IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this notice (the "Offering Memorandum"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE OFFERING MEMORANDUM IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE ISSUER HAS NOT REGISTERED AND DOES NOT INTEND TO REGISTER AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). IN ORDER TO BE ELIGIBLE TO READ THE OFFERING MEMORANDUM OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES DESCRIBED THEREIN, YOU MUST (1) NOT BE A "U.S. PERSON" AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (A "U.S. PERSON") OR (2) BE A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A "QIB").

THE OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE TERMS AND CONDITIONS OF THE OFFERING OF THE SECURITIES OUTSIDE OF MEXICO WILL BE NOTIFIED TO THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (*COMISION NACIONAL BANCARIA Y DE VALORES*) FOR INFORMATIONAL PURPOSES ONLY AND SUCH NOTICE DOES NOT CONSTITUTE A CERTIFICATION AS TO THE INVESTMENT VALUE OF THE SECURITIES OR OF OUR SOLVENCY. THE OFFERING MEMORANDUM IS SOLELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION. IN MAKING AN INVESTMENT DECISION, ALL INVESTORS, INCLUDING ANY MEXICAN CITIZEN WHO MAY ACQUIRE SECURITIES FROM TIME TO TIME, MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER.

Confirmation of your representation: The Offering Memorandum is being sent at your request and by accepting the e-mail and accessing the Offering Memorandum, you shall be deemed to have represented that you are (1) not a U.S. Person or (2) a QIB; and that you consent to delivery of the Offering Memorandum by electronic transmission.

You are reminded that the Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the lead manager or any affiliate of the lead manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the lead manager or such affiliate on behalf of the issuer in such jurisdiction.

The Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Goldman Sachs & Co. LLC, Evercore Group L.L.C., Barclays Capital Inc., Banco Bilbao Vizcaya Argentaria, S.A., Morgan Stanley & Co. LLC nor Santander Investment Securities Inc. nor any person who controls the initial purchasers nor any director, officer, employee or agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format herewith and the hard copy version available to you on request from Goldman Sachs & Co. LLC, Evercore Group L.L.C., Barclays Capital Inc., Banco Bilbao Vizcaya Argentaria, S.A., Morgan Stanley & Co. LLC or Santander Investment Securities Inc.

750,000,000 CBFEs Series A

CFE FIBRA E

Series A Energy and Infrastructure Investment Trust Certificates

We are a newly created Mexican energy and infrastructure investment trust ("we," "us", "CFE FIBRA E" or the "Issuer") formed in accordance with the laws of the United Mexican States ("Mexico") and formed by Comisión Federal de Electricidad ("CFE Holding") through our manager CFECapital, S. de R.L. de C.V., an affiliate of CFE Holding organized as a Mexican variable capital limited liability company (*sociedad de responsabilidad limitada de capital variable*, or "Manager"). CFE Holding is a productive state enterprise of the federal government of Mexico (the "Mexican Federal Government"), which operates through nine productive state subsidiaries, five affiliates and two business units, which are collectively referred to in this offering memorandum as "CFE". We were formed primarily to acquire and own interests in electricity transmission, generation and distribution assets, related infrastructure projects and other assets in Mexico consistent with our qualification as an energy and infrastructure investment trust (*fideicomiso de inversion en energía e infraestructura*, or "FIBRA E"). We are organized, and intend to conduct our operations, so as to qualify to be taxed as a FIBRA E for Mexican federal income tax purposes.

We are offering 750,000,000 of our series A energy and infrastructure investment trust certificates (*certificados bursátiles fiduciarios de inversión en energía e infraestructura Serie A*, or the "CBFEs Series A") in a global offering (the "Global Offering") that consists of (a) an initial public offering of 499,743,478 CBFEs Series A to the general public in Mexico through the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*, or the "BMV") by way of a separate Spanish-language prospectus (the "Mexican Offering") and (b) an offering of 250,256,522 CBFEs Series A to either (i) certain qualified institutional buyers ("QIBs"), as defined under Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act"), in the United States, in transactions exempt from registration thereunder or (ii) to other investors that are non-U.S. persons outside of Mexico and the United States in reliance on Regulation S under the Securities Act (the "International Offering"). This offering memorandum relates only to the International Offering. The CBFEs Series A being offered in the Global Offering may be reallocated between the International Offering and the Mexican Offering, and the closing of the International Offering and the Mexican Offering are conditioned upon each other. See "Plan of Distribution".

In addition to the CBFEs Series A being offered hereby, we will issue 250,000,000 subordinated CBFEs Series B energy and infrastructure investment trust certificates *(certificados bursátiles fiduciarios de inversión en energía e infraestructura Serie B*, or "subordinated CBFEs"), to be held directly by CFE Holding, its productive state subsidiaries and affiliates. The subordinated CBFEs will be subordinated to the CBFEs Series A in right of payment of the Minimum Quarterly Distribution (as defined herein). The CBFEs Series A and the subordinated CBFEs are herein collectively referred to as the CBFEs.

The Global Offering is our initial offering and no public market currently exists for our CBFEs. All of the CBFEs Series A offered by this offering memorandum are being sold by us. The initial offering price for our CBFEs Series A is Ps.19.00 per CBFE Series A. We have applied to list our CBFEs Series A on the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*). Subject to the approval of the BMV, our CBFEs Series A will trade under the symbol "FCFE18".

Investing in the CBFEs Series A involves risks. See "Risk Factors" beginning on page 31.

Offer Price: Ps.19.00 per CBFE.

We have granted the Initial Purchasers and the Mexican Underwriters the right to purchase up to an additional 112,500,000 CBFEs Series A within 30 days of the date of this offering memorandum solely to cover over-allotments, if any. See "Plan of Distribution".

The CBFEs Series A have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any jurisdiction other than Mexico. Unless they are registered, the CBFEs Series A may not be offered or sold within the United States or to U.S. persons, except to investors that are either (1) U.S. Persons (as defined in Regulation S under the Securities Act ("Regulation S")) who are QIBs (as defined in Rule 144A under the Securities Act ("Rule 144A")) or (2) non-U.S. Persons (within the meaning of Regulation S) outside of the United States. You are hereby notified that sellers of the CBFEs Series A may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For further details about eligible offerees and transfer restrictions, see "Transfer Restrictions."

The CBFEs Series A will be registered with the National Securities Registry (*Registro Nacional de Valores*) (the "RNV") maintained by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) (the "CNBV") and listed for trading at the BMV. Registration of the CBFEs Series A with the RNV does not imply any certification in respect of the investment quality of the CBFEs Series A, our solvency or the accuracy or completeness of the information included herein, and such registration does not result in the validity of any actions or omissions, if any, undertaken in contravention of applicable law.

Delivery of the CBFEs Series A will be made on or about February 12, 2018.

