Comisión Federal de Electricidad

Comisión Federal de Electricidad
Productive State Enterprise

Consolidated financial statements
for 9-month period ended September 30,
2020 and 2019

COMISIÓN FEDERAL DE ELECTRICIDAD

Productive State Enterprise and subsidiaries

Condensed consolidated statements of financial position

Balances as of September 30, 2020 and December 31, 2019

(Thousands of pesos)

	2020	2019
Assets		
Current assets:	**268,857,898**	**197,545,548**
Cash and cash equivalents (note 5)	150,016,795	89,339,037
Accounts receivable, net (note 6)	102,588,696	86,672,574
Inventory of materials for operation, net (note 7)	16,252,407	21,533,937
Loans to employees	**14,804,031**	**13,777,331**
Plants, facilities and equipment, net (note 8)	**1,195,991,298**	**1,211,303,643**
Derivative financial instruments (note 11)	**37,538,735**	**4,064,335**
Intangibles and other assets (note 10)	**45,414,736**	**38,638,865**
Right-of-use assets, net (note 9)	**494,719,690**	**474,376,421**
Deferred tax assets	**168,230,246**	**167,193,651**
TOTAL ASSETS	**2,225,556,634**	**2,106,899,794**
LIABILITIES		
Current liabilities:	**185,534,102**	**157,333,957**
Short-term debt (note 12)	68,176,777	53,896,802
Other payables and accrued liabilities (note 14)	87,196,701	86,174,724
Income tax	7,478,423	6,187,526
Lease liabilities (note 13)	22,682,201	11,074,905
Non-current liabilities:	**1,521,423,718**	**1,306,288,031**
Long-term debt (note 12)	327,053,532	299,531,948
Long-term employees benefits (note 16)	498,363,532	426,860,559
Other long-term liabilities (note 15)	25,657,126	23,057,198
Lease liabilities (note 13)	670,349,528	556,838,326
TOTAL LIABILITIES	**1,706,957,820**	**1,463,621,988**
Equity:	**518,598,814**	**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	- 14,439,069	129,091,018
Other comprehensive income items	419,395,547	400,029,909
Non-controlling interest	18,632,668	19,147,211
LIABILITIES AND EQUITY	**2,225,556,634**	**2,106,899,794**

COMISIÓN FEDERAL DE ELECTRICIDAD

Productive State Enterprise and subsidiaries

Condensed consolidated statements of comprehensive income

For the 9-month period ended September 30, 2020 and 2019

(Thousands of pesos)

	For the 9-month period ended September		For the 3-month period ended September	
	2020	**2019**	**2020**	**2019**
Revenues:	**$386,518,652**	**$408,850,518**	**$138,895,319**	**$149,629,845**
Electricity supply service revenue (note 18)	$280,066,204	$312,887,936	$99,606,565	$116,493,291
Third party fuel revenue	$11,879,456	$33,136,194	$2,173,790	$9,950,769
Freight revenue	$15,880,113	$6,799,517	$10,818,555	$1,049,189
Subsidy income	$63,000,000	$41,668,640	$21,000,000	$15,625,740
Other income, net	$15,692,879	$14,358,231	$5,296,409	$6,510,856
Costs:	**$368,508,995**	**$369,625,480**	**$183,005,819**	**$125,098,859**
Energy and other fuel supplies	$117,647,915	$199,927,765	$45,075,930	$63,890,347
Energy and other fuel supplies - Third party	$18,096,828	$32,027,945	$7,043,182	$20,989,458
Salaries and related costs	$50,760,639	$49,756,377	$18,227,593	$17,308,926
Maintenance, materials and general services	$15,335,436	$3,709,151	$5,741,496	($5,709,044)
Taxes and duties	$1,643,858	$1,752,969	$397,903	$486,184
Wholesale Electricity Market costs (MEM)	$2,381,881	$2,408,361	$853,044	$881,096
Employee benefits costs	$102,751,238	$26,050,400	$84,540,432	$8,683,401
Depreciation	$51,788,379	$51,763,678	$17,108,443	$16,969,173
Other expenses	$8,102,821	$2,228,834	$4,017,796	$1,599,318
Operating results	**$18,009,657**	**$39,225,038**	**($44,110,500)**	**$24,530,986**
Comprehensive financing result, net:	**$155,289,511**	**$36,422,314**	**($2,474,452)**	**$23,280,986**
Finance expenses (income), net	$5,782,871	$4,300,836	($18,097,996)	($8,820,316)
Interest expenses	$39,094,712	$33,214,461	$31,348,455	$21,370,134
Foreign exchange loss (gain), net	$110,411,928	($1,092,983)	($15,724,911)	$10,731,168
Loss before income tax other comprehensive income	**($137,279,854)**	**$2,802,724**	**($41,636,048)**	**$1,250,000**
Income tax	**$5,628,882**	**$2,330,881**	**$4,491,450**	**($2,262,850)**
Net loss	**($142,908,736)**	**$471,843**	**($46,127,498)**	**$3,512,850**

Comisión Federal de Electricidad
Productive State Enterprise and subsidiaries

Condensed consolidated statements of changes in equity

For the 9-month period ended September 30, 2020 and 2019
(Thousands of pesos)

