,669,039	25,670,320	28,050,449	534,365,333	608,755,141
Interest payable on lease liabilities	19,918,991	38,236,478	36,007,430	193,384,975	287,547,874
Suppliers and contractors	36,324,045	-	-	-	36,324,045
Other liabilities	8,090,670	-	-	-	8,090,670
Total	$ **156,872,655**	$ **146,861,646**	$ **161,236,779**	$ **995,271,861**	$ **1,460,242,941**

As of December 31, 2019	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	$ 39,171,577	$ 24,962,181	$ 44,681,062	$ 107,982,189	$ 216,797,009
Interest payable on documented debt	12,559,195	18,535,377	16,046,256	49,584,844	96,725,672
PIDIREGAS debt	14,159,869	23,470,069	21,767,411	76,669,036	136,066,385
Interest payable on PIDIREGAS debt	8,234,010	13,881,007	10,880,563	32,779,177	65,774,757
Lease liabilities	11,074,904	8,682,410	21,774,620	526,381,297	567,913,231
Interest payable on lease liabilities	18,507,917	18,223,575	35,147,849	210,624,872	282,504,213
Suppliers and contractors	30,808,697	-	-	-	30,808,697
Other liabilities	2,965,536	-	-	-	2,965,536
Total	$ **137,481,705**	**107,754,619**	**150,297,761**	**1,004,021,415**	**1,399,555,500**

Market risk

Due to its activities, the Company has exposure to foreign currency and interest rate risks.

Foreign currency exchange risk management

To fund its working capital requirements and public works financing, the Company contracts debt and carries out foreign currency-denominated transactions, consequently, it is exposed to exchange rate risk.

	Total debt as of December 31, 2020 (amounts in millions of pesos)	Total debt as of December 31, 2019 (amounts in millions of pesos)
Local currency	143,688	162,662
Foreign currency	218,469	188,430

In accordance with its policies, the Company mostly contracts interest rate and foreign currency swaps and foreign currency forward contracts to mitigate its exposure to interest rate and foreign currency risks.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the period are presented in note 19.

Foreign currency sensitivity analysis

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

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

The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates.

The sensitivity analysis includes foreign loans as well as loans from the foreign operations within the Company, where the loan is denominated in a currency other than the currency of the loaner or borrower. A positive figure indicates an increase in profit where the Mexican peso strengthens 5% against the relevant currency. If there is a 5% weakening of the Mexican peso against the relevant currency, there would be a comparable impact on profit, and the balances on the following page would be negative. The sensitivity analysis of the derivative financial instruments is described in note 11.

As of December 31, 2020	**Documented**	**Pidiregas**	**Total**
EUR	$ 391	$ -	$ 391
USD	11,153,937	5,234,320	16,388,256
Total	**$ 11,154,328**	**$ 5,234,320**	**$ 16,388,647**

As of December 31, 2019	**Documented**	**Pidiregas**	**Total**
EUR	$ 640	$ -	$ 640
MXP	1,106,895	59,949	1,166,844
USD	7,827,009	3,078,287	10,905,296
CHF	1,634	-	1,634
JPY	2,365	-	2,365
Total	**$ 8,938,543**	**$ 3,138,236**	**$ 12,076,779**

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

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

Interest rate risk management

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

	Total debt as of December 31, 2020 (amounts in millions of pesos)	Total debt as of December 31, 2019 (amounts in millions of pesos)
Fixed rate	256,466	243,181
Variable rate	105,692	107,911

Interest rate sensitivity analysis

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

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

2020	**Documented**	**Pidiregas**	**Total**
Fixed rate	$ 150,350,972	$ 72,950,574	$ 223,301,546
Variable rate	608,802	6,371,671	6,980,473
	$ 150,959,774	$ 79,322,245	$ 230,282,019

2019	**Documented**	**Pidiregas**	**Total**
Fixed rate	$ 135,541,656	$ 60,505,621	$ 196,047,277
Variable rate	465,285	-	465,285
	$ 136,006,941	$ 60,505,621	$ 196,512,562

The sensitivity analysis of the debt without considering the derivative financial instruments was estimated based on the fair value of the loans.

The sensitivity analysis of the derivative financial instruments is described in note 11.

Therefore, the hierarchy level of the Company's Mark-to-Market for derivative financial instruments as of December 31, 2020 is level 2 due to the following:

a) Inputs are other than quoted prices included within Level 1 that are observable, either directly or indirectly.

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

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

Fair value of financial instruments

Measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Fair value of financial instruments recognized at amortized cost

The Company considers that the carrying amount of the financial assets and liabilities recognized at amortized cost in the financial statements approximates fair value, including those on the following page:

Valuation techniques and assumptions used in determining fair value

	2020		2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	$ 111,914,270	$ 111,914,270	$ 89,339,037	$ 89,339,037
Accounts receivable	109,765,404	109,765,404	86,672,574	86,672,574
Loans to employees	15,275,040	15,275,040	13,777,331	13,777,331
Suppliers and contractors	36,324,045	36,324,045	37,808,897	37,808,897
Lease liabilities	608,743,667	608,743,667	567,913,231	567,913,231
Documented debt	231,511,339	269,899,051	216,797,009	240,066,531
PIDIREGAS debt	132,037,263	160,525,038	136,066,385	189,227,258

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

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

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

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

Valuations at fair value recognized in the statement of financial position

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, except for the financial instruments whose carrying amount is reasonably equivalent to their fair value, grouped into Levels 1 to 3, based on the degree to which the fair value is observable:

	Level 1	
	2020	**2019**
Available-for-sale financial assets		
Temporary investments	$ 40,886,893	$ 21,280,686

	Fair value measurement as of December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Plan assets	$ -	$ 227,783,947	$ -	$ 227,783,947
Derivative financial instruments	-	14,623,283	-	14,623,283
Total	$ -	$ 242,407,230	$ -	$ 242,407,230
Liabilities				
Debt	$ 87,687,040	$ -	$ 342,737,048	$ 430,424,088
Total	$ 87,687,040	$ -	$ 342,737,048	$ 430,424,088

	Fair value measurement as of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Plan assets	$ -	$ 210,818,107	$ -	$ 210,818,107
Derivative financial instruments	-	4,064,335	-	4,064,335
Total	$ -	$ 214,882,442	$ -	$ 214,882,442
Liabilities				
Debt	$ 178,982,740	$ -	$ 112,152,544	$ 291,135,284
Total	$ 178,982,740	$ -	$ 112,152,544	$ 291,135,284

An analysis of the fair value of the derivative financial assets grouped into level 2, based on the degree to which the inputs to estimate their fair value are observable, is included in note 11.

The levels referred to above are considered as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. For the fair values of the Documented Debt, the observed changes are obtained from the Company's price provider, which as at December 31, furnishes the dirty price valuations reflected in the stock exchange certificates listed on the Mexican Stock Exchange.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from unobservable inputs for the asset or liability, for the fair values of the Documented Debt and Pidiregas, the reasonably possible changes at the Balance Sheet date are determined by measuring the present value of the maturities in the source currency of the lines of credit discounted using CFE's yield curve. For this purpose, the Company's price provider furnishes the curves and risk factors related to the interest rates, exchange rates and inflation to which the debt is exposed.

Sensitivity analyses

To test the fair values of CFE's debt, the reasonably possible changes at the balance sheet date in one of the significant unobservable inputs would have the following effects if all other input remained constant.

	+ 5%	- 5%
Expected cash flow change of 5% in exchange rates in original currency	21,279	(21,279)
Expected cash flow change of 5% in interest rate	14,347	(14,347)

5. Cash and cash equivalents

An analysis of Cash and cash equivalents as of December 31, 2020 and 2019 is as follows:

		2020		2019
Cash on hand and cash in banks	$	71,018,556	$	68,049,530
Short-term investments		40,886,893		21,280,686
Stock certificates		8,821		8,821
Total	$	**111,914,270**	$	**89,339,037**

6. Accounts receivable, net

An analysis of the accounts receivable as of December 31, 2020 and 2019 is as follows:

		2020		2019
Financial instruments				
Public consumers (*)	$	56,284,907	$	52,546,042
Government agency consumers (*)		24,060,564		24,118,163
		80,345,471		76,664,205
Impairment of receivables		(31,924,441)		(27,328,830)
Other accounts receivable (**)		38,292,327		28,690,189
Total financial instruments		86,713,357		78,025,564
Total non-financial instruments - Value added tax		23,052,047		8,647,010
	$	**109,765,404**	$	**86,672,574**

(*) Includes estimates of revenue for electricity supply services that are in the process of being billed.
(**) Includes assets mainly from trusts and other debtors.

An analysis of the impairment of receivables as of December 31, 2020 and 2019 is as follows:

		2020		2019
Opening balance	$	(27,328,829)	$	(28,446,893)
Increase		(5,140,651)		(361,980)
Charges		545,039		1,480,043
Ending balance	$	**(31,924,441)**	$	**(27,328,830)**

7. Inventory of operating materials

An analysis of inventory of operating materials as of December 31, 2020 and 2019 is as follows:

	2020	2019
Spare parts and equipment	$ 1,801,157	$ 2,797,498
Fuel and lubricants	10,179,023	19,140,583
Nuclear fuel	3,556,077	3,969,405
	15,536,257	25,907,486
Allowance for obsolescence	(3,647,977)	(4,373,549)
Total	$ **11,888,280**	$ **21,533,937**

The Company recognizes in costs the spare parts and fuels used for its day-to-day operations.

