COMISION FEDERAL DE ELECTRICIDAD,
STATE-OWNED PRODUCTIVE ENTERPRISE

and subsidiaries and affiliated companies

Condensed Consolidated Interim Financial Information

June 30, 2016 and 2015, and December 31, 2015

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Independent Auditors' Report on review of condensed consolidated interim financial information

The Board of Directors
Comision Federal de Electricidad, State-Owned Productive Enterprise:

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Comision Federal de Electricidad, State-Owned Productive Enterprise ("the Entity"), which comprises:

- the condensed consolidated statement of financial position as at June 30, 2016;
- the condensed consolidated statements of comprehensive income (loss) for the three-month and six-month periods ended June 30, 2016;
- the condensed consolidated statements of changes in equity for the six-month period ended June 30, 2016;
- the condensed consolidated statements of cash flows for the six-month period ended June 30, 2016; and
- notes to the interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying June 30, 2016 condensed consolidated interim financial information, is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

(Continued)

KPMG

Comparative information

The condensed consolidated statement of financial position of the Entity as at December 31, 2015, have been derived from Entity's annual consolidated financial statements as at and for the year ended December 31, 2015, which were audited by other auditors whose report dated April, 7 2016, expressed an unmodified opinion on those consolidated financial statements.

We have not reviewed the accompanying condensed consolidated statements of comprehensive loss, changes in equity and cash flows of the Entity for the three-month and six-month period ended June 30, 2015, and accordingly do not express a review conclusion on them.

KPMG CARDENAS DOSAL, S. C.

Eduardo Palomino

July 14, 2016

COMISION FEDERAL DE ELECTRICIDAD, STATE-OWNED PRODUCTIVE COMPANY AND SUBSIDIARIES AND AFFILIATED COMPANIES

Unaudited Condensed Consolidated Statement of Financial Position

At June 30, 2016 and December 31, 2015

(In thousands of Mexican Pesos)

		June 30, 2016		December 31, 2015
Assets				
Cash and cash equivalents (note 6)	$	51,147,378	$	35,597,179
Accounts receivable (note 7)		84,260,924		86,356,231
Operating materials (note 8)		10,972,610		15,531,321
Total current assets		**146,380,912**		**137,484,731**
Loans to employees		**10,716,006**		**10,061,390**
Plants, facilities and equipment, net (note 9)		**1,075,686,853**		**1,085,937,569**
Derivate financial instruments (note 11)		**48,726,796**		**38,240,319**
Other assets		**15,735,698**		**19,708,868**
Total assets	$	**1,297,246,265**	$	**1,291,432,877**
Liabilities				
Short-term debt (notes 12 and 13)	$	66,432,622	$	41,725,098
Trade liabilities and accrued liabilities		59,946,059		59,902,457
Taxes and duties payable (note 14)		3,369,263		2,083,279
Total Current liabilities:		**129,747,944**		**103,710,834**
Long-term debt (notes 12 and 13)		364,800,216		355,743,341
Employee benefits (note 16)		482,681,000		625,083,572
Other long-term liabilities (note 15)		45,296,612		41,948,809
Derivate financial instruments (note 11)		34,861,282		34,999,664
Long-term liabilities		**927,639,110**		**1,057,775,386**
Total liabilities	$	**1,057,387,054**	$	**1,161,486,220**
Federal Government contributions		5,251		5,251
Federal Government contributions in kind		95,004,417		95,004,417
Retained earnings (deficit)		29,024,019		(77,821,615)
Other comprehensive income		115,825,523		112,758,604
Equity (note 17):		**239,859,210**		**129,946,657**
Total equity and liabilities	$	**1,297,246,264**	$	**1,291,432,877**

The accompanying notes are an integral part of these condensed interim consolidated financial information.

COMISION FEDERAL DE ELECTRICIDAD, STATE-OWNED PRODUCTIVE COMPANY AND SUBSIDIARIES AND AFFILIATED COMPANIES

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the periods of six and three months ended June 30, 2016 and 2015

(In thousands of Mexican Pesos)

	Six months period ended June 30		Three months period ended June 30	
	2016	**2015**	**2016**	**2015**
Electric power revenue	$ 141,369,287	$ 146,090,727	$ 73,142,705	$ 72,641,431
Transmission service revenue	52,997	-	52,997	-
Subsidy	12,000,000	-	9,000,000	-
Other income and earnings (note 18)	984,481	2,293,618	879,247	1,086,137
Total revenues	**154,406,765**	**148,384,345**	**83,074,949**	**73,727,568**
Costs	**107,881,865**	**104,276,531**	**71,799,808**	**69,129,276**
Energy and fuel supplies	62,293,594	64,620,424	30,533,923	33,035,669
Labor obligations cost	26,691,324	26,361,610	30,186,170	30,688,110
Maintenance, materials and general service	12,231,478	12,236,217	6,560,632	6,233,217
Taxes	1,297,833	1,058,280	(848,553)	(827,720)
Mexican Wholesale Electrical Market costs	5,367,636	-	5,367,636	-
CENACE fees	1,065,928	-	1,065,928	-
Universal fund	4,301,708	-	4,301,708	-
Income before other costs	**46,524,900**	**44,107,814**	**11,275,141**	**4,598,292**
Employee benefit (notes 1 and 16)	(125,757,571)	32,177,000	(159,251,530)	-
Depreciation and amortization	28,000,784	21,640,377	16,488,949	11,448,778
Other expenses	4,648,281	2,720,956	438,269	852,640
Other costs (income)	**(93,108,506)**	**56,538,333**	**(142,324,312)**	**12,301,418**
Operating Income (loss)	**139,633,406**	**(12,430,519)**	**153,599,453**	**(7,703,126)**
Financing costs	**(32,787,772)**	**(23,161,894)**	**(26,534,358)**	**(11,584,245)**
Interes cost, net	(12,804,944)	(10,673,163)	(8,236,862)	(5,668,509)
Foreign exchange loss, net	(19,982,828)	(12,488,731)	(18,297,496)	(5,915,736)
Net income (loss)	**106,845,634**	**(35,592,413)**	**127,065,095**	**(19,287,371)**
Other comprehensive loss	3,066,919	200,137	2,764,410	-
Comprehensive income (loss)	**$ 109,912,553**	**$ (35,392,276)**	**$ 129,829,505**	**$ (19,287,371)**

The accompanying notes are an integral part of these condensed interim consolidated financial information.

COMISION FEDERAL DE ELECTRICIDAD, STATE-OWNED PRODUCTIVE COMPANY AND SUBSIDIARIES AND AFFILIATED COMPANIES

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months period ended June 30, 2016 and 2015

(In thousands of Mexican Pesos)

	Federal Government contributions	Federal Government contributions in kind	Accumulated equity	Benefits	Other comprehensive income	Net income (loss)	Total stockholders' equity (deficit)
Balances as of December 31, 2014	$ 28,402,300	$ -	$ 68,105,752	$ (31,518,000)	$ 137,385,980	$ (46,831,902)	$ 155,544,130
Transfers from prior year	(28,402,300)	-	(49,947,602)	31,518,000	-	46,831,902	-
Net comprehensive loss	-	-	-	-	200,137	(35,592,413)	(35,392,276)
Balances as of June 30, 2015	**-**	**-**	**18,158,150**	**-**	**137,586,117**	**(35,592,413)**	**120,151,854**
Contribution of Federal government	5,251	-	-	-	-	-	5,251
Transfer of resources to CENACE (note 1)	-	-	(2,067,752)	-	-	-	(2,067,752)
Contributions received (note 1 and 10)	-	95,004,417	-	-	-	-	95,004,417
Net comprehensive loss	-	-	-	-	(24,827,513)	(58,319,600)	(83,147,113)
Balances as of December 31, 2015	**$ 5,251**	**$ 95,004,417**	**$ 16,090,398**	**$ -**	**$ 112,758,604**	**$ (93,912,013)**	**$ 129,946,657**
Transfers from prior year	-	-	(93,912,013)	-	-	93,912,013	-
Net comprehensive income	-	-	-	-	3,066,919	106,845,634	109,912,553
Balances as of June 30, 2016	**$ 5,251**	**$ 95,004,417**	**$ (77,821,615)**	**$ -**	**$ 115,825,523**	**$ 106,845,634**	**$ 239,859,210**

The accompanying notes are an integral part of these condensed interim consolidated financial information.

COMISION FEDERAL DE ELECTRICIDAD, STATE-OWNED PRODUCTIVE COMPANY
AND SUBSIDIARIES AND AFFILIATED COMPANIES

Unaudited Condensed Consolidated Statement of Cash Flows

For the six month- period ended on June 30, 2016 and 2015

(In thousands of Mexican Pesos)

	June 30, 2016	June 30, 2015
Cash flows from operating activities:		
Net Income (loss)	$ **106,845,634**	$ **(35,592,411)**
Adjustments for non-cash income and expenses:		
Depreciation and amortization	28,000,784	21,640,377
Employee benefits costs	(125,757,571)	32,177,000
Loss on exchange and rates	25,295,903	17,257,997
Changes in:		
Accounts receivables	2,095,307	(1,235,895)
Operating materials	4,558,711	6,977,604
Taxes and duties payable	1,285,984	(641,017)
Other assets	960,083	(1,668,071)
Accrued liabilities and accrued liabilities	3,391,405	7,430,337
Payments to employee benefits	(16,645,001)	(14,850,488)
Net cash provided by operating activities	**30,031,239**	**31,495,434**
Items relating to investing activities:		
Acquisitions of plants, facilities and equipment	(15,391,596)	(20,956,062)
Net cash used in investing activities	**(15,391,596)**	**(20,956,062)**
Cash flow financing activities		
Contracting loans obligations	26,852,276	47,862,257
Interest paid	(7,738,627)	(6,471,905)
Receipts of financial instruments	1,172,856	510,356
Payment of financial instruments	(1,653,709)	(844,291)
Payment of debt	(17,722,240)	(13,545,311)
Net cash provided by financing activities	**910,556**	**27,511,106**
Net increase in cash and cash equivalents	**15,550,199**	**38,050,477**
Cash and cash equivalents at beginning of year	35,597,179	36,319,701
Cash and cash equivalents at the end of period	$ **51,147,378**	$ **74,370,178**

The accompanying notes are an integral part of these condensed interim consolidated financial information.

1. Organization, nature of the State-Owned Productive Company and relevant events.

- **Organization and description of business**

Comision Federal de Electricidad ("the Company" or "CFE") is a Mexican institution incorporated as a decentralized public entity of the Mexican Government by Decree of the Congress on August 14, 1937, published in the Official Gazette of the Federation on August 24, 1937.

Since its incorporation, the purpose of CFE has been to provide electricity related services in Mexico, mainly consisting of the generation, transformation, distribution, and commercialization of electricity in service of the Mexican consumers.

On August 11, 2014, the Comision Federal de Electricidad Law was published, and came into effect on October 7, 2014. Such law mandates the CFE transformation into a State-owned Productive Enterprise ("Empresa Productiva del Estado - EPS" for its acronym in Spanish).

From the date of this transformation into a State-owned Productive Enterprise, the purpose of CFE was to provide the public service of transmission and distribution of electricity on behalf of the Mexican state. Furthermore, as part of its public purpose, CFE performs activities of generation and commercialization of electricity, as well as importation, exportation, transportation, storage and trading of natural gas, among other activities.

The rates applicable to the sale of electricity in Mexico are determined and authorized by the Federal Government by the Secretaria de Hacienda y Credito Publico ("Revenue of the Ministry of Finance and Public Credit", SHCP for its acronym in Spanish).

- **Relevant events**

Mexican Wholesale Electricity Market (MEM for its acronym in Spanish)

Due to the start of operations of the Mexican Wholesale Electricity Market (MEM for its acronym in Spanish) and following the attributes given by the third transitory article from the law "Ley de la Industria Electrica" ("Electric Industry Law", LIE for its acronym in Spanish), the Secretaria de Energia ("Ministry of Energy" - SENER for its acronym in Spanish) extended the term for CFE to continue performing, as it currently is, the independent activities of generation, transmission, distribution, commercialization of electricity to domestic and qualified consumers, and the supply of primary inputs (mainly natural gas), including its participation on the MEM Market to October 31, 2016. The SENER also extended the term until December 31, 2016 for the power generation plants owned by CFE to be included as part of interconnection contracts.

Amendments to the Labor Collective Agreement

On May 19, 2016, there was a review of the terms of the Collective Labor Agreement between CFE and the Sindicato Unico de Trabajadores Electricistas de la Republica Mexicana (“Sole Union of Electricity Workers of the Mexican Republic“, SUTERM for its acronym in Spanish).

As a result of this, various clauses of the agreement, mainly impacting pension benefits, were modified causing a reduction in the Company´s labor liabilities; therefore, there was an income effect on the results of the year.

Tax Obligations

With the enactment of the Comision Federal de Electricidad Law, the “Public Use Tax” established in the article 46 of the Public Service of Electricity Law (referred as “aprovechamiento” per the regulation) was repealed. Therefore, CFE and its subsidiaries and affiliated companies started complying with their tax obligations in terms of the Title II of the Income Tax Law, which regulates the general regime of legal entities, starting on February 16, 2015.

National Energy Control Center

On August 28, 2014, a decree was published in the Official Gazette of the Federation which created the Centro Nacional de Control de Energia (“National Energy Control Center” - CENACE for its acronym in Spanish) as a Decentralized Public Organism in order to exercise operating control of the Sistema Electrico Nacional (“National Power System”) (activity performed by CFE until date), to operate the Wholesale Electric Market, and to provide open and not unduly discriminatory access to the Sistema Nacional de Transimisión y Distribución (“National Transmission and Distribution System”).

As result of the establishment of CENACE as an independent legal entity with its own equity, the Company transferred the assets used in the performance of some of the activities now under their function, as well as the resources needed for the fulfillment of such activities.

The transfer had an impact of $2,067,752 in the Company´s equity in 2015. No other transfers were made during the six-month period ended on June 30, 2016.

Public Telecommunications Network Concession

In terms of the provisions set forth in the fifteenth transitory article of the “Decreto por el que se refoman y adicionan diversas disposiciones de los artículos 6, 7, 27, 28, 73, 78, 94, and 105 de la Constitución Pólitica de los Estados Unidos Mexicanos, en material de telecomunicaciones” (“decree that amends and supplements various provisions of Articles 6, 7, 27, 28, 73, 78, 94, and 105 of the Mexican United States Constitution relating to telecommunications matters") published in the Official Daily Gazette on June 11, 2013, the Company transfers to Telecomunicaciones de Mexico (TELECOMM) the total concession to install, operate and benefit of the public telecommunication network, and as such the Company transferred all of its resources and equipment needed for the operation and used this concession.

CFE will be responsible for optic fiber, rights of way, pole lines, buildings and facilities, guaranteeing TELECOMM an effective shared access to said infrastructure for its efficient use in order to attain an adequate operation and achievement of goals and meeting its objectives. Telecomunicaciones de Mexico will have attributions and resources for promoting access to broadband internet services, plan, design, and execute the construction and growth of a solid telecommunications network with nationwide coverage.

In compliance with the constitutional precept, on December 17, 2014, CFE filed a petition to the Instituto Federal de Telecomunicaciones ("Federal Telecommunications Institute" - IFT for its acronym in Spanish) for the authorization of the transfer of the concession to install, operate, and exploit a public telecommunications network in favor of TELECOMM.

On September 24, 2015 the IFT issued memo 77/2015 by which authorized the transfer of the concession to install, operate and benefit of the public telecommunication network from CFE to TELECOMM.

The IFT issued memo 3/2016 on January 21, 2016 for granting TELECOMM with the Commercial Use Concession as wholesaler shared network of telecommunication services. TELECOMM will hold the rights and obligations inherent to the Concession and shall guarantee the continuity of telecommunication services under the terms and conditions mentioned therein.

Affiliated companies.

On January 20, 2015 CFE International LLC ("CFE LLC") was incorporated in the United States of America, leading this to be the first international affiliated Company of CFE. The deal had an initial contribution of US $100,000 for 100% of the share capital of the CFE LLC. CFE LLC will actively participate as a competitor in the international fuel market throughout various markets, attracting clients and selling natural gas, coal, and other fuels.

CFENERGIA, S.A. de C.V. ("CFENERGIA") was incorporated on August 11, 2015 by the certificate of incorporation number 29505 registered by Public Notary number 171. CFENERGIA is an affiliate of CFE, who holds 100% of its ownership. The purpose of CFENERGIA is to import, export, and procure transport, storage, trade natural gas, coal and any other fuel, as well as the management of assets and fuel within Mexican territory and abroad.

Assets contributed by the Federal Government.

On October 7, 2015, the Secretaria de la Funcion Publica ("Ministry of Public Administration" – SFP for its acronym in Spanish) through its decentralized body the Instituto de Administracion y Avaluos de Bienes Nacionales ("Institute of Administration and Appraisal of National Assets" - INDAABIN for its acronym in Spanish), decided to conclude the commodatum agreement and contributed the assets as detailed in the corresponding annexes to the agreements by different types of assets.

Accordingly, CFE received legal and physical possession of such assets, included in a global basis in the aforementioned annexes. Procedures to discorporate such assets from the Federation public domain regime began on that date. These assets are included in the Condensed Consolidated Balance Sheet as of December 31, 2015 for a total value of $95,004,417 of Mexican pesos, as determined by the Servicio de Administración y Enajenación de Bienes (SAE for its acronym in Spanish), amount which will be adjusted according to the detailed listing for each significant area. Additionally, in May 2016 the entity recognized $63,000 as automobiles. This activity is still in progress at June 30, 2016.

Strict legal separation

On January 11, 2016, the terms for the strict legal separation that CFE shall observe were published. Such separation allows the entity to independently perform the activities of generation, transmission, distribution, commercialization and supply of primary inputs in the market through each one of the units in which CFE will spin-off, generating economic value and profitability for the Mexican State as its owner.

Incorporation of productive entities subsidiaries of CFE

On March 29, 2016, the Official Gazette of the Federation published the provisions for the incorporation of productive entities subsidiaries of the Company (EPS for its acronym in Spanish), as independent legal entities with their own equity, and with the purpose to generate economic value and profitability for the Mexican State as its owner. Such entities are described below:

- CFE Distribucion, EPS, whose purpose is to perform the necessary activities to provide the public service of electricity distribution, as well as to finance, install, maintain, manage, operate and enhance the necessary infrastructure to provide the public service of distribution, according to the provision on the Comision Federal de Electricidad law, the Electrical Industry Law, the terms for the mandatory legal separation of the Comision Federal de Electricidad and other applicable legal dispositions.

- CFE Transmision, EPS, whose purpose is to perform the necessary activities to provide the public service of electricity transmission, as well as to finance, install, maintain, manage, operate and enhance the necessary infrastructure to provide the public service of transmission, according to the provision on the Comision Federal de Electricidad law, the Electrical Industry Law, the terms for the mandatory legal separation of the Comision Federal de Electricidad and other applicable legal dispositions.

- CFE Generacion I EPS, CFE Generacion II EPS, CFE Generacion III EPS, CFE Generacion IV EPS, CFE Generacion V EPS, and CFE Generacion VI EPS, whose purpose is to generate electricity using any technology available within Mexican territory; as well as to perform the commercialization activities set in article 45 of the Electric Industry Law, except for the supply of electricity. Each one of these entities may fully or partially represent, the power plants under their control in the MEM, including those owned by third parties.