International Global Coordinators and Joint Bookrunners

Goldman Sachs & Co. LLC **Evercore ISI**

Joint Bookrunners

Barclays **BBVA** **Morgan Stanley** **Santander**

February 7, 2018

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References herein to "we", "us", "our", the "Issuer", "CFE FIBRA E" or "Trust CIB/2919" means the irrevocable trust number CIB/2919 incorporated by the FIBRA E Trust Agreement, unless the context otherwise requires. References to "CFE Holding" means Federal Electricity Commission (Comisión Federal de Electricidad), a productive state enterprise of the Mexican Federal Government. References to "CFE" means CFE Holding and its consolidated subsidiaries, taken as a whole. References to "CFE Transmisión" means CFE Transmisión, a productive state enterprise subsidiary of CFE Holding.

Neither we nor the Initial Purchasers have authorized anyone to provide you with different information from that contained in this offering memorandum, and neither we nor the Initial Purchasers take responsibility for any other information that others may give you. Neither we nor the Initial Purchasers are making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate at any date other than the date on the front of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of the securities.

The Mexican Offering is being made in Mexico, pursuant to a prospectus in Spanish with the same date as this offering memorandum. The prospectus, which has been filed with and will be reviewed and approved by the CNBV, and this offering memorandum contain substantially similar information, except that the prospectus includes other information required by regulation in Mexico. The International Offering is being made in the United States and elsewhere outside of Mexico solely on the basis of the information contained herein.

In connection with the issuance of the CBFEs Series A, the Initial Purchasers (or persons acting on behalf of the Initial Purchasers) may over-allot CBFEs Series A or effect transactions with a view to supporting the market price of the CBFEs Series A at a level higher than that which might otherwise prevail. However, there is no assurance that the Initial Purchasers (or persons acting on behalf of the Initial Purchasers) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the CBFEs Series A is made and, if begun, may be ended at any time. Any stabilization action or over-allotment must be conducted by the Initial Purchasers (or persons acting on behalf of the Initial Purchasers) in accordance with all applicable laws and rules.

We are relying upon an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the CBFEs Series A, you will be deemed to have made the acknowledgements, representations and agreements described under "Transfer Restrictions" in this offering memorandum. We are not, and the Initial Purchasers are not, making an offer to sell the CBFEs Series A in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

Neither the Securities and Exchange Commission (the "SEC"), any state securities commission, nor any other U.S. regulatory authority, has approved or disapproved the CBFEs Series A nor have any of the foregoing authorities passed upon or endorsed the merits of this offering memorandum. Any representation to the contrary is a criminal offense.

We have submitted this offering memorandum solely to a limited number of QIBs in the United States and to investors outside the United States so that they can consider a purchase of the CBFEs Series A. We have not authorized the use of this offering memorandum for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. This offering memorandum may be distributed and its contents disclosed only to those prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions. See "Transfer Restrictions."

This offering memorandum is based on information provided by CFE Transmisión and us, and by other sources that we believe are reliable, but no assurance can be given by the Initial Purchasers as to the accuracy or completeness of such information. The Initial Purchasers assume no responsibility for the accuracy or completeness of the information contained herein (financial, legal or otherwise). In making an investment decision, prospective investors must rely on their own examinations of the Issuer and the terms of this offering and the CBFEs Series A, including the risks involved. Moreover, the contents of this offering memorandum are not to be construed as legal, business or tax advice. You are urged to consult your own attorney, business or tax advisor for legal, business or tax advice.

This offering memorandum does not constitute an offer of, or an invitation by or on behalf of, the Initial Purchasers or us, or any of their or our respective directors, officers and affiliates, to subscribe for or purchase any securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Each prospective purchaser of CBFEs Series A must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such CBFEs Series A or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such CBFEs Series A under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales.

As discussed herein, no acquisition of or transfer of an interest in the CBFEs by or to a Benefit Plan Investor (as defined herein) will be permitted. See "Certain ERISA Considerations."

We reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the full amount of the CBFEs Series A offered hereby.

INFORMATION FOR INVESTORS IN CERTAIN COUNTRIES

For information for investors in certain countries, see "Transfer Restrictions" and "Plan of Distribution."

ENFORCEABILITY OF CIVIL LIABILITIES

We are a FIBRA E incorporated in accordance with the laws of Mexico. All of the members of our Technical Committee (as defined herein) and the directors and officers of the Manager are non-residents of the United States and such non-resident persons are located outside the United States. In addition, substantially all of our assets are located outside the United States. As a result, it may not be possible for our investors to effect service of process within the United States upon such persons or to enforce against such persons or us in United States courts, judgments predicated upon the civil liability provisions of the securities laws of the United States. We have been advised by our Mexican counsel, White & Case, S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on the securities laws of the United States and as to the enforceability in Mexican courts of judgments of United States courts obtained in actions predicated upon the civil liability provisions of United States federal securities laws. See "Risk Factors—Risks Relating to the CBFEs— It may be difficult to enforce civil liabilities against us, members of our Technical Committee and the Manager or its directors and officers".

We have been advised by such Mexican counsel that no bilateral treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of civil foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, consisting of the review in Mexico of the United States judgment, in order to ascertain, among other matters, whether Mexican legal principles of due process and public policy (*orden público*) have been complied with, without reviewing the merits of the subject matter of the case.

WHERE YOU CAN FIND MORE INFORMATION

We are not subject to the information requirements of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). To preserve the exemption for resales and transfers under Rule 144A under the Securities Act, we have agreed to promptly provide any holder or any prospective purchaser of the CBFEs Series A who is designated by that holder and is a QIB upon the request of such holder or prospective purchaser, with information meeting the requirements of Rule 144A(d)(4), unless we either furnish information to the SEC in accordance with Rule 12g3-2(b) under the Exchange Act or furnishes information to the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Any such request may be made to us in writing at our main office located at Paseo de la Reforma 164, Col. Juárez, 06600, Ciudad de México, Mexico; Attention: Chief Financial Officer.

We are required to file certain annual, quarterly and special reports and other information with the BMV with respect to the CBFEs Series A sold in the Mexican market. You may inspect and copy these reports and other information at the offices of the BMV located at Paseo de la Reforma 255, Col. Cuauhtémoc, 06500, Ciudad de México, México. Our filings with the BMV are available to you on the BMV's website (www.bmv.com.mx) and CNBV's website (www.gob.mx/cnbv).

Under the terms of the FIBRA E Trust Agreement, we are required to furnish to Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero (or any entity appointed as a successor thereto), as the Common Representative (as defined herein), all notices of meetings of the holders of the CBFEs and other reports and communications that are generally made available to holders of the CBFEs. The address of the Common Representative is Paseo de la Reforma 284, Col. Juárez, 06600, Ciudad de México, Mexico.

We are not including the information provided on, linked to or from our website, the BMV's website, the CNBV's website, *Banco de México's* website (www.banxico.org.mx) or any other website as part of, and we are not incorporating such information by reference in, this offering memorandum.