8. Plants, facilities and equipment, net

An analysis of Plants, facilities and equipment, net as of December 31, 2020 and 2019 is as follows:

	Plants, facilities and equipment, net							
	December 31, 2019	Additions	Retirements	Depreciation for the period	Revaluation	Impairment	Capitalization	December 31, 2020
Plants, facilities and equipment in operation	$ 2,146,097,218	$ 31,676,062	$ (7,183,158)	$ -	$ (337,043,733)	$ -	$ -	$ 1,833,546,389
Capitalized spare parts	7,451,766	-	-	-	-	-	493,787	7,945,553
Construction in progress	26,130,582	981,102	-	-	-	-	-	27,111,684
Materials for construction	11,310,744	5,481,289	-	-	-	-	(493,787)	16,298,246
Subtotal	2,190,990,310	38,138,453	(7,183,158)	-	(337,043,733)	-	-	1,884,901,872
Accumulated depreciation	(896,064,974)	-	1,982,812	(40,427,624)	293,570,877	-	-	(640,938,909)
Impairment	(83,621,693)	-	-	-	43,472,856	-	-	(40,148,837)
Total	**$ 1,211,303,643**	**$ 38,138,453**	**$ (5,200,346)**	**$ (40,427,624)**	**$ -**	**$ -**	**$ -**	**$ 1,203,814,126**

	Plants, facilities and equipment, net							
	December 31, 2018	Additions	Retirements	Depreciation for the period	Revaluation	Impairment	Capitalization	December 31, 2019
Plantas instalaciones y equipo en operación	$ 2,012,933,547	$ 48,858,544	$ (8,968,366)	$ -	$ 84,480,718	$ -	$ 8,792,775	$ 2,146,097,218
Refacciones capitalizables	7,306,913	144,853	-	-	-	-	-	7,451,766
Obras en proceso	32,189,380	-	-	-	-	-	(6,058,798)	26,130,582
Materiales para construcción	14,044,721	-	-	-	-	-	(2,733,977)	11,310,744
Subtotal	2,066,474,561	49,003,397	(8,968,366)	-	84,480,718	-	-	2,190,990,310
Depreciación acumulada	(853,277,053)	-	2,647,252	(45,435,173)	-	-	-	(896,064,974)
Deterioro	(26,607,250)	-	-	-	-	(57,014,443)	-	(83,621,693)
Total	**$ 1,186,590,258**	**$ 49,003,397**	**$ (6,321,114)**	**$ (45,435,173)**	**$ 84,480,718**	**$ (57,014,443)**	**$ -**	**$ 1,211,303,643**

During the fiscal year 2020, the fair value analysis of it is assets was updated, concluding that there was no impairment charge. The result of the analysis of the fair value of the assets as of December 31, 2019 is as follows:

Revaluation of property, plant and equipment	$	73,788,098
Reversal of impairment of property, plant and equipment		10,692,620
Revaluation and reversal of impairment subtotal		84,480,718
Impairment of property, plant and equipment		(57,014,443)
Total	**$**	**27,466,275**

The main effects by type of technology are shown in the following table.

Technology	No. of Power Stations		Impairment		Revaluation		Reversal
Carboelectric	3	$	12,582,203	$	-	$	-
Combined cycle	20		27,249,885		3,437,269		146,300
Internal combustion	5		801,973		1,034,919		-
Wind	2		564,442		-		-
Photovoltaic	2		213,540		-		-
Geothermoelectric	4		4,714,256		383,992		-
Hydroelectric	61		2,940,321		66,237,478		9,920,255
Nuclear power	1		-		996,545		-
Thermoelectric	20		5,013,490		528,168		4,015
Turbo-gas	40		2,934,333		1,169,727		622,050
Total	**158**	**$**	**57,014,443**	**$**	**73,788,098**	**$**	**10,692,620**

In March 2020, the health contingency was declared due to the COVID 19 pandemic; therefore, worldwide there were a series of indications of impairment loss in the long-lived assets of the companies, a series of probable indications of impairment loss in the long-lived assets of the Power Plants were identified. The analysis was carried out, the objective was to determine the fair value less disposal costs of the Plants, in order to carry out the impairment loss analysis of long-term assets, taking into account the impact of the pandemic of COVID 19 in the use value projections.

According to the results of the analysis carried out in the study, electricity demand was decreased offset by the drop in the discount rate that causes changes in the values of the power plant, among others, concluding that there is no impairment in the Plants.

For the asset valuation study, the Company considered the same aggregation to identify the cash-generating unit, both for the recoverable amount estimated in past valuations and in the current valuation.

The recoverable amount of the cash generating units considered the fair value of the asset less costs of disposal.

Based on IFRS 13, the fair value measurement of the assets is classified as a Level 3 input within the fair value hierarchy.

The events and circumstances that led to the impairment charge, the unrealized gain on revaluation and the reversal of impairment relate to current and future conditions of the Mexican Electricity Market and changes in power generation technology.

It is worth noting that over the last three years Mexico's power generation market has evolved, with major changes including the start up of a new gas pipeline network that has significantly expanded the availability of natural gas at the regional level and the introduction of renewable energy sources, as well as the general improvements that this network is undergoing day by day.

The Company identified each generation plant as a cash-generating unit (CGU).

As of December 31, 2020, the useful lives of the plants with modern technology are as follows:

Power Stations	Useful life
Combined cycle (with natural gas), thermoelectric plants, turbo-gas and internal combustion	30 years
Carboelectric	40 years
Geothermal	30 years
Nuclear power	60 years
Hydroelectric	80 years
Wind and solar	25 years

The projections used to measure the fair value of the power plants are based on an income approach applied using the so-called Plexos model to run a simulation of the Mexican electricity market via the incorporation of multiple algorithms to optimize the country's power generation system, which considers the availability fuel and hydraulic resources in a variety of time frames, thus generating forecasts of power production levels, costs and investments over a given time horizon.

The income approach is based on the projection of the structure of free cash flow that permits the reproduction of the free cash flow derived from the operation of the business and the behavior of the various aspects that comprise it, following the conditions set out in all the proposed scenarios and considering their respective assumptions as well.

The estimate was determined using a nominal pre-tax discount rate: 7.41% and 6.83% in 2020 and 8.36% and 7.82% in 2019, which were applied based on the size of the plants, as determined based on their Revalued Book Value.

The key assumptions considered in the calculation of fair value minus disposal costs were revenue from power generation and capacity, operating costs, general and administrative expenses, operational safety maintenance expenses, the discount rate and the analysis horizon.

Construction in progress - the construction in progress balances as of December 31, 2020 and 2019 are as follows:

Plant:		2020		2019
Steam power plants	$	109,140	$	5,380
Hydroelectric power plants		1,125,574		1,183,167
Nuclear power plants		199,588		248,696
Turbo gas and combined cycle power plants		12,696,856		11,258,752
Geothermal power plants		171,019		176,395
Transmission lines, networks and substations		11,484,393		11,650,574
Offices and general facilities		1,325,114		1,607,618
Total	**$**	**27,111,684**	**$**	**26,130,582**

Fair value measurement

i. Fair value hierarchy

The fair value of plants, facilities and equipment in operation was determined by independent external appraisers with a recognized professional capacity and experience in terms of the property, plant and equipment that underwent the appraisal. The independent appraisers provided the fair value of the plants, facilities and equipment as of December 31, 2020, and 2019.

ii. Valuation technique and relevant unobservable inputs

The following table shows the valuation technique used to measure the fair value of investment properties, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Interrelationship between the key unobservable inputs and the measurement of fair value
Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by plants, facilities and equipment, considering the expected income growth rate. Net expected cash flows are discounted using risk-adjusted discount rates.	Generation Useful life of the assets (30-60 years) Discount rate 7.67%-8.68% Transmission Useful life of the assets (30 years) Discount rate 7.67% Distribution Useful life of the assets (30 years) Discount rate 7.67%	The estimated fair value would increase (decrease) if: - Income growth was higher (lower) - The useful life was higher (lower) - The risk-adjusted discount rate was lower (higher)

As mentioned in note 2d) and note 3i), CFE conducts impairment tests on the value of its long-term assets if circumstances indicate that the assets might be impaired.

The impairment analysis for long-lived assets requires the Company to estimate the recoverable amount of its assets, which is the greater of its fair value (minus any disposal costs) and its value in use.

9. Right-of-use asset

The Company adopted in 2019 IFRS 16 Leases using the full retrospective method for the periods presented in the annual financial statements. The net balances of Right-of-use assets as of December 31, 2020, and 2019 are as follows:

	2019	Additions	Effect from translation	Depreciation for the year	2020
Property	$ 609,409	$ 143,626	$ 1,290	$ -	$ 754,325
Infrastructure	135,167,183	19,179,155	-	-	154,346,338
Vehicles	-	4,173,989	-	-	4,173,989
Gas pipelines	440,556,611	-	5,606,175	-	446,162,786
Subtotal	576,333,203	23,496,770	5,607,465	-	605,437,438
Property	(431,575)	-	(717)	(94,597)	(526,889)
Infrastructure	(49,862,201)	-	-	(7,263,413)	(57,125,614)
Vehicles		-	-	(810,196)	(810,196)
Gas pipelines	(51,663,006)	-	(708,505)	(16,891,330)	(69,262,841)
Total depreciation	(101,956,782)	-	(709,222)	(25,059,536)	(127,725,540)
	$ **474,376,421**	$ **23,496,770**	$ **4,898,243**	$ **(25,059,536)**	$ **477,711,898**

	2018	Additions	Effect from translation	Depreciation for the year	2019
Property	$ 546,838	$ 62,571	$ -	$ -	$ 609,409
Infrastructure	112,010,062	23,157,121	-	-	135,167,183
Gas pipelines	315,882,435	128,471,504	(3,797,328)	-	440,556,611
Subtotal	428,439,335	151,691,196	(3,797,328)	-	576,333,203
Property	(295,289)	-	-	(136,286)	(431,575)
Infrastructure	(43,673,049)	-	-	(6,189,152)	(49,862,201)
Gas pipelines	(37,670,427)	-	-	(13,992,579)	(51,663,006)
Total depreciation	(81,638,765)	-	-	(20,318,017)	(101,956,782)
	$ **346,800,570**	$ **151,691,196**	$ **(3,797,328)**	$ **(20,318,017)**	$ **474,376,421**

The reconciliation of lease rights payable is as follows:

	Diciembre 2020	Diciembre 2019
Closing balance	$ 567,913,231	$ 456,445,996
Additions	23,494,256	151,674,080
Interest	29,805,178	23,889,828
Payments	(46,105,694)	(40,455,722)
Effect from translation	5,242,751	(4,032,854)
Exchange difference	28,405,419	(19,608,097)
Total liabilities	$ **608,755,141**	$ **567,913,231**

The Company has entered leasing contracts for the rental of real estate, vehicles and infrastructure. These leases shall commence over the course of 2020. The lease agreements will require CFE to recognize lease assets and liabilities in accordance with IFRS 16.

