Comisión Federal de Electricidad
Productive State Enterprise

Consolidated financial statements

March 31, 2020 and December 31, 2019

COMISIÓN FEDERAL DE ELECTRICIDAD
Productive State Enterprise and Subsidiaries
Condensed Consolidated Statements of Financial Position
(Thousands of pesos)

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

	March 31, 2020	December 31, 2019
ASSETS		
Current assets	**248,994,027**	**197,545,548**
Cash and cash equivalents	121,611,502	89,339,037
Accounts receivable, net	107,595,998	86,672,574
Inventory of materials for operation, net	19,786,527	21,533,937
Loans to employees	**14,231,412**	**13,777,331**
Plants, facilities and equipment, net	**1,202,416,097**	**1,211,303,643**
Derivative financial instruments	**50,222,326**	**4,064,335**
Intangibles and other assets	**41,094,350**	**38,638,865**
Right-of-use assets, net	**489,042,538**	**474,376,421**
Deferred tax assets	**166,020,017**	**167,193,651**
TOTAL ASSETS	**2,212,020,767**	**2,106,899,794**
LIABILITIES		
Current liabilities	**200,264,016**	**157,333,957**
Short-term debt	55,442,380	53,896,802
Other payables and accrued liabilities	95,072,220	86,174,724
Income tax	5,120,344	6,187,526
Lease liabilities	44,629,072	11,074,905
Non current	**1,473,782,002**	**1,306,288,031**
Long-term debt	363,413,360	299,531,948
Long - term employee benefits	427,058,890	426,860,559
Other long-term liabilities	23,553,764	23,057,198
Lease liabilities	659,755,988	556,838,326
TOTAL LIABILITIES	**1,674,046,018**	**1,463,621,988**
EQUITY	**537,974,749**	**643,277,806**
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	7,291,166	129,091,018
Other comprehensive income	417,066,972	400,029,909
Non-controlling interests	18,606,943	19,147,211
LIABILITIES AND EQUITY	**2,212,020,767**	**2,106,899,794**

COMISIÓN FEDERAL DE ELECTRICIDAD

Productive State Enterprise and Subsidiaries

Condensed consolidated statements of comprehensive income

For the 3-month period ended March 31, 2020 and 2019

(Thousands of pesos)

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

	As of March	
	2020	**2019**
Revenues	**$125,165,171**	**$121,831,702**
Electricity supply service revenue	$92,507,063	$92,231,048
Third party fuel revenue	$4,870,590	$11,577,957
Freight revenue	$1,495,537	$234,989
Subsidy income	$21,000,000	$10,417,160
Other income, net	$5,291,981	$7,370,548
Costs	**$94,582,593**	**$126,191,091**
Energy and other fuel supplies	$41,327,223	$70,694,559
Energy and other fuel supplies third party	$2,620,733	$4,490,702
Salaries and related costs	$17,313,614	$17,001,269
Maintenance, materials and general services	$4,885,951	$6,276,379
Taxes and duties	$678,268	$780,131
Wholesale Electricity Market (MEM) costs	$770,119	$722,166
Employee benefits costs	$9,508,358	$8,683,741
Depreciation	$17,315,463	$17,542,144
Other expenses	$162,864	
OPERATING RESULTS	**$30,582,578**	**($4,359,389)**
Net finance costs	**$151,763,689**	**$5,678,609**
Finance expense, net	$11,573,023	$7,011,520
Interest expense	$6,381,777	$6,590,996
Foreign exchange loss (gain), net	$133,808,889	($7,923,907)
NET INCOME (LOSS) BEFORE INCOME TAX OTHER COMPREHENSIVE INCOME	**($121,181,111)**	**($10,037,998)**
Income tax	**$618,214**	**$2,671,661**
NET INCOME (LOSS)	**($121,799,325)**	**($12,709,659)**

Comisión Federal de Electricidad, Productive State Enterprise and Subsidiaries

Condensed Consolidated Statements of Changes in Equity

For the 3-month period ended March 31, 2020 and December 31, 2019

(Thousands of pesos)

These financial statementshave 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	Accumulated results	Other comprehensive income (loss) items	Total equity controlling interests	Total equity non-controlling interest	Total Equity
Balances as of 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	-	-	-	-	-	(905,969)	(905,969)
Dividends	-	-	-	-	-	(2,151,423)	(2,151,423)
Balance as of December 31, 2019	$ 5,251	$ 95,004,417	$ 129,091,018	$ 400,029,909	$ 624,130,595	$ 19,147,211	$ 643,277,806
Comprehensive income of the period	-	-	(121,799,852)	17,037,063	(104,762,789)	527	(104,762,262)
Issue of shares	-	-	-	-	-	(326,602)	(326,602)
Dividend decree	-	-	-	-	-	(214,193)	(214,193)
Balance as of March 31, 2020	**$ 5,251**	**$ 95,004,417**	**$ 7,291,166**	**$ 417,066,972**	**$ 519,367,806**	**$ 18,606,943**	**$ 537,974,749**

Comisión Federal de Electricidad, Productive State Enterprise and Subsidiaries

For the 3-month period ended March 31, 2020 and 2019

Condensed Consolidated Statements of Cash Flows

(Thousands of pesos)