		Contributions received from the Federal Government	Contributions in kind from the Federal Government	Acumulated results	Other comprehensive income (loss) items	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	17,496,642	686,717,317
Comprehensive income of the period		-	-	20,965,736	(66,055,816)	(45,090,080)	4,707,960	(40,382,120)
Issue of shares		-	-	-	-	-	(905,968)	(905,968)
Dividend decree		-	-	-	-	-	(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**
Comprehensive income of the period		-	-	(143,530,087)	19,365,638	(124,164,449)	621,351	(123,543,098)
Issue of shares		-	-	-	-	-	(548,123)	(548,123)
Dividend decree		-	-	-	-	-	(587,771)	(587,771)
Balances at September 30, 2020	$	**5,251**	**95,004,417**	**(14,439,069)**	**419,395,547**	**499,966,146**	**18,632,668**	**518,598,814**

See accompanying notes to condensed consolidated financial statements

Comisión Federal de Electricidad
Productive State Enterprise and subsidiaries
Condensed consolidated statements of cash flows

For the 9-month period ended September 30, 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	$	(142,908,736)	$	471,844
Operating activities:				
Employee benefits costs		102,751,238		26,050,400
Increase in provisions of deferred and current income tax		5,628,882		2,330,880
Investing activities:				
Depreciation and right-of-use assets		51,788,379		51,763,678
Disposal of plants, facilities and equipment		3,685,666		919,538
Foreign exchange loss, interest expense and changes in finantial derivative instruments fair value of financial instruments		165,996,541		12,254,833
Changes in other operating assets and liabilities:				
Accounts receivable and loans to employees		(16,942,822)		(18,836,054)
Inventory of materials of operation		5,281,530		(2,386,463)
Other assets		(6,775,871)		(10,990,824)
Other payables and accrued liabilities		(1,752,675)		(6,672,923)
Payments to employees benefits		(28,027,931)		(23,948,296)
Net cash flows from operating activities		138,724,201		30,956,613
Cash flows from investing activities:				
Acquisition of plants, facilities and equipment		(18,641,868)		(35,054,467)
Cash flows from financing activities:				
Proceeds from debt		38,572,285		34,992,513
Non-controlling interest contribution Fibra E		(1,135,894)		(1,359,983)
Payment of debt		(31,569,451)		(28,957,355)
Interest paid		(39,094,712)		(6,170,017)
Payment of lease obligations		(31,904,659)		(24,253,108)
Collections from financial instruments		12,240,203		
Payment of financial instruments		(6,512,347)		8,606,063
Net cash from financing activities		(59,404,575)		(17,141,887)
Cash excess of financing activities		60,677,758		(21,239,741)
Cash and cash equivalents:				
At beginning of the period		89,339,037		78,483,263
At end of period	$	150,016,795	$	57,243,522

See accompanying notes to condensed consolidated 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 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 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 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 should be grouped in a way that favors the common river basins in order to ensure the security and optimal management of the water supply and reservoirs.

- The redistribution only considered the plants operated by the EPS's of CFE and did 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 required by the National Electric System, it was decided to centralize the Mobile Emergency Units within 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 as of December 31, 2019 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 revaluation of power plants in the amount of $84,480,710. These amounts were recognized in other comprehensive income. The reorganization of assets took effect as of January 1st, 2020.

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 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. The EPS started operations in 2020.

Amendments to the Collective Labor Agreement

On May 19, 2016, CFE carried out a review of the terms of the Collective Labor Agreement it entered into with the Sole Union of Electricity Workers of the Mexican Republic ("SUTERM", Spanish acronym).

On August 19, 2020, CFE carried out a review of the clauses and conditions of the Collective Labor Agreement for the 2020-2022 biennium, which the CFE and SUTERM have entered into.

As shown in note 16, derived from this review, various clauses were modified that mainly affect the retirement caption, the effects are under the quantification process.

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.

<u>Assets contributed by the Federal Government</u>

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 that includes annexes for the different types of assets to CFE.

CFE also obtained the legal and physical possession of the related assets, as per 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 as 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 are included in the Plants, facilities and equipment and Other intangible assets captions (see Notes 8 and 9), and an additional amount of $63,000 was recognized related to these types of assets. As at December 31, 2019, this activity is still ongoing.

<u>Assumption of the Company's employee benefits liability by the Federal Government</u>

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 are 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 stated 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 issue 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.

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's assets.

c) Functional currency and presentation of the condensed consolidated 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 the result of 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) Basis of consolidation

The consolidated financial statements include the subsidiaries, affiliates and trusts over which the Company exercises control. 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.

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 interests in the consolidation do not represent 1% of the assets.

b) 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 are subject to a low risk of changes in their value..

c) 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, in case of an item not measured at fair value through profit or loss with changes in results, 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 with changes posted to other comprehensive income - equity investment; or at fair value with changes posted to profit or loss.

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, in their initial recognition, as measured subsequently to 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 financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows;

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

All the financial assets not classified as measured at amortized cost or at fair value with changes through other comprehensive income as described above are measured at fair value with changes through profit or loss. This includes all derivative financial instruments. 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 with changes through other comprehensive income as at fair value with changes through profit or loss if doing so eliminates or significantly reduces a measurement or recognition mismatch that would otherwise arise.

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 objectives, and strategies 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 hedging characteristics. When it is determined that a derivative is not highly effective as a hedge, hedge accounting stops being applied in respect to identified derivative financial instruments in a prospective manner..

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.

d) 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 of 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.

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
Distribution 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 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 $27,464,070, which was determined as of 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.

e) 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.