10. Intangibles and other assets

An analysis of intangibles and other assets as of December 31, 2020 and 2019 is as follows:

	2020	2019
Rights of way [(1)]	$ 32,004,933	$ 29,394,733
Deposits and advances	18,871,233	9,244,132
Total	$ **50,876,166**	$ **38,638,865**

As of December 31, 2020 and 2019, the Company has right-of-way assets, which represents a legal right-of-way for the Company to access and inspect transmission lines by air or underground in order to verify the continued transmission of electricity over the power lines. An analysis of these right-of-way assets is shown below:

Right of way	Opening balance	Increase	Charges and others	Ending balance
2020	$ 29,394,733	$ 2,610,200	-	$ 32,004,933
2019	30,444,834	193,882	(1,243,983)	29,394,733

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

Intangible assets with indefinite useful lives mainly include rights of way. These assets are considered to have indefinite useful lives due to the fact that they are subject to no legal, regulatory or contractual restrictions that would limit how long they may be used. The assets are tested annually for impairment whenever there is evidence of impairment.

The Company conducted a fair value analysis of the long-lived assets of CFE Transmission. This testing was performed using a financial model that reproduces and simulates the cash flows generated on the operation of the assets. For the financial model to be able to simulate the operation of the business that is being tested, information must be fed into the free cash flow using financial projections and an analysis horizon, surrender value and discount rate must be determined for the impairment test December 31, 2019. As a result of this impairment test, no impairment was determined for the year.

The description of the long-term asset was formulated based information provided by CFE Transmisión, with the National Electric System Development Program 2019 - 2033 (PRODESEN, Spanish acronym, 2019 - 2033).

11. Financial instruments

a. Accounting classifications and fair values

CFE is exposed to interest rate and foreign currency translation risks which it tries to mitigate through a hedging program that includes using derivative financial instruments. The Company mainly uses foreign exchange "Cross Currency Swaps" and "Forwards" to mitigate its foreign currency risk. To reduce its interest rate risk exposure, the Company uses interest rate swaps.
Also, for the years ended December 31, 2020, and 2019, the derivative financial instruments have been designated as and qualify mainly as cash flow hedges since they are referenced to contracted debt. The effective portion of gains or losses on cash flow derivatives is recognized in equity under the concept of "Effects on the fair value of derivatives", and the ineffective portion is charged to profit or loss of the period.

The fair value of the Company's financial instrument position as of December 31, 2020 amounted $14,623,283. As of December 31, 2019 it amounted $4,064,335.

Derivative Financial Instruments Held for Trading

As of December 31, 2020 and 2019, CFE had derivatives designated as held for trading whose fair value represented a liability of $628,155 as of December 31, 2019, an asset of $382,435 respectively.

On September 17, 2002, CFE placed in the Japanese market a bond for 32 billion Japanese yen at an annual interest rate of 3.83% and maturing in September 2032. At the same time, CFE carried out a hedging operation for which received an amount of 269,474,000 US dollars, equivalent to 32 billion yen at the spot exchange rate on the date of the operation of 118.7499 yen per US dollar. This transaction consists of a series of currency forwards that allow the Company to lock in a JPY/USD exchange rate of 54.0157 JPY per USD over the established term of the transaction. As part of this transaction, CFE pays annual interest in U.S. dollars at a rate of 8.42%. These instruments have not been designated as hedges as required by the financial reporting standard, consequently, the valuation effect of these instruments is recognized in financial cost; a gain (loss) in said value offsets a loss (gain) in the underlying liability.

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

On September 20, 2019, the Company refinanced a number of lines of credit with BBVA Bancomer for up to $8,811,000 including line of credit No. 1200001251, which was refinanced with a 7-year term maturing on September 18, 2026. For this reason, the hedge that CFE acquired through an interest rate swap contracted with the banks Credit Agricole, CitiBanamex, Santander and HSBC were reclassified as held for trading and the effects of the revaluation to market value of the hedges were recognized in profit or loss.

The Company suspends cash flow hedge accounting when the derivative expires, is not effective enough to offset the changes in the fair value or cash flows of the hedged item, or when the Company decides to cancel the hedging designation. The gains or losses recognized in Other comprehensive income and accumulated in Equity, remain in Equity and are recognized when the forecast transaction is ultimately recognized in profit or loss.

If CFE decides to cancel this economic hedge (currency forwards on the yen/dollar exchange rate), it would give rise to an estimated extraordinary loss as of December 31, 2020 and 2019 as follows:

Instrument	Underlying	Maturity		2020		2019
FWD JPY/Usd	Exchange rate and interest rate	2036	$	(628,155)	$	(383,356)
IRS	Interest rate	2020				921
		Total	**$**	**(628,155)**	**$**	**(382,435)**

Hedging instruments

As of December 31, 2020 and 2019, CFE maintains its hedging derivative position on exchange rates and interest rates, as shown below:

Instrument	Underlying	Type of hedge	Maturity	Primary position (Lines/Bonds)	Hedge Ratio	Fair value 2020	Fair value 2019
CCS	Exchange rate and interest rate	Cash flow	2021	1100000074 to 76	100%	252,232	285,635
CCS	Exchange rate and interest rate	Cash flow	2022	1100000077 to 79	100%	30,475	46,273
CCS	Exchange rate and interest rate	Cash flow	2023	1100000080	100%	687,163	218,468
CCS	Exchange rate and interest rate	Cash flow	2024	1100002956	100%	2,516,291	112,010
CCS	Exchange rate and interest rate	Cash flow	2027	1100003606	100%	2,849,573	378,283
CCS	Exchange rate and interest rate	Cash flow	2032	1200002801	100%	(51,017)	(69,692)
CCS	Exchange rate and interest rate	Cash flow	2036	1200000551 Pidiregas Line	100%	1,766,260	2,428,905
CCS	Exchange rate and interest rate	Cash flow	2042	Bond 2042	55.30%	1,265,139	138,159
CCS	Exchange rate and interest rate	Cash flow	2047	Formosa 1 Bond	100%	491,167	-620,163
CCS	Exchange rate and interest rate	Cash flow	2048	Formosa 2 Bond	100%	889,111	-576,661
Participating Swap	Exchange rate and interest rate	Cash flow	2027	Bond 2027	100%	(26,630)	(101,611)
CCS	Exchange rate and interest rate	CCS	2045	Bond 2045	67%	4,726,404	2,340,350
CCS	Exchange rate and interest rate	CCS	2030	Formosa 4 Bond	33%	(199,638)	-
CCS	Exchange rate and interest rate	CCS	2029	Formosa 3 Bond	30%	175,717	(37,310)
Forwards	Exchange rate	Cash flow	Less than one year	Sale of energy	100%	1,612	-69
IRS	Interest rate	Cash flow	2020	1100003807, 1200001251 and 1200001451	100%	-	3,230
IRS	Interest rate	Cash flow	2023	Nafin line	100%	-	-97,305
IRS	Interest rate	Cash flow	2023	Mizuho line	100%	(126,201)	
CCS	Exchange Rate/Commodities	Cash flow	2020	Sale of energy	100%	3,780	(1,732)
			Subtotal			**15,251,438**	**4,446,770**
CCS	Tipo de cambio JPY / Tasa USD	Negociación		Línea de crédito en yenes	N/A	(628,155)	(383,356)
IRS	Tasa de interés		2020	1200001251		-	921
	Total miles de pesos					**14,623,283**	**4,064,335**

The table above includes the Mark to Market of the hedging derivatives. As of December 31, 2020 the total Mark to Market value of the hedging and trading derivatives amounts to $14,623,283, respectively, based on their carrying amount.

The results of the effectiveness tests for these hedging instruments showed that the relationships are highly effective. The amount of ineffectiveness is minimal; therefore, no hedge ineffectiveness was recognized.

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

As of December 31, 2020, the effects of OCI in the upcoming years (current portfolio) is as follows:

	Millions of pesos		
Year	**MTM**	**OCI**	**Results (Interest and exchange rate)**
2021	22,529	11,923	10,605
2022	30,320	10,960	19,360
2023	37,782	10,627	27,155
2024	42,810	8,389	34,421
2025	49,231	9,648	39,584

b. Fair value measurement

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

Adjustment of fair value or Mark to Market by credit risk

To reflect counterparty risk, the valuation is adjusted based on the probability of default and recovery rate with the counterparties of the derivative positions.

The net fair value of derivative financial instruments (Mark-To-Market) effective as of December 31, 2020, before considering credit risk, amounts to $15,405,924, respectively, which is included in the balance sheet and represents the amount in favor of the Company with the counterparties.

The net fair value of derivative financial instruments (Mark-To-Market) effective as of December 31, 2019, before considering credit risk, amounts to $4,088,632, respectively, which is included in the balance sheet and represents the amount in favor of the Company with the counterparties.