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

		March 31 2020		March 31 2019
Cash flows from operating activities:				
Net loss	$	(121,799,325)	$	(12,709,659)
Operating activities:				
Employee benefits costs		198,331		8,683,741
Increase in provisions of deferred and current income tax		618,214		2,671,661
Investing activities:				
Depreciation and right-of-use assets		17,315,463		17,542,144
Disposal of plants, facilities and equipment		1,812,001		2,353,034
Foreign exchange loss, interest expense and changes in financial derivative instruments fair value		151,403,244		9,734,453
Changes in operating assets and liabilities:				
Accounts receivable and loans to employees		(3,952,206)		(2,234,219)
Inventory of materials for operation		1,747,410		(1,746,483)
Other assets		(2,455,485)		(5,332,224)
Other payables and accrued liabilities		(8,542,998)		(12,736,317)
Payments to employees benefits		-		(6,424,525)
Net cash flows from operating activities		36,344,649		(198,394)
Cash flows from Investing activities		(4,869,783)		(6,123,681)
Cash flows from financing activities:				
Proceeds from debt		23,816,939		(8,154,907)
Non-controllingf interest contribution Fibra E		(326,603)		-
Dividends paid		(214,193)		-
Payment of debt		(5,332,198)		(3,494,987)
Interest paid		(8,152,552)		(7,011,520)
Payment of lease obligations		(6,908,600)		(6,276,379)
Payment of financial instruments		(2,085,193)		(2,065,197)
Net cash from financing activities		797,600		(27,002,990)
Cash excess of financial activities		32,272,466		(33,325,065)
Cash and cash equivalents:				
At beginning of period		89,339,037		78,483,263
At end of period	$	121,611,503	$	45,158,198

1. Incorporation, Business Purpose and Relevant Events

- ### Incorporation and business purpose

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

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

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

- ### Relevant Events

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 well as the proposal related to the Laguna Verde Power Plant and Mobile Emergency Units, were submitted for consideration.

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

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

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

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

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

- To maintain in the Company the business unit that includes the Laguna Verde Power Plant that participates in the Wholesale Electricity Market (MEM).

- The existence of Legacy Contracts with CFE Suministrador de Servicios Básicos (SSB).

As part of the asset reorganization, the Company conducted a study to determine the fair value of the plants that were involved in the reorganization. This analysis resulted in an impairment charge of $57,016,640 and an unrealized gain on revaluation of power plants of $84,480,710. These amounts were recognized in other comprehensive income.

CFE Telecomunicaciones e internet para todos

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

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

2. Basis of preparation of the condensed consolidated financial statements

a) Basis of accounting

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

b) Basis of preparation

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

c) Functional currency and presentation of financial statements

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

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

d) Unaudited condensed consolidated statements of comprehensive income

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

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

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

a) 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.

b) Financial instruments

i) Initial recognition and measurement

Accounts receivable and debt instruments issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is an account receivable without a significant financing component) or financial liability is initially measured at fair value plus, 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

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

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

The Company measures financial assets at amortized cost if it meets both of the following conditions:

1. The 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.

iii) Derivative financial instruments and hedge accounting

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

The policies include formal documentation of all the transactions between the hedging instrument and the hedged item, the risk management 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 is carried out at least on a quarterly basis. When it is determined that a derivative is not highly effective as a hedge, the Company discontinues hedge accounting prospectively.

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

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

c) Plants, facilities and equipment

i) Recognition and measurement

Plants, facilities and equipment are initially measured at cost.

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

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

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

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

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

ii) Depreciation

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

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

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

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

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

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

In fiscal year 2019, the Company conducted a fair value analysis of its assets. This test yielded an impairment charge, a reversal of previously recognized impairment, and an unrealized gain on revaluation of the plants, resulting in a net gain of $27,466,275, which was determined as at December 31, 2019.

iii. Property and assets for offices and general services.

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

	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.

d) Leases

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

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

i. As a lessee

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

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

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

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

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

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

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

– fixed payments, including in-substance fixed payments;

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

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

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

e) 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.

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

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

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

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

4. Financial Instruments – Fair value and risk management

Fair values

Set out below are the carrying amounts and fair values of financial instruments recognized for the three-month period ended as at March 31, 2020 and as at December 31, 2019:

	2020	2019
Financial assets		
Cash and cash equivalents (2)	$ 121,611,502	$ 89,339,037
Accounts receivable (2)	107,595,998	104,097,873
Loans to workers (2)	14,231,412	13,777,331
Derivative financial instruments (1)	50,222,326	4,064,335
Financial liabilities		
Short-term debt (2)	$ 55,442,380	$ 53,896,802
Long-term debt (2)	363,413,360	299,531,948
Short-term lease liability (1)	44,629,072	11,074,905
Long-term lease liability (1)	659,755,988	556,838,326
Suppliers and contractors (2)	36,675,289	30,808,697
Deposits from customers and contractors (2)	29,647,361	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.

Liquidity risk

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

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

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

The following table provides information about the contractual maturities of the Company's financial liabilities based on the payment terms and projected interest payments:

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

As at March 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	$ 39,708,725	$ 29,887,825	$ 53,513,133	$ 121,807,908	$ 244,917,591
PIDIREGAS debt	14,324,099	27,662,204	24,893,519	107,058,326	173,938,148
Lease liabilities	44,629,072	24,426,047	28,785,703	606,544,239	704,385,061
Suppliers and contractors	36,675,289	-	-	-	36,675,289
Other liabilities	30,843,399	-	-	-	30,843,399
Total	$ 166,180,584	$ 81,976,076	$ 107,192,355	$ 835,410,473	$ 1,190,759,488
Interest payable on documented debt	13,225,990	20,792,602	17,173,608	57,324,644	108,516,844
Interest payable on PIDIREGAS debt	9,778,251	16,798,019	13,353,110	46,161,888	86,091,268
Interest payable on lease liabilities	19,441,102	37,691,637	35,873,538	208,923,875	301,930,152