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 component 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 of 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 the lease 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.

f) 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 value and risk management

Fair values

Set out below are the carrying amounts and fair values of financial instruments recognized for the nine-month period ended as of September 30, 2020 and as of December 31, 2019:

		2020		2019
Financial assets				
Cash and cash equivalents (2)	$	150,016,795	$	89,339,037
Accounts receivable (2)		102,588,696		86,672,574
Loans to employees (2)		14,804,031		13,777,331
Derivative financial instruments (1)		37,538,735		4,064,335
Financial liabilities				
Short-term debt (2)	$	68,176,777	$	53,896,802
Long-term debt (2)		327,053,532		299,531,948
Short-term lease liability (1)		22,682,201		11,074,905
Long-term lease liability (1)		670,349,528		556,838,326
Suppliers and contractors (2)		39,990,284		37,808,697
Deposits from customers and contractors (2)		30,315,095		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 expected credit loss model.

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:

As of September 30, 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	$ 53,095,834	$ 19,244,425	$ 37,606,388	$ 120,409,693	$ 230,356,340
PIDIREGAS debt	15,080,943	27,114,967	24,091,296	98,586,763	164,873,969
Lease liabilities	22,682,201	30,331,747	31,904,461	608,113,320	693,031,729
Suppliers and contractors	39,990,284	-	-	-	39,990,284
Other liabilities	30,315,095	-	-	-	30,315,095
	161,164,357	76,691,139	93,602,145	827,109,776	1,158,567,417
Interest payable on documented debt	$ 11,593,733	$ 19,056,412	$ 15,418,427	$ 50,121,052	$ 96,189,624
Interest payable on PIDIREGAS debt	8,612,819	14,786,100	11,855,466	42,526,763	77,781,148
Interest payable on lease liabilities	21,579,744	41,926,800	39,460,131	214,657,401	317,624,076

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
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	37,808,697	-	-	-	37,808,697
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 of September 30, 2020 (amounts in millions of pesos)	Total debt as of December 31, 2019 (amounts in millions of pesos)
Local currency	145,539	162,662
Foreign currency	247,735	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 transaction 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.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price is 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	$ 150,016,795	$ 150,016,795	$ 89,339,037	$ 89,339,037
Accounts receivable	102,588,696	102,588,696	86,672,574	86,672,574
Loans to workers	14,804,031	14,804,031	13,777,331	13,777,331
Suppliers and contractors	39,990,284	39,990,284	37,808,697	37,808,697
Lease liabilities	693,031,729	693,031,729	567,913,231	567,913,231
Documented debt	230,356,340	263,645,700	217,362,365 *	240,066,531
PIDIREGAS debt	164,873,969	211,832,706	136,066,385	189,227,258

*Includes debt contracted by CFE International LLC with Credit Agricole-CIB NY Branch for $565,356

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	$	59,985,948	$	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 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 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.

5. Cash and cash equivalents

An analysis of Cash and cash equivalents as of September 30, 2020 and December 31, 2019 is as follows:

		2020		2019
Cash on hand and cash in banks	$	90,022,026	$	68,049,530
Short-term investments		59,985,948		21,280,686
Stock certificates		8,821		8,821
Total	$	150,016,795	$	89,339,037

6. Accounts receivable, net

An analysis of accounts receivable as of September 30, 2020 and December 31, 2019 is as follows:

		2020		2019
Public consumers (*)	$	62,946,484	$	52,546,042
Government agency consumers (*)		24,908,448		24,118,163
		87,854,932		76,664,205
Impairment of receivables		(31,133,680)		(27,328,830)
		56,721,250		49,335,375
Other accounts receivable		34,869,761		28,690,189
Value added tax		10,997,685		8,647,010
Total	**$**	**102,588,696**	**$**	**86,672,574**

(*) 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 of September 30, 2020 and December 31, 2019 is as follows:

		2020		2019
Opening balance	$	(27,328,830)	$	(28,446,893)
Increase		(3,804,850)		(361,980)
Charges		-		1,480,043
Ending balance	$	(31,133,680)	$	(27,328,830)

7. Inventory of materials for operation

An analysis of the inventory of operating materials as of September 30, 2020 and December 31, 2019 is as follows:

		2020		2019
Spare parts and equipment	$	3,496,288	$	2,797,498
Fuel and lubricants		12,129,773		19,140,583
Nuclear fuel		3,628,742		3,969,405
		19,254,803		25,907,486
Allowance for obsolescence		(3,002,396)		(4,373,549)
Total	**$**	**16,252,407**	**$**	**21,533,937**

8. Plants, facilities and equipment, net

An analysis of Plants, facilities and equipment, net as of September 30, 2020 and December 31, 2019 is as follows:

	Plants, facilities and equipment, net						
	December 31, 2019	Additions	Retirements	Assets reorganization	Depreciation for the period	Capitalization	September 30, 2020
Plants, facilities and equipment	$ 2,146,097,218	$ 17,101,785	$ (20,966,342)	$ (337,043,732)	-	$ 742,243	$ 1,805,931,172
Capitalized spare parts	7,451,766	836,034	-	-	-		8,287,800
Construction in progress	26,130,582	704,049	-	-	-		26,834,631
Advances and materials for construction	11,310,744	-	-	-	-	(742,243)	10,568,501
Subtotal	2,190,990,310	18,641,868	(20,966,342)	(337,043,732)	-	-	1,851,622,104
Accumulated depreciation	(896,064,974)	-	17,280,676	293,570,877	(30,268,547)	-	(615,481,968)
Impairment	(83,621,693)	-		43,472,856	-	-	(40,148,837)
Total	**$ 1,211,303,643**	**$ 18,641,868**	**$ (3,685,666)**	**$ -**	**(30,268,547)**	**$ -**	**$ 1,195,991,298**

	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)	-	84,480,718	-	-	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)	$ -	$ 1,211,303,643

As of 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
Reversal of impairment of property, plant and equipment	10,692,620
Subtotal revaluation and reversal of impairment	84,480,718
Impairment of property, plant and equipment	(57,014,443)
Total	**$ 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 of 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).