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

Method for adjusting Fair Value

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

As at December 31, 2020, fair values adjustments based on the CVA (Credit Valuation Adjustment) are shown below:

Counterparty	**Fair value MTM subject to CVA**	**Adjusted fair value MTM**	**Adjustment as at December 31, 2020**
CitiBanamex	$ 3,698,632	$ 3,517,345	$ 181,287
GOLDMAN SACHS	3,621,385	3,765,007	(143,622)
Morgan Stanley	2,744,620	2,615,564	129,055
Deutsche Bank	1,862,208	1,776,367	85,841
Barclays Bank	1,188,547	1,087,073	101,474
SANTANDER	785,382	757,233	28,149
BBVA BANCOMER	660,108	470,653	189,455
BNP PARIBAS	472,088	459,048	13,040
Bank of America	334,803	135,810	198,993
Credit Suisse	97,326	93,364	3,961
Bank of Tokio	1,709	1,612	96
JP Morgan	(60,883)	(55,794)	(5,089)
	$ 15,405,925	**$ 14,623,283**	**$ 782,640**

As at December 31, 2019, fair values adjustments based on the CVA (Credit Valuation Adjustment) are shown below:

Counterparty	**Fair value MTM subject to CVA**	**Adjusted fair value MTM**	**Adjustment as at December 31, 2020**
BBVA Bancomer	$ 326,002	$ 325,295	$ 707
BNP Paribas	231,857	231,477	380
CitiBanamex	1,084,420	1,080,022	4,398
Credit Agricole	792	791	1
Credit Suisse	79,210	79,006	204
Deutsche Bank	1,910,192	1,901,563	8,629
Goldman Sachs	1,193,832	1,187,199	6,633
HSBC	(96,504)	(96,505)	1
JP Morgan	(69,387)	(69,388)	1
Morgan Stanley	99,476	98,047	1,429
SANTANDER	(623,280)	(623,361)	81
Barclays Bank	77,136	75,888	1,248
Bank of America	258,311	257,727	584
MONEX	(69)	(69)	-
Goldman Sachs Negociación	(383,356)	(383,357)	1
	$ 4,088,632	**$ 4,064,335**	**$ 24,297**

Fair Value hierarchy or Mark-to-Market

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

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

Level 2 inputs

As explained above, based on the terms of the ISDA contracts, the counterparties or banking institutions are the valuation agents, and they calculate and send the Mark-to-Market monthly.

Therefore, the hierarchy level of the Company's Mark-to-Market for derivative financial instruments as of December 31, 2020 is level 2 due to the following:

1) Inputs are other than quoted prices included within Level 1 that are observable, either directly or indirectly.

2) Quoted prices for similar assets or liabilities in active markets.

3) Inputs other than quoted prices that are observable for the asset or liability.

c. Financial risk management

CFE has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations To mitigate its credit risk, the Company's policy is to maintain a significant portion of its positions with investment grade counterparties and substantially limit its positions with below investment grade counterparties.

To manage credit risk, the Company monitors the credit rating and the probability of default of the counterparty, which is applied to the market value of the derivative. These transactions are carried out with solvent and well-known parties that have AAA+ credit rating on a local scale, and BBB+ on a global scale, according to S&P, Moody's and Fitch.

The carrying amount of the derivative financial assets represents the maximum exposure to credit risk. As of December 31, 2020, and 2019, this amounted to $15,405,924 and $4,088,632, respectively.

Liquidity risk

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

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

Exposure to liquidity risk for holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of December 31, 2020 and 2019, this amounted to $2,371 and $3,220, respectively.

The table below lists the contractual maturities of the derivative financial instruments based on payments terms.

December 31, 2020		Less than one year		More than 1 year and less than 5 years		Total
CCS	$	15,410	$	93,765	$	109,175
Total payable	**$**	**15,410**	**$**	**93,765**	**$**	**109,175**
CCS	$	10,270	$	92,231	$	102,501
Total receivable	**$**	**10,270**	**$**	**92,231**	**$**	**102,501**

Diciembre 2019		Less than one year		More than 1 year and less than 5 years		Total
IRS	$	187	$	476	$	663
CCS		13,400		81,535		94,935
Total por pagar	**$**	**13,587**	**$**	**82,011**	**$**	**95,598**
IRS	$	88	$		$	88
CCS		8,930		80,201		89,131
Total por cobrar	**$**	**9,018**	**$**	**80,201**	**$**	**89,219**

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

63.0% of CFE's debt is denominated in foreign currency, mainly in US dollars, whereas most of CFE's assets and revenues are denominated in pesos. As a result, CFE is exposed to devaluation risks of the peso against the dollar. In conformity with its risk management policy, CFE has contracted currency swaps to reduce the impact of currency fluctuations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay a fixed rate in pesos. As of December 31, 2020, and 2019, CFE maintains foreign exchange swaps to hedge its foreign currency debt of $137,271 and $121,094, million pesos, respectively.

To cover the exchange risks of the $32 billion debt in yens, CFE uses a series of exchange rate forwards under which it purchases Japanese yens. The market value of this transaction as of December 31, 2020 and 2019 was $(628,155) and ($383,356), respectively. These derivative instruments were not designated as hedges.

Sensitivity analysis of the effect on exchange rates

A possible and reasonable strengthening (weakening) of the MXN/USD and JPY/USD exchange rate as of December 31, 2020 would have affected the fair value of the total position of the derivative financial instruments in foreign currency, and thus, profit and loss of the period and other comprehensive income (since some of them are designated as hedges), as shown in the following table:

	Effect on profit or loss		**Effect on equity**	
Instrument	**+100 pips**	**-100 pips**	**+100 pips**	**-100 pips**
Cross Currency	$ 68,812	$ (68,812)		
JPY/USD			$ 2,694	$ (2,694)
FWD	1	(1)		
Total	$ 68,813	$ (68,813)	$ 2,694	$ (2,694)

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

b) Interest rate risk

26.7% of CFE's debt bears interest at variable interest rates, which are determined by reference to the TIIE rate for debt denominated in pesos. As of December 31, 2020 and 2019, CFE hedged $3,989 and $5,350, respectively, of its variable interest rate debt denominated in pesos.

Interest rate sensitivity analysis

A potential and reasonable strengthening (weakening) of interest rates as of December 31, 2020 would have affected the fair value of the total position of derivative financial instruments associated with variable interest rates, and thus, profit and loss of the period and other comprehensive income (since some of them are designated as hedges), as shown in the following table:

	Effect on equity	
31/12/20	**+ 100 basis points**	**- 100 basis points**
Interest rate swaps	$ 68,812	$ (68,812)

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

12. Short-term and long-term debt

An analysis of the Company's debt as of December 31, 2020 and 2019 is as follows:

		2020		2019
Bank loan	$	-	$	565,356
Documented debt		39,830,932		39,171,577
PIDIREGAS debt		14,325,231		14,159,869
Total short-term debt		**54,156,163**		**53,896,802**
Documented debt		191,680,407		177,625,432
PIDIREGAS debt		117,712,032		121,906,516
Total long-term debt		309,392,439		299,531,948
Total debt	$	**363,548,602**	$	**353,428,750**

Movements in debt for the years ended December 31, 2020 and 2019, are as follows:

Type of debt		2019		Drawdowns		Payments		Foreign exchange and interest rate differences		2020
Préstamo bancario	$	565,356	$		$	(565,356)	$	-	$	-
Deuda Documentada		216,797,009		49,988,166		(37,825,347)		2,551,511		231,511,339
Deuda Pidiregas		136,066,385		8,131,513		(13,408,211)		1,247,576		132,037,263
Total	**$**	**353,428,750**	**$**	**58,119,679**	**$**	**(51,798,914)**	**$**	**3,799,087**	**$**	**363,548,602**

Type of debt		2018		Drawdowns		Payments		Foreign exchange and interest rate differences		2019
Préstamo bancario	$	7,494,715	$	171,083	$	(7,100,442)	$	-	$	565,356
Deuda Documentada		216,045,238		21,341,290		(16,207,183)		(4,382,336)		216,797,009
Deuda Pidiregas		131,085,031		22,651,044		(14,709,494)		(2,960,196)		136,066,385
Total	**$**	**354,624,984**	**$**	**44,163,417**	**$**	**(38,017,119)**	**$**	**(7,342,532)**	**$**	**353,428,750**

Documented debt

An analysis of drawdowns against loans as of December 31, 2020 and 2019 is as follows:

a) Foreign debt

In October 2020, the Company drew down MUSD 2.14 against the line of credit obtained from BBVA, S.A. Madrid, to finance the purchase of goods and services from Spain, guaranteed by Compañía Española de Seguros de Crédito a la Exportación (the Spanish Export Credit Agency), at a CIRR fixed rate and is repayable in 5 years.

In August 2020, the Company drew down MUSD 4.6 against the line of credit obtained from BBVA, S.A. Madrid, to finance the purchase of goods and services from Spain and guaranteed by Compañía Española de Seguros de Crédito a la Exportación (the Spanish Export Credit Agency), at a CIRR fixed rate and is repayable in 5 years.

On May 21, 2020, the Company drew down MUSD 192.1 against its syndicated loan obtained from Banco Santander, S.A. (Spain) as agent bank and guaranteed by the Italian Export Credit Agency SACE Spa, maturity date of December 20, 2019 for an amount of MUSD 400, at a rate of LIBOR 6m USD plus 0.95% and is repayable in 10 years.

On April 30, 2020, the Company drew down MUSD 200.0 against its syndicated loan obtained from Banco Santander, SA (Spain) as agent bank and guaranteed by the Italian Export Credit Agency SACE Spa, dated December 20, 2019 for an amount of MUSD 400, at a LIBOR rate of 6m USD plus 0.95% and is repayable 10 years.

On March 18, 2020, the Company drew down MUSD 1.3 against the line of credit obtained from BBVA, S.A. (Madrid), to finance the purchase of goods and services from Spain and guaranteed by Compañía Española de Seguros de Crédito a la Exportación (the Spanish Export Credit Agency), at a CIRR fixed rate and is repayable in 5 years.

On February 19, 2020, the Company drew down MUSD 1.9 against the line of credit obtained from BBVA, S.A. (Madrid), to finance the purchases of goods and services from Spain and guaranteed by Compañía Española de Seguros de Crédito a la Exportación (the Spanish Export Credit Agency), at a CIRR fixed rate and is repayable in 5 years.

On January 21, 2020, the Company drew down MUSD 7.9 against its syndicated loan obtained from Banco Santander, SA (Spain) as agent bank and guaranteed by the Italian Export Credit Agency SACE Spa, dated December 20, 2019, for an amount of MUSD 400, at a rate of LIBOR 6m USD plus 0.95% and a 10-year term.

Additionally, to finance various payments for Financed Public Works (OPF) projects, MUSD 900 were placed through the issuance of an international bond, at a fixed rate of 4.05%, which will have its last amortization in 2050.

On November 14, 2019, the Company drew down USD 25.2 million against the line of credit obtained from Banamex, S. A., whose proceeds were used to finance the purchase of enriched uranium for the Laguna Verde Nuclear Power Plant. This loan is for a term of three years, with repayments and interest payments due every six months, and bearing interest equal to the six-month USD LIBOR plus 0.90%.