As at December 31, 2019	Less than one year	More than 1 year and less than 3 years	More than 3 years and less than 5 years	More than 5 years	Total
Documented debt	$ 39,171,577	$ 24,962,181	$ 44,681,062	$ 107,982,189	$ 216,797,009
PIDIREGAS debt	14,159,869	23,470,069	21,767,411	76,669,036	136,066,385
Lease liabilities	11,074,904	8,682,410	21,774,620	526,381,297	567,913,231
Suppliers and contractors	30,808,697	-	-	-	30,808,697
Other liabilities	28,682,716	-	-	-	28,682,716
Total	$ 123,897,763	57,114,660	88,223,093	711,032,522	980,268,038
Interest payable on documented debt	12,559,195	18,535,377	16,046,256	49,584,844	96,725,672
Interest payable on PIDIREGAS debt	8,234,010	13,881,007	10,880,563	32,779,177	65,774,757
Interest payable on lease liabilities	18,507,917	18,223,575	35,147,849	210,624,872	282,504,213

Market risk

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

Foreign currency exchange risk management

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

	Total debt as at March 31, 2020 (amounts in millions of pesos)	**Total debt as at December 31, 2019 (amounts in millions of pesos)**
Local currency	162,087	162,662
Foreign currency	254,516	188,430

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

Fair value of financial instruments

Measurement of fair values

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

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

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

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

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

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 mentioned below:

Valuation techniques and assumptions used in determining fair value

	2020		2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	$ 121,611,502	$ 121,611,502	$ 89,339,037	$ 89,339,037
Accounts receivable	107,595,998	107,595,998	104,097,873	104,097,873
Loans to workers	14,231,412	14,231,412	13,777,331	$ 13,777,331
Suppliers and contractors	34,776,956	34,776,956	37,808,897	37,808,897
Lease liabilities	704,385,060	704,385,060	567,913,231	567,913,231
Documented debt	244,917,591	244,678,975	216,797,009	240,066,531
PIDIREGAS debt	$ 173,938,149	$ 204,490,867	$ 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 that the counterparty provide a new valuation.

Valuations at fair value recognized in the statement of financial position

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

		Level 1	
		2020	**2019**
Available-for-sale financial assets			
Temporary investments	$	35,356,123	21,280,686

An analysis of the fair value of the derivative financial assets grouped into level 1, based on the degree to which the inputs to estimate their fair value are observable, is included in Note 10.

The levels referred to above are considered as follows:

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

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

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

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

5. Cash and cash equivalents

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

		2020		2019
Cash on hand and cash in banks	$	86,246,558	$	68,049,530
Short-term investments		35,356,123		21,280,686
Stock certificates		8,821		8,821
Total	$	121,611,502	$	89,339,037

6. Accounts receivable, net

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

		2020		2019
Public consumers (*)	$	54,752,643	$	52,546,042
Government agency consumers (*)		24,004,341		24,118,163
		78,756,984		76,664,205
Impairment of receivables		(28,419,425)		(27,328,830)
		50,337,559		49,335,375
Other accounts receivable		29,141,488		28,690,189
Value added tax		28,116,951		26,072,309
Total	**$**	**107,595,998**	**$**	**104,097,873**

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

An analysis of balances and changes in the impairment of receivables as at March 31, 2020 and December 31, 2019 is as follows:

		2020		2019
Opening balance	$	(27,328,830)	$	(28,446,893)
Increase		(1,888,268)		(361,980)
Charges		797,673		1,480,043
Ending balance	$	(28,419,425)	$	(27,328,830)

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

7. Inventory of materials for operation

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

	2020	**2019**
Spare parts and equipment	$ 3,097,108	$ 2,797,498
Fuel and lubricants	16,223,619	19,140,583
Nuclear fuel	3,721,940	3,969,405
	23,042,667	25,907,486
Allowance for obsolescence	(3,256,140)	(4,373,549)
Total	$ 19,786,527	$ 21,533,937

8. Plants, facilities and equipment, net

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

	Plants, facilities and equipment, net					
	December 31, 2019	**Additions**	**Retirements**	**Depreciation for the period**	**Impairment of assets**	**March 31, 2020**
Plants, facilities and equipment	2,146,097,218	$ 4,869,783	$ (594,610)	$ -	$ -	$ 2,150,372,391
Capitalized spare parts	7,451,766	-	(130,769)	-	-	7,320,997
Construction in progress	26,130,582	-	(213,243)	-	-	25,917,339
Advances and materials for construction	11,310,744	-	(905,593)	- -	-	10,405,151
Subtotal	2,190,990,310	4,869,783	(1,844,215)	-	-	2,194,015,878
Accumulated depreciation	-896,064,974		32,214	(11,945,328)	-	-907,978,088
Impairment	-83,621,693	-		-	-	-83,621,693
Total	1,211,303,643	$ 4,869,783	$ (1,812,001)	$ $(11,945,328)	$ -	$ 1,202,416,097

