

## **CFE's Environmental, Social and Corporate Governance overview as part of its 2022-2026 Business Plan**

This document is an extract of the content related to the CFE's Environmental, Social and Corporate Governance culture considered in its 2022-2026 Business Plan. CFE's Business Plan is presented every year and it defines the Company's strategic goals for a five-year period.

Article 13th of the "*Ley de la Comisión Federal de Electricidad*" states that CFE must prepare and update, every year, a Business Plan for the following five years. Article 12<sup>th</sup> of the same Law establishes the review, update, and approval of the Business Plan as one of the main roles of the Company's Board of Directors.

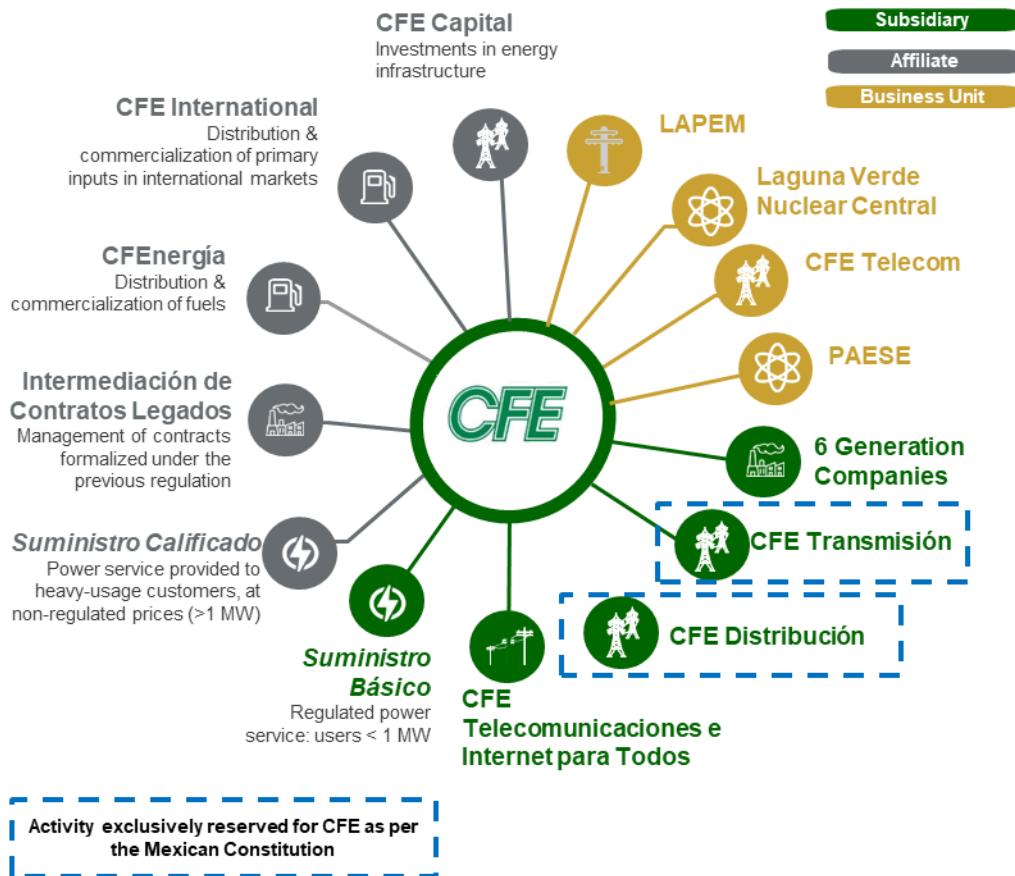
CFE's current 2022-2026 Business Plan was authorized by the Company's Board of Directors on its 41<sup>st</sup> Ordinary Session held on December 15<sup>th</sup>, 2021.

In its 2021-2025 version, CFE's Business Plan addressed, for the first time, social responsibility policies that included a non-financial information report reflecting the company's commitment to develop Environmental, Social and Governance (ESG) culture and policies. These policies became relevant and are considered in the 2022-2026 Business Plan as one of the main drivers of the strategic planning of the company.

### **CFE is Productive State Company**

CFE is an electric power company operating as a Productive State Company (Empresa Productiva del Estado), wholly owned by the Mexican Government. CFE is made up of ten Subsidiaries (Empresas Productivas Subsidiarias), five Affiliates (Empresas Subsidiarias) and four Business Units (Unidades de Negocio). Nine of CFE's ten Subsidiaries are responsible of providing public energy services to its users through six generation, one transmission, one distribution and one basic supply companies.

## CFE's current structure



### Mission

*Supply the energy inputs and goods required for the productive and social development of the country in an efficient, sustainable, economic, and inclusive manner, through a policy that prioritizes security and national energy sovereignty and strengthens the public electricity service.*

### Vision

*Consolidate ourselves as the leading energy company in Mexico, with technical and financial solvency, which seeks to strengthen our human capital and guarantees quality and social sense electric power service to our customers in all market segments, to contribute to the sustainable development of the country, generating economic value and profitability for the Mexican State.*

CFE addresses social responsibility policies in its strategic planning by including objectives, strategies, and specific lines of action in its 2022-2026 Business Plan. Starting in 2025, the company will also provide a non-financial information report reflecting the company's commitment to develop ESG culture which will be duly updated and published on its web site. The eight strategic objectives of CFE's 2022-2026 Business Plan are:

- 1 Increase CFE's productivity to generate economic value and profitability for the Mexican State, prioritizing electricity supply safety** 
- 2 Maintain the company's majority stake of electricity generation nationwide** 
- 3 Contribute to the sustainable development and to reduce Greenhouse Gas emissions** 
- 4 Increase and diversify CFE's income through the development of new business** 
- 5 Reduce financial, commercial and operational damages to CFE derived from regulatory asymmetries** 
- 6 Strengthen the internal control of processes through comprehensive risk management, counter corruption, and institutional management, while fostering human capital development** 
- 7 Improve user satisfaction and the Company's institutional image before society** 
- 8 Improve CFE's financial profitability and its cash flow, guaranteeing the availability of operational and investment resources** 

**ESG related strategic objectives in CFE's 2022-2026 Business Plan are:**

### Environmental Care

**Objective 3: Contribute to sustainable development in Mexico and the reduction of Greenhouse Gas emissions.**

The 2019-2024 National Development Plan “*Plan Nacional de Desarrollo*” establishes that the Energy Policies of Mexico will promote sustainable development by incorporating people and communities in the energy generation process with sustainable sources. The energy transition will promote the emergence of a new social sector and will encourage the reindustrialization of the country.

CFE must help fulfill the international commitments acquired by Mexico on GHG emissions and must comply with the objectives established in the General Law on Climate Change and the Energy Transition Law, which establish that Mexico must generate 35% of its electricity with renewable sources by 2024.

To achieve these goals, CFE's 2022-2026 Business Plan actions consist of:

- Reduce CO<sub>2</sub> emissions in electricity generation. The commitments established in the General Law on Climate Change define the public policies on climate change and GHG emissions, which for the electric industry are measured through the reduction of the amount of CO<sub>2</sub> emissions, mostly in electricity generation.

- Develop energy efficient projects. The “*Programa de Ahorro de Energía del Sector Eléctrico (PAESE)*” Business Unit, has among its main objectives the development, planning, and control of the energy savings and efficient use strategies among CFE’s corporate offices, its Subsidiaries and Affiliates.
- Electromobility. Under the supervision of the “PAESE”, CFE will install EV charging stations on selected cities and strategic routes within Mexico to reduce the impact of GHG emissions related to motor vehicles.
- Modernize and diversify the electricity generation process through sustainable sources, always prioritizing the reliability of the National Electric System by promoting clean energy projects and modernizing and enhancing existing hydroelectric plants.

#### **Objective 8: Improve CFE’s financial profitability and cash flow generation.**

CFE must undertake the necessary actions to be recognized as a Socially Responsible Company and enforce the compliance with its Environmental, Social and Governance (ESG) non-financial framework policies.

CFE plans to incorporate the concept of sustainability into its organizational culture by sharing and promoting the ESG Framework among its employees.

CFE is committed to guarantee compliance with existing environmental regulations, to develop and promote environmentally friendly corporate policies, to improve its relations with groups affected by its business activities and to strengthen its relations with investors. This is the first time that these efforts have been included in a corporate strategy aimed at all its companies, employees, and stakeholders.

To incorporate this vision into CFE’s corporate agenda and address the growing concerns of investors regarding ESG issues, CFE will introduce sustainability concepts throughout its management, processes, and business strategies to create a long-term understanding of the economic and social impacts of these policies.

For CFE it is a priority to appropriately manage its financing liability and financial risks by improving its debt maturity profile, using traditional and non-traditional financial instruments, including green and social bonds, which can be used to finance clean, energy efficiency and social inclusion projects and activities, always complying with debt ceiling approved through investment returns, and by hedging exchange rate, interest rates and commodity price volatility risks.

### **Social Responsibility Approach**

#### **Objective 1: Increase CFE’s productivity to generate economic value and profitability for the Mexican state.**

The electricity sector is strategic for the country's development. Therefore, CFE must make its substantive processes more efficient to promote economic growth and improve the living conditions of the population throughout the country.

## **Objective 4: Increase and diversify CFE's income through the development of new business lines.**

To help promote economic and social development in Mexico, CFE will establish several plans and programs to optimize the use of its assets aiming to increase income and social services through the development of new businesses, such as Internet for Everyone "*Internet para todos*", which will use CFE's existing infrastructure. CFE will develop this project with its Subsidiary "*CFE Telecomunicaciones e Internet para Todos*" with the intent to guarantee the right of access to information technologies, communication, and broadband internet and reduce the Digital Divide in the country.

## **Objective 7: Improve user satisfaction and our institutional image on a nationwide basis.**

CFE focuses on increasing the quality of its services and positioning its brand among its customers by promoting a social sense in all its processes, with the belief that user satisfaction relies on the principles of quality, reliability, continuity, safety, and sustainability of the services provided.

To address this, CFE will carry out the following activities:

- Improve customer care and service by increasing coverage and cost-benefit ratio. CFE's Basic Supply Provider (*Suministrador de Servicios Básicos*) will implement the actions needed to improve customer services with new technologies aimed at having a closer contact with the users to achieve greater customer satisfaction and better brand positioning.
- Increase the coverage of energy services based on the principles stated above. As of June 30<sup>th</sup>, 2021, 99.12% of the country was electrified, about one million inhabitants in 12,380 communities throughout Mexico's 32 States lack access to electricity. To address this, CFE's Distribution Subsidiary has established connections with local and federal authorities to identify and prioritize the expansion needs.
- Community approach. The energy policies of the Mexican government are aimed at promoting and consolidating a sustainable national development with the direct involvement of the population and communities affected by the generation, expansion and consolidation of the CFE's electric infrastructure.
- Implement Social Responsibility policies. CFE is addressing specific criteria in the decision-making processes related to its Strategic Objectives by using its framework to better manage and report issues related to its Environmental, Social and Corporate Governance. Social factors related to assessing the potential impact that infrastructure expansion projects may have on communities and on non-financial results of CFE will play a fundamental role on investment decisions for both local and foreign lenders. This makes the implementation of ESG criteria in all of CFE's processes a priority for complying with its future expansion and corporate agenda.

**Objective 6: Strengthen the internal control of processes through a comprehensive management of risks, counter corruption, and institutional management, while fostering human capital development.**

- Implement CFE's Anti-Corruption Program “*PANT*”. CFE's Internal Control Coordination (Coordinación de Control Interno) is responsible for the implementation and monitoring of the “*PANT*” together with the areas responsible of complying with the program's objectives, strategies, and actions.
- Implement CFE's Gender Equality and Inclusion Program 2020-2024.