SPECIAL NOTE REGARDING MEXICAN ENERGY REFORM

On December 20, 2013, amendments to Articles 25, 27 and 28 of the Political Constitution of the United Mexican States (*Constitución Política de los Estados Unidos Mexicanos*) (the "Mexican Constitution") were published as the Decree that amends and supplements various provisions of the Mexican Constitution relating to energy matters (*Decreto por el que se reforman y adicionan diversas disposiciones de la Constitución Política de los Estados Unidos Mexicanos, en Materia de Energía*) (the "Energy Reform Decree"), in the Official Gazette of the Federation (*Diario Oficial de la Federación*) and took effect on December 21, 2013. The Energy Reform Decree included transitional articles (*artículos transitorios*) that set forth the general framework for the secondary legislation or implementing laws that are required to give effect to the Energy Reform Decree (the "Secondary Legislation"). On August 11, 2014, the Secondary Legislation was published in the Official Gazette of the Federation. The Secondary Legislation includes nine laws, among others, the new CFE Law (*Ley de la Comisión Federal de Electricidad*) and the LIE (*Ley de la Industria Eléctrica*). On October 31, 2014, the President of Mexico published in the Official Gazette of the Federation 26 regulations and amendments in respect of the Secondary Legislation including, among others, the Regulations of the CFE Law (*Reglamento de la Ley de la Comisión Federal de Electricidad*) and the Regulations of the LIE (*Reglamento de la Ley de la Industria Eléctrica*). Also, the LIE included a transitional article (*artículo transitorio*) that sets forth, as a one-time event, SENER's obligation to issue various market rules, operative guidelines and manuals in order to set forth legal guidance and provisions with respect to the new regulations. On September 8, 2015, the first of these Market Rules: the Electric Market Guidelines, was published in the Official Gazette of the Federation. Additional rules relating to market practice and manuals have since been published. As of the date of this offering memorandum, certain provisions of the Secondary Legislation, including some provisions of the LIE, are not yet fully effective. See "Mexican Electricity Industry and General Regulatory Framework—General Regulatory Framework" for more details regarding the implementation of the Secondary Legislation and the applicable regulations.

SPECIAL NOTE REGARDING FIBRAs E

The implementation of the Energy Reform Decree has substantially altered the electricity industry in Mexico, creating operational and legal separation among key electric power sector activities, including transmission of electricity. Prior to the Energy Reform Decree, the generation, transmission, distribution and commercialization of electricity, to the extent that it was deemed a public service, was an exclusive activity of the Mexican Federal Government carried out by CFE. Following the Energy Reform, CFE Holding and its productive state subsidiaries (including CFE Transmisión) are now able to use new investment trusts, such as this FIBRA E, to monetize the revenue streams from existing assets and raise capital from a diverse range of investors for investment in new projects. Through the introduction of FIBRAs E, the Mexican Federal Government seeks to promote investments in the energy and infrastructure sector in Mexico including in transmission, generation and distribution of electricity and assets related to infrastructure projects in Mexico. Upon the completion of this Global Offering and our formation transactions, we expect to be the first publicly traded FIBRA E focused on Mexico's growing electric power sector and the first publicly traded company sponsored by CFE. See "About FIBRAs E" for more details regarding an overview and the requirements of a FIBRA E.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our or CFE Transmisión's future results of operations and financial position; (ii) statements of our or CFE Transmisión's plans, objectives or goals, including those related to our and its operations and investments; and (iii) statements of our or CFE Transmisión's assumptions underlying such statements. Words such as "believes," "anticipates," "should," "estimates," "seeks," "forecasts," "will," "expects," "may," "intends," "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

You should not place undue reliance on forward-looking statements, which are based on current expectations. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. There can be no assurance that we will meet our objectives, and we caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements, including the following factors:

- general political, economic, social, security, demographic and business conditions in Mexico;
- changes in the laws and regulations applicable to us, the Mexican energy sector, including the electricity sector, and FIBRAs E generally, or the interpretation of such laws and regulations, including changes in environmental and tax laws;
- our business and investment strategy;
- our use of the net proceeds of this offering;
- our future financial performance;
- our ability to maintain our qualification as a FIBRA E;
- our Manager's inability to retain certain key personnel and its inability to hire additional key personnel;
- the future operating revenues, net income (loss), capital expenditures, indebtedness levels or other financial metrics of CFE and CFE Transmisión, as well as the Promoted Trust;
- existing and future governmental regulation of transmission rates, electricity usage, competition in the transmission business and other matters;
- future actions that may be taken by the Mexican Federal Government, which controls CFE and CFE Transmisión;
- uncertainty resulting from the presidential and congressional elections in Mexico in July 2018;
- security issues, natural disasters, terrorist attacks, weather related events and cyber-security intrusions;
- changes in the relationship and agreements with labor unions and labor and pension contracts;
- changes in the economic policies or priorities of the Mexican Federal Government;
- economic, political and regulatory developments in Mexico, the United States or elsewhere;

- the reasonableness of the assumptions and estimates used in the preparation of the carve-out financial statements and unaudited pro forma financial statements included elsewhere in this offering memorandum;

- significant changes to or the termination of the North American Free Trade Agreement ("NAFTA") among Mexico, the U.S. and Canada;

- uncertainty resulting from the recent enactment of tax reform legislation in the U.S.;

- foreign currency exchange fluctuations relative to the U.S. dollar or the Mexican peso and potential currency exchange control risks; and

- other factors discussed under "Risk Factors" in this offering memorandum.

Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

Additional factors affecting our and CFE Transmisión's business may arise periodically and we cannot predict such factors, nor can we assess the impact of all these factors on our or CFE Transmisión's business or the extent to which such factors or combination of factors could cause our or CFE Transmisión's results to materially differ from those contained in any forward-looking statement. Although we consider the plans, intentions, expectations, and estimates reflected in, or suggested by, the forward-looking statements included in this offering memorandum to be reasonable, we cannot provide any assurance that such plans, intentions, expectations and estimates will be achieved.

Prospective investors should read the sections of this offering memorandum entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business of CFE Transmisión" for a more complete discussion of the factors that could affect our and CFE Transmisión's future performance. In light of these risks, uncertainties and assumptions, the forward-looking events described in this offering memorandum may not occur. All forward-looking statements included in this offering memorandum are based upon information available to us and CFE Transmisión as of the date of this offering memorandum, and neither we nor CFE Transmisión undertake any obligation to update or revise any forward-looking statement, whether as a result of new information or future events or developments.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Statements

This offering memorandum includes the following financial statements:

- audited carve-out financial statements of the transmission business of CFE as of and for the year ended December 31, 2015, and the notes thereto, included elsewhere in this offering memorandum (the "2015 CFE Transmisión Audited Carve-Out Financial Statements"),

- audited carve-out financial statements of CFE Transmisión as of and for the years ended December 31, 2016 and 2015, and the notes thereto, included elsewhere in this offering memorandum (the "2016 CFE Transmisión Audited Carve-Out Financial Statements," and together with the 2015 CFE Transmisión Audited Carve-Out Financial Statements, the "CFE Transmisión Audited Carve-Out Financial Statements"),

- unaudited condensed carve-out interim financial information of CFE Transmisión as of September 30, 2017 and 2016, and for the nine-month periods ended September 30, 2017 and 2016, and the notes thereto, included elsewhere in this offering memorandum (the "CFE Transmisión Unaudited Condensed Carve-Out Interim Financial Statements"),

- unaudited pro forma condensed financial information of the Promoted Trust as of and for the nine months ended September 30, 2017 and as of and for the year ended December 31, 2016, and the notes thereto, included elsewhere in this offering memorandum (the "Promoted Trust's Pro Forma Financial Statements"), and

- our unaudited pro forma condensed financial information as of and for the nine months ended September 30, 2017, and as of and for the year ended December 31, 2016, and the notes thereto, included elsewhere in this offering memorandum (our "Pro Forma Financial Statements").