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

	Plants, facilities and equipment, net							
	December 2018	**Additions**	**Retirements**	**Depreciation for the period**	**Revaluation**	**Impairment**	**Capitalization**	**December 2019**
Plants, facilities and equipment in operation	$ 2,012,933,547	$ 48,858,544	$ -8,968,366	$	$ 84,480,718	$	$ 8,792,775	$ 2,146,097,218
Capitalized spare parts	7,306,913	144,853						7,451,766
Construction in progress	32,189,380						-6,058,798	26,130,582
Advances and materials for construction	14,044,721						-2,733,977	11,310,744
Subtotal	2,066,474,561	49,003,397	-8,968,366	0	84,480,718	0	0	2,190,990,310
Accumulated depreciation	-853,277,053		2,647,252	-45,435,173				-896,064,974
Impairment	-26,607,250					-57,014,443		-83,621,693
Total	$ 1,186,590,258	$ 49,003,397	$ -6,321,114	$ -45,435,173	$ 84,480,718	$ -57,014,443	$ 0	$ 1,211,303,643

As at December 31, 2019, the results of the analysis of the fair value of assets are shown below:

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

In fiscal year 2019, the Company conducted a fair value analysis of its assets. This test yielded an impairment charge, a reversal of previously recognized impairment, and an unrealized gain on revaluation of the plants, resulting in a net gain of $27,466,275.

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

As at December 31, 2019, CFE recognized impairment losses of $57,014,443, which were reduced from the revaluation surplus.

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

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

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

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

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

Plant:	**2020**	**2019**
Steam	5,380	5,380
Hydroelectric	1,183,167	1,183,167
Nuclear power	256,362	248,696
Turbo gas and combined cycle	11,455,386	11,258,752
Geothermal	176,395	176,395
Transmission lines, networks and substations	10,876,829	11,650,574
Offices and general facilities	1,963,844	1,607,618
Total	**25,917,363**	**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.

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

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 used the present value of the net cash flows that will be generated by the 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 is higher (lower) - The useful life is higher (lower) - The risk-adjusted discount rate is lower (higher)

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

Lease

The net balances of right-of-use assets as at March 31, 2020 and December 31, 2019 are as follows:

	2019	Additions	Depreciation for the year	2020
Real estate	$ 609,464	$ 5,454	$ -	$ 614,918
Infrastructure	135,185,806	-	-	135,185,806
Gas pipelines	440,537,933	20,030,798	-	460,568,731
Subtotal	576,333,203	20,036,252	-	596,369,455
Accumulated depreciation	(101,956,782)	-	(5,370,135)	(107,326,917)
	$ 474,376,421	**$ 20,036,252**	**$ (5,370,135)**	**$ 489,042,538**

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

	2018	Additions	Effect from translation	Depreciation for the year	2019
Real estate	$ 546,838	$ 62,626	$ -	$ -	$ 609,464
Infrastructure	112,010,062	23,175,744	-	-	135,185,806
Gas pipelines	315,882,435	128,452,826	(3,797,328)	-	440,537,933
Subtotal	428,439,335	151,691,196	(3,797,328)	-	576,333,203
Accumulated 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**

10. Intangibles and other assets

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

	2020	2019
Rights of way (1)	$ 31,525,938	$ 29,394,733
Deposits and advances	9,568,412	9,244,132
Total	$ 41,094,350	$ 38,638,865

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

The Company has right-of-way assets, which represents a legal right-of-way for the Company to access and inspect transmission lines by air or underground in order to verify the continued transmission of electricity over the power lines.

11. Derivative financial instruments

a. Accounting classifications and fair values

CFE is exposed to interest rate and foreign currency translation risks which it tries to mitigate through a hedging program that includes using derivative financial instruments. The Company mainly uses foreign exchange “Cross Currency Swaps” and “Forwards” to mitigate its foreign currency risk. To reduce its interest rate risk exposure, the Company uses interest rate swaps.

Also, for the three-month period ended March 31, 2020 and December 31, 2019, the derivative financial instruments have been designated as and qualify mainly as cash flow hedges since they are referenced to the contracted debt. The effective portion of gains or losses on cash flow derivatives is recognized in equity in the "Effects on the fair value of derivatives" line item, and the ineffective portion is charged to profit or loss of the period.

The fair value of the Company's financial instrument position as at March 31, 2020 and December 31, 2019 amounted to $50,222,326 and $4,064,335, respectively.

Derivative Financial Instruments Held for Trading

As at March 31, 2020 and December 31, 2019, CFE had derivatives designated as held for trading whose fair value represented a liability of $1,099,145 and $382,435, respectively.

This transaction consists of a series of currency forwards that allow the Company to lock in a JPY/USD exchange rate of 54.0157 JPY per USD over the established term of the transaction.

As part of this transaction, CFE pays annual interest in U.S. dollars at a rate of 8.42%. These instruments have not been designated as hedges as required by the financial reporting standard, consequently, the valuation effect of these instruments is recognized in financial cost; a gain (loss) in said value offsets a loss (gain) in the underlying liability. In addition to the series of forwards, the derivative instrument includes two options: a long European call option through which CFE has the right to purchase Japanese yens upon maturity in the spot market in case the yen/dollar exchange rate is quoted below 118.75 yens per dollar, and a short European call option through which CFE is required to sell dollars at the yen/dollar exchange rate of 27.80, if the prevailing exchange rate at the settlement date exceeds this level.

On September 20, 2019, the Company refinanced a number of lines of credit with BBVA Bancomer for up to $8.811 billion pesos, including line of credit No. 1200001251, which was refinanced with a 7-year term maturing on September 18, 2026. For this reason, the hedge that CFE acquired through an interest rate swap contracted with the banks Credit Agricole, CitiBanamex, Santander and HSBC were reclassified as held for trading and the effects of the revaluation to market value of the hedges were recognized in profit or loss.

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.