As of September 30, 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 of September 30, 2020 and December 31, 2019 are as follows:

Plant:	**2020**	**2019**
Steam	$ 44,690	$ 5,380
Hydroelectric	1,124,470	1,183,167
Nuclear power	199,460	248,696
Turbo gas and combined cycle	11,661,130	11,258,752
Geothermal	176,395	176,395
Transmission lines, networks and substations	11,724,210	11,650,574
Offices and general facilities	1,904,276	1,607,618
Total	**$ 26,834,631**	**$ 26,130,582**

<u>Fair value measurement</u>

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.

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 of September 30, 2020 and December 31, 2019 are as follows.

	December 2019	Additions	Effect from translation	Depreciation for the year	September 2020
Real estate	$ 609,464	$ 40,752	$ 4,221	$ -	$ 654,437
Vehicles	-	4,173,989	-	-	4,173,989
Infrastructure	135,185,806	19,179,361	-	-	154,365,167
Gas pipelines	440,537,932		18,427,507	-	458,965,439
Subtotal	576,333,202	23,394,102	18,431,728	-	618,159,032
Accumulated depreciation	(101,956,781)	-	-	(21,482,561)	(123,439,342)
	$ 474,376,421	**$ 23,394,102**	**$ 18,431,728**	**$ (21,482,561)**	**$ 494,719,690**

	December 2018	Additions	Effect from translation	Depreciation for the year	December 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 of September 30, 2020 and December 31, 2019 is as follows:

	2020	2019
Rights of way (1)	$ 32,688,231	$ 29,394,733
Deposits and advances	12,726,505	9,244,132
Total	$ 45,414,736	$ 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.

In addition, for the nine-month period ended September 30, 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 of September 30, 2020 and December 31, 2019 amounted to $37,538,735 and $4,064,335, respectively.

Derivative Financial Instruments Held for Trading

As of September 30, 2020 and December 31, 2019, CFE had derivatives designated as held for trading whose fair value represented a liability of $995,298 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.

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 September 30, 2020 and December 31, 2019 as follows:

Instrument	Underlying	Maturity	2020	2019
FWD JPY/USD	Exchange rate and interest rate	2036	$ (995,298)	$ (383,356)
IRS	Interest rate	2020		921
		Total	**$ (995,298)**	**$ (382,435)**

Hedging instruments

As of September 30, 2020 and December 31, 2019, CFE maintains its hedging derivative position on exchange rates and interest rates, as follows.

Instrument	Underlying	Type of hedge	Maturity	Primary position (lines/bonds)	Hedge ratio	September 30, 2020	December 31, 2019
CCS	Exchange rate and interest rate	Cash flow	2021	1100000074 to 76	100%	$ 654,677	$ 285,635
CCS	Exchange rate and interest rate	Cash flow	2022	1100000077 to 79	100%	38,501	46,273
CCS	Exchange rate and interest rate	Cash flow	2023	1100000080	100%	2,307,348	218,468
CCS	Exchange rate and interest rate	Cash flow	2024	1100002956	100%	5,965,564	112,010
CCS	Exchange rate and interest rate	Cash flow	2027	1100003606	100%	5,484,746	378,283
CCS	Exchange rate and interest rate	Cash flow	2032	1200002801	100%	2,458,884	(69,692)
CCS	Exchange rate and interest rate	Cash flow	2036	1200000551 Pidiregas line	100%	3,311,342	2,428,905
CCS	Exchange rate and interest rate	Cash flow	2042	Bond 2042	55.3%	2,750,927	138,159
CCS	Exchange rate and interest rate	Cash flow	2047	Formosa 1 Bond	100%	2,921,881	(620,163)
CCS	Exchange rate and interest rate	Cash flow	2048	Formosa 2 Bond	100%	3,947,127	(576,661)
Participating Swap	Exchange rate and interest rate	Cash flow	2027	Bond 2027	100%	249,062	(101,611)
CCS	Exchange rate and interest rate	CCS	2045	Bond 2045	67%	5,386,572	2,340,350
CCS	Exchange rate and interest rate	CCS	2029	Formosa 2 Bond	30%	2,425,800	(37,310)
Forwards	Exchange rate	Cash flow	Less than one year	Sale of energy	100%	217	(69)
IRS	Interest rate	Cash flow	2020	1100003807, 1200001251 and 1200001451	100%	0	3,230
IRS	Interest rate	Cash flow	2023	Nafin line	100%	570,814	(97,305)
IRS	Interest rate	Cash flow	2029	1100004506	100%	53,116	-
CCS	Exchange Rate/commodities	Cash flow	2020	Sale of energy	100%	-	(1,732)
CCS	Exchange Rate/commodities	Cash flow	2021	Sale of energy	100%	3,136	-
CCS	Exchange Rate/commodities	Cash flow	2022	Sale of energy	100%	4,319	-
			Subtotal			**38,534,033**	**4,446,770**
CCS	Exchange rate JPY/USD	Trading		Line of credit in yens	N/A	**(995,298)**	**(383,356)**
IRS	Interest rate		2020	1200001251		-	921
			Total in thousands of Mexican pesos			**$ 37,538,735**	**$4,064,335**

The table above includes the Mark to Market of the hedging derivatives. As of September 30, 2020 and December 31, 2019 the total Mark to Market value of the hedging and trading derivatives amounts to $37,538,735, and $4,064,335, 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 of September 30, 2020, the OCI effect for future periods (current portfolio) is shown below:

Year	M-Tm	OCI	Profit and Loss (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.