References to the "CFE Transmisión Carve-Out Financial Statements" in this offering memorandum are to the CFE Transmisión Audited Carve-Out Financial Statements and the CFE Transmisión Unaudited Condensed Carve-Out Interim Financial Statements, collectively.

The carve-out financial information of the transmission business of CFE Holding as of and for the year ended December 31, 2015 included in this offering memorandum has been derived from the 2015 CFE Transmisión Audited Carve-Out Financial Statements. The carve-out financial information of CFE Transmisión as of and for the year December 31, 2016 included in this offering memorandum has been derived from the 2016 CFE Transmisión Audited Carve-Out Financial Statements. The carve-out financial information of CFE Transmisión as of and for the nine-month periods ended September 30, 2017 and 2016 included in this offering memorandum has been derived from the CFE Transmisión Unaudited Condensed Carve-Out Interim Financial Statements. References to the "CFE Transmisión carve-out financial information" in this offering memorandum are to the carve-out financial information of the transmission business of CFE Holding as of and for the year ended December 31, 2015 and the carve-out financial information of CFE Transmisión as of and for the year December 31, 2016, and as of and for the nine-month periods ended September 30, 2017 and 2016. CFE Transmisión maintains its books and records in Mexican pesos, its functional currency. The CFE Transmisión Carve-Out Financial Statements have been prepared in accordance with International Financing Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (the "IASB").

CFE Transmisión Audited Carve-Out Financial Information

The carve-out financial information of CFE Transmisión as of and for the years ended December 31, 2016 and 2015 and the condensed carve-out interim financial information of CFE Transmisión as of and for the nine-month periods ended September 30, 2017 and 2016, in each case, included in this offering memorandum (collectively, the "CFE Transmisión Carve-Out Financial Information") reflect the wholly-owned transmission operations of CFE Transmisión as if such operations were conducted on a stand-alone basis as a separate legal entity operated under the control of CFE Holding. CFE Transmisión was created on March 29, 2016 and commenced operations as a separate productive state subsidiary of CFE effective on January 1, 2017, with the purpose of carrying out the necessary activities to provide the public service of electricity transmission, as well as the related financing, installation, maintenance, management, operation, and expansion of the necessary infrastructure to provide such service, in accordance with the provisions of the LCFE, the LIE, the TESL, the Framework Agreement and other applicable legal provisions (each defined herein), generating economic value and profitability for the Mexican Federal Government as its owner.

Set forth below is an explanation of the basis of preparation for CFE Transmisión's Carve-Out Financial Information's during each annual historical period:

2015

During 2015, CFE Transmisión had not yet been incorporated as a separate legal entity and, accordingly, it had no individual financial statements for the period. For the purpose of the Global Offering, CFE Transmisión prepared carve-out financial information relating to the transmission business of CFE Holding. The principal adjustments applied in connection with the preparation of the carve-out financial information for 2015 related to: (i) intercompany transactions, (ii) financial debt allocation, (iii) allocation of financial instruments, (iv) income taxes, (v) employees' labor obligation on retirement and (vi) incorporation of fixed assets related to CFE Holding's transmission business, as required pursuant to CFE's legal separation guidelines.

2016

In March 2016, CFE Transmisión was legally incorporated and as such began to prepare financial information for its business on a stand-alone basis. However, certain transactions and balances relating to the transmission business continued to be recorded at the CFE Holding level or as part of the financial information of other CFE business units (*e.g.,* the generation and distribution businesses). As a result, certain carve-out adjustments have been made in order to incorporate transmission-related items that were allocated elsewhere. The principal adjustments applied in connection with the preparation of the carve-out financial information related to: (i) intercompany transactions, (ii) financial debt allocation, (iii) allocation of financial instruments, (iv) income taxes, (v) employees' labor obligation on retirement and (vi) incorporation of fixed assets pending to be transferred by other business units pursuant to CFE's legal separation guidelines.

2017

For all periods in 2017, certain transactions and balances relating to the transmission business continued to be recorded elsewhere. Accordingly, adjustments similar to those made in 2016 have been applied in order to prepare the carve-out financial information of CFE Transmisión as of and for the nine months ended September 30, 2017.

The CFE Transmisión Carve-Out Financial Statements have been prepared specifically for the purpose of presenting the carve-out financial statements for CFE Transmisión as if it had operated as a stand-alone business during the periods presented. The CFE Transmisión Carve-Out Financial Statements have been prepared on a carve-out basis in accordance with IFRS from the consolidated financial statements of CFE (which are not included in this offering memorandum) and the historical accounting records of CFE, and includes the assets, liabilities, revenues and expenses that management of CFE has determined are attributable to CFE Transmisión.

For a complete description of the accounting policies followed in preparing the CFE Transmisión Carve-Out Financial Statements, see note 1 to the CFE Transmisión Carve-Out Financial Statements included elsewhere in this offering memorandum. This basis of preparation sets out the method used in identifying the financial position, performance and cash flows in relation to the transmission operations that have been included in the CFE Transmisión Carve-Out Financial Statements. These notes explain that the businesses included in the CFE Transmisión Carve-Out Financial Statements had not operated on a stand-alone basis prior to November 2016, and were adjusted based on the carve-out methodology described in note 1 to the CFE Transmisión Carve-Out Financial

Statements included elsewhere in this offering memorandum. When financial information appearing in this offering memorandum is referred to as "carve-out" or "on a carve-out basis" or similar wording, this indicates that such information was derived from the CFE Transmisión Carve-Out Financial Statements prepared as described in note 1 to the CFE Transmisión Carve-Out Financial Statements included elsewhere in this offering memorandum. The only historical financial information available on a stand-alone basis for CFE Transmisión is the CFE Transmisión Carve-Out Financial Information included in this offering memorandum. The CFE Transmisión Carve-Out Financial Information is, therefore, not necessarily indicative of results that would have occurred if CFE Transmisión had been incorporated prior to March 29, 2016 and operated as a single business during the periods presented or of future results of CFE Transmisión.

Our and the Promoted Trust's Unaudited Pro Forma Financial Information

The FIBRA E Trust Agreement and the Promoted Trust Agreement were entered into on January 22, 2018 and January 22, 2018, respectively. There is no historical financial information or other operating information of either us or the Promoted Trust prior to those dates. The summary unaudited *pro forma* financial information presented in this offering memorandum has been derived from the Promoted Trust's Pro Forma Financial Statements and our Pro Forma Financial Statements included elsewhere in this offering memorandum. This information should be read in conjunction with, and is qualified in its entirety by, the financial statements and accompanying notes included elsewhere in this offering memorandum.