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

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 at March 31, 2020 and December 31, 2019 as follows:

Thousands of pesos

Instrument	Underlying	Maturity	2020	2019
FWD JPY/USD	Exchange rate and interest rate	2036	(1,099,412)	(383,356)
IRS	Interest rate	2020	267	921
		Total	**(1,099,145)**	**(382,435)**

Hedging instruments

As at March 31, 2020 and December 31, 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	March 31, 2020	December 31, 2019
CCS	Exchange rate and interest rate	Cash flow	2021	1100000074 to 76	100%	981,568	285,635
CCS	Exchange rate and interest rate	Cash flow	2022	1100000077 to 79	100%	61,077	46,273
CCS	Exchange rate and interest rate	Cash flow	2023	1100000080	100%	3,610,382	218,468
CCS	Exchange rate and interest rate	Cash flow	2024	1100002956	100%	7,832,485	112,010
CCS	Exchange rate and interest rate	Cash flow	2027	1100003606	100%	8,733,748	378,283
CCS	Exchange rate and interest rate	Cash flow	2032	1200002801	100%	1,249,471	(69,692)
CCS	Exchange rate and interest rate	Cash flow	2036	1200000551 Pidiregas line	100%	4,846,099	2,428,905
CCS	Exchange rate and interest rate	Cash flow	2042	Bond 2042	55.3%	3,954,438	138,159
CCS	Exchange rate and interest rate	Cash flow	2047	Formosa 1 Bond	100%	4,751,167	(620,163)
CCS	Exchange rate and interest rate	Cash flow	2048	Formosa 2 Bond	100%	6,155,701	(576,661)
Participating Swap	Exchange rate and interest rate	Cash flow	2027	Bond 2027	100%	191,213	(101,611)
CCS	Exchange rate and interest rate	CCS	2045	Bond 2045	67%	5,624,778	2,340,350
CCS	Exchange rate and interest rate	CCS	2029	Formosa 2 Bond	30%	3,530,952	(37,310)
Forwards	Exchange rate	Cash flow	Less than one year	Sale of energy	100%	103	(69)
IRS	Interest rate	Cash flow	2020	1100003807, 1200001251 and 1200001451	100%	(266)	3,230
IRS	Interest rate	Cash flow	2023	Nafin line	100%	(4,349)	(97,305)
IRS	Interest rate	Cash flow	2029	1100004506	100%	(196,278)	
CCS	Exchange Rate/commodities	Cash flow	2020	Sale of energy	100%	(818)	(1,732)
			Subtotal			**51,321,471**	**4,446,770**
CCS	Exchange rate JPY/USD	Trading		Line of credit in yens	N/A	**(1,099,412)**	**(383,356)**

Instrument	Underlying	Type of hedge	Maturity	Primary position (lines/bonds)	Hedge ratio	March 31, 2020	December 31, 2019
IRS	Interest rate		2020	1200001251		267	921
	Total in thousands of Mexican pesos					**50,222,326**	**4,064,335**

The table above includes the Mark to Market of the hedging derivatives. As at March 31, 2020 and December 31, 2019 the total Mark to Market value of the hedging and trading derivatives amounts to $50,222,326 and $4,064,3335, respectively, based on their carrying amount.

The results of the effectiveness tests for these hedging instruments showed that the relationships are highly effective, and the amount of ineffectiveness is minimal.

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

As at March 31, 2020 and December 31, 2019, the effects of OCI in the upcoming years (current portfolio) is as follows:

Millions of pesos

Year	MTM	OCI	Results (interest and exchange rate)
2020	6,070	5,088	982
2021	7,588	5,511	2,077
2022	9,484	6,067	3,417
2023	11,855	7,505	4,351
2024	14,819	10,512	3,865

b. Fair value measurement

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

Adjustment of fair value or Mark to Market by credit risk

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

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

The net fair value of derivative financial instruments (Mark-To-Market) effective as at March 31, 2020 and December 31, 2019, before considering credit risk, amounts to $50,362,683 and $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 March 31, 2020, fair values adjustments based on the CVA (Credit Valuation Adjustment) are shown below:

Thousands of pesos

Counterparty	Fair value MTM subject to CVA	Adjusted fair value MTM	Adjustment as at March 31, 2020
BBVA Bancomer	2,481,101	2,475,706	5,395
BNP Paribas	1,779,150	1,776,234	2,916
CitiBanamex	9,188,737	9,163,676	25,061
Credit Agricole	247	247	0
Credit Suisse	482,979	481,734	1,245
Deutsche Bank	3,590,549	3,574,330	16,219
Goldman Sachs	13,831,944	13,785,318	46,626
HSBC	-138,630	-138,630	0
JP Morgan	1,252,247	1,249,565	2,682
Morgan Stanley	7,086,353	7,072,776	13,577
SANTANDER	2,983,284	2,978,416	4,868
Barclays Bank	6,427,861	6,409,159	18,702
Bank of America	1,396,755	1,393,692	3,063
MONEX	106	103	3
	50,362,683	**50,222,326**	**140,357**

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

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

	Thousands of pesos		
Counterparty	**Fair value MTM subject to CVA**	**Adjusted fair value MTM**	**Adjustment as at December 31, 2019**
BBVA Bancomer	326,002	325,295	707
BNP Paribas	231,857	231,477	380
CitiBanamex	1,084,420	1,080,022	4,398
Credit Agricole	792	791	1
Credit Suisse	79,210	79,006	204
Deutsche Bank	1,910,192	1,901,563	8,629
Goldman Sachs	1,193,832	1,187,199	6,633
HSBC	(96,504)	(96,505)	1
JP Morgan	(69,387)	(69,388)	1
Morgan Stanley	99,476	98,047	1,429
SANTANDER	(623,280)	(623,361)	81
Barclays Bank	77,136	75,888	1,248
Bank of America	258,311	257,727	584
MONEX	(69)	(69)	0
Goldman Sachs Trading	(383,356)	(383,357)	1
	4,088,632	**4,064,335**	**24,297**