The net fair value of derivative financial instruments (Mark-To-Market) effective as of September 30, 2020, before considering credit risk, amounts to $40,231,796, 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, 2020, before considering credit risk, amounts to $4,088,633, 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 of September 30, 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 of September 30, 2020**
Goldman Sachs	$ 10,173,091	$ 9,326,527	$ 846,564
CitiBanamex	7,414,366	6,928,272	486,094
Morgan Stanley	5,133,558	4,826,069	307,489
Barclays Bank	4,516,739	4,193,340	323,399
Deutsche Bank	2,842,862	2,633,457	209,405
JP Morgan	2,589,153	2,445,410	143,743
SANTANDER	2,463,769	2,330,727	133,042
BBVA BANCOMER	1,785,562	1,703,863	81,699
Bank of America	1,784,748	1,696,261	88,487
BNP PARIBAS	1,292,270	1,233,342	58,928
Credit Suisse	235,452	221,250	14,202
Bank of Tokio	226	217	9
	$ 40,231,796	**$ 37,538,735**	**$ 2,693,061**

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

Counterparty	**Fair value MTM subject to CVA**	**Adjusted fair value MTM**	**Adjustment as of 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)	-
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 of September 30, 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 of September 30, 2020 and December 31, 2019, this amounted to $37,538,735 and $4,064,335, 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 September 30, 2020 and December 31, 2019, $1,031,217 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 l derivative financial 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

62.8% 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 September 30, 2020 and December 31, 2019, CFE maintained foreign exchange swaps to hedge its foreign currency debt of $147,314 and $121,094 million 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 of September 30, 2020 and December 31, 2019 was ($995,297) 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 September 30, 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.

September 30, 2020	Instrument		+100 pips		-100 pips
	Cross Currency	$	65,597	$	(65,597)
	JPY/USD		2,694		(2,694)
	FWD		12		(12)
	Total	$	68,303	$	(68,303)

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 rates, which are determined by reference to the TIIE rate for debt denominated in pesos. As of September 30, 2020 the debt expired and as of December 31, 2019, CFE hedged $5,350 of its variable interest rate debt denominated in pesos.

Interest rate sensitivity analysis

A potential and reasonable strengthening (weakening) of interest rates as of September 30, 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:

September 30, 2020		+ 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 of September 30, 2020 and December 31, 2019 is as follows:

		2020		2019
Bank loans	$	-	$	565,356
Documented debt		53,095,834		39,171,577
PIDIREGAS debt		15,080,943		14,159,869
Total short-term debt		**68,176,777**		**53,896,802**
Documented debt		177,260,506		177,625,432
PIDIREGAS debt		149,793,026		121,906,516
Total long-term debt		**327,053,532**		**299,531,948**
Total debt	$	**395,230,309**	$	**353,428,750**

An analysis of the debt by item is as follows:

Type of debt		Balance as of December 31,2019	Drawdowns	Payments	Foreign currency exchange and interest rate differences	Balance as of September 30, 2020
Bank loan	$	565,356	-	(565,356)	-	-
Documented debt		216,797,009	12,335,022	(20,946,516)	22,170,825	230,356,340
Pidiregas debt		136,066,385	26,237,263	(10,057,579)	12,627,900	164,873,969
Total	$	353,428,750	38,572,285	(31,569,451)	34,798,725	395,230,309

Type of debt		Balance as of December 31, 2018	Drawdowns	Payments	Foreign currency exchange and interest rate differences	Balance as of 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 of September 30, 2020 and December 31, 2020, is shown in the next page.

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Foreign debt	Type of credit	Weighted interest rate	Maturities	2020 National currency	2020 Foreign currency (thousands)	2019 National currency	2019 Foreign currency (thousands)
In US dollars at the Exchange rate							
US dollar of 22.4573 as of September 2020	BILATERAL	Fixed and variable- 1.62%	Mature in 2023	$ 10,238,197	455,896	$ 1,531,535	81,269
and $18.8452 as of December 2019	BONDS	Fixed and variable- 5.27%	Maturein2049	109,500,222	4,875,930	94,909,175	5,036,252
	REVOLVERS	Fixed and variable- 3.67%	Mature in 2025	224,570	10,000	525,714	27,897
	SINDICATED	Fixedandvariable-1.69%	2023	13,474,380	600,000	11,307,120	600,000
TOTAL US DOLLARS				133,437,369	5,941,826	108,273,544	5,745,418
In EUROS at the Exchange rate	BILATERAL	Fixed and variable - 2%	Maturein2024	10,936	422	13,212	624
Euros of $25.9691 as of September 2020	REVOLVERS	Fixed and variable - 0%	Mature in 2020	0	0	45	2
and $21.175 as of December 2019							
TOTAL EUROS				10,936	422	13,257	626
In SWISS FRANCS at the Exchange rate							
Swiss Franc of $24.1013 as of September 2020							
and $19.4791 as of December 2019	REVOLVERS	Fixed and variable - 0.5%	Mature in 2021	1,625	67	34,019	1,746
TOTAL SWISS FRANC				1,625	67	34,019	1,746
In JAPANESE YENS at the Exchange rate							
Japanese Yen of $0.2098 as of September	BILATERAL	Fixed and variable- 1.46%	Mature in 2021	27,052	128,941	131,887	759,720
2020 and $0.1736 as of December 2019				27,052	128,941	131,887	759,720
Bond		Fixed-3.83%	2032	6,713,600	32,000,000	5,555,200	32,000,000
Assets received for financial instruments, net				(661,942)		(476,909)	
				6,051,658	32,000,000	5,078,291	32,000,000
TOTAL JAPANESE YENS				6,078,010	32,128,941	5,210,178	32,759,720
		TOTAL FOREIGN DEBT		**$ 139,528,640**		**$ 113,530,998**	