On April 10, 2019, the Company drew down USD 300 million against a revolving syndicated loan of USD 1,260 million obtained in July 2018, with Mizuho Bank, LTD. as the loan's administrative agent, which bears interest equal to the USD LIBOR plus 0.95% and is repayable in 5 years.

FOREIGN DEBIT -

Foreign debt			Maturates	2020 National currency	2020 Foreign currency	2019 National currency	2019 Foreign currency
IN US DOLLAR: at the exchange rate of	BILATERAL	Fixed and variable - 1.52%	Various through 2030	$ 8,835,616	442,917	$ 1,531,536	81,269
US dollar of $19.9487 as of Dec	BONDS	Fixed and variable - 5.05%	Various through 2050	115,137,512	5,771,680	94,909,176	5,036,253
2020 and $18.8452 at Dec 2019	REVOLVING	Fixed and variable - 3.69%	Various through 2025	240,640	12,063	525,712	27,896
	SYNDICATED	Fixed and variable - 1.23%	2023	11,969,220	600,000	11,307,120	600,000
TOTAL US DOLLARS:				**136,182,988**	**6,826,660**	**108,273,544**	**5,745,418**
IN EUROS: at the exchange rate of							
Euros of $24.3563 a Dec 2020 and	BILATERAL	Fixed and variable - 2%	Various through 2024	7,516	309	13,212	624
$21.175 at Dec 2019	REVOLVING	Fixed and variable	Various through 2020	-	-	45	2
TOTAL EUROS				**7,516**	**309**	**13,257**	**626**
IN SWISS FRANCS: at the exchange rate of							
Swiss francs of $22.5266 a Dec							
2020 and $19.4791 at Dec 2019	REVOLVING	Fixed and variable	Various through 2021	-	-	34,019	1,746
TOTAL SWISS FRANCS:				**-**	**-**	**34,019**	**1,746**
IN JAPANESE YENS: at the exchange rate of							
Japanese Yens of $0.1929 at Dec							
2020 and $0.1736 at Dec 2019	BILATERAL	Fixed and variable	Various through 2021	-	-	131,887	759,720
Bond		Fixed - 3.83%	2032	6,171,520	32,000,000	5,555,200	32,000,000
Assets received for financial instruments				(795,864)		(476,909)	
				5,375,656	32,000,000	5,078,291	32,000,000
TOTAL JAPANESE YENS:				**5,375,656**	**32,000,000**	**5,210,178**	**32,759,720**
		TOTAL FOREIGN DEBT		**$ 141,566,160**		**$113,530,998**	

Reference Interest Rates changes (RFR)

In July 2017, the regulatory institution Financial Conduct Authority announced that the RFR would not be required for banks to operate the London Interbank Offered Rate after 2021.

Interbank offer rates are reference interest rates that can be accessed publicly and periodically. They are a useful reference for all types of financial contracts such as loans, mortgages, account overdrafts, and more complex financial products. Interbank offer rates are calculated by an independent institution to reflect the cost of financing for different markets.

Differences between IBORs and RFRs:

1. RFRs are available overnight. On the contrary, IBORs are published for different time frames;

2. RFRs are retrospective, as they report the fees paid the day before in the relevant transactions. Rather, IBORs report the rate at which funds are available today for the corresponding term.

3. RFRs are designed to be almost risk-free rates. Consequently, they do not incorporate a credit or liquidity premium. Rather, most IBORs are designed to provide an indication of the average rates at which participating banks could obtain unsecured wholesale financing during set periods and incorporate both a credit premium.

The LIBOR rate and the alternative SOFR rate are not equivalent, the LIBOR rate is unsecure and incorporates terms and credit premium, however, with adherence to the LIBOR Fallback protocol, CFE would be covered to such changes for both credits and derivative financial instruments.

b) Domestic debt

On November 20, 2020, the Company drew down (MMXP) $1,500 against a short-term unsecured loan obtained from Banco Nacional de México, S.A. on November 20, 2020, at a rate of TIIE 28d plus 1% and repayable in 6 months.

On November 13, 2020, the Company drew down (MMXP) $ 5,000 against a short-term unsecured loan obtained from BBVA Bancomer, S.A. matures in November 13, 2020, at a rate of TIIE 28d plus 0.95% and repayable in 3 months.

On October 23, 2020, three issues of Stock Certificates were placed in the national markets for a total of (MMXP) $10,000.

1. CFE 20 for an amount of MMXP $2,999.89, which bears monthly interest at a variable rate of TIIE 28 days plus 0.80%, maturing in October 2022.

2. CFE 20-2 for an amount of MMSP $3,275.0, which bears semiannual interest at a fixed rate of 8.18% maturing in October 2026.

3. CFE 20U for a total of 568,297,900 UDIS, equivalent to MMXP $ 3,725.1, which bears semi-annual interest at a fixed rate of 4.86% and maturity in October 2028.

On September 15, 2020, the Company drew down MMXP $1,500 against a revolving loan obtained from Banco Santander (México), S.A., the line of credit is available for MMXP $ 5,000, maturity in March 21, 2018, at a rate of TIIE 28d plus 1.00% and repayable until March 21, 2021.

On May 28, 2020, the Company drew down MMXP $3,000 against a short-term unsecured loan obtained from BBVA Bancomer, S.A. maturity in May 28, 2020, at a rate of TIIE 28d plus 0.85% and repayable in July 17, 2020.

On March 19, 2020, the Company drew down MMXP $1,500 against a short-term unsecured loan obtained from HSBC México, S.A. maturity in March 19, 2020, at a rate of TIIE 28d plus 0.20% and repayable in 3 months.

On December 11, 2019, the Company drew down MMXP $5,500 against the loan taken out with BBVA Bancomer on December 9, 2019, which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.20% and repayable until March 9, 2020.

On December 2, 2019, the Company drew down MMXP $4,000 against the loan taken out with Banco Santander on July 18, 2018, which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.25% and repayable until July 18, 2020.

On August 28, 2019, the Company drew down MMXP $2,500 against the loan taken out with BBVA Bancomer on August 2, 2019, which bears interest equal to the 28-day Mexican weighted interbank rate (TIIE) plus 0.80% and is repayable in 4 years 2 months.

DOMESTIC DEBT -			Expiration	2020 National currency	2020 Foreign currency	2019 National currency	2019 Foreign currency
NATIONAL CURRENCY	BANK CONTRACTS	Fixed and variable - 5.44%	Various through 2023	$ 14,000,000		$ 17,000,000	
	STOCK MARKET	Fixed and variable - 7.31%	Various through 2027	51,262,219		65,487,330	
TOTAL MEXICAN PESOS:				65,262,219		82,487,330	
IN UDIS: at the Exchange rate of $6.6055 y $6.399 at Dec 2020 and 2019 respectively	STOCK MARKET	Fixed - 4.55%	2032	25,028,722	3,789,073	20,609,740	3,220,775
TOTAL UDIS				25,028,722	3,789,073	20,609,740	3,220,775
TOTAL DOMESTIC DEBT				**$ 90,290,941**		**$103,097,070**	

Summary	2020	2019
Total foreign debt	$141,566,160	$113,530,998
Total domestic debt	90,290,941	103,097,070
Interest payable	2,078,898	2,529,070
Unamortized debt expenses	(2,424,661)	(2,360,129)
Total documented debt	**$231,511,338**	**$216,797,009**
Short-term debt	$ 37,752,033	$ 36,642,507
Long-term debt	194,105,068	179,985,561
Interest payable	2,078,898	2,529,070
Unamortized debt expenses	(2,424,661)	(2,360,129)
Total short and long term	**$231,511,338**	**$216,797,009**

The maturity dates of the documented debt are as follows:

		Amount
2021	$	37,406,270
2022		5,096,901
2023		23,091,483
2024		26,793,105
2025		22,820,401
2026		5,094,476
2027		40,413,047
AÑOS POSTERIORES		70,795,655
Total	**$**	**231,511,338**

Debt on long-term productive infrastructure projects (PIDIREGAS, Spanish acronym)

An analysis of the balances and maturities of the PIDIREGAS (direct investment) debt as of December 31, 2020 and 2019 is as follows:

		2020		2019
Short term	$	14,325,231	$	14,159,869
Long term				
2021		-		743
2022		239,072		719,852
2023		13,905		41,128
2024		1,649,816		2,166,266
2025		242,664		435,972
Subsequent years		115,566,575		118,542,555
Total long-term		117,712,032		121,906,516
Total	**$**	**132,037,263**	**$**	**136,066,385**

Direct investment (PIDIREGAS):

As of December 31, 2020 and 2019, the debt for the acquisition of plants, facilities and equipment through PIDIREGAS was recognized in accordance with International Financial Reporting Standards, an analysis is as follows:

		Term of the agreement	Balance as of December 31, 2020 (thousands of units)				Balance as of December 31, 2019 (thousands of units)			
			Local currency		Foreign currency		Local currency		Foreign currency	
			Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
Foreign debt										
-	million dollars	2020	$ -	-	-	-	$ 257,249	-	13,651	-
27	million dollars	2026	90,273	451,366	4,525	22,626	85,279	511,677	4,525	27,152
239	million dollars	2029	544,862	4,213,099	27,313	211,197	514,722	4,494,765	27,313	238,510
311	million dollars	2032	1,201,715	5,005,586	60,240	250,923	1,135,240	5,863,933	60,240	311,163
736	million dollars	2036	876,773	13,804,242	43,951	691,987	828,273	13,868,907	43,951	735,938
51	million dollars	2039	-	1,023,069	-	51,285	-	966,476	-	51,285
593	million dollars	2047	992,572	10,835,038	49,756	543,145	937,666	11,173,343	49,756	592,901
1,142	million dollars	2048	913,290	21,858,792	45,783	1,095,750	1,010,912	24,246,530	53,643	1,286,616
757	million dollars	2049	579,097	14,513,291	29,030	727,531	301,670	8,702,624	16,008	461,795
Total foreign debt			**$ 5,198,582**	**71,704,483**	**260,598**	**3,594,444**	**$ 5,071,011**	**69,828,255**	**269,087**	**3,705,360**
Domestic debt										
-	million pesos	2020	$ -	-			$ 23,258	-		
1	million pesos	2021	743	-			1,486	743		
720	million pesos	2022	480,779	239,072			505,897	719,852		
41	million pesos	2023	27,223	13,905			27,223	41,128		
2,200	million pesos	2024	549,939	1,649,816			541,567	2,166,266		
436	million pesos	2025	193,308	242,664			193,308	435,972		
19,211	million pesos	2026	3,437,984	15,772,852			3,683,640	19,210,836		
-	million pesos	2027	-	-			-	-		
4,349	million pesos	2028	517,349	3,832,040			413,028	3,487,726		
14,472	million pesos	2033	1,421,770	13,049,999			1,340,813	14,038,817		
1,339	million pesos	2036	83,664	1,254,966			83,664	1,338,630		
10,629	million pesos	2042	686,054	9,943,414			681,880	10,629,470		
Total domestic debt			$ 7,398,813	45,998,728			$ 7,495,764	52,069,440		
Interest payable			1,727,836	-			1,593,094	-		
CEBURES			-	8,821			-	8,821		
Total PIDIREGAS debt			**$ 14,325,231**	**117,712,032**			**$ 14,159,869**	**121,906,516**		

a. As of December 31, 2020, and 2019, minimum payment commitments on PIDIREGAS are as follows:

	2020	2019
PIDIREGAS	$ 187,346,203	$ 200,239,308
less:		
Unaccrued interest	57,045,596	65,774,757
Present value of obligations	130,300,607	134,464,551
less:		
Current portion of obligations	12,597,396	12,566,856
Long-term portion of PIDIREGAS	117,703,211	121,897,695
CEBURES	8,821	8,821
Total CEBURES and PIDIREGAS	**$ 117,712,032**	**$ 121,906,516**

Bank Loan

As of December 31, 2019, CFE Internacional LLC has bank loans with third parties for $565,356.

In September 2019, CFE International LLC obtained a short-term loan of USD 100 million from Credit Agricole-CIB NY Branch, which CFE International LLC received in two drawdowns, as follows: the first drawdown of USD 30 million payable in 90 days, with a maturity date of December 2, 2019 and interest equal to the LIBOR rate of 2.12413% plus a spread of 0.90%, resulting in a total rate of 3.02413%; and the second drawdown of USD 70 million payable in 91 days, with a maturity date of December 23, 2019 and interest equal to the LIBOR rate of 2.15888% plus a spread of .90%, resulting in a total rate of 3.05888%. For the first drawdown of USD 30 million, CFE International LLC requested an extension in the maturity to an additional 91 days, with the new maturity date being March 2, 2020.

13. Lease Liabilities

Lease liabilities as of December 31, 2020 and 2019 are, as follows:

	2020	2019
January 1st	$ 567,913,231	$ 456,445,996
Additions	23,494,256	151,674,080
Interest	29,805,178	23,889,828
Payments	(46,105,694)	(40,455,722)
Effect from translation	5,242,751	(4,032,854)
Exchange difference	28,405,419	(19,608,097)
Total liabilities	608,755,141	567,913,231
Less portion of short-term liabilities	20,669,039	11,074,905
Total long-term liabilities	$ **588,086,102**	$ **556,838,326**

Lease payments as of December 31, 2020 and 2019 are, as follows:

	2020	2019
Less than one year	$ 20,669,039	$ 11,074,904
More than 1 year and less than 3 years	25,670,320	8,682,410
More than 3 years and less than 5 years	28,050,449	21,774,620
More than 5 years	534,365,333	526,401,522
Total lease liabilities (undiscounted)	**$ 608,755,141**	**$ 567,933,456**

14. Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities as of December 31, 2020 and 2019 is, as follows:

	2020	2019
Suppliers and contractors	$ 36,324,045	$ 37,808,697
Employees	5,163,190	5,054,394
Deposits from users and contractors	30,698,012	28,945,790
Other taxes and duties	3,317,693	2,273,976
Other liabilities	8,090,670	2,965,536
Value added tax	7,782,636	9,126,331
Total	$ **91,376,246**	$ **86,174,724**

15. Other Long-term Liabilities

An analysis of other long-term liabilities as of December 31, 2020 and 2019 is as follows:

	2020	2019
Third-party contributions	$ 9,305,198	$ 7,162,731
Decommissioning provision (a)	14,464,691	14,090,661
Other provisions	1,838,445	1,803,806
Total	$ **25,608,334**	**$ 23,057,198**

(a) Decommissioning provision

	Opening balance	Increase	Reversals	Ending balance
2020	14,090,661	1,165,364	791,334	14,464,691
2019	13,744,939	345,722	-	14,090,661

As of December 31, 2020 and 2019, other long-term liabilities include decommissioning provisions, which are required to demonstrate the availability of resources for the Company to decommission radioactive elements in accordance with the Nuclear Regulatory Commission (NRC) Standard. Decommissioning provisions are measured at present value using a discount rate of 3% and they also cover likely losses arising from the Company's obligations related to environmental remediation.

16. Employee Benefits

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

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

With review of the terms of the Collective Labor Agreement for the 2020-2022 biennium, some modifications made in 2016 were reversed, the main modifications were that workers are restored the years to access their retirement right. From the signing of this revision for the collective bargaining agreement and within a period not exceeding 180 days, the CFE will issue a document regulation for trusted personnel; this meant a recognition in the cost of the obligation for the exercise for $80,021,095.

a. The economic assumptions in nominal and real terms used in the years ended December 31, 2020 and 2019, are as follows:

	2020	2019
Discount rate	7.25%	7.25%
Expected return rate on plan assets	7.25%	7.25%
Salary increase rate	4.02%	4.02%

b. An analysis of the net period cost for the three years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Service cost	$ 9,390,210	$ 8,333,222
Interest cost	44,633,283	45,156,842
Interest on the Plan Assets	(15,283,561)	(17,589,870)
Modifications to the plan	80,821,095	-
Recognition of past service	1,228,987	-
Net period cost	**$ 120,790,014**	**$ 35,900,194**

The net actuarial gains or losses derive from changes in the assumptions used by the actuary to calculate the labor liabilities, as a result of the increase in the average wage rate and the increase in pensions. The net gains and losses recognized in the years ended December 31, 2020 and 2019 are disclosed in paragraph d.

The amount included as a liability in the Statement of Financial Position for each of the years ended December 31, 2020 and 2019 with respect to the Company's liability for its defined benefit plan is as follows.

	2020	2019
Defined benefit obligation	$ 715,108,843	$ 637,678,666
Fair value of the plan assets and promissory notes issued by the Ministry of Finance and Public Credit (SHCP, Spanish acronym).	227,783,947	210,818,107
Net projected obligation	**$ 487,324,896**	**$ 426,860,559**

c. A reconciliation from the opening to the ending balances for the present value of the defined benefits obligation for the three years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Opening balance (nominal amount)	$ 637,678,666	$ 522,841,964
Current service cost	9,390,210	7,168,244
Interest cost	44,633,283	45,156,842
Past service cost	1,128,987	1,164,978
Actuarial gain (loss)	(14,351,459)	101,586,568
Benefits paid	(44,191,939)	(40,239,930)
Recognition for plan modifications	80,821,095	-
Defined benefit obligation	$ **715,108,843**	$ **637,678,666**

d. A reconciliation from the opening to the ending balances for the fair value of the plan assets for the three years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Opening balance (nominal amount)	$ 210,818,107	$ 195,389,375
Return on plan assets	1,681,526	53,625
Expected returns	15,284,313	17,589,870
Remeasurement of losses on the return on plan assets	-	(2,214,763)
	$ 227,783,947	**$ 210,818,107**

Trust to manage the Pension and Retirement Reserve funds**.**

On October 31, 2020, CFE received from the Ministry of Finance and Public Credit the third promissory note of $2,261,539, which generated returns of $525,255 and on October 31, 2019, CFE received from the Ministry of Finance and Public Credit the first promissory note of $1,445,977, which generated returns of $251,464.

CFE created the Scotiabank Inverlat S.A. FID 11040961 Trust that manages the Pension and Retirement Reserve funds. As of December 31, 2020 and 2019 the trust balance amounts to $12,649,422 and $9,633,597, respectively.

e. Sensitivity analysis

In order to carry out the sensitivity analysis, the Company considered a +/- .5 points change in the discount, as such, the scenarios considered took into account the following financial assumptions:

Concept	Scenario: Lower discount rate	Base	Higher discount rate
Long-term inflation	3.5% annual	3.5% annual	3.5% annual
Discount rate	6.75% annual	7.25% annual	7.75% annual
Salary increase rate	4.2% annual	4.2% annual	4.2% annual
Minimum wage increase rate	3.5% annual	3.5% annual	3.5% annual

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

Defined Benefit Obligation	Scenario: Lower discount rate	Base	Higher discount rate
Seniority premium	$ 34,935	$ 33,634	$ 32,420
Severance pay and compensations	3,161	3,063	2,971
Pensions and retirements	710,817	673,981	640,282
Seniority bonus	4,096	3,956	3,824
Total	**$ 753,009**	**$ 714,634**	**$ 679,496**

The percentage differences on the liabilities determined in the two additional scenarios, with respect to the base scenario, are shown in the following tables:

Concept	Scenario: Base	Lower discount rate	Variance
Seniority premium	$ 33,634	$ 34,935	3.87%
Severance pay and compensations	3,063	3,161	3.21%
Pensions and retirements	673,981	710,817	5.47%
Seniority bonus	3,956	4,096	3.55%
Total	**$ 714,634**	**$ 753,009**	**5.37%**

Concept	Scenario: Base	Higher discount rate	Variance
Seniority premium	$ 33,634	$ 32,420	-7.20%
Severance pay and compensations	3,063	2,971	-3.02%
Pensions and retirements	673,981	640,282	-5.00%
Seniority bonus	3,956	3,824	-3.33%
Total	**$ 714,634**	**$ 679,496**	**-4.92%**

17. Income Tax

An analysis of the income tax (benefit) expense recognized in the years ended December 31, 2020 and 2019 is as follows.