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 at March 31, 2020 is level 2 due to the following.

a) Inputs are other than quoted prices and include inputs within Level 1 that are observable, either directly or indirectly.
b) Quoted prices for similar assets or liabilities in active markets.
c) Inputs other than quoted prices that are observable for the assets or liabilities.

c. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

Credit risk

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

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

The carrying amount of the derivative financial assets represents the maximum exposure to credit risk. As at March 31, 2020 and December 31, 2019, this amounted to $50,222,326 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 at March 31, 2020 and December 31, 2019, $1,302,142 and $3,220,141, respectively.

Market risk

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

CFE uses 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

Of CFE's debt, 54% is denominated in foreign currency, mainly in US dollars, whereas most of CFE's assets and revenues are denominated in pesos. As a result, CFE is exposed to devaluation risks of the peso against the dollar. In conformity with its risk management policy, CFE has contracted currency swaps to reduce the impact of currency fluctuations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay a fixed rate in pesos. As at March 31, 2020 and December 31, 2019, CFE maintains foreign exchange swaps to hedge its foreign currency debt of $158.663 and $121.094, billion pesos, respectively.

To hedge the exchange risks of the $32 billion debt in yens, CFE uses a series of exchange rate forwards under which it purchases Japanese yens. The market value of this transaction as at March 31, 2020 and December 31, 2019 was $1,099,412 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 at March 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:

Instrument	+100 pips	-100 pips
Cross currency	67,481	(67,481)
JPY/USD	2,694	(2,694)
FWD	7	(7)
Total	70,182	(70,182)

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

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

b) Interest rate risk

Of CFE's debt, 30.5% bears interest at variable rates, which are determined by reference to the TIIE rate for debt denominated in pesos. As at March 31, 2020 and December 31, 2019, CFE hedged $5,350 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 at March 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:

	+ 100 basis points	**- 100 basis points**
Interest rate swaps	53,498	(53,498)

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

12. Short-term and long-term debt

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

	2020	**2019**
Bank loans	$ -	$ 565,356
Documented debt	39,708,725	39,171,577
PIDIREGAS debt	15,733,655	14,159,869
Total short-term debt	**55,442,380**	**53,896,802**
Documented debt	205,208,866	177,625,432
PIDIREGAS debt	158,204,494	121,906,516
Total long-term debt	**363,413,360**	**299,531,948**
Total debt	$ **418,855,740**	$ **353,428,750**

An analysis of the debt by item is as follows:

Type of debt	Balance as at December 31,2019	Drawdowns	Payments	Foreign currency exchange and interest rate differences	Balance as at March 31, 2020
Bank loan	565,356	-	(565,356)	-	-
Documented debt	216,797,009	1,238,017	(2,150,684)	29,220,107	245,104,449
Pidiregas debt	136,066,385	22,578,922	(2,616,158)	17,722,142	173,751,291
Total	353,428,750	23,816,939	(5,332,198)	46,942,249	418,955,740

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

Type of debt	Balance as at December 31, 2018	Drawdowns	Payments	Foreign currency exchange and interest rate differences	Balance as at December 31,2019
Bank loan	7,494,715	171,083	(7,100,442)	-	565,356
Documented debt	216,045,238	21,341,290	(16,207,183)	(4,382,336)	216,797,009
Pidiregas debt	131,085,031	22,651,044	(14,709,494)	(2,960,197)	136,066,385
Total	354,624,984	44,163,417	(38,017,119)	(7,342,533)	353,428,750

Documented debt

An analysis of the documented debt balances as at March 31, 2020 and December 31, 2020 is as follows:

		2020	2019
Line of credit in USD, BILATERAL contract that bears interest at a fixed and variable rate of 2.57% and matures in 2023	$	1,957,574	1,531,535
Bonds in USD, that bear interest at a fixed and variable rate of 5.27% and mature in 2049		117,958,377	94,909,175
Revolving line of credit in USD that bears interest at a fixed and variable rate of 3.36% and matures in 2020		189,781	525,712
Syndicated loan in USD that bears interest at a fixed and variable rate of 2.84% and matures in 2023		14,107,320	11,307,120
Line of credit in EUR, BILATERAL contract that bears interest at fixed and variable rate of 2% and matures in 2024		14,914	13,212
Revolving line of credit in EUR that bears interest at a fixed and variable rate of 1.05% and matures in 2020		28	45
Revolving line of credit in Swiss Francs that bears interest at a fixed and variable rate of .5% and matures in 2021		40,548	34,019
Line of credit in Japanese Yens, BILATERAL contract that bears interest at a fixed and variable rate of 1.71% and matures in 2021		59,239	131,887
Assets received for financial instruments that bear interest at a fixed rate of 3.83%		6,335,927	5,078,291
Line of credit in MXN, Bank contracts that bear interest at a fixed and variable rate of 7.58% and mature in 2023		17,000,000	17,000,000
Line of credit in MXN, Stock Market contracts that bear interest at a fixed and variable rate of 7.67% and mature in 2027		65,487,330	65,487,330
UDIs that bear interest at a fixed rate of 4.49% and mature in 2032		20,932,139	20,609,740
Interest payable		3,259,077	2,529,070
Unamortized debt expenses		(2,424,661)	(2,360,129)
Total documented debt	$	**244,917,591**	**216,797,009**
Less			
Short-term debt		36,449,648	36,642,507
Short-term interest payable		3,259,077	2,529,070
Total short-term		39,708,725	39,171,577
Total long-term debt		205,208,866	177,625,432