Domestic debt	Type of credit	Weighted interest rate	Maturities	2020 National currency	2020 Foreign currency (thousands)	2019 National currency	2019 Foreign currency (thousands)

NATIONAL CURRENCY	BANK CONTRACTS	Fixed and variable – 5.72%	Mature in 2023	$	7,500,000	$	17,000,000
	STOCK MARKET	Fixed and variable - 7.56%	Mature in 2027		61,487,330		65,487,330
TOTAL PESOS:					68,987,330		82,487,330
In UDIS at the Exchange rate							
UDI of $6.4438 as of September 2020 and $6.399 as of December 2019	STOCK MARKET	Fixed - 4.49%	2032		21,094,467		20,609,740
TOTAL UDIS					21,094,467		20,609,740
TOTAL INTERNAL DEBT				**$**	**90,081,797**	**$**	**103,097,070**
Summary							
Total foreign debt				$	139,528,640	$	113,530,998
Total domestic debt					90,081,797		103,097,070
Interest payable					3,170,564		2,529,070
Unamortized debt expenses					(2,424,661)		(2,360,129)
Total documented debt				**$**	**230,356,340**	**$**	**216,797,009**
Short-term debt					49,925,270	$	36,642,507
Long-term debt					179,685,167		179,985,561
Interest payable					3,170,564		2,529,070
Unamortized debt expenses					(2,424,661)		(2,360,129)
Total debt				**$**	**230,356,340**	**$**	**216,797,009**

The short and long term liability for documented debt matures as follows:

September 30, 2020		Amount
2020	$	21,920,301
2021		28,276,473
2022		1,673,523
2023		24,144,917
2024		29,480,978
2025		22,375,335
2026		1,374,560
Subsequent years		101,110,253
Total	**$**	**230,356,340**

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 of September 30, 2020 and December 31, 2019 is as follows:

Credit value		Contract term	Balances as of September 30,2020 (Thousands of units)				Balances as of December 31, 2019 (Thousands of units)			
			National currency		Foreign currency		National currency		Foreign currency	
			Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
Foreign debt										
-	millions of dollars	2019	-	-	-	-	-	-	-	-
-	millions of dollars	2020	-	-	-	-	257,249	-	13,651	-
29	millions of dollars	2026	101,625	558,939	4,525	24,889	85,279	511,677	4,525	27,152
252	millions of dollars	2029	613,380	4,742,907	27,313	211,197	514,722	4,494,765	27,313	238,510
341	millions of dollars	2032	1,352,834	6,311,468	60,240	281,043	1,135,240	5,863,933	60,240	311,163
770	millions of dollars	2036	987,029	15,768,814	43,951	702,169	828,273	13,868,907	43,951	735,938
51	millions of dollars	2039	-	1,151,723	-	51,285	-	966,476	-	51,285
625	millions of dollars	2047	1,117,391	12,595,905	49,756	560,882	937,666	11,173,343	49,756	592,901
1,307	millions of dollars	2048	1,028,138	24,674,152	45,782	1,098,714	1,010,913	24,246,530	53,643	1,286,616
499	millions of dollars	2049	651,920	16,338,374	29,029	727,531	301,669	8,702,624	16,009	461,795
900	millions of dollars	2050	673,720	19,537,850	30,002	870,000	-	-	-	-
Total foreign debt			6,526,037	101,680,132	290,598	4,527,710	5,071,011	69,828,255	269,088	3,705,360

Credit value		Contract term	Balances as of September 30,2020 (Thousands of units) National currency Short term		Foreign currency Short term	Long term	Balances as of December 31, 2019 (Thousands of units) National currency Short term		Foreign currency Short term	Long term
			Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
Domestic debt										
-	millions of pesos	2019	$ -	-			$ -	-		
22	millions of pesos	2020	-	-			23,258	-		
1	millions of pesos	2021	743	-			1,486	743		
984	millions of pesos	2022	480,779	438,871			505,897	719,852		
55	millions of pesos	2023	30,197	36,439			27,223	41,128		
2,235	millions of pesos	2024	544,694	1,634,082			541,567	2,166,266		
533	millions of pesos	2025	193,308	319,740			193,308	435,972		
21,424	millions of pesos	2026	3,408,194	17,074,324			3,683,640	19,210,836		
-	millions of pesos	2027	-	-			-	-		
3,828.58	millions of pesos	2028	513,798	3,910,229			413,028	3,487,726		
15,171	millions of pesos	2033	1,413,117	13,335,434			1,340,813	14,038,816		
-	millions of pesos	2034	-	-			-	-		
1,380	millions of pesos	2036	83,664	1,296,798			83,664	1,338,630		
10,971	millions of pesos	2042	684,874	10,058,156			681,961	10,629,470		
Total domestic debt			$ 7,353,368	48,104,073			$ 7,495,845	52,069,439		
Interest payable			1,201,538				1,593,094			
CEBURES				8,821				8,821		
Total PIDIREGAS debt			$ 15,080,943	149,793,026			$ 14,159,869	121,906,515		