Our Pro Forma Financial Statements reflect: (i) our pro forma financial position as of September 30, 2017 as if we had been formed and our formation transactions had been completed on September 30, 2017; (ii) our pro forma financial position as of December 31, 2016 as if we had been formed and our formation transactions had been completed on December 31, 2016; and (iii) our pro forma income statements for the nine-month period ended September 30, 2017 and the year ended December 31, 2016 as if we had been formed and our formation transactions had been completed on January 1, 2016. Our Pro Forma Financial Statements are being provided solely for illustrative purposes and are not necessarily indicative of results that would have occurred if we had been created prior to January 1, 2016 and operated as a separate business during the periods presented or of our future results. For a complete description of the accounting policies followed in preparing our Pro Forma Financial Statements, see note 2 to our Pro Forma Financial Statements included elsewhere in this offering memorandum.

The Promoted Trust's Pro Forma Financial Statements reflect: (i) the pro forma financial position of the Promoted Trust as of September 30, 2017 as if the Promoted Trust had been formed and the formation transactions had been completed on September 30, 2017; (ii) the pro forma financial position of the Promoted Trust as of December 31, 2016 as if the Promoted Trust had been formed and the formation transactions had been completed on December 31, 2016; and (iii) the pro forma income statements of the Promoted Trust for the nine-month period ended September 30, 2017 and the year ended December 31, 2016, as if the Promoted Trust had been formed and the formation transactions had been completed on January 1, 2016. The Promoted Trust's Pro Forma Financial Statements are being provided solely for illustrative purposes and are not necessarily indicative of results that would have occurred if the Promoted Trust had been created prior to January 1, 2016 and operated as a separate business during the periods presented or of future results of the Promoted Trust. For a complete description of the accounting policies followed in preparing the Promoted Trust's Pro Forma Financial Statements, see note 2 to the Promoted Trust's Pro Forma Financial Statements included elsewhere in this offering memorandum.

Our Pro Forma Financial Statements and the Promoted Trust's Pro Forma Financial Statements were prepared based on certain pro forma adjustments as described in note 2 to our Pro Forma Financial Statements and the Promoted Trust's Pro Forma Financial Statements, respectively, included elsewhere in this offering memorandum. The unaudited *pro forma* financial information has been prepared based upon available information and upon certain assumptions that we and the Promoted Trust believe are reasonable. Although the unaudited *pro forma* financial information is presented based on reasonable assumptions of our and the Promoted Trust's management, you should not interpret such information as our actual combined results of operations as if the incorporation of each trust had occurred as of January 1, 2016, as the case may be, or as an indication of our future results, balance sheet or for any other purpose. Any of the factors underlying these assumptions may change or prove to be materially different. You should read them in conjunction with CFE Transmisión Carve-Out Financial Statements, including the notes thereto, included elsewhere in this offering memorandum, as well as the other information set forth in this offering memorandum.

Both we and the Promoted Trust are subject to the risks and uncertainties related to any new business, including the risk that we or the Promoted Trust, as applicable, will not be successful in achieving our respective objectives and that the value of our and/or the Promoted Trust's investments and assets may decrease substantially. For more information, see "Risk Factors- Risk Factors Related to an Investment in the Issuer."

Industry and Market Data

The market and industry data and other statistical information used throughout this offering memorandum was obtained through research, surveys or studies conducted by third parties, independent industry or general publications and other published independent sources. While we believe that each of these sources is reliable, such data and information is subject to assumptions and involves judgments and estimates, and neither we nor the Initial Purchasers have independently verified such data and information, and neither we nor the Initial Purchasers make any representations as to the accuracy of such information. Similarly, although we believe that the internal research is reliable, it has not been verified by any independent sources.

Non-GAAP Financial Information

The body of generally accepted accounting policies in the United States is commonly referred to as "GAAP". For this purpose, a non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. To be consistent with industry practice, this offering memorandum may disclose so-called non-GAAP financial measures which are not recognized under IFRS or GAAP, including CFE Transmisión's EBITDA. However, these non-GAAP items do not have standardized meanings and may not be directly comparable to similarly-titled items adopted by other companies. Potential investors should not rely on information not recognized under IFRS or GAAP as a substitute for the IFRS or GAAP measures of earnings or liquidity in making an investment decision.

This offering memorandum presents CFE Transmisión's EBITDA calculated as earnings before interest, taxes, depreciation and amortization. For a reconciliation of net income to EBITDA see "Selected Carve-Out Financial and Other Information on CFE Transmisión."

CFE Transmisión's EBITDA is provided for information purposes only and should not be considered in isolation, or as a substitute for net income, as a measure of operating performance, as a substitute of cash flows from operations or as a measure of liquidity. CFE Transmisión's EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain financial figures. CFE Transmisión's EBITDA and other non-IFRS or non-U.S. GAAP financial measures included in this offering memorandum are not a substitute of IFRS or U.S. GAAP measures for financial performance.

We believe EBITDA can be useful to facilitate comparison of CFE Transmisión's operating performance between periods and with other companies in the industry, because it excludes the effect of (i) depreciation, which represents a non-cash charge to earnings, (ii) CFE Transmisión's financing cost (income), which is affected significantly by external factors, including interest rates, foreign currency exchange rates, which have little or no bearing on CFE Transmisión's operating performance, and (iii) income taxes which includes a non-cash item affecting earnings related to deferred income taxes, and income tax expense which has no bearing on CFE Transmisión's operating performance.

EBITDA is also a useful basis for comparing CFE Transmisión's results with those of other companies because it represents operating results on a basis unaffected by capital structure. You should review EBITDA along with net income and cash flows from operating activities, investing activities and financing activities, when trying to understand CFE Transmisión's operating performance. While EBITDA may provide a useful basis for comparison, CFE Transmisión's computation of EBITDA is not necessarily comparable to EBITDA as reported by other companies, as each is calculated in its own way and must be read in conjunction with the explanation that accompany it. While EBITDA is a relevant and widely used measure of operating performance, it does not represent cash generated from operating activities and should not be considered as an alternative to net income, as an indicator of CFE Transmisión's financial performance, or to cash flow from operating activities, as a measure of CFE Transmisión's liquidity, nor it is indicative of funds available to fund CFE Transmisión's cash needs.

Currencies

The financial information appearing in this offering memorandum is presented in Mexican Pesos. In this offering memorandum references to "Pesos" or "Ps." are to Mexican Pesos and references to "U.S. dollars," "dollars," "U.S.$" or "$" are to United States dollars. This offering memorandum contains translations of certain Peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Peso amounts actually represent such U.S. dollar amounts that have been or could be converted into U.S. dollars at the rate indicated or any other applicable rate. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank *(Banco de México,* "Mexican Central Bank") on September 30, 2017, and published on October 1, 2017, in the Mexican Official Gazette of the Federation (*Diario Oficial de la Federación*) (the "Official Gazette"), based on the average of wholesale foreign exchange market quotes for transactions settling within two banking business days (the "Mexican Central Bank Exchange Rate"). See "Exchange Rates and Currency" for information regarding rates of exchange between the Peso and the U.S. dollar for the periods specified therein.

Rounding

Certain figures included in this offering memorandum have been rounded for ease of presentation. Percentage figures included in this offering memorandum have been calculated on the basis of such amounts prior to rounding, not on the basis of rounded figures. For this reason, percentage amounts in this offering memorandum may vary from those obtained by performing the same calculations using the figures in the CFE Transmisión Carve-Out Financial Statements. Certain numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them due to rounding.

