

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

**Condensed consolidated  
Interim financial information**

March 31, 2017

(Whit Independent Auditors' Report)

(Translation from Spanish Language Original)



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

The Board of Directors  
Comisión Federal de Electricidad, Productive State Enterprise:

### *Introduction*

We have reviewed the accompanying March 31, 2017 condensed consolidated interim financial information of Comisión Federal de Electricidad, Productive State Enterprise and subsidiaries ("the Entity or CFE"), which comprises the condensed consolidated statements of financial position as at March 31, 2017; and the related condensed consolidated statements of comprehensive income (loss), changes in equity and cash flows for the three-month period ended March 31, 2017; and notes to the condensed consolidated 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.

(Continued)



*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying March 31, 2017 condensed consolidated interim financial information, is not prepared, in all material respects, in accordance with IAS 34 “Interim Financial Reporting”.

KPMG CARDENAS DOSAL, S. C.

A handwritten signature in black ink, appearing to read 'EPP' with a large, stylized flourish underneath.

Eduardo Palomino

Mexico City, June 20, 2017

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

Unaudited condensed consolidated statement of financial position

March 31, 2017 and December 31, 2016

(Thousands of pesos)

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

<b>Assets</b>	<u><b>2017</b></u>	<u><b>2016</b></u>	<b>Liabilities and Equity</b>	<u><b>2017</b></u>	<u><b>2016</b></u>
Current assets:			Current liabilities:		
Cash and cash equivalents (note 5)	\$ 34,080,990	42,266,944	Current installments of documented debt (note 11)	16,346,766	16,373,774
Accounts receivable, net (note 6)	94,037,258	69,714,266	Current installments of PIDIREGAS debt and obligations for capital leases (note 12)	18,047,915	25,354,442
Inventory of materials for operation, net (note 7)	<u>18,952,983</u>	<u>14,025,765</u>	Other payables and accrued liabilities (note 13)	83,084,520	61,873,453
Total current assets	147,071,231	126,006,975	Taxes and duties payable (note 14)	<u>15,180,146</u>	<u>3,111,857</u>
Non current assets:			Total current liabilities	132,659,347	106,713,526
Loans to employees	11,476,011	11,193,711	Non current liabilities:		
Plants, facilities and equipment, net (note 8)	1,278,921,411	1,287,172,275	Documented debt (note 11)	188,819,238	193,239,697
Derivative financial instruments (note 10)	7,143,943	15,646,026	PIDIREGAS debt and obligations for capital leases (note 12)	206,460,471	220,741,910
Other assets (note 9)	35,390,608	32,643,820	Other long-term liabilities (note 15)	38,340,646	50,156,845
			Long-term employees benefits (note 16)	<u>366,052,424</u>	<u>361,114,287</u>
			Total long-term liabilities	<u>799,672,779</u>	<u>825,252,739</u>
			Total liabilities	<u>932,332,126</u>	<u>931,966,265</u>
			Equity:		
			Contributions received from the Federal Government	5,251	5,251
			Contributions in kind received from the Federal Government	95,004,417	95,004,417
			Accumulated results	5,199,073	(1,565,462)
			Other comprehensive income	<u>447,462,337</u>	<u>447,252,336</u>
			Total equity	547,671,078	540,696,542
			Contingent liabilities and commitments (note 21)		
	<u>\$ 1,480,003,204</u>	<u>1,472,662,807</u>		<u>\$ 1,480,003,204</u>	<u>1,472,662,807</u>

See accompanying notes to condensed consolidated financial statements.

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

Unaudited condensed consolidated statements of comprehensive income (loss)

For the three-months periods ended March 31, 2017 and 2016

(Thousands of pesos)

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

	<u>2017</u>	<u>2016</u>
Revenues:		
Total electricity supply service revenue	\$ 85,843,613	68,226,582
Third party transmission revenue	858,898	-
Subsidy income	8,622,868	3,000,000
Other income, net (note 17)	<u>3,294,839</u>	<u>105,234</u>
Total revenues	98,620,218	71,331,816
Costs:		
Energy and fuel supplies	51,567,447	31,759,671
Salaries and related costs	15,746,060	12,037,863
Maintenance, materials and general services	6,721,068	5,670,846
Tax and duties	789,351	2,146,386
Wholesale Electrical Market costs (MEM)	<u>3,437,633</u>	<u>-</u>
Total costs	78,261,559	51,614,766
Income before other operating costs	<u>20,358,659</u>	<u>19,717,050</u>
Other operating costs:		
Labor obligations cost	14,425,643	17,961,250
Depreciation and amortization	11,817,945	11,511,835
Other expenses	<u>1,310,560</u>	<u>4,210,012</u>
Total other operating costs	<u>27,554,148</u>	<u>33,683,097</u>
Operating results	(7,195,489)	(13,966,047)
Total financing cost, net	<u>(13,960,024)</u>	<u>6,253,414</u>
Net income (loss)	6,764,535	(20,219,461)
Other comprehensive income	<u>210,001</u>	<u>302,509</u>
Comprehensive income (loss)	<u><u>6,974,536</u></u>	<u><u>(19,916,952)</u></u>

See accompanying notes to condensed consolidated financial statements.

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

Unaudited condensed consolidated statements of changes in equity

For the three-months periods ended March 31, 2017 and 2016

(Thousands of pesos)

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	<b>Contributions received from</b>	<b>Contributions in kind received</b>		<b>Other</b>	
	<b><u>the Federal Government</u></b>	<b><u>from the Federal Government</u></b>	<b><u>Accumulated results</u></b>	<b><u>comprehensive income</u></b>	<b><u>Total</u></b>
Balances as of January 1st, 2016	\$ 5,251	95,004,417	(77,821,615)	112,758,604	129,946,657
Comprehensive (loss)	-	-	(20,219,461)	302,509	(19,916,952)
Balances as of March 31, 2016	\$ <u>5,251</u>	<u>95,004,417</u>	<u>(98,041,076)</u>	<u>113,061,113</u>	<u>110,029,705</u>

	<b>Contributions received from</b>	<b>Contributions in kind received</b>		<b>Other</b>	
	<b><u>the Federal Government</u></b>	<b><u>from the Federal Government</u></b>	<b><u>Accumulated results</u></b>	<b><u>comprehensive income</u></b>	<b><u>Total</u></b>
Balances as of January 1st, 2017	\$ 5,251	95,004,417	(1,565,462)	447,252,336	540,696,542
Comprehensive income	-	-	6,764,535	210,001	6,974,536
Balances as of March 31, 2017	\$ <u>5,251</u>	<u>95,004,417</u>	<u>5,199,073</u>	<u>447,462,337</u>	<u>547,671,078</u>

See accompanying notes to condensed consolidated financial statements.

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

Unaudited condensed consolidated statements of cash flows

For the three-months periods ended March 31, 2017 and 2016

(Thousands of pesos)

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

	<u>2017</u>	<u>2016</u>
Cash flow from operating activities:		
Net income (loss) of the period before other comprehensive income	\$ 6,764,535	(20,219,461)
Items relating to investing activities:		
Depreciation and amortization	11,817,945	11,511,835
Disposals of plants, facilities and equipment	2,164,389	-
Labor obligation cost	14,425,137	17,961,250
Unrealized foreign exchange loss, interest expense and changes in financial derivative instruments' fair value	(11,049,471)	(1,204,777)
Subtotal	24,122,535	8,048,847
Changes in operating assets and liabilities:		
Accounts receivable	(24,322,992)	2,648,464
Inventory of materials for operation	(4,927,218)	1,922,665
Taxes and duties payable	12,068,289	1,271,237
Other assets	(3,029,089)	1,496,637
Other payables and accrued liabilities	9,394,870	(6,104,121)
Payments for pensions and retirement benefits	(9,487,000)	(8,045,224)
Net cash provided by operating activities	3,819,395	1,238,505
Cash flow from investing activities- Acquisitions of plants, facilities and equipment, net	(5,731,471)	(5,537,000)
Cash flow from financing activities:		
Proceeds from debt	7,233,506	24,329,985
Payments on debt and obligations for capital leases	(8,494,973)	(3,759,741)
Interest paid	(4,453,152)	(1,191,093)
Payments of derivative financial instruments	(559,260)	(643,861)
Net cash (obtained) used (by) in financing activities	(6,273,879)	18,735,290
Net (decrease) increase in cash and cash equivalents	(8,185,954)	14,436,795
Cash and cash equivalents:		
At beginning of period	42,266,944	35,596,579
At end of period	\$ 34,080,990	50,033,374

See accompanying notes to condensed consolidated financial statements.

**COMISION FEDERAL DE ELECTRICIDAD,  
Productive State Enterprise and subsidiaries**

**Notes to the unaudited condensed consolidated interim financial information for the three month periods ended March 31, 2017 and 2016 and December 31, 2016. (Amounts expressed in thousands of pesos, unless explicitly indicated)**

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**1. Creation, purpose of the business of the Productive State Enterprise and relevant developments.**

**• Creation and purpose of the Entity**

Comisión Federal de Electricidad, Productive State Enterprise is a Mexican entity initially created as a Decentralized Public Entity of the Federal Government. It was created by Decree on August 14, 1937, and published in the Official Gazette of the Federation ("DOF" for its acronym in Spanish) on August 24 of the same year. Its registered address is Paseo de la Reforma 164, Colonia Juárez, CP 06600, in Mexico City. These condensed consolidated financial statements includes those of Comisión Federal de Electricidad, Productive State Enterprise and its subsidiaries (subsequently referred to as "the Entity" or "CFE").

Since its creation, the purpose of CFE has been to provide electricity-related services in Mexico, including generation, transformation, distribution, and commercialization of electricity to Mexican consumers.

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

From the date of its transformation into a Productive State Enterprise, the purpose of CFE has been to provide the public service of transmission and distribution of electricity on behalf of the Mexican state. CFE also generates and commercializes electricity and imports, exports, transports, storages and trades natural gas, among other activities.