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

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

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

	March 2020	2019
Foreign debt maturing in 2020	$ -	$ 257,249
Foreign debt maturing in 2026	744,792	596,956
Foreign debt maturing in 2029	5,928,987	5,009,488
Foreign debt maturing in 2032	8,732,513	6,999,173
Foreign debt maturing in 2036	18,336,925	14,697,179
Foreign debt maturing in 2039	1,205,823	966,476
Foreign debt maturing in 2047	15,110,292	12,111,010
Foreign debt maturing in 2048	30,974,849	25,257,442
Foreign debt maturing in 2049	11,656,987	9,004,293
Foreign debt maturing in 2050	21,160,980	-
Pidiregas foreign debt in MXN maturing in 2020	23,258	23,258
Pidiregas foreign debt in MXN maturing in 2021	1,486	2,229
Pidiregas foreign debt in MXN maturing in 2022	1,183,841	1,225,749
Pidiregas foreign debt in MXN maturing in 2023	68,351	68,351
Pidiregas foreign debt in MXN maturing in 2024	2,455,312	2,707,833
Pidiregas foreign debt in MXN maturing in 2025	609,701	629,279
Pidiregas foreign debt in MXN maturing in 2026	22,473,032	22,894,476
Pidiregas foreign debt in MXN maturing in 2028	3,901,911	3,900,753
Pidiregas foreign debt in MXN maturing in 2033	-	15,379,630
Pidiregas foreign debt in MXN maturing in 2034	15,444,425	-
Pidiregas foreign debt in MXN maturing in 2036	1,422,294	1,422,294
Pidiregas foreign debt in MXN maturing in 2042	11,084,013	11,311,351
Interest payable	1,409,556	1,593,095
CEBURES	8,821	8,821
Total PIDIREGAS debt	$ 173,938,149	$ 136,066,385
Short-term debt	15,733,655	14,159,869
Total Pidiregas long-term debt	$ 158,204,494	$ 121,906,516

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

As at March 31, 2020 and December 31, 2019, minimum payment commitments on PIDIREGAS are as follows:

	2020	2019
PIDIREGAS	258,611,039	200,239,308
less:		
Unaccrued interest	86,091,268	65,774,757
Present value of obligations	172,519,772	134,464,551
less:		
Current portion of obligations	14,324,099	12,566,856
Long-term portion of PIDIREGAS	158,195,672	121,897,695
CEBURES	8,821	8,821
Total CEBURES and PIDIREGAS	**158,204,493**	**121,906,516**

As at December 31, 2019, CFE Internacional LLC had a bank loan with third parties in the amount of $565,356.

The loan agreement stipulates affirmative and positive loan covenants that the Company must adhere to. These loan covenants require the Company to refrain from doing the following until the loan has been repaid in full:

a) Modify its corporate purpose, except for adding complementary or secondary activities to its main activity;

b) Modify its line of business and the nature of its main activities or cease engaging in them altogether;

c) Initiate its dissolution or liquidation;

d) Merge into another company or carry out a corporate transformation or spin-off, etc;

The Company agrees that its non-compliance with any of these obligations would be sufficient cause for the Bank to demand the immediate settlement of the loan, plus all accrued interest and related accessory charges.

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

13. Lease liabilities

An analysis of lease liabilities as at March 31, 2020 and December 31, 2019 is as follows:

		2020		2019
1 January	$	567,913,231	$	456,445,996
Additions				151,674,080
Interest		4,911,754		23,889,828
Payments		(6,908,600)		(40,455,722)
Foreign currency translation reserve		21,406,996		(4,032,854)
Exchange difference		117,061,679		(19,608,097)
Total liabilities	$	704,385,060	$	567,913,231
Less portion of short-term liabilities		44,629,071		11,074,905
Total long-term liabilities	**$**	659,755,989	$	556,838,326

An analysis of lease payments as at March 31, 2020 and December 31, 2019 is as follows:

	2020	2019
Less than one year	44,629,071	11,074,905
More than 1 year and less than 3 years	24,426,047	8,682,411
More than 3 years and less than 5 years	28,785,703	21,774,620
More than 5 years	605,544,239	526,381,295
Total lease liabilities (undiscounted)	704,385,060	567,913,231

14. Other accounts payable and accrued liabilities

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

		2020	2019
Suppliers and contractors	$	36,675,289	37,607,789
Employees		1,976,240	5,054,394
Deposits from users and contractors		29,647,361	28,682,716
Other taxes and duties		2,250,606	9,101,132
Other liabilities		24,522,724	23,153,992
Total	$	95,072,220	103,600,023

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

15. Other long-term liabilities

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

		2020	2019
Third-party contributions	$	7,592,585	7,162,731
Decommissioning provision		14,549,012	14,090,661
Other provisions		1,412,167	1,803,806
Total	**$**	**23,553,764**	**23,057,198**

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 defined benefits.

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.