Glossary of Terms Relating to the Global Offering and the Electricity Industry

As used in this offering memorandum, the following terms relating to the Global Offering and the electricity transmission industry have the meanings set forth below, unless otherwise indicated.

"Amendment to the CENACE Agreement" means the amendment entered into between CFE Transmisión and CENACE on January 17, 2018, by which the parties agreed to amend the terms of the CENACE Agreement to allow CFE Transmisión to assign the Collection Rights under the CENACE Agreement in favor of the Promoted Trust.

"Amount to be Distributed" means the amount to be calculated by the Manager at least seven business days prior to each Distribution Date, which is equal to the Distributable Amount for each quarter divided by the Distribution Ratio.

"Audit Committee" means our audit committee.

"Beneficiary Rights" means the beneficiary rights (*derechos fideicomisarios*) in the Promoted Trust.

"capacity" means the installed capacity an electric system must have to meet peak hour demand plus a reserve sufficient to cover unplanned outages. Capacity is generally measured in megawatts.

"CBFE Holders' Meeting" means a meeting of the holders of the CBFEs.

"CBFEs" means the CBFEs Series A and the subordinated CBFEs.

"CBFEs Series A" means the *Certificados Bursátiles Fiduciarios de Inversión en Energía e Infraestructura Serie A* issued by us and offered hereby.

"CENACE" means the National Center for Energy Control (*Centro Nacional de Control de Energía*), the non-centralized government body that operates Mexico's SEN and WEM and guarantees equal access to the transmission and distribution services.

"CENACE Agreement" means the agreement for the technical and commercial operation of electricity transmission dated as of March 28, 2016, which was initially entered into between CENACE and CFE Holding, and assigned by CFE Holding to CFE Transmisión through an assignment agreement with CFE Transmisión dated as of October 10, 2016, as amended from time to time, including pursuant to the Amendment to the CENACE Agreement.

"CFE" means CFE Holding and its consolidated subsidiaries, taken as a whole.

"CFE Holding" means Comisión Federal de Electricidad, a productive state enterprise of the Mexican Federal Government.

"CFE Transmisión" means CFE Transmisión, a productive state enterprise subsidiary of CFE Holding.

"CFE Transmisión Financing" means any investment and related financing costs (other than equity investment returns) made by CFE Transmisión that satisfies the following requirements, and as a result shall be reimbursed to CFE Transmisión by the Promoted Trust's Trustee with the funds in the Financing Account:

- it is debt incurred by or an investment made directly or indirectly by CFE Transmisión;
- the proceeds or funds of which are used for activities directly related with the expansion and modernization of the NTN; and
- that the investment made with such proceeds or funds is recognized by the CRE in the required income of CFE Transmisión for purposes of the calculation of CFE Transmisión's transmission tariff, provided that the reimbursement shall be made based on the proportion of the amount of the investment as recognized in the transmission tariff by the CRE.

"Collection Rights" means all of the present and future collection rights that CFE Transmisión has under the CENACE Agreement, subject to CENACE's right and authority to deduct from any the payments thereunder all amounts relating to penalties, indemnities and subsequent liquidations pursuant to applicable legislation and the terms of the CENACE Agreement. The Collection Rights currently represent 100% of CFE Transmisión's revenues from transmission tariffs.

"Common Representative" means Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero.

"Conflicts Committee" means our conflicts committee.

"Contingent Financing" means any investment made or debt incurred directly or indirectly by CFE Transmisión where additional cash is needed to pay for extraordinary expenses for the repair or maintenance of the NTN resulting from an emergency, a *force majeure* or acts of god events.

"CRE" means the Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía*).

"CUCA" means the paid-in capital account (*cuenta de aportación de capital*) set forth in the Mexican Income Tax Law and the Mexican Tax Rules for FIBRAs E.

"CUFIN" means the net earnings and profits account (*cuenta de utilidad fiscal neta*) set forth in the Mexican Income Tax Law and the Mexican Tax Rules for FIBRAs E.

"Distributable Amount" means the amounts we receive from the distributions made by the Promoted Trust, plus the earnings from our other Permitted Investments, minus the FIBRA E Trust Agreement expenses and the principal and interest from indebtedness incurred by us, in each case for the applicable quarter.

"Distribution Date" means the last business day of each month of March, June, September and December; with the first Distribution Date being June 29, 2018.

"Distribution Ratio" means the ratio used for calculating the Amount to be Distributed, in accordance with Section 6.02 of the FIBRA E Trust Agreement. The Distribution Ratio is currently 1:1.1.

"demand" means, for an integrated electric system, the amount of power demanded by consumers of energy at any point in time, including energy lost during transmission and distribution to consumers. It is often expressed in kilowatts.

"distribution" means the part of the electric power system that takes power from a bulk power sub-station to customer switches. It includes distribution sub-stations, circuits that extend from distribution sub-stations to every distribution transformer, metering equipment and customer location. The threshold for distribution in Mexico is less than 69kV. Transmission in Mexico is equal or greater than 69 kV.

"Electric Market Guidelines" means the administrative regulations that include all the design and operation principles of the WEM, including the auctions referred to by the LIE.

"Eligible Entities" mean any entity that is a Mexican resident for tax purposes or a trust formed under the laws of Mexico that meets all the requirements set forth in the Mexican Tax Rules for FIBRAs E, including the Promoted Trust. Pursuant to rule 3.21.3.9 of the Miscellaneous Fiscal Resolution any reference to shares or shareholders of an Eligible Entity shall be deemed to include trust beneficiary rights and their respective beneficiaries.

"Energy Reform" means the new regulatory framework for the Mexican electricity sector, specifically the LIE, LCFE and the Secondary Legislation and other rules and regulation that were published in accordance with the amendments to articles 25, 27 and 28 of the Mexican Constitution published as the Energy Reform Decree, in the Official Gazette of the Federation and took effect on December 21, 2013.

"FIBRA E Trust Agreement" means the irrevocable trust agreement number CIB/2919 and its exhibits, as amended from time to time, entered into by and among CFECapital, S. de R.L. de C.V., as settlor and manager, CI Banco, S.A., Institución de Banca Múltiple, as Trustee and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as Common Representative of the holders, on January 22, 2018.

"Framework Agreement" means the framework agreement that sets forth the allocation of responsibilities among the generation, transmission and distribution subdivisions of CFE (*Acuerdo interno normativo para definición de fronteras de responsabilidad entre la Subdirección de Generación, Subdirección de Distribución y la Subdirección de Transmisión*).

"GDG" means the General Distribution Grids, which are grids that provide the public service of distribution for the government-owned distributors.

"generation" means the production of electricity in the large quantities required to supply electric power systems in generating stations, or Power Plants. Generation of electricity is achieved by converting the heat of fuel (*e.g.,* coal, gas or uranium), the hydraulic energy of water, or other forms of energy (*e.g.,* wind or solar) into electric energy. A generating station or facility may consist of several independent generating units.

"GW" means gigawatt. One gigawatt equals one billion watts, one million kilowatts or one thousand megawatts.