**□ Relevant Developments**

**• Relevant Developments**

**Strict legal separation**

The terms for the strict legal separation of CFE were published on January 11, 2016. The terms mandate CFE to perform the activities of generation, transmission, distribution, commercialization and supply of primary inputs in the market independently through separate units, each with the purpose of, generating economic value and profitability for the Mexican State as its owner.

As of January 1, 2017, CFE, the holding company of the group, ceased to directly carry out the independent activity of transmission, distribution, basic supply, commercialization (other than basic supply) and supply of primary inputs and its participation in the Wholesale Electricity Market. Those activities are carried out by the corresponding EPS starting on that date.

As of February 1, 2017, CFE, the holding company of the group, ceased to directly carry out the independent activity of generation and its participation in the Wholesale Electricity Market. Those activities are carried out by the corresponding EPS starting on that date.

#### Incorporation of productive entities subsidiaries of CFE

On March 29, 2016, CFE published in the DOF the creation resolutions for the creation of the following “Productive Subsidiary Entities” (“EPS” for its acronym in Spanish).

- CFE Distribucion EPS, established to provide the public service of electricity distribution, as well as to finance, install, maintain, manage, operate and enhance the required infrastructure pursuant to the CFE Law, the Electrical Industry Law, the terms for the strict legal separation of CFE and other applicable legal regulations.
- CFE Transmisión EPS, established to provide the public service of electricity transmission, as well as to finance, install, maintain, manage, operate and enhance the necessary infrastructure pursuant to the CFE Law, the Electrical Industry Law, the terms for the strict legal separation of CFE and other applicable legal regulations.
- CFE Generación I EPS, CFE Generación II EPS, CFE Generación III EPS, CFE Generación IV EPS, CFE Generación V EPS, and CFE Generación VI EPS, each established to generate electricity within the Mexican territory using any available technology, as well as to commercialize electricity in accordance with the terms set forth in Article 45 of the Electric Industry Law, (except for the supply of electricity to end users). Each one of these entities may represent, power plants either under its control or those owned by third parties in the Wholesale Electricity Market.
- CFE Suministrador de Servicios Basicos EPS, established to provide basic supply, of electricity (i.e. Electricity supplied under regulated tariffs), to any party requesting it in the terms of Electricity IndustryLaw.

Such creation resolutions set the rules for the operations, corporate governance, oversight and monitoring, as well as the responsibilities, disclosure obligations and oversight mechanisms applicable to the EPSs.

#### Incorporation of the affiliated companies (as defined by the CFE law).

CFE Intermediacion de Contratos Legados S. A. de C. V. was incorporated, on March 29, 2016, with an initial contribution by CFE of \$99,900 on February 1<sup>st</sup>, 2017. The purpose of this entity is to manage, interconnection legacy contracts, agreements to purchase and sale electricity surplus and other associated contracts signed by CFE. Furthermore, without carrying out activities of supply and commercialization of electricity, it will represent power plants and supply centers referred to in the legacy interconnection contracts in the Wholesale Electricity Markets.

CFE Calificados S. A. de C. V. was incorporated. on May 23, 2016. CFE made initial capital contributions of \$19,980 and \$10,020, on September 27 and 29, 2016, respectively. The purpose of this entity is to carry out activities of commercialization of electricity and related services in the Mexican territory and abroad.

#### Mexican Wholesale Electricity Market (MEM)

Following the beginning of operations of the Mexican Wholesale Electricity Market (MEM) and pursuant to Transitory Article of the Electricity Industry Law the Ministry of Energy extended the term to December 31, 2016 and, in certain cases, to February 1, 2017, for Comisión Federal de Electricidad to conduct its activities independently. Thereafter, the activities of generation, transmission, distribution and commercialization including any participation on the Wholesale Electricity Market (MEM), must be performed through EPS.

#### Long Term Auctions and Clean Energy Certificates

The Wholesale Electricity Market allows for medium-term and long-term auctions of electricity, which are defined by the Wholesale Electricity Market Regulations as follows:

Section 2.1.134 states that long-term auctions are those in which domestic suppliers and other providers are allowed to enter into hedging agreements for power generation, cumulative electricity and clean energy certificates ("CELS" for its acronym in Spanish) with maturities of 15 and 20 years.

Section 2.1.135 states that medium-term auctions are those in which domestic suppliers and other charge responsible providers are allowed to enter into hedging agreements for power generation, cumulative electricity and CELs with maturity terms of 3 years

The second long-term auction bid in 2016 resulted in 56 deferred winner offers among 23 companies. Together these offers amount to 1,187 yearly MW, 8.9 Million MWh of energy and 9.275 million CEL (annually committed volume, with the exception of the first operation year which will have a different volume based on the commercial offer operation date). Most of the hedging agreements related to this auction go into effect in 2019.

#### Assumption by the Federal Government of the obligations to settle pensions and retirements liabilities of the CFE

On November 14, 2016, the Ministry of Finance and Public Credit" (or "SHCP" for its acronym in Spanish) published in the DOF the "Agreement establishing the general provisions related to the assumption of CFE's employee benefits liability by the Federal Government", in which the Federal Government, through the SHCP, assumes a portion of the obligation to settle employee benefits liabilities shown in CFE's condensed consolidated financial informatio, relating to obligations for employees hired until August 18, 2008.

It was also established that the settlement commitment of the Federal Government would be assumed by the SHCP through the subscription of credit certificates issued by the Federal Government in favor of CFE (securities) amounting to \$161,080,204, and

distributed in amounts to be delivered annually in order to meet the settlement commitment. Resources received for these securities shall be used solely for the settlement of the aforementioned employee benefits.

On December 19, 2016, by means of memo No. 35.-187/2016, the Public Credit Unit of the SHCP, communicated to CFE the date of subscription and delivery of such securities.

The Federal Government had established that it would assume a portion of CFE's employee benefits liabilities, and such portion would be equivalent to the reduction resulting from the negotiation and review of the Collective Labor Agreement with the SUTERM. Finally, on December 29, 2016, the Federal Government announced the conclusion of the review of the decrease in employee benefits obligations of CFE that occurred as a result of the amendments made to the Collective Labor Agreement.

#### Revaluation of plants, facilities and equipment

As part of the activities related to the strict legal separation of CFE, during 2016 the Entity revalued its plants, facilities and equipment that will be contributed to the EPS as part of the spin-off process. As a result, a net increase in the value of these assets of \$210,725,169, was recognized in other comprehensive income (See Note 8).

## **2. Basis of preparation of the unaudited condensed consolidated interim financial information**

### a) Basis of preparation

The accompanying unaudited condensed interim financial information has been prepared in accordance with International Accounting Standards (IAS) 34 "Interim Financial Reporting" and does 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).

This financial information should be read in conjunction with the financial statements as of December 31, 2016 prepared in accordance with IFRS.

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

The unaudited condensed consolidated interim financial information has been prepared on a historical cost basis, except for certain derivative financial instruments, and the plants, facilities and equipment which are recognized at fair value.

### b) Reporting currency of the unaudited condensed consolidated interim financial information

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

For purposes of disclosure in the notes to the unaudited condensed consolidated financial information, reference to pesos or "\$" refers to Mexican pesos, reference to dollars refers to dollars of the United States of America, reference to euros, refer to legal currency of the European Union, reference to yen, refers to the legal currency in Japan; and reference to Swiss francs, refers to the legal currency in Switzerland. All information is presented in thousands of pesos and has been rounded to the nearest unit, except when otherwise indicated.

c) Unaudited condensed consolidated statements of comprehensive income

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

### 3. Summary of significant accounting policies

The accounting policies applied in the preparation of these unaudited condensed consolidated interim financial information are the same as those applied in the Entity's consolidated financial statements for the year ended December 31, 2016.

### 4. Financial Instruments fair values and risk management

#### Fair values

The carrying value amounts of financial instruments recognized in our unaudited condensed consolidated interim financial information as of March 31, 2017 and December 31, 2016 are included below:

	<u>2017</u>	<u>2016</u>
Financial assets:		
Cash and cash equivalents (1)	\$ 34,080,990	\$ 42,266,944
Accounts receivable (2)	94,037,258	69,714,266
Loans to employees (2)	11,476,011	11,193,711
Derivative financial instruments (1)	7,143,943	15,646,026
Financial liabilities:		
Documented debt (2)	\$ 205,166,004	\$ 209,613,471
PIDIREGAS debt and obligations for capital leases (2)	224,508,386	246,096,352
Suppliers and contractors (1)	33,979,958	17,888,728
Accounts payable MEM (1)	2,410,237	2,011,804
Deposits from users and contractors (1)	21,688,061	21,103,369
Other liabilities (1)	23,547,509	17,103,988
Contributions from third parties (1)	22,320,525	33,707,331

(1) At fair value

(2) At amortized cost

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

Part of the purpose of the Entity'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 Entity's operations through the use of internal reports and market risks reports, which analyze the degree and magnitude of the exposure to financial risks, including market risk (including currency exchange and interest rate risks), credit risk and liquidity risk.

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

The Treasury department is bound by the SHCP's policies on cash management which hold that investments must be made in low risk instruments that are not long-term. Status reports are made on a monthly basis to the Treasury's Investments Committee.

### **Credit risk management**

Credit risk is the risk that one counterparty of a financial instrument causes a financial loss to the other counterparty when it fails to meet its contractual obligations. The Entity is subject to credit risk mainly on the financial instruments referred to as 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 Entity only carries out operations with parties having high solvency, creditworthiness and standing. The Entity obtains sufficient guarantees, when appropriate, to mitigate the risk of financial loss caused by non-performance.

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

The aging analysis of past due receivables, over which an allowance has not been necessary as of March 31, 2017 and December 31, 2016 is shown as follows:

	<u>2017</u>	<u>2016</u>
Less than 90 days	\$26,001,330	\$23,561,010
From 90 to 180 days	3,892,397	2,298,047
More than 180 days	<u>2,902,905</u>	<u>3,003,099</u>
	<u>\$32,796,632</u>	<u>\$28,862,156</u>

### **Liquidity risk**

Liquidity risk is the risk that an Entity faces difficulties in meeting its obligations associated with financial liabilities settled with cash or other financial asset.