- CFE Suministrador de Servicios Basicos, whose purpose is to provide the Basic Supply, referred to in the Electric Industry Law, to any party requesting it in the terms of such Law.

Such provisions were introduced in order to set the rules for the operations, corporate governance, oversight and monitoring, as well as the responsibilities, transparency and oversight for the subsidiaries productive entities.

2. Basis of preparation of the condensed consolidated financial information

a) Basis of preparation

The accompanying condensed consolidated financial information has been prepared in accordance with International Accounting Standards (IAS) 34 “Interim Financial Reporting” and do not include all of the information required for a complete set of annual financial statements prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

The condensed consolidated financial information has been prepared on a historical cost basis, except for certain derivative financial instruments, which are registered at fair value. Moreover, plants, facilities and equipment has been valued at its assumed value at the transition date and revalued to its fair value, as follows:

During 2014, the property of the Company was revalued at fair value by preparing appraisals with the parametric methodology indicated by the INDAABIN.

b) Reporting currency of the condensed consolidated financial information

The condensed consolidated financial information and its notes are presented in Mexican pesos (reporting currency), which is the same as the local currency and the functional currency.

c) Condensed consolidated statements of comprehensive income

CFE prepared condensed consolidated statements of comprehensive income, and classified costs and expenses based on their nature, pursuant to the specific essence of the type of cost or expense of the Company, as set forth in IAS 1 “Presentation of financial statements”.

3. Summary of significant accounting policies

The main accounting policies followed by the Company are described below:

a. Basis of consolidation

The condensed consolidated financial information includes the financial information of CFE and those of its subsidiaries and trusts over which it exercises control.

Ownership in the main subsidiaries, affiliates and trusts as of June 30, 2016 and December 31, 2015 are as follows:

- CFE exercise absolute control over CFE Distribution EPS, CFE Transmission EPS, CFE Generacion I EPS, CFE Generacion II EPS, CFE Generacion III EPS, CFE Generacion IV EPS, CFE Generacion V EPS, CFE Generacion VI EPS, and CFE Suministrador de Servicios Basicos EPS. As of June 30, 2016, the corresponding initial contributions have not been made.

- CFE has absolute control on CFE International LLC. The initial contribution amounts to USD $100,000 having 100% of ownership.

- CFE has full control of CFENERGIA, S.A. de C.V. The initial contribution amounts to $1,000,000 having 100% of ownership.

Below is the information related to the trusts on which CFE maintains control:

Trust	Equity of CFE			Type of project
	Trustor	Beneficiary of the trust:	Trustee	
Trust Management and Transfer of Ownership 2030	CFE	Primary beneficiaries: bidders awarded the contracts Secondary beneficiary: CFE	BANOBRAS, S. N. C.	Conditioned investment
Trust for the establishment with of a Revolving Financing Fund for the Housing Thermal Isolation Program of in the Valley of Mexicali, B.C.	CFE	CFE	BANOBRAS, S. N. C.	Power saved
Prior Expenses Trust	CFE	CFE	BANCOMEXT, S. N. C.	Direct investment

b. Basis for the translation of the condensed financial information of foreign subsidiaries and affiliate

The condensed financial information of our foreign subsidiaries are translated from the functional currency and into presentation currency. When local currency is the same as functional currency, the translation is directly from local currency into reporting currency, in accordance to IFRS.

The Company incorporated CFE International LLC, the first international affiliate owned by Comision Federal de Electricidad (CFE) who owns 100% of the initial contribution of USD $100,000.

c. Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits and short-term investments. Investments are presented at acquisition cost plus interest income, such amount is comparable to market value.

d. Inventory of operating materials

Inventories of operating materials are measured at the lower of cost of adquisition and net realizable value. Unit cost is determined using the formula of average cost. Inventories of operating materials is mainly comprised by materials used in the maintenance of power plants, for the installation of transmission and distribution lines, and fuels.

Inventories are reviewed periodically to determine the existence of obsolete material, as well as to evaluate the sufficiency of the allowance or provision. When the case arises, the allowance is increased against income for the year.

e. Plants, facilities and equipment

I. Plants, facilities and equipment (electricity infrastructure).

Plants, facilities and equipment used for generation, transmission and distribution of electricity, are initially recorded at acquisition cost and subsequently revalued to adjust such cost to fair value, net from accumulated depreciation. The Company periodically reviews the fair values of plants, facilities and equipment and evaluates the need to perform appraisals by an independent valuator so that the carrying amount of these assets does not differ significantly from the values the Company would have by using its fair values at end of the reporting period.

Any increase in the revaluation of those assets is recognized as a surplus in other comprehensive income. A decrease in carrying value generated by the revaluation of those assets is recorded in income to the extent it exceeds the surplus, if any.

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

In addition to the acquisition costs and other costs directly attributable to the process of preparing the assets (so it can operate in the location and conditions foreseen by our technicians), the asset cost also includes estimated retirement and restoration costs.

Depreciation on these assets is calculated over fair value or acquisition cost, as applicable, on the straight-line method over the estimated useful lives of the assets. In case of subsequent sale or retirement of revaluated properties, the revaluation surplus attributable to the revaluation reserve of the remaining properties is transferred directly to retained earnings.

Depreciation rates according to the total useful lives of assets, as determined by the Company´s technicians are as follow:

	Annual rate %
Geothermal power generation plant	2.00 - 3.70
Steam power generation plant	1.33 - 2.86
Hydroelectric power generation plant	1.25 - 2.50
Internal combustion power generation plant	1.33 - 3.03
Turbogas and combined cycle power generation Plant	1.33 - 3.03
Nuclear power generation plant	2.50
Substations	1.33 - 2.56
Transmission lines	1.33 - 2.86
Distribution networks	1.67 - 3.33

These components are recorded at acquisition cost. Management periodically evaluates total useful lives, depreciation methods, and residual values of plants, facilities and equipment . In those cases where changes to estimations are deemed necessary, the effects are recognized prospectively.

When the items of these types of assets are comprised by various components with different useful lives, the individually significant components are depreciated within their estimated useful life. Minor repairs and maintenance costs are expensed as incurred.

An element of these assets are retired when sold or when the Company does not expect future economic benefits derived from the continued use of the asset. The gain or loss generated by the sale or retirement of an item of these assets is calculated as the difference between sales proceeds and the carrying value of the asset, and it is recognized in the income statement.

The Company evaluates periodically whether there is an indication of impairment of these assets. The Company did not recognize impairment losses during the 6-month period ended on June 30, 2016 and 2015 and as of December 31, 2015.

II. Plants, facilities and equipment (allocated to offices and general services)

Plants, facilities and equipment allocated to offices and general services are depreciated in accordance with the following rates:

	Annual rate %
Buildings	5
Furniture and office equipment	10
Computer equipment	25
Transportation equipment	25
Other assets	10

Land is not depreciated.

An element of these assets allocated towards offices and general services is disposed of when sold or when it is not expected to obtain future economic benefits derived from the continued use of the asset. The gain or loss generated by the sale or disposal of an item of Plants, facilities and equipment is calculated as the difference between the sales proceedings and the carrying value of the asset, and it is recognized in the interim condensed consolidated Statement of Comprehensive income.

The Company evaluates periodically whether there is an indication of impairment of plants, facilities and equipment allocated to offices and general services. The Company did not recognize impairment losses during the 6-month period ended on June 30, 2016 and as of December 31, 2015.

Conditioned investment

Starting in 2000 and based on the law “Ley del Servicio Publico de Energia Electrica” (“Electricity Power for Public Service Law” - LSPEE for its acronym in Spanish), access to electricity generation related an activities was given to independent power producers, who can only sell the electricity produced to CFE. The Company evaluated that 23 of the total existing contracts with independent power producers contained a lease component over the power generation plants, in accordance with IFRIC 12, “Service Concession Agreements”, which in turn qualified as financial leases, in accordance with IAS 17 “Leases”. Accordingly, they are recorded in a fixed asset account denominated independent power producers, as well as the total liability that applies to the value of the asset.

f. Intangible assets

Intangible assets with definite useful life acquired separately are recorded at acquisition cost and their total useful life is estimated. In the instances where the asset does not have a definite useful life, it is classified as intangible assets with indefinite useful life. Intangible assets with definite useful life are amortized within their estimated useful life.

Amortization is recognized based on the straight-line method over the assets estimated useful life. Estimated useful life, residual value, and amortization method are reviewed every year end, and the effect of any change on the estimate recorded is recognized prospectively.

g. Financial assets and liabilities

Financial assets and liabilities are recorded initially at fair value plus transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability (other than financial assets and liabilities measured at fair value through gains or losses). Transaction costs directly attributable to a financial asset or liability at fair value with changes in losses or gains are immediately recognized in the Condensed Consolidated Statement of Comprehensive Incomei.

Financial assets

Financial assets are classified in any of the following categories; fair value through profit or loss, held-to-maturity, available-for-sale, loans and accounts receivable, or hedging derivative financial instruments. The classification is made upon the nature and purpose of the financial asset, and it is determined at the time of initial recognition.

Loans and receivables

Accounts receivable and loans are financial instruments with fixed or determinable payments that are not listed on an active market. Loans and accounts receivable with maturity over a year (including accounts receivable, trade accounts receivable and other receivables) are valued at amortized cost, by using the effective interest method, and they are subject to impairment tests. Interest income is recognized by applying the effective interest rate, except for the short-term receivables when the interest recognition is deemed immaterial.

Items receivable are mainly comprised by public consumers, government consumers, other receivables, power the billing process and loans to employees.

- Financial assets at fair value through profit and loss

Fair value changes in financial assets in this category are recognized through profit and loss, including financial assets held for trading. Derivative financial instruments, including embedded derivatives that qualify to be recognized separately, are classified as held for trading, unless they are designated as hedging instruments.

- Financial assets held-to-maturity

These are investments which are intended to be held to maturity. Acquisition cost are recognized including expenses for purchase, premiums and discounts; and are amortized over the term of the investment based on its outstanding balance net of any impairment. Interest and dividends on these investments are included as part of the net financing cost in interest expense, net in the statement of comprehensive income.

- Financial instruments available-for-sale

Investments in these instruments are recognized at fair value and gains or losses are recognized within "other comprehensive income", net of income tax. Interest and dividends on these instruments are included in the net finance cost line. The fair values of these investments consider their market value. Foreign currency effects on securities on available-for-sale investments are recognized in the statement of comprehensive income in the period they arise.

- Disposal of financial assets

Financial assets, part of a financial asset or part of a group of similar financial assets are derecognized when the rights to receive cash flows from the asset have expired, or have transferred or have assumed an obligation to pay the cash flows received without a material delay to a third party under a transfer agreement and have transferred substantially all risks and rewards of the asset, or have transferred control of the asset despite having retained substantially all the risks and benefits.

When we do not transfer or retain substantially all the risks and rewards of the asset, or retain control of the transferred asset, we continue to recognize the transferred asset to the extent of continuous involvement we maintain and recognize the associated liability. The assets and corresponding liabilities are measured on the basis that better reflects the rights and obligations that have contracted.

Impairment of financial assets

At the end of each reporting period, an assessment is performed to ascertain whether there is any objective evidence that the value of a financial asset or group of financial assets has suffered any impairment. A financial asset or group of financial assets are considered impaired in value when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the investment have been adversely affected.

In the case of financial assets that have been recognized at amortized cost, a preliminary assessment as to whether there is objective evidence of impairment in value individually for assets that are significant by themselves or collectively to those who are not individually important. When there is no such evidence in the case of assets assessed individually, regardless of their importance, the asset in a group of assets is included with similar risk characteristics, and proceeded to make a collective assessment to determine whether its value has suffered impairment. In those cases where we determine that the assets in the individual is impaired, we proceed to the recognition of the loss in value, and exclude the asset of collective testing.

Financial liabilities

Financial liabilities are classified at fair value with changes in losses and gains or as other financial liabilities measured at their amortized cost, by using the effective interest method.

Financial liabilities of the Company include accounts payable to suppliers and contractors, other accounts payable and accrued liabilities, loans, unrealized revenue and derivative financial instruments. Derivative financial instruments are recognized at fair value; debt short and long term and other accounts payable are recognized as financial liabilities measured at amortized cost.

All liabilities are initially recognized at fair value and in the case of debt and accounts payable, net of transaction costs directly attributable.

The subsequent measurement of our financial liabilities is based on the following classification:

- Financial liabilities at fair value through profit or loss

Financial liabilities recognized at fair value with changes in value are reflected in the results, including financial liabilities held for trading and financial liabilities designated upon initial recognition as financial liabilities at fair value through profit and loss.

Financial liabilities are classified as held for trading if contracted for the purpose of trading in the near future. In this category derivative financial instruments that are acquired and designated as non-hedging derivative instruments are included. In the case of the embedded derivatives, these are also classified as held for trading, except for those designated as hedging instruments.

Gains or losses on financial liabilities held for trading are recognized in the statement of comprehensive income.

- External financing

After their initial recognition, external financing facilities accruing interest are subsequently measured at their amortized cost, by using the effective interest rate method. Gains and losses arising are recognized in the condensed consolidated statement of comprehensive income where liabilities are written off, as well as through the amortization process by applying the effective interest rate method.

The amortized cost is calculated taking into account any discount or premium on the issue or acquisition, and the fees and other costs directly attributable that form an integral part of the effective interest rate. Amortization of that rate is recognized as a financial cost in condensed consolidated statement of comprehensive income.

- Write-offs of financial liabilities

A financial liability is written off when the obligation derived from the liability has been paid, charged completely or expired.

When a financial liability is replaced by another financial liability of similar characteristics, or when the terms of the existing liability are substantially modified, the replacement or modification of the financial liability are written off and a new liability is recognized by the Company. Any differences in values are reflected in the condensed consolidated statement of comprehensive income.

- Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when the Company has a legal right to offset the amounts, and there is on intent to settle them on a net base or realize the asset and settle the liability simultaneously.

<u>Fair value of financial instruments</u>

At each reporting date, the fair value of financial instruments traded in active markets is determined considering quoted market prices, or the prices quoted by brokers, without any deduction of transaction costs prices.

For financial instruments that are not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include the use of market transactions under the arm's length principle referenced to the current fair value of another financial instrument that is similar, analysis of discounted cash flows or other valuation models.

h. Derivative financial instruments

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. In line with the risk strategy entered into, derivative financial instruments are entered into to mitigate foreign exchange rate and interest rate exposure, through contracting interest rate swaps, cross-currency swaps and forward foreign currency.

Policies include formal documentation of all transactions between hedging instruments and hedged positions, the objectives of risk management and strategies to celebrate hedging transactions.

The effectiveness of derivative financial instruments designated as hedging is carried out at the inception of the transaction as well as during the period, which is held at least quarterly. The hedge is not highly effective, hedging ceases to be, hedge accounting is not longer and prospectively applied in respect of financial derivatives.

The effective portion of changes in fair value of derivative financial instruments designated as cash flow hedges, is recognized in equity under the caption of other items of comprehensive income, while the ineffective portion is recognized in income. The effective portion recognized in equity is recycled to results at the time in which the hedged item affects our results and are presented in the same caption item of the statement in which we present the corresponding primary position.

Hedging policies require that derivative financial instruments that do not qualify as hedges, are classified as held for trading instruments, so that changes in fair value are recognized immediately in income.

Derived from the nature of operations, we are exposed to the following risks:

- Interest rate risk

A significant part of our debt accrues interest at variable rates, which is calculated with reference to the TIIE (Interbank Equilibrium Interest Rate) rate in the case of debt denominated in pesos. At June 30, 2016 and December 31, 2015 the covered amount amounted to $4,480 and $5,129 million pesos of the total debt denominated in pesos and bearing variable interest rates.

- Risk of foreign exchange rate fluctuations

A significant portion of the debt is denominated in foreign currencies, mainly US dollars, whereas most of our assets and revenues are denominated in pesos. As a result, we are exposed to the risk of depreciation of the peso against the US dollar. As part of our risk management policy we have contracted cross-currency swaps and forward contracts to mitigate the impact of exchange rate differences. At June 30, 2016 and December 31, 2015 derivative financial instruments to hedge foreign currency debt were held at $47,445 and $33,324 million pesos respectively to hedge our foreign currency debt.

Likewise in 2012 a derivative financial instrument was entered into to cover the risk of exchange rate of external debt of $32 billion yen. To hedge these foreign currency risks, a series of exchange forward contracts were entered to acquire Japanese yen based on a fixed exchange rate of US dollars. We also acquire a call option to purchase of Japanese yen at the end of the transaction. The market value of this transaction at June 30, 2016 and December 31, 2015 was 4'356,075 and $ 58,158,241 US dollars respectively.

- Commodity price risk

As part of the electricity generation process, commodities we consume commodities such as natural gas therefore, there is exposure over the impact of the potential increases in prices for those commodities. During the period of 6 months ended June 30, 2016, and at year-end 2015, no contracts had been entered into to mitigate these risks.

- Credit risk

The Company is also exposed to the risk that counterparties (customers, financial institutions) do not meet their financial obligations to the Company.

i. Employee benefits

As part of employee benefits offered to the employees, various benefits are granted, which for purposes of the condensed consolidated interim financial information have been classified as direct employees benefits and pension benefits, seniority premiums and termination benefits.

- Direct employee benefits

Such benefits are valued in proportion to the services rendered considering current salaries, and the liability is recognized as accrued. It mainly includes productivity incentives, vacations, vacation premium, bonuses, and recognition of seniority of temporary and permanent workers.

- Employee benefits and other pension.

The Company has a policy of granting retirement pensions, to covering eligible employees. A defined benefit pensions plan is given to employees who started their employment relationship before August 19, 2008, and a defined contribution pensions plans for our employees whose employment started after August 19, 2008.

Employee benefits for termination and others the liability for retirement benefits (seniority bonuses and pensions) and for termination of the employment relationship, is recognized as accrued. The estimated amount of this benefits is calculated by independent actuaries based on the projected unit credit method, by using nominal interest rates; therefore, it is estimated that the liability recognized at present value will cover the obligation of these benefits at the date of the retirement.

In addition there are plans to defined contribution pension established by the Federal Government and which must make contributions on behalf of workers.

According to the Federal Labor Law, there is a requirement to cover for a seniority premium, as well as to make certain payments to staff to stop providing their services under certain circumstances.

The pension costs for defined contribution are recognized in the Company´s results as incurred and are calculated by applying the percentages indicated in the relevant regulations on the amount of wages and eligible wages, and deposited in the fund retirement managers chosen by our employees and the Mexican Social Security Institute.

j. Taxes

- Income tax

The income tax payable for the year are determined in accordance with current tax legislation.

The deferred income tax is determined using the asset and liability method, based on temporary differences between the amounts in the condensed consolidated interim financial information of the Company´s assets and liabilities and their respective tax values at the date of the condensed consolidated interim statement of financial position.

In determining the amount of deferred tax use tax we rates in effect in the year in which the Company estimates the asset, will be materialized based on the tax laws and applying the tax rates that are exacted or whose and the liabilities be settled approval to be completed at the date of statement of financial position.