		2020		2019
Current income tax	$	10,492,705	$	7,023,817
Deferred income tax		1,953,521		20,003,514
Income tax	**$**	**12,446,226**	**$**	**27,027,331**

The deferred tax related to items recognized in comprehensive income in the years ended December 31, 2020 and 2019 is as follows:

		2020		2019
Labor obligations	**$**	**788,598**	**$**	**(16,982,786)**

An analysis of deferred taxes recognized in the statement of financial position as of December 31, 2020 and 2019 is as follows:

		2020		2019
Deferred tax assets				
Labor obligations	$	103,063,438	$	127,829,407
Provisions		1,221,179		2,273,086
Tax losses from prior years		14,946,890		2,138,573
Allowance for doubtful accounts		319,633		272,545
Decommissioning provision		2,776,851		2,661,800
Customer advances		2,776,225		316,681
Allowance for obsolete inventories		1,025,192		967,953
Lease liabilities		21,335,316		22,187,945
Benefit for the deduction of intangible assets for tax purposes		83,255,812		85,309,299
Other		274,737		122,652
Deferred revenue		125,348		139,859
Total deferred tax assets on the page below	$	**231,120,621**	$	**244,219,800**
Deferred tax liabilities				
Fixed asset liabilities	$	66,554,004	$	76,269,472
Accounts receivable		-		451,905
Deposits and advances		115,085		304,772
Total deferred tax liabilities		**66,669,089**		**77,026,149**
Activo por impuestos diferidos, neto	**$**	**164,451,532**	**$**	**167,193,651**

Changes in the deferred tax amounts for the years ended December 31, 2020 and 2019 are as follows:

		2020		2019
Balance at beginning of year	$	167,193,651	$	171,333,172
Deferred tax benefit		(2,742,119)		(4,139,521)
Balance at end of year	$	**164,451,532**	$	**167,193,651**

An analysis of the items that comprise unrecognized deferred tax assets is shown on the following page:

		2020		2019
Labor obligations	$	38,460,654	$	50,704,309
Provisions		6,357,887		4,547,624
Losses from prior years		88,765,860		69,107,330
Allowance for doubtful accounts		9,317,218		8,053,473
Decommissioning provision		1,140,748		1,083,884
Deposits		2,387,289		1,454,868
Customer advances		2,142,976		2,155,999
Allowance for obsolete inventories		48,854		53,986
Fixed assets asset		4,274,953		7,456,142
Deposits and advances		(174,305)		(301,715)
Lease liabilities		(12,114)		(72,240)
Accounts receivable		(845,957)		(2,696,811)
Other		(1,553,977)		(1,670,593)
Total deferred tax assets	$	**150,310,086**	$	**139,876,256**

As of December 31, 2020 the available tax loss carryforward expire as follows:

Year	Amount	Deferred tax asset
2030	$ 51,166,335	$ 15,349,900
2029	37,735,881	11,320,764
2028	99,367,424	29,810,227
2027	107,616,561	32,284,968
	$ 295,886,201	**$ 88,765,860**

Reconciliation of the effective tax rate

		2020		2019
Income (loss) before income tax	$	(73,550,142)	$	52,704,577
Expected expense (benefit)		(22,065,041)		15,811,373
Annual inflation adjustment		11,991,417		5,321,131
Non-deductible expenses		6,471,358		3,085,760
Subsidy income		(21,000,000)		(22,555,740)
Elimination of deferred tax assets		27,502,618		25,190,136
Other		9,545,875		174,671
Total	$	**12,446,226**	$	**27,027,331**

18. Other comprehensive income

Other comprehensive income as of December 31, 2020 and 2019 is as follows:

		Revaluation of plants, facilities and equipment		Remeasurements of net defined benefit obligation		Recognition of the assumption by the Federal Government of CFE's benefits and retirement obligations.		Cash flow hedges		Effect of translation into the functional currency		Deferred income tax from comprehensive income		Total other comprehensive income (loss)
Balance as at December 31, 2018	$	361,508,386	$	(84,187,455)	$	161,080,204	$	7,299,131	$	(120,326)	$	20,505,785	$	466,085,725
Comprehensive income (loss) for the period		27,466,275		(103,819,133)		-		(6,685,744)		-		16,982,786		(66,055,816)
Balance as at December 31, 2019		388,974,661	$	(188,006,588)	$	161,080,204	$	613,387	$	(120,326)	$	37,488,571	$	400,029,909
Recycling of other comprehensive income		(32,717,341)												(32,717,341)
Comprehensive income (loss) for the period				16,607,968		-		6,690,220		-		(788,595)		22,509,593
Balance as at December 31, 2020	$	**356,257,320**	$	**(171,398,620)**	$	**161,080,204**	$	**7,303,607**	$	**(120,326)**	$	**36,699,976**	$	**389,822,161**

19. Foreign Currency Position

As of December 31, 2020 and 2019, CFE had the following foreign currency denominated assets and liabilities:

	2020					
	Assets	Liabilities				
	Cash and cash equivalents	Suppliers	Domestic debt	Foreign Debt	Capital lease and Pidiregas	Foreign currency short position
U.S. dollars	154,989	(608)	-	7,096,134	8,968,866	15,909,403
Euros	-	-	-	309	-	309

	2019					
	Assets	**Liabilities**				
	Cash and cash equivalents	**Suppliers**	**Domestic debt**	**Foreign Debt**	**Capital lease and Pidiregas**	**Foreign currency short position**
U.S. dollars	78,315	350,467	-	6,014,892	9,432,479	15,719,523
Euros	-	-	-	626	-	626
Japanese yens	-	-	-	759,720	-	759,720
Swiss francs	-	-	-	1,746	-	1,746

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

Note: The PIDIREGAS debt in dollars includes 5,766,703 dollars of the financial lease debt with External Producers (as per IFRS).

These foreign currency denominated assets and liabilities were translated to local currency at the exchange rate published in the Official Gazette by Banco de Mexico as of December 31, 2020 and 2019, as shown below:

Currency	**2020**	**2019**
U.S. dollar	22.4573	18.8452
Japanese yen	0.2098	0.1736
Swiss francs	24.1013	19.4791
Euro	25.9691	21.1750

20. Transactions with PEMEX

As of December 2018, Mr. Manuel Bartlett Diaz, CEO of CFE, was appointed member of the Board of Directors of Petróleos Mexicanos.

As of December 31, 2020 and 2019, CFE through its affiliated entity CFEnergía, S.A. de C.V. carried out transactions with Pemex for the acquisition of fuel in the following amounts:

	2020	**2019**
Revenue		
Pemex Transformación Industrial	$ 312,427	$ 4,100,100
P.M.I. Trading Designated Activity Company	-	60,068
Pemex Fertilizantes	893,945	158,371
Pemex Corporativo	84,277	-
Pemex Explotación y Producción	255,381	-
Pemex Logistica	212,755	-
Purchases		
Pemex Transformación Industrial	$ 14,823,950	$ 38,548,183
PMI Trading México	35,081	957,928
P.M.I. Trading Designated Activity Company	341,482	5,662,164

		2020		2019
Account receivable				
Pemex Transformación Industrial	$	313,453	$	1,190,052
P.M.I. Trading Designated Activity Company		72,345		68,343
Pemex Fertilizantes		447,403		183,710
Pemex Corporativo		24,421		-
Pemex Explotación y Producción		255,381		-
Pemex Logistica		212,755		-
Account payable				
Pemex Transformación Industrial	$	2,146,913	$	2,184,472

Benefits paid to CFE's main officers in the fiscal years ended December 31, 2020 and 2019, amounted to approximately $124,752 and $138,915, respectively.

21. Contingencies and Commitments

Contingencies

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

Commitments

a. Natural gas supply contracts

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

b. Financed public work contracts

As of December 31, 2020, CFE has entered into several financed public work contracts and the payment commitments will begin on the dates on which the private investors complete the construction of each of the investment projects and deliver the related assets to CFE for their operation. The estimated amounts of the financed public work contracts and the estimated dates of construction completion and start up of operations are shown in the table below:

Transmission lines and substations:

Capacity		Estimated amount of the contract expressed in millions of:	
Kmc	**MVA**	**Dollars**	**Pesos**
226.89	1,402.51	163.32	3,258.1

Generation:

MVA capacity	Estimated amount of the contract expressed in millions of:	
	Dollars	Pesos
1,528.63	1,463.23	29,189.50

Renovation and/or modernization

Estimated amount of the contract expressed in millions of:	
Dollars	Pesos
380.0	7,580.3

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

c. <u>Trust</u>

Infrastructure investment trust

On February 7, 2018, CFE placed an issue for the first Energy and Infrastructure Investment Trust or Fibra E, (Fiduciary Stock Certificates [CBFEs] for investment in energy and infrastructure) through the Mexican Stock Exchange. The total placement was for a total amount of $16,388 million pesos and it is the first Fibra E in which domestic and foreign investors participated, highlighting the participation of institutional investors, private banks and investment funds from Mexico, United States, Canada, Australia and Europe.

The Fibra E structure is comprised of the Irrevocable Trust of Administration and Source of Payment No. 80757 (hereinafter the Promoted Trust), the Irrevocable Trust of Issuance of Stock Certificates CIB/2919 (hereinafter Fibra E) and CFE Capital.

A detailed description of the activities of each of these Trusts and CFE Capital Trusts is as follows:

Promoted Trust

The irrevocable Trust of Administration and Source of Payment No. 80757 was incorporated on January 22, 2018 to acquire the collection rights derived from the Agreement for the Technical and Commercial Operation of Electricity Transmission entered into with the National Energy Control Center (CENACE, Spanish acronym) on March 28, 2016

As part of the structure of the Promoted Trust, CFE Transmisión irrevocably ceded and transferred to the Promoted Trust the collection rights pursuant to the Contract entered into with CENACE for a period of 30 years; in exchange for these rights, the Promoted Trust issued full ownership of the trustee rights to CFE Transmisión. Subsequently, through funding provided by the issuance of Fibra E in the market, Fibra E purchased up to 6.78% of the instruments in exchange for $15,454,653 in cash, net of issuance costs totaling $756,060, and securities totaling $5,403,571 ceded to CFE Transmisión, equal to 25% of the total number of shares issued by Fibra E.