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

The following table shows the contractual maturities of the Entity financial liabilities ( not including derivate financial instruments) based on the payment terms:

<b>As of March 31, 2017</b>	<b>Less than 1 year</b>	<b>More than 1 year and less than 3</b>	<b>More than 3 year and less than 5</b>	<b>More than 5 years</b>	<b>Total</b>
Documented debts	\$ 18,712,933	\$ 27,989,352	\$ 37,997,004	\$ 120,466,715	\$ 205,166,004
Interest payable of documented debt	11,335,917	19,328,079	16,161,094	56,081,554	102,906,644
PIDIREGAS debt and obligations for capital leases	22,964,515	16,285,390	17,836,591	167,421,890	224,508,386
Interest payable of PIDIREGAS debt	5,844,389	9,496,514	6,381,518	15,456,829	37,179,250
Suppliers and contractors	33,979,958				33,979,958
Accounts payable MEM	2,410,237				2,410,237
Deposits from users and contractors	21,688,061				21,688,061
Total	\$ 116,936,010	\$ 73,099,335	\$ 78,376,207	\$ 359,426,988	\$ 627,838,540

**COMISION FEDERAL DE ELECTRICIDAD,  
Productive State Enterprise and subsidiaries**

<u>As of December 31, 2016</u>	<u>Less than 1 year</u>	<u>More than 1 year and less than 3</u>	<u>More than 3 year and less than 5</u>	<u>More than 5 years</u>	<u>Total</u>
Documented debts	\$ 16,373,774	\$ 29,963,324	\$ 40,316,209	\$ 122,960,164	\$ 209,613,471
Interest payable of documented debt	11,649,717	20,990,298	17,517,821	64,302,533	114,460,369
Plants, facilities and equipment under lease agreements and PIDIREGAS debt	25,354,442	15,335,882	21,394,210	184,011,818	246,096,352
Interest payable of PIDIREGAS debt	5,806,029	8,897,601	5,976,378	14,915,297	35,595,305
Suppliers and contractors	17,888,728				17,888,728
Accounts payable MEM	2,011,804				2,011,804
Deposits from users and contractors	<u>21,103,369</u>				<u>21,103,369</u>
Total	<u>\$ 100,187,863</u>	<u>\$ 75,187,105</u>	<u>\$ 85,204,618</u>	<u>\$ 386,189,812</u>	<u>\$ 646,769,398</u>

### **Market Risks**

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

#### **– Foreign currency exchange risk management**

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

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

The Entity 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.

Carrying amounts of monetary assets and liabilities denominated in foreign currency at the end of the reporting period are shown in note 20.

#### **– Sensitivity analysis of foreign currency**

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

The following table includes the Entity's sensitivity analysis considering 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 Entity, where the loan is in a currency other than the loaner or the borrower currency. A positive amount (as observed in the table below) 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:

		<u>Thousands of pesos</u>	
		<u>March 31, 2017</u>	<u>December 31, 2016</u>
Gain or loss	\$	<u>7,470,900</u>	\$ <u>7,964,120</u>

In the Management's view, 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 Entity is exposed to interest rate risks for loans borrowed at variable interest rates. The Entity 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 hedges.

- **Interest rate sensitivity analysis**

The following sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivate 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 represent the 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 three-months periods ended March 31, 2017 and the year ended December 31, 2016 would increase or decrease by the amount of \$432,493 and \$440,379, respectively. This is mainly attributable to the Entity'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 three-months periods ended March 31, 2017 and the year ended December 31, 2016 would increase or decrease in the amount of \$9,850 and \$11,960, respectively. This is mainly attributable to the Entity's exposure to interest rates on its variable interest rate loans.

### **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 shown below:

	March 31, 2017		December 31, 2016	
	Carrying Value	Fair value	Carrying value	Fair Value
Accounts receivable	\$ 94,037,258	\$ 94,037,258	\$ 69,714,266	\$ 69,714,266
Loans to employees	11,476,012	11,476,012	11,193,711	11,193,711
Documented debt	205,166,004	\$ 205,166,004	209,613,471	209,613,471
Plants, facilities and equipment under lease agreements and PIDIREGAS	224,508,386	224,508,386	246,096,352	246,096,352

#### **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 to quoted prices on those markets.
- 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, on 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:

	<b>Level 1</b>	
	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>Available-for-sale financial assets</b>		
Temporary investments	\$ 9,001,555	19,127,508
Total	\$ 9,001,555	19,127,508

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 10.

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).
- Level 3 valuations of fair value are those derived from unobservable indicators for the asset or liability.

**5. Cash and cash equivalents**

As of March 31, 2017 and December 31, 2016, cash and cash equivalents are summarized as follows:

	<b>2017</b>	<b>2016</b>
Cash on hand and in banks	\$ 25,070,614	\$ 23,130,615
Temporary investments	9,001,555	19,127,508
Stock certificates	8,821	8,821
Total	\$ 34,080,990	\$ 42,266,944

## 6. Accounts receivable, net

As of March 31, 2017 and December 31, 2016, accounts receivable are summarized as shown below:

	<u>2017</u>	<u>2016</u>
Public consumers (*)	\$ 76,191,943	\$ 70,638,993
Government agencies consumers	18,614,734	18,559,103
Other receivables	27,756,180	14,149,041
	<u>122,562,857</u>	<u>103,347,137</u>
Allowance for doubtful accounts	<u>(33,955,630)</u>	<u>(33,632,871)</u>
	88,607,227	69,714,266
Recoverable value added tax	<u>5,430,031</u>	<u>-</u>
<b>Total</b>	<b>\$ <u>94,037,258</u></b>	<b>\$ <u>69,714,266</u></b>

(\*) It includes revenue estimate for electricity supply services that are still pending to be billed.

As of March 31, 2017 and December 31, 2016, the balances and movements of the allowance for doubtful accounts are summarized as follows:

	<u>2017</u>	<u>2016</u>
Opening balance	\$ 33,632,871	\$ 18,032,594
Increases	1,285,006	28,646,865
Applications	<u>(962,247)</u>	<u>(13,046,588)</u>
Ending Balance	<b>\$ <u>33,955,630</u></b>	<b>\$ <u>33,632,871</u></b>

## 7. Inventory of materials for operation

As of March 31, 2017 and December 31, 2016, the inventory of materials for operation is summarized as follows:

	<u>2017</u>	<u>2016</u>
Spare parts and equipment	\$ 4,588,991	\$ 3,097,062
Fuel and lubricants	10,370,247	8,229,058
Nuclear fuel	<u>5,564,995</u>	<u>3,226,186</u>
	20,524,233	14,552,306
Allowance for obsolescence	<u>(1,571,250)</u>	<u>(526,541)</u>
Total	<b>\$ <u>18,952,983</u></b>	<b>\$ <u>14,025,765</u></b>

## 8. Plants, facilities and equipment

Carrying value of plants, facilities and equipment as of March 31, 2017 and December 31, 2016 are summarized below:

Rollforward of investment balance for the three-month period ended March 31, 2017.

	Plants, facilities and equipment	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances					
<b>January 1, 2017</b>	2,036,909,423	6,367,288	18,433,272	10,856,715	2,072,566,698
Acquisitions	2,340,789	-	1,062,827	2,327,855	5,731,471
Retirements	(1,408,899)	-	-	-	(1,408,899)
Capitalization	2,707,350	(2,707,350)	-	-	-
Other movements of Assets	(1,708,455)	-	--	-	(1,708,455)
<b>Balances</b>					
<b>March 31, 2017</b>	2,038,840,208	3,659,938	19,496,099	13,184,570	2,075,180,815

Rollforward of accumulated depreciation balance for the three-month period ended March 31, 2017

	Plants, facilities and equipment	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances					
Jan/01/17	(783,175,240)	(2,219,184)	-	-	(785,394,424)
<b>Net Balances</b>					
<b>Mar/31/17</b>	1,253,734,183	4,148,104	19,496,099	10,856,715	1,249,242,903
Depreciation of the period	(11,725,479)	(92,466)	-	-	(11,817,945)
Depreciation on retirements	952,964	-	-	-	952,964
Net Depreciation	(10,772,515)	(92,466)	-	-	(10,864,981)
Balances March 31, 2017	(793,947,755)	(2,311,650)	-	-	(796,259,405)
<b>Net Balances</b>					
<b>March 31, 2017</b>	1,244,892,454	1,348,288	19,496,099	13,184,570	1,278,921,411

Rollforward of investment balance for the three-month period ended March 31, 2016.

	Plants, facilities and equipment	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances					
<b>January 1, 2016</b>	1,806,886,065	7,420,410	23,312,406	9,818,617	1,847,437,498
Acquisitions	2,990,332	-	-	-	2,990,332
Retirements	(3,062,351)	-	(251,117)	-	(3,313,468)
Capitalization		(355,447)	999,605	(999,605)	(355,447)
Other movements of Assets	3,810,644	-	-	-	3,810,644
<b>Balances March 31, 2016</b>	<b>1,810,624,690</b>	<b>7,064,963</b>	<b>24,060,894</b>	<b>8,819,012</b>	<b>1,850,569,559</b>

Rollforward of accumulated depreciation balance for the three-month period ended March 31, 2016.

	Plants, facilities and equipment	Capitalized spare parts	Construction-in-progress	Advances and materials for construction	Total
Balances March					
January 1, 2016	(759,650,609)	(1,849,320)	-	-	(761,499,929)
<b>Net Balances January 1, 2016</b>	<b>1,047,235,456</b>	<b>5,571,090</b>	<b>23,312,406</b>	<b>9,818,617</b>	<b>1,085,937,569</b>
Depreciation of the period	(11,371,466)	(92,466)	-	-	(11,463,932)
Depreciation on retirements	2,357,428	-	-	-	2,357,428
Net Depreciation	(9,014,038)	(92,466)	-	-	(9,106,504)
Balances March 31, 2016	(768,664,647)	(1,941,786)	-	-	(770,606,433)
<b>Net Balances March 31, 2016</b>	<b>1,041,960,043</b>	<b>5,123,177</b>	<b>24,060,894</b>	<b>8,819,012</b>	<b>1,079,963,126</b>

Based on the periodic review of the fair values of plants, facilities and equipment in operation of CFE, the revaluation of the assets was carried out so that the value in books does not differ materially from what would have been calculated using the reasonable values at the end of the reporting period.