As of September 30, 2020 and December 31, 2019, minimum payment commitments on PIDIREGAS are as follows:

		2020		2019
PIDIREGAS	$	241,444,757	$	200,239,308
less:				
Unaccrued interest		76,579,609		65,774,757
Present value of obligations		164,865,148		134,464,551
less:				
Current portion of obligations		15,080,943		12,566,856
Long-term portion of PIDIREGAS		149,784,205		121,897,695
CEBURES		8,821		8,821
Total CEBURES and PIDIREGAS	**$**	**149,793,026**	**$**	**121,906,516**

As of December 31, 2019, CFE International 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.

13. Lease liabilities

An analysis of lease liabilities as of September 30, 2020 and December 31, 2019 is as follows:

		2020		2019
January 1st	$	567,913,231	$	456,445,995
Additions		23,394,102		151,694,307
Interest		22,938,753		23,889,828
Payments		(31,904,659)		(40,455,722)
Foreign currency translation reserve		17,161,161		(4,032,853)
Exchange difference		93,529,141		(19,628,324)
Total liabilities		693,031,729		567,913,231
Less portion of short-term liabilities		22,682,201		11,074,905
Total long-term liabilities	**$**	**670,349,528**	$	**556,838,326**

14. Other accounts payable and accrued liabilities

Other accounts payable and accrued liabilities as of September 30, 2020 and December 31, 2019 is as follows:

		2020		2019
Suppliers and contractors	$	39,990,284	$	37,808,697
Employees		5,921,777		5,054,394
Deposits from users and contractors		30,315,095		28,945,790
Other taxes and duties		5,045,600		2,273,976
Value added tax		-		9,126,331
Other liabilities		5,923,945		2,965,536
Total	**$**	**87,196,701**	**$**	**86,174,724**

15. Other long-term liabilities

An analysis of other long-term liabilities as of September 30, 2020 and December 31, 2019 is as follows:

		2020	2019
Third-party contributions	$	10,731,907	7,162,731
Decommissioning provision		9,074,311	14,090,661
Other provisions		5,850,908	1,803,806
Total	**$**	**25,657,126**	**23,057,198**

16. Employee benefits

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

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

Due to the revision of the collective agreement for the 2020-2022 biennium, some modifications carried out in 2016, among the main modifications, the worker's years to access their right to retirement and from the signing of the contract collective and within a period not exceeding 180 days, the CFE will issue a work regulation of the trusted staff.

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.

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 September 30, 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 assets to CFE for their operation. The estimated amounts of such financed public work contracts and the estimated dates of construction completion and startup of operations are as follows:

Transmission lines and substations:

Capacity		Estimated amount of the contract expressed in millions of:	
Kmc	MVA	Dollars	Pesos
231.57	1,432.51	168.55	3,785.1

Generation:

	Estimated amount of the contract expressed in millions of:	
MVA capacity	Dollars	Pesos
1,528.63	1,463.23	32,860.2

Renovation and/or modernization

Estimated amount of the contract expressed in millions of:	
Dollars	Pesos
380.0	8,533.5

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. Construction Works 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	Role of CFE		
	Trustor	Trustee	Trust Beneficiary
Trust Fund for Energy Savings (FIDE), created on August 14, 1990	Creation of 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 September 30, 2020 and December 31, 2019, the Housing Thermal Isolation Program (FIPATERM) Trust has assets of $1,681,792 and $1,621,252 and liabilities of $83,868 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
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 September 30, 2020 and December 31, 2019, the Administration of Prior Expenses Trust has assets of $3,400,297 and $3,186,199, and liabilities of $3,080,787 and $3,008,885, respectively.

The Administration and Transfer of Ownership Trust 2030 has assets of $493,515.

c. Construction Works 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 September 30. 2020 and December 31, 2019, CFE has fixed assets amounting to $21,995,856 and $21,995,856, respectively, related to the CAT trusts referred to above.

Coal Terminal of the Thermoelectric Power Station Presidente Plutarco Elias Calles.

Trust fund	Role of CFE		Trustee
	Trustor	Trust Beneficiary	
Coal Terminal of the Thermoelectric Power Station Presidente Plutarco 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-Sep 2020
Petacalco Coal	$103,217

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 September 30, 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

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		**September30, 2020**		**September 30, 2019**
Domestic services	$	62,567,566	$	56,808,297
Commercial services		34,685,360		38,391,104
Services		10,238,904		11,274,977
Agricultural services		6,341,736		5,694,961
Industrial services		162,063,480		192,176,517
Total sales		275,897,046		304,345,856
Block for resale		590,137		1,130,732
Total electricity supply revenue		276,487,183		305,476,588
OTHER PROGRAMS				
Consumption in the process of being billed		-		2,689,932
Illegal uses		1,834,974		1,943,281
Measurement failure		1,094,099		1,778,703
Billing error		649,948		999,432
Total income obtained from other programs		3,579,021		7,411,348
Total revenue from the sale of electricity	**$**	**280,066,204**	**$**	**312,887,936**

19. Standards issued but not yet effective

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 SARS-COV-2, which originated in China at the end of 2019 and began to appear in Mexico in February 2020. 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 SARS-COV-2 has led to a downturn in the global economy and by extension, to a general reduction in the economic activity of most countries.