17. Contingencies and Commitments

Contingencies

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

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 at March 31, 2020, CFE has entered into several financed public work contracts and the payment commitments will begin on the dates when the private investors complete the construction of each of the investment projects and deliver the related the assets to CFE for their operation. The estimated amounts of such financed public work contracts and the estimated dates of construction completion and start up of operations are as follows:

Transmission lines and substations:

Capacity Kmc	MVA	Estimated amount of the contract expressed in millions of: Dollars	Pesos
274.74	1,542.51	196.02	4,608.8

Generation:

MVA capacity	Estimated amount of the contract expressed in millions of: Dollars	Pesos
1,528.63	1,463.23	34,403.8

Renovation and/or modernization

Estimated amount of the contract expressed in millions of: Dollars	Pesos
380.0	8,934.4

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

c. Trusts

1 Scope of action

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

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

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

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

a. Energy saving

Trust funds to promote energy saving programs.

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

As at March 31, 2020 and December 31, 2019, the Housing Thermal Isolation Program (FIPATERM) Trust has assets of $1,652,115 and $1,621,252 and liabilities of $77,280 and $63,241, respectively.

b. Prior expenses

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

Trust fund	Role of CFE			Type of project
	Trustor	Trust Beneficiary	Trustee	
CPTT prepaid expense management, created on August 11, 2003	CFE	CFE	Banco Nacional de Comercio Exterior, S.N.C.	Direct investment

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

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 at March 31, 2020 and December 31, 2019, the Administration of Prior Expenses Trust has assets of $3,390,530 and $3,186,199, and liabilities of $3,088,814 and $3,008,885, respectively.

The Administration and Transfer of Ownership Trust 2030 has assets of $481,633.

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 at March 31. 2020, CFE has fixed assets amounting to $21,995,856 related to the CAT trusts referred to above.

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

Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elias Calles

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elias Calles (Petacalco) was created on November 22, 1996	Techint, S. A., Grupo Mexicano de Desarrollo, S.A. de C.V. and TechintCompagnia Tecnica Internazionale S.P.A.	**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-Mar 2020
Petacalco Coal	$32,162

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.

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

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 at March 31, 2020, available funds in trust No. 232246 amount to $8,821.

2 Legal nature

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

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

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

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

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

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

18. Segment Information

Information regarding the operating segments

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

Information by type of service

REVENUE	**March 31, 2020**	**March 31, 2019**
Domestic services	17,841,406	16,604,237
Commercial services	11,825,204	11,415,784
Services	3,495,189	3,827,068
Agricultural services	1,486,233	1,341,720
Industrial services	55,378,769	56,045,881
Total sales	**90,026,801**	**89,234,690**
Block for resale	81,339	37,783
Total electricity supply revenue	**90,108,140**	**89,272,473**
OTHER PROGRAMS		
Illegal uses	481,175	611,632
Measurement failure	96,702	244,504
Billing error	204,387	418,593
Total income obtained from other programs	782,264	1,274,729
Total revenue from the sale of electricity	**90,890,404**	90,547,202
Other income	1,616,659	1,683,846
Total revenue from the sale of electricity	**92,507,063**	**92,231,048**

19. Standards issued but not yet effective

A. Other standards

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

- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Definition of a Business (Amendments to IFRS 3)
- IFRS 17 Insurance Contracts

20. Subsequent events

COVID-19

On March 11, 2020, the World Health Organization declared a pandemic due to the global spread of the virus called COVID-19. Governments around the globe have been taking steps to contain the spread of the virus, including requiring the quarantine of their citizens, implementing social distancing measures, restricting travel, and declaring health emergencies. The spread of COVID-19 has led to a downturn in the global economy and by extension, to a general reduction in the economic activity of most countries.

Despite the impact on the global economy, the virus is not expected to have a significant impact since the industry has continued to operate normally and with the preventive measures CFE is committed to guaranteeing the continued supply of electricity to all communities in the country as it has stated in recent months. CFE is monitoring this situation to safeguard the health and safety of its workers and to adapt its operations to the prevailing circumstances as events continue to arise.

Decrease in the price of products and supplies

On March 6, 2020, the Organization of the Petroleum Exporting Countries (OPEC) led by Saudi Arabia, Russia and another group of oil partners, failed to reach an agreement to reduce production and support oil prices, which resulted in a significant drop in the global price of crude oil, which represents a positive consumption of this fuel by the Company. It is important to point out that there is no business concentration with respect to its suppliers as at March 31, 2020.

Also, the Company does not set electrical energy prices, such prices are governed by the National Energy Control Center (CENACE) and are regulated by the Energy Regulating Commission (CRE) and the Ministry of Energy (SENER). At date, no changes have been published that could have a significant impact on the Company's figures.

Exchange rate peso - dollar

As a result of the world economic events described above, as of March 2020, the Mexican peso has experienced a significant depreciation against the dollar. As at March 27, 2020, the peso to dollar exchange rate is $24.2853 pesos per dollar, which compared to the exchange rate as at December 31, 2019 of $18.8452 pesos per dollar, represents a depreciation of 30.7%.

Of the documented debt and Pidiregas debt, 53.7% is denominated in foreign currency. The Company has exchange rate hedges that mitigate its foreign currency risk for up to $6.425 billion dollars and that reduce its foreign currency risk on its documented debt and Pidiregas debt to levels of 20.7%. Such hedges gave rise to an exchange loss of $4.904 billion pesos. However, as at March 31, pesos, and is reflected in the Statement of Profit or Loss as at March 2020.

21. Issue of the condensed consolidated financial information

The condensed consolidated financial statements and notes thereto were approved by Management on June 29, 2020. The financial information will be approved by the Board of Directors at a subsequent date. The Board of Directors has the power to amend the accompanying consolidated financial information. Subsequent events were considered through March 31, 2020.