The main activities of the Promoted Trust include:

1. Receiving, managing, and maintaining the contributed collection rights;
2. Opening, managing, and maintaining fiduciary bank accounts;
3. Making the transfers and payments established in the trust agreement;
4. Evaluating any reimbursements of unbudgeted expenditures requested by CFE Transmisión;
5. Receiving payments made against the collection rights and any other rights derived from the agreement with CENACE;
6. Exercising any other rights arising from the agreement with CENACE;
7. Complying with the instructions provided by the Trustor, the Technical Committee, or the beneficiaries to the extent that they are authorized to do so in accordance with the terms of the trust agreement.

<u>Issuing Trust (Fibra E)</u>

The Fibra E trust entered into by CI Banco, S. A., Institución de Banca Múltiple, Monex Casa de Bolsa, S.A. de C.V. and Monex Grupo Financiero (FIBRA E) was created on January 22, 2018, as a trust for the issuance of Fiduciary Stock Certificates (CBFEs).

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

1. Investing in assets and projects related to Generation, Transmission and Distribution of Electricity, and Infrastructure Projects.
2. Investing in or performing any other activity provided for in the FIBRA E tax regulations, as well as in Rule 3.21.3.9. of the Miscellaneous Tax Resolutions or any other tax law that replaces such.

The initial asset of the Trust consists of Beneficiary Rights that have an economic ownership interest in the Promoted Trust.

<u>CFE Capital</u>

The primary purpose of this entity is to manage all types of trusts and their property, including the Fibra E and the Promoted energy and infrastructure investment trusts created in conformity with current tax legislation, including but not limited to, all the activities and acts deemed necessary or suitable for such purpose, and to provide all types of administration, operation, development and regulatory compliance services.

1 Scope of action

1.1. CFE currently participates as Trustor or Beneficiary in 10 (ten) Trust Funds, of which two (two) are in the process of termination.

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

a. Energy saving
b. Prior expenses
c. Work contract management
d. Indirect participation trust funds

a. Energy saving

Trust funds to promote energy saving programs.

Trust fund	Role of CFE		
	Trustor	**Trustee**	**Trust Beneficiary**
Trust fund for Energy Savings (FIDE), created on August 14, 1990	Creation of the Trust: Confederación de Cámaras Industriales (CONCAMIN), Cámara Nacional de la Industria de Transformación (CANACINTRA), Cámara Nacional de Manufacturas Eléctricas (CANAME), Cámara Nacional de la Industria de la Construcción (CNIC), Cámara Nacional de Empresas de Consultoría (CNEC) and Sindicato Único de Trabajadores Electricistas de la República (SUTERM)	Nacional Financiera, S.N.C.	**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 of December 31, 2020 and 2019, the Housing Thermal Isolation Program (FIPATERM) Trust has assets of $1,698,691 and $1,621,252, and liabilities of $87,886 and $63,241, respectively.

b. Prepaid expenses

Those created for financing and covering expenses prior to the execution of projects which are subsequently recovered and charged to the entity that incurred in such expense to comply with the regulations applicable to the type of project.

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

As of December 31, 2020 and 2019 the Administration of Prior Expenses Trust has assets of $3,475,099 and $3,186,199 and liabilities of $3,145,618 and $3,008,885, respectively.

As of December 31, 2020 and 2019, the Administration and Transfer of Ownership Trust 2030 has assets of $498,360 and $473,795, respectively.

c. Work contract management

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

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

Turnkey Projects.

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

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

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

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

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

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

Building, Leasing and Transferring Projects ("CAT", Spanish acronym)

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

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

The only project under this mode that has settled its financial obligations and is in the process of termination is the CC Samalayuca II project; therefore, it is in the process of being terminated by the Office of the General Counsel.

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

As of December 31, 2020 and 2019, CFE has fixed assets of $21,995,856, corresponding to the total annual costs of the aforementioned trusts.

Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elias Calles

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

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

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

Facility	Fixed charge for capacity for Jan-Dec 2020
Petacalco Coal	$135,252

d. Indirect participation trust funds

Additionally, CFE maintains an indirect relationship since it is not a Trustor, but it participates as a beneficiary in two guarantee and loan payment Trusts, created by Financial Institutions as Trustors and Trust Beneficiaries for the issue of securities linked to credits granted to CFE. CFE is named as Second Beneficiary of the Trust, due to the specific possibility that it may acquire some of the certificates issued and it maintains representation in its Technical Committees in conformity with the contractual provisions (see note 11).

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

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Trust No. 232246 created on November 3, 2006	Banco Nacional de Mexico, S.A., a member entity of Grupo Financiero Banamex	**Primary beneficiary:** Each of the preferred holders of each issue. **Second beneficiary:** CFE	HSBC México, S.A., Grupo Financiero HSBC
Trust No. 411 created on August 6, 2009	Banco Nacional de Mexico, S.A., a member entity of Grupo Financiero Banamex	**Primary beneficiary:** Each of the preferred holders of each issue. **Second beneficiary:** CFE	Banamex

As of December 31, 2020 and 2019, available funds in trust No. 232246 of $8,821.

1 Legal nature

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

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

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

1.2 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

Long-term auctions

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

22. Segment Information

Information regarding the operating segments

The information presented to the Board of Administration to obtain budget and investment approval and measure compliance with the business objectives set out by the Board is consolidated financial information and not for each operating activity of the Company.

Information by type of services

Income		**2020**		**|2019**
Industrial services	$	212,606,996	$	255,962,727
Domestic service		84,392,183		77,105,587
Commercial service		45,991,044		52,384,201
Services		13,571,122		14,850,451
Agricultural service		7,992,844		6,853,704
Total sales		364,554,189		407,156,670
Block for resale		658,700		430,026
Total electricity supply revenue		365,212,889		407,586,696
Other programs				
Consumption in the process of being billed		809,687		3,203,156
Illegal uses		2,489,987		2,506,714
Measurement failure		1,605,795		738,565
Billing error		769,930		1,279,857
Total income obtained from other programs		5,675,399		7,728,292
Total revenue from the sale of electricity	**$**	**370,888,288**	**$**	**415,314,988**

23. Standards issued but not yet effective

The following are recent changes to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which require to be applied after accounting periods starting on January 1, 2021, which they described below:

- Modifications to References to the Conceptual Framework in IFRS Standards

  The objective is to provide the IASB with the complete set of standard setting tools. It covers all aspects of standard setting, from the objective of financial reporting, to presentation and disclosures.

- Definition of Business (Amendments to IFRS 3)

  Criteria are added to the evaluation methodology to help determine whether an asset or a business is being acquired when investments are made.

- Definition of Material (Amendments to IAS 1 and IAS 8)

  The IASB has refined its definition of "material", issued practical guidance on the application of the concept of materiality and issued proposals focused on the application of materiality to disclosure of accounting policies.

- IFRS 17 Insurance Contracts

  IFRS 17 Insurance Contracts establishes a new comprehensive accounting model that provides users of financial information with a completely new perspective on the financial statements of insurers. The Company is evaluating the possible impact of the modifications on its financial statements. So far, no significant impacts are expected. The Company will evaluate the impact that these Financial Standards may have before they come into force.

The following modified standards and interpretations are not expected to have a significant impact on the Company's financial statements.

24. Subsequent Events

Issuance of international bonds

The CFE returned to the international markets under the 144A / RegS format with the issuance of two bonds, the first with a 10-year term for an amount of US $ 1,200,000 at a rate of 3,348%; and the second, for a term of 30 years with an amount of US $ 800,000 and a rate of 4,667%. This made it possible to obtain a better interest rate, as well as the refinancing of its credit financial obligations under preferential conditions.

The issue had the participation of investors from North America, Europe, Asia and Latin America, with a demand of more than five times the amount placed.

Fiscal impact of the new portfolio

Management of CFE is negotiating with the Ministry of Finance and Public Credit (SHCP) an official statement regarding taxation which would prevent taxation on the reorganization of the portfolio of the six generation EPSs published on the Official Gazzette of the Federation on November 29, 2019, as it occurred in the first portfolio assignment since, among other issues, such reorganization seeks in first instance, correcting those organizational decisions that since the Energy Reform functionally affected the productivity of the generation process. As of this date, the company is waiting for the opinion of SHCP.

Energy emergency

As a consequence of the cold front No. 35 with Arctic winds causing low temperatures in the north and northeast of the country, as well as the freezing of pipelines and the closure of natural gas production plants in the state of Texas, USA. recorded a risk of a generation capacity deficit in power plants in Mexico. As a consequence of the freezing of natural gas and electricity generation infrastructure in Texas, it generated that the price of natural gas, such as Waha and Houston Ship Channel (HSC), suffered an initial increase from 4.5 USD / GJ to 11 USD / GJ on February 11 and 12, 2021, two days later there was an increase to 150 USD / GJ.

This emergency represented a significant economic cost for the CFE derived mainly from the acquisition of gas for the generation of electricity from Independent Power Producers' plants and the mitigation of offers in the Wholesale Electricity Market for the participation of CFE plants.

Faced with this emergecy, and in accordance with market rules, CFE's Generation EPS have submitted requests to review bids for the recovery of production costs during this contingency. The foregoing, in accordance with the provisions of the Electricity Industry Law, will allow the recognition of the real costs of gas for the generation of electric power during this period in the calculation of the fares to the final users of CFE.

Reform of the Electricity Industry Law

On March 9, 2021, the Official Gazette of the federation (DOF, spanish acronym) was published, the Decree by which various provisions of the Electricity Industry Law are amended and added, which modifies the priority in the dispatch of generating plants of energy that provides the National Electric System (SEN, spanish acronym), giving priority to Comisión Federal de Electricidad (CFE).

26. Issue of the Consolidated Financial Information

The consolidated financial statements and notes thereto were approved by Management on April 13, 2021. The financial information will be approved by the Board of Directors at a subsequent date. The Board of Directors has the power to amend the accompanying consolidated financial information. Subsequent events were considered through April 13, 2021.