Therefore, it is necessary to make an analysis of fixed assets, with the objective of revaluating and reviewing the useful lives assigned to them, as well as their useful life, and to establish the process for the calculation of the impairment in the value thereof.

During the year ended December 31, 2016 the Entity recorded a revaluation of \$210,725,169 as part of its review of the assets' value, and useful lives.

Construction in progress - The balances of construction in progress as of March 31, 2017 and December 31, 2016 are as shown in the next page.

<b>Plant:</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Steam	\$ 326	\$ 9,569
Hydro electric	2,079,440	2,040,347
Nuclear power	1,281,937	1,273,489
Turbo gas and combined cycle	32,753	326,893
Geothermal	1,140,259	1,147,109
Internal combustion	107,694	107,694
Transmission lines, networks and substations	13,565,765	12,673,648
Offices and general facilities	1,287,925	854,523
<b>Total</b>	<b>\$ 19,496,099</b>	<b>\$ 18,433,272</b>

The amount of financing costs capitalized for the three-month period ended March 31, 2017 and 2016 amounted to \$205,172 and \$431,789, respectively.

## 9. Other assets

As of March 31, 2017 and December 31, 2016, the other assets are integrated as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Rights of way contributed by INDAABIN(1)\$	30,459,918	\$ 27,032,771
Other amortizing costs	2,195,862	2,870,840
Deposits and advances	2,379,710	2,434,810
Other	355,118	305,399
<b>Total</b>	<b>\$ 35,390,608</b>	<b>\$ 32,643,820</b>

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

## 10. Derivative financial instruments

### a. Accounting classifications and fair values

CFE, in accordance with the risk management strategy, enters into derivative financial instruments to mitigate exchange rate and interest rate exposure. CFE's hedging policies establish that derivative financial instruments that do not qualify as hedges are classified as held for trading purposes.

The fair value of the total derivative financial position as of March 31, 2017 and December 31, 2016 amounted to \$7,143,943 and \$15,646,826, respectively. The following are the positions in derivative financial instruments according to their classification.

**Financial instruments for trading purposes** - As of March 31, 2017 and December 31, 2016 CFE maintained designated derivative financial instruments whose fair value represented a liability of \$ 206,217 and \$493,212.

The transaction consists of a series of currency Forwards that allow to fix the exchange rate yen/dollar, during the agreed term of the operation in 54.0157 yen per one US dollar. As a result of the transaction, CFE pays an interest rate equivalent to 8.42% per annum in US dollars. These instruments have not been designated as hedges under the requirements of the financial reporting standard, which is why their valuation effect is recorded as part the financial cost; a gain (loss) in said value offsets a loss (gain) in the underlying liability.

In addition, at the end of the hedging agreement and as part of these instruments that have been classified for trading purposes, two options expire, a long " European call ", by which CFE has the right to buy Japanese yen at maturity, at market price, in case the yen/dollar exchange rate is quoted below 118.75 yen per dollar. In addition, a short "European call", by which CFE is required to sell dollars at the yen / dollar exchange rate of 27.80, if the exchange rate prevailing at the settlement date is above this level.

In the event that CFE decides to cancel this economic hedge (currency forwards on yen/dollar exchange rate) in advance, an estimated extraordinary loss would occur as of March 31, 2017 and December 31, 2016 at \$ 206,217 and \$493,212, respectively, equivalent to the amount of the instruments.

**Financial instruments for hedging purposes** – As of March 31, 2017 and December 31, 2016, CFE maintains its designated hedges on, exchange rate and interest rate hedging position, as described below:

Counterparty	Instrument	Underlying	Hedging type	Maturity	Fair Value	
					2017	2016
Banamex	Forwards	Exchange rate	Cash Flow	2017	(1,036,565)	38,644
				2018	(208)	
	IRS	Interest rate	Cash Flow	2017	(931)	(1,497)
				2018	(357)	(1,045)
			2020	10,858	13,309	
Bancomer	CCS	Exchange and interest rate	Cash Flow	2024	1,281,697	2,223,841
	IRS	Interest rate	Cash Flow	2020	9,705	11,753
BNP Paribas	CCS	Exchange and interest rate	Cash Flow	2024	960,038	1,691,862
	IRS	Interest rate	Cash Flow	2020	3,826	4,722
Credit Agricole	IRS	Interest rate	Cash Flow	2020	16,340	19,816
Credit Suisse	CCS	Exchange and interest rate	Cash Flow	2021	25,223	34,592
				2023	21,099	28,399
Deutsche Bank	CCS	Exchange and interest rate	Cash Flow	2021	352,077	444,329
				2036	2,023,269	3,171,684

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Goldman Sachs	CCS	Exchange and interest rate	Cash Flow	2022	91,221	125,767
				2023	178,587	792,028
				2036	953,448	1,755,446
HSBC	Forwards	Exchange rate	Cash Flow	2017	(27,145)	
				2018	(8,850)	
				2020	16,312	20,019
JPMorgan	Forwards	Exchange rate	Cash Flow	2017	(5,294)	
				2018	(2,363)	
				2020	6,147	7,653
Monex	Forwards	Exchange rate	Cash Flow	2017	(7,302)	
Morgan Stanley	CCS	Exchange and interest rate	Cash Flow	2023	177,035	800,117
				2024	955,329	1,707,568
				2027	(210,295)	
				2027	(212,399)	
Santander	CCS	Exchange rate and interest rate	Cash Flow	2023	151,716	725,232
				2024	1,401,208	2,497,537
				2020	10,740	13,024
<b>Total</b>					<b>7,143,943</b>	<b>16,139,238</b>

IRS = Interest Rate Swaps  
CCS = Cross Currency Swap

The results of the effectiveness tests for these hedging instruments showed that relationships are highly effective. CFE estimated that the amount of ineffectiveness for them is minimum.

**b. Fair value Measurement**

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

**Market Value Considerations (Mark to Market), credit risk adjustment and the fair value hierarchy level.**

In terms in which the International Swaps and Derivatives Association (ISDA) contracts were signed, the counterparties or banking institutions are the valuation agents, they calculate and send the Mark to Market monthly. CFE monitors the Mark to Market and if there is any doubt or anomaly in the Mark to Market trend, it requests the counterparty to further analyze.

### Adjustment of Fair Value or Mark to Market by Credit Risk

The net of the fair value of derivative financial instruments (Mark to Market) effective as of March 31, 2017, before considering credit risk, amounted to \$7,143,943, which is included in the balance sheet and consists of (\$206,217) and \$7,350,161 due from and due to CFE, respectively, both included in the value of the derivative financial instruments.

According to IFRS, fair value or Mark to Market (MTM) must reflect the creditworthiness of the counterparty of the derivative financial instrument. By incorporating risk credit to the mark to market of the derivative financial instruments, the likelihood that one of the counterparties may default is considered and thus, the creditworthiness of the derivative financial instrument is reflected in accordance with the IFRS.

From the above, the Entity makes an adjustment to fair value or Mark to Market as described in the two paragraphs before, which represent a credit risk for the entity.

### Methodology to adjust Fair Value or Mark to Market by Credit Risk.

The Entity adopts the concept of Credit Value Adjustment (CVA) to adjust the fair value of derivative financial instruments under IFRSs for credit risk.

This mechanism was approved at the time by the Interinstitutional Delegate Committee for Financial Risk Management Associated to the financial position and price of fossil fuels (CDIGR), as the methodology for adjusting to the fair value of derivative financial instruments.

As of March 31, 2017, the adjustment to fair value by the CVA is detailed as follows:

Counterparty	Fair value MTM	Adjusted fair value MTM	Adjustment as of March 31, 2017
Credit Suisse	46,322	46,075	247
Deutsche Bank	2,375,347	2,367,128	8,219
Morgan Stanley	1,132,364	1,129,601	2,763
Santander	1,563,666	1,553,487	10,179
BNP Paribas	963,864	955,642	8,222
BBVA Bancomer	1,291,401	1,280,373	11,029
Goldman Sachs	1,439,251	1,435,638	3,613
Citibanamex	10,858	10,835	23
Credit Agricole	16,340	16,216	124
HSBC	16,312	16,258	54
JP Morgan	6,146	6,135	13
Monex	-	-	-
<b>Collateral received</b>			<b>0</b>
<b>Total (thousands of pesos)</b>	<b>8'861,871</b>	<b>8'817,386</b>	<b>44,486</b>

The adjustment of fair value corresponds for those position with positive mark to market.

### **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 based upon valuation techniques.

### **Level 2 input information**

As was 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 Entity's *Mark-to-Market* for derivatives financial instruments as March 31, 2017 is level 2 by the following:

- 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) Information mainly derived from observable information and correlated through other means.

### **c. Financial Risk Management**

CFE is exposed to the following financial risks for maintaining and using derivative financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

### **Management's discussion on the policies of use of Derivative Financial Instruments**

1) The objective to carry out derivative financial transactions: CFE may carry out any type 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 Entity.

2) Instruments used: CFE may buy or sell one or more of the following types of instruments individually or collectively, as long as it complies with the limits and risk management guidelines approved.

- Futures, forwards and swaps
- Acquisition of call option
- Acquisition of put options
- Acquisition of collars or tunnels
- 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 agent.

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 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 Entity 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 they are given the pertinent accounting treatment. For March 31, 2017 and December 31, 2016, CFE has no escrow deposits or margin calls.

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 perform 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 hedging with financial derivatives, 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 transaction with financial derivative instrument trading convenient and favorable for CFE

11) Internal control procedures for managing market risk exposure and liquidity risk exposure in financial instrument position: the risk management reviews of 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.

### **Credit risk**

Credit risk associated with financial derivative instruments is the risk of experiencing a financial loss if a counterparty to these financial instruments fails to meet its financial obligations.

The carrying amount of derivative financial assets represents the maximum exposure to credit risk. As of March 31, 2017, this amounted to \$8,861,871

### **Liquidity risk**

The liquidity risk associated with financial derivative instruments is the risk that CFE finds it difficult to meet its financial obligations arising from these instruments.

Exposure to liquidity risk by holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of March 31, 2017 this amounted to 1,717,928 pesos.

### **Market Risks**

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

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

a) *Currency exchange risks.*

A significant portion of CFE's debt is denominated in foreign currency, mainly in US dollars and Japanese yen, while most of our assets and revenues are denominated in pesos. As a result of this, we are exposed to the risk of devaluation of the peso against the dollar. As part of our risk management policy we have contracted cross-currency swaps to reduce the impact of currency fluctuations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay a fixed rate in pesos. As of March 31, 2017 and December 31, 2016, CFE maintains cross-currency swaps as hedges for our foreign currency debt for \$52,987,000 and \$53,257,000 , respectively. Furthermore, as of March 31, 2017, we had \$9,446,000 in exchange rate forwards.

Likewise, CFE contracted a derivative financial instrument in 2002 to hedge the exchange rate risk of our debt by \$32 billion yen. To hedge the exchange rate risks of our yen debt, CFE entered into a series of exchange rate forwards under which we acquired Japanese yen based on a fixed US dollar exchange rate. We also acquired a "call option" for the purchase of Japanese yen at the end of the transaction. The market value of this transaction as of March 31, 2017 and December 31, 2016 is (206,218) and (494,776) respectively. These derivative instruments were not designated as hedges.

Sensitivity analysis for exchange rate effect

A possible and reasonable strengthening (weakening) of the MXN / USD and JPY / USD exchange rates as of March 31, 2017 would have affected the fair value of the total position of foreign currency derivative financial instruments, and thus, the results of the period and the other comprehensive income (as some of them are designated as hedges), in the amounts shown in the following page.

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

31/03/17	Instrument	Results		OCI	
		+ 1 cent	- 1 cent	+ 1 Cent	- 1 cent
MXN/USD	Forwards			3,516	-3,516
	Cross Currency Swaps			25,670	-25,670
JPY/USD		3,617	-3,617	-	-
	<b>Total</b>	<b>3,617</b>	<b>-3,617</b>	<b>29,186</b>	<b>-29,186</b>

b) Interest rate risk

An important part of our debt accrues interest at variable rates, which are calculated by reference to the TIIE rate in the case of debt denominated in pesos. As of March 31, 2017 and December 31, 2016, CFE hedged \$3,266,384 and \$3,389,926 million pesos of our peso-denominated debt bearing variable interest rates.

Sensitivity analysis for interest rates

A possible and reasonable strengthening (weakening) of interest rates as of December 31, 2016 would have affected the fair value of the total position of derivative financial instruments associated with a variable interest rate, and therefore the results of the period and the other comprehensive income (as some of them are designated as hedge), in the amounts shown below:

31/03/17	Results		OCI	
	+ 1 base point	- 1 base point	+ 1 base point	- 1 base point
Interest Rate swaps			326	-326

This analysis assumes that the other variables, in particular interest rates, remain constant (figures in thousands of pesos)

c) Commodity price risk

As part of the electricity generation process, CFE requires commodities such as natural gas and therefore we are exposed to the impact of potential increases in commodity prices. During the three-month period ended March 31, 2017, and 2016 CFE did not enter into agreement to mitigate these types of risks.

## 11. Documented debt

The documented debt balances as of March 31, 2017 and December 31, 2016 are as follows:

	Type of credit	Weighted Interest Rate	Maturities	2017		2016	
				Local Currency	Foreign Currency (Thousands)	Local currency	Foreign Currency (Thousands)
<b>Foreign debt</b>							
In US Dollars at Exchange rate for dollar of \$18.8092 as of March 31, 2017 and \$20.7314 as of December 2016	Bilateral	Fixed and variable– 1.35%	Various through 2023	2,208,754	117,429	2,696,259	130,057
	Bonds	Fixed and variable - 4.96%	Various through 2045	92,625,344	5,193,944	107,124,453	5,436,730
	Revolving	Fixed and variable – 2.53%	Various through 2020	3,529,993	187,674	1,529,348	73,770
	Syndicated	Fixed and variable – 1.57%	2018	3,761,840	200,000	-	-
<b>Total US dollars</b>				<b>102,125,931</b>	<b>5,699,047</b>	<b>111,350,060</b>	<b>5,635,557</b>
In euros at exchange rate per euros of \$20.097 as of March 31, 2017 and \$20.1263 as of December 2016	Bilateral	Fixed and variable –2%	Various through 2024	40,317	2,006	44,622	2,051
	Revolving	Fixed and variable - 0.77%	Various through 2020	6,011	299	9,859	577
<b>Total Euros</b>				<b>46,328</b>	<b>2,305</b>	<b>54,481</b>	<b>2,628</b>
In Swiss francs at the exchange rate per Swiss franc of \$18.7729 as of March 31, 2017 and \$20.2936 as of Diciembre 31, 2016	Revolving	Fixed and variable - 0.64%	Various through 2021	1,331,226	70,912	1,575,319	77,626
	<b>Total Swiss francs</b>				<b>1,331,226</b>	<b>70,912</b>	<b>1,575,319</b>
In Japanese yens at the exchange rate per Japonese Yen of \$0.1686 as of March 31,2017 of \$0.1768 as of December 31, 2016	Bilateral	Fija y Variable-1.57%	Varius through 2021	917,391	5,441,230	1,034,732	5,852,554

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Bond	Fixed -3.83%	2032	5,395,200	32,000,000	5,657,600	32,000,000
Assets received for financial instruments net (Nota 10b)			(326,609)		(71,027)	
			<u>5,068,590</u>	<u>32,000,000</u>	<u>5,586,573</u>	<u>32,000,000</u>
<b>Total Japanese yens</b>			<u>5,985,982</u>	<u>37,441,230</u>	<u>6,621,305</u>	<u>37,852,554</u>
<b>Total foreign debt</b>			<u>109,489,466</u>		<u>119,601,165</u>	

Domestic debt	Type of credit	Weighted Interest rate	Maturities	2017		2016	
				Local currency	Foreign Currency (thousands)	Local currency	Foreign Currency (thousands)
Local currency	Bank loans	Fixed and variable -6.03%	Various through 2021	16,600,000		18,700,000	
	Securities market	Fixed and variable 7.03%	Various through 2025	<u>66,500,000</u>		<u>66,500,000</u>	
<b>Total Mexican pesos:</b>				<u>83,100,000</u>		<u>85,200,000</u>	
In UDIS: at the exchange rate per UDI of \$5.5614 as of March 2017 and \$5.269 as of December, 2016	Securities market	Fixed - 4.37%	2025	<u>5,347,441</u>		<u>5,196,510</u>	
Total UDIS				<u>5,347,441</u>		<u>5,196,510</u>	
<b>Total domestic debt</b>				<u>88,447,441</u>		<u>90,396,510</u>	
<b>Summary</b>							
Total foreign debt				109,489,466		119,601,165	
Total domestic debt				88,447,441		90,396,510	
Interest payable short -term				7,229,097		1,936,494	
Expenses for amortization of debt						(2,320,698)	
<b>Total documented debt</b>				<u>205,166,004</u>		<u>209,613,471</u>	

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Short-term debt	16,346,766	14,437,280
Short and long term Interest payable	<u>2,366,167</u>	<u>1,936,494</u>
<b>Total short and documented debt</b>	<b><u>18,712,933</u></b>	<b><u>16,373,774</u></b>
Long-Term Debt	181,590,141	195,560,395
Expenses for amortization of debt	<u>(2,338,310)</u>	<u>(2,320,698)</u>
Total long term	<u>179,251,831</u>	<u>193,239,697</u>
<b>Total short and long term</b>	<b><u>197,964,764</u></b>	<b><u>209,613,471</u></b>

The short-term and long-term documented debt liabilities mature as follows :

<u>31-12-2016</u>	<u>Amount</u>
2017	16,346,766
2018	22,921,150
2019	7,406,512
2020	18,543,429
2021	19,453,575
2022-and subsequent	<u>113,293,332</u>
TOTAL	<u>197,964,764</u>

### **Documented debt**

The integration of the financing obtained during the three month periods ended March 31, 2017 and 2016 is shown below:

#### **Domestic debt**

There has not been disposal of internal debt during the three-month periods ended March 31, 2017 and 2016.

#### **Foreign debt**

On January 13, 2016 a syndicated loan of \$1,250 million of dollars was arranged with BBVA Bancomer, S. A., acting as the administrative agent. The loan bears an interest rate of LIBOR USD plus 1.15% and matures in November 2016.

In the first quarter of 2016, proceeds of 16.6 million of dollars (in its equivalent in JPY) were obtained from a credit line executed with the Japan Bank for International Cooperation (JBIC).

### **12. Debt for long-term Productive Infrastructure Projects (PIDIREGAS by its acronym in Spanish) and obligations for capital lease**

The balances of PIDIREGAS (direct investment) debt and obligations for capital leases as of March 31, 2017 and December 31, 2016 are comprised and matures as shown in the next page.