The SARS-COV-2 health contingency could have more of an impact on the Company from an economic and financial standpoint.

The risks that the pandemic poses for CFE may be classified into three main types:

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

Management has estimated that the potential effects of all three types of risk vary qualitatively and in their degree of intensity, but it is important to note that the electricity sector is "defensive" with respect to other sectors of the economy. CFE has implemented several specific measures to mitigate the financial, operational and labor risks posed by the health crisis.

An explanation of each of the three risks that management believes may have an 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 are a.1) lower electricity consumption and reductions in sales of electricity, and a.2) variations in exchange rates. The risks representing a positive potential impact include: a.3) lower interest rates, and a.4) lower fuel prices.

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

The measures that have been implemented to control the spread of the SARS-COV-2 virus in the country, including the self-isolation of the population, the suspension of non-essential activities, companies and industries, and the introduction of social distancing measures, have led to a slowdown in the country's economic activity, 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. No significant reductions in electricity consumption in the agricultural sector is expected since agriculture is considered an essential activity.

During the April 2020, CFE's electricity sales and revenue from the sale of electricity decreased by 7.0%. caused by social distancing and the paralysis of activities due to the COVID-2019 pandemic, although electricity consumption in households has increased as a result of social confinement, but the work stoppage in industries such as the automotive and cement industries, among others, has led to a drop in electrical demand.

It is expected that the return of activities will be gradual, which directly affects the trend of behavior and growth of electricity demand in the country.

a.2) Variations in exchange rates

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 of September 30, 2020, the peso to dollar exchange rate is $23.1325 pesos per dollar, which compared to the exchange rate as of December 31, 2019 of $18.8452 pesos per dollar, represents a depreciation of 20%.

The Company has leases in foreign currency, which represented a loss of $ 107,062 million pesos, which is reflected in the income statement as of September 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 (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 of September 30, 2020.

In addition, 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.

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 per day, 7 days a week.

CFE has achieved this continued capacity to operate by implementing the actions set forth in the "Health Safety Protocol for the Reincorporation of Activities in the Work Centers of Comisión Federal de Electricidad".

c) Occupational hazards

The Company has introduced a number 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 infections of SARS-COV-2

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

Given the changes in the economic environment of the country, changes in the electricity market, changes in the interest rate that impacts the discount rate used to determine the use value, exchange rate and the performance of the assets that are lower than expected, there are signs of impairment. Management has hired an external specialist to update the market value and impairment of long-lived assets. Results will be available until year-end closing.

Amendments to the collective labor agreement

On August 19, 2020, CFE and SUTERM reached a new agreement on the Collective Labor Agreement that shall govern the 2020-2022 period considering, among other aspects, the amendment of Clause 69 regarding retirement conditions of CFE’s employees, exclusively applicable to unionized personnel.

Regarding trusted staff, Clause 40 of the Collective Labor Agreement 2020-2022 indicates that their retirement conditions will be communicated by the board of CFE through specific guidelines that shall be published no later than six months after the signature of the new Collective Labor Agreement.

In compliance with the Ninth Provision, second paragraph of the “*Agreement through which are issued the general provisions regarding the assumption of the Federal Government of pension and retirement liabilities in charge of Comisión Federal de Electricidad”* (“Agreement”), published in the Official Gazette of the Federation on November 14, 2016, CFE informed the Public Credit Unit of SHCP, through official document DCF/0202/2020 of September 2,2020, the amendment to the Collective Labor Agreement mentioned before and instructed an independent expert the assessment of the impact on the labor liability of the Company.

In accordance with the Ninth Provision, third paragraph of the “Agreement”, on November 30, 2020 the CFE sent to SHCP, through official document DCF/0274/2020, the report that includes the financial impact of the amendment to the retirement requirements for unionized employees of CFE dated August 19, 2020, prepared by the independent expert.

According to the Fourth Provision of the “Agreement”, SHCP shall hire the services of an independent expert to review the amount of the impact on the labor liability of CFE derived from the amendments to the Collective Labor Agreement, the applied methodology, the maturity profile of the liability as well as all the other information provided by the State Productive Enterprise, that directly or indirectly contributes to such assessment.

In addition it indicates that the maturity profile of the liability reviewed by the independent expert shall serve as the basis to establish the payment profiles applicable for the issuance of securities. The result of the review shall be delivered by the independent expert within three months following to their hiring date. As of this date, the Company is waiting for the observations and opinion of SHCP and/or of the expert in regards to the report on the financial impact of the labor liability of CFE.

Once reconciled the impact assessment of the amendments to the Collective Labor Agreement 2020-2022 on the labor liability, the SHCP shall adjust the securities' value in accordance with the new payments' profile through credit to the bank account provided by CFE at least 15 business days before the maturity date of each security.

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.

21. Issuance of the condensed consolidated financial information

The condensed consolidated interim financial statements and notes will be approved by the Board of Directors. The Board of Directors has the power to amend the accompanying consolidated financial information. Subsequent events were considered to date.