



**Comisión Federal de Electricidad  
Productive State Enterprise**

Consolidated financial statements  
for the six-month period ended June 30, 2020  
and December 31, 2019

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

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

	June 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>	<b>249,650,318</b>	<b>197,545,547</b>
Cash and cash equivalents	139,031,769	89,339,037
Accounts receivable, net	92,787,237	86,672,573
Inventory of materials for operation, net	17,831,312	21,533,937
Loans to employees	<b>14,507,592</b>	<b>13,777,331</b>
Plants, facilities and equipment, net	<b>1,194,815,416</b>	<b>1,211,303,642</b>
Derivative financial instruments	<b>36,495,033</b>	<b>4,064,335</b>
Intangibles and other assets	<b>43,316,504</b>	<b>38,638,866</b>
Right-of-use assets, net	<b>503,368,323</b>	<b>474,376,421</b>
Deferred tax assets	<b>166,278,353</b>	<b>167,193,651</b>
<b>TOTAL ASSETS</b>	<b>2,208,431,539</b>	<b>2,106,899,793</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>	<b>173,125,496</b>	<b>157,333,955</b>
Short-term debt	74,220,108	53,896,883
Other payables and accrued liabilities	78,654,619	86,174,643
Income tax	574,726	6,187,524
Lease liabilities	19,676,043	11,074,905
<b>Non current</b>	<b>1,478,760,225</b>	<b>1,306,288,032</b>
Long-term debt	334,796,946	299,531,948
Long - term employee benefits	427,372,988	426,860,559
Other long-term liabilities	24,530,285	23,057,199
Lease liabilities	692,060,006	556,838,326
<b>TOTAL LIABILITIES</b>	<b>1,651,885,721</b>	<b>1,463,621,987</b>
<b>EQUITY</b>		
<b>EQUITY</b>	<b>556,545,818</b>	<b>643,277,806</b>
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	32,363,064	129,091,017
Other comprehensive income	411,187,981	400,029,910
Non-controlling interests	17,985,105	19,147,211
<b>LIABILITIES AND EQUITY</b>	<b>2,208,431,539</b>	<b>2,106,899,793</b>

**COMISIÓN FEDERAL DE ELECTRICIDAD**  
**Productive State Enterprise and Subsidiaries**  
**Condensed consolidated statements of comprehensive income**  
**For the 6-month period ended June 30, 2020 and 2019**  
**(Amounts in thousands of Mexican pesos)**

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

	As of June	
	2020	2019
<b>Revenues</b>	<b>\$247,623,333</b>	<b>\$259,220,673</b>
Electricity supply service revenue	\$180,459,639	\$196,394,645
Third party fuel revenue	\$9,705,666	\$23,185,425
Freight revenue	\$5,061,558	\$5,750,328
Subsidy income	\$42,000,000	\$26,042,900
Other income, net	\$10,396,470	\$7,847,375
<b>Costs</b>	<b>\$185,503,176</b>	<b>\$246,104,463</b>
Energy and other fuel supplies	\$72,571,985	\$122,091,514
Energy and other fuel supplies third party	\$11,053,646	\$22,861,181
Salaries and related costs	\$32,533,046	\$32,447,451
Maintenance, materials and general services	\$9,593,940	\$12,563,741
Taxes and duties	\$1,245,955	\$1,266,785
Wholesale Electricity Market (MEM) costs	\$1,528,837	\$1,527,265
Employee benefits costs	\$18,210,806	\$17,366,999
Depreciation	\$34,679,936	\$35,350,011
Other expenses	\$4,085,025	\$629,516
<b>OPERATING INCOME (LOSS)</b>	<b>\$62,120,157</b>	<b>\$13,116,210</b>
<b>Net finance costs</b>	<b>\$157,763,963</b>	<b>\$9,207,205</b>
Finance expense, net	\$7,746,257	\$5,047,018
Interest expense	\$23,880,867	\$19,495,655
Foreign exchange loss (gain), net	\$126,136,839	(\$15,335,468)
<b>NET INCOME (LOSS) BEFORE INCOME TAX OTHER COMPREHENSIVE INCOME</b>	<b>(\$95,643,806)</b>	<b>\$3,909,005</b>
<b>Income tax</b>	<b>\$1,137,432</b>	<b>\$4,932,310</b>
<b>NET INCOME (LOSS)</b>	<b>(\$96,781,238)</b>	<b>(\$1,023,305)</b>

## Comisión Federal de Electricidad, Productive State Enterprise and Subsidiaries

### Condensed Consolidated Statements of Changes in Equity

For the 6-month period ended June 30, 2020 and December 31, 2019

(Thousands of pesos)

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

	Contributions received from the Federal Government	Contributions in kind from the Federal Government	Accumulated results	Other comprehensive income (loss) items	Total equity controlling interests	Total equity non- controlling interest	Total Equity
Balances as of December 31, 2018	\$ 5,251	\$ 95,004,417	\$ 108,125,282	\$ 466,085,725	\$ 669,220,675	\$ 17,496,643	\$ 686,717,318
Comprehensive income of the period	-	-	20,965,736	(66,055,816)	(45,090,080)	4,707,960	(40,382,120)
Issue of shares	-	-	-	-	-	(905,969)	(905,969)
Dividends	-	-	-	-	-	(2,151,423)	(2,151,423)
Balance as of December 31, 2019	\$ 5,251	\$ 95,004,417	\$ 129,091,018	\$ 400,029,909	\$ 624,130,595	\$ 19,147,211	\$ 643,277,806
Comprehensive income of the period	-	-	(96,727,954)	11,158,072	(85,569,882)	(53,284)	(85,623,166)
Issue of shares	-	-	-	-	-	(521,051)	(521,051)
Dividend decree	-	-	-	-	-	(587,771)	(587,771)
<b>Balance as of June 30, 2020</b>	<b>\$ 5,251</b>	<b>\$ 95,004,417</b>	<b>\$ 32,363,064</b>	<b>\$ 411,187,981</b>	<b>\$ 538,560,713</b>	<b>\$ 17,985,105</b>	<b>\$ 556,545,818</b>

**Comisión Federal de Electricidad, Productive State Enterprise and Subsidiaries**

For the 6-month period ended June 30, 2020 and 2019

Condensed Consolidated Statements of Cash Flows

(Thousands of pesos)

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

	June 30 2020	June 30 2019
Cash flows from operating activities:		
Net loss	\$ (96,781,238)	\$ (1,023,305)
Operating activities:		
Employee benefits costs	512,429	17,366,999
Increase in provisions of deferred and current income tax	1,137,432	4,932,310
Investing activities:		
Depreciation and right-of-use assets	34,679,936	34,777,532
Disposal of plants, facilities and equipment	8,097,730	(6,958,016)
Foreign exchange loss, interest expense and changes in financial derivative instruments fair value	150,629,693	12,254,380
Changes in operating assets and liabilities:		
Accounts receivable and loans to employees	(6,844,924)	(15,605,650)
Inventory of materials for operation	3,702,625	(1,534,003)
Other assets	(4,677,640)	(11,320,415)
Other payables and accrued liabilities	(11,881,952)	(350,238)
Payments to employees benefits	-	(13,561,627)
Net cash flows from operating activities	<u>78,574,091</u>	<u>18,977,967</u>
Cash flows from Investing activities	<u>(10,902,551)</u>	<u>(21,026,181)</u>
Cash flows from financing activities:		
Proceeds from debt	36,228,581	16,896,867
Non-controlling interest contribution Fibra E	(521,051)	(594,886)
Dividends paid	(587,771)	-
Payment of debt	(20,394,256)	(14,790,012)
Interest paid	(13,224,026)	(10,623,791)
Payment of lease obligations	(17,260,182)	(6,276,379)
Payment of financial instruments	(2,220,103)	(2,309,465)
Net cash from financing activities	<u>(17,978,808)</u>	<u>(17,697,666)</u>
Cash excess of financial activities	<u>49,692,732</u>	<u>(19,745,880)</u>
Cash and cash equivalents:		
At beginning of period	<u>89,339,037</u>	<u>78,483,263</u>
At end of period	\$ <u><u>139,031,769</u></u>	\$ <u><u>58,737,383</u></u>

## **1. Incorporation, Business Purpose and Relevant Events**

- **Incorporation and business purpose**

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

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

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

- **Relevant Events**

### **Asset reorganization**

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

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

- To enhance the operational and administrative efficiency of each regional company based on the organization that was in place prior to the entry into force of the Terms for the Strict Legal Separation of CFE.
- The operational regionalization of the assets of the hydroelectric plants shall be grouped in a way that gives priority to the common river basins so as to ensure the security and optimal management of the water supply and reservoirs.
- The redistribution shall affect only the plants operated by the EPS's of CFE and shall not involve any of the external legacy plants that are part of EPS Generación V.

- In light of the high degree of reliability and security of the National Electric System, it was decided to have the Mobile Emergency Units be part of the Unregulated Business Office in order to facilitate faster decision-making and the rapid mobilization of assets in response to the needs of the National Electric System in the various regions of the country.
- To maintain in the Company the business unit that includes the Laguna Verde Power Plant that participates in the Wholesale Electricity Market (MEM).
- The existence of Legacy Contracts with CFE Suministrador de Servicios Básicos (SSB).

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

#### **CFE Telecomunicaciones e internet para todos**

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

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

## **2. Basis of preparation of the condensed consolidated financial statements**

### **a) Basis of accounting**

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

### **b) Basis of preparation**

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

**c) Functional currency and presentation of financial statements**

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

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

**d) Unaudited condensed consolidated statements of comprehensive income**

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

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

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

**a) Cash and cash equivalents**

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

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



**b) Financial instruments**

**i) Initial recognition and measurement**

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

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

**ii) Classification and subsequent measurement - Financial assets**

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

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

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

1. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
2. The contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**iii) Derivative financial instruments and hedge accounting**

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

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

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

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

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

**c) Plants, facilities and equipment**

i) Recognition and measurement

Plants, facilities and equipment are initially measured at cost.

Plants, facilities and equipment in operation, used for the generation, transmission and/or distribution of electricity are recognized in the statement of financial position at their revalued amount, and fair value is determined as 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.

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

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

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

In 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:

	<b><u>Useful life (in years)</u></b>
Buildings	20
Office furniture and equipment	10
Computer equipment	4
Transportation equipment	4
Other assets	10

Land is not depreciated.

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

iv) Subsequent expenditure

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

**d) Leases**

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

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

i. As a lessee

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

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and 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 early.

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

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

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

#### *Short-term leases and leases of low-value assets*

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

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

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

#### **e) Fair value measurement**

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

**COMISIÓN FEDERAL DE ELECTRICIDAD, Productive State Enterprise and subsidiaries**  
**Notes to the condensed consolidated financial statements for the six-month period ended June 30,**  
**2020 and December 31, 2019**  
**(Amounts expressed in thousands of Mexican pesos, unless explicitly indicated otherwise)**

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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 six-month period ended as of June 30, 2020 and as of December 31, 2019:

	<u>2020</u>	<u>2019</u>
Financial assets		
Cash and cash equivalents (2)	\$ 139,031,769	\$ 89,339,037
Accounts receivable (2)	92,787,237	86,672,574
Loans to employees (2)	14,507,592	13,777,331
Derivative financial instruments (1)	<u>36,495,033</u>	<u>4,064,335</u>
Financial liabilities		
Short-term debt (2)	\$ 74,220,108	\$ 53,896,802
Long-term debt (2)	334,796,946	299,531,948
Short-term lease liability (1)	19,676,043	11,074,905
Long-term lease liability (1)	692,060,006	556,838,326
Suppliers and contractors (2)	36,236,987	37,808,697
Deposits from customers and contractors (2)	<u>28,128,696</u>	<u>28,945,790</u>

(1) Fair value

(2) Amortized cost

**Objectives of financial risk management**

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

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

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

**Liquidity risk**

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

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

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

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

As of June 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	\$ 58,394,617	\$ 2,939,276	\$ 54,614,296	\$ 125,159,066	\$ 241,107,255
PIDIREGAS debt	15,825,491	26,920,151	24,261,177	100,902,981	167,909,800
Lease liabilities	19,676,043	15,195,579	30,166,817	646,697,610	711,736,049
Suppliers and contractors	36,236,987	-	-	-	36,236,987
Other liabilities	534,162	-	-	-	534,162
<b>Total</b>	<b>\$ 130,667,300</b>	<b>\$ 45,055,006</b>	<b>\$ 109,042,290</b>	<b>\$ 872,759,657</b>	<b>\$ 1,157,524,253</b>



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<b>As of June 30,2020</b>	<b>Less than one year</b>	<b>More than 1 year and less than 3 years</b>	<b>More than 3 years and less than 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Interest payable on documented debt	12,083,155	20,348,388	16,675,663	53,995,240	103,102,446
Interest payable on PIDIREGAS debt	9,077,993	15,594,198	12,447,895	44,221,853	81,341,940
Interest payable on lease liabilities	22,474,751	21,981,971	42,109,784	246,134,177	332,700,684
<b>As of December 31, 2019</b>	<b>Less than one year</b>	<b>More than 1 year and less than 3 years</b>	<b>More than 3 years and less than 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Documented debt	\$ 39,736,933	\$ 24,962,181	\$ 44,681,062	\$ 107,982,189	\$ 217,362,365
PIDIREGAS debt	14,159,869	23,470,069	21,767,411	76,669,036	136,066,385
Lease liabilities	11,074,904	8,682,410	21,774,620	526,381,297	567,913,231
Suppliers and contractors	30,808,697	-	-	-	30,808,697
Other liabilities	2,965,536	-	-	-	2,965,536
<b>Total</b>	<b>\$ 98,745,939</b>	<b>57,114,660</b>	<b>88,223,093</b>	<b>711,032,522</b>	<b>955,116,214</b>
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

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

### **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.

	<b>Total debt as of June 30, 2020 (amounts in millions of pesos)</b>	<b>Total debt as of December 31, 2019 (amounts in millions of pesos)</b>
Local currency	151,346	162,662
Foreign currency	255,567	188,430

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

### **Fair value of financial instruments**

#### **Measurement of fair values**

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

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

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

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

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

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

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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	\$ 139,031,769	\$ 139,031,769	\$ 89,339,037	\$ 89,339,037
Accounts receivable	112,734,958	112,734,958	86,672,574	86,672,574
Loans to workers	14,507,592	14,507,592	13,777,331	13,777,331
Suppliers and contractors	36,236,987	36,236,987	37,808,697	37,808,697
Lease liabilities	711,862,288	711,862,288	567,913,231	567,913,231
Documented debt	241,107,255	245,499,414	217,362,365 *	240,066,531
PIDIREGAS debt	167,909,800	212,067,361	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 that the counterparty provide a new valuation.

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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:

	<b>Level 1</b>	
	<b>2020</b>	<b>2019</b>
<b>Available-for-sale financial assets</b>		
Temporary investments	\$ 57,622,676	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 June 30, 2020 and December 31, 2019 is as follows:

	<b>2020</b>		<b>2019</b>
Cash on hand and cash in banks	\$ 80,987,697	\$	68,049,530
Short-term investments	58,035,251		21,280,686
Stock certificates	8,821		8,821
Total	\$ 139,031,769	\$	89,339,037

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**6. Accounts receivable, net**

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

	<b>2020</b>	<b>2019</b>
Public consumers (*)	\$ 56,587,647	\$ 52,546,042
Government agency consumers (*)	23,706,963	24,118,163
	<u>80,294,610</u>	<u>76,664,205</u>
Impairment of receivables	(29,289,128)	(27,328,830)
	<u>51,005,482</u>	<u>49,335,375</u>
Other accounts receivable	27,879,830	28,690,189
Value added tax	13,901,925	8,647,010
	<u>13,901,925</u>	<u>8,647,010</u>
<b>Total</b>	<b>\$ <u>92,787,237</u></b>	<b>\$ <u>86,672,574</u></b>

(\*) 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 June 30, 2020 and December 31, 2019 is as follows:

	<b>2020</b>	<b>2019</b>
Opening balance	\$ (27,328,830)	\$ (28,446,893)
Increase	(1,960,298)	(361,980)
Charges	-	1,480,043
Ending balance	<u>\$ (29,289,128)</u>	<u>\$ (27,328,830)</u>

**7. Inventory of materials for operation**

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

	<b>2020</b>	<b>2019</b>
Spare parts and equipment	\$ 2,850,167	\$ 2,797,498
Fuel and lubricants	14,324,353	19,140,583
Nuclear fuel	3,767,349	3,969,405
	<u>20,941,869</u>	<u>25,907,486</u>
Allowance for obsolescence	(3,110,557)	(4,373,549)
Total	<u>\$ 17,831,312</u>	<u>\$ 21,533,937</u>

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**8. Plants, facilities and equipment, net**

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

	Plants, facilities and equipment, net				
	December 31, 2019	Additions	Retirements	Depreciation for the period	June 30, 2020
Plants, facilities and equipment	2,146,097,218	\$10,902,552	(24,591,154)	-	2,132,408,616
Capitalized spare parts	7,451,766	-	(871,813)	-	6,579,953
Construction in progress	26,130,582	-	(51,471)	-	26,079,111
Advances and materials for construction	11,310,744	-	(950,942)	-	10,359,802
Subtotal	2,190,990,310	\$10,902,552	(26,465,380)	-	2,175,427,482
Accumulated depreciation	(896,064,974)	-	18,367,649	(19,293,049)	(869,990,374)
Impairment	(83,621,693)	-	-	-	(83,678,715)
Total	\$1,211,303,643	\$10,902,552	(8,097,731)	(19,293,049)	\$1,194,815,415

	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
Impairment of property, plant and equipment	(57,014,443)
Reversal of impairment of property, plant and equipment	10,692,620
<b>Total</b>	<b>\$ 27,466,275</b>

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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 \$27,466,275.

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 June 30, 2020, the useful lives of the plants with modern technology are as follows:

<u>Power stations</u>	<u>Estimated useful life</u>
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 June 30, 2020 and December 31, 2019 are as follows:

<b>Plant:</b>	<u>2020</u>	<u>2019</u>
Steam	17,500	5,380
Hydroelectric	1,118,576	1,183,167
Nuclear power	199,460	248,696
Turbo gas and combined cycle	11,552,528	11,258,752
Geothermal	176,395	176,395
Transmission lines, networks and substations	10,930,117	11,650,574
Offices and general facilities	2,084,535	1,607,618
<b>Total</b>	<b><u>26,079,111</u></b>	<b><u>26,130,582</u></b>

Fair value measurement

i. Fair value hierarchy

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

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 June 30, 2020 and December 31, 2019 are as follows.



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	<u>2019</u>	<u>Additions</u>	<u>Effect from translation</u>	<u>Depreciation for the year</u>	<u>2020</u>
Real estate	\$ 609,464	\$ 40,752	\$ 4,822	\$ -	\$ 655,038
Vehicles	-	4,173,989			4,173,989
Infrastructure	135,185,806	19,179,358	-	-	154,365,164
Gas pipelines	<u>440,537,932</u>		<u>20,979,868</u>	-	<u>461,517,800</u>
Subtotal	<u>576,333,202</u>	<u>23,394,099</u>	<u>20,984,690</u>	-	<u>620,711,991</u>
Accumulated depreciation	<u>(101,956,781)</u>	-		<u>(15,386,887)</u>	<u>(117,343,668)</u>
	<b>\$ <u>474,376,421</u></b>	<b>\$ <u>23,394,099</u></b>	<b>\$ <u>20,984,690</u></b>	<b>\$ <u>(15,386,887)</u></b>	<b>\$ <u>503,368,323</u></b>
	<u>2018</u>	<u>Additions</u>	<u>Effect from translation</u>	<u>Depreciation for the year</u>	<u>2019</u>
Real estate	\$ 546,838	\$ 62,626	\$ -	\$ -	\$ 609,464
Infrastructure	112,010,062	23,175,744	-	-	135,185,806
Gas pipelines	<u>315,882,435</u>	<u>128,452,826</u>	<u>(3,797,328)</u>	-	<u>440,537,933</u>
Subtotal	<u>428,439,335</u>	<u>151,691,196</u>	<u>(3,797,328)</u>	-	<u>576,333,203</u>
Accumulated depreciation	<u>(81,638,765)</u>	-	-	<u>(20,318,017)</u>	<u>(101,956,782)</u>
	<b>\$ <u>346,800,570</u></b>	<b>\$ <u>151,691,196</u></b>	<b>\$ <u>(3,797,328)</u></b>	<b>\$ <u>(20,318,017)</u></b>	<b>\$ <u>474,376,421</u></b>

## 10. Intangibles and other assets

An analysis of intangibles and other assets as of June 30, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Rights of way (1)	\$ 32,651,170	\$ 29,394,733
Deposits and advances	10,665,335	9,244,132
Total	<u>\$ 43,316,505</u>	<u>\$ 38,638,865</u>

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

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

## **11. Derivative financial instruments**

### **a. Accounting classifications and fair values**

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

Also, for the six-month period ended June 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 June 30, 2020 and December 31, 2019 amounted to \$36,495,033 and \$4,064,335, respectively.

### **Derivative Financial Instruments Held for Trading**

As of June 30, 2020 and December 31, 2019, CFE had derivatives designated as held for trading whose fair value represented a liability of \$1,308,405 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.

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

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

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

Thousands of pesos				
Instrument	Underlying	Maturity	2020	2019
FWD JPY/USD	Exchange rate and interest rate	2036	(1,308,405)	(383,356)
IRS	Interest rate	2020		921
Total			<b>(1,308,405)</b>	<b>(382,435)</b>

### **Hedging instruments**

As of June 30, 2020 and December 31, 2019, CFE maintains its hedging derivative position on exchange rates and interest rates, were are as shown in the next page.

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<b>Instrument</b>	<b>Underlying</b>	<b>Type of hedge</b>	<b>Maturity</b>	<b>Primary position (lines/bonds)</b>	<b>Hedge ratio</b>	<b>June 30, 2020</b>	<b>December 31, 2019</b>
CCS	Exchange rate and interest rate	Cash flow	2021	1100000074 to 76	100%	769,401	285,635
CCS	Exchange rate and interest rate	Cash flow	2022	1100000077 to 79	100%	53,652	46,273
CCS	Exchange rate and interest rate	Cash flow	2023	1100000080	100%	2,662,554	218,468
CCS	Exchange rate and interest rate	Cash flow	2024	1100002956	100%	5,670,782	112,010
CCS	Exchange rate and interest rate	Cash flow	2027	1100003606	100%	5,814,837	378,283
CCS	Exchange rate and interest rate	Cash flow	2032	1200002801	100%	830,377	(69,692)
CCS	Exchange rate and interest rate	Cash flow	2036	1200000551 Pidiregas line	100%	3,525,383	2,428,905
CCS	Exchange rate and interest rate	Cash flow	2042	Bond 2042	55.3%	2,936,084	138,159
CCS	Exchange rate and interest rate	Cash flow	2047	Formosa 1 Bond	100%	3,023,146	(620,163)
CCS	Exchange rate and interest rate	Cash flow	2048	Formosa 2 Bond	100%	3,986,209	(576,661)
Participating Swap	Exchange rate and interest rate	Cash flow	2027	Bond 2027	100%	193,990	(101,611)
CCS	Exchange rate and interest rate	CCS	2045	Bond 2045	67%	5,945,662	2,340,350
CCS	Exchange rate and interest rate	CCS	2029	Formosa 2 Bond	30%	2,680,400	(37,310)
Forwards	Exchange rate	Cash flow	Less than one year	Sale of energy	100%	389	(69)
IRS	Interest rate	Cash flow	2020	1100003807, 1200001251 and 1200001451	100%	(3,073)	3,230
IRS	Interest rate	Cash flow	2023	Nafin line	100%	(244,942)	(97,305)
IRS	Interest rate	Cash flow	2029	1100004506	100%	(41,413)	
CCS	Exchange Rate/commodities	Cash flow	2020	Sale of energy	100%		(1,732)
				<b>Subtotal</b>		<b>37,803,438</b>	<b>4,446,770</b>
CCS	Exchange rate JPY/USD	Trading		Line of credit in yens	N/A	<b>(1,308,405)</b>	<b>(383,356)</b>
IRS	Interest rate		2020	1200001251			921
	<b>Total in thousands of Mexican pesos</b>					<b>36,495,033</b>	<b>4,064,335</b>

The table above includes the Mark to Market of the hedging derivatives. As of June 30, 2020 the total Mark to Market value of the hedging and trading derivatives amounts to \$36,495,033, 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).

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 June 30, 2020, before considering credit risk, amounts to \$38,941,147, 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.

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As of June 30, 2020, fair values adjustments based on the CVA (Credit Valuation Adjustment) are shown below:

Counterparty	Thousands of pesos		
	Fair value MTM subject to CVA	Adjusted fair value MTM	Adjustment as of June 30, 2020
BBVA Bancomer	512,282	507,149	5,133
BNP Paribas	779,388	732,254	47,134
CitiBanamex	17,031,453	15,940,345	1,091,108
Credit Agricole	5	5	-
Credit Suisse	1,663,411	1,570,188	93,223
Deutsche Bank	2,197,291	2,060,847	136,444
Goldman Sachs	4,167,413	3,794,456	372,957
HSBC	-244,348	(244,349)	-
JP Morgan	1,079,023	1,014,370	64,653
Morgan Stanley	5,253,735	4,969,656	284,079
SANTANDER	1,125,293	1,064,625	60,668
Barclays Bank	3,567,676	3,377,384	190,292
Bank of America	1,808,075	1,707,715	100,361
MONEX	450	388	61
	<b>38,941,147</b>	<b>36,495,033</b>	<b>2,446,113</b>

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

Counterparty	Thousands of pesos		
	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
	<b>4,088,632</b>	<b>4,064,335</b>	<b>24,297</b>

### **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 June 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 June 30, 2020 and December 31, 2019, this amounted to \$38,941,148 and \$4,088,632, respectively.

### **Liquidity risk**

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

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

Exposure to liquidity risk for holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of June 30, 2020 and December 31, 2019, \$1,598,186 and \$72,615, respectively.

### **Market risk**

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

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

#### *a) Currency exchange risk*

Of CFE's debt, 54% is denominated in foreign currency, mainly in US dollars, whereas most of CFE's assets and revenues are denominated in pesos. As a result, CFE is exposed to devaluation risks of the peso against the dollar. In conformity with its risk management policy, CFE has contracted currency swaps to reduce the impact of currency fluctuations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay a fixed rate in pesos. As of June 30, 2020 and December 31, 2019, CFE maintains foreign exchange swaps to hedge its foreign currency debt of \$158.822 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 June 30, 2020 and December 31, 2019 was \$1,308,405 and \$383,356, respectively. These derivative instruments were not designated as hedges.



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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 June 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:

<b>June 30, 2020</b>	<b>Instrument</b>	<b>+100 pips</b>	<b>-100 pips</b>
	Cross Currency	67,438	(67,438)
	JPY/USD	2,694	(2,694)
	FWD	1	(1)
	<b>Total</b>	<b>70,133</b>	<b>(70,133)</b>

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

*b) Interest rate risk*

Of CFE's debt, 27.5% bears interest at variable rates, which are determined by reference to the TIIE rate for debt denominated in pesos. As of June 30, 2020 and December 31, 2019, CFE hedged \$19,821 and \$5,350, respectively, of its variable interest rate debt denominated in pesos.

Interest rate sensitivity analysis

A potential and reasonable strengthening (weakening) of interest rates as of June 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:

<b>June 30, 2020</b>	<b>+ 100 basis points</b>	<b>- 100 basis points</b>
Interest rate swaps	198,218	(198,218)

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

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**12. Short-term and long-term debt**

An analysis of the Company's debt as of June 30, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Bank loans	\$ -	\$ 565,356
Documented debt	58,394,617	39,171,577
PIDIREGAS debt	<u>15,825,491</u>	<u>14,159,869</u>
<b>Total short-term debt</b>	<b>74,220,108</b>	<b>53,896,802</b>
Documented debt	182,712,638	177,625,432
PIDIREGAS debt	<u>152,084,308</u>	<u>121,906,516</u>
<b>Total long-term debt</b>	<b>334,796,946</b>	<b>299,531,948</b>
Total debt	<u>\$ 409,017,054</u>	<u>\$ 353,428,750</u>

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 June 30, 2020
Bank loan	565,356	-	(565,356)	-	-
Documented debt	216,797,009	13,584,480	(14,125,438)	24,851,204	241,107,255
Pidiregas debt	<u>136,066,385</u>	<u>22,644,100</u>	<u>(6,268,818)</u>	<u>15,468,132</u>	<u>167,909,799</u>
Total	<u>353,428,750</u>	<u>36,228,580</u>	<u>( 20,959,612)</u>	<u>40,319,336</u>	<u>409,017,054</u>

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	<u>131,085,031</u>	<u>22,651,044</u>	<u>( 14,709,494)</u>	<u>( 2,960,197)</u>	<u>136,066,385</u>
Total	<u>354,624,984</u>	<u>44,163,417</u>	<u>( 38,017,119)</u>	<u>( 7,342,533)</u>	<u>353,428,750</u>

**Documented debt**

An analysis of the documented debt balances as of June 30, 2020 and December 31, 2020, were are as shown in the next page.

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EXTERNAL DEBT				2020		2019	
External debt	Type of credit	Weighted interest rate	Maturities	National currency	Foreign currency (thousands)	National currency	Foreign currency (thousands)
In US dollars at the Exchange rate							
US dollar of 22.9715 as of June 2020 and \$18.8452 as of December 2019	BILATERAL BONDS	Fixed and variable- 2.73%	Mature in 2023	10,608,412	461,808	1,531,535	81,269
	REVOLVERS	Fixed and variable- 5.26%	Mature in 2049	115,080,717	5,009,717	94,909,175	5,036,252
	SINDICATED	Fixed and variable- 3.36%	Mature in 2020	183,597	7,992	525,712	27,896
		Fixed and variable- 1.69%	2023	13,782,900	600,000	11,307,120	600,000
TOTAL US DOLLARS				139,655,626	6,079,517	108,273,544	5,745,418
In EUROS at the Exchange rate	BILATERAL	Fixed and variable - 2%	Mature in 2024	12,089	466	13,212	624
Euros of \$25.9258 as of June 2020 and \$21.175 as of December 2019	REVOLVERS	Fixed and variable - 1.05%	Mature in 2020	28	1	45	2
TOTAL EUROS				12,117	467	13,257	626
In SWISS FRANCS at the Exchange rate							
Swiss Franc of \$24.3684 as of June 2020 and \$19.4791 as of December 2019	REVOLVERS	Fixed and variable - 0.5%	Mature in 2021	3,508	144	34,019	1,746
TOTAL SWISS FRANC				3,508	144	34,019	1,746
In JAPANESE YENS at the Exchange rate							
Japanese Yen of \$0.2141 as of June 2020 and \$0.1736 as of December 2019	BILATERAL	Fixed and variable- 1.68%	Mature in 2021	30,069	140,445	131,887	759,720
				30,069	140,445	131,887	759,720
Bond		Fixed - 3.83%	2032	6,851,200	32,000,000	5,555,200	32,000,000
Assets received for financial instruments, net				(660,978)		(476,909)	
TOTAL JAPANESE YENS				6,190,222	32,000,000	5,078,291	32,000,000
				6,220,291	32,140,445	5,210,178	32,759,720
			TOTAL EXTERNAL DEBT	145,891,542	38,220,573	113,530,998	38,507,510

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INTERNAL DEBT-				2020		2019	
Internal debt	Type of credit	Weighted interest rate	Maturities	National currency	Foreign currency (thousands)	National currency	Foreign currency (thousands)
NATIONAL CURRENCY	BANK CONTRACTS	Fixed and variable - 6.4%	Mature in 2023	10,000,000		17,000,000	
	STOCK MARKET	Fixed and variable - 7.63%	Mature in 2027	63,987,330		65,487,330	
TOTAL PESOS:				<u>73,987,330</u>		<u>82,487,330</u>	
In UDIS at the Exchange rate							
UDI of \$6.4438 as of June 2020 and \$6.399 as of December 2019	STOCK MARKET	Fixed - 4.49%	2032	20,754,031	3,220,775	20,609,740	3,220,775
TOTAL UDIS				<u>20,754,031</u>	<u>3,220,775</u>	<u>20,609,740</u>	<u>3,220,775</u>
TOTAL INTERNAL DEBT				<u>94,741,361</u>		<u>103,097,070</u>	
Summary							
Total foreign debt				145,891,542		113,530,998	
Total domestic debt				94,741,361		103,097,070	
Interest payable				2,899,013		2,529,070	
Unamortized debt expenses				- 2,424,661		-2,360,129	
Total documented debt				<u>241,107,255</u>		<u>216,797,009</u>	
Short-term debt				55,495,604		36,642,507	
Long-term debt				185,137,299		179,985,561	
Interest payable				2,899,013		2,529,070	
Unamortized debt expenses				- 2,424,661		-2,360,129	
Total debt				<u>241,107,255</u>		<u>216,797,009</u>	

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

<u>June 30, 2020</u>	<u>Amount</u>
2020	27,266,397
2021	28,810,030
2022	1,705,364
2023	24,479,497
2024	30,149,549
2025	22,423,302
2026	1,423,097
Subsequent years	104,850,019
Total	241,107,255

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**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 June 30, 2020 and December 31, 2019 is as follows:

Credit value	Contract term	Balances as of June 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	
<b>External debt</b>										
-	millions of dollars	2019	-	-	-	-	-	-	-	
-	millions of dollars	2020	-	-	-	-	257,249	-	13,651	
29	millions of dollars	2026	103,952	571,736	4,525	24,889	85,279	511,677	4,525	
252	millions of dollars	2029	627,425	5,165,216	27,313	224,853	514,722	4,494,765	27,313	
341	millions of dollars	2032	1,383,810	6,455,981	60,240	281,043	1,135,240	5,863,933	60,240	
770	millions of dollars	2036	1,009,629	16,671,722	43,951	725,757	828,273	13,868,907	43,951	
51	millions of dollars	2039	-	1,178,093	-	51,285	-	966,476	-	
625	millions of dollars	2047	1,142,976	13,212,378	49,756	575,164	937,666	11,173,343	49,756	
1,307	millions of dollars	2048	1,232,239	28,789,923	53,642	1,253,289	1,010,913	24,246,530	53,643	
499	millions of dollars	2049	384,786	11,071,523	16,752	481,968	301,669	8,702,624	16,007	
900	millions of dollars	2050	689,144	19,985,206	30,000	870,000	-	-	-	
<b>Total external debt</b>			<b>6,573,961</b>	<b>103,101,778</b>	<b>286,179</b>	<b>4,488,248</b>	<b>5,071,011</b>	<b>69,828,255</b>	<b>269,088</b>	<b>3,705,360</b>

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**Internal debt**

-	millions of pesos	2018	-	-	-	-
-	millions of pesos	2019	-	-	-	-
22	millions of pesos	2020	21,651	-	23,258	-
1	millions of pesos	2021	1,486	-	1,486	743
984	millions of pesos	2022	505,897	478,145	505,897	719,852
55	millions of pesos	2023	27,223	27,516	27,223	41,128
2,235	millions of pesos	2024	498,004	1,737,392	541,567	2,166,266
533	millions of pesos	2025	193,308	339,318	193,308	435,972
21,424	millions of pesos	2026	3,777,438	17,646,288	3,683,640	19,210,836
-	millions of pesos	2027	-	-	-	-
3,828.58	millions of pesos	2028	432,869	3,395,709	413,028	3,487,726
15,171	millions of pesos	2033	1,405,348	13,765,475	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	683,815	10,287,068	681,961	10,629,470
<b>Total internal debt</b>			<b>7,630,703</b>	<b>48,973,709</b>	<b>7,495,845</b>	<b>52,069,439</b>
Interest payable						
<b>CEBURES</b>				8,821		8,821
<b>Total PIDIREGAS debt</b>			<b>14,204,664</b>	<b>152,084,308</b>	<b>12,566,856</b>	<b>121,906,515</b>

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

	<b>2020</b>	<b>2019</b>
PIDIREGAS	247,622,091	200,239,308
less:		
Unaccrued interest	<u>81,341,940</u>	<u>65,774,757</u>
Present value of obligations	166,280,151	134,464,551
less:		
Current portion of obligations	<u>14,204,664</u>	<u>12,566,856</u>
Long-term portion of PIDIREGAS	<u>152,075,487</u>	<u>121,897,695</u>
CEBURES	8,821	8,821
<b>Total CEBURES and PIDIREGAS</b>	<b><u>152,084,308</u></b>	<b><u>121,906,516</u></b>

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.



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**13. Lease liabilities**

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

	<b>2020</b>	<b>2019</b>
January 1st	\$ 567,913,231	\$ 456,445,996
Additions	23,394,102	151,674,080
Interest	15,712,097	23,889,828
Payments	(21,823,723)	(40,455,722)
Foreign currency translation reserve	19,604,136	( 4,032,854)
Exchange difference	106,936,207	(19,608,097)
	<hr/>	<hr/>
Total liabilities	\$ 711,736,050	\$ 567,913,231
Less portion of short-term liabilities	<hr/> 19,676,043	<hr/> 11,074,905
<b>Total long-term liabilities</b>	<b>\$ <u>692,060,006</u></b>	<b>\$ <u>556,838,326</u></b>

**14. Other accounts payable and accrued liabilities**

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

	<u>2020</u>	<u>2019</u>
Suppliers and contractors	\$ 36,236,987	\$ 37,808,697
Employees	5,676,332	5,054,394
Deposits from users and contractors	28,128,568	28,945,790
Other taxes and duties	2,013,255	2,273,976
Value added tax	6,065,315	9,126,331
Other liabilities	534,162	2,965,536
<b>Total</b>	<b>\$ <u>78,654,619</u></b>	<b>\$ <u>86,174,724</u></b>

**15. Other long-term liabilities**

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

	<u>2020</u>	<u>2019</u>
Third-party contributions	\$ 8,320,698	7,162,731
Decommissioning provision	9,006,593	14,090,661
Other provisions	<hr/> 7,202,994	<hr/> 1,803,806
<b>Total</b>	<b>\$ <u>24,530,285</u></b>	<b>\$ <u>23,057,198</u></b>

## **16. Employee benefits**

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

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

## **17. Contingencies and Commitments**

### **Contingencies**

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

#### **a. Natural gas supply contracts**

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

#### **b. Financed public work contracts**

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

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**Generation:**

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

**Renovation and/or modernization**

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

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

**c. Trusts**

1 Scope of action

- 1.1. CFE currently participates as Trustor or Beneficiary in 10 (ten) Trust Funds, of which two (two) are in the process of termination.
- 1.2. In conformity with its purpose and operating characteristics, the trust funds can be classified in the following groups:
  - a. Energy saving
  - b. Prior expenses
  - c. Work contract management
  - d. Indirect participation trust funds

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**a. Energy saving**

Trust funds to promote energy saving programs.

Trust fund	Role of CFE		
	Trustor	Trustee	Trust Beneficiary
Trust Fund for Energy Savings (FIDE), created on August 14, 1990	Creation of 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.	<p><b>a.</b> Electric energy consumers who are beneficiaries of the services rendered by the Trust fund.</p> <p><b>b.</b> CFE, only for the materials that will form part of the public energy services infrastructure.</p>
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 June 30, 2020 and December 31, 2019, the Housing Thermal Isolation Program (FIPATERM) Trust has assets of \$1,662,631 and \$1,621,252 and liabilities of \$78,113 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	<p><b>Primary beneficiary:</b> Contract winners</p> <p><b>Second beneficiary:</b> CFE</p>	Banobras, S.N.C.	Conditioned investment

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As of June 30, 2020 and December 31, 2019, the Administration of Prior Expenses Trust has assets of \$3,390,606 and \$3,186,199, and liabilities of \$3,089,642 and \$3,008,885, respectively.

The Administration and Transfer of Ownership Trust 2030 has assets of \$488,148.

**c. Work contract management**

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

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

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

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

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

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

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

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

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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.	<b>Primary beneficiary:</b> The foreign bank that is the common representative of the creditors; <b>Second beneficiary:</b> Compañía Samalayuca II, S.A. de C.V. <b>Third beneficiary:</b> CFE	Banco Nacional de México, S. A.

As of June 30, 2020, CFE has fixed assets amounting to \$21,995,856 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.	<b>Primary beneficiary:</b> Carbonser, S.A. de C.V. <b>Second beneficiary:</b> 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.

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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-Jun 2020
Petacalco Coal	\$68,473

**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	<b>Primary beneficiary:</b> Each of the preferred holders of each issue. <b>Second beneficiary:</b> 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	<b>Primary beneficiary:</b> Each of the preferred holders of each issue. <b>Second beneficiary:</b> CFE	Banamex

As of June 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.

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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	June30, 2020	June 30, 2019
Domestic services	37,854,412	33,723,001
Commercial services	22,972,960	24,103,390
Services	6,935,999	7,643,370
Agricultural services	4,158,245	3,677,728
Industrial services	106,284,890	121,324,520
Total sales	178,206,506	190,472,009
Block for resale	416,650	746,824
Total electricity supply revenue	178,623,156	191,218,833
OTHER PROGRAMS		
Illegal uses	1,008,134	1,505,118
Measurement failure	419,235	1,223,033
Billing error	409,114	771,646
Total income obtained from other programs	1,836,483	3,499,797
Other income	-	1,676,015
<b>Total revenue from the sale of electricity</b>	<b>180,459,639</b>	<b>196,394,645</b>



## **19. Standards issued but not yet effective**

### **A. Other standards**

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

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

## **20. Subsequent events**

### **COVID-19**

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

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

### **Decrease in the price of products and supplies**

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

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

Exchange rate peso - dollar

As a result of the world economic events described above, as of March 2020, the Mexican peso has experienced a significant depreciation against the dollar. As of June 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 mp, which is reflected in the income statement as of June 2020.

#### **21. Issue of the condensed consolidated financial information**

The condensed consolidated financial statements and notes thereto were approved by Management on July 23, 2020. The financial information will be approved by the Board of Directors at a subsequent date. The Board of Directors has the power to amend the accompanying consolidated financial information. Subsequent events were considered through June 30, 2020.