The carrying value of deferred tax assets are reviewed at each reporting date and is reduced to the extent that it is unlikely that sufficient future taxable profits are obtained to allow the materialization of all or a portion of deferred tax assets. Deferred tax assets that are not recognized are assessed at each reporting date and are recognized the extent that it is probable that sufficient future taxable income determine that allow their realization.

Deferred taxes related to items that recognize out of net income, are recognized thereof. The deferred tax attributable to other comprehensive income are part of these items.

- Value-added tax

Revenues from our activities, costs, expenses and assets are recognized excluding the amount of any value added tax, except when:

(i) The value added tax paid on the acquisition of an asset or provision of a service may not be recoverable, in which case the tax is part of the value of the asset or expense, as appropriate, and

(ii) Accounts receivable and payable presented in our statement of financial position include the tax.

The net amount of value added tax we expect to recover or pay the tax authority, it is presented as a receivable or payable in the statement of financial position, as applicable, unless the collection or payment be given over a period more than one year, in which case it is presented in the long-term.

k. Revenue recognition

Revenues are recognized in the period in which electricity power services are rendered to customers and to the MEM, consequently, the electricity delivered that is already in the process of being billed is considered as revenue for period, and its amount is based on actual estimated the billing of the two immediately preceding months. In case of the sales of electricity in the MEM, the amount is estimated based on the statement issued by the CENACE.

l. Foreign currency transactions

Foreign currency denominated transactions are recorded at the current exchange rate on the date on which they are carried out. Foreign currency monetary assets and liabilities are valued in the local currency at the exchange rate in effect at the date of the condensed consolidated interim financial information. Foreign exchange fluctuations are recorded in income as part of the net financing cost.

m. Transactions with Federal, State, and Municipal Governments

The main transactions carried out with the Federal Government, State and Municipal Governments and their accounting treatment are as follows:

<u>With the Federal Mexican Government</u>:

Public Use Tax

1) On the assets Contributed to CFE for their operation

As a result of the repeal of the Electricity Energy Public Service Law, since January 1, 2015, CFE is no longer required to pay the "public use tax" to the Mexican government on the assets it use to generate electricity power. The public use tax was annually determined based on the profitability rate established for the state owned entities in each year.

For the year ended December 31, 2014, 9% rate was used and ratified by the SHCP. That rate was applied to the value of the net fixed asset in operation of the next fiscal year. The resulting amount was charged to income for the year.

The public-use tax represented a decrease in profit for CFE since it was a payment to the Federal Government. Consequently, it was as an operating expense recorded in the period. This public-use tax rate was offset against the electricity rates insufficiency in order supplement to electricity rates deficit.

The Regulations of the Public Utilities Service Law (LSPEE, for its acronym in Spanish), defined the concept of "net fixed asset in operation" in greater detail, as the following:

For purposes of Article 46 of the Law, the net fixed asset in operation shall be understood as the fixed asset in operation reduced by:

I. Accumulated depreciation;

II. The unamortized debt directly related to such assets; and
III. The Contributions of the petitioners.

2) Invested equity

The Federal Revenue Law, established that the Ministry of Finance and Public Credit the (SHCP) could impose a public use tax on the invested equity, which, if applicable, should be paid to Federal the Public Treasury, which is recorded as a decrease inequity. Likewise, the Executive can annually determine its reinvestment in entities as equity contribution.

3) Electricity rate insufficiency to supplement revenue

Up to December 31, 2014, this applies to resources granted by the Federal Government to end-users of electricity services through CFE, by setting deficit rates for the sale of electricity and accordance with Article 46 of the LSPEE, the public use tax can be offset against the insufficiency electricity rate insufficiency.

The electricity rate insufficiency offsettable against public use tax represents an increase in profit for CFE; therefore, the unrecoverable surplus of the insufficiency rate is recorded as revenue, and it is recognized and written off in the Company's condensed consolidated interim financial information.

State and Municipal Governments

Contributions are received from State and Municipal Governments to electricity rural populations and low income settlements and for expansions of the distribution network. Contributions are recorded as deferred revenue which will be realized in accordance with the useful life of the asset that is financed in accordance with the IAS 20 “Government Grants”.

n. Accounts payable, accrued liabilities and provisions

Accrued liabilities are recognized when there is a present obligation, either legal or assumed and which originated in a past event, is likely to require the use of economic resources to settle the obligation, and it can be estimated reasonably.

In cases where the effect of the value of money over time is important, the amount of the provision is discounted to present value, based on disbursements we estimate will be required to settle the obligation in question. The discount rate is before tax and reflects market conditions at the time of our statement of financial position and, where appropriate, the risks specific to the liability. In the case of contingent liabilities, the Company recognizes the corresponding provision only when it is probable outflow of resources for extinction. In this case, the increase in the provision is recognized as financing cost.

o. Critical accounting judgments and key sources of estimation uncertainty

In the preparation of the condensed consolidated interim financial information, estimates are made for certain items, some of which are highly uncertain and estimates involve opinions which is reached based on the information we have available.

In the following paragraphs, several issues have been mentioned which the Company has identified, which could materially affect our condensed consolidated interim financial information if they were to use different estimates that reasonably could have used, or if in the future the Company changed its estimates due to changes likely to occur.

Our analysis covers only those estimates that the Company considers most important, taking into account the degree of uncertainty and the likelihood of a significant impact if it were to use a different estimate. There are many other areas in which it has been estimated that matters which are uncertain, but where the Company believes that the effect of changing our estimate would not significantly impact the condensed consolidated interim financial information.

- Fair value of assets and liabilities

The Company has substantial assets and financial liabilities recognized at fair value, which is an estimate of the amount to which the assets and liabilities could be exchanged in a current transaction between parties willing to do so. The methodologies and assumptions used to estimate fair value vary according to the financial instrument as follows:

a) The Company recognizes the cash and cash equivalents, trade accounts receivable and trade accounts payable, and other liabilities at the date of the statement of financial position at their nominal value.

b) The Company recognizes instruments listed on markets at prices on those markets at the date of statement of financial position instruments.

c) Financial instruments not listed on any market, such as bank loans and finance lease obligations are recognized by discounting future cash flows using interest rates for similar instruments.

d) The Company applies various valuation techniques, such as making calculations of present value for derivative financial instruments.

The use of different methodologies or the use of different to calculate the fair value of the Company´s financial assets and liabilities assumptions could significantly impact its financial results, as we have reported.

- Useful life of our plants, facilities and equipment.

The Company´s plants, facilities and equipment in operation are depreciated considering an estimated useful life of each asset individually.

In determining the useful life, we consider the particular conditions of operation and maintenance of each of our assets and the historical experience with each type of asset, changes in technologies and various factors, including the practices of other energy companies. Annually, the useful lives of the Company´s assets are reviewed in order to determine whether or not to modify them. The useful life could be modified by changes in the number of years in which the Company uses the assets, or by changes in technology, market or other factors. Should the life of the Company´s assets be shortened, a greater expense for depreciation would be recognized.

- Impairment of long-lived assets

The Company´s plants, facilities and equipment represent a significant portion of total assets. The International Financial Reporting Standards have established the requirement to determine the impairment of long-lived assets when circumstances indicate that there is a potential detriment in the value of these assets.

- Deferred taxes

The Company is required to estimate income taxes for the year, as well as to recognize differences between the financial carrying amount of existing assets and liabilities and their respective tax basis, such as depreciation, tax losses and other tax credits.

These points generate deferred tax assets and liabilities, which is included in the Company´s statement of financial position. As part of its screening process tax, the Company assesses each fiscal year with respect to the realization of its assets and deferred tax liabilities, and whether or not there is taxable income in those periods to support the recognition of deferred tax assets. This involves the judgment from the Company´s administration which impacts the provisions of the income tax payable and the amounts of deferred tax assets and liabilities. If the Company´s estimates differ from the results finally obtained, or if the estimates are adjusted in the future, the results and the financial position of the Company could be affected significantly.

- Provisions

Management recognizes provisions for present obligations that result from past events and where settlement is required resulting in an outflow of economic resources so that the amount can be reasonably measured and also that the amount is probable to occur. The amount of the provisions recognized considers the best estimate determined by Management in relation to the amount requires to comply with our obligations, taking into consideration all the available information existing at the date of the condensed consolidated interim financial information, which may comprise expert's opinions, such as legal counsels and other advisors. The provisions are adjusted to properly reflect changes in circumstances for current matters and for the arising of new obligations.

In the cases where it is not possible to reasonably determine the amount of an existing obligation, the Company does not recognize any provision; however, the situation would be clearly disclosed as part of the notes to the condensed interim consolidated information.

The amounts recognized can differ from the actual amount given the existing degree of uncertainty.

- Labor obligations

The amounts for pension and retirement plan obligations and other postretirement obligations recognized as liabilities in the statement of financial position and as expenses in the income statement, are determined based on actuarial computations that considers some assumptions and estimations over the post-retirement benefits. The assumptions that are majorly impacted by such estimations are as follows:

a) Rate of compensation/salaries increase;
b) Discount rate to determine the present value of future obligations;
c) Rate of expected inflation;
d) Expected return on pension plan assets.

Such estimation are determined by our independent experts who prepares our actuarial computation by using the projected unit credit method.

- Allowance for doubtful accounts

The Company recognizes an allowance for accounts where the probability of recovery is estimated as low, as well as for the amount of the estimated losses due the lack of payments by our customers. For the preparation of such estimations, we consider the individual conditions of each of the sector conforming our customer portfolio. Among other factors, the Company considers the time of payment delay elapsed and the results of the negotiations held with our customers to achieve the recoverability of our receivables. The estimated amount for the doubtful accounts may differ from the actual results.

Reclassifications

Certain figures of the 2015 condensed consolidated interim financial information have been reclassified to conform them to the presentation used for 2016. The effects of this reclassifications were retrospectively applied to the 2015 accompanying financial information.

The costs and expenses presentation used for the preparation of the Statement of Comprehensive Income, is different from that used in the last annual financial statements as the Management considers that the information presented is clear since CFE is a service company.

4. Leases

We consider that the agreements we enter into contains lease component if directly and substantially provides the usage or the rights of usage of an asset.

When we conclude that the agreement in nature contains a lease component, leases are classified as follows:

a) Operating leases

Lease arrangements in which the lessor does not transfer and maintains a significant part of the risks and benefits associated to the ownership of the leased asset. The payments made under this type of agreements are recognized in the results of operations on straight line basis over the term of the respective contract.

b) Capital leases

Lease arrangements in which the risks and benefits associated to the ownership of the asset are transferred to the Company. For these instances, management recognizes an asset and the corresponding liability at the inception of the contract by considering the lower between its fair value and the present value of the future lease payments. The lease payments reduce proportionately the amount of the related liability and the financial cost attributable to the transaction by obtaining an interest effective rate.

Financial costs are recognized in statement of operations over the term of the corresponding contract.

5. Financial Instruments

a. Fair values

The carrying value amounts and fair values of financial instruments recognized in our condensed consolidated interim financial information are included below:

		30/06/2016		**31/12/2015**
Financial assets:				
Cash and temporary investments	$	51,147,378	$	35,597,179
Accounts and notes receivable from customers and other debtors		84,260,924		86,356,231
Loans to employees		10,716,006		10,061,390
Derivative financial instruments		48,726,796		38,240,319
Financial liabilities at amortized cost:				
Documented debt	$	213,599,775	$	185,381,585
Plants, plants, facilities and equipment under lease agreements and PIDIREGAS		217,633,063		212,086,854
Suppliers and contractors		15,693,775		17,443,697
Deposits from users and contractors		20,238,865		20,042,429

b. Objectives of financial risk management

Part of the Company's financial office function is to implement strategies, coordinate access to domestic and international financial markets, and supervise and manage financial risks related to the Company's operations through the use of reports about the internal and market risks reports, which analyze the degree and magnitude of the exposure to those risks. These risks include market risk (including currency exchange and interest rate risks), credit risk and liquidity risk.

The Company pursues to mitigate the effects of the debt related risks by using hedge derivative financial instruments.

Treasury department's function is directed by the SHCP's policies for the cash management. Investments made are not long-term and are made in low risk instruments. Status reports are made in a monthly basis to Treasury’s Investments Committee.

c. Credit risk management

Credit risk is the risk that one counterparty of a financial instrument causes a financial loss to the other counterparty when fails to meet its contractual obligations. The Company is subject to credit risk mainly for the financial instruments referred to cash and temporary investments, loans and accounts receivables, and derivative financial instruments. In order to mitigate credit risk for cash, temporary investments, and derivative financial instruments, the Company only carries out operations with parties having high solvency, creditworthiness and standing. The Company obtains sufficient guarantees, when appropriate, to mitigate the financial loss risk caused by non-performance.

For credit risk management purposes, loans and accounts receivable from consumers are deemed by the Company to have a limited risk. The Company accounts for an allowance for doubtful accounts under the incurred losses model.

The ageing analysis of the unimpaired non-current financial assets at June 30, 2016 and December 31, 2015 is shown as follows:

	2016	2015
Less than 90 days	$ 2,637,435	$ 3,062,960
From 90 to 180 days	3,372,657	3,807,923
More than 180 days	33,604,877	36,448,882
	$39,614,969	$ 43,319,765

d. Liquidity risk

Liquidity risk is the risk that a Company faces difficulties in meeting its obligations associated with financial liabilities settled with cash or another financial asset.

The financing obtained by the Company is mainly through debt contracted and the leasing of plants, installations, equipment, and PIDIREGAS. In order to manage liquidity risk, the Company periodically performs cash flow analysis and maintains open credit lines with financial institutions and contractors. In addition, the Company is subject to certain budgetary controls by the Mexican Government, having a net debt ceiling authorized and topped by the Mexican Congress in a yearly basis based on its budgeted revenues.

The following table shows the contractual principal amount and accrual interest maturities of the Company's financial liabilities:

At June 30, 2016	Less than 1 year	More than 1 year and less than 3	More than 3 years and less than 5	More than 5 years	Total
Documented debt	$ 46,410,137	$ 29,354,469	$ 44,402,285	$ 93,432,884	$ 213,599,775
plants, facilities and equipment under lease agreements and PIDIREGAS	20,022,485	35,847,955	28,646,088	133,116,535	217,633,063
Suppliers and contractors	15,693,775				15,693,775
Deposits from users and Contractors	20,238,865				20,238,865
Total	$ 102,365,262	$ 65,202,424	$ 73,048,373	$ 226,549,419	$ 467,165,478

At December 31, 2015	Less than 1 year	More than 1 year and less than 3	More than 3 years and less than 5	More than 5 years	Total
Documented debt	$ 18,954,907	$ 35,461,814	$ 24,846,391	$ 106,118,473	$ 185,381,585
plants, facilities and equipment under lease agreements and PIDIREGAS	22,770,191	35,287,449	28,687,290	125,341,924	212,086,854
Suppliers and contractors	17,443,697				17,443,697
Deposits from users and contractors	20,042,429				20,042,429
Total	$ 79,211,224	$ 70,749,263	$ 53,533,681	$ 231,460,397	434,954,565

e. Market Risks

The Company's activities have exposure to foreign currency exchange and interest rate risks.

- Foreign currency exchange risk management

The Company borrows credit preferably in local currency when market conditions are present; therefore, most of the debt is denominated in Mexican pesos.

The Company also carries out foreign currency transactions. Consequently, exposures to foreign currency exchange arises.

The Company primarily uses interest rate and foreign currency exchange swaps and foreign currency exchange forward contracts to manage the exposure to interest rate and foreign currency fluctuations in accordance with its internal policies.

- **Analysis of foreign currency sensitivity**

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

The following table includes the Company's sensitivity analysis over a 5% increase and decrease in the Mexican peso currency exchange rate against the other relevant foreign currencies. The 5% represents the sensitivity rate used when the exchange risk is internally reported to key management personnel and it further represents Management's evaluation about a fair change in exchange rates.

The sensitivity analysis only includes monetary open items denominated in foreign currency, adjusting its translation by a 5% change in foreign exchange rates at period end. The sensitivity analysis includes external loans, as well as loans derived from foreign operations within the Company, where the loan is in a currency other than the loaner or the borrower currency. A positive amount (as observed in the below table) indicates a gain when the Mexican peso strengthens 5% against the corresponding currency. If a weakening of 5% in the Mexican peso with respect to the corresponding currency occurred, then there would be a loss and the following figures would be negative:

	Thousands of pesos	
	30/06/2016	**31/12/2015**
Gain or loss	$ 6,634,674	$ 5,460,940

In Management's views, the impact of the inherent exchange risk affects electricity rates in the long-term due to inflation adjustments and fuel formula adjustments that considers the peso/dollar exchange rate.

- **Interest rate risk management**

The Company is exposed to interest rate risks for loans borrowed at variable interest rates. The Company manages this risk by maintaining an appropriate combination between fixed rate and variable rate loans and by contracting derivative financial instruments designated as interest rate hedge.

- **Interest rate sensitivity analysis**

The following sensitivity analysis has been determined based on the exposure to interest rates for derivative instruments, as well as for non-derivative instruments at the end of the period reported. For variable rate liabilities, an analysis is prepared under the assumption that the amount of the liability reported at the end of the period was the amount in effect throughout the entire year. For reporting the interest rate risk internally to key management personnel, a 0.50 point increase or decrease is used for the Mexican Equilibrium Interbank Interest Rate (EIIR or TIIE by its acronym in Spanish) and 0.01 points increase or decrease for the LIBOR. These changes represents Management's evaluation about a fair change in interest rates.

If the EIIR interest rate had been 0.50 points above/below and all other variables remain constant:

- The loss for the period ended June 30, 2016 and December 31, 2015 would increase or decrease by the amount of $486,299 y $516,639 respectively. This is mainly attributable to the Company's exposure to interest rates on its variable interest rate loans; and

If the LIBOR interest rate had been 0.01 points above/below and all other variables remain constant:

- The loss for the period ended June 30, 2016 and December 31, 2015 would increase or decrease in the amount of $11,005 y $7,966 respectively. This is mainly attributable to the Company's exposure to interest rates on its variable interest rate loans.

f. Fair value of financial instruments

Fair value of financial instruments recorded at amortized cost

The carrying values of the following financial assets and liabilities recognized at amortized cost in the condensed consolidated interim financial information are considered to approximate their fair value, as it is shown below:

	Jun 2016		Dec 2015	
	Carrying Value	**Fair value**	**Carrying value**	**Fair Value**
Documented debt	$ 213,599,775	$ 213,599,775	$ 185,381,585	$ 185,381,585
Plants, facilities and equipment under lease agreements and PIDIREGAS	217,633,063	217,633,063	212,086,854	212,086,854

Valuation techniques and assumptions applied for determining fair values

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and liabilities with standard terms and conditions that are negotiated in active markets are determined by reference of quoted prices on those market.

- The fair value of other financial assets and liabilities (without including derivative financial instruments) is determined in accordance with generally accepted price determination models, which are based on analysis of discounted cash flows, transaction prices observable on the market and quotes for similar instruments.

- Pursuant to the terms in which the ISDA (International Swaps and Derivatives Association) contracts were signed, the counterparties or bank institutions are the appraisers who calculate and inform, in a monthly basis, the Mark-to-Market (which is the monetary valuation of the agreed upon transaction at a given time). CFE monitors this value and if there is any doubt or abnormal variance in the market value, it request a revision from its counterparty.

Valuations at fair value recognized in the statement of financial position

The following table provides an analysis of the financial instruments valued at fair value subsequent to their initial recognition, grouped in levels from 1 to 2, based on the degree at which their fair value is observable:

		Level 1
Available-for-sale financial assets		
Temporary investments	$	27,326,860
Total	$	27,326,860

The analysis of the fair value of derivative financial assets grouped in level 2 based on the degree at which their fair value is observable, is included in note 11.

The levels referred to above are considered as follows:

- Level 1 valuations at fair value are those derived from quoted prices (not adjusted) on asset markets for liabilities or identical assets.

- Level 2 valuations at fair value are those derived from indicators other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

6. Cash and temporary investments

As of June 30, 2016 and December 31, 2015, cash and temporary investments are summarized as follows:

		2016		**2015**
Cash on hand and in banks	$	23,811,697	$	18,150,477
Temporary investments		27,326,860		17,437,881
Stock certificates		8,821		8,821
Total	$	51,147,378	$	35,597,179

Stock certificates program - With the purpose of refinancing long-term productive infrastructure projects (PIDIREGAS), CFE has implemented structured mechanisms to subscribe stock certificates (CEBURES). This mechanism implies subscribing a credit agreement that is assigned by the creditor bank to a private trust that securitizes the rights on the credit by the issuance of CEBURES. The proceeds from these transactions are invested by the Trustee meanwhile CFE disburses the payments to the contractors for the PIDIREGAS projects upon the agreed delivery terms. Each issuance of CEBURES results in a liability for CFE, and each disbursement to contractors becomes a PIDIREGAS liability

In order to carry out this financing mechanism, the Comision Nacional Bancaria y de Valores ("National Bank Securities Commission" - CNBV for its acronym in Spanish) previously authorizes the CEBURES program, normally at minimal amounts of 6,000 million of pesos and with terms of two or more years, in order to perform the corresponding issuances for the total amount authorized, amount which may be extended upon request.

From the fourth quarter of 2012 to the second quarter of 2016, there has not been either issuances or disbursements of CEBURES, reason why the balance at June 30, 2016 is $8,821 pesos.

7. Accounts receivable, net

As of June 30, 2016 and December 31, 2015, accounts receivable are summarized as shown below:

	2016	2015
Public consumers	$ *65,209,682	$ *66,259,514
Government agencies consumers	20,221,185	22,168,411
Other receivables	15,710,318	15,535,342
	101,141,185	103,963,267
Allowance for doubtful accounts	(16,880,261)	(18,032,594)
	84,260,924	85,930,673
Value added tax recoverable	-	425,558
Total	$ 84,260,924	$ 86,356,231

(*) The amount includes energy in billing process

As of June 30, 2016 and December 31, 2015, the balances and movements of the allowance for doubtful accounts are summarized as follows:

	2016	2015
Opening Balance	$ 18,032,594	$ 18,697,261
Increases	5,552,041	5,810,887
Applications	(6,704,374)	(6,475,554)
Ending Balance	$ 16,880,261	$ 18,032,594

8. Materials for operation

As of June 30, 2016 and December 31, 2015, materials for operation are summarized as follows:

	2016	2015
Spare parts and equipment	$ 1,573,725	$ 3,802,741
Fuel and lubricants	5,887,892	8,431,973
Nuclear fuel	3,818,546	4,159,020
	11,280,163	16,393,734
Allowance for obsolescence	(307,553)	(862,413)
Total	$ 10,972,610	15,531,321

9. Plants, facilities and equipment

Net book value of plants, facilities and equipment as of June 30, 2016 and December 31, 2015 are summarized as follows:

Investment as of June 30, 2016

	Plants, facilities and equipment	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances 01/Jan/16	1,806,886,065	7,420,410	22,218,146	10,912,877	1,847,437,498
Acquisitions	15,391,596	-	-	-	15,391,596
Retirements	(8,895,907)	-	-	-	(8,895,907)
Capitalization	538,002	(133,903)	328,227	(732,326)	-
Balances 30/Jun/16	1,813,919,756	7,286,507	22,546,373	10,180,551	1,853,933,187

Accumulated depreciation as of June 30, 2016

	Plants, facilities and equipment	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances 01/Jan/16	(759,650,609)	(1,849,320)	-	-	(761,499,929)
Net Balances 01/Jun/16	1,047,235,456	5,571,090	22,218,146	10,912,877	1,085,937,569
Depreciation of the period	(24,042,656)	(184,932)	-	-	(24,227,588)
Depreciation on retirements	7,481,183	-	-	-	7,481,183
Net Depreciation	(16,561,473)	(184,932)	-	-	(16,746,405)
Balances 30/Jun/16	(776,212,082)	(2,034,252)	-	-	(778,246,334)
Net Balances 30/Jun/16	1,037,707,674	5,252,255	22,546,373	10,180,551	1,075,686,853

Investment as of December 31, 2015

	Plants, facilities and equipment	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances 01/Jan/15	1,674,558,948	8,949,003	27,871,114	11,939,475	1,723,318,540
Acquisitions	38,234,511	-	13,932,096	1,094,260	53,260,867
Contributions from Federal Government (former LFC)	95,067,417				95,067,417
Retirements	(12,440,097)	-	-	-	(12,440,097)
Capitalization	11,465,286	(1,528,593)	(19,585,064)	(2,120,858)	(11,769,229)
Balances 31/Dec/15	1,806,886,065	7,420,410	22,218,146	10,912,877	1,847,437,498

Accumulated depreciation as of December 31, 2015

	Plants, facilities and equipment	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances 01/Jan/15	-723,791,118	-1,479,456	-	-	-725,270,574
Net Balances 01/Jan/15	950,767,830	7,469,547	27,871,114	11,939,475	998,047,966
Depreciation of the period	-44,882,118	-369,864	-	-	-45,251,982
Depreciation on retirements	9,022,627	-	-	--	9,022,627
Net Depreciation	-35,859,491	-369,864	-	-	-36,229,355
Balances 31/Dec/15	-759,650,609	-1,849,320	-	-	-761,499,929
Net Balances 31/Dec/15	1,047,235,456	5,571,090	22,218,146	10,912,877	1,085,937,569

Plants, facilities and equipment - The balances of plants, facilities and equipment at June 30, 2016 and December 31, 2015, includes PIDIREGAS equipment, are as shown in the following page.

	June 30, 2016	December 31, 2015
Plants:		
Steam	$ 306,308,977	$ 330,215,571
Hydro electric	207,549,537	210,389,031
Nuclear power	122,288,438	122,125,426
Turbo gas and combined cycle	95,803,258	76,154,461
Geothermal	48,147,952	48,711,951
Internal combustion	1,281,348	2,087,844
Unconventional facilities	2,616,722	2,847,348
Transmission lines and transformation substations	434,741,388	433,715,501
Optical fiber	7,363,298	7,126,663
Networks and distribution substations	423,596,704	415,740,578
Administrative buildings and others	66,005,773	59,545,210
Trusts	32,611	30,816
	1,715,736,006	1,708,690,400
External facilities and producers equipment	97,471,095	97,471,095
Lands in regularization process	384,276	396,191
Retirement of Laguna Verde Nuclear Generation plant	328,379	328,379
	1,813,919,756	1,806,886,065
Less:		
Accumulated depreciation	748,562,845	734,578,597
Accumulated depreciation external facilities and producers equipment	27,649,237	25,072,012
Total	$ 1,037,707,674	$ 1,047,235,456

During the second quarter of 2016 and during the year 2015, financing costs were capitalized in the amount of $621,791 and $5,965,953, respectively.

Construction in progress - The balances of construction in progress as of June 30, 2016 and December 31, 2015 are as follows:

Plant:	**June 30, 2016**	**December 31, 2015**
Steam	$ 1,196,835	$ 424,456
Hydro electric	1,883,843	4,316,364
Nuclear power	859,117	341,051
Turbo gas and combined cycle	388,788	648,714
Geothermal	2,096,765	1,468,241
Internal combustion	108,996	218,379
Transmission lines, networks and substations	14,588,800	14,038,598
Offices and general facilities	1,423,229	762,343
Total	$ 22,546,373	$ 22,218,146

Advances and materials for construction - Balances as of June 30, 2016 and December 31, 2015 are as follows:

		June 30, 2016		December 31, 2015
Spare parts and equipment	$	5,798,756	$	8,173,637
Materials held by third parties		2,276,632		1,644,980
Advances for construction		2,105,163		1,094,260
Total	$	10,180,551	$	10,912,877

Capitalized spare parts - Balances of capitalized spare parts as of June 30, 2016 and December 31, 2015 are as follows:

		June 30, 2016		December 31, 2015
Capitalized spare parts	$	7,286,507	$	7,420,410
Less Accumulated depreciation		2,034,252		1,849,320
Total	$	5,252,255	$	5,571,090

10. Assets contributed by The Federal Government

On October 11, 2009, a presidential decree declared the dissolution of the Decentralized Organization Luz y Fuerza del Centro and instructed to the Servicio de Administracion y Enajenacion de Bienes (“Administration and transfer of Property Service Office” - SAE for its acronym in Spanish) making all the useful assets available to CFE pertaining energy services power, which by the LSPEE, corresponded to operate this service.

On the same date, SAE and CFE entered into an agreement which ratified, subsequently, on August 11, 2010, that they agreed the effective date of the aforementioned decree, and that the SAE will deliver assets under commodatum gratuitously useful to the electricity service in the Central Zone of the country.

The term of the agreement is three years, beginning October 11, 2009. The contractual terms were automatically extended for another three year period beginning October 11, 2012.

On October 7, 2015, the Ministry of Public Administration (SFP), through INDAABIN determines to conclude the mentioned, and contribute the assets referred with act to delivering that include appendix by different types of assets to the CFE.

Accordingly, CFE received the legal and physical possession of such assets, included in a global basis in the aforementioned annexes. Procedures to discorporate such assets from the Federation public domain regime began on that date. These assets are included in the Condensed Consolidated Balance Sheet as of December 31, 2015 for a total value of $95,004,417 of Mexican pesos, as determined by the SAE, amount which will be adjusted according to the detailed listing for each significant area. Additionally, in May 2016 the entity recognized $63,000 as automobiles. This activity is still in progress at June 30, 2016.

At the date of issuance of this condensed consolidated interim financial information, appraisals are being initiated to update their fair value.

11. Derivative financial instruments

Balances as of June 30, 2016 and December 31, 2015, derivative financial instruments and interest are as follows:

	June 30, 2016	December 31, 2015
Hedging		
Assets	$ 42,836,253	$ 33,604,019
Liabilities	$ 29,053,118	$ 29,362,665
Trading		
Assets	$ 5,890,543	$ 4,636,300
Liabilities	$ 5,808,164	$ 5,636,999
Total Derivative Financial Instruments		
Assets	$ 48,726,796	$ 38,240,319
Liabilities	$ 34,861,282	$ 34,999,664

- **Financial instruments for trading** - On September 17, 2002, CFE placed a bond in the amount of 32 billion Japanese yen on the Japanese market at an annual 3.83% interest rate, with maturity in September 2032. CFE simultaneously entered into a hedging transaction by which received the amount of 269,474,000 US dollars, equivalent to the 32 billion yen at the spot exchange rate of the date of the operation of 118.7499 yen to the US dollar. The transaction consists of a series of foreign exchange forwards that allow for setting the yen/dollar exchange rate during the term established for the operation at 54.0157 yen per US dollar. As a result of the transaction, CFE pays an annual interest rate equivalent to 8.42% in US dollars. The effect of the valuation of foreign currency forward contracts is recorded as part of the financing costs. A gain / (loss) occurring would offset a loss / (gain) in the underlying liability.

  CFE's obligation is to pay Japanese yens to the creditor based on the maturities having a right to receive from the institution with which it contracted the hedge, yens in exchange for certain US dollars as indicated in in the financial instrument contract. The gain / (loss) on the transaction with the institution with which the financial instrument was contracted is as mentioned in the following page.

		Exchange rate (June 30, 2016)	Local currency (thousands of pesos)
Assets to receive (assets)	32,000,000,000 yens	0.1799	$ 5,756,800
Assets to deliver (liability)	269’474,000 US dollars	18.9113	$ 5,096,104
Assets to deliver, net			$ 660,696

Beginning March 17, 2003 until to September 17, 2032, CFE is obliged to make semi-annual payments in the amount of 11,344,855 US dollars equivalent to 612,800,000 Japanese yen, so the total amount that CFE is obliged to deliver in the next 17 years is 374,380,228 US dollars, and the total amount that it will receive is 20,222,400,000 Japanese yen.

Additionally, upon the execution termination of the hedging contract, the parties entered into a purchase agreement of a "European Call" in which CFE had acquired the right to buy Japanese yen to maturity at market price, if the yen/dollar exchange rate quotes fell below 118.7498608401 yen per dollar and the sale by CFE of a "European Call", whereby CFE sell the hedge of a yen/dollar exchange rate appreciation above 27.8000033014 yen per dollar.

If CFE decides to terminate the hedge (exchange forwards) early, it would generate an estimated extraordinary loss as of June 30, 2016 in an amount approximating of 4,356,075 US dollars. The loss was estimated by J. Aron & Company (Calculation agent or broker) based on the fair value of the hedge at the date of the estimate.

- Derivative financial instruments for hedging as of June 30, 2016 are shown below: (thousands of pesos/ thousands of dollars):

Counterparty	Primary position	Purpose	Notional amount	Underlying	Market value	Hedge reception date	Hedge Termination date	Rate / type of currency received	Rate / type of currency paid	% hedged
BANAMEX	$ 1,702,516	Change from floating rate to fixed rate	$ 1,617,390	Interest rate CETES 182 + 0.25%	$ (4,300)	December 7, 2007	May 26, 2017	CETES 182 + 0.25%	8.1950%	95%
BANAMEX	$ 368,987	Change from floating rate to fixed rate	$ 350,538	Interest rate CETES 182 + 0.25%	$ (2,088)	February 15, 2008	August 4, 2017	CETES 182 + 0.25%	8.2200%	95%
BANCOMER	$ 1,314,758	Change from floating rate to fixed rate	$ 1,249,020	Interest rate CETES 91 + 0.50%	$ (2,330)	December 06, 2007	February 23, 2017	CETES 91 + 0.50%	8.3650%	95%
BANAMEX	$ 787,092	Change from floating rate to fixed rate	$ 787,092	Interest rate CETES 91 + 0.45%	$ (4,387)	April 24, 2008	January 11, 2018	CETES 91 + 0.45%	7.9000%	100%
J.P. MORGAN	$ 697,928	Change from floating rate to fixed rate	$ 593,239	Interest rate EIIR 28 + 0.45%	$ (3,121)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	6.0900%	85%
HSBC	$ 651,004	Change from floating rate to fixed rate	$ 553,353	Interest rate EIIR 28 + 0.45%	$ (2,703)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	6.0700%	85%
CREDIT AGRICOLE	$ 590,622	Change from floating rate to fixed rate	$ 502,029	Interest rate EIIR 28 + 0.45%	$ (2,957)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	6.0850%	85%
BANCOMER	$ 425,546	Change from floating rate to fixed rate	$ 372,183	Interest rate EIIR 28 + 0.45%	$ (1,782)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	6.0700%	87%
BNP PARIBAS	$ 435,552	Change from floating rate to fixed rate	$ 371,525	Interest rate EIIR 28 + 0.45%	$ (1,983)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	6.1000%	85%
GOLDMAN SACHS	$ 422,726	Change from floating rate to fixed rate	$ 370,171	Interest rate EIIR 28 + 0.45%	$ (1,772)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	6.0500%	88%
SANTANDER SERFIN	$ 547,802	Change from floating rate to fixed rate	$ 533,627	Interest rate EIIR 28 + 0.45%	$ (2,120)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	5.9800%	97%
CREDIT AGRICOLE	$ 595,093	Change from floating rate to fixed rate	$ 532,452	Interest rate EIIR 28 + 0.45%	$ (2,455)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	5.9650%	89%
HSBC	$ 554,726	Change from floating rate to fixed rate	$ 532,430	Interest rate EIIR 28 + 0.45%	$ (2,109)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	5.9800%	96%
BANCOMER	$ 580,614	Change from floating rate to fixed rate	$ 529,682	Interest rate EIIR 28 + 0.45%	$ (2,044)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	5.9800%	91%
BANAMEX	$ 576,581	Change from floating rate to fixed rate	$ 529,264	Interest rate EIIR 28 + 0.45%	$ (2,065)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	5.9750%	92%
GOLDMAN SACHS	$ 558,268	Change from floating rate to fixed rate	$ 527,253	Interest rate EIIR 28 + 0.45%	$ (2,158)	March 30, 2012	July 10, 2020	CETES 28 + 0.45%	5.9850%	94%
CREDIT AGRICOLE	$ 468,606	Change from floating rate to fixed rate	$ 374,884	Interest rate EIIR 28 + 1.59%	$ (532)	July 2, 2012	June 29, 2020	CETES 28 + 1.59%	6.8180%	80%
BANAMEX	$ 459,982	Change from floating rate to fixed rate	$ 367,985	Interest rate EIIR 28 + 1.59%	$ (235)	July 2, 2012	June 29, 2020	CETES 28 + 1.59%	6.8100%	80%
SANTANDER	$ 450,342	Change from floating rate to fixed rate	$ 360,274	Interest rate EIIR 28 + 1.59%	$ (302)	July 2, 2012	June 29, 2020	CETES 28 + 1.59%	6.8290%	80%
HSBC	$ 436,070	Change from floating rate to fixed rate	$ 348,856	Interest rate EIIR 28 + 1.59%	$ (279)	July 2, 2012	June 29, 2020	CETES 28 + 1.59%	6.8300%	80%
CREDIT SUISSE	USD 16,788	Change from Dollars to Pesos	USD 12,005	Exchange rate USD/Mexican Peso	$ 30,361	January 24, 2005	July 24, 2021	US dollars	Pesos	72%
CREDIT SUISSE	USD 10,750	Change from Dollars to Pesos	USD 8,311	Exchange rate USD/Mexican Peso	$ 24,340	February 2, 2005	February 2, 2023	US dollars	Pesos	77%
DEUTSCHE BANK	USD 208,188	Change from Dollars to Pesos	USD 171,323	Exchange rate USD/Mexican Peso	$ 372,026	May 3, 2005	June 21, 2021	US dollars	Pesos	82%
GOLDMAN SACHS	USD 49,296	Change from Dollars to Pesos	USD 40,977	Exchange rate USD/Mexican Peso	$ 102,832	March 26, 2005	March 26, 2022	US dollars	Pesos	83%
GOLDMAN SACHS	USD 200,000	Change from Dollars with LIBOR rate at Fixed Rate Pesos	USD 186,667	Exchange rate USD LIBOR Rate / Fixed Rate Mexican Peso	$ 583,197	December 15, 2008	December 15, 2036	US dollars at LIBOR Rate	Fixed rate pesos	93%
DEUTSCHE BANK	USD 200,000	Change from Dollars with LIBOR rate at Fixed Rate Pesos	USD 186,667	Exchange rate USD LIBOR Rate / Fixed Rate Mexican Peso	$ 545,373	December 15, 2008	December 15, 2036	US dollars at LIBOR Rate	Fixed rate pesos	93%
GOLDMAN SACHS	USD 105,450	Change from Dollars with LIBOR rate at Fixed Rate Pesos	USD 96,662	Exchange rate USD LIBOR Rate / Fixed Rate Mexican Peso	$ 258,774	June 15, 2009	December 15, 2036	US dollars at LIBOR Rate	Fixed rate pesos	92%
DEUTSCHE BANK	USD 105,450	Change from Dollars with LIBOR rate at Fixed Rate Pesos	USD 96,662	Exchange rate USD LIBOR Rate / Fixed Rate Mexican Peso	$ 241,491	June 15, 2009	December 15, 2036	US dollars at LIBOR Rate	Fixed rate pesos	92%
DEUTSCHE BANK	USD 255,000	Change from Dollars with LIBOR rate at Fixed Rate Pesos	USD 233,750	Exchange rate USD LIBOR Rate / Fixed Rate Mexican Peso	$ 639,617	June 15, 2009	December 15, 2036	US dollars at LIBOR Rate	Fixed rate pesos	92%
MORGAN STANLEY	USD 250,000	Change from Dollars to Pesos	USD 250,000	Exchange rate USD/Mexican Peso	$ 733,193	July 15, 2015	January 15, 2024	US dollars	Pesos	100%
BBVA BANCOMER	USD 350,000	Change from Dollars to Pesos	USD 350,000	Exchange rate USD/Mexican Peso	$ 938,816	July 15, 2015	January 11, 2024	US dollars	Pesos	100%
BNP PARIBAS	USD 250,000	Change from Dollars to Pesos	USD 250,000	Exchange rate USD/Mexican Peso	$ 736,161	July 15, 2015	January 15, 2024	US dollars	Pesos	100%
SANTANDER	USD 400,000	Change from Dollars to Pesos	USD 400,000	Exchange rate USD/Mexican Peso	$ 973,520	July 15, 2015	January 16, 2024	US dollars	Pesos	100%
SANTANDER	USD 1,300	Change from Dollars to Pesos	USD 1,300	Exchange rate USD/Mexican Peso	$ 212	February 25, 2016	December 9, 2016	US dollars	Pesos	100%
SANTANDER	USD 48,700	Change from Dollars to Pesos	USD 48,700	Exchange rate USD/Mexican Peso	$ 8,644	February 26, 2016	December 9, 2016	US dollars	Pesos	100%
SANTANDER	USD 50,000	Change from Dollars to Pesos	USD 50,000	Exchange rate USD/Mexican Peso	$ 9,120	March 1, 2016	December 9, 2016	US dollars	Pesos	100%
BANK OF TOKYO-MITSUBISHI	USD 50,000	Change from Dollars to Pesos	USD 50,000	Exchange rate USD/Mexican Peso	$ 17,552	March 2, 2016	December 9, 2016	US dollars	Pesos	100%
BANAMEX	USD 8,000	Change from Dollars to Pesos	USD 8,000	Exchange rate USD/Mexican Peso	$ 5,088	March 7, 2016	December 9, 2016	US dollars	Pesos	100%
BANAMEX	USD 42,000	Change from Dollars to Pesos	USD 42,000	Exchange rate USD/Mexican Peso	$ 27,472	March 16, 2016	December 9, 2016	US dollars	Pesos	100%
BANAMEX	USD 10,000	Change from Dollars to Pesos	USD 10,000	Exchange rate USD/Mexican Peso	$ 7,551	March 17, 2016	December 9, 2016	US dollars	Pesos	100%
BANAMEX	USD 20,000	Change from Dollars to Pesos	USD 20,000	Exchange rate USD/Mexican Peso	$ 19,325	March 17, 2016	December 9, 2016	US dollars	Pesos	100%

Counterparty	Primary position	Purpose	Notional amount	Underlying	Market value	Hedge reception date	Hedge termination date	Rate / type of currency received	Rate / type of currency paid	% hedged
BANAMEX	USD 30,000	Change from Dollars to Pesos	USD 30,000	Exchange rate USD/Mexican Peso	$ 29,781	March 17, 2016	December 9, 2016	US dollars	Pesos	100%
CREDIT AGRICOLE	USD 50,000	Change from Dollars to Pesos	USD 50,000	Exchange rate USD/Mexican Peso	$ 51,057	March 29, 2016	December 9, 2016	US dollars	Pesos	100%
CREDIT AGRICOLE	USD 29,381	Change from Dollars to Pesos	USD 29,381	Exchange rate USD/Mexican Peso	$ 34,353	April 20, 2016	December 9, 2016	US dollars	Pesos	100%
CREDIT AGRICOLE	USD 23,500	Change from Dollars to Pesos	USD 23,500	Exchange rate USD/Mexican Peso	$ 25,500	April 28, 2016	December 9, 2016	US dollars	Pesos	100%
CREDIT AGRICOLE	USD 25,000	Change from Dollars to Pesos	USD 25,000	Exchange rate USD/Mexican Peso	$ 28,144	April 28, 2016	December 9, 2016	US dollars	Pesos	100%
BANAMEX	USD 25,000	Change from Dollars to Pesos	USD 25,000	Exchange rate USD/Mexican Peso	$ 22,833	April 12, 2016	December 9, 2016	US dollars	Pesos	100%
BANAMEX	USD 50,000	Change from Dollars to Pesos	USD 50,000	Exchange rate USD/Mexican Peso	$ 55,674	April 20, 2016	December 9, 2016	US dollars	Pesos	100%
BANAMEX	USD 20,619	Change from Dollars to Pesos	USD 20,619	Exchange rate USD/Mexican Peso	$ 22,960	April 20, 2016	December 9, 2016	US dollars	Pesos	100%
BANAMEX	USD 25,000	Change from Dollars to Pesos	USD 25,000	Exchange rate USD/Mexican Peso	$ 28,175	April 20, 2016	December 9, 2016	US dollars	Pesos	100%
BANAMEX	USD 85,000	Change from Dollars to Pesos	USD 85,000	Exchange rate USD/Mexican Peso	$ 99,721	April 29, 2016	December 9, 2016	US dollars	Pesos	100%

- Effectiveness measurement of derivative financial instruments from hedging as of June 30, 2016 (thousands of pesos/ thousands of dollars):

Name of the Hedging in Accordance with the Documentation	Date of Swap	Cash flow Payable on Primary Position	Cash flow from derivative instruments	% Effectiveness	Rate used to Calculate Cash Flow of Primary Position	Rate Used to Calculate Cash Flow of Derivative Instrument	Surcharge	Base of Calculation for Both Cash Flows	Frequency of Periods	Date of Calculation of Both Rates
BANCOMER BANAMEX	January 4, 2016	$ 11,405	$ 11,405	100 %	3.3358 %	3.3358 %	0.45 %	CURRENT 360	Monthly	December 2, 2015
BONO 24	January 13, 2016	USD 30,469	USD 30,469	100 %	4.8750 %	4.8750 %	0.00 %	30 / 360	Semester	November 4, 2015
ING IV	January 14, 2016	$ 1,781	$ 1,781	100 %	3.1300 %	3.1300 %	0.45 %	CURRENT 360	Quarterly	October 15, 2015
ICO 4	January 25, 2016	USD 392	USD 392	100 %	1.2500 %	1.2500 %	0.00 %	CURRENT 360	Semester	May 5, 2005
BANCOMER BANAMEX	January 29, 2016	$ 8,740	$ 8,740	100 %	3.3110 %	3.3110 %	0.45 %	CURRENT 360	Monthly	December 30, 2015
ICO 8	February 2, 2016	USD 253	USD 253	100 %	1.2500 %	1.2500 %	0.00 %	CURRENT 360	Semester	May 5, 2005
BANCOMER 2	February 2, 2016	$ 3,846	$ 3,846	100 %	3.5475 %	3.5475 %	1.59 %	CURRENT 360	Monthly	December 30, 2015
BANCOMER 1	February 5, 2016	$ 1,332	$ 1,332	100 %	3.3200 %	3.3200 %	0.25 %	CURRENT 360	Semester	August 6, 2015
ING III	February 25, 2016	$ 1,834	$ 1,834	100 %	3.2200 %	3.2200 %	0.50 %	CURRENT 360	Quarterly	November 26, 2015
BANCOMER BANAMEX	February 26, 2016	$ 9,820	$ 9,820	100 %	3.5600 %	3.5600 %	0.45 %	CURRENT 360	Monthly	January 27, 2016
BANCOMER 2	February 29, 2016	$ 3,153	$ 3,153	100 %	3.5570 %	3.5570 %	1.59 %	CURRENT 360	Monthly	January 29, 2016
ICO 5 6 Y 7	March 28, 2016	USD 1,304	USD 1,304	100 %	1.2500 %	1.2500 %	0.00 %	CURRENT 360	Semester	May 4, 2005
BANCOMER BANAMEX	March 28, 2016	$ 12,213	$ 12,213	100 %	4.0547 %	4.0547 %	0.45 %	CURRENT 360	Monthly	February 24, 2016
BANCOMER 2	March 31, 2016	$ 3,967	$ 3,967	100 %	4.0501 %	4.0501 %	1.59 %	CURRENT 360	Monthly	February 26, 2016
ING IV	April 14, 2016	$ 1,484	$ 1,484	100 %	3.2800 %	3.2800 %	0.45 %	CURRENT 360	Quarterly	January 14, 2016
BANCOMER BANAMEX	April 22, 2016	$ 9,872	$ 9,872	100 %	4.0650 %	4.0650 %	0.45 %	CURRENT 360	Monthly	March 22, 2016
BANCOMER 2	May 2, 2016	$ 4,106	$ 4,106	100 %	4.0650 %	4.0650 %	1.59 %	CURRENT 360	Monthly	March 30, 2016
BANCOMER BANAMEX	May 20, 2016	$ 11,057	$ 11,057	100 %	4.0650 %	4.0650 %	0.45 %	CURRENT 360	Monthly	April 20, 2016
ING III	May 26, 2016	$ 1,492	$ 1,492	100 %	3.9900 %	3.9900 %	0.50 %	CURRENT 360	Quarterly	February 25, 2016
IXE 1	May 27, 2016	$ 4,777	$ 4,777	100 %	3.4500 %	3.4500 %	0.25 %	CURRENT 360	Semester	November 26, 2015
BANCOMER 2	May 31, 2016	$ 3,721	$ 3,721	100 %	4.0655 %	4.0655 %	1.59 %	CURRENT 360	Monthly	April 29, 2016
GOLDMAN SACHS 1 Y 3	June 14, 2016	USD 6,440	USD 6,440	100 %	0.7465 %	0.7465 %	0.4950 %	CURRENT 360	Semester	December 11, 2015
GOLDMAN SACHS 2 4 Y 5	June 14, 2016	USD 11,817	USD 11,817	100 %	0.7465 %	0.7465 %	0.4950 %	CURRENT 360	Semester	December 11, 2015
BANCOMER BANAMEX	June 17, 2016	$ 11,057	$ 11,057	100 %	4.0650 %	4.0650 %	0.45 %	CURRENT 360	Monthly	May 18, 2016
ICO 2 Y 3	June 20, 2016	USD 5,552	USD 5,552	100 %	1.2500 %	1.2500 %	0.00 %	CURRENT 360	Semester	May 3, 2005
BANCOMER 2	June 30, 2016	$ 3,871	$ 3,871	100 %	4.0970 %	4.0970 %	1.59 %	CURRENT 360	Monthly	May 30, 2016

- Effectiveness measurement of the derivate financial instruments Forwards from hedging as of June 30, 2016:

Counterparty	Hedge instrument	Amount in dollar	FX 30/06/2016	FORWARD 09/12/2016	Point variance	(SF-SI)/SI		Clean fair value 30/06/2016	Effective portion	Uneffective portion	% Effective	%Uneffective portion
SANTANDER	FORWARD SINDICADO DIC 1N	1,300,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	- 145,588.99	- 143,168.80	- 2,420.19	98.34%	1.66%
SANTANDER	FORWARD SINDICADO DIC 2N	48,700,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	- 4,722,639.30	- 4,644,132.75	- 78,506.55	98.34%	1.66%
SANTANDER	FORWARD SINDICADO DIC 3N	50,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	- 4,603,145.44	- 4,526,625.30	- 76,520.15	98.34%	1.66%
BANK OF TOKYO-MITSUBISHI	FORWARD SINDICADO DIC 4N	50,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	3,928,923.67	3,863,611.41	65,312.26	98.34%	1.66%
BANAMEX 1606712617	FORWARD SINDICADO DIC 5N	8,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	2,969,501.39	2,920,138.04	49,363.35	98.34%	1.66%
BANAMEX 1607611737	FORWARD SINDICADO DIC 6N	42,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	16,942,176.45	16,660,539.07	281,637.38	98.34%	1.66%
BANAMEX 1607713218	FORWARD SINDICADO DIC 7N	10,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	4,998,803.42	4,915,706.07	83,097.35	98.34%	1.66%
BANAMEX 1607715182	FORWARD SINDICADO DIC 8N	20,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	13,964,488.79	13,732,350.85	232,137.94	98.34%	1.66%
BANAMEX 1607713203	FORWARD SINDICADO DIC 9N	30,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	21,691,869.43	21,331,275.78	360,593.65	98.34%	1.66%
CREDIT AGRICOLE 3930235	FORWARD SINDICADO DIC 10N	50,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	37,591,796.22	36,966,890.97	624,905.25	98.34%	1.66%
CREDIT AGRICOLE 3970127	FORWARD SINDICADO DIC 11N	29,381,020.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	25,556,957.71	25,132,112.97	424,844.74	98.34%	1.66%
CREDIT AGRICOLE 3985858	FORWARD SINDICADO DIC 12N	23,500,003.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	18,878,575.63	18,564,748.63	313,827.01	98.34%	1.66%
CREDIT AGRICOLE 3985863	FORWARD SINDICADO DIC 13N	25,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	20,834,542.22	20,488,200.31	346,341.92	98.34%	1.66%
BANAMEX 1610312781	FORWARD SINDICADO DIC 14N	25,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	16,621,879.83	16,345,566.88	276,312.94	98.34%	1.66%
BANAMEX 1611112834	FORWARD SINDICADO DIC 15N	50,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	41,333,697.95	40,646,589.40	687,108.55	98.34%	1.66%
BANAMEX 1611112782	FORWARD SINDICADO DIC 16N	20,618,980.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	17,045,897.93	16,762,536.34	283,361.59	98.34%	1.66%
BANAMEX 1611110757	FORWARD SINDICADO DIC 17N	25,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	20,929,327.75	20,581,410.17	347,917.58	98.34%	1.66%
BANAMEX 1612014046	FORWARD SINDICADO DIC 18N	85,000,000.00	18.9113	19.2257	0.314371	0.01662345	1.6623%	73,767,817.08	72,541,541.65	1,226,275.42	98.34%	1.66%
		593,500,003.00						**327,584,881.74**	**322,139,291.70**	**5,445,590.04**		

Effectiveness Measurement

CFE uses risk management to mitigate exposure to the volatility of interest rates and exchange rates. Therefore, the Company has contracted plain interest rate and foreign currency swaps. With this, variable cash flows on the primary position have been hedged 100% by the cash flows received from the Derivative Financial Instrument.

Effectiveness Measurement Methodology

Effectiveness interest rate swaps and foreign exchange rate hedging swaps

The coefficient or ratio of the cash flow payable of the primary position and the cash flow receivable of the derivative financial instrument were established as the measurement method. In the effectiveness tests performed on the swap flows, effectiveness was 100%.

In addition, the most critical characteristics of each swap were disclosed; date of the swap, the interest rates used for the calculation of the cash flow of both, the primary position, and the derivative financial instrument, the surcharge added to each rate, the basis of calculation for each cash flow, the frequency of periods and date of calculation of both rates.

Accordingly, it can be observed and concluded that the critical characteristics of both the cash flow of the primary position and the cash flow of the derivative financial instrument are equal, and the effectiveness of each Derivative Financial Instrument contracted by the Company is 100%.

Effectiveness forwards from hedging

18 foreign exchange forwards were contracted with maturing on December 19, 2016. The risk management strategy to hire these forwards was to fix the exchange rate for the purchase of 593,500,003 US dollars.

With the above, CFE complies with the policy of risk management to mitigate exposure to the volatility of fuel prices and adverse situations in interest rates and exchange rates, in order to provide the public service of electricity reliable stable and predictable cost.

As mentioned, CFE formally document all hedging relationships, in which describes the objectives and strategies of risk management to undertake derivative transactions. Therefore, the effectiveness of these foreign exchange forward was documented and calculated.

As part of our methodology a synthetic forward was created with a maturity date of December 9, 2016, and was compared against the fix exchange rate at June 30, 2016. With this difference a factor or ratio was obtained, with which calculated the efficient and inefficient derivative part.

The effective portion was recorded in equity within other comprehensive income and the ineffective portion was recorded directly in the income. According to the table of methodology and calculation of effectiveness (see notes to the condensed consolidated interim financial information) this series of forward are efficient by 98.34% and inefficient by 1.66%.

With this these values being considered the forwards are highly effective, as they are within the range of 80% to 125% of variability in accordance with current accounting standard IAS 39 Financial Instruments: Recognition and Measurement.

A stress test was performed on the effectiveness and exchange rates that must be within the range 80-125 is 15.3805 and 24.0320 pesos per dollar. According to this analysis of stress if the dollar exchange rate exceeds these levels, the forwards would become trading derivatives.

Sensitivity analysis

In accordance with IFRS, the Company calculated the sensibility analysis of the variation in the market value of the derivative financial instruments contracted by CFE.

In the case of the transaction of trading currency (forwards), a variation of 0.01 in the exchange rate generates an approximate change in the market value of 0.0529 % or $3,744, as of June 30, 2016.

In the case of the transaction for hedging currency (forwards), a variation of 0.01 in the exchange rate generates an approximate change in the market value of a 0.0529% or $ 5.935 on June 30, 2016.

In the case of the transaction for hedging of interest rate and foreign exchange currency (Cross Currency Swaps) a variation of 1% in the exchange rate generates an approximate change in the market value of 0.0529 %, that is, $19,153, on June 30, 2016.

In the case of the transaction for hedging for interest rate swaps, a variation of one base point in the interest rate generates an approximate change in the market value of 0.1833 % or $448, on June 30, 2016.

Comments on the Market Value (Mark-to-Market) and the adjustment on the Credit risk and its Level of Hierarchy

The net clean market value of derivative financial instruments for hedging (Mark-to-Market) as of June 30, 2016 amounted to $6,053,290 which are included in equity and is integrated by $35,809 due by CFE, included in the value of the liability of financial instruments and $6,094,545 in favor of CFE included in the value of the asset of financial instruments.

By the terms in which the ISDA ("International Swaps and Derivatives Association") were signed, the counterparties or banking institutions are the appraisers that calculate and send the Mark-to-Market in a monthly basis. CFE monitors the Mark-to-market and if there is any doubt or observes any irregularity in the Mark-to-market trend, it request from the counterparty for a new valuation.

Therefore, the Market Value sent by the agent or counterparty is only an indicative value, since the models used by banks can differ between each other.

Adjustment of Fair Value or Mark-to-Market due on Credit Risk

In accordance with IFRS, fair value or Mark-to-Market (MTM) should reflect the creditworthiness of the Derivative Financial Instrument. Incorporating credit risk into the Mark-to-Market of the Derivative Financial Instruments recognizes the likelihood that one of the counterparties may incur in nonperformance and, therefore, the creditworthiness is reflected of the Derivative Financial Instrument, in accordance with IFRS.

Therefore, CFE adjusted the Fair Values or Mark-to-market that represent a credit risk for the Company.

Methodology to Adjust Fair Value or Mark-to-Market due on Credit Risk

To make the adjustment to fair value of derivative financial instruments under IFRS for credit risks, CFE will adopt the "Credit Value Adjustment" (CVA) concept.

The CVA integrates the concepts of exposure or potential loss, likelihood of nonperformance and rate of recovery. Its formula is as follows:

$$CVA = Exp * q * (1 – r)$$

Where:

Exp = Exposure

q = Likelihood of Nonperformance

r = Recovery Rate

Simplifications:

$$Exp = MTM$$

$$q * (1-r) = \text{Adjustment factor}$$

$$CVA = MTM * \text{Adjustment factor}$$

The exposure will be considered as Mark-to-Market (MTM) of each counterparty, in other words, the sum of all MTMs that we have with the financial institution.

The probability of default by one less the recovery rate will be the adjustment factor of the sum of the market values of each counterparty or exposure.

In order to obtain probability of default (q), the “Credit Default Swaps” (CDS) of the counterparties to its closest term available will be consider, understanding that the adjustment of CVA will be carried out in a monthly basis. The CDS reflects the market perspective about the credit risk, and it is transparent information for the Company.

For CVA’s calculation, the recovery rate (r) will be zero. This rate is totally conservatively, as the standard of the financial market is 40%.

Once CVA is obtained, the adjustment to MTM will be as follow:

MTM adjusted = MTM – CVA

In case that CFE holds collaterals for warranty deposits, the CVA will not be modified as the recovery rate determined by CFE is zero.

Fair Value Adjustment Methodology

This methodology was approved by Comite Delegado Interistitucional de Gestion de Riesgos Financieros Asociados a la Posicion Financiera y al Precio de los Combustibles Fosiles (“the Interinstitutional Financial Risk Management Delegate Committee Associated to the Financial Position and Price of Fossil Fuel” - CDIGR for its acronym in Spanish) as adjustment methodology to the fair value of Derivative Financial Instruments.

The adjustment to MTM will be performed in a monthly basis, as long as total provision of the exposure of each counterparty is in favor of CFE, in other words, the market valuation is positive for the Company and, consequently, there is a credit risk.

In case that MTM’s position results negative for the Company, an adjustment would not be made, as the credit risk is for the counterparty, not for CFE.

Counterparty	MTM	Adjusted MTM	Adjustment at June 30, 2016
Credit Suisse	54,701	53,948	753
Deutsche Bank	1’798,508	1’772,519	25,989
Morgan Stanley	733,193	730,678	2,515
Santander	989,073	968,075	20,998
BNP Paribas	734,178	724,795	9,383
BBVA Bancomer	932,659	915,881	16,778
Goldman Sachs	1’023,251	1’019,168	4,083
Bank of Tokyo	17,552	17,524	28
Banamex	305,507	304,489	1,018
Credit Agricole	133,110	131,654	1,456
Collateral received			**0**
Total Cost			**83,001**

Fair Value hierarchy or Mark-to-Market

In order to increase consistency and comparability of fair value measurements and their disclosures, IFRS set forth a fair value hierarchy that prioritizes on three levels of inputs to valuation techniques used. This hierarchy grants the highest priority to quoted prices (unadjusted) on the active markets for assets and liabilities (level 1) and the lowest priority for unobservable inputs (level 3).

The availability of relevant information and its relative subjectivity may affect the appropriate selection of the valuation technique. However, the fair value hierarchy prioritizes inputs upon valuation techniques.

Level 2 input information

As explained above, and according to the terms in which the ISDA contracts were entered into the counterparties or banking institutions are the appraisers that calculate and send the Mark-to-Market calculation in a monthly basis.

Therefore, the hierarchy level of the Company's Mark-to-Market at June 30, 2016 is level 2:

a) Inputs other than quoted prices, and it includes level one information which is directly and indirectly observable.

b) Quoted prices for similar assets and liabilities on active markets.

c) Inputs other than prices quoted and observable.

d) Input mainly derived from observable information and correlated through other means.

Management's discussion of the policies of the use of derivative financial instruments

The objective to carry out derivative financial transactions

CFE may carry out any kind of explicit financial hedge, either for interest rates and/or exchange rates, or those strategies that might be necessary to mitigate the financial risk faced by the Company.

2) Instruments used

CFE may buy or sell one or more of the following kinds of instruments individually or collectively, as long as maintains the compliance within the limits and risk management guidelines approved.

1. - Futures, forwards and swaps
2. - Acquisition of call option
3. - Acquisition of put options
4. - Acquisition of collars or tunnels
5. - Acquisition of equity futures

3) Hedging or trading strategies implemented

CFE cannot sell call options, put options or any other open instrument that exposes CFE to an unlimited risk, not totally offset by a corresponding opposite position.

4) Trading Markets

Domestic and Foreign.

5) Eligible counterparties

Any bank or financial institution with whom CFE has executed an ISDA.

6) Policies for the designation of appraiser for the calculation or valuation.

All ISDA contracts establish that the counterparty is the calculation appraiser.

7) Main contract conditions or terms

ISDA (International Swaps and Derivatives Association) are standard contracts which terms are the same in all cases. Only confirmations have specific terms.

8) Margin Policies

In case that the market value of any operation exceeds to the maintenance level agreed upon the ISDA contracts and its supplements, the counterparty issues a request for deposit of collateral in an off-balance sheet item via fax or e-mail. CFE sends the security deposit to the counterparty. While there is a deposit for the margin call, the market value is daily reviewed by the "calculation agent", defined in the ISDA contract, in order for the Company to be able to request refund of the collateral when the market value returns to levels below the agreed upon maintenance level. These security deposits are considered as a restricted asset in derivative financial instrument trading for CFE, and it is given the pertinent accounting treatment.

As of June 30, 2016, CFE has security deposits or margin calls in an amount of 36.5 million dollars.

9) Collateral and Lines of Credit.

Defined credit lines for deposits of collateral are established in each one of the ISDA contracts executed with each counterparty.

10) Processes and authorization levels required by type of operation (simple hedge, partial hedge, speculation) indicating if derivatives trading were previously approved by the committee or committees engaged to performed corporate practices and audit activities.

The limits on the extension of transactions and derivative financial instruments are set forth based on the general conditions of the primary position and hedged underlying asset.

CFE may contract hedge operations with financial derivate, either to interest rates and/or exchange rates when the conditions are the same as the primary position and the hedged underlying asset.

In addition, CFE is authorized to:

Contract financial derivatives other than those of the primary position and/or the hedged underlying asset.

Liquidation of positions

Any other financial derivative instrument trading advisable for CFE

11) Internal control procedures for managing market risk exposure and liquidity risk exposure in financial instrument position

The Risk Management Division reviews the points mentioned above.

Finally, there is a budget authorized by the Ministry of Finance and Public Credit to meet the commitments already contracted and to be contracted related to derivative financial instruments.

12. Debt

The balances of the documented debt as of June 30, 2016 and December 31, 2015 are comprised as follows:

Foreign Debt	Type of credit	Weighted Interest rate	Maturities	2016 Local currency	2016 Foreign currency (thousands)	2015 Local currency	2015 Foreign currency (thousands)
In US dollars at the exchange rate	Bilateral	Fixed and variable - 1.26%	Various through 2023	2,929,481	154,906	3,264,831	189,744
per dollar of $18.9113 at June 30, 2016 and	Bonds	Fixed and variable - 5.29%	Various through 2045	73,267,104	3,874,250	66,735,410	3,878,500
$17.2065 at December 31, 2015	Revolving	Fixed and variable - 1.86%	Various through 2018	2,175,609	115,043	2,658,491	154,505
	Syndicated	Fixed and variable - 1.37%	2018	23,639,125	1,250,000	-	-
Total US dollars				102,011,319	5,394,199	72,658,732	4,222,749
In euros at exchange rate per euros	Bilateral	Fixed and variable - 1.56%	Various through 2024	53,308	2,597	59,058	3,143
of $20.5234 at June 30, 2016 and $18.7873 at December 31, 2015	Revolving	Fixed and variable - 1.92%	Various through 2018	13,453	656	16,902	900
Total euros				66,761	3,253	75,960	4,043
In Swiss francs at the exchange rate per Swiss franc of $18.9594 at June 30, 2016 and $17.2452 at December 31, 2015	Revolving	Fixed and variable - 0.66%	Various through 2021	1,782,907	94,038	1,911,573	110,847
Total Swiss francs				1,782,907	94,038	1,911,573	110,847
In Japanese yens at the exchange rate per Japanese yen of $0.1799 at June 30, 2016 and of $0.1433 at December 31, 2015	Bilateral	Fixed and variable - 1.36%	Various through 2021	1,091,905	6,069,513	378,320	2,640,053
				1,091,905	6,069,513	378,320	2,640,053
Bond		Fixed - 3.83%	2032	5,756,800	32,000,000	4,585,600	32,000,000
Assets received for financial instruments net (Nota 10b)				(660,696)		51,104	
				5,096,104	32,000,000	4,636,704	32,000,000
Total Japanese yen				6,188,009	38,069,513	5,015,024	34,640,053
Total foreign debt				110,048,996		79,661,289	

				2016		2015	
Internal debt	Type of credit	Weighted Interest rate	Maturities	Local currency	Foreign Currency (thousands)	Local currency	Foreign Currency (thousands)
Local currency	Bank loans	Fixed and variable - 4%	Various through 2023	25,700,000		31,800,000	
	Securities market	Fixed and variable - 6.5%	Various through 2025	66,500,000		66,500,000	
Total Mexican pesos:				92,200,000		98,300,000	
In UDIS: at the exchange rate per UDI of $5.4152 at June 30, 2016 and $5.269 at December 31, 2015	Securities market	Fixed and variable - 4.37%	Various through 2027	5,059,751		5,027,889	
Total UDIS				5,059,751		5,027,889	
Total internal debt				97,259,751		103,327,889	
Summary							
Total foreign debt				110,048,996		79,661,289	
Total internal debt				97,259,751		103,327,889	
Total documented debt				207,308,747		182,989,179	
Total short-term (1)				40,119,109		16,562,500	
Total long-term				167,189,638		166,426,678	
Total short and long-term				207,308,747		182,989,179	

The short-term liability and long-term funded debt mature as follows|:

30-06-2016	Amount
2016	40,119,109
2017	24,783,856
2018	4,570,613
2019	7,921,349
2020	36,480,936
2021 – Subsequent years	93,432,884
TOTAL	207,308,747

(1) Does not include interest for $ 6,291,028 and $ 2,392,407 in 2016 and 2015, respectively

Documented debt

The integration of the financing available for the six month period ending June 30, 2016 is shown below:

Internal debt

There has not been disposal of internal debt during this period.

Foreign debt

On January 13, 2016 1,250 MUSD were disposed from syndicated credit at which BBVA Bancomer, S.A. is the managing agent, bearing interest at a LIBOR USD rate plus 1.15% and amortized at the end quarter of the year.

During the first quarter 16.6 MUSD were disposed from a credit line signed with the Japanese Bank for International Cooperation (JBIC).

13. Long-term Productive Infrastructure Projects (PIDIREGAS by its acronym in Spanish)

The balances of direct and conditioned investment as of June 30, 2016 and December 31, 2015 are comprised as follows:

	Direct investment PIDIREGAS	Conditioned investment PEE's	Total 2016	Total 2015
Short-Term	$ 14,021,281	6,001,204	20,022,485	$ 22,770,191
Long-Term				
2017	5,435,043	4,889,791	10,324,834	15,583,785
2018	15,598,057	5,158,373	20,756,430	19,703,664
2019	10,357,483	5,746,981	16,104,464	15,041,440
2020	8,312,625	6,408,580	14,721,205	13,645,850
2021	7,307,924	7,477,239	14,785,163	13,252,745
2022	5,778,381	8,480,724	14,259,105	12,597,002

Subsequent years		27,661,614	78,997,763	106,659,377		99,492,177
Total long-term	$	80,451,127	117,159,451	197,610,578	$	189,316,663
Total	$	94,472,408	123,160,655	217,633,063	$	212,086,854

Direct Investment (PIDIREGAS)

At June 30, 2016 and December 31, 2015, the debt corresponding to the acquisition of plants, facilities and equipment through PIDIREGAS as follows:

		Term	Balances at June 30, 2016 (Thousands)				Balances at December 31, 2015 (Thousands)			
		of the	Local currency		Foreign currency		Local currency		Foreign currency	
Value of the credit:		agreement	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Foreign Debt										
621.94	Millions of dollars	2016	40,855		2,160		2,479,816	0	144,121	0
24.84	Millions of dollars	2017	427,160	1,533,262	22,588	81,076	37,172	37,172	2,160	2,160
701.22	Millions of dollars	2019	516,303	5,768,656	27,301	305,037	364,746	1,009,107	21,198	58,647
259.36	Millions of dollars	2020	516,528	2,298,998	27,313	121,567	469,760	1,644,159	27,301	95,555
491.64	Millions of dollars	2029	84,206	13,017,448	4,453	688,342	469,964	5,983,776	27,313	347,763
745.13	Millions of dollars	2032	1,055,016	1,998,748	55,788	105,691	1,036,524	9,500,127	60,240	552,124
609.39	Millions of dollars	2036	385,097	1,540,388	20,363	81,453	350,382	7,007,634	20,363	407,267
Total foreign debt			3,025,165	26,157,500	159,966	1,383,166	5,208,364	25,181,975	302,696	1,463,516

			2016 Local currency		2015 Local currency	
	Value of the credit	Duration of the contract	Short-term	Long-term	Short-term	Long-term
	Internal debt					
4,526.37	Millions of pesos	2016	340,105		844,226	0
2,265.65	Millions of pesos	2017	88,611	3,892,960	189,909	88,611
14,805.54	Millions of pesos	2018	2,110,210	12,525,745	1,141,629	2,585,453
5,548.74	Millions of pesos	2019	47,381	7,661,140	719,103	2,255,098
7,969.18	Millions of pesos	2020	948,103	6,013,627	803,413	2,772,452
1,147.26	Millions of pesos	2021	73,737	5,267,077	145,502	597,547
15,945.19	Millions of pesos	2022	1,421,214	3,737,535	1,619,343	7,413,818
6,780.49	Millions of pesos	2023	17,493	3,207,674	580,398	4,197,404
19,442.74	Millions of pesos	2024	2,030,202	2,423,520	2,158,027	13,126,027
9,582.34	Millions of pesos	2025	373,681	991,445	963,767	7,647,619
2,491.18	Millions of pesos	2036	1,747,585	5,867,684	83,664	1,673,288
16,048.53	Millions of pesos	2042	449,401	2,696,399	700,193	13,493,927
Total internal debt			9,647,723	54,284,806	9,949,174	55,851,244
Total			12,672,888	80,442,306	15,157,538	81,033,219
CEBURES				8,821		8,821
Total external and internal debt of PIDIREGAS and CEBURES			**$** 12,672,888	$ 80,451,127	**$** 15,157,538	$ 81,042,040

a) As of June 30, 2016, minimum payment commitments for PIDIREGAS amount to:

PIDIREGAS	121,656,619
less:	
Unaccrued interest	28,541,425
Present value of obligations	93,115,194
less:	
Current portion of obligations	12,672,888
Long-term portion of PIDIREGAS	80,442,306
CEBURES	8,821
Total CEBURES and PIDIREGAS	$80,451,127

Conditioned Investment (Independent Power Producers or "PEE" by its acronym in Spanish)

As of June 30, 2016, 26 contracts had been signed with private investors, denominated independent energy producers, whereas there is an obligation for CFE to pay certain considerations, in exchange of guaranteed electricity power supply service, based on an agreed generation capacity of power generation plants financed and built by those investors.

The future payments obligation of includes: a) rules for quantifying the amount of acquiring the generation plants when a force majeure event occurred in the terms of each contract, from the construction stage of each project up to the termination of the contracts; and b) fixed charges for power generation capacity, as well as variable charges for operation and maintenance of the generation plants, which are determined in accordance with the variable terms set forth in the contracts, applicable from the start-up testing stage up to the termination of the contracts.

a) Classified as lease

The Company has evaluated that 23 of the contracts with independent power producers have lease characteristics of the power generation plant, in accordance with IFRIC 4 "Determination whether an arrangement contains a lease" and IFRIC 12 "Service Concession Agreements". In turn, those leases qualify as financial leases.

The lease agreements have a 25 year duration. The average annual interest rate on those lease agreements is 11.19%.

	Minimum lease payments			Fair value of lease Payments		
	30/06/16	31/12/15	31/12/14	30/06/16	31/12/15	31/12/14
Short-term	$30,036,399	$14,304,540	$ 13,351,922	$4,015,241	$3,851,229	$ 2,964,984
Between one and five years	120,145,595	64,825,462	60,083,651	38,056,355	20,283,765	20,644,470
More than five years	214,754,514	122,295,964	125,550,129	79,103,096	87,990,858	75,257,663
Final accumulated equity	$364,936,508	$201,425,966	$198,985,702	$121,174,692	$112,125,852	$98,867,117

As of June 30, 2016, the financial lease obligation is comprised as follows:

			Foreign currency		Local currency	
Name	Commencement date of operations	Historical value of the obligation	Short-term	Long-term	Short-term	Long-term
CT MERIDA III	jun-00	242,685	9,846	158,032	186,207	2,988,586
CC HERMOSILLO	oct-01	156,144	5,065	116,823	95,791	2,209,272
CC SALTILLO	nov-01	152,383	5,264	107,269	99,546	2,028,593
TUXPAN II	dic-01	283,133	8,856	213,506	167,479	4,037,678
EL SAUZ BAJIO	mar-02	399,773	11,017	319,744	208,347	6,046,779
CC MONTERREY	mar-02	330,440	12,339	208,999	233,349	3,952,442
CC ALTAMIRA II	may-02	233,234	5,745	193,576	108,637	3,660,777
CC RIO BRAVO II	may-02	232,108	7,874	162,871	148,901	3,080,097
CC CAMPECHE	may-03	196,554	5,972	146,726	112,942	2,774,772
CC TUXPAN III Y IV	may-03	587,064	16,366	458,993	309,499	8,680,150
CC MEXICALI	jul-03	569,345	19,375	387,839	366,405	7,334,540
CC CHIHUAHUA III	sep-03	275,327	9,349	187,315	176,811	3,542,373
CC NACO NOGALES	oct-03	238,016	9,155	133,753	173,132	2,529,444
CC ALTAMIRA III Y IV	dic-03	600,897	18,919	432,377	357,790	8,176,812
RIO BRAVO III	abr-04	312,602	8,172	247,876	154,541	4,687,658
CC LA LAGUNA II	mar-05	367,578	8,831	299,608	167,009	5,665,982
CC RIO BRAVO IV	abr-05	270,697	5,910	226,836	111,768	4,289,756
CC VALLADOLID III	jun-06	288,160	6,923	234,603	130,917	4,436,652
CC TUXPAN V	sep-06	284,997	4,847	251,988	91,656	4,765,412
CC ALTAMIRA V	oct-06	532,113	7,106	486,981	134,376	9,209,449
CC TAMAZUNCHALE	jun-07	482,562	8,533	424,145	161,371	8,021,135
CCC NORTE	ago-10	450,097	9,853	391,221	186,328	7,398,498
CCC NORTE II	ene-14	427,733	7,003	404,129	132,439	7,642,596
Total			212,320	6,195,209	4,015,241	117,159,453

a) Other contracts with independent power producers

There are three contracts in operation with farms private investors, on which unlike the contracts described in the previous note, the obligation established to CFE is to pay only for the wind power energy that was generated and delivered; therefore, this is not considered a financial lease. The contracts are as follows:

C E Oaxaca I
C E Oaxaca II, III y IV
CE La Venta III
CE Sureste I

b) Services providers contracts

Pemex-Valladolid Gas Pipeline
Terminal de Carbon

These service provider contracts are not considered financial leases as their characteristics do not comply with the provisions of IFRS for this particular treatment.