"GWh" means gigawatt-hour, or one million kilowatt-hours. The GWh is often used to measure the annual energy output from large power generators.

"Indeval" means the Mexican Institute for the Deposit of Securities (*S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V.*).

"Irrevocability Term" means the 30 year-term during which the Collection Rights under the CENACE Agreement will be assigned by CFE Transmisión to the Promoted Trust, subject to extension with the prior approval of CFE Holding's board of directors.

"kV" means kilovolt.

"kW" or "kilowatt" means one thousand watts.

"kWh" means kilowatt-hour—the standard unit of energy used in the electric utility industry to measure consumption. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour.

"LCFE" means the Law of the Federal Electricity Commission (*Ley de la Comisión Federal de Electricidad*).

"LIE" means the Electric Industry Law (*Ley de la Industria Eléctrica*).

"LSPEE" means the Electric Power Public Services Law (*Ley del Servicio Público de Energía Eléctrica*).

"Management Expenses" means the expenses incurred by the Manager in order to comply with its obligations under the Management Agreement and the FIBRA E Trust Agreement, including (i) all related office and equipment expenses, including furniture, energy, water services, phone, insurance, legal, tax, accounting, IT, transportation, and any other expense in connection with the maintenance of the workplace used to provide the services under the Management Agreement, (ii) salaries of the personnel hired by the Manager to provide the services under the Management Agreement, (iii) fees and expenses that shall be paid to any subcontractor hired by the Manager to comply with any of its obligations under the Management Agreement and the FIBRA E Trust Agreement, and (iv) other expenses related to any of its obligations or responsibilities under the Management Agreement previously approved by the Conflicts Committee.

"Management Fee" means the compensation to be paid by us to the Manager for rendering administrative and related services in accordance with the Management Agreement, which will be calculated every quarter and will be comprised by an amount equal to (i) Management Expenses incurred in the corresponding quarter according to the annual budget plus (ii) seven percent of the Management Expenses for such period.

"Manager" means CFECapital, S. de R.L. de C.V., a Mexican *sociedad de responsabilidad limitada* acting as such pursuant to the Management Agreement and the FIBRA E Trust Agreement, or any entity that may substitute it, provided that the substitute shall always be an affiliate company of CFE Holding.

"Market Participants" means all persons and companies that participate in the WEM and have entered into an agreement with CENACE as either generator, basic services supplier, qualified services supplier, final resource supplier, marketed non-supplier or qualified customer.

"Market Rules" means, jointly, the Electric Market Guidelines and the Operative Market Guidelines.

"Mexican Income Tax Law" the Mexican Federal Income Tax Law (*Ley de Impuesto Sobre la Renta*), as amended and substituted from time to time.

"Mexican Stock Exchange" means the BMV (*Bolsa Mexicana de Valores, S.A.B. de C.V.*) or any other exchange on which we may in the future be instructed to list the CBFEs.

"Mexican tax authorities" means the Mexican Revenue Service Administration (*Servicio de Administración Tributaria*).

"Mexican Tax Rules for FIBRAs E" means the provisions applicable to the energy and infrastructure investment trusts including articles 187 and 188 of the Mexican Income Tax Law and the rules 3.21.3.2, 3.21.3.3, 3.21.3.7 and 3.21.3.9, among other of the Miscellaneous Fiscal Resolution (*Resolución Miscelánea Fiscal*) and any other tax provision, as amended and substituted from time to time.

"Minimum Quarterly Distribution" means a quarterly distribution of Ps.2.30 for each CBFE in accordance with the Fibra E Trust Agreement. For more information see "Distribution Policy—Minimum Quarterly Distribution."

"Miscellaneous Fiscal Resolution" means the miscellaneous fiscal resolution for fiscal year 2018(*Resolución Miscelánea Fiscal para 2018*) published in the Official Gazette on December 22, 2017, as amended and substituted from time to time.

"MVA" means one thousand gigavolt-amperes.

"MW" or "megawatt" means one million watts or one thousand kilowatts.

"MWh" means megawatt-hour, or one thousand kilowatt-hours.

"National Interconnected System" means the individual connection system of the NTN throughout Mexico (*Sistema Interconectado Nacional*).

"Net Taxable Income" means the tax result (net taxable income or loss) determined pursuant to the provisions of the Mexican Income Tax Law, including articles 9 and 13 and in the Mexican Tax Rules for FIBRAs E, as applicable.

"Network Code" means the criteria established by the CRE that contains the minimum technical requirements for the efficient development of the planning processes, operative control of the SEN, access and use of the electric infrastructure applicable to all operative conditions that may arise, in accordance with the efficiency, quality, reliability, continuity, safety and sustainability aspects.

"Nominations Committee" means our nominations committee.

"NTN" means the National Transmission Network (*Red Nacional de Transmisión*).

"OMA" means operation, maintenance and administrative costs, taxes, labor obligations, salaries and wages.

"Operative Market Guidelines" means the operative basis, criteria, guidelines, manuals, processes and other regulations issued by the CENACE, where the operative processes of the WEM are defined, in accordance with the Electric Market Guidelines (*Disposiciones Operativas del Mercado*).

"Permitted Investments" means any investments made by us, in accordance with the instructions received from the Manager, regarding any amounts in our trust accounts, in (i) securities issued by the Mexican Federal Government with a term equal or less than a year, denominated in Pesos, (ii) investments made through repurchase agreements in respect of securities issued by the Mexican Federal Government (*reportos),* or (iii) any other securities, instruments or accounts, as permitted from time to time by the Mexican Tax Rules for FIBRAs E.

"PIDIREGAS" refers to public work projects financed by the private or social sectors and developed by a private or third party (*Proyecto de inversión de infraestructura productivo con registro diferido en el gasto público*).

"Power Plants" means the facilities and equipment that, in a specific location, allow the generation of electric energy and other related products to the Market Participants.

"Promoted Trust Agreement" means the irrevocable management and payment trust agreement number 80758 and its exhibits, as amended from time to time, entered into by and between CFE Transmisión, as settlor and beneficiary and Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, as the Promoted Trust's Trustee, on January 22, 2018.

"Promoted Trust's technical committee" means the technical committee of the Promoted Trust.

"Promoted Trust's Trustee" means Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, acting as the trustee of the Promoted Trust.

"PRODESEN" means the Program for Development of the SEN (*Programa de Desarrollo del Sistema Eléctrico Nacional*).

"Related Party" means any party that has control of or significant influence over us, or over which we exercise control or significant influence, or with which we are under common control or significant influence, including the directors, officers, managers or shareholders of any such entities. For the avoidance of doubt, our Related Parties include, without limitation, CFE Holding, CFE Transmisión, the Manager, the Promoted Trust, and any other CFE subsidiary or affiliate, and their respective directors, officers, managers and shareholders.

"Recognized Markets" means the recognized markets referred to in fractions I and II of article 16-C of the Mexican Federal Tax Code.

"reserve" means, in the electricity industry, the generating capacity that is accessible on short notice to meet unplanned increases in demand for electricity or losses of generation capacity.

"SEN" means the National Electric System (*Sistema Eléctrico Nacional*).