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	Direct Investment PIDIREGAS	Obligation for capital leases (PEE's)	Total 2017	Total 2016
Short-Term	\$ 13,250,270	4,797,645	18,047,915	25,354,442
<u>Long-Term</u>				
2018	3,035,033	5,342,207	8,377,240	5,780,384
2019	1,954,090	5,954,060	7,908,150	9,555,498
2020	3,303,169	6,642,078	9,945,247	9,460,320
2021	474,976	7,416,367	7,891,343	11,933,890
2022	6,330,457	8,288,445	14,618,902	9,373,246
2023	2,198,433	9,271,444	11,469,877	16,702,876
Subsequent years	<u>76,584,971</u>	<u>69,664,741</u>	<u>146,249,712</u>	<u>157,935,696</u>
Total Long Term	\$ <u>93,881,129</u>	<u>112,579,342</u>	<u>206,460,471</u>	<u>220,741,910</u>
Total	\$ <u><u>107,131,399</u></u>	<u><u>117,376,987</u></u>	<u><u>224,508,386</u></u>	<u><u>246,096,352</u></u>

**Pidiregas debt (Direct investment)**

As of March 31, 2017 and December 31, 2016, the debt corresponding to the acquisition of plants, facilities and equipment through PIDIREGAS is summarized as follows:

<u>Value of credit</u>	<u>Term of the agreement</u>	<u>Balances as of March 31, 2017 (Thousands)</u>				<u>Balances as of December 31, 2016 (Thousands)</u>				
		<u>Local currency</u>		<u>Foreign Currency</u>		<u>Local currency</u>		<u>Foreign Currency</u>		
		<u>Short Term</u>	<u>Long Term</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Short Term</u>	<u>Long Term</u>	
<u>Foreign Debt</u>										
384.19	Millions of dollars	2018	20,317	-	1,080	-	44,787	-	2,160	-
701.22	Millions of dollars	2019	466,412	528,393	24,797	28,092	498,499	717,332	24,046	34,601
259.36	Millions of dollars	2020	513,516	1,027,031	27,301	54,603	565,994	1,414,985	27,301	68,253
491.64	Millions of dollars	2029	513,739	5,770,527	27,313	306,793	566,240	6,643,364	27,313	320,449
745.13	Millions of dollars	2032	1,133,071	9,251,945	60,240	491,884	1,248,866	10,197,445	60,240	491,884
907.39	Millions of dollars	2036	918,370	19,778,872	48,826	1,051,553	798,250	16,980,848	38,504	819,088
<b>Total foreign debt</b>			3,565,425	36,356,768	189,557	1,932,925	3,722,636	35,953,974	179,564	1,734,275

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<u>Value of credit</u>	Term of the agreement	2017		2016		
		Local	Currency	Local	Currency	
		Short-Term	Long-Term	Short-Term	Long-Term	
<b>Domestic Debt</b>						
6,771.70	Millions of dollars	2016	-	36,598	-	36,598
2,265.65	Millions of dollars	2017	77,726	-	88,611	-
29,067.44	Millions of dollars	2018	552,019	2,998,434	669,445	3,156,305
5,034.03	Millions of dollars	2019	772,100	1,425,697	778,024	1,607,113
9,232.98	Millions of dollars	2020	887,125	2,276,138	910,344	2,554,330
1,147.26	Millions of dollars	2021	121,828	474,976	121,828	475,719
17,450.84	Millions of dollars	2022	1,518,185	6,330,457	1,702,554	6,754,195
4,670.05	Millions of dollars	2023	488,438	2,198,433	486,945	2,336,413
10,385.92	Millions of dollars	2024	1,101,536	5,511,990	1,099,555	5,826,698
8,437.61	Millions of dollars	2025	677,438	3,928,987	670,430	4,035,698
12,309.16	Millions of dollars	2026	2,149,496	16,075,164	2,120,550	16,085,716
5,232.09	Millions of dollars	2032	528,344	2,154,428	526,735	2,258,328
2,491.18	Millions of dollars	2036	83,664	1,589,623	83,664	1,589,623
16,048.53	Millions of dollars	2042	726,946	12,514,615	726,946	12,766,981
<b>Total domestic debt</b>			<u>9,684,845</u>	<u>57,515,540</u>	<u>9,985,631</u>	<u>59,483,717</u>
<b>Interest payable</b>						
<b>CEBURES (Certificados Bursatiles de Banca de Desarrollo)</b>						
				8,821	1,018,221	8,821
<b>PIDIREGAS total debt</b>			<u>\$ 13,250,270</u>	<u>93,881,129</u>	<u>\$ 14,726,488</u>	<u>\$ 95,446,512</u>

As of March 31, 2017, the minimum payment commitments for PIDIREGAS amounted to:

PIDIREGAS	144,301,826
less:	
Unaccrued interest	<u>36,431,908</u>
Present value of obligations	107,869,918
less:	
Current portion of obligations	<u>13,250,270</u>
Long-term portion of PIDIREGAS	94,619,648
CEBURES	<u>8,821</u>
Total CEBURES y PIDIREGAS	<u><u>\$94,610,827</u></u>

#### **Obligations for capital lease (Conditioned Investment)**

As of March 31, 2017, 26 contracts had been signed with private investors, denominated independent energy producers ("PEE" by its acronym in Spanish). Such contracts include whereas there is an obligation for CFE to pay certain considerations in exchange for a guaranteed electricity power supply service, based on an agreed generation capacity provided by power generation plants financed and built by those investors.

The future payments obligations 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 until 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 Entity has evaluated that 23 of the contracts with independent producers have an embedded lease on 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 in accordance with IAS 17 "Leases".

The lease agreements have a term of 25 years. The average annual interest rate on those lease agreements is 11.19%.

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	<u>Minimum lease payments</u>		<u>Present value of lease Payments</u>	
	<u>03/31/17</u>	<u>12/31/16</u>	<u>03/31/17</u>	<u>12/31/16</u>
Short-term	\$14,946,462	\$22,473,286	\$8,966,904	\$10,627,954
Between one and five years	85,345,910	102,490,749	33,643,159	36,140,956
More than five years	114,433,052	144,744,587	78,936,183	89,154,442
Total accumulated	<u>\$214,725,424</u>	<u>\$269,708,622</u>	<u>\$121,546,246</u>	<u>\$135,923,352</u>

As of March 31, 2017, the capital lease obligations are as follows:

Name	Start of operations	Historical value of the obligation	US dollars		Mexican pesos	
			Short-term	Us dollars Long-term	Short-term (1)	Mexican pesos Long-term
CT MERIDA III	Jun-00	242,685	11,762	150,738	221,231	2,835,258
CC HERMOSILLO	Oct-01	156,144	6,442	111,163	121,171	2,090,890
CC SALTILLO	Nov-01	152,383	6,579	100,069	123,749	1,882,211
TUXPAN II	Dec-01	283,133	10,806	206,667	203,259	3,887,243
EL SAUZ BAJIO	Mar-02	399,773	14,912	303,032	280,481	5,699,789
CC MONTERREY	Mar-02	330,440	14,430	193,564	271,426	3,640,778
CC ALTAMIRA II	May-02	233,234	8,010	184,528	150,659	3,470,816
CC RIO BRAVO II	May-02	232,108	9,662	152,360	181,736	2,865,772
CC CAMPECHE	May-03	196,554	7,232	140,537	136,037	2,643,393
CC TUXPAN III Y IV	May-03	587,064	20,399	441,259	383,695	8,299,738
CC MEXICALI	Jul-03	569,345	21,857	375,070	411,106	7,054,769
CC CHIHUAHUA III	Sep-03	275,327	10,709	178,451	201,435	3,356,527
CC NACO NOGALES	Oct-03	238,016	9,740	126,086	183,206	2,371,570
CC ALTAMIRA III Y IV	Dec-03	600,897	21,600	419,591	406,275	7,892,180
RIO BRAVO III	Apr-04	312,602	9,724	241,868	182,908	4,549,346
CC LA LAGUNA II	Mar-05	367,578	10,789	290,332	202,926	5,460,909
CC RIO BRAVO IV	Abr-05	270,697	7,141	222,358	134,312	4,182,383
CC VALLADOLID III	Jun-06	288,160	8,192	227,687	154,088	4,282,604
CC TUXPAN V	Sep-06	284,997	6,130	246,618	115,293	4,638,688
CC ALTAMIRA V	Oct-06	532,113	9,374	478,595	176,315	9,001,986
CC TAMAZUNCHALE	Jun-07	482,562	10,521	415,052	197,897	7,806,801
CCC NORTE	Aug-10	450,097	11,107	382,121	208,915	7,187,399
CCC NORTE II	Jan-14	427,733	7,949	397,587	149,525	7,478,292
Total			<u>255,067</u>	<u>5,985,333</u>	<u>4,797,645</u>	<u>112,579,342</u>

(1) The short-term balance does not include interest in the amount of \$4,169,159 as of March 31, 2017 and \$5,467,739 as of December 31, 2016.

As of March 31, 2017, the carrying amount of the related plants and facilities under these scheme amounted to \$66,385,559 (net of accumulated depreciation of \$31,085,536), which is included as part of the plant, facilities and equipment caption.

**b) Other contracts with independent power producers**

There are four contracts in operation with wind farms private investors in which as apposed to the contracts aforementioned, the obligation established to CFE is to pay only for the wind energy that was generated and delivered; therefore, these are not considered capital leases. The contracts are as follows:

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

**c) Services providers contracts**

Pemex-Valladolid Gas Pipeline  
Coal terminal

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

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

Other accounts payable and accrued liabilities as of March 31, 2017 and December 31, 2016 are as follows

	<u>2017</u>	<u>2016</u>
Suppliers and contractors	\$ 33,979,958	\$ 17,888,728
Accounts payable MEM	2,410,237	2,011,804
Employees	1,458,755	3,765,564
Deposits	21,688,061	21,103,369
Other liabilities	23,547,509	17,103,988
<b>Total</b>	<b>\$ <u>83,084,520</u></b>	<b>\$ <u>61,873,453</u></b>

#### 14. Taxes and duties payable

Taxes and payable as of March 31, 2017 and December 31, 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
<b>Payable by CFE</b>		
Income tax payable on behalf of third parties	\$ 755,215	\$ 270,792
Contributions to the IMSS	440,707	680,038
Rights for use and development of national waters	324,069	224,741
Payroll Tax	74,638	54,574
Contributions to INFONAVIT	1,475	10,895
VAT payable	12,565,691	985,948
Subtotal	<u>\$14,161,795</u>	<u>\$2,226,988</u>
<b>Withholdings</b>		
Income tax withheld from employees	928,049	693,591
Withholdings of value added tax	25,658	67,946
Income tax on interest paid abroad	39,012	26,846
Income tax on foreign residents	179	57,698
0.5% to contractors	20,983	18,010
Income tax on professional fees and rent to individuals	4,324	6,302
0.2% to contractors	91	342
Others	55	14,134
Subtotal	<u>1,018,351</u>	<u>884,869</u>
Total	<u>\$ 15,180,146</u>	<u>\$ 3,111,857</u>

#### 15. Other long-term liabilities

As of March 31, 2017 and December 31, 2016, other long-term liabilities are as follows:

	<u>2017</u>	<u>2016</u>
Contributions from third parties	\$ 22,320,525	\$ 33,707,331
Retirement asset obligation	13,053,016	12,888,114
Other provisions	<u>2,967,105</u>	<u>3,561,400</u>
	<u>\$ 38,340,646</u>	<u>\$ 50,156,845</u>



## 19. Comprehensive income

Comprehensive income (loss) for the three month periods ended March 31, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Net Income (loss)	\$ 6,764,535	\$ (20,219,461)
Derivative financial instruments	<u>210,001</u>	<u>302,509</u>
Comprehensive income (loss)	<u><u>6,974,536</u></u>	<u><u>(19,916,952)</u></u>

## 20. Foreign currency position

As of March 31, 2017 and December 31, 2016, the Entity had assets and liabilities denominated in foreign currency as follows:

	2017					
	Assets	Liabilities			Short position	
		Cash and cash equivalents	Trade Payables	Domestic debt		External Debt
US dollars	274,111	10,932	-	5,699,047	8,362,885	13,798,754
Euros	-	-	-	2,305	-	2,305
Japanese yen	107,188	-	-	37,441,230	-	37,334,042
Swiss francs	-	-	-	70,912	-	70,912

  

	2016					
	Assets	Liabilities			Short position	
		Cash and cash equivalents	Trade Payables	Domestic debt		External Debt
US dollars	248,696	139,595	-	5,640,557	8,206,499	13,737,956
Euros	-	-	-	2,628	-	2,628
Japanese yen	102,217	-	-	37,852,554	-	37,750,337
Swiss francs	-	-	-	77,626	-	77,626

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

*Note: The PIDIREGAS dollar debt includes the amount of 6,240,403 million dollars of the financial lease debt with External Producers (as per IFRS)*

These assets and liabilities in foreign currency were converted into local currency at the exchange rate established by the Banco de Mexico in the DOF effective March 31, 2017 and December 31, 2016, as follows:

Currency		<u>2017</u>		<u>2016</u>
US dollars	\$	18.8092	\$	20.7314
Euros		20.0970		21.7534
Japanese yen		0.1686		0.1768
Swiss francs		18.7729		20.2936

## **21. Contingent liabilities and commitments**

### **Contingent liabilities**

The Entity 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.

### **Commitments**

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

The Entity has entered into contracts to provide services of reception, storage, transportation, regasification and supply of liquefied natural gas. Such contractual commitments consist of acquiring, during the supply period, daily amounts of natural gas as agreed upon in the respective contracts.

#### **b. Financed public works contracts**

As of March 31, 2017, CFE has signed a number of finance public works contracts, whose committed payments will commence on the dates when private investors complete the construction of each of the investment projects and deliver to the Entity the related assets for their operation. The estimated amounts of these financed public work contracts and the estimated dates of completion of the construction and start of operations are as shown in the following tables.

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Transmission lines and substations:

Project name	Capacity		Estimate amount of contract in millions of:		Operation Stage
	Kmc	MVA	Dollars	Mexican Pesos	
322 SLT 1921 Reducción de Pérdidas de Energía en Distribución F3 C2 (DIST)	462.70	116.60	101.39	1,907.1	10-feb-17
322 SLT 1921 Reducción de Pérdidas de Energía en Distribución F6 (DIST)			105.94	1,992.6	11-feb-17
209 SE 1212 Sur - Peninsular F9 (DIST)	20.31	20.00	8.17	153.7	24-feb-17
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F2 C2 (DIST)			4.30	81.0	26-feb-17
292 SE 1701 Subestación Chimalapa Dos	19.40	500.00	55.40	1,042.0	28-feb-17
319 SLT 1904 Trasmisión y Transformación de Occidente F2	5.00	500.00	23.60	443.9	03-mar-17
319 SLT 1904 Trasmisión y Transformación de Occidente F1	27.00		11.00	206.8	05-mar-17
320 LT 1905 Transmisión Sureste - Peninsular F1 C2	1.90		7.87	148.0	10-mar-17
214 SE 1210 Norte - Noreste F6 (DIST)	24.50		4.10	77.0	15-mar-17
307 SLT 1802 Subestaciones y Líneas de Transmisión del Norte F1	13.60	366.60	31.54	593.2	24-mar-17
317 SLT 1902 Subestaciones y Compensación del Noroeste F3	76.40	500.00	33.31	626.5	26-mar-17
215 SLT 1201 Transmisión y Transformación Baja California F5	31.24		12.50	235.1	31-mar-17
322 SLT 1921 Reducción de Perdidas de Energía en Distribución F4 (DIST)	427.54	102.42	139.88	2,631.0	31-mar-17
283 LT Red de Transm. Asoc. A CC Norte III (1723)	21.10		17.40	327.3	31-mar-17
320 LT 1905 Transmisión Sureste - Peninsular F2	367.40		38.60	726.0	03-abr-17
339 SLT 2021 Reducción de Perdidas de Energía en Distribución F1 (DIST)	36.62	11.70	10.97	206.4	05-abr-17
307 SLT 1802 Subestaciones y Líneas de Transmisión del Norte F2	158.80		35.20	662.1	25-abr-17
322 SLT 1921 Reducción de Perdidas de Energía en Distribución F7 (DIST)	334.90	111.60	56.47	1,062.2	01-may-17
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F4			32.28	607.2	07-may-17
188 SE 1116 Transformación del Noreste F4	97.60	500.00	50.00	940.5	31-may-17
304 LT 1805 Línea de Transmisión Huasteca - Monterrey	441.80		126.83	2,385.6	31-may-17
274 SE 1620 Distribución Valle de México F2	26.20	420.00	89.80	1,689.1	31-may-17
310 SLT 1821 División de Distribución F4 (DIST)		50.00	4.15	78.0	04-jun-17
214 SE 1210 Norte - Noroeste F9	38.90	30.00	9.40	176.8	08-jun-17
260 SE 1520 Distribución Norte F3	1.10	30.00	5.55	104.4	09-jun-17
259 SE 1521 Distribución Sur F5 (DIST)	9.00	30.00	8.84	166.2	10-jun-17
316 SE 1901 Subestaciones de Baja California C3	13.90	255.00	17.10	321.6	30-jun-17
274 SE 1620 Distribución Valle de México F1	16.10	780.00	94.60	1,779.4	30-jun-17
234 SLT 1302 Transmisión y Transnsformación Noreste F1	25.20	500.00	29.79	560.4	06-jul-17
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F7 (DIST)	870.17	309.50	222.73	4,189.4	09-jul-17

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339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F6 (DIST)	158.00	62.10	65.88	1,239.2	15-jul-17
273 SE 1621 Distribución Norte-Sur F8 (DIST)	2.42	30.00	5.00	94.0	21-jul-17
314 LT 1911 Red de Transmisión Asociada al CC Empalme II	118.90	1,750.00	90.00	1,692.8	01-ago-17
260 SE 1520 Distribución Norte F4 C2 (DIST)	0.25	30.00	4.24	79.7	13-ago-17
245 SE 1320 Distribución Noroeste F5 (DIST)	42.22	40.00	8.18	153.9	18-ago-17
297 LT 1811 Red de Transmisión Asociada al CC Empalme I	425.60		86.70	1,630.8	23-ago-17
321 SLT 1920 Subestaciones y Líneas de Distribución F5	1.42	30.00	5.46	102.6	31-ago-17
310 SLT 1821 Divisiones de Distribución F1 (DIST)		50.00	4.69	88.2	01-sep-17
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F8 (DIST)	156.00	46.50	85.35	1,605.4	06-sep-17
253 SE 1420 Distribución Norte F3	0.50	30.00	4.62	86.9	13-sep-17
273 SE 1621 Distribución Norte-Sur F3	23.77		4.75	89.4	18-oct-17
213 SE 1211 Noreste - Central F4 (DIST)	42.65	60.00	14.00	263.3	21-oct-17
310 SLT 1821 Divisiones de Distribución F2 (DIST)	17.51	60.00	6.33	119.0	28-oct-17
288 SLT 1722 Distribución Sur F2	4.30	40.00	7.13	134.1	08-nov-17
282 SLT 1720 Distribución Valle de México F1	1.00	120.00	11.74	220.8	15-nov-17
259 SE 1521 Distribución Sur F6 C2	2.20	30.00	4.98	93.7	18-nov-17
280 SLT 1721 Distribución Norte F4	17.20	30.00	6.49	122.0	31-ene-18
281 LT 1716 Red de Transmisión Asociada al CC Noreste	128.10		45.91	863.6	01-feb-18
321 SLT 1920 Subestaciones y Líneas de Distribución F4	42.40	50.00	11.74	220.7	10-feb-18
321 SLT 1920 Subestaciones y Líneas de Distribución F1 C2 (DIST)	0.18	20.00	2.88	54.2	25-feb-18
328 LT Red de Transmisión Asociada a la CG Los Azufres III F2 C2 (2011)	1.45		4.48	84.3	05-mar-18
309 SLT 1820 Divisiones de Distribución del Valle de México	5.20	360.00	48.15	905.7	19-abr-18
242 SE 1323 Distribución Sur F2 C2 (DIST)	3.26	50.00	9.77	183.7	04-may-18
336 SLT 2001 Subestaciones y Líneas Baja California Sur - Noroeste F1	225.00	950.00	44.50	836.9	25-may-18
339 SLT 2021 Reducción de Pérdidas de Energía en Distribución F5 C2 (DIST)	1,185.00	162.30	169.89	3,195.5	06-jun-18
350 SLT 2121 Reducción de Pérdidas de Energía en Distribución F3 (DIST)	353.20	45.90	38.53	724.8	07-jun-18
350 SLT 2121 Reducción de Pérdidas de Energía en Distribución F2 (DIST)			36.56	687.6	10-jun-18
	6,526.1	9,180.2	2,216.6	41,693.4	

Generation.