14. Taxes and duties payable

Taxes and payable as of June 30, 2016 and December 31, 2015 are summarized as follows:

	2016	2015
Payable by CFE		
Income tax payable by third parties	$ 227,315	$ 279,769
Contributions to the Mexican Institute of Social Security	608,681	715,781
Rights for use and development of national waters	389,503	256,090
Payroll Tax	47,716	42,602
Contributions to INFONAVIT	9,678	12,775
VAT payable	1,313,370	-
Subtotal	$ 2,596,263	$ 1,307,017
Withholdings		
Income tax withheld from employees	699,767	651,667
Withholdings of value added tax	35,601	74,754
Income tax on interest paid abroad	24,613	21,802
Income tax on foreign residents	503	2,681
0.5% withholding to contractors	8,536	16,846
Income tax on professional fees and rent toindividuals	3,743	8,083
0.2% withholding to contractors	180	345
Others	57	84
Subtotal	773,000	776,262
Total	$ 3,369,263	$ 2,083,279

15. Other long-term liabilities

As of June 30, 2016 and December 31, 2015, unrealized income consist of the contributions made by State and Municipal Governments, as well as by private persons for rural and private parties electrification telecommunications service revenues and others, which consist of the following:

	2016	2015
From Governments contributions	$ 3,013,445	$ 2,803,877
Contributions from private parties	29,312,272	26,795,807
Contributions from others	1,477,694	1,511,958
	33,803,411	31,111,642
Electricity energy and other related products	1,477	1,552
Unrealized in come proceeds from optical fiber	659,179	684,957
	$ 34,464,067	$ 31,798,151

In 2015, the Company updated the technical - economic study over the retirement of the Nuclear Central Laguna Verde, supported by international companies with experience in the dismantlement of similar plants in order to determine the necessary provisions. As a result of that update, a provision amount was determined to be 809.6 million US dollars. This estimate includes the costs for cooling, cleaning, progressive decontamination, transportation, and storage of radioactive waste. Those expenses will be amortized in the period of the remaining useful life of the central, which average of 20.5 years. The present value of the liability for retirement of the Nuclear Central of Laguna Verde as of June 30, 2016 and 2015 the present value amounted to $9,360,550 and $9,013,006, respectively. As of June 30, 2016, the Company recognized contingent liability balance of $ 1,471,995 and $1,137,652 as of December 31, 2015.

16. Employee benefits

Employee benefit plans have been established relative to the termination of the employee relationship and for retirement due to causes other than restructuring. Retirement benefit plans consider the years of service completed by the employee and the remuneration at the date of retirement. Retirement plan benefits include the seniority bonus that employees are entitled to receive upon termination of the employment relationship, as well as other defined benefits.

On May 19, 2016, the review process on of the conditions of the Collective Labor Agreement between the CFE and SUTERM was concluded.

Derived from this review, some provisions mainly impacting the pension category were modified, resulting such modifications as a reduction of the labor liability of the Company, with a positive effect in the condensed consolidated statement of comprehensive income.

The employees who from the date of the above agreement and during 2016 meet the conditions of age and/or seniority for retirement, in conformity with the Collective Labor Agreement 2014-2016, may elect to exercise the right to retire on the conditions provided by the latter agreement.

Starting on January 1, 2017, any employee having the SUTERM as its representative, may request and obtain its pension considering the 100% average wage of the previous four years worked in the CFE, in accordance with the following criteria: men with 30 years of service and 65 years old, or 40 years of service without age limit; women with 30 years of service and 60 years old, or 35 years of service without age limit.

The net cost as of June 30, 2016 and December 31, 2015, consisted of a liability included in the statements of financial position amounting to $482,681,000 and $625,083,572, respectively. A net (income) cost for the period was recorded in the income statement amounting to ($125,757,571) and $32,177,000 in June 30, 2016 and 2015, respectively.

a. Collective labor Agreement

On August 18, 2008, the CFE and the SUTERM signed the CFE-SUTERM 20/2008 agreement regarding the retirement pensions regime for employees who join the Company, subsequent such date.

This agreement solves the problem of the long-term labor liability, since it represented a risk for the CFE.

The former pension plan is maintained for active and retired employees, both non- unionized and unionized, hired before August 18, 2008.

The characteristics of the new retirement agreement for newly hired employees are:

- Individual pension's accounts are created.

The employees contributes 5% of his computed salary and CFE contributes 1.5 the amount what is contributed by the employees (7.5%).

- These funds will be managed in the terms agreed upon by the CFE and the SUTERM, in accordance with the provisions issued by the Comision Nacional del Sistema de Ahorro para el Retiro - ("National Retirement Savings System Commission" - CONSAR by its acronym in Spanish).

- In view of the increase of the life expectancy, the time of service at the Company for new employees is increased by five years, except for those life lines that maintain the same number of years of service.

17. Equity

The presentation of the different components of equity as of June 30, 2016 and December 31, 2015, is shown below:

	June 30, 2016	December 31, 2015
Contributions from the Federal Government	5,251	5,251
Contributions in kind (Federal Government)	95,004,417	95,004,417
Retained earnings	29,024,615	(77,821,615)
Other Comprehensive income parties	115,824,927	112,758,604
	$ 239,859,210	$ 129,946,657

18. Other income, net

As of June 30, 2016 and 2015, other income, net, is summarized as follows:

	2016	2015
Other income	$ 5,656,587	$ 4,372,556
Other expenses	5,090,795	2,384,162
External independent power producers, net	418,689	305,224
Total	$ 984,481	$ 2,293,618

19. Income tax

During 2015, CFE transformed itself into a State-Owned Productive Company and stopped being a Decentralized Public Agency, which consequently leads to no longer apply for regime included in Title III of the Income Tax Law (Non-Profit Legal Entities); therefore, the CFE meets the obligations of Title II of the above Law (general regime for legal entities).

As of June 30, 2016 and December 31, 2015, the Company's deferred income tax asset has not been recognized. On the other hand, no taxable income payment was generated for income tax.

20. Transactions with the Federal Government

The main transactions carried out with the Federal Government in the periods ended June 30, 2016 and 2015 were as follows:

		2016		2015
Rate Insufficiency	$	34,308,213	$	25,862,167
Rate insufficiency not covered by the Federal Government		(22,308,213)		(25,862,167)
Subsidy Income		(12,000,000)		-
	$	-	$	-

Since the CFE ceased to be a Decentralized Public Agency of the Federal Government to start operations as a State-Owned Productive Company, and with the repeal of the LSPEE, the movements that have been recorded as public use taxes, stopped being considered as such beginning January 1, 2015.

21. Comprehensive income (loss)

Comprehensive income (loss) at June 30, 2016 and 2015 is summarized as follows:

		2016		2015
Net Income (loss), net as per consolidated statements of income	$	106,845,634	$	(35,592,413)
		-		-
Transfer of resources to the CENACE		(2,986,967)		68,241
Effect of hedging derivative financial instruments on equity for the period		6,053,886		131,896
		3,066,919		200,137
Comprehensive income (loss)	$	109,912,553	$	(35,392,276)

22. Foreign currency position

As of June 30, 2016 and December 31, 2015, CFE had foreign currencies assets and liabilities denominated as shown below:

	2016					
	Assets	Liabilities				
	Cash and cash equivalents	Trade Payables	Internal debt	External Debt	Leasing of equipment and PIDIREGAS	Short position In foreign Currency
US dollars	338,897	63,189		5,663,673	7,933,707	13,321,673
Euros				3,530		3,530
Japanese yen	19,051			6,069,513		6,050,462
Swiss francs				94,038		94,038
Swedish krona				0		0

	2015					
	Assets	Liabilities				
	Cash and cash equivalents	Trade Payables	Internal debt	External Debt	Leasing of equipment and PIDIREGAS	Short position In foreign currency
US dollars	48,214	31,392		4,492,223	8,282,695	12,758,096
Euros				4,043		4,043
Japanese yen	455			34,640,053		34,639,598
Swiss francs				110,847		110,847
Swedish krona				0		0

Note: The 32 billion of the bond in yens are included in the external debt of JPY.

Note: The PIDIREGAS dollar debt includes the amount of 6,390,573 million dollars of the financial lease debt with External Producers (as per IFRS)

These foreign currency assets and liabilities were translated into local currency at the exchange rate established by the Banco de Mexico (Bank of Mexico) in the Official Daily Gazette at June 30, 2016 and December 31, 2015, as follows:

Currency		Jun 2016		Dec 2015
US dollars	$	18.9113	$	17.2065
Euros		20.5234		18.7873
Japanese yen		0.1799		0.1433
Swiss francs		18.9594		17.2452
Swedish krona		2.1719		2.0381

23. Contingencies and Commitments

Contingencies

The Company is involved in several lawsuits and claims derived from the normal course of its operations, which were not expected to have a material effect in the financial position and future results as of June 30, 2016 or subsequent to this date up until the issuance of this report.

Commitments

a. Natural gas supply contracts

There are three gas supply contracts:

1. - Natural gas supply contract with delivery points from an storage plant of natural Gas Liquefied (NGL) and/or Natural Gas Continental (NGC) with the supplier IENOVA LNG Marketing Mexico, S. de R. L. de C.V. (formerly Sempra LNG), executed on January 21, 2005 and effective until 2022.

During the second quarter, CFE committed to buy 7,916 Billion Cubic Feet (MMPC) with Firm Base and 2,810 (MMPC) with a Variable Base. At June 30, 2016, 10,726 MMPC were consumed under this contract, which was consistent with the quantity originally programmed.

2. - Services Contract for the Receipt, Storage, and regasification of liquefied natural gas and deliveries of Natural Gas to the Comision Federal de Electricidad in the zone of Manzanillo and Colima, executed with Terminal KMS de GNL, S. de R.L. de C.V., MIT

Investment Manzanillo B.V., Kopgamex Investment Manzanillo B.V., and SAM Investment Manzanillo B. on March 27, 2008.

Contractual commitments consist of receiving and storing up to 300,000 m3 of Liquefied natural gas (NGL), as well as the regasification of NGL and delivery of natural gas (NG) up to 141,584 million daily cubic feet (MMCD) at the delivery points of CFE. For the second quarter of 2016, 35,561,092 MMBtu were consumed. The quantities programmed and consumed are consistent with those originally considered.

3. - Natural gas supply contract at the delivery points of the CCC. Altamira V and the Sistema Nacional de Gasoductos (“National Gas Pipeline System”) from a storage plant and regasification in the area of Altamira, Tamaulipas, with the supplier Gas del Litoral, S. de R. L. de C. V., executed for an initial 15 year period on September 30, 2003.

Contractual commitments consist of acquiring the firm daily base quantities of Natural Gas during the supply period for: 500 Million daily cubic feet (MMPCD). For the second quarter of 2016, 12,135,856 MMBtu were consumed, which is consistent with what was considered.

b. Financed public works contracts

As of June 30, 2016, the CFE has signed several financed public works contracts, for which payments start at the moment private investors complete the construction of each of the investment projects and deliver the assets for their operation to the Company. The estimated amounts of these financed public work contracts and the estimated dates of completion of the construction and start-up of operations are as shown on the following page.

Transmision lines and substations

Project	Capacity		Estimated amount of the contract in millions of		Operation stage
	Km-c	MVA	US dollar	Mexican pesos	
SE 1420 Di stri buci ón Norte F2 (DIST)	1.0	30.0	4.3	81.1	23/12/2015
SE 1321 Di stri buci ón Noreste F5 (DIST)	85.0	-	7.1	133.7	15/01/2016
SE 1322 Di stri buci ón Centro F3 C4 (DIST)	150.0	19.7	23.4	442.5	16/01/2016
SLT 1722 Di stri buci ón Sur F1 (DIST)	3.0	80.0	10.7	202.2	31/01/2016
SE 1903 Subestaci ones Norte- Noreste	-	525.0	15.0	283.7	31/01/2016
SLT 1721 Di stri buci ón Norte F3	64.3	30.0	11.2	211.8	31/01/2016
SLT 1621 Di stri buci ón Norte- Sur F6	6.3	30.0	9.2	174.7	02/02/2016
SLT 1802 Subestaci ones y Líneas de Transmi si ón del Norte F1	13.6	366.6	31.5	596.5	14/02/2016
SLT 1902 Subestaci ones y Compensaci ón del Noroeste F1	-	-	22.5	425.5	14/03/2016
SLT 1921 Reducci ón de Perdi das de Energía en Di stri buci ón F6	-	-	105.9	2003.5	15/03/2016
SE 1211 Noreste- Central F5 C2	129.8	30.0	19.4	367.3	16/03/2016
SLT 1902 Subestaci ones y Compensaci ón del Noroeste F2	-	225.0	8.7	164.9	20/03/2016
SLT 1921 Reducci ón de Perdi das de Energía en Di stri buci ón F4	427.5	102.4	139.9	2645.3	29/03/2016
SLT 1921 Reducci ón de Perdi das de Energi a en Di stri buci ón F7	334.9	111.6	56.5	1067.9	11/04/2016
SLT 2021 Reducci ón de Perdi das de Energi ía en Di stri buci ón F3	-	-	6.6	123.9	15/04/2016
SLT 1804 Subestaci ones y Líneas de Trnas Ori ental - Peni nsul ar F4	-	525.0	14.0	264.8	15/04/2016
LT 1905 Transmi si ón Sureste- Peni nsul ar F1 C2	1.9	100.0	7.9	149.4	19/04/2016
SLT 1921 Reducci ón de Perdi das de Energía en Di stri buci ón F3	462.7	116.6	101.4	1917.4	30/04/2016
SE 1803 Subestaci oens del Occi dente F3	108.4	500.0	35.4	669.5	15/05/2016
SLT 2021 Reducci ón de Perdi das de Energi ía en Di stri buci ón F1	36.6	11.7	11.0	207.5	22/05/2016
SLT 1920 Subestaci ones y Li neas de Di stri buci ón F6	0.2	30.0	4.9	92.5	29/05/2016
SE 1421 Di stri buci ón Sur F2 C2	0.2	30.0	5.4	102.9	31/05/2016
SE 1901 Subestaci ones de Baja Cal i forni a C3	13.9	255.0	17.1	323.4	02/06/2016
SLT 706 Si stemas Norte F3	8.6	60.0	11.9	225.4	13/06/2016
SE 1120 Noroeste F3 (DIST)	27.1	30.0	6.9	129.5	15/06/2016
SLT 1904 Transmi si ón y Transformaci ón de Occi dente F1	27.0	-	11.0	208.0	17/06/2016
LT 1905 Transmi si ón Sureste - Peni nsul ar F2	367.4	-	38.6	730.0	04/07/2016
SE 1212 Sur- Peni nsul ar F9 (DIST)	20.3	20.0	8.2	154.5	10/07/2016
SLT 2021 Reducci ón de Pérdi das de Energía en Di stri buci ón F2 (DIST)	-	-	4.3	81.3	15/07/2016
SE 1701 Subestaci ón Chi mal apa Dos	19.4	500.0	55.4	1047.7	30/07/2016
SLT 1904 Transmi si ón y Transformaci ón de Occi dente F2	5.0	500.0	23.6	446.3	09/08/2016
SE 1210 Norte- Noreste F6 (DIST)	24.5	-	4.1	77.5	13/08/2016
SLT 1902 Subestaci ones y Compensaci ón del Noroeste F3	76.4	500.0	33.3	629.9	21/08/2016
SLT 1201 Transmi si ón y Transformaci ón Baja Cal i forni a F5	31.2	-	12.5	236.4	30/08/2016
LT Red de Transm Asoc CC Norte III (1723)	21.1	-	17.4	329.1	01/09/2016
SLT 1802 Subestaci ones y Líneas de Transmi si ón del Norte F2	158.8	-	35.2	665.7	04/09/2016
SLT 2021 Reducci ón de Perdi das de Energía en Di stri buci ón F4	-	-	32.3	610.5	08/09/2016
SE 1116 Transformaci ón del Noreste F4	97.6	500.0	50.0	945.6	16/08/2016
LT 1805 Líneas de Transmi si ón Huasteca-Monterrey	441.8	-	126.8	2398.5	30/09/2016
SE 1620 Di stri buci ón Val l e de Méxi co F2	26.2	420.0	89.8	1698.2	07/10/2016
SLT 1821 Di vi si ón de Di stri buci ón F4 (DIST)	-	50.0	4.2	78.5	15/10/2016
SE 1210 Norte- Noroeste F9	38.9	30.0	9.4	177.8	01/11/2016
SE 1520 Di stri buci ón Norte F3	1.1	30.0	5.6	105.0	04/12/2016
SE 1521 Di stri buci ón Sur F5 (DIST)	9.0	30.0	8.8	167.2	11/01/2017
SE 1620 Di stri buci ón Val l e de Méxi co F1	16.1	780.0	94.6	1789.0	12/01/2017
SLT 1302 Transmi si ón y Transformaci ón Noroeste F1	25.2	500.0	29.8	563.4	21/01/2017
SLT 2021 Reducci ón de Pérdi das de Energía en Di stri buci ón F7	870.2	309.5	222.7	4212.1	03/03/2017
SLT 2021 Reducci ón de Pérdi das de Energía de Di stri buci ón F6	158.0	62.1	65.9	1245.9	15/03/2017
LT 1911 Red de Transmi si ón Asoci ada al CC Empal me II	118.9	1,750.0	90.0	1702.0	24/03/2017
LT 1811 Red de Transmi si ón Asoci ada al CC Empal me I	425.6	-	86.7	1639.6	26/03/2017
SLT 2021 Reducci ón de Pérdi das de Energía en Di stri buci ón F8	156.0	46.5	85.4	1614.1	25/04/2017
SE 1420 Di stri buci ón Norte F3	0.5	30.0	4.6	87.4	07/05/2017
LT Red de Transmi si ón Asoci ada al CC Noreste	128.1	-	45.9	868.2	08/05/2017
SLT 1820 Di vi si ones de Di stri buci ón del Val l e de Méxi co	5.2	360.0	48.2	910.6	06/07/2017
	5,144.6	**9,626.7**	**2,031.9**	**38,426.4**	

Generation

Project	Capacity	Estimated amount of the contract expressed in millions		Operation stage
	MVA	US dollar	Mexican pesos	
CC Agua Prieta II C2	394.1	251.7	4,760.0	17/09/2015
CC Centro I	642.3	439.8	8,317.2	30/09/2015
Campo Solar al Proyecto 171 CC Agua Prieta II	14.0	46.2	873.7	20/11/2015
CCC Cogeneración Salamanca F1	373.1	319.9	6,049.7	20/11/2015
CCI Guerrero Negro III	11.0	25.3	478.5	01/12/2015
CCI Guerrero Negro IV	7.5	20.6	390.1	22/01/2016
CG Los Humeros III	25.0	43.0	813.0	06/04/2016
CCI Baja California Sur V	46.9	106.9	2,021.6	01/06/2016
CC Baja California III	294.0	215.6	4,077.3	16/08/2016
CC Empalme I	770.2	476.8	9,017.7	06/11/2017
CC Valle de Mexico II	615.2	425.3	8,043.2	07/11/2017
CC Norte III (Juarez) C2	906.7	562.4	10,635.1	13/11/2017
CH Chicoasén II	240.0	386.4	7,307.7	28/04/2018
CC Empalme II	791.2	397.0	7,507.6	15/06/2018
CG Azufres III F2	25.0	51.3	970.0	01/07/2018
CC Noreste	857.2	345.5	6,533.1	
CC Noroeste (Topolobanpo II) C2	887.4	334.5	6,325.8	02/07/2018
	6,900.9	**4,448.2**	**84,121.2**	

Rehabilitation and Modernization			
Proyecto	**Monto estimado del contrato expresado en**		**Etapa de Operación**
	US Dollar	**Mexican pesos**	
216 RM CCC Poza Rica FI	136.8	2,587.1	30/10/2015
258 RM CT Altamira U1 y 2	379.9	7,184.4	25/04/2017
311 RM CCC Tula Paquetes 1 y 2	323.1	6,110.2	02/09/2017
312 RM CH Temascal Unidades 1 a 4	26.5	501.1	18/09/2018
278 RM CT José López Portillo	214.0	4,047.0	27/02/2019
	1,080.3	**20,429.9**	

These projects are registered under the PIDIREGAS scheme. (Long-Term Productive Infrastructure Projects).

c. Trust Funds

1 Area of competence.

1.1. CFE currently participates in the capacity of Trustor or Beneficiary in 13 (thirteen) Trust Funds, 2 (two) of which are in the process of extinction.