"SENER" means the Mexican Ministry of Energy (*Secretaría de Energía*).

"sub-station" means an assembly of equipment through which electrical energy delivered by transmission circuits is passed in order to convert it to voltages suitable for use by consumers.

"subordinated CBFEs" means the *Certificados Bursátiles Fiduciarios de Inversión en Energía e Infraestructura Serie B* issued by us and that may be held by CFE and CFE Transmisión, or their affiliates and subsidiaries, which will be subordinated to the CBFEs Series A in respect of the payment of the Minimum Quarterly Distribution.

"SUTERM" means the union of the electrical workers in Mexico (*Sindicato ''Único'' de Trabajadores Electricistas de la República Mexicana*).

"Taxable Distribution" means any distribution we make to holders of our CBFEs that (i) is derived from our Net Taxable Income for the fiscal year, (ii) exceeds our Net Taxable Income and our CUCA balance, or (iii) for any reason whatsoever is subject to income tax withholding.

"Technical Committee" means our technical committee.

"TESL" means the Terms for the Strict Legal Separation of the Federal Electricity Commission (*Términos para la estricta separación legal de la Comisión Federal de Electricidad*).

"transmission line" means an electrical connection between two points on a power system for the purpose of transferring high voltage electrical energy between the points. Generally, a transmission line consists of large wires, or conductors, held aloft by towers.

"Trust 80758" or the "Promoted Trust" means the irrevocable management and payment trust formed through the Promoted Trust Agreement.

"Trustee" means our trustee or CI Banco, S.A., Institución de Banca Múltiple.

"TW" means terawatt. One terawatt equals one trillion watts, one billion kilowatts, one million megawatts or one thousand gigawatts.

"TWh" means terawatt-hour—a unit of electrical energy equal to the work done by one TW acting for one hour.

"UDIS" means the units of account with a daily equivalence to Mexican pesos that automatically adjust the principal amount of an obligation considering the inflation rate. The value of the UDIS is published daily by *Banco de Mexico* in the Official Federal Gazette, considering the National Consumer Price Index (*Índice Nacional de Precios al Consumidor*).

"volt-ampere" means the unit used to measure the apparent power in an electrical circuit.

"voltage" means the energy level of electrons flowing in an electric current. A high voltage line carries electrons that are at a high energy level, and can transmit more power than a low voltage line with the same current flowing in it. The threshold for distribution in Mexico is <69kV. Transmission in Mexico is >69 kV.

"WEM" means the Wholesale Electricity Market (*Mercado Eléctrico Mayorista*).

"Wholesale Load Center" means facilities and equipment that, in a specific site, enables a corporate or commercial Market Participant that is connected to the NTN to receive electricity supply. The specific site of a Wholesale Load Center is determined at the measurement point of supplied electricity.

SUMMARY

This summary highlights selected information from this offering memorandum and may not contain all the information that is important to you. For a more complete understanding of us, our business and investments and this offering, you should carefully read this entire offering memorandum, including, without limitation, the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the CFE Transmisión Financial Statements and notes thereto, appearing elsewhere in this offering memorandum. Unless otherwise indicated herein, the information contained in this offering memorandum assumes that the Initial Purchasers' and the Mexican Underwriters' over-allotment option is not exercised, the formation transactions described herein have been completed and 750,000,0000 CBFEs Series A have been sold in the Global Offering at Ps.19.00 per CBFEs Series A.

Overview

We are a newly created Mexican FIBRA E (energy and infrastructure investment trust) formed by CFE Holding, through CFECapital, S. de R.L. de C.V., our Manager and an affiliate of CFE Holding, primarily to acquire and own interests in electricity transmission, generation and distribution assets, related infrastructure projects and other assets in Mexico consistent with our qualification as a FIBRA E. Following the completion of the Global Offering and the related formation transactions, we expect to be the first publicly traded FIBRA E focused on Mexico's growing electric power sector and the first publicly traded entity sponsored by CFE Holding. Our objective is to provide attractive risk-adjusted returns to holders of our CBFEs over the long term through distributions of our Net Taxable Income and capital appreciation.

Our strategy is focused on the acquisition and ownership of electric power and related assets or rights in Mexico that generate stable and growing cash flows. Initially, we intend to focus on rights related to electricity transmission. We believe that the transmission sector in Mexico presents attractive investment opportunities due to the long life of transmission assets, relatively low operating and maintenance costs and strong margins, the ability to generate stable revenues derived from a defined regulated tariff, and significant growth potential due to the substantial investment in the sector that will be required to meet the rising demand for electricity in Mexico. Following the completion of this Global Offering, we expect that our initial asset will consist of a 5.96% (or 6.85% if the Initial Purchasers' and the Mexican Underwriters' exercise their over-allotment option in full) economic ownership interest in the Promoted Trust, an affiliate of CFE Transmisión. CBFE Series A will represent an equivalent of 4.47% and subordinated CBFEs will represent an equivalent of 1.49% of total Beneficiary Rights of the Promoted Trust or 5.14% and 1.71% for Series A CBFEs and subordinated CBFEs, respectively, if the Initial Purchasers and the Mexican Underwriters exercise their over-allotment option in full.

CFE Transmisión is the subsidiary of CFE Holding which currently owns the entire NTN and is currently the sole provider of public transmission services in Mexico. As part of the formation transactions described elsewhere in this offering memorandum, CFE Transmisión assigned the Collection Rights under the CENACE Agreement to the Promoted Trust for a period of 30 years (the "Irrevocability Term") subject to extension with the prior approval of CFE Holding's board of directors. Accordingly, we will own an indirect interest in all such Collection Rights through our ownership interest in the Promoted Trust. The Collection Rights represent CFE Transmisión's revenues from the transmission services it provides to the WEM. At the conclusion of the Irrevocability Term, the Collection Rights will automatically revert to CFE Transmisión.

We believe that we will benefit from our relationship with our Manager and CFE Holding. CFE Holding, through its subsidiaries, is engaged in the generation, transmission, distribution and sale of electric power in Mexico. CFE is the largest power company in Latin America by installed generation capacity (55,891 MW as of December 31, 2017). For the nine-months ended September 30, 2017, CFE provided electricity to 41.9 million customer accounts, or approximately 98.6% of the Mexican population, and generated approximately 82.5% of the electric energy consumed in Mexico, 27.8% of which was generated by independent power producers or independent power plants (*central externa legada*). CFE reported total revenues of Ps.332.2 billion (U.S.$18.3 billion) and Ps.352.1 billion (U.S.$19.4 billion) during the nine months ended September 30, 2017 and year ended December 31, 2016, respectively, and had total assets of Ps.1,498.3 billion (U.S.$82.3 billion) and Ps.1,472.7 billion (U.S.$80.9 billion) as of September 30, 2017 and December 31, 2016, respectively.

We believe that Mexico's landmark Energy Reform has created compelling opportunities for the private sector to participate in Mexico's growing electricity industry. According to the PRODESEN, additional installed capacity of 55,840 MW, representing an increase of approximately 76% of current total capacity in Mexico of 73,510 MW, will be required between 2017 and 2031 to meet the growing demand for electricity in Mexico. