

**COMISIÓN FEDERAL DE ELECTRICIDAD,  
PRODUCTIVE STATE ENTERPRISE AND SUBSIDIARIES**

**INDEPENDENT AUDITORS' REPORT**

**AND CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2022 AND 2021**

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## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of  
Comisión Federal de Electricidad, Productive State Enterprise:**

### Opinion

We have audited the consolidated financial statements of **Comisión Federal de Electricidad, Productive State Enterprise and Subsidiaries** (CFE or "the Entity"), which comprise the consolidated statement of financial position as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements that include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Comisión Federal de Electricidad, Productive State Enterprise and Subsidiaries**, as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

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

### Key Audit Matters

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

1.

### ***Impairment Testing of Power Generation Plants.***

The Ukraine – Russia armed conflict and the logistical problems resulting from the COVID-19 pandemic generated the increase of the inflation rate and the debt cost, resulting in a series of impairment indicators in the long-lived assets which comprise the totality of the assets of each one of the Power Generation Plants of the Entity. With the support of external experts, the Entity carried out a study with the purpose of reviewing the cash flows of the financial models that were used to determine the fair value of the long-lived assets of CFE as of December 2021 and performed an analysis of the discount rate. The impairment exists when the carrying value of an asset or of a cash-generating unit exceeds their recoverable value, which is the greater between the fair value minus the sales costs and the usage value. The impairment study of the Power Generation Plants was complex and involved significant judgment from Management to estimate the universe to value, the discount rate and the expected cash flow projections.

*Our audit procedures to addressed this matter were:*

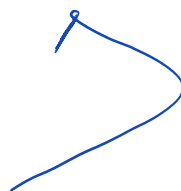
We obtained an understanding and we assessed the significant judgements made by Management and external specialists, we reviewed the source of information of the financial models and performed recalculations. In addition, we assessed the reasonableness of the discount rate applied, the useful life of the assets and the disclosures in the consolidated financial statements. We also involved our specialists to participate in the assessment of the significant assumptions and the methodology used by the Entity. As mentioned in Note 8 to the consolidated financial statements, the study concluded that there is impairment in the Power Generation Plants in the amount of \$12,267 million.

### ***Estimation for Expected Credit Losses***

The Entity estimates expected credit losses taking into account the probability of default, the severity of the loss and macroeconomic events. The estimation of provisions involves significant judgement and technical difficulty; these assessments are based on automated processes that incorporate large databases linked to complex estimation models.

*Our audit procedures to addressed this matter were:*

We held discussions with Management regarding the assumptions, we assessed the relevant controls linked to the estimation processes, we reviewed the integrity of the database and the seniority of the portfolio; we verified the probability of default calculation with the roll rates methodology, the methodology used to calculate the severity of the loss and the macroeconomic historical information.





## **Other Information**

Management is responsible for the other information additional to the financial statements and their corresponding notes. The other information comprises the Annual Report corresponding to the annual period ended on December 31, 2022, that shall be filed to the National Banking and Securities Commission and the Mexican Stock Exchange (Annual Report) but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is estimated will be available to us after the date of this auditor's report.

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

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

If when reading the Annual Report, we conclude that there is a material misstatement in the other information, we are required to report that fact to those charged with governance of the Company.

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

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

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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



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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

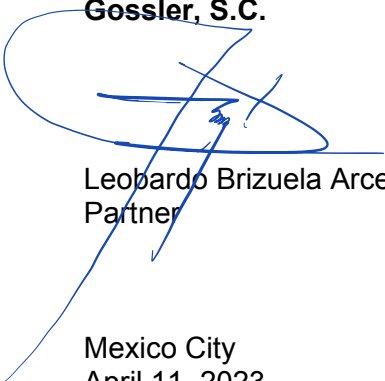
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

**Gossler, S.C.**



Leobardo Brizuela Arce  
Partner

Mexico City  
April 11, 2023

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

Consolidated statements of financial position

As of December 31, 2022 and 2021

(Thousands of pesos)

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

<b>Assets</b>	<b>2022</b>	<b>2021</b>	<b>Liabilities and equity</b>	<b>2022</b>	<b>2021</b>
Current assets:			Current liabilities:		
Cash and cash equivalents (note 5)	\$ 56,759,212	\$ 77,200,194	Short-term maturities of:		
Accounts receivable, net (note 6)	132,959,505	110,442,750	Short-term debt (note 12)	\$ 95,148,044	\$ 37,305,250
Inventory of materials for operation, net (note 7)	<u>18,214,461</u>	<u>14,019,538</u>	Lease liabilities (note 13)	26,436,648	25,930,052
Total current assets	207,933,178	201,662,482	Derivative financial instruments (note 10)	18,483,899	-
Loans to employees	19,521,739	17,403,036	Other payables and accrued liabilities (note 14)	133,008,866	99,481,510
Plants, facilities and equipment, net (note 8)	1,449,933,668	1,383,392,158	Income tax	<u>7,268,795</u>	<u>14,089,276</u>
Right-of-use assets, net (note 9)	509,923,272	511,367,723	Total current liabilities	<u>280,346,252</u>	<u>176,806,088</u>
Derivative financial instruments (note 10)	9,072,051	14,826,581	Non-current liabilities:		
Intangibles and other assets (note 11)	45,979,507	47,973,403	Long-term debt (note 12)	355,352,580	356,615,652
Deferred tax assets	101,461,322	89,723,121	Lease liabilities (note 13)	598,279,709	635,478,570
			Other long-term liabilities (note 15)	41,288,568	26,836,535
			Employees benefits (note 16)	<u>431,248,794</u>	<u>369,920,165</u>
			Total non-current liabilities	<u>1,426,169,651</u>	<u>1,388,850,922</u>
			Total liabilities	<u>1,706,515,903</u>	<u>1,565,657,010</u>
			Equity:		
			Contributions received from the Federal Government	5,251	5,251
			Contributions in kind received from the Federal Government	95,111,382	95,111,382
			Retained earnings	(56,529,227)	(36,163,396)
			Other comprehensive income (note 18)	<u>577,108,649</u>	<u>622,030,269</u>
			Total equity holders of the parent	615,696,055	680,983,506
			Non-controlling interests	21,612,779	19,707,988
			Contingencies and commitments (note 21)		
	<u>\$ 2,343,824,737</u>	<u>\$ 2,266,348,504</u>		<u>\$ 2,343,824,737</u>	<u>\$ 2,266,348,504</u>

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

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

Consolidated statements of comprehensive income

For the years ended December 31, 2022 and 2021

(Thousands of pesos)

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

	<b>2022</b>	<b>2021</b>
<b>Revenues:</b>		
Electricity supply service revenue (note 22)	\$ 442,544,475	\$ 389,592,873
Subsidy income	82,186,721	70,279,000
Third party fuel revenue	37,826,342	57,797,887
Freight revenue	18,513,419	19,312,156
Other income, net	39,776,767	29,704,751
<b>Total revenue</b>	<b>620,847,724</b>	<b>566,686,667</b>
<b>Costs:</b>		
Energy and other fuel supplies	305,791,314	262,022,046
Energy and other fuel supplies - Third party	43,833,135	62,274,498
Salaries and related costs	74,912,560	71,458,411
Maintenance, materials and general services	26,762,417	21,371,751
Taxes and duties	2,656,843	2,302,790
Wholesale Electricity Market costs (MEM)	3,006,255	3,272,121
Employee benefits costs	38,173,003	45,859,757
Depreciation	74,956,852	69,237,029
Other expenses (note 23)	41,685,529	64,349,235
<b>Total costs</b>	<b>611,777,908</b>	<b>602,147,638</b>
<b>Operating results</b>	<b>9,069,816</b>	<b>(35,460,971)</b>
<b>Comprehensive financing result, net:</b>		
Interest expense	39,261,680	49,280,432
Finance expenses, net	20,861,172	8,926,474
Foreign exchange (gain) loss	(42,471,483)	17,617,493
<b>Total comprehensive financing results, net</b>	<b>17,651,369</b>	<b>75,824,399</b>
<b>Loss before income tax other comprehensive income</b>	<b>(8,581,553)</b>	<b>(111,285,370)</b>
Income tax (note 17)	7,085,143	(5,025,309)
<b>Net loss</b>	<b>(15,666,696)</b>	<b>(106,260,061)</b>
<b>Net loss attributable to:</b>		
Controlling interests	(20,365,831)	(110,468,448)
Non-controlling interests	4,699,135	4,208,387
	(15,666,696)	(106,260,061)
<b>Other comprehensive income (note 18):</b>	<b>(44,921,620)</b>	<b>232,208,108</b>
<b>Comprehensive income</b>	<b>\$ (60,588,316)</b>	<b>\$ 125,948,047</b>

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



**Comision Federal de Electricidad**  
**Productive State Enterprise and Subsidiaries**  
Consolidated statements of changes in equity  
For the years ended December 31, 2022 and 2021  
(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)	Total equity holders of the parent	Total equity non-controlling interest	Total equity
<b>Balances at December 31, 2020</b>	\$ 5,251	\$ 95,004,417	\$ 74,305,052	\$ 389,822,161	\$ 559,136,881	\$ 18,176,499	\$ 577,313,380
Recycling of other comprehensive income	-	106,965	-	-	106,965	-	106,965
Comprehensive income of the period	-	-	(110,468,448)	232,208,108	121,739,660	4,208,387	125,948,047
Issue of shares (Fibra E)	-	-	-	-	-	(943,306)	(943,306)
Dividend decree (Fibra E)	-	-	-	-	-	(1,733,592)	(1,733,592)
<b>Balances at December 31, 2021</b>	<u>\$ 5,251</u>	<u>\$ 95,111,382</u>	<u>\$ (36,163,396)</u>	<u>\$ 622,030,269</u>	<u>\$ 680,983,506</u>	<u>\$ 19,707,988</u>	<u>\$ 700,691,494</u>
Comprehensive income of the period	-	-	(20,365,831)	(44,921,620)	(65,287,451)	4,699,135	(60,588,316)
Issue of shares (Fibra E)	-	-	-	-	-	(1,652,460)	(1,652,460)
Dividend decree (Fibra E)	-	-	-	-	-	(1,141,884)	(1,141,884)
<b>Balances at December 31, 2022</b>	<u>\$ 5,251</u>	<u>\$ 95,111,382</u>	<u>\$ (56,529,227)</u>	<u>\$ 577,108,649</u>	<u>\$ 615,696,055</u>	<u>\$ 21,612,779</u>	<u>\$ 637,308,834</u>

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

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

Consolidated statements of cash flows

For the years ended 31 December 2022 and 2021

(Thousands of pesos)

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

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net loss	\$ (15,666,696)	\$ (106,260,061)
Operating activities:		
Employee benefits costs	38,448,904	45,859,757
Increase in provisions of deferred and current income tax	7,085,143	(5,025,309)
Investing activities:		
Depreciation and right-of-use assets	74,956,852	69,237,029
Impairment of plants, facilities and equipment	4,834,347	19,115,270
Disposal of plants, facilities and equipment	4,136,427	3,946,197
Foreign exchange loss, interest expense and changes in financial derivative instruments fair value of financial instruments	47,815,441	75,547,136
Changes in operating assets and liabilities:		
Accounts receivable and loans to employees	(24,635,458)	(2,805,342)
Inventory of materials of operation	(4,194,923)	(2,131,258)
Other assets	1,993,896	2,902,763
Other payables and accrued liabilities	29,771,387	5,266,611
Payments to employees benefits	(48,957,327)	(46,736,151)
Disposition of plan assets	20,178,868	-
Net cash flows from operating activities	<u>135,766,861</u>	<u>58,916,642</u>
Cash flows from investing activities:		
Acquisition of plants, facilities and equipment	<u>(129,212,592)</u>	<u>(39,966,369)</u>
Net cash flows from financing activities	<u>6,554,269</u>	<u>18,950,273</u>
Net cash flows from financing activities		
Proceeds from debt	191,236,617	156,410,470
Non-controlling interest contribution Fibra E	(1,652,460)	(943,306)
Dividends paid	(1,141,884)	(1,733,592)
Contributions for future capital increases	-	1,015
Payment of debt	(118,487,520)	(135,155,258)
Interest paid	(39,261,680)	(19,360,941)
Payment of lease obligations	(50,544,701)	(49,345,930)
Payments of financial instruments	(20,232,445)	(14,420,226)
Collections from financial instruments	13,088,822	10,883,419
Net cash flow from financing activities	<u>(26,995,251)</u>	<u>(53,664,349)</u>
Net increase in cash and cash equivalents	(20,440,982)	(34,714,076)
Cash and cash equivalents:		
At beginning of period	<u>77,200,194</u>	<u>111,914,270</u>
At end of period	<u>\$ 56,759,212</u>	<u>\$ 77,200,194</u>

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

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

**Notes to the consolidated financial statements  
for the two years ended December 31, 2022 and 2021**

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

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

• **Incorporation and business purpose**

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

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

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

• **Relevant Events**

*i. Increase in the fuel*

The armed conflict between Russia and Ukraine caused the increase in fuel prices; the fact that Russia is one of the largest producers of oil, gas and coal in the world has significantly affected the price of diesel, fuel oil, coal and natural gas, situation that affects diverse industries, specially, the electric industry.

Nowadays the price of natural gas is between 7 and 10 USD/GJ, when in early 2021 was of 2.5 USD/GJ.

*ii. Plants, facilities and equipment revaluation*

According to IFRS, the Company reviews every 5 years and/or when external factors may affect the fair value of plants, facilities and equipment to ensure the book value does not differ materially from that which would be determined using fair value at the end of the reporting period.

The Enterprise performed the fair value analysis of plants and equipment recognizing in 2022 an impairment of \$12,267,070 with an impact on results of \$4,834,347 and \$7,432,723 in the OCI (other comprehensive income) and in 2021 a net increase in the value of these assets of \$201,851,953 with impact in OCI (See note 18).

**iii. Outsourcing Labor Reform**

On April 23, 2021, was published in “Diario Oficial de la Federacion (DOF)”; the decree amending, adding and repealing some provisions of “Ley Federal del Trabajo”, “Ley del Seguro Social”, “Ley del Instituto del Fondo Nacional de la Vivienda para los Trabajadores”, “Codigo Fiscal de la Federacion”, “Ley del Impuesto Sobre la Renta”, “Ley del Impuesto al Valor Agregado”, “Ley Federal de los Trabajadores al Servicio del Estado”, 123 article of “Constitution Politica de los Estados Unidos Mexicanos” Section B); and the Regulatory Law of Section XIII bis. B section of 123 Article from “Constitución Política de los Estados Unidos Mexicanos, regarding labor outsourcing.

During 2021, the Administration Corporate Directorate (DCA Spanish acronym) of “Comisión Federal de Electricidad” (CFE) requested guidance from “Secretaria del Trabajo y Prevision Social” to define whether the relations of CFE with its Subsidiary Productive Companies (EPS Spanish acronym) include any type of subcontracting, and consequently the provisions of the decree published in the DOF on 23th April, 2021 regarding labor outsourcing would apply.

On November 10, 2021, “Secretaria del Trabajo y Prevision Social” resolved the following:

The Subsidiary Productive Companies operate in accordance with the terms of strict legal separation established by “Secretaria de Energia”, therefore, it is considered that the assignment and functions of the employees of these companies are not based on a relationship of outsourcing.

In accordance with article 2 of the “Ley de la Industria Electrica”, electric industry activities are of public interest; in addition, planning and control of the national electricity system, as well as the public service of transmission and distribution of electricity, are strategic areas; Therefore, the State will maintain its ownership, without prejudice to enter into contracts with particular companies; in the same way, basic supply is considered a priority activity for national development. Additionally in accordance with article 42th of this Law, the public service of transmission and distribution of electrical energy is considered to be of social interest and public order, and for all legal purposes, this service is of public utility.

In terms of the “Comision Federal de Electricidad Law”, article 1, section I and article 5, this Productive State Enterprise, has the purpose of providing the public service of transmission and distribution of electric energy, by account and order of the Mexican State; In addition, it is subject to a special regime, among other matters, under the one applicable to subsidiary productive and affiliated companies.

Article 3 of the mentioned Law determines that the provisions contained in other laws, will apply as long as they do not oppose the special regime provided for in this Law; in case of doubt, the interpretation always favors the purpose and object of “Comisión Federal de Electricidad”, in accordance with its legal nature as a Productive State Enterprise with a special regime, as well as the corporate governance regime it holds so it can compete efficiently in the energy industry.

Article 76, second paragraph of mentioned Law provides that the creation of positions, modifications to organizational structure and staffing, transfer of positions and hiring or appointment of the employees of Comisión Federal de Electricidad and its Subsidiary Productive Companies shall only be performed to achieve the best operational efficiency.

Therefore, the activities of the provision of public service of transmission and distribution of electrical energy for the public or private sector, or those that are carried out amongst its Subsidiary Productive Companies or towards "Comision Federal de Electricidad", would not be found in the normative hypothesis from registering as contractors for the subcontracting of specialized services, or the execution of specialized works contained in "Ley Federal del Trabajo", because they are activities aimed at achieving a public service in a strategic area, considered of public order and social interest, and which is subject to a special regime.

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

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

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

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

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

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

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

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

### **d) Judgments and estimates use.**

In preparing these consolidated financial statements, estimates have been made for certain items, some of which are highly uncertain, and their estimation involves judgments made based on the information available.

The following discussion includes some of the matters that could materially affect the consolidated financial statements if (1) the estimates that are used are different than the ones that could reasonably have been used, or (2) the estimates change in the future in response to changes that are likely to occur.

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

### 1) Judgments

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

- Note 3 a) - Consolidation: whether the Enterprise has de facto control over an investee.
- Note 3 n) - Revenue recognition: whether revenue from unbilled electricity delivered is recognized over time or at a specific moment; and.
- Note 3 i) - Leases: whether an arrangement contains a lease and classification thereof.

### 2) Estimates assumptions and uncertainties

Information about assumptions and estimation uncertainties on December 31, 2022 and 2021 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the notes as follows:

- Note 3 d) - Measurement of the expected credit losses for trade receivables: key assumptions in determining the weighted-average loss rate;
- Notes 3 h) and 8 - Impairment test of property, plant and equipment: key assumptions underlying recoverable amounts, including the recoverability and magnitude of an outflow of economic resources and key assumptions in determining their useful lives;
- Notes 3 j) and 11 - Impairment test of intangible assets and capital gains key assumptions underlying recoverable amounts, including the recoverability and magnitude of an outflow of economic resources and key assumptions in determining their useful lives;
- Note 3 k) and 16 - Measurement of defined benefit obligations: key actuarial assumptions;
- Note 3 l) and 17 - Recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized;
- Note 3 m) - Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 3 n) - Revenue recognition: estimate of revenue from unbilled electricity delivered; and
- Note 21 - Contingencies and commitments.

### 3) Measurement of fair values

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

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

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, 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 the Standards, including the level in the fair value hierarchy in which the valuations should be classified.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

**e) Consolidated statements of comprehensive income**

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

### **3. The significant accounting policies are summarized below:**

#### **a) Consolidation basis**

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

CFE reassesses whether it controls an entity and if facts and circumstances indicate that there are changes in one or more of control elements.

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

The equity interest in the main subsidiaries (productive subsidiary companies, affiliated entities and trusts), over which CFE retains control as of December 31, 2022 and 2021 is as follow:

#### **Subsidiary Companies**

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

#### **Affiliated Entities**

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

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

The Enterprise's equity interest in the entities mentioned above is 100%.

#### **Trust Funds**

The trust funds controlled by CFE are as follows:



Trust fund	Role of CFE			Type of project
	Trustor	Trust Beneficiary	Trustee	
Trust Management and Transfer of Ownership 2030	CFE	Primary beneficiary: contract awardees. Second beneficiary: CFE	BANOBRAS, S. N. C.	Conditioned investment
Trust for the establishment of a Revolving Financing Fund for the Housing Thermal Isolation Program of the Valley of Mexicali, B.C.	CFE	CFE	BANOBRAS, S. N. C.	Energy saving
Prior Expense Trust	CFE	CFE	BANCOMEXT, S. N. C.	Direct investment
Clean Energy Trust 10670	CFE	CFE	BANCOMEXT, S. N. C.	Clean Energy
Trust for Conventional Generation Projects 10673	CFE	CFE	BANCOMEXT, S. N. C.	Direct investment
Trust 1320	CFE	CFE	Banco Azteca, S.A. Multiple Banking Institution	Investment Project
Master Investment Trust CIB/3602 FMI <sup>(1)</sup>	CFE, CFENERGIA and CFE Transmision	CFE, CFENERGIA and CFE Transmision	CIBANCO, S.A. de C.V.	Direct investment

<sup>(1)</sup> The Master Trust constituted Sub-Trusts for each Infrastructure Project, which will be the owners of Infrastructure Projects and, in that capacity, will celebrate, among others, contracts by which they grant the use and commercial exploitation of such Infrastructure Projects to the Counterparties as determined in terms of the contract.

The sub-trusts constituted are the following:

- a) Trust Cib/3655 Sub-Trust of the Central Turbo Gas project "Gonzalez Ortega".
- b) Trust Cib/3765 Sub-Trust of the Central Combined Cycle project "Gonzalez Ortega".
- c) Trust Cib/3766 Sub-Trust of the Central Combined Cycle project "Rivera Maya/Valladolid".
- d) Trust Cib/3767 Sub-Trust of the Central Combined Cycle project "Merida".
- e) Trust Cib/3768 Sub-Trust of the Central Combined Cycle project "San Luis Rio Colorado".
- f) Trust Cib/3769 Sub-Trust of the Central Combined Cycle project "Baja California Sur La Paz".
- g) Trust Cib/3770 Sub-Trust of the Central Combined Cycle project "Tuxpan Phase One".

### **Non-controlling interest**

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

**b) Foreign currency transactions**

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

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

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

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

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

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

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

**c) Cash and cash equivalents**

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

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

**d) Financial instruments**

**i) Initial recognition and measurement**

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

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

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

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

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

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

The Enterprise measures financial assets at amortized cost if the following conditions are met:

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

All the financial assets not classified as measured at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial instruments (see note 10).

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

Business model assessment:

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

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

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated (e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and its expectations about future sales activity.

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

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

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

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

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

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

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

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

Financial Assets - Subsequent measurement and gains and losses:

*Financial assets at fair value through profit or loss*

- These assets are subsequently measured at fair value. Net gains and losses, including any interest income, are recognized in profit or loss. However, for derivatives designated as hedging instruments (see note 10).

*Financial assets at amortized cost*

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

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

Financial liabilities are classified as measured at amortized cost or fair value through profit or loss. A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest income and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

**iii) Derecognition**

Financial assets

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

Financial liabilities

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

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

**iv) Offsetting**

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

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

Derivative financial instruments are recognized at fair value in the statement of financial position. The fair value of derivative financial instruments is determined using generally accepted valuation techniques. Consistent with the risk strategy, the Enterprise 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.

Additionally, in recent years, fuel prices have seen volatility. In order to reduce price risk, the Enterprise has contracted derivative financial instruments on natural gas that seek to reduce volatility. The hedging strategy in the case of natural gas derivatives was designed to mitigate the impact of potential price increases.

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

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

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

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

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

***Fair value of financial instruments***

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

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

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

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

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

### ***Cash flow hedges***

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

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

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

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

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

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

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

**e) *Impairment in value***

i) Non-derivative financial assets

**Financial instruments and contract assets**

The Enterprise recognizes loss allowances for expected credit losses for:

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

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

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

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (in other words, the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

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

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



- The borrower is unlikely to pay their credit obligations to the Enterprise in full; or
- The financial asset is more than 90 days past due.

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

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

#### Measurement of expected credit losses

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

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

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

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

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

#### Credit-impaired financial assets

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

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

- Significant financial difficulty of the issuer or debtor;
- A breach of contract such as a default or being more than 90 days past due;

- Restructuring of a loan or advance by the Enterprise on terms that the Enterprise would not consider otherwise;
- It is becoming probable that the debtor will enter bankruptcy or financial reorganization; or
- The disappearance of an active market for financial assets because of financial difficulties.

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

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

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

Write-off

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

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

*ii) Non-financial assets*

At each reporting date, the Enterprise reviews the carrying amounts of its financial assets (other than operating materials and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

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

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

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

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

**f) Finance income and finance costs**

The Enterprise's finance income and finance costs include:

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

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

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

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

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

**g) *Inventory of operating materials***

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

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

**h) *Plants, facilities and equipment***

**i) *Recognition and measurement***

Plants, facilities and equipment are initially measured in terms of acquisition cost.

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

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

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

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

The fair value of the long-lived assets of the Generation, Transmission and Distribution is determined by the Revenue Approach using the Cash Flow method. Discounted Cash, this technique reflects current market expectations about future income and expenses.

For the measurement at fair value of plants, installations and equipment, the income and expenses (in the case of generation, the Plexus Simulation Model is used), taking into account the capacity of the Power Plants to generate economic benefits through the utilization of the asset in its maximum and best use, by eliminating or incorporating the variable costs that the purchaser of the Power Plants would or would not incur, such as the elimination of legacy contracts and labor obligations of retired workers, and the incorporation of hydraulics concessions, among other variables.

As of December 31, 2022, and 2021, an analysis was performed to determine the fair value of long-term assets, concluding that there is an impairment in generation plants of \$12,267,070 in 2022 and a revaluation of \$201,851,953 on transmission and distribution lines and a power plant impairment of \$19,115,270 in 2021.

**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. In the event of a subsequent sale or retirement of the revalued properties, the revaluation surplus attributable to the remaining property revaluation reserve is transferred directly to retained earnings.

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

The depreciation rates based on the useful lives of the assets, determined by the Enterprise'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 Enterprise 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.

**iii) Property and assets for offices and general services.**

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

	<u>Useful life (in years)</u>
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.

The generation companies transferred assets among themselves in 2020, which generated receivable and payable balances of approximately \$340,358,273. At the time, they are analyzing the most appropriate way to cancel the receivable and payable balances that arose because of the aforementioned transaction.

**iv) Subsequent expenditure**

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

**i) Leases**

The Enterprise 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 Enterprise 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 Enterprise uses the definition of a lease included in IFRS 16.

As a lessee

At inception or reassessment of a contract that contains a lease component, the Enterprise 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 Enterprise has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Enterprise 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 Enterprise by the end of the lease term or the cost of the right-of-use asset reflects that the Enterprise will exercise a purchase option.

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

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

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

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Enterprise is reasonably certain to exercise, lease payments in an optional renewal period if the Enterprise is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Enterprise 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 Enterprise's estimate of the amount expected to be payable under a residual value guarantee, if the Enterprise 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 Enterprise 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 Enterprise 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 Enterprise recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

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

**j) Intangibles and other assets**

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

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

**k) Employee benefits**

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

Short-term direct employee benefits

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

Direct employee benefits

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

Pension benefits and other benefits

The Enterprise provides retirement pensions to its employees.

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



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

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

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

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

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

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

#### Defined benefit plans

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OI.

The Enterprise determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

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

Termination benefits

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

**I) Income tax**

Income tax expense comprises current and deferred tax.

*i) Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years.

The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

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

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

*ii) Deferred tax*

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

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences.

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

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

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

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

**m) Provisions and contingent liabilities**

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

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

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

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

**n) Revenue recognition**

The Enterprise's revenue recognition policies are as follows:

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

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

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

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

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

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

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

**o) Fair value measurement**

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

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

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

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

**4. Financial Instruments – Fair Values and Risk Management**

**Fair values**

Set out below are the carrying amounts of financial instruments recognized as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<u>Financial assets</u>		
Cash and cash equivalents <sup>(2)</sup>	\$ 56,759,212	\$ 77,200,194
Accounts receivable <sup>(2)</sup>	132,959,505	110,442,750
Loans to employees <sup>(2)</sup>	19,521,739	17,403,036
Derivative financial instruments <sup>(1)</sup>	9,072,051	14,826,581
<u>Financial liabilities</u>		
Short-term debt <sup>(2)</sup>	\$ 95,148,044	\$ 37,305,250
Long-term debt <sup>(2)</sup>	355,352,580	356,615,652
Short-term lease liability <sup>(1)</sup>	26,436,648	25,930,052
Long-term lease liability <sup>(1)</sup>	598,279,709	635,478,570
Financial Instruments <sup>(1)</sup>	18,483,899	-
Suppliers and contractors <sup>(2)</sup>	71,226,692	46,863,539
Deposits from customers and contractors <sup>(2)</sup>	<u>34,270,671</u>	<u>32,037,016</u>

<sup>(1)</sup> Fair value

<sup>(2)</sup> Amortized cost

### **Objectives of financial risk management**

The Enterprise'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 Enterprise's operations through internal and market risk reports that analyze the degree and magnitude of the Enterprise'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 Enterprise uses derivative financial instruments to hedge such risk.

The Treasury Department is bound by the SHCP cash management policies that establish that investments must be made in low-risk short-term instruments. Monthly status reports are issued to the Treasury Investment Committee.

### **Credit risk**

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

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

The carrying amounts of the Enterprise's financial assets represent the maximum credit risk exposure. For credit risk management purposes, the Enterprise considers that the credit risk on loans and accounts receivable from consumers is limited. The Enterprise determines the allowance for doubtful accounts based on the incurred loss model.

An aging analysis of the past due receivables, for which an allowance has not been deemed necessary as of December 31, 2022 and 2021, is as follows:

	<b>2022</b>	<b>2021</b>
Less than 90 days	\$ 2,405,370	\$ 2,146,773
From 90 to 180 days	1,576,102	1,455,630
More than 180 days	49,008,952	41,658,039
	<b>\$ 52,990,424</b>	<b>\$ 45,260,442</b>

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The Enterprise's maximum exposure to credit risk for trade receivables by item as of December 31, 2022 and 2021, is as follows:

	<u>2021</u>	<u>2021</u>
Cash count	\$ 30,549,931	\$ 35,362,257
Bad debts	2,002,836	2,090,387
Agreement	1,642,807	1,629,860
Government	18,794,849	16,144,538
<b>Total</b>	<b>\$ 52,990,424</b>	<b>\$ 55,227,042</b>

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

	<u>2022</u>		<u>2021</u>	
	<u>Noncredit- impaired</u>	<u>Credit impaired</u>	<u>Noncredit- impaired</u>	<u>Credit impaired</u>
Other customers:				
History of transactions with the Enterprise	\$ 47,183,344	\$ 46,920,567	\$ 44,434,229	\$ 39,551,968
Total				
Allowance for credit losses	\$ 6,832,508	\$ 46,157,916	\$ 6,445,760	\$ 38,804,682

**Comparative information under IAS 39**

An analysis of the credit quality of the trade receivables that were neither past due nor impaired, and the aging of the trade receivables that were past due, but not impaired as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
<b>Current, but not impaired</b>	<b>\$ 37,471,869</b>	<b>\$ 34,521,414</b>
Past due between 1 and 30 days	1,703,531	1,660,919
Past due between 31 and 60 days	1,220,710	1,257,727
Past due between 61 and 90 days	992,461	1,089,732
Past due between 91 and 120 days	907,273	943,855
Past due between 121 and 150 days	810,546	777,450
Past due between 151 and 180 days	732,305	729,387
Past due between 181 and 210 days	666,812	661,251
Past due between 211 and 240 days	626,042	642,765
Past due between 241 and 270 days	548,618	543,856
Past due between 271 and 300 days	503,960	509,237
Past due between 301 and 330 days	485,216	555,012
Past due between 331 and 360 days	514,000	541,624
<b>Subtotal expired, but not impaired</b>	<b>9,711,474</b>	<b>9,912,815</b>
<b>Total, trade receivables not impaired</b>	<b>\$ 47,183,343</b>	<b>\$ 44,434,229</b>

### Liquidity risk

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

In addition, the Enterprise'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 Enterprise's budgeted revenues, cannot be exceeded.

The following table provides information about the contractual maturities of the Enterprise's financial liabilities based on the payment terms: An analysis of the contractual maturities of the derivative financial instruments is included in note 12 and 13:

<b>As of December 31, 2022</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	\$ 18,037,363	\$ 45,507,664	\$ 49,626,924	\$ 155,831,251	\$ 269,003,202
Interest payable on documented debt	15,046,175	26,249,241	20,889,464	73,901,141	136,086,021
PIDIREGAS debt	13,092,226	23,959,893	17,657,017	62,769,831	117,478,967
Interest payable on PIDIREGAS debt	7,073,534	11,635,360	8,072,309	27,344,274	54,125,477
Bank Loan	64,018,455	-	-	-	64,018,455
Lease liabilities	26,436,648	33,461,866	39,426,164	525,391,679	624,716,357
Interest payable on lease liabilities	20,684,599	39,459,137	36,573,917	175,252,128	271,969,781
Suppliers and contractors	71,226,692	-	-	-	71,226,692
Other liabilities	16,209,112	-	-	-	16,209,112
<b>Total</b>	<b>\$ 251,824,804</b>	<b>\$ 180,273,161</b>	<b>\$ 172,245,795</b>	<b>\$ 1,020,490,304</b>	<b>\$ 1,624,834,064</b>

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<b>As of December 31, 2021</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	\$ 13,132,667	\$ 41,420,427	\$ 23,350,559	\$ 180,435,861	\$ 258,339,514
Interest payable on documented debt	13,192,060	24,015,483	19,793,289	76,237,959	133,238,791
PIDIREGAS debt	12,104,453	22,550,067	23,858,239	65,000,500	123,513,259
Interest payable on PIDIREGAS debt	6,172,714	10,731,185	8,043,663	27,442,816	52,390,378
Bank Loan	12,068,130	-	-	-	12,068,130
Lease liabilities	25,930,052	31,530,371	37,308,167	566,640,032	661,408,622
Interest payable on lease liabilities	21,851,880	41,810,450	38,843,572	196,379,084	298,884,986
Suppliers and contractors	46,863,539	-	-	-	46,863,539
Other liabilities	7,097,921	-	-	-	7,097,921
<b>Total</b>	<b>\$ 158,413,416</b>	<b>\$ 172,057,983</b>	<b>\$ 151,197,489</b>	<b>\$ 1,112,136,252</b>	<b>\$ 1,593,805,140</b>

**Market risk**

Due to its activities, the Enterprise has exposure to foreign currency and interest rate financial risks as well as fuel price changes.

**Foreign currency exchange risk management**

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

	<b>Total debt as of December 31, 2022 (amounts in millions of pesos)</b>	<b>Total debt as of December 31, 2021 (amounts in millions of pesos)</b>
Local currency	\$ 164,865	\$ 136,646
Foreign currency	\$ 283,322	\$ 255,194
Interest payable	\$ 2,821	\$ 2,081

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

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

**Foreign currency sensitivity analysis**

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



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

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

The sensitivity analysis includes foreign loans as well as loans from the foreign operations within the Enterprise, where the loan is denominated in a currency other than the currency of the loaner or borrower. A positive figure indicates an increase in profit where the Mexican peso strengthens 5% against the relevant currency. If there is a 5% weakening of the Mexican peso against the relevant currency, there would be a comparable impact on profit, and the balances on the following page would be negative. The sensitivity analysis of the derivative financial instruments is described in note 10.

<b>As of December 31, 2022</b>	<b>Documented</b>	<b>Pidiregas</b>	<b>Total</b>
EUR	\$ 99,283	\$ -	\$ 99,283
USD	\$ 8,816,604	\$ 3,901,715	\$ 12,718,319
<b>Total</b>	<b>\$ 8,915,887</b>	<b>\$ 3,901,715</b>	<b>\$ 12,817,602</b>

<b>As of December 31, 2021</b>	<b>Documented</b>	<b>Pidiregas</b>	<b>Total</b>
EUR	\$ 149	\$ -	\$ 149
USD	\$ 8,869,364	\$ 8,131,603	\$ 17,000,967
<b>Total</b>	<b>\$ 8,869,513</b>	<b>\$ 8,131,603</b>	<b>\$ 17,001,116</b>

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

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

**Interest rate risk management**

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

	<b>Total debt as of December 31, 2022 (amounts in millions of pesos)</b>	<b>Total debt as of December 31, 2021 (amounts in millions of pesos)</b>
Fixed rate	\$ 302,202	\$ 298,828
Variable rate	\$ 81,966	\$ 93,013

**Interest rate sensitivity analysis**

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

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

<b><u>2022</u></b>	<b><u>Documented</u></b>	<b><u>Pidiregas</u></b>	<b><u>Total</u></b>
Fixed rate	\$ 243,815,930	\$ 72,452,480	\$ 316,268,410
Variable rate	31,446,950	43,750,162	75,197,112
	<u>\$ 275,262,880</u>	<u>\$ 116,202,642</u>	<u>\$ 391,465,522</u>
<b><u>2021</u></b>	<b><u>Documented</u></b>	<b><u>Pidiregas</u></b>	<b><u>Total</u></b>
Fixed rate	\$ 169,408,709	\$ 69,766,761	\$ 239,175,470
Variable rate	4,050,441	23,192,209	27,242,650
	<u>\$ 173,459,150</u>	<u>\$ 92,958,970</u>	<u>\$ 266,418,120</u>

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

The sensitivity analysis of the derivative financial instruments is described in note 10.

Therefore, the hierarchy level of the Enterprise's Mark-to-Market for derivative financial instruments as of December 31, 2022 and 2021 is level 2 due to the following:

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

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

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

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

When one is available, the Enterprise 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 Enterprise uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Enterprise 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 Enterprise determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

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

Fair value of financial instruments recognized at amortized cost

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

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Financial assets</u>				
Cash and cash equivalents	\$ 56,759,212	\$ 56,759,212	\$ 77,200,195	\$ 77,200,195
Accounts receivable	132,959,505	132,959,505	110,442,750	110,442,750
Loans to employees	19,521,739	19,521,739	17,403,036	17,403,036
<u>Liabilities assets</u>				
Suppliers and contractors	71,226,692	71,226,692	46,863,539	46,863,542
Lease liabilities	624,716,357	624,716,357	661,408,622	661,408,622
Documented debt	269,003,202	275,262,879	258,339,514	254,344,325
PIDIREGAS debt	117,478,967	116,202,643	123,513,259	200,537,025
Trust investment financing	64,018,455	64,018,455	12,068,130	12,068,130

Valuation techniques and assumptions used in determining fair value

The fair value of the Enterprise'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 provides a new valuation.

Valuations at fair value recognized in the statement of financial position

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

<b>Fair value measurement as of December 31, 2022</b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Plan assets	\$ -	\$ 210,966,752	\$ -	\$ 210,966,752
Derivative financial instruments	-	9,072,051	-	9,072,051
<b>Total</b>	<b>\$ -</b>	<b>\$ 220,038,803</b>	<b>\$ -</b>	<b>\$ 220,038,803</b>
<u>Liabilities</u>				
Debt	\$ 145,241,459	\$ - 18,483,899	\$ 305,259,165	\$ 468,984,523
<b>Total</b>	<b>\$ 145,241,459</b>	<b>\$ - 18,483,899</b>	<b>\$ 305,259,165</b>	<b>\$ 468,984,523</b>
<b>Fair value measurement as of December 31, 2021</b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Plan assets	\$ -	\$ 245,554,015	\$ -	\$ 245,554,015
Derivative financial instruments	-	14,826,581	-	14,826,581
<b>Total</b>	<b>\$ -</b>	<b>\$ 260,380,596</b>	<b>\$ -</b>	<b>\$ 260,380,596</b>
<u>Liabilities</u>				
Debt	\$ 124,201,011	\$ -	\$ 330,680,339	\$ 454,881,350
<b>Total</b>	<b>\$ 124,201,011</b>	<b>\$ -</b>	<b>\$ 330,680,339</b>	<b>\$ 454,881,350</b>

An analysis of the fair value of the derivative financial assets grouped into level 2, based on the degree to which the inputs to estimate their fair value are observable, is included in note 10.

The levels referred to above are considered as follows:

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

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from unobservable inputs for the asset or liability, for the fair values of the Documented Debt and Pidiregas, the reasonably possible changes at the Balance Sheet date are determined by measuring the present value of the maturities in the source currency of the lines of credit discounted using CFE's yield curve. For this purpose, the Enterprise's price provider furnishes the curves and risk factors related to the interest rates, exchange rates and inflation to which the debt is exposed.

### Sensitivity analyses

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

	+ 5%	- 5%
Expected cash flow change of 5% in exchange rates in original currency	14,729	(14,729)
Expected cash flow change of 5% in interest rate	4,390	(4,390)

### 5. Cash and cash equivalents

An analysis of Cash and cash equivalents as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Cash on hand and cash in banks	\$ 56,750,391	\$ 77,191,373
Stock certificates	8,821	8,821
<b>Total</b>	<b>\$ <u>56,759,212</u></b>	<b>\$ <u>77,200,194</u></b>

### 6. Accounts receivable, net

An analysis of the accounts receivable as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Public consumers (*)	\$ 62,908,873	\$ 55,840,758
Government agency consumers (*)	29,124,340	25,865,469
	92,033,213	81,706,227
Impairment of receivables	(67,904,540)	(55,631,593)
	24,128,673	26,074,634
Other accounts receivable (**)	58,381,519	52,161,180
Value added tax	50,449,313	32,206,936
<b>Total accounts receivable</b>	<b>\$ <u>132,959,505</u></b>	<b>\$ <u>110,442,750</u></b>

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

(\*\*) Includes assets mainly from trusts and other debtors.

An analysis of the impairment of receivables as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Opening balance	\$ (55,631,593)	\$ (31,924,441)
Increase	(13,143,932)	(23,754,315)
Charges	870,985	47,163
<b>Ending balance</b>	<b>\$ (67,904,540)</b>	<b>\$ (55,631,593)</b>

### 7. Inventory of operating materials

An analysis of inventory of operating materials as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Fuel and lubricants	\$ 15,398,595	\$ 13,327,939
Nuclear fuel	3,512,326	2,880,029
Spare parts and equipment	3,289,856	2,755,832
	22,200,777	18,963,800
Allowance for obsolescence	(3,986,316)	(4,944,262)
<b>Total</b>	<b>\$ 18,214,461</b>	<b>\$ 14,019,538</b>

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

An analysis of Plants, facilities and equipment, net as of December 31, 2022 and 2021 is as follows:

	<u>Plants, facilities and equipment, net</u>						
	<u>December 31, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Revaluation</u>	<u>Depreciation for the period</u>	<u>Capitalization</u>	<u>December 31, 2022</u>
Plants, facilities and equipment in operation	\$ 2,074,911,958	\$ 36,568,479	\$ (4,136,427)	\$ -	\$ -	\$ 801,136	\$ 2,108,145,146
Capitalized spare parts	8,775,899	-	-	-	-	(801,136)	7,974,763
Construction in progress	21,622,317	87,687,011	-	-	-	-	109,309,328
Materials for construction	20,090,113	4,958,663	-	-	-	-	25,048,776
Subtotal	2,125,400,287	129,214,153	(4,136,427)	-	-	-	2,250,478,013
Accumulated depreciation	(682,744,022)	-	-	-	(46,269,146)	-	(729,013,168)
Impairment	(59,264,107)	-	-	(12,267,070)	-	-	(71,531,177)
<b>Total</b>	<b>\$ 1,383,392,158</b>	<b>\$ 129,214,153</b>	<b>\$ (4,136,427)</b>	<b>\$ (12,267,070)</b>	<b>\$ (46,269,146)</b>	<b>\$ -</b>	<b>\$ 1,449,933,668</b>

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	Plants, facilities and equipment, net							December 31, 2021
	December 31, 2020	Additions	Retirements	Revaluation	Depreciation for the period	Impairment	Capitalization	
Plants, facilities and equipment in operation	\$ 1,833,546,389	\$ 28,271,864	\$ (3,946,197)	\$ 201,851,953	\$ -	\$ 2,520,340	12,667,608	\$ 2,074,911,958
Capitalized spare parts	7,945,553	830,346	-	-	-	-	-	8,775,899
Construction in progress	27,111,684	7,178,242	-	-	-	-	(12,667,608)	21,622,317
Materials for construction	16,298,246	3,791,867	-	-	-	-	-	20,090,113
Subtotal	1,884,901,872	40,072,319	(3,946,197)	201,851,953	-	2,520,340	-	2,125,400,287
Accumulated depreciation	(640,938,909)	-	-	-	(41,805,113)	-	-	(682,744,022)
Impairment	(40,148,837)	-	-	-	-	(19,115,270)	-	(59,264,107)
<b>Total</b>	<b>\$ 1,203,814,126</b>	<b>\$ 40,072,319</b>	<b>\$ (3,946,197)</b>	<b>\$ 201,851,953</b>	<b>\$ (41,805,113)</b>	<b>\$ (16,594,930)</b>	<b>-</b>	<b>\$ 1,383,392,158</b>

The commercial dispute between USA and China, the Ukraine-Russia War and the remaining problems related to COVID-19 increased worldwide inflation rates, especially in Latin America. By the end of 2021 the inflation rate in the region reached 6.6%, increasing to 8.1% in April 2022. Derived from these events, the need to assess that the fair value measurement of the assets was reasonable, considering the economic changes affecting the Company in recent years, as well the projections of the results of the entities.

During fiscal year 2022, an analysis was performed to update the fair value of the generation plants, the transmission and distribution lines, in accordance with the Company policies and IFRS, considering as a basis the "Study to determine the fair value of the long-term assets of the generation plants of the Federal Electricity Commission" with figures as of December 31st, 2022. The aforementioned analysis concludes that there is an impairment in the plants of \$12,267,070.

The results of the analysis for the fair value update of assets as of 31 December 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Impairment of property, plant and equipment	\$ (4,919,297)	\$ (19,115,270)
Reversal of impairment of property, plant and equipment	84,950	2,520,341
Recorded in the statement of profit or loss	(4,834,347)	(16,594,929)
Revaluation of property, plant and equipment no operational	34,848	201,851,953
Reversal of revaluation of property, plant and equipment	(7,467,571)	-
Recorded in OCI	(7,432,723)	201,851,953
<b>Total (impairment) or revaluation</b>	<b>\$ (12,267,070)</b>	<b>\$ 185,257,024</b>

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

**2022**

Technology	No. of Power Stations	Revaluation	Impairment	Revaluation reversal	Impairment reversal
Coal-Fired	3	\$ -	\$ 40,730	\$ 135,644	\$ -
Eoelectric	2	29,675	-	-	84,210
Photovoltaic	2	5,173	-	-	-
Geothermal	4	-	83,460	29,788	-
Hydroelectric	60	-	2,791,013	6,127,678	-
Nuclear power	1	-	-	411,616	-
Thermoelectric	21	-	137,579	-	-
Turbo-gas	40	-	231,511	183,574	-
Combined cycle	20	-	1,532,407	575,648	-
Internal combustion	5	-	102,597	3,623	740
<b>Total</b>	<b>158</b>	<b>\$ 34,848</b>	<b>\$ 4,919,297</b>	<b>\$ 7,467,571</b>	<b>\$ 84,950</b>

**2021**

Technology	No. of Power Stations	Impairment	Revaluation	Impairment reversal
Coal-Fired	3	\$ 1,531,239	\$ 168,514	\$ -
Combined cycle	20	3,537,483	3,829,595	488,996
Interna combustion	5	664,314	29,390	688
Eoloelectric	2	220,933	-	-
Photovoltaic	2	-	390	-
Geothermal	4	471,977	130,992	-
Hydroelectric	61	8,928,469	13,955,236	1,758,324
Nuclear power	1	-	1,330,843	-
Thermoelectric	20	2,124,506	-	-
Turbo-gas	40	1,313,617	-	272,333
Transmission lines	-	-	150,075,201	-
Distribution lines	-	-	30,194,284	-
Non-Operating assets	-	322,732	2,137,508	-
<b>Total</b>	<b>158</b>	<b>\$ 19,115,270</b>	<b>\$ 201,851,953</b>	<b>\$ 2,520,341</b>

For the asset valuation study, the Enterprise considered the same aggregation to identify the cash-generating unit, both for the recoverable amount estimated in past valuations as in the current one for recognition in 2022 and 2021.

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

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



As of December 31, 2022 and 2021, the useful lives of the plants with modern technology are as follows:

<u>Power Stations</u>	<u>useful life</u>
Combined cycle (with natural gas), thermoelectric plants, turbo.gas and internal combustion	30 years
Coal-Fired	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 December 31, 2022 and 2021 are as follows:

<u>Planta:</u>	<u>2022</u>	<u>2021</u>
Steam power plants	\$ 257,439	\$ 654,043
Hydroelectric power plants	12,562,764	1,106,083
Nuclear power plant	205,157	205,157
Turbo-gas and combined cycle power plants	68,045,808	1,194,739
Geothermal power plants	164,504	171,846
Internal combustion	15,157,938	27,670
Transmission lines, networks and substations	11,915,108	17,938,324
Offices and general facilities	334,911	324,455
Construction advances	665,699	-
<b>Total</b>	<b>\$ 109,309,328</b>	<b>\$ 21,622,317</b>

As of December 31, 2022 and 2021 the Master Investment Trust approved projects related to build investment projects for the development acquisition covered from settlor resources during the next 3 years.

PROJECT	PRICE (MUSD)
C.C.C. Riviera Maya	762,000
C.C.C. Mérida	754,000
C.C.C. Tuxpan Fase I	737,000
C.C.C. San Luis Río Colorado	798,000
C.C.C. González Ortega	624,940
C.C.C. Baja California Sur	646,557
	249,942
	290,000

As of December 31, 2022 and 2021 the Master Investment Trust outlay \$43,104,936 y \$ 66,650 respectively. and the work in progress CTG Gonzalez Ortega made a contribution for \$2,838,948,522.

**Fair value measurement**

i. Fair value hierarchy

The fair value of plants, facilities and equipment in operation was determined by independent external appraisers with a recognized professional capacity and experience in terms of the property, plant and equipment that underwent the appraisal. The independent appraisers provided the fair value of the plants, facilities and equipment as of December 31, 2022, and 2021.

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
<p>Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by plants, facilities and equipment, considering the expected income growth rate.</p> <p>Net expected cash flows are discounted using risk-adjusted discount rates.</p>	<p><b>Generation</b> Useful life of the assets (30-60 years) Discount rate 8.80%-10.55%</p> <p><b>Transmission</b> Useful life of the assets (30 years) Discount rate 7.67%</p> <p><b>Distribution</b> Useful life of the assets (30 years) Discount rate 7.67%</p>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>- Income growth was higher (lower)</li> <li>- The useful life was higher (lower)</li> <li>- The risk-adjusted discount rate was lower (higher)</li> </ul>

As mentioned in note 3h and 8, 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 Enterprise to estimate the recoverable amount of its assets, which is the greater of its fair value (minus any disposal costs) and its value in use.

## 9. Right-of-use asset

The net balances of right of use assets as of December 31, 2022 and 2021 are as follows:

	<u>December 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Effect from translation</u>	<u>Depreciation for the year</u>	<u>December 2022</u>
Property	\$ 788,956	\$ 64,849	\$ -	\$ (1,428)	\$ -	\$ 852,377
Infrastructure	158,891,975	-	-	-	-	158,891,975
Vehicles	4,173,989	-	(5,726)	-	-	4,168,263
Gas pipelines	503,228,838	32,048,582	-	(6,208,198)	-	529,069,222
Subtotal	<u>667,083,758</u>	<u>32,113,431</u>	<u>(5,726)</u>	<u>(6,209,626)</u>	<u>-</u>	<u>692,981,837</u>
Property	(630,310)	-	-	1,369	(90,168)	(719,109)
Infrastructure	(64,850,216)	-	-	-	(7,573,090)	(72,423,306)
Vehicles	(1,852,979)	-	-	-	(1,037,057)	(2,890,036)
Gas pipelines	(88,382,530)	-	-	1,343,807	(19,987,391)	(107,026,114)
Total depreciation	<u>(155,716,035)</u>	<u>-</u>	<u>-</u>	<u>1,345,176</u>	<u>(28,687,706)</u>	<u>(183,058,565)</u>
	<u>\$ 511,367,723</u>	<u>\$ 32,113,431</u>	<u>\$ (5,726)</u>	<u>\$ (4,864,450)</u>	<u>\$ (28,687,706)</u>	<u>\$ 509,923,272</u>

	<u>December 2020</u>	<u>Additions</u>	<u>Remeasurement</u>	<u>Effect from translation</u>	<u>Depreciation for the year</u>	<u>December 2021</u>
Property	\$ 754,325	\$ 33,889	\$ -	\$ 742	\$ -	\$ 788,956
Infrastructure	154,346,338	-	4,545,637	-	-	158,891,975
Vehicles	4,173,989	-	-	-	-	4,173,989
Gas pipelines	446,162,786	53,841,311	-	3,224,741	-	503,228,838
Subtotal	<u>605,437,438</u>	<u>53,875,200</u>	<u>4,545,637</u>	<u>3,225,483</u>	<u>-</u>	<u>667,083,758</u>
Property	(526,889)	-	-	(382)	(103,039)	(630,310)
Infrastructure	(57,125,614)	-	-	-	(7,724,602)	(64,850,216)
Vehicles	(810,196)	-	-	-	(1,042,783)	(1,852,979)
Gas pipelines	(69,262,841)	-	-	(558,197)	(18,561,492)	(88,382,530)
Total depreciation	<u>(127,725,540)</u>	<u>-</u>	<u>-</u>	<u>(558,579)</u>	<u>(27,431,916)</u>	<u>(155,716,035)</u>
	<u>\$ 477,711,898</u>	<u>\$ 53,875,200</u>	<u>\$ 4,545,637</u>	<u>\$ 2,666,904</u>	<u>\$ (27,431,916)</u>	<u>\$ 511,367,723</u>

The reconciliation of lease rights payable is as follows:

	<u>2022</u>	<u>2021</u>
Closing balance	\$ 661,408,622	\$ 608,755,141
Additions	31,435,557	53,877,675
Interest	26,653,658	28,220,748
Remeasurements	-	4,545,367
Payments	(50,544,701)	(49,345,930)
Exchange difference	(44,236,779)	15,355,621
<b>Total liabilities</b>	<b>\$ <u>624,716,357</u></b>	<b>\$ <u>661,408,622</u></b>

The Enterprise has entered leasing contracts for the rental of real estate, vehicles and infrastructure. These leases shall commence over the course of 2022. The lease agreements will require CFE to recognize lease assets and liabilities in accordance with IFRS 16.

## 10. 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 Enterprise mainly uses foreign exchange "Cross Currency Swaps" and "Forwards" to mitigate its foreign currency risk. To reduce its interest rate risk exposure, the Enterprise uses interest rate swaps.

In addition, for the years ended December 31, 2022, and 2021, the derivative financial instruments have been designated as and qualify mainly as cash flow hedges since they are referenced to contracted debt. The effective portion of gains or losses on cash flow derivatives is recognized in equity under the concept of "Effects on the fair value of derivatives", and the ineffective portion is charged to profit or loss of the period.

The fair value of the Enterprise's financial instrument position as of December 31, 2022 amounted \$(9,411,848). As of December 31, 2021 it amounted \$14,826,581.

### Derivative Financial Instruments Held for Trading

As of December 31, 2022 and 2021, CFE had derivatives designated as held for trading whose fair value represented a liability of \$13,749,124 and \$4,010,547 respectively.

If CFE decides to cancel this economic hedge (currency forwards on the yen/dollar exchange rate), it would give rise to an estimated extraordinary loss as of December 31, 2022 and 2021 as follows:

Instrument	Underlying	Maturity		December 2022	December 2021
FWD					
JPY/Usd	Exchange rate and interest <sup>(1)</sup>	2036	Line of credit in yen	\$ (960,810)	\$ (1,043,092)
Funded Swap	Exchange rate and interest <sup>(2)</sup>	2023	Monetization ISDA	(6,995,139)	-
IRS	Prepaid SWAP <sup>(3)</sup>	2022	Monetization MTM	-	(3,101,322)
CCS	Mizuho line <sup>(4)</sup>	2023	Mizuho line	(235,104)	116,847
IRS	Mizuho line <sup>(4)</sup>	2023	Mizuho line	-	17,020
P.Only	Initial Exchange P.O 2033 <sup>(5)</sup>	2023	Monetization ISDA	(1,668,132)	-
P.Only	Initial Exchange P.O 2052 <sup>(6)</sup>	2023	Monetization ISDA	(3,889,939)	-
			<b>Negotiation</b>	<b>\$ (13,749,124)</b>	<b>\$ (4,010,547)</b>

- 1) On September 17, 2002, CFE placed in the Japanese market a bond for 32 billion Japanese yen at an annual interest rate of 3.83% and maturing in September 2032. At the same time, CFE carried out a hedging operation for which received an amount of 269,474,000 US dollars, equivalent to 32 billion yen at the spot exchange rate on the date of the operation of 118.7499 yen per US dollar. This transaction consists of a series of currency forwards that allow the Enterprise 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%.
- 2) On April 7, 2022, CFE entered a Derivative Financial Instrument transaction under the "Funded Swap" modality with Credit Suisse AG - Cayman Branch, for an amount of 325 million Swiss francs in order to monetize such amount under the ISDA 1992 master agreement, signed between Credit Suisse Cayman Islands Branch and CFE on November 24, 2004.

The transaction is valid for one year.

CFE has the option to make partial principal payments periodically. Any amount that CFE decides to repay may be used again in subsequent periods within the term of the transaction.

Interest is payable every 28 days at a variable interest rate of TIIE minus 85 basis points.

The valuation is made by bringing to present value future cash flows depending on exchange rate movements of the Swiss franc against the U.S. dollar and the U.S. dollar against the Mexican peso, as well as interest rate movements in Swiss francs, U.S. dollars and Mexican pesos. Mexican pesos.

- 3) On November 24, 2021, an Interest Rate Prepaid Swap was contracted with the counterparty Barclays Bank Mexico for \$100 million dollars with a maturity date of December 31, 2021, in order to monetize the MTM during the term of the operation and to cover liquidity needs. On December 17, 2021, said operation was restructured to remain in a total amount of \$150 million dollars for a term of 103 days with amortizations and payments during the months of January to March 2022. On January 11, 2022, it was settled; the operation in advance and the MTM object of the operation was restored and classified as a financial instrument for negotiation.

The objective of the transaction is to monetize the favorable mark to market of the hedging operations of the derivatives portfolio that are maintained with the counterpart Barclays Bank México. Upon recognition of the transaction, the market value is classified as trading until the time of payment or settlement of the transaction.

On January 11, 2022, the operation was terminated and the MTM was restored to the hedge portfolio position. The present value of the flows generated a total amount of the operation was 150.5 million dollars.

- 4) On December 30, 2022, the provisions made of the revolving line of credit contracted with Banco Mizuho were settled, which is intended for working capital needs. For this reason, the hedges associated with said primary position change from designation to negotiation.
- 5) On December 19, 2022, CFE received a temporary monetization through a derivative financial instrument Funded Out with Barclays Bank Mexico, S.A. under the Master Agreement for Derivative Financial Transactions dated May 21, 2013 for an amount equivalent to an initial exchange for US\$80 million, to be settled before January 24, 2023. This operation was temporarily designated as trading.

Once the initial swap is settled, the transaction would be reclassified as a hedge, with a notional amount of \$175 million dollars, of the foreign exchange risk associated with the primary position of the CFE 2033 Bond through a Principal Only Swap structure.

- 6) On December 19, 2022, CFE entered into a Principal Only hedge associated with the CFE 2052 Bond for a notional amount of US\$100 million. This hedge established an initial exchange for an amount of US\$200 million settleable at no financial cost on March 20, 2023.

In this operation, during the life of the initial exchange, it is classified as trading.

The Enterprise 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 Enterprise 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.

### **Hedging instruments**

As of December 31, 2022 and 2021, CFE maintains its hedging derivative position on exchange rates and interest rates, as shown below:

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Instrument	Underlying	Type of Hedge	Maturity	Primary position (Lines/Bonds)	Hedge Ratio	Fair Value	
						December 2022	December 2021
CCS	(1)	Cash flow	2022	1100000077 a 79	100%	\$ -	\$ 10,934
CCS	(1)	Cash flow	2023	1100000080	100%	219,149	1,280,140
CCS	(1)	Cash flow	2024	1100002956	100%	459,169	2,602,158
CCS	(1)	Cash flow	2027	1100003606	100%	493,544	4,280,554
CCS	(1)	Cash flow	2032	1200002801	100%	123,039	158,424
				1200000551			
CCS	(1)	Cash flow	2036	Pidiregas line	100%	3,356,850	2,948,151
CCS	(1)	Cash flow	2042	2042 bond	55%	171,766	503,680
CCS	(1)	Cash flow	2047	Formosa 1 bond	100%	250,098	1,394,390
CCS	(1)	Cash flow	2048	Formosa 2 bond	100%	472,243	1,960,617
Participating							
Swap	(1)	Cash flow	2027	2027 bond	100%	105,144	337,136
CCS	(1)	Cash flow	2045	2045 bond	67%	575,357	2,123,372
CCS	(1)	Cash flow	2030	Formosa 4 bond	33%	(340,659)	397,779
CCS	(1)	Cash flow	2029	Formosa 3 bond	30%	1,788,274	1,638,221
CCS	(1)	Cash flow	2029	SACE line	100%	443,547	-
CCS	(1)	Cash flow	2031	CFE 2031	100%	(828,480)	-
CCS	(1)	Cash flow	2033	CFE 2033	100%	266,372	-
P.Only	(1)	Cash flow	2052	2052 bond	100%	347,499	-
			Less than				
Forwards	(2)	Cash flow	1 year	Energy sale	100%	-	(797)
CCS	(3)	Cash flow	2022-2025	Energy sale	N/A	(340,861)	(67,811)
Options	(3)	Cash flow	2022	Energy sale	21%	(3,224,775)	(729,820)
<b>Total</b>						<b>\$ 4,337,276</b>	<b>\$ 18,837,128</b>

(1) Exchange rate and interest rate  
(2) Exchange rate  
(3) Commodities

The table above includes the Mark to Market of the hedging derivatives.

	<u>2022</u>	<u>2021</u>
<b><u>Assets</u></b>		
Hedge	\$ 9,072,051	\$ 19,635,556
Negotiation	-	133,867
Total	<u>\$ 9,072,051</u>	<u>\$ 19,769,423</u>
<b><u>Liabilities</u></b>		
Hedge	(4,734,775)	(798,428)
Negotiation	<u>(13,749,124)</u>	<u>(4,144,414)</u>
Total	<u>\$ (18,483,899)</u>	<u>\$ (4,942,842)</u>
<b>Net</b>	<u><b>\$ (9,411,848)</b></u>	<u><b>\$ 14,826,581</b></u>

As of December 31, 2022 and 2021 the total Mark to Market value of the hedging and trading derivatives amounts to \$(9,411,848) and \$14,826,581 respectively, based on their carrying amount.

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

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

### **Natural Gas Hedges Proprietary Position**

At the 50th ordinary session of the Board of Directors held on July 14, 2022, the 2021 Foreign Exchange, Interest Rate and Fuel Price Hedging Strategy of the Federal Electricity Commission was authorized.

As of October 15, 2021, the execution of the Fuel Coverage Program began, focused on covering the 2022 calendar through an option structure (collars and calls) considering premium levels covering 57 contracts of 10,000 MMBTU equivalent to approximately 20% of the annual consumption of CFE.

As of December 31, 2022, there is coverage of 22.8% and 19.4% of the NYMEX reference bases contract strip including the Houston Ship Channel Reference Index combos (NYMEX options + Index HSC + Basis) covering Cal 22 and up the period of March 2023.

#### **Current contracts Program 2022**

<b>Level strike option</b>	<b>Jan 22- Feb 23</b>	<b>Feb 22 Mar 23</b>	<b>Total</b>
+4.5 Call	6	-	<b>6</b>
4.0 Call	5	<b>6</b>	<b>11</b>
<b>Total contracts</b>	<b>11</b>	<b>6</b>	<b>17</b>

#### **Current contracts Program 2023**

<b>Level strike option</b>	<b>Jan 22- Mar 23</b>	<b>Feb 23 Mar 23</b>	<b>April 23 Dec 23</b>	<b>Total</b>
4.5 call		6		<b>6</b>
5.5 Call			73	<b>73</b>
7 Call	102			<b>102</b>
<b>Total contracts</b>	<b>102</b>	<b>6</b>	<b>73</b>	<b>181</b>

As the calendars expire monthly, the term will be increased through new layers with mobile periods covering the periods of greatest price increases.

The classification of the natural gas hedge position is hedge and it remains in CFE Corporate until the allocation criteria for the generation companies are developed.



The market value as of December 31, 2022 of the own position was \$(3,224,775) recorded as a liability corresponding to the price of the NYMEX option including the base risk and the Index to cover the primary position of consumption of the Houston Ship Channel daily.

As of December 31, 2022, the effects of OCI in the upcoming years (current portfolio) are as follows:

<b>Millions of pesos</b>			
<b>Year</b>	<b>MTM</b>	<b>OCI</b>	<b>Results (Interest and exchange rate)</b>
2023	1,149	(14,022)	15,171
2024	7,218	(4,956)	12,173
2025	7,583	(5,022)	12,605
2026	7,960	(6,820)	14,780
2027	8,493	(4,883)	13,375

**b. Fair value measurement**

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

**Adjustment of fair value or Mark to Market by credit risk**

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

The net fair value of derivative financial instruments (Mark-To-Market) effective as of December 31, 2022 before considering credit risk, amounts to (\$9,062,201) which is included in the balance sheet and represents the amount in favor of the Enterprise with the counterparties.

The net fair value of derivative financial instruments (Mark-To-Market) effective as of December 31, 2021 before considering credit risk, amounts to \$16,874,330 which is included in the balance sheet and represents the amount in favor of the Enterprise 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 December 31, 2022, fair values adjustments based on the CVA (Credit Valuation Adjustment) are shown below:

<b>Counterparty</b>	<b>Fair value MTM subject to CVA</b>	<b>Adjusted fair value MTM</b>	<b>Adjustment as of December 31, 2022</b>
Deutsche Bank	\$ 2,095,270	\$ 1,885,147	\$ 210,123
Goldman Sachs	1,017,303	856,694	160,609
Morgan Stanley	458,787	391,201	67,586
BBVA	296,527	275,172	21,355
Santander	146,579	133,864	12,715
MUFG	(153,053)	(153,053)	-
Scotiabank	(447,374)	(447,374)	-
Bank of America	(613,276)	(626,330)	13,054
BNP Paribas	(620,985)	(628,316)	7,331
Barclays Bank	(868,130)	(955,932)	87,802
JP Morgan	(962,487)	(1,484,495)	522,008
Citibanamex	(3,005,583)	(3,133,191)	127,608
Credit Suisse	(6,405,779)	(5,525,235)	(880,544)
	<b>\$ (9,062,201)</b>	<b>\$ (9,411,848)</b>	<b>\$ 349,647</b>

As of December 31, 2021, fair values adjustments based on the CVA (Credit Valuation Adjustment) are shown below:

<b>Counterparty</b>	<b>Fair value MTM subject to CVA</b>	<b>Adjusted fair value MTM</b>	<b>Adjustment as of December 31, 2021</b>
Goldman Sachs	\$ 3,949,872	\$ 3,681,642	\$ 268,230
Citibanamex	2,948,727	2,797,943	150,784
Morgan Stanley	2,743,981	2,606,901	137,080
Deutsche Bank	2,339,687	2,248,881	90,806
BBVA	1,999,477	1,235,575	763,902
Santander	1,987,699	1,926,646	61,053
BNP Paribas	799,691	736,063	63,628
Bank of America	218,398	49,340	169,058
Credit Suisse	187,903	178,998	8,906
Bank of Tokyo	231	216	15
JP Morgan	(116,932)	(126,910)	9,978
Barclays Bank	(184,405)	(508,714)	324,309
	<b>\$ 16,874,329</b>	<b>\$ 14,826,581</b>	<b>\$ 2,047,748</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 Enterprise's Mark-to-Market for derivative financial instruments as of December 31, 2022 is level 2 due to the following:

- Inputs are other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Quoted prices for similar assets or liabilities in active markets.
- Inputs other than quoted prices that are observable for the asset or liability.

### **c. Financial risk management**

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

- Credit risk
- Liquidity risk
- Market risk

#### **Credit risk**

Credit risk is the risk of financial loss to the Enterprise if a counterparty to a financial instrument fails to meet its contractual obligations to mitigate its credit risk, the Enterprise'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 Enterprise monitors the credit rating and the probability of default of the counterparty, which is applied to the market value of the derivative. These transactions are carried out with solvent and well-known parties that have AAA+ credit rating on a local scale, and BBB+ on a global scale, according to S&P, Moody's and Fitch.

The carrying amount of the derivative financial assets represents the maximum exposure to credit risk. As of December 31, 2022, and 2021, this amounted to \$(9,062,201) and \$16,874,330, 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 Enterprise monitors the market value of the derivative and the use by the operating lines (threshold).

Exposure to liquidity risk for holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of December 31, 2022 and 2021, this amounted to \$18,936,921 and \$5,401,208 respectively.

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

	Less than one year	More than 1 year and less than 5 years	Total
<b>December 31, 2022</b>			
CCS	\$ 29,195	\$ 81,940	\$ 111,135
<b>Total payable</b>	<b>\$ 29,195</b>	<b>\$ 81,940</b>	<b>\$ 111,135</b>
CCS	\$ 25,795	\$ 87,497	\$ 113,292
<b>Total receivable</b>	<b>\$ 25,795</b>	<b>\$ 87,497</b>	<b>\$ 113,292</b>
<b>December 31, 2021</b>			
CCS	\$ 35,579	\$ 65,607	\$ 101,186
<b>Total payable</b>	<b>\$ 35,579</b>	<b>\$ 65,607</b>	<b>\$ 101,186</b>
CCS	\$ 30,808	\$ 68,204	\$ 99,102
<b>Total receivable</b>	<b>\$ 30,808</b>	<b>\$ 68,204</b>	<b>\$ 99,102</b>

### 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*

61.3% of CFE's debt is denominated in foreign currency, mainly in US dollars, whereas most of CFE's assets and revenues are denominated in pesos. As a result, CFE is exposed to devaluation risks of the peso against the dollar. In conformity with its risk management policy, CFE has contracted currency swaps to reduce the impact of currency fluctuations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay a fixed rate in pesos. As of December 31, 2022, and 2021, CFE maintains foreign exchange swaps to hedge its foreign currency debt of \$145,318 and \$137,571, million pesos, respectively.

To cover the exchange risks of the \$32 billion debt in yens, CFE uses a series of exchange rate forwards under which it purchases Japanese yens. The market value of this transaction as of December 31, 2022 and 2021 was \$(960,810) and \$(1,043,092), respectively. These derivative instruments were not designated as hedges.

Sensitivity analysis of the effect on exchange rates

A possible and reasonable strengthening (weakening) of the MXN/USD and JPY/USD exchange rate as of December 31, 2022 would have affected the fair value of the total position of the derivative financial instruments in foreign currency, and thus, profit and loss of the period and other comprehensive income (since some of them are designated as hedges), as shown in the following table:

Instrument	Effect on profit or loss		Effect on equity	
	+100 pips	-100 pips	+100 pips	-100 pips
Cross Currency JPY/USD	74,851	(74,851)		
Funded out Credit Suisse			2,694	(2,694)
Funded out Barclays			3,250	(3,250)
P.O Citibanamex			1,750	(1,750)
			2,000	(2,000)
<b>Total</b>	<b>74,851</b>	<b>(74,851)</b>	<b>9,694</b>	<b>(9,694)</b>

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

*b) Interest rate risk*

21.3% of CFE's debt bears interest at variable interest rates, which are determined by reference to the TIIE rate for debt denominated in pesos. As of December 31, 2022 there is any hedges and 2021 CFE hedged \$962 of its variable interest rate debt denominated in pesos.

Interest rate sensitivity analysis

A potential and reasonable strengthening (weakening) of interest rates as of December 31, 2022 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:

31/12/22	Effect on equity	
	+ 100 basis points	- 100 basis points
Interest rate swaps	\$ 1,753	\$ (1,753)

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

**11. Intangibles and other assets**

An analysis of intangibles and other assets as of December 31, 2022 and 2021 is as follows:

	2022	2021
Rights of way (1)	\$ 33,789,096	\$ 32,080,318
Deposits and advances	12,190,411	15,893,085
<b>Total</b>	<b>\$ 45,979,507</b>	<b>\$ 47,973,403</b>

(1) As of December 31, 2022 and 2021, the Enterprise has right-of-way assets, which represent a legal right-of-way for the Enterprise to access and inspect transmission lines by air or underground in order to verify the continued transmission of electricity over the power lines. An analysis of these right-of-way assets is shown below:

Right of way	Opening balance	Increase	Charges and others	Ending balance
2022	\$ 32,080,318	\$ 1,708,778	-	\$ 33,789,096
2021	\$ 32,004,933	\$ 75,385	-	\$ 32,080,318

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

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

An analysis of the Enterprise's debt as of December 31, 2022 and 2021 is as follows:

	<b>2022</b>	<b>2021</b>
Documented debt	\$ 18,037,363	\$ 13,132,667
PIDIREGAS debt	13,092,226	12,104,453
Trust Investment Financing	64,018,455	12,068,130
<b>Total short-term debt</b>	<b>95,148,044</b>	<b>37,305,250</b>
Documented debt	250,965,839	245,206,846
PIDIREGAS debt	104,386,741	111,408,806
<b>Total long-term debt</b>	<b>355,352,580</b>	<b>356,615,652</b>
<b>Total debt</b>	<b>\$ 450,500,624</b>	<b>\$ 393,920,902</b>

The breakdown of debt by each of its components is as follows:

Type of debt	Balance as of December 2021	Drawdowns	Payments	Foreign exchange and interest rate differences	Balance as of December 2022
Documented debt	\$ 258,339,513	\$ 119,888,208	\$ (99,813,569)	\$ (9,410,950)	\$ 269,003,202
Pidiregas debt	123,513,259	8,768,567	(10,568,699)	(4,234,160)	117,478,967
Trust Investment Financing	12,068,130	62,579,842	(8,105,252)	(2,524,265)	64,018,455
<b>Total</b>	<b>\$ 393,920,902</b>	<b>\$ 191,236,617</b>	<b>\$ (118,487,520)</b>	<b>\$ (16,169,375)</b>	<b>\$ 450,500,624</b>

<b>Type of debt</b>	<b>Balance as of December 2020</b>	<b>Drawdowns</b>	<b>Payments</b>	<b>Foreign exchange and interest rate differences</b>	<b>Balance as of December 2021</b>
Documented debt	\$ 231,511,339	\$ 137,910,926	\$ (118,048,461)	\$ 6,965,709	\$ 258,339,513
Pidiregas debt	132,037,263	6,421,139	(17,106,797)	2,161,654	123,513,259
Trust Investment Financing	-	12,066,438	-	1,692	12,068,130
<b>Total</b>	<b>\$ 363,548,602</b>	<b>\$ 156,398,503</b>	<b>\$ (135,155,258)</b>	<b>\$ 9,129,055</b>	<b>\$ 393,920,902</b>

### **Documented debt**

An analysis of drawdowns against loans as of December 31, 2022 and 2021 is as follows:

#### a) Foreign debt

On December 21, 2022, the Enterprise drew down MEUR \$15.9, a loan contracted with the Agence Francaise de Developpement (AFD) signed on 14 October 2021 for an amount of MEUR \$200.0, at a rate of EURIBOR plus 2.10% and maturity in April 2041.

On December 9, 2022, the Enterprise drew down MUSD \$21.1 from credit line signed with Banamex, S.A. intended to finance enriched uranium for the Laguna Verde Nuclear Power Plant, with a term of three years, amortizations and semi-annual interest payments, and a rate of LIBOR 6m USD + 0.85%

On December 6, 2022, the Enterprise drew down MUSD \$80.0 from a short-term promissory note with Banco Mercantil del Norte, S.A. (Banorte), with a fixed rate SOFR + 1.5%, and a 22 days term.

On December 2, 2022, the Enterprise drew down MUSD \$200.0, of a loan contracted with the Andean Development Corporation (CAF) signed on November 29, 2022 for an amount of MUSD \$200.0, at a rate of TERM SOFR plus the margin to be set in the disbursement request and maturity in July 2026.

On November 25, 2022, the Enterprise drew down MEUR \$62.2, a loan contracted with the Agence Francaise de Developpement (AFD) signed on 14 October 2021 for an amount of MEUR \$200.0, at a rate of EURIBOR plus 2.1% and maturity in April 2041.

On October 2022, the Enterprise drew down MUSD \$200 from revolving syndicated loan, signed on July 31, 2018, for an amount of MUSD \$1,260 with Mizuho Bank, LTD., as administrative agent, which bears interest equal to the LIBOR USD plus 0.95%, maturity in July 2023

On August 10, 2022, the Enterprise drew down MUSD \$200 from revolving syndicated loan, signed on July 31, 2018, for an amount of MUSD \$1,260 with Mizuho Bank, LTD., as administrative agent, which bears interest equal to the LIBOR USD plus 0.95%, maturity in July 2023

On August 10, 2022, the Enterprise drew down MUSD \$100.0 from a commercial credit, signed on December 31, 2021, for an amount of MUSD \$350 with Sumitomo Mitsui Banking Corporation, which bears interest equal to the LIBOR USD plus 0.5%, maturity in January 2023.

On July 22, 2022, the Enterprise drew down MUSD \$100.0 from a commercial credit, signed on December 31, 2021, for an amount of MUSD \$350 with Sumitomo Mitsui Banking Corporation, which bears interest equal to the LIBOR USD plus 0.5%, maturity in January 2023.

On July 14, 2022, the Enterprise drew down MUSD \$300 from revolving syndicated loan, signed on July 31, 2018, for an amount of MUSD \$1,260 with Mizuho Bank, LTD., as administrative agent, which bears interest equal to the LIBOR USD plus 0.95%, maturity in July 2023.

On May 13, 2022, the Enterprise drew down MUSD \$28.2 from credit line signed with Banamex, S.A. intended to finance enriched uranium for the Laguna Verde Nuclear Power Plant, with a term of three years, amortizations and semi-annual interest payments, and a rate of LIBOR 6m USD + 0.90%

On April 8, 2022, the Enterprise drew down MUSD \$50.0 from a commercial credit, signed on December 31, 2021, for an amount of MUSD \$350 with Sumitomo Mitsui Banking Corporation, which bears interest equal to the LIBOR USD plus 0.5%, maturity in January 2023.

On February 5, 2022, the Enterprise drew down MUSD \$1,750, against the external public issuance of fixed rate bonds under Rule 144 A and Regulation S with Deutsche Bank Trust Enterprise Americas as the main paying agent, in two tranches:

a) The first one identified as "4.7% Notes due 2029" for MUSD \$1,250, a fixed rate of 4.7% and payable in May 2029, intended to finance activities established by the Comision Federal de Electricidad Law, as well as for finance various payments for Financed Public Works.

b) The second identified as "6.3% Notes due 2052" for MUSD \$500, a fixed rate of 6.3% and a term of 30 years, destined to finance activities established by the Comision Federal de Electricidad Law as "Sustainable Financing Framework".

During February 2022, the Enterprise drew down MUSD \$300 from revolving syndicated loan, signed on July 31, 2018, for an amount of MUSD \$1,260 with Mizuho Bank, LTD., as administrative agent, which bears interest equal to the LIBOR USD plus 0.95%, maturity in July 2023.

On January 11, 2022, the Enterprise drew down MUSD \$300 from revolving syndicated loan, signed on July 31, 2018, for an amount of MUSD \$1,260 with Mizuho Bank, LTD., as administrative agent, which bears interest equal to the LIBOR USD plus 0.95%, maturity in July 2023.

On December 8, 2021, the Enterprise drew down MUSD \$300 from a short-term promissory note with Banorte, which bears interest equal to the LIBOR USD + 0.95%, maturing on December 31, 2021.

On November 10, 2021, the Enterprise drew down MUSD \$300 from revolving syndicated loan, signed on July 31, 2018, for an amount of MUSD \$1,260 with Mizuho Bank, LTD., as administrative agent, which bears interest equal to the LIBOR USD plus 0.95%, maturity in July 2023.

On October 12, 2021, the Enterprise drew down MUSD \$17.1 from credit line signed with Banamex, S.A. intended to finance enriched uranium for the Laguna Verde Nuclear Power Plant, with a term of three years, amortizations and semi-annual interest payments, and a rate of LIBOR 6m USD + 0.70%.

During August 2021, MUSD \$2.6 were drawn from credit line contracted with BBVA, S.A. Madrid, for the financing of goods and services with the guarantee of the Spanish Export Credit Insurance Enterprise (CESCE), at fixed rate CIRR and 5-year term.



On July 26, 2021, the Enterprise drew down MUSD \$850 against the external public issuance of fixed rate bonds under Rule 144 A and Regulation S with Deutsche Bank Trust Company Americas as the main paying agent identified as “3.875% Notes due 2033” a fixed rate of 3.875% and payable in 12 years, destined to finance a revolving syndicated loan and refinancing of short-term bank loans.

On March 9, 2021, the Enterprise drew down MUSD \$599.7 against a revolving syndicated loan of USD 1.26 billion dated on July 31, 2018, with Mizuho Bank, LTD. as the loan's administrative agent, which bears interest equal to the USD LIBOR plus 0.95% and maturity in July 2023.

On March 9, 2021, the Enterprise drew down MUSD \$2,000, against the external public issuance of fixed rate bonds under Rule 144 A and Regulation S with Deutsch Bank Trust Enterprise Americas as the main paying agent, in two tranches:

1. The first one identified as “3,348% Notes due 2031” for MUSD \$1,200, a fixed rate of 3,348% and payable in February 2031, intended to finance activities established by the Comision Federal de Electricidad Law, as well as for the refinancing of the issuance of bonds maturity date of May 19, 2011 for MUSD 1,000 maturing on May 26, 2021.
2. The second identified as “4,677% Notes due 2051” for MUSD \$800, a fixed rate of 4,677% and a term of 30 years, destined to finance activities established by the Comision Federal de Electricidad Law.

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Foreign Debt	Credit Type	Interest rate	Maturates	2022		2021	
				Local currency	Foreign currency	Local currency	Foreign currency
<b>IN US DOLLAR:</b>							
exchange rate of \$19.4143 per dollar as of Dec 2022 and \$20.5835 as of Dec 2021	BILATERAL	Fixed and variable - 3.7%	Various through 2030	\$ 7,486,131	385,599	\$ 8,317,283	404,075
	BONDS	Fixed and variable - 4.7%	Various through 2052	146,740,491	7,558,371	154,751,832	7,518,247
	REVOLVING	Fixed and variable - 4.0%	Various through 2026	117,810	6,068	210,280	10,216
<b>TOTAL US DOLLARS:</b>				<b>154,344,432</b>	<b>7,950,038</b>	<b>163,279,395</b>	<b>7,932,538</b>
<b>IN EUROS:</b>							
exchange rate of Euros of \$20.7692 at Dec 2022 and \$23.2763 at Dec 2022	BILATERAL	Fixed and variable – 4.0%	Various through 2041	1,629,342	78,450	2,814	121
<b>TOTAL EUROS:</b>				<b>1,629,342</b>	<b>78,450</b>	<b>2,814</b>	<b>121</b>
<b>IN JAPANESE YENS;</b>							
exchange rate of Yens of \$0.1474 at Dec 2022 and \$0.1777 at Dec 2021	BOND	Fixed - 3.8%	2032	4,716,800	32,000,000	5,686,400	32,000,000
Assets received for financial instruments, net				514,849		(139,682)	
<b>TOTAL JAPANESE YENS:</b>				<b>5,231,649</b>	<b>32,000,000</b>	<b>5,546,718</b>	<b>32,000,000</b>
<b>TOTAL FOREIGN DEBT</b>				<b>\$ 161,205,423</b>		<b>\$168,828,927</b>	

### **Reference Interest Rates changes (RFR)**

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

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

Differences between IBORs and RFRs:

1. RFRs are available overnight. On the contrary, IBORs are published for different time frames;
2. RFRs are retrospective, as they report the fees paid the day before in the relevant transactions. Rather, IBORs report the rate at which funds are available today for the corresponding term.
3. RFRs are designed to be almost risk-free rates. Consequently, they do not incorporate a credit or liquidity premium. Rather, most IBORs are designed to provide an indication of the average rates at which participating banks could obtain unsecured wholesale financing during set periods and incorporate both a credit premium.

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

### 3. Domestic debt

On December 30, 2022, the Enterprise drew down MMXP \$1,500 derived from a short-term unsecured loan obtained from Scotiabank Inverlat, S.A., maturity on January 27, 2023, at a rate of TIIE 28d plus 0.80%.

On December 16, 2022, the Enterprise drew down MMXP \$2,000 against a revolving loan obtained from Banco Santander (Mexico), S.A., maturity on November 18 2022, at a rate of TIIE 28d plus 0.90% for one year and repaid at 90 days.

On December 5, 2022, the Enterprise drew down MMXP \$2,000 against a short-term unsecured loan obtained with BBVA Bancomer, S.A., at a rate of TIIE 28d plus 0.80% and repaid at 90 days.

On October 18, 2022, four Stock Certificates were issues in the national markets for a total amount of MMXP 10,000.

a) CFE 22S for an amount of MMXP \$2,907.8, which will pay monthly interest at a variable rate of TIIE 28 days plus 0.50%, maturing in May 2026.

b) CFE 22-2S for an amount of MMXP \$1,333.2, which will pay monthly interest at a rate of 10.8% maturing in November 2030.

c) CFE 22UV for an amount of UDIS 323,633,300.0 equivalent to MMXP \$2,458.2, which will pay semi-annual interest at a fixed rate of 6.3%, maturing in March 2033.

d) CFE 22UV for an amount of UDIS 434,472,700.0 equivalent to MMXP \$3,300.5, which will pay semi-annual interest at a fixed rate of 6.7%, maturing in October 2042.

On October 18, 2022, the Enterprise drew down MMXP \$3,000 against a short-term unsecured loan obtained with BBVA Bancomer, S.A., at a rate of TIIE 28d plus 0.80% and maturity in 58 days.

On October 4, 2022, the Enterprise drew down MMXP \$2,000 against a short-term unsecured loan obtained with Banco Mercantil del Norte (Banorte), S.A., at a rate of TIIE 28d plus 0.80% and maturity in 88 days.

On July 21, 2022, the Enterprise drew down MMXP \$2,000 against a short-term unsecured loan obtained with BBVA Bancomer, S.A., at a rate of TIIE 28d plus 0.80% and maturity in 32 days.

On July 20, 2022, the Enterprise drew down MMXP \$3,000 against a short-term unsecured loan obtained with BBVA Bancomer, S.A., at a rate of TIIE 28d plus 0.80% and maturity in 90 days.

On June 13, 2022, the Enterprise drew down MMXP \$2,000 against a short-term unsecured loan obtained with Banco Mercantil del Norte (Banorte), S.A., at a rate of TIIE 28d plus 0.80% and maturity in 179 days.

On June 8, 2022, the Enterprise drew down MMXP \$2,000 against a short-term unsecured loan obtained with Banco Mercantil del Norte (Banorte), S.A., at a rate of TIIE 28d plus 0.80% and maturity in 180 days.

On April 22, 2022, the Enterprise drew down MMXP \$2,000 against a short-term unsecured loan obtained with BBVA Bancomer, S.A., at a rate of TIIE 28d plus 0.80% and maturity in 90 days.

On April 21, 2022, the Enterprise drew down MMXP \$2,000 against a short-term unsecured loan obtained with BBVA Bancomer, S.A., at a rate of TIIE 28d plus 0.80% and maturity in 90 days.

On April 21, 2022, the Enterprise drew down MMXP \$4,500 against a short-term unsecured loan obtained with Banco Santander (México), S.A., at a rate of TIIE 28d plus 0.90% for one year and payable every 90 days.

On March 1, 2022, the Enterprise drew down MMXP \$10,000 against a long-term unsecured loan obtained with Nacional Financiera (SNC) in two tranches, as follows:

a) One for an amount of MMXP \$5,000 at a variable rate of TIIE 182 days plus 1.2%, maturing in February 2025.

b) The second for an amount of MMXP \$5,000 at a variable rate of TIIE 182 days plus 1.4%, maturing in March 2027.

On February 23, 2022, the Enterprise drew down MMXP \$4,000 against a revolving loan obtained from Scotiabank Inverlat, S.A., maturity on December 30, 2023, at a rate of TIIE 28d plus 0.9%.

On January 18, 2022, the Enterprise drew down MMXP \$2,000 against a short-term unsecured loan obtained with BBVA Bancomer, S.A., at a rate of TIIE 28d plus 0.80% and maturity in 90 days.

On January 17, 2022, the Enterprise drew down MMXP \$3,000 against a short-term unsecured loan obtained from BBVA Bancomer, S.A., at a rate of TIIE 28d plus 0.8% and maturity in 3 months.

On January 6, 2022, the Enterprise drew down MMXP \$9,000 against a revolving loan obtained from Banco Santander (México), S.A., dated December 21, 2020, at a rate of TIIE 28d plus 0.90% maturing in 12 months and repaid every 90 days.

On December 15, 2021, four Stock Certificates were issued in the national markets for a total amount of MMXP \$10,500.

1. CFE 21-3 for an amount of MMXP \$2,567, which will pay monthly interest at a variable rate of TIIE 28 days plus 0.40%, maturing in December 2024.
2. CFE 21-4 for an amount of MMXP \$733, which will pay monthly interest at a variable rate of TIIE 28 days plus 0.57%, maturing in December 2026.
3. CFE 21-5 for an amount of MMXP \$3,000, which will pay semi-annual interest at a fixed rate of 9.16%, maturing in December 2029.
4. CFE 21-2U for a total of UDIS 593,111,500, equivalent to MMXP \$4,200, which will pay semi-annual interest at a fixed rate of 5.11% and maturity in December 2031.

On December 13, 2021, the Enterprise drew down MMXP \$4,000 against a short-term unsecured loan obtained with Scotiabank Inverlat, S.A., at a rate of TIIE 28d plus 0.80% and maturing on December 31, 2021.

On December 3, 2021, the Enterprise drew down MMXP \$4,000 against a short-term unsecured loan obtained with BBVA México S.A., at a rate of TIIE 28d plus 0.70% and maturing on December 31, 2021.

On October 20, 2021, the Enterprise drew down MMXP \$3,000 against a short-term unsecured loan obtained with Banco Santander (México), S.A., at a rate of TIIE 28d plus 0.80% and maturing on December 30, 2021.

On October 8, 2021, the Enterprise drew down MMXP \$3,000 against a short-term unsecured loan obtained with Banorte, at a rate of TIIE 28d plus 0.75% and maturing on December 30, 2021.

On October 4, 2021, the Enterprise drew down MMXP \$3,000 against a short-term unsecured loan obtained with BBVA México S. A., at a rate of TIIE 28d plus 0.80% and maturing on December 30, 2021.

On October 1, 2021, the Enterprise drew down MMXP \$2,500 against a short-term unsecured loan obtained with Banco Nacional de México (Banamex), at a rate of TIIE 28d plus 0.80% and maturing on December 30, 2021.

On June 22, 2021, the Enterprise drew down MMXP \$5,000 against a short-term current account credit contract obtained from Banco Santander (México), S.A., dated June 22, 2021, at a rate of TIIE 28d plus 0.90% and maturity of 90 days.

On May 27, 2021, three issues of Stock Certificates were placed in the national markets for a total of MMXP \$10,000.

1. CFE 21 for an amount of MMXP \$4,873.38, which bears monthly interest at a variable rate of TIIE 28 days plus 0.57%, maturing in December 2022.
2. CFE 21-2 for an amount of MMXP \$2,589, which bears monthly interest at a variable rate of TIIE 28 days plus 0.75% maturing in March 2025.
3. CFE 21U for a total of UDIS 372,572,600, equivalent to MMXP \$ 2,537.61, which bears semi-annual interest at a fixed rate of 5.45% and maturity in May 2031.

On March 22, 2021, the Enterprise drew down MMXP \$2,500 against a short-term unsecured loan obtained from BBVA Bancomer, S.A. dated March 22, 2021, at a rate of TIIE 28d plus 1% and repaid in 6 months.

On March 22, 2021, the Enterprise drew down MMXP \$5,000 against a short-term unsecured loan obtained from BBVA Bancomer, S.A. dated March 22, 2021, at a rate of TIIE 28d plus 0.90% and repaid in 3 months.

On March 22, 2021, the Enterprise drew down MMXP \$3,000 against a short-term unsecured loan obtained from BBVA Bancomer, S.A. dated March 22, 2021, at a rate of TIIE 28d plus 0.95% and repaid in 3 months.

On March 12, 2021, the Enterprise drew down MMXP \$5,000 against a revolving loan obtained from Banco Santander (México), S.A., with maturity on December 21, 2020, at a rate of TIIE 28d plus 0.90% and repaid until 12 months, and renewable every 90 days.

On March 2, 2021, the Enterprise drew down MMXP \$4,000 against a revolving loan obtained from Banco Santander (México), S.A., with maturity on December 21, 2020, at a rate of TIIE 28d plus 0.90% and repaid until 12 months, and renewable every 90 days.

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Domestic debt	Credit Type	Interest rate	Expiration	2022		2021	
				Local currency	Foreign currency	Local currency	Foreign currency
NATIONAL CURRENCY	Bank Contracts	Fixed and variable – 9.2%	Various through 2027	\$ 16,000,000		\$ 2,500,000	
	Stock Market	Fixed and variable - 8.5%	Various through 2030	48,922,541		52,554,878	
<b>TOTAL MEXICAN PESOS:</b>				<b>64,922,541</b>		<b>55,054,878</b>	
IN UDIS: at the Exchange rate of \$7.6449 and \$7.1082 as of Dec 2022 and 2021 respectively	Stock Market	Fixed - 4.9%	Various through 2042	42,145,287	5,512,863	33,797,764	4,754,757
<b>TOTAL UDIS</b>				<b>42,145,287</b>	<b>5,512,863</b>	<b>33,797,764</b>	<b>4,754,757</b>
<b>TOTAL DOMESTIC DEBT</b>				<b>\$107,067,828</b>		<b>\$ 88,852,642</b>	
Summary							
Total foreign debt				\$161,205,423		\$168,828,927	
Total domestic debt				107,067,828		88,852,642	
Interest payable				3,154,612		3,082,605	
Unamortized debt expenses				(2,424,661)		(2,424,661)	
<b>Total documented debt</b>				<b>\$269,003,202</b>		<b>\$258,339,513</b>	
Short-term debt				\$ 14,882,751		\$ 10,050,062	
Interest payable				3,154,612		3,082,605	
<b>Total short term</b>				<b>18,037,363</b>		<b>13,132,667</b>	
Long-term debt				253,390,500		247,631,507	
Unamortized debt expenses				(2,424,661)		(2,424,661)	
<b>Total long term</b>				<b>250,965,839</b>		<b>245,206,846</b>	
<b>Total short and long term</b>				<b>\$269,003,202</b>		<b>\$258,339,513</b>	

The maturity dates of the documented debt are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 18,037,363
2024	24,903,227
2025	20,604,438
2026	11,111,943
2027	38,514,981
2028	6,094,433
2029	29,017,727
Subsequent years	<u>120,719,090</u>
<b>Total</b>	<b>\$ <u>269,003,202</u></b>

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

An analysis of the balances and maturities of the PIDIREGAS (direct investment) debt as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
2022	\$ -	1,460,983
2023	1,583,760	-
2024	508,390	864,539
2025	-	-
2026	15,760,681	18,162,616
Subsequent years	<u>99,626,136</u>	<u>103,025,121</u>
<b>Total debt</b>	<b>\$ <u>117,478,967</u></b>	<b>\$ <u>123,513,259</u></b>

Direct investment (PIDIREGAS):

As of December 31, 2022 and 2021, the debt for the acquisition of plants, facilities and equipment through PIDIREGAS is as follows:



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Foreign debt	Contract Term	Balance as of December 31, 2022				Balance as of December 31, 2021				
		(thousands of units)				(thousands of units)				
		Local currency		Foreign currency		Local currency		Foreign currency		
		Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term	
18 million dollars	2026	\$ 87,855	263,565	4,525	13,576	\$ 93,146	372,583	4,525	18,101	
184 million dollars	2029	530,266	3,039,703	27,313	156,570	562,201	3,784,965	27,313	183,883	
191 million dollars	2032	757,940	2,944,030	39,040	151,642	1,239,956	3,924,916	60,240	190,683	
648 million dollars	2036	853,285	11,727,874	43,951	604,084	904,673	13,338,842	43,951	648,036	
674 million dollars	2047	946,235	8,246,584	48,739	424,769	1,003,221	9,746,444	48,739	473,508	
951 million dollars	2048	814,404	17,639,725	41,949	908,594	867,548	19,672,057	42,148	955,720	
729 million dollars	2049	585,775	13,561,211	30,172	698,517	621,053	14,998,970	30,172	728,689	
635 million dollars	2050	973,093	11,348,147	50,122	584,525	137,679	4,029,209	6,689	195,749	
<b>Total foreign debt</b>		<b>\$ 5,548,853</b>	<b>68,770,839</b>	<b>285,811</b>	<b>3,542,277</b>	<b>5,429,477</b>	<b>69,867,986</b>	<b>263,777</b>	<b>3,394,369</b>	
<b>Domestic Debt</b>										
- million pesos	2022	-	-			39,273	-			
508 million pesos	2024	254,195	254,195			288,180	576,359			
15,409 million pesos	2026	3,044,274	12,364,987			2,399,113	15,297,774			
3,334 million pesos	2028	543,314	2,791,123			498,864	3,334,437			
11,637 million pesos	2033	1,491,330	10,145,946			1,413,323	11,637,276			
1,171 million pesos	2036	83,664	1,087,637			83,664	1,171,301			
9,515 million pesos	2042	551,656	8,963,193			539,670	9,514,852			
<b>Total domestic debt</b>		<b>\$ 5,968,433</b>	<b>35,607,081</b>			<b>\$ 5,262,087</b>	<b>41,531,999</b>			
Interest payable		1,574,939				1,412,889				
<b>CEBURES</b>			8,821				8,821			
<b>Total PIDIREGAS debt</b>		<b>\$ 13,092,225</b>	<b>104,386,741</b>			<b>\$ 12,104,453</b>	<b>111,408,806</b>			

As of December 31, 2022, and 2021, minimum payment commitments on PIDIREGAS are as follows:

	<u>2022</u>	<u>2021</u>
PIDIREGAS	\$ 170,020,682	\$ 174,481,926
less:		
Unaccrued interest	<u>54,125,477</u>	<u>52,390,376</u>
Present value of obligations	115,895,205	122,091,550
less:		
Current portion of obligations	<u>11,517,286</u>	<u>10,691,565</u>
Long-term portion of PIDIREGAS	104,377,919	111,399,985
CEBURES	<u>8,821</u>	<u>8,821</u>
<b>Total CEBURES y PIDIREGAS</b>	<b>\$ <u>104,386,740</u></b>	<b>\$ <u>111,408,806</u></b>

### **Investment of funds-in-trust**

On December 30, 2022, the Enterprise drew down MDP \$1,000 a revolving credit from BBVA México S.A., monthly payable at variable rate TIIE plus 0.75% rate and maturing on March 30, 2023.

On December 29, 2022, the Enterprise drew down MUSD \$75 a revolving credit from SUMITOMO., monthly payable at variable rate plus 0.70% and adjustment rate SORF plus 026161% rate and maturing on March 24, 2023.

On December 27, 2022, the Enterprise drew down MUSD \$50 a revolving credit from JP Morgan., quarterly payable at variable rate SORF plus 1.10% rate and maturing on June 23, 2023.

On December 26, 2022, the Enterprise drew down MDP \$1,020 a revolving credit from BBVA México S.A., monthly payable at variable rate TIIE plus 0.75% rate and maturing on March 24, 2023.

On December 26, 2022, the Enterprise drew down MUSD \$300 a revolving credit from Banorte S.A., quarterly payable at variable rate SORF plus 1% rate and maturing on June 23, 2023.

On December 20, 2022, the Enterprise drew down MDP \$5,000 a revolving credit from BBVA México S.A., monthly payable at variable rate TIIE plus 0.80% rate and maturing on March 20, 2023.

On December 16, 2022, the Enterprise drew down MUSD \$200 a revolving credit from Scotiabank, monthly payable at variable rate SORF plus 1% rate and maturing on December 15, 2023.

On December 13, 2022, the Enterprise drew down MUSD \$100 a revolving credit from Banorte S.A., quarterly payable at variable rate SORF plus 1.30% rate and maturing on June 30, 2023.

On November 15, 2022, the Enterprise drew down MUSD \$250 a revolving credit from DEUTSCHE BANK, monthly payable at variable rate SORF plus 1% rate and maturing on May 3, 2023.

On October 13, 2022, the Enterprise drew down MUSD \$100 a revolving credit from Banco HSBC S.A, quarterly payable at variable rate SORF plus 1% rate and maturing on April 13, 2023.

On October 3, 2022, the Enterprise drew down MDP \$1,000 a revolving credit from BBVA Mexico S.A., payable monthly at a rate of TIIE plus 0.75% and maturing on December 30, 2022.

On September 14, 2022, the Enterprise drew down MUSD \$100 a revolving credit from Banco Paribas NY S.A, quarterly payable at variable rate SORF plus 0.95% rate and maturing on August 31, 2023.

On August 19, 2022, the Enterprise drew down MUSD \$11 a revolving credit from Banco Monex S.A, monthly payable at variable rate SORF plus 1.10% rate and maturing on February 15, 2023.

On July 29, 2022, the Enterprise drew down MUSD \$200 a revolving credit from Banco Mizhuo S.A, monthly payable at a variable rate plus .65% and at a SORF plus 0.11448% rate and maturing on January 20, 2023.

On July 29, 2022, the Enterprise drew down MUSD \$80 a revolving credit from Banco Santander Mexico S.A, monthly payable at variable rate SORF plus 1.0% rate and maturing on March 29, 2023.

On July 22, 2022, the Enterprise drew down MUSD \$120 a revolving credit from Banco Santander Mexico S.A., payable monthly at a variable rate at a LIBOR rate plus 1% and maturing on March 22, 2023.

On July 11, 2022, the Enterprise drew down MUSD \$150 a revolving credit from Banco Nacional de México, S.A., payable quarterly at an annual rate equal to 4.6955% and maturing on January 11, 2023.

On June 29, 2022, the Enterprise drew down MUSD \$25,000 a revolving credit from Banco Monex S.A, monthly payable at a variable rate SORF plus 1.05% rate and maturing in December 2022.

On June 29, 2022, the Enterprise drew down MXN \$1,020,000 a revolving credit from BBVA Mexico S.A., payable monthly at a rate of TIIE plus 0.75% and maturing in September 2022.

On June 27, 2022, the Enterprise drew down MUSD \$100,000 against a loan obtained from Banco Mercantil del Norte S.A, payable semi-annual at a SORF (Guaranteed permanent funding rate, administered by Grup Benchmark Administration, Ltd – CME) plus 1.20% rate and maturing in December 2022.

On June 27, 2022, the Enterprise drew down MUSD \$100,000 against a loan obtained from Banco Mercantil del Norte S.A, payable semi-annual at a SORF (Guaranteed permanent funding rate, administered by Federal Reserve Bank of New York) plus 1.20% rate and maturing in December 2022.

On May 31, 2022, the Enterprise drew down MXN \$420,000 against a loan obtained from BBVA Mexico S.A., payable monthly at a rate of TIIE plus 0.75% and maturing in August 2022.

On May 31, 2022, the Enterprise drew down MXN \$3,600,000 against a loan obtained from BBVA Mexico S.A., payable monthly at a rate of TIIE plus 0.8% and maturing in June 2022.

On April 1, 2022, the Enterprise drew down MUSD \$200,000 against a loan obtained from Banco Mercantil de Norte S.A., payable semi-annual at a variable rate depending the contract term (1.00%, 1.50% and 2.0%) at a LIBOR rate and maturing in December 2022.

On April 1, 2022, the Enterprise drew down MUSD \$100,000 against a loan obtained from Banco Mercantil de Norte S.A., payable monthly at a variable rate depending the contract term (1.00%, 1.50% and 2.0%) at a LIBOR rate and maturing in December 2022.

During December 2021, five financings were contracted with commercial banks for a total amount of MUSD \$525 and MMXP \$1,000, whose destination is the financing generation project works.

1. On December 31, 2021, the Enterprise drew down MMXP \$1,000 against a loan obtained from HSBC Mexico, at a variable rate TIIE 91 days and maturing in 90 days.
2. On December 31, 2021, the Enterprise drew down MUSD \$100 against a loan obtained from Bank of America, at a 1-day floating SORF rate, maturing in 180 days.
3. On December 31, 2021, was hired MUSD \$25 with Banco Monex, S.A., term of 180 days with a Libor rate for 30 days and maturing in 180 days.
4. On December 29, 2021, the Enterprise drew down MUSD \$100 against a loan obtained from JPMorgan Chase Bank, N.A., at a 30, 90 and 180 days floating SORF rate, with a maturity of 360 days from the effective date of the agreement.
5. On December 29, 2021, the Enterprise drew down MUSD \$300 against a loan obtained from Banco Santander Mexico, S.A., at a rate of Libor 30 days and maturing in 180 days.

On November 10, 2021, Suministro Calificado, S. A. de C. V., Subsidiary Enterprise drew down a credit line by \$300,000 with Banco Santander, at a rate of TIIE plus 1.31%, which was used for working capital the term of the credit line is 29 days with option to renew.

As of December 31, 2021, payable include accrued interest for \$1,692 and interest expense for year was \$3,269.

### 13. Lease Liabilities

Lease liabilities as of December 31, 2022 and 2021 are, as follows:

	<u>2022</u>	<u>2021</u>
January 1st	\$ 661,408,622	\$ 608,755,141
Additions	31,435,557	53,877,675
Interest	26,653,658	28,220,748
Remeasurements	-	4,545,367
Payments	(50,544,701)	(49,345,930)
Exchange difference	<u>(44,236,779)</u>	<u>15,355,621</u>
Total liabilities	624,716,357	661,408,622
Less portion of short-term liabilities	<u>26,436,648</u>	<u>25,930,052</u>
<b>Total long-term liabilities</b>	<b>\$ <u>598,279,709</u></b>	<b>\$ <u>635,478,570</u></b>

Lease payments as of December 31, 2022 and 2021 are, as follows:

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 26,436,648	\$ 25,930,052
More than 1 year and less than 3 years	33,461,866	31,530,371
More than 3 years and less than 5 years	39,426,164	37,308,167
More than 5 years	<u>525,391,679</u>	<u>566,640,032</u>
<b>Total lease liabilities</b>	<b>\$ <u>624,716,357</u></b>	<b>\$ <u>661,408,622</u></b>

### 14. Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities as of December 31, 2022 and 2021 is, as follows:

	<u>2022</u>	<u>2021</u>
Suppliers and contractors	\$ 71,226,692	\$ 46,863,539
Deposits from users and contractors	34,270,671	32,037,016
Employees	4,229,586	4,742,133
Other taxes and duties	4,698,032	3,113,584
Value added tax	2,374,773	5,627,317
Other liabilities	<u>16,209,112</u>	<u>7,097,921</u>
<b>Total</b>	<b>\$ <u>133,008,866</u></b>	<b>\$ <u>99,481,510</u></b>

## 15. Other Long-term Liabilities

An analysis of other long-term liabilities as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Third-party contributions	\$ 9,310,179	\$ 7,706,828
Decommissioning provision <sup>(a)</sup>	12,818,744	12,297,103
Provision for contingencies <sup>(b)</sup>	<u>19,159,645</u>	<u>6,832,604</u>
<b>Total</b>	<b>\$ <u>41,288,568</u></b>	<b>\$ <u>26,836,535</u></b>

<sup>(a)</sup> Environmental remediation liabilities in relation to the Laguna Verde Nuclear Power Plant and decommissioning of plants.

<sup>(b)</sup> The Enterprise is involved in several significant lawsuits and claims, derived from the normal course of its operations, whose resolutions are considered probable and will imply incurring a cash outflow. Due to the foregoing, some provisions have been recognized in the financial statements, representing the best estimate of payments.

<u>Year</u>	<u>Opening balance</u>	<u>Increase</u>	<u>Reversals</u>	<u>Ending balance</u>
2022	\$ 12,297,103	521,641	-	\$ 12,818,744
2021	\$ 14,464,691	510,963	2,678,551	\$ 12,297,103

## 16. Employee Benefits

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

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

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

a. The economic assumptions in nominal and real terms used in the years ended December 31, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	9.25%	8.00%
Expected return rate on plan assets	9.25%	8.00%
Salary increase rate	4.02%	3.50%

- b. The net cost of the period for each of the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Service cost	\$ 9,478,351	\$ 11,793,437
Interest cost	47,703,617	50,043,621
Interest on the Plan Assets	(19,985,965)	(16,514,336)
Recognition of past service	<u>977,000</u>	<u>537,035</u>
<b>Net period cost</b>	<b>\$ <u>38,173,003</u></b>	<b>\$ <u>45,859,757</u></b>

The net actuarial gains or losses derive from changes in the assumptions used by the actuary to calculate the labor liabilities, as a result of the increase in the average wage rate and the increase in pensions. The net gains and losses recognized in the years ended December 31, 2022 and 2021 are disclosed in paragraph d.

The amount included as a liability in the Statement of Financial Position for each of the years ended December 31, 2022 and 2021 with respect to the Enterprise's liability for its defined benefit plan is as follows:

	<u>2022</u>	<u>2021</u>
Defined benefit obligation	\$ 642,215,546	\$ 619,744,724
Fair value of the plan assets and promissory notes issued by the Ministry of Finance and Public Credit (SHCP, Spanish acronym).	<u>210,966,752</u>	<u>249,824,559</u>
<b>Net projected obligation</b>	<b>\$ <u>431,248,794</u></b>	<b>\$ <u>369,920,165</u></b>

- c. A reconciliation from the opening to the ending balances for the present value of the defined benefits obligation for the three years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Opening balance (nominal amount)	\$ 619,744,724	\$ 715,108,843
Current service cost	9,478,351	11,793,437
Interest cost	47,703,617	50,043,621
Past service cost	977,000	62,970
Actuarial gain (loss)	13,269,181	(110,527,996)
Benefits paid	<u>(48,957,327)</u>	<u>(46,736,151)</u>
<b>Defined benefit obligation</b>	<b>\$ <u>642,215,546</u></b>	<b>\$ <u>619,744,724</u></b>

- d. A reconciliation from the opening to the ending balances for the fair value of the plan assets for the three years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Opening balance (nominal amount)	\$ 249,824,559	\$ 227,783,946
Return on plan assets	(38,664,904)	5,526,277
Plan assets disposition	(20,178,868)	-
Expected returns	<u>19,985,965</u>	<u>16,514,336</u>
<b>Total</b>	<b>\$ <u>210,966,752</u></b>	<b>\$ <u>249,824,559</u></b>

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

CFE created the Scotiabank Inverlat S.A. FID 11040961 Trust that manages the Pension and Retirement Reserve funds. As of December 31, 2022 and 2021, the trust balance amounts of \$1,844,337 and \$16,497,533, respectively.

On October 31, 2022, CFE received from the Ministry of Finance and Public Credit (SHCP, Spanish acronym) the fourth promissory note of \$3,013,884, which generated returns of \$1,552,970.

On October 31, 2021, CFE received from the Ministry of Finance and Public Credit (SHCP, Spanish acronym) the third promissory note of \$2,406,638, which generated returns of \$970,111.

**e. Sensitivity analysis**

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

Concept	Scenario		
	Lower discount rate	Base	Higher discount rate
Long-term inflation	3.5% annual	3.5% annual	3.5% annual
Discount rate	8.75% annual	9.25% annual	9.75% annual
Salary increase rate	4.02% annual	4.02% annual	4.02% annual
Minimum wage increase rate	3.5% annual	3.5% annual	3.5% annual

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

Defined Benefit Obligation	Scenario		
	Lower discount rate	Base	Higher discount rate
Seniority bonus	\$ 2,887,937	\$ 2,823,188	\$ 2,761,146
Seniority premium	34,013,883	32,940,350	31,925,381
Severance pay and compensations	4,974,799	4,900,868	4,825,445
Pensions and retirements	629,719,505	601,551,140	575,549,883
<b>Total</b>	<b>\$ 671,596,124</b>	<b>\$ 642,215,546</b>	<b>\$ 615,061,855</b>

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

	Scenario		
	Base	Lower discount rate	Variance
Seniority bonus	\$ 2,823,188	\$ 2,887,937	2.29%
Seniority premium	32,940,350	34,013,883	3.26%
Severance pay and compensations	4,900,868	4,974,799	1.51%
Pensions and retirements	601,551,140	629,719,505	4.68%
<b>Total</b>	<b>\$ 642,215,546</b>	<b>\$ 671,596,124</b>	<b>4.57%</b>

Concept	Scenario		Variance
	Base	Higher discount rate	
Seniority bonus	\$ 2,823,188	\$ 2,761,146	(2.20%)
Seniority premium	32,940,350	31,925,381	(3.08%)
Severance pay and compensations	4,900,868	4,825,445	(1.55%)
Pensions and retirements	601,551,140	575,549,883	(4.32%)
<b>Total</b>	<b>\$ 642,215,546</b>	<b>\$ 615,061,855</b>	<b>(4.23%)</b>

## 17. Income Tax

An analysis of the income tax (benefit) expense recognized in the years ended December 31, 2022 and 2021 is as follows.

	<u>2022</u>	<u>2021</u>
Current income tax	\$ 11,387,521	\$ 11,287,875
Deferred income tax	(4,302,378)	(16,313,184)
<b>Income tax</b>	<b>\$ 7,085,143</b>	<b>\$ (5,025,309)</b>

The deferred tax related to items recognized in comprehensive income in the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Labor obligations	\$ (5,269,909)	\$ 18,576,098
Fixed asset revaluation	(1,282,174)	72,465,497
Financial instruments	(883,740)	-
<b>Income tax recognized in OCI</b>	<b>\$ (7,435,823)</b>	<b>\$ 91,041,595</b>

An analysis of deferred taxes recognized in the statement of financial position as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
<b>Deferred tax assets</b>		
Labor obligations	\$ 90,009,854	\$ 82,020,276
Provisions	8,681,597	2,742,485
Tax losses from prior years	-	7,806,981
Allowance for doubtful accounts	367,009	365,913
Decommissioning provision	2,084,140	2,826,185
Customer advances	329,277	2,501,431
Allowance for obsolete inventories	1,089,680	1,067,756
Lease liabilities	20,100,803	26,786,032
Intangible assets	84,107,574	83,018,585
Deferred revenue	98,740	112,042
<b>Total deferred tax assets</b>	<b>\$ 206,868,674</b>	<b>\$ 209,247,686</b>



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**Deferred tax liabilities**

Fixed asset liabilities	\$	104,944,975	\$	118,832,357
Deposits and advances		13,182		690,556
Other		449,196		1,652
<b>Total deferred tax liabilities</b>		<b>105,407,353</b>		<b>119,524,565</b>
<b>Net deferred income tax asset</b>	<b>\$</b>	<b>101,461,322</b>	<b>\$</b>	<b>89,723,121</b>

Changes in the deferred tax amounts for the years ended December 31, 2022 and 2021 are as follows:

		<u>2022</u>		<u>2021</u>
Balance at beginning of year	\$	89,723,121	\$	164,451,532
Deferred tax benefit		11,738,201		(74,728,410)
<b>Balance at end of year</b>	<b>\$</b>	<b>101,461,322</b>	<b>\$</b>	<b>89,723,121</b>

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

		<u>2022</u>		<u>2021</u>
Labor obligations	\$	16,195,799	\$	30,201,130
Provisions		662,983		1,169,262
Losses from prior years		137,527,332		126,307,915
Allowance for doubtful accounts		15,897,127		13,578,133
Decommissioning provision		1,258,558		1,191,033
Deposits		(381,501)		1,540,863
Customer advances		(1,528,982)		922,314
Allowance for obsolete inventories		139,204		418,575
Fixed assets		5,231,793		10,370,772
Deposits and advances		(19,096)		(46,763)
Lease liabilities		(354,933)		(897)
Accounts receivable		1,361,850		(40,200)
Other		(1,777,071)		1,920,536
<b>Total deferred tax assets</b>	<b>\$</b>	<b>174,213,063</b>	<b>\$</b>	<b>187,532,673</b>

<u>Year</u>		<u>Amount</u>		<u>Deferred tax asset</u>
2032	\$	137,355,353	\$	41,206,606
2031		132,044,999		39,613,500
2030		46,698,287		14,009,486
2029		35,092,779		10,527,834
2028		107,233,024		32,169,907
	<b>\$</b>	<b>458,424,442</b>	<b>\$</b>	<b>137,527,333</b>

**Reconciliation of the effective tax rate**

	<b>2022</b>	<b>2021</b>
Loss before income tax	\$ (9,382,736)	\$ (111,285,369)
Expected expense (benefit)	(2,814,821)	(33,385,611)
Annual inflation adjustment	8,653,078	16,841,003
Non-deductible expenses	14,319,655	20,343,710
Subsidy income	(21,900,000)	(21,083,700)
Non-controlling interests	1,349,734	(60,394)
Other	16,860,233	12,319,683
<b>Total</b>	<b>\$ 7,085,143</b>	<b>\$ (5,025,309)</b>

**18. Other comprehensive income**

Other comprehensive income as of December 31, 2022 and 2021 is as follows:

	<u>Dec 2021</u>	<u>Recycling of other comprehensive income</u>	<u>Comprehensive income (loss) for the period</u>	<u>Dec 2022</u>
Revaluation of plants, facilities and equipment	\$ 558,109,273	\$ -	\$ (7,432,723)	\$ 550,676,550
Remeasurements of net defined benefit obligation	(55,344,347)	-	(51,658,184)	(107,002,531)
Recognition of the assumption by the Federal Government of CFE's benefits obligations	161,080,204	-	-	161,080,204
Cash flow hedges	12,647,876	22,742,007	(16,008,543)	19,381,340
Effect of translation into the functional currency	(120,326)	-	-	(120,326)
Deferred income tax from comprehensive income	<u>(54,342,411)</u>	<u>-</u>	<u>7,435,823</u>	<u>(46,906,588)</u>
<b>Total other comprehensive income (loss)</b>	<b>\$ 622,030,269</b>	<b>\$ 22,742,007</b>	<b>\$ (67,663,627)</b>	<b>\$ 577,108,649</b>

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	<u>Dec 2020</u>	<u>Recycling of other comprehensive income</u>	<u>Comprehensive income (loss) for the period</u>	<u>Dec 2021</u>
Revaluation of plants, facilities and equipment	\$ 356,257,320	\$ -	\$ 201,851,953	\$ 558,109,273
Remeasurements of net defined benefit obligation	(171,398,620)	-	116,054,273	(55,344,347)
Recognition of the assumption by the Federal Government of CFE's benefits obligations	161,080,204	-	-	161,080,204
Cash flow hedges	7,303,607	-	5,344,269	12,647,876
Effect of translation into the functional currency	(120,326)	-	-	(120,326)
Deferred income tax from comprehensive income	<u>36,699,976</u>	<u>-</u>	<u>(91,042,387)</u>	<u>(54,342,411)</u>
<b>Total other comprehensive income</b>	<b>\$ <u>389,822,161</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>232,208,108</u></b>	<b>\$ <u>622,030,269</u></b>

**19. Foreign Currency Position**

As of December 31, 2022 and 2021, CFE had the following foreign currency denominated assets and liabilities:

<b>2022</b>						
	<b>Assets</b>	<b>Liabilities</b>				<b>Foreign currency short position</b>
	<b>Cash and cash equivalents</b>	<b>Suppliers</b>	<b>Domestic debt</b>	<b>Foreign Debt</b>	<b>Pidiregas</b>	
U.S. dollars	10,910	1,675	-	8,219,512	7,894,835	16,105,112
Euros	-	-	-	78,450	-	78,450
<b>2021</b>						
	<b>Assets</b>	<b>Liabilities</b>				<b>Foreign currency short position</b>
	<b>Cash and cash equivalents</b>	<b>Suppliers</b>	<b>Domestic debt</b>	<b>Foreign Debt</b>	<b>Pidiregas</b>	
U.S. dollars	27,875	582	-	8,202,012	8,370,727	16,545,446
Euros	-	-	-	121	-	121

*Note: JPY's external debt includes 32 billion yen bond.*

*Note: The PIDIREGAS debt in dollars includes 5,766,703 million dollars of the financial lease debt with External Producers (according to IFRS).*

These assets and liabilities denominated in foreign currencies were translated to local currency at the exchange rate published in the Official Gazette by Banco de Mexico as of December 31, 2022 and 2021, as shown below:

<b>Currency</b>	<b>2022</b>	<b>2021</b>
U.S. dollar	19.4715	20.5835
Japanese yen	0.1476	0.1777
Euro	20.7810	23.2763

## **20. Transactions with PEMEX**

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

As of December 31, 2022 and 2021, CFE through its affiliated entity CF Energía, S.A. de C.V. carried out transactions with Pemex for the acquisition of fuel in the following amounts:

	<b>2022</b>	<b>2021</b>
<b><u>Revenue</u></b>		
Pemex Transformación Industrial	\$ 1,194,776	\$ 3,573,390
Pemex Fertilizantes	-	26,929
Pemex Corporativo	78,350	75,200
Pemex Explotación y Producción	225,704	262,506
Pemex Logística	<u>337,570</u>	<u>313,483</u>
<b><u>Purchases</u></b>		
Pemex Transformación Industrial	\$ 34,241,563	\$ 28,734,389
PMI Trading México	<u>-</u>	<u>2,501</u>
<b><u>Accounts receivable</u></b>		
Pemex Transformación Industrial	\$ 6,034,180	\$ 4,481,498
P.M.I. Trading Designated Activity Company	60,949	74,647
Pemex Fertilizantes	328,681	349,426
Pemex Corporativo	203,337	112,032
Pemex Explotación y Producción	813,552	550,425
Pemex Logística	970,171	578,765
Pemex Refinación	<u>102</u>	<u>-</u>
<b><u>Accounts payable</u></b>		
Pemex Transformación Industrial	\$ 5,963,012	\$ 4,822,272
P.M.I. Trading Designated Activity Company	<u>2,352</u>	<u>-</u>

Benefits paid to CFE's main officers in the fiscal years ended December 31, 2022 and 2021, amounted to approximately \$267,702 and \$275,487, respectively.

## 21. Contingencies and Commitments

### a. International arbitration

On April 26, 2021, has initiated an international arbitration with J Aron & Enterprise LLC as a result of a commercial dispute with the affiliate CFE International LCC ("CFE international").

The disputes are relating payment and delivery obligations under long-term natural gas purchase agreements by winter storm Uri in Texas on February 2021, that resulted in unprecedented price increase. The procedure is on the initial stage and at the date of issuance of the financial statements, it is not possible to determine a reasonably result that would have a material adverse effect on the results of operations, liquidity or financial situation.

Additionally, there are 21 proceedings by the general lawyer, 5 of international nature: 9 under international London arbitration and 7 for arbitration with participants in Mexico, as a result of disputes with various suppliers and at different stages. At the date of these financial statements, we cannot reasonably determine whether an adverse result in these procedures would have a negative effect causing an increase in the provisions for litigations.

There are certain international arbitration proceedings in which the subsidiary CFE International LLC is part of, related to natural gas supply contracts. In total, the counterparties claim approximately MUSD \$540 from the subsidiary; For its part, the subsidiary claims approximately MUSD \$510 from its counterparties. In these arbitrations, the subsidiary and its counterparties claim, in addition to the principal amounts, interest and costs. Due to the stage of the arbitrations, it is not possible to estimate the amount or range of potential losses and/or gains.

The international arbitration proceedings described in this note are subject to the confidentiality rules of the London Court of International Arbitration.

### b. Amendments to the Collective Labor Agreement 2020-2022

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

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

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

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

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

Once the estimates of the impact on labor liabilities of the modifications to the CCT 2020-2022 between the SHCP and the CFE have been reconciled, the SHCP could adjust the value of the Securities up to an amount equivalent to the increase in the retirement and pension liability. At the date of issuance of the financial statements, CFE cannot determine if the final result will have a material adverse effect on its results of operations, liquidity or financial situation.

## **Commitments**

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

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

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

As of December 31, 2022, CFE has entered into several financed public work contracts and the payment commitments will begin on the dates on which the private investors complete the construction of each of the investment projects and deliver the related assets to CFE for their operation. The estimated amounts of the financed public work contracts and the estimated dates of construction completion and startup of operations are shown in the table below:

#### **Transmission lines and substations:**

Capacity		Estimated amount of the contract expressed in millions of:	
Kmc	MVA	Dollars	Mexican Pesos
198.3	1,180.00	130.35	2,530.60

**Generation:**

Capacity	Estimated amount of the contract expressed in millions of:	
	Dollard	Mexican Pesos
MVA	1,037.92	20,150.50
913.40		

**Renovation and/or modernization:**

Estimated amount of the contract expressed in millions of:	
Dollard	Mexican Pesos
380.0	7,377.2

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

**c. Trusts**

Infrastructure investment trust

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

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

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

Promoted Trust

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

As part of the structure of the Promoted Trust, CFE Transmission irrevocably ceded and transferred to the Promoted Trust the collection rights pursuant to the Contract entered into with CENACE for a period of 30 years; in exchange for these rights, the Promoted Trust issued full ownership of the trustee rights to CFE Transmission.

Subsequently, through the Issuance of Fibra E in the market, it purchased up to 6.78% of the titles in exchange for \$15,454,653 in cash, net of issuance costs that amounted to \$756,060 and \$5,403,571 in titles in favor of CFE Transmission, equivalent to 25% of the issuance of shares in Fibra E.

The main activities of the Promoted Trust include:

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

#### Issuing Trust (Fibra E)

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

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

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

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

#### CFE Capital

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

#### Master Investment Trust CIB/3602 FMI

The Master Investment Trust was constituted on April 9, 2021, the Trust is constituted between Comision Federal de Electricidad, CF Energia, S.A. de C.V. as trustor and trustee, CIBANCO, S.A. of C.V. as trustee and with the appearance of CFE Capital, S. de R.L. of C.V.

The main purpose is to make investments in infrastructure projects, directly or through Sub-Trusts.



#### Clean Energy Trust 10670

On August 6, 2021, the CFE formalized with the Foreign Trade Bank the Trust number 10670 called Clean Energy Trust (FIEL), the primary objective is to promote investment projects for clean energies using:

- Repowering and hydrological refurbishment,
- Business acquisitions clean energy.
- Geothermal projects and other clean energy technologies

#### Trust for Conventional Generation Projects 10673

Trust number 10673, called Conventional Generation Projects Trust (FPGC) constituted on September 24, 2021. The purpose of this trust is to host Investment Projects related to the energy transition.

#### Trust Banco Azteca 1320

On April 28, 2022, the CFE formalized with Banco Azteca S.A., Trust number 1320 the primary objective is to promote investment projects and celebrate contracts complying with the instructions provided by the Technical Committee.

#### Other trusts

##### 1 Scope of action

- 1.1. CFE currently participates as Trustor or Beneficiary in 10 (ten) Trust Funds, of which 2 (two) are in the process of termination.
- 1.2. In conformity with its purpose and operating characteristics, the trust funds can be classified in the following groups:
  - a. Energy saving
  - b. Prior expenses
  - c. Construction Works contract management
  - d. Indirect participation trust funds

##### **a. Energy saving**

Trust funds to promote energy saving programs.

Trust fund	Role of CFE		
	Trustor	Trustee	Trust Beneficiary
Trust Fund 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>a. Electric energy consumers who are beneficiaries of the services rendered by the Trust fund.</p> <p>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 December 31, 2022 and 2021, the Housing Thermal Isolation Program (FIPATERM) Trust has assets of \$1,875,980 y \$1,771,678. and liabilities of \$175,395 y \$126,353, 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 March 30, 2000	CFE	<p><b>Primary beneficiary:</b> Contract winners</p> <p><b>Second beneficiary:</b> CFE</p>	Banobras, S.N.C.	Conditioned investment

As of December 31, 2022 and 2021, the Administration of Prior Expenses Trust has assets of \$5,924,206 and \$3,626,311, and liabilities of \$5,554,738 and \$3,313,359, respectively.

As of December 31, 2022 and 2021, the Administration and Transfer of Ownership Trust 2030 has assets of \$556,576 and \$518,590, respectively.

**c. Construction Works contract management**

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

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

**Turnkey Projects**

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

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

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

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

The Trust shown below has completed its payment commitments; therefore, it is in process of termination by EPS Generacion III.

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.

**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 EPS Generacion IV.

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

As of December 31, 2022 and 2021, CFE has fixed assets amounting to \$21,995,856 respectively, related to the CAT trusts referred to above.

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

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

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

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

Facility	Fixed charge for capacity for Jan-Dec 2022
Petacalco Coal	115,551

#### 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.

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 December 31, 2022 and 2021, 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 6 of the Trusts, CFE is not a Trustor in their creation.
- b. The 4 remaining trusts do not have an organic structure similar to the state-owned entities that comprise them as "entities" in terms of the Law.

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

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

## 22. Segment Information

### Information regarding the operating segments

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

### Information by type of services:

<b>Income</b>	<b>2022</b>	<b>2021</b>
Industrial services	\$ 261,412,665	\$ 225,334,712
Domestic service	95,732,498	87,814,515
Commercial service	54,406,434	48,083,526
Services	15,317,338	13,431,980
Agricultural service	9,386,005	8,018,534
Total sales	436,254,940	382,683,267
Block for resale	1,120,655	1,922,081
Total electricity supply revenue	437,375,595	384,605,348
<b>Other programs</b>		
Consumption in the process of being billed	207,580	739,803
Illegal uses	1,977,686	1,131,281
Measurement failure	2,646,917	2,701,612
Billing error	336,697	414,829
Total other programs	5,168,880	4,987,525
<b>Total revenue from the sale of electricity</b>	<b>\$ 442,544,475</b>	<b>\$ 389,592,873</b>

## 23. Other expenses

As of December 31, 2022 and 2021 the other expenses are as follows:

	<b>2022</b>	<b>2021</b>
Allowance for doubtful accounts	\$ 9,331,260	\$ 25,274,196
Impairment of long-lived assets	4,954,070	18,468,968
Allowance of trials and litigation	10,943,176	9,639,475
Accessories	-	5,794,786
Others	16,457,023	5,171,810
<b>Total</b>	<b>\$ 41,685,529</b>	<b>\$ 64,349,235</b>

## 24. Uncertain tax criteria

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

## 25. Standards issued but not yet effective, in 2022

Following are listed the recent changes to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which are not yet effective and are described as follows:

### – *Classification of liabilities as current or non-current (Amendment IAS 1)*

The amendment specifies the requirements to classify liabilities as current or non-current. IAS 1 indicates that a current liability is the liability where there is no right to defer the settlement during the following twelve months. The amendments become effective on January 1, 2024 and they must be applied retroactively.

### – *Insurance Contracts (IFRS 17)*

IFRS 17 Insurance Contracts establishes a new comprehensive accounting model that provides the users of financial information a completely new perspective regarding the financial statements of insurance companies. This standard becomes effective on January 1, 2023.

The following amended standards and interpretations are not expected to have a material impact on the Enterprise's financial statements.

### - *Definition of Accounting Estimates*

The amendments to IAS 8 clarify the difference between changes in accounting estimates and accounting policies resulting from obtaining new information and the correction of prior period errors. This standard will be effective from January 1, 2023.

### - *Disclosure of Accounting Policies*

The amendments to IAS 1 are intended to eliminate rules for disclosing significant accounting policies and instead include guidelines for assessing materiality in selecting accounting policies to be disclosed. Effective January 1, 2023.

### - *Deferred Taxes related to Assets and Liabilities arising from a transaction.*

The standard reduces the exemption from the initial recognition of deferred taxes established in IAS 12, clarifying that deferred taxes on rights of use and lease liabilities must be recognized. This standard will be effective from January 1, 2023.

**26. Issuance of the Consolidated Financial Information**

The consolidated financial statements and notes thereto were approved by CFE's Management on April 11, 2023. The Board of Directors has the power to amend the accompanying consolidated financial information.