Project name	Capacity	Estimate import for Millions of		Operation stage
		Dollars	Mexican Pesos	
Campo Solar al Proyecto 171 CC Agua Prieta II	14.00	46.20	869.0	31-mar-17
264 CC Centro	642.33	439.80	8,272.3	31-mar-17
268 CCI Guerrero Negro IV	7.52	20.63	388.0	01-abr-17
284 CG Los Humeros III Fase A	25.00	42.99	808.6	30-abr-17
296 CC Empalme I	770.22	476.84	8,969.1	06-nov-17
261 CCC Cogeneración Salamanca F1	373.10	319.90	6,017.1	30-nov-17
298 CC Valle de Mexico II	615.23	425.31	7,999.8	31-ene-18
38 CC Norte III (Juárez) C2	906.71	562.37	10,577.7	13-abr-18
313 CC Empalme II	791.17	397.00	7,467.3	28-abr-18
327 CG Azufres III F2 (DIST)	25.00	51.29	964.6	15-jun-18
43 CC Noreste	857.18	345.46	6,497.8	01-jul-18
289 CH Chicoasén II	240.00	386.42	7,268.3	12-sep-18
42 CC Noroeste (Topolobampo II) C2	887.39	334.50	6,291.7	02-ene-19
	6,154.8	3,848.7	72,391.1	

Rehabilitation and modernization

Project name	Estimate import for Millions of		Operation stage
	Dollars	Pesos	
311 RM CCC Tula Paquetes 1 y 2	323.1	6,076.9	02/09/2017
312 RM CH Temascal Unidades 1 a 4 (GEN)	26.5	498.4	18/09/2018
278 RM CT José López Portillo (GEN)	214.0	4,025.2	27/02/2019
258 RM CT Altamira U1 y 2	380.0	7,147.3	01/07/2019
	943.6	17,747.8	

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 as Trustor or Beneficiary in 13 (thirteen) Trust Funds, 3 (three) of which are in process of being terminated.

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: Confederación de Camaras Industriales (CONCAMIN), Cámara Nacional de la Industria de Transformación (CANACINTRA), Cámara Nacional de Manufacturas Eléctricas (CANAME), Cámara Nacional de la Industria de la Construcción (CNIC), Camara Nacional de Empresas de Consultoría (CNEC) and Sindicato Único de Trabajadores Electricistas de la República (SUTERM)	Nacional Financiera, S.N.C.	<p><b>a.</b> Electric energy consumers who are beneficiaries of the services rendered by the Trust fund.</p> <p><b>b.</b> CFE, only for the materials that would have formed part of the infrastructure of public energy service.</p>
Mexicali Housing Thermal Isolation Trust (FIPATERM), created on October 19, 1990	CFE	Banco Nacional de Obras y Servicios Públicos, S.N.C.;	CFE

As of March 31, 2017, the Trust fund for Housing Thermal Isolation (FIPATERM) had assets amounting to \$1,403,729 and liabilities of \$38,490.

**b. Prepaid expenses**

Those created for financing and covering expenses prior to the execution of projects, subsequently recoverable and charged to whoever realizes them to be adjusted to the framework applicable to the type of project.

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

As of March 31, 2017, the Prepaid Expenses Management Trust fund has assets amounting to \$4,665,952 and liabilities amounting to \$4,332,818.

As of March 31, 2017, the Domain Transfer and Administration Trust 2030 has assets to \$410,511.

### c. Management of construction contracts

Beginning in the '90s, 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 transferring 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 transferring 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 Administration (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 being terminated.

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 Transferring 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 payments have been covered. Credits are contracted directly with a consortium which is a special purpose entity, existing for the purposes set forth in the irrevocable management and transfer of ownership trust.

In this type of trusts, 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 under this modality that are in process of being terminated are as follows.

Trust	Participation of CFE		Trustee
	Trustor	Beneficiary of the trust:	
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 that is still in operations 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.	<b>Firstly:</b> Foreign bank common agent foreign bank of the debtors; <b>Secondly:</b> Compañía Samalayuca II, S. A. de C. V. <b>Thirdly:</b> CFE	Banco Nacional de México, S. A.

As of March 31, 2017, CFE has fixed assets of \$20,982,488 and liabilities of \$1,010,814 corresponding to the CATs of the aforementioned trusts.

Coal Terminal CTE Presidente Plutarco Elias Calles

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.	<b>Firstly:</b> Carbonser, S.A. de C.V <b>Secondly:</b> 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, sets forth that the trustee will enter into a service contract with CFE.

Upon the entry into effect of the coal management service contract between CFE and Banco Nacional de México, 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-March 2017
Petacalco	\$41,905

**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. 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", 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	<b>Firstly:</b> ING (Mexico), S. A. de C. V. and Casa de Bolsa, ING Grupo Financiero <b>Secondly:</b> Deutsche Securities, S. A. de C. V. and Casa de Bolsa.	<b>Firstly:</b> Each one of the preferred holders of each issue <b>Secondly:</b> 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.	<b>Firstly:</b> Each one of the preferred holders of each issue <b>Secondly:</b> CFE	Banamex
Trust No. 232246 created on November 3, 2006	Banco Nacional de Mexico, S.A, Member of Grupo Financiero Banamex.	<b>Firstly:</b> Each one of the preferred holders of each issue <b>Secondly:</b> 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.	<b>Firstly:</b> Each one of the preferred holders of each issue <b>Secondly:</b> CFE	Banamex

(1) As to Trust No. 290, the parties agreed and extinction executed an agreement for the trust on March 29, 2017.

As of March 31, 2017, there are available funds in trust No. 232246 for the amount \$8,821.

## 2 Legal nature.

2.1 In conformity with the Federal Public Administration Act, none of the trusts are considered Public Trusts with the status of entity, pursuant to the following:

- a. In 8 of them, CFE does not have the capacity of Trustor in their constitution.
- b. The 4 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 4 (four) of them, due to the assignment of federal funds or the contribution of land owned by CFE where the works take 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

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

## 22. Segment information

### Information about the operating segments

Management identified the following two operating segments where the Entity performs business activities, generates income and expenses, there is financial information available, and the operations results are regularly reviewed by the Board of Directors and the Chief Executive Officer in order to make decisions about the resources allocated to the segment and to evaluate its performance.

- Electricity services
- Optical fiber network services

The "Electricity services" segment is mainly comprised by the service of electricity supply, which consists of: generation, conduction, transformation, distribution and supply of electricity to consumers in Mexico, as well as planning and carrying out all the installations and works required by the National Electricity System in terms of planning, executing, operating and maintaining it with the collaboration of the independent energy producers, in accordance with the Public Electric Energy Service Law and its regulations.

The "Optic fiber network services" segment represents 0.26% of the Entity's total activity, Management does not consider this segment information to be significant in the context of the financial statements.

### Information by type of services

	<b>March 31,2017</b>	<b>March 31,2016</b>
Domestic service	\$ 15,145,544	\$ 14,462,654
Commercial service	11,154,748	8,684,521
Public lighting service	5,635,640	5,442,377
Agricultural service	1,503,316	1,266,499
Industrial service	48,922,193	34,579,363
Export services	-	151,749
Porter Service	1,521,000	-
Others	1,275,241	-
Total electricity services billed	<u>85,157,682</u>	<u>64,587,163</u>

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Other programs:			
Consumptions in process of billing		-45,882	-
Illicit uses		404,940	843,316
Failure of measuring		92,224	183,223
Billing error		234,649	244,008
		<u>234,649</u>	<u>244,008</u>
Total income from others			
Programs	\$	<u>685,931</u>	\$ <u>1,270,547</u>
		<b>85,843,613</b>	<b>65,857,710</b>
Other operating products		-	4,094,189
<b>Total Electricity supply revenue service</b>	<b>\$</b>	<b>85,843,613</b>	<b>\$ 69,951,899</b>

Information by geographical area

a. Revenues per geographical area

		<u>March 31,2017</u>	<u>March 31,2016</u>
Baja California	\$	4,058,479	\$ 3,059,046
Northwest		4,500,442	3,619,956
North		5,653,788	4,381,333
North Gulf		10,981,980	8,284,164
Central West		3,693,215	2,561,478
Central South		3,649,324	2,894,017
East		3,699,632	3,174,769
Southeast		3,721,168	3,220,099
Bajío		9,459,144	7,026,486
Central Gulf		3,690,094	3,074,865
Central East		5,014,003	3,979,092
Peninsular		4,089,369	3,169,096
Jalisco		5,823,878	4,492,813
North Valley of Mexico		4,908,385	3,928,112
Central Valley of Mexico		4,306,068	3,647,893
South Valley of Mexico		4,904,486	3,922,195
Subtotal retail revenue		<u>82,153,455</u>	<u>64,435,414</u>
Export sales		-	151,749
Electricity service revenue billed		<u>82,153,455</u>	<u>64,587,163</u>
Other programs:			
Consumptions in process of being billed		-45,882	-
Illegal Uses		404,940	843,316
Measurement failure		92,224	183,223
Billing error		234,649	244,008
		<u>685,931</u>	<u>1,270,547</u>

Total electricity service revenue	82,839,386	65,857,710
Other Operating Products	3,004,227	4,094,189
<b>Total Electricity supply revenue service</b>	<b><u>\$ 85,843,613</u></b>	<b><u>\$ 69,951,899</u></b>

B. Non-current assets by geographical area

Non-current assets used in the different activities involved in the process of electricity supply (generation, transmission, and distribution) are not managed in homogeneous geographical areas due to specific operational needs. Therefore, the Entity does not have information available to disclose for that purposes. The process of obtaining such information would result in an excessive cost. There is no a significant amount of assets located abroad.

**23. Issuance of the condensed consolidated interim financial information**

These unaudited condeded consolidated interim financial information and their corresponding notes were approved by the Management on June 20, 2017. Such financials shall be approved by the Board of Directors on a subsequent date. The Board of Directors has the power to modify the accompanying unaudited condensed consolidated interim financial information. Subsequent events were considered until June, 20, 2017.