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

a. Energy saving
b. Prepaid expenses
c. Management contracts
d. Indirect participation trust funds

a. Energy saving

Those organized to promote energy saving programs.

Trust Fund	Role of CFE		
	Trustor	Trustee	Beneficiary of the trust fund:
Trust fund for Energy Savings (FIDE), created August 14, 1990	Organization: Confederacion de Camaras Industriales (CONCAMIN), Camara Nacional de la Industria de Transformacion (CANACINTRA), Camara Nacional de Manufacturas Electricas (CANAME), Camara Nacional de la Industria de la Construccion (CNIC), Camara Nacional de Empresas de Consultoría (CNEC) and Sindicato Unico de Trabajadores Electricistas de la Republica (SUTERM)	Nacional Financiera, S.N.C.	**a.** Electric energy consumers who are beneficiaries of the services rendered by the Trust fund. **b.** CFE, only for the materials that would have formed part of the infrastructure of public energy service.
Mexicali Housing Thermal Isolation Trust (FIPATERM), created on October 19, 1990	CFE	Banco Nacional de Obras y Servicios Publicos, S.N.C.;	CFE

As of June 30, 2016, the Trust fund for Housing Thermal Isolation (FIPATERM) had assets amounting to $1,349,376 and liabilities amounting to $30,714.

b. Prepaid expenses

Prepaid expenses relates to expenses in relation to financing and/or covering expenses prior to the execution of projects, subsequently recoverable and charged to whom realizes them to be adjusted to the framework applicable to the type of project.

<table>
<tr><th rowspan="2">Trust Fund</th><th colspan="3">Role of CFE</th><th rowspan="2">Type of projects</th></tr>
<tr><th>Trustor</th><th>Beneficiary of the trust fund:</th><th>Trustee</th></tr>
<tr><td>CPTT prepaid expense management, organized on August 11, 2003</td><td>CFE</td><td>CFE</td><td>Banco Nacional de Comercio Exterior, S. N. C.:</td><td>Direct investment:</td></tr>
<tr><td>Management and transfer of ownership 2030, organized on September 30, 2000</td><td>CFE</td><td>Primary beneficiary Winners of the contracts.
Secondary beneficiary CFE</td><td>Banobras, S.N.C.</td><td>Conditioned investment</td></tr>
</table>

As of June 30, 2016, the Prepaid Expenses Management Trust fund has assets amounting to $5,881,145 and liabilities amounting to $5,564,416.

The Trust fund Administration and Transfer Domain 2030 has assets of $ 374,455.

c. Management of construction contracts

Beginning in the 1990s, the Federal Government implemented several off-budget schemes in order to continue to invest in infrastructure projects. Those schemes were designed under two modalities:

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

Turnkey Projects. - Under this scheme, works were carried out for constructing power generation centrals and installing transmission lines, through an irrevocable management and transfer of ownership trust, linked to a lease agreement. In this modality, the trustee discharges the following duties:

Contracting credits, managing the trust property (assets), receiving the leases payments from CFE, and transfering the asset free to CFE with no charge, once those leases have been covered in a sufficient amount 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. In exchange, receiving invoices approved by the construction area, payment of taxes and other charges, including trustee fees.

These trust for managing and transfering of ownership were carried out in accordance with the "Guidelines for the performance of thermoelectric projects with off-budget funds", as well as with "Guidelines for the performance of transmission lines and substations with off-budget funds" issued by the Ministry of Public Adminstration (SFP formerly known as Ministry of Controlling and Administrative Development).

The Trusts shown below have concluded with their payment commitments; therefore, one of them remains only in process of extinction.

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary	
Topolobampo II (Electrolyser, S. A. de C. V.), formed on de November 14, 1991	Bufete Industrial Construcciones, S. A. de C. V. and Electrolyser, S. A. de C. V.,with respect to its contribution to the Trust.	Primary Beneficiary: Electrolyser, S. A. de C. V., with respect to its contribution and Secondary Beneficiary: CFE	Santander, S. A.

Building, Leasing and Transfering Projects (CAT, per its acronym in Spanish).- The transition stage to carry out the trusts denominated CAT started in 1996, in which the trustee manages the trust property (assets) and transfers it to CFE once the lease payment have been covered. Credits are contracted directly with a consortium which is a specific purpose entity, existing for these purposes an irrevocable management and transfer of ownership trust.

In this type of trusts, the CFE participates in the realization of the payment of leases based on quarterly amortization tables presented by the consortiums in their bids. Most of these tables include forty quarterly payments. The projects carried out under this modality that are in effect are as follows:

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary of the trust:	
C.C.C. Chihuahua, formed on December 8, 1997	Norelec del Norte, S.A. de C.V. and CFE.	CFE	Nacional Financiera, S.N.C.
C.C.C. Rosarito III (8 and 9), formed on August 22, 1997	CFE and Rosarito Power, S.A. de C.V.	CFE	BANCOMEXT

The only project under this modality is:

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary of the trust:	
C.T. Samalayuca II, formed on May 2, 1996	Compañía Samalayuca II, S. A. de C. V.	**Firstly:** Foreign bank common agent foreign bank of the debtors; **Secondly:** Compañía Samalayuca II, S. A. de C. V. **Thirdly:** CFE	Banco Nacional de México, S. A.

As of June 30, 2016, CFE has fixed assets amounting to $20,559,336 and liabilities amounting to $1,315,773, related to the CATs of the trusts referred to above.

Presidente Plutarco Elias Calles Terminal Coal TC

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary of the trust:	
Presidente Plutarco Elias Calles Terminal Coal TC (Petacalco), formed on November 22, 1996	Techint, S. A., Grupo Mexicano de Desarrollo, S.A. de C.V. and TechintCompagnia Tecnica Internazionale S.P.A.	**Firstly:** Carbonser, S.A. de C.V **Secondly:** CFE	Banco Nacional de Mexico, S.A, (BANAMEX)

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

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

Facility	Fixed charge for capacity of Jan-Dec 2015
Petacalco	$56,686

d. Indirect equity participation trusts

Additionally, CFE maintains an indirect relationship since it is not a Trustor, but it participates as a beneficiario in four trusts for guarantee and payment of financing, created by Financial Institutions as Trustors and Beneficiaries of Trusts for the issue of securities linked to credits granted to CFE. The CFE itself is nominated as a Secondary Beneficiary of a Trust, due to the specific eventuality that it may acquire some of the certificates issued and maintain representation of Technical Committees, in conformity with the contractual provisions (see Note 11).

CFE is obliged to reimburse to the Trust in the terms of the "Indemnification Contract", which forms part of the Trust Agreement, the expenses incurred for the issue of securities and their management.

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary of the trust:	
Trust No. 194 created on May 3, 2004	**Firstly:** ING (Mexico), S. A. de C. V. and Casa de Bolsa, ING Grupo Financiero **Secondly:** Deutsche Securities, S. A. de C. V. and Casa de Bolsa.	**Firstly:** Each one of the preferred holders of each issue **Secondly:** CFE	Banamex
Trust No. 290 created on April 7, 2006	Casa de Bolsa BBVA Bancomer, S. A. de C. V., Grupo Financiero BBVA Bancomer, HSBC Casa de Bolsa, S. A. de C. V., Grupo Financiero HSBC and IXE Casa de Bolsa, S. A. de C. V., IXE Grupo Financiero.	**Firstly:** Each one of the preferred holders of each issue **Secondly:** CFE	Banamex
Trust No. 232246 created on November 3, 2006	Banco Nacional de Mexico, S.A, Member of Grupo Financiero Banamex.	**Firstly:** Each one of the preferred holders of each issue **Secondly:** CFE	HSBC Mexico, S.A., Grupo Financiero HSBC
Trust No. 411 created on August 6, 2009	Banco Nacional de Mexico, S.A, Member of Grupo Financiero Banamex.	**Firstly:** Each one of the preferred holders of each issue **Secondly:** CFE	Banamex

As of June 30, 2016, there are available funds in trust No. 232246 for the amount $8,821.

2 Legal nature.

2.1 In conformity with the Ley Organica de la Administracion Publica Federal (“Federal Public Administration Act”), none of the trusts are considered as Public Trusts with the status of "entity", pursuant to the following:

a. In 10 of them, CFE does not have the capacity of Trustor in their constitution.

b. The 3 remaining trusts do not have a similar organic structure to the state-owned entities that conform 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, only for 5 (five) of them,due to the assigment of federal funds or the contribution of land owned by CFE where the works took place.

Registry of Trusts with SHCP		
No.	Trusts	Record
1	Mexicali Housing Thermal Isolation Trust, FIPATERM	700018TOQ058
2	Prior Expenses Trust	200318TOQ01345
3	Trust Management and Transfer of Ownership 2030	200318TOQ01050
4	Trust for Power Savings (FIDE)	700018TOQ149
5	C.C.C. Chihuahua*	199818TOQ00857

*The record of this trust is in the process of being retired before the SHCP, due to their recent extinction.

24. Off-balance sheet memorandum accounts

The off-balance sheet items as of June 30, 2016 and December 31, 2015 consisted of the following:

Concept		2016		2015
Off-balance sheet items of management of portfolio of extinguished Luz y Fuerza del Centro				
Assets	$	-	$	5,148,310
Liabilities	$	-	$	(5,148,310)
Total off-balance sheets assets accounts	$	-	$	5,148,310
Total off-balance sheets liabilities accountd	$	-	$	(5,148,310)

25. Segment information

The Federal Government, through the Secretaria de Comunicaciones y Transporte (“Ministry of Communications and Transportation”- SCT for its acronym in Spanish), granted a concession to CFE to install, operate, and use a public communications network.

This network, which is indispensable for CFE’s operation, is converted into an important complement of telecommunications network nationwide; therefore, the agreement No. 33/3006 was issued by the Board of Governors (currently Board of Directors) of CFE on February 28, 2006 and published in the Official Daily Gazette on March 28, 2006. This agreement amends different sections of the organic bylaws of CFE in order to modify the objective by including the telecommunication service, in terms of the Federal Telecommunications Act.

In order to maximize the use of the optical fiber network and given that this network has the capacity to offer services to third parties, on November 10, 2006, CFE requested and obtained from the Ministry of Communications and Transportation (SCT) "Telecommunications public network concession for rendering services, leasing of network capacity and marketing of the capacity acquired, with respect to networks of other concessionaires originally in 71 localities of the nation", which has been increased nationwide having an initial duration of 15 years extendible.

For purposes of achiving successfull operation of the network. For both internal purposes, use by third parties, the former Board of Governors (currently Board of Directors) of CFE authorized the organical structure to be modified by creating two coordinating units. The first unit, the Optical Fiber Coordinating Unit, operates and maintains the optical fiber network. The second unit, the CFE Telecom Coordinating Unit, discharges duties related to the commercialization of the services authorized in the assigned concession.

Currently, 203 contracts have been signed with 148 Customers of the industrial, Business, and Governmental segments.

At December 31, 2015, CFE has a National Optical Fiber Network of 40,737.26 kilometers which are divided into an Internodal Network: 34,780.55 kilometers and Local Access Network of; 5,956.71 Km., developed to increase the safety and reliability of the National Power System and that will allow implementing a long-term solution for voice, data, video services, among other things, gradually replacing the telecommunications services that are currently rendered by third parties.

CFE TELECOM segment includes revenues mainly for rendering services, leasing network capacity services and marketing the capacity acquired, with respect to other concessionaires nationwide with their own and/or leased infrastructure, as well as revenues obtained from modifications and their costs incurred.

In compliance with the constitutional precept, on December 17, 2014, CFE filed a petition with the IFT for the authorization of the transfer of the Concession to install, operate, and exploit a public telecommunications network in favor of TELECOMM.

On September 24, 2015 the IFT issued the memo 77/2015 by which authorized the transfer of the concession to install, operate and exploit the public telecommunication network from CFE to TELECOMM.

The IFT issued the memo 3/2016 on January 21, 2016 for granting TELECOMM with the Commercial Use Concession as wholesaler shared network of telecommunication services. TELECOMM will hold the rights and obligations inherent to the Concession and shall guarantee the continuity of telecommunication services under the terms and conditions mentioned therein.

The CFE retains the optical fiber, rights of way, towers, pole lines, buildings and facilities, thereby guaranteeing TELECOMM effective, shared access to that infrastructure to operate it efficiently, in order to exercise its duties and meet its objectives appropriately.

a. Plants, facilities and equipment by process

Plants, facilities and equipment are included as part of the caption of plants, facilities and equipment , whose net balances are summarized as follows:

	2016	**2015**
Corporate Headquarters	$ 3,174,728	$ 3,307,104
Generation	376,389,976	474,381,349
Distribution	335,318,584	293,513,286
Transmission and Transformation	244,039,951	197,116,705
Optic Fiber	4,819,896	4,797,461
Physical safeguard	2,398,085	0
Construction	1,496,323	1,464,912
	967,637,543	974,580,817
External Producers' Equipment	69,821,858	72,399,083
Retirement of Laguna Verde Nuclear Central	248,273	255,556
Plants, facilities and equipment (net)	$ 1,037,707,674	$ 1,047,235,456

b. Revenues per division (geographical zone)

	2016	2015
Baja California	$ 7,320,226	$ 7,452,510
Northwest	8,056,392	8,478,853
North	9,344,037	9,270,675
Northern Gulf	17,754,615	19,361,942
Central West	5,383,871	5,748,989
Central South	5,801,593	6,039,087
East	6,827,262	7,003,196
Southeast	6,702,374	6,273,200
Bajío	14,478,109	14,934,003
Central Gulf	6,346,382	6,363,879
Central East	8,044,869	8,442,373
Peninsular	6,721,314	6,637,682
Jalisco	9,433,489	9,674,268
North Valley of Mexico	7,877,796	8,333,893
Central Valley of Mexico	7,383,209	7,719,831
South Valley of Mexico	7,916,359	8,138,016
Subtotal retail revenue	135,391,897	139,872,397

Export sales	411,943	880,114
Billed energy	135,803,840	140,752,511
Other programs:		
Illegal Uses	2,098,548	1,259,035
Measurement failure	439,736	877,997
Billing error	692,419	1,343,306
	3,230,703	3,480,338
Total Electricity Power	139,034,543	144,232,849
Other revenue	$ 2,334,744	$ 1,857,878
Total revenue	141,369,287	146,090,727

As of June 30, income and expense, net from the MEM amounted to $5,314,639. These amounts are showed in the condensed consolidated statement of comprehensive according to their net effects.

c. Revenues by homogeneous customer groups

Retail revenue	2016	2015
Domestic service	$ 29,570,139	$ 29,038,638
Commercial service	18,610,781	18,419,759
Service for public lighting	10,984,830	10,446,116
Agricultural service	3,312,153	2,492,241
Industrial service	72,913,994	79,475,643
Total retail revenue	135,391,897	139,872,397

The Electricity power services segment mainly includes the rendering of the public electricity power service, which consists of generating, conducting, transforming, distributing, and retailing of electricity power to all users of the country, as well as planning and realizing all works and installations, required by the National Power System with respect to its planning, execution, operation and maintenance, with the participation of independent power producers, in terms of the Electricity Power Utilities Law and its regulations.

From the date of this transformation into a State-owned Productive Company, the purpose of CFE is to provide the public service of transmission and distribution of electricity on behalf of the State.

The applicable electricity power rates in the Mexican Republic are defined and authorized by the Federal Government, through the Subministry of Revenue of Ministry of Finance and Public Credit (SHCP).

26. Recently issued financial reporting standards

In order to advance with the updating of International Financial Reporting Standards, the International Accounting Standards Board (IASB) enacted the amendments to the Standards that have an effective date beginning January 1, 2016, which are described below:

IFRS 1 First-time adoption of International Financial Reporting Standards
IFRS 10 Consolidated Financial Statements
FRS C11 "Joint Control Agreements".
IFRS 16 Property, Plant and Equipment
IFRS 27 Separated Financial Statements
IAS 28 Investments in Associates and Joint Ventures
IAS 38 Intangible Assets
IAS 41 Agriculture

Likewise, the IASB enacted improvements to the Standards that will be effective beginning January 2016, which are described below:

IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations
IFRS 7 Financial Instruments: Information to Disclose
IAS 19 Employee Benefits
IAS 34 Interim Financial Information

The Company is currently evaluating the potential impact that they can have on the condensed consolidated interim financial information.

27. Subsequent events

<u>Dr. Enrique Ocho Reza resignation as CFE General Director</u>

On July 8, 2016, Dr. Enrique Ochoa Reza present his resignation to the General Direction of Comision Federal de Electricidad (CFE).

The president of the Board Directors and the Energy Secretary, Lic. Pedro Joaquin Codwell informed that in the following days the President of the Republic will appoint a new individual.

Meanwhile the new substite General Director is, **Dr. Jaime F. Hernández Martínez** – current Finance Director of CFE.

28. Issuance of the condensed consolidated interim financial information

The issuance of the condesed consolidated interim financial statements and their corresponding notes were approved by the Management and the Board of Directors on July 14, 2016. The board of Directors has the power to modify the accompanying condensed consolidated interim financial information. The subsequent events were considered until July 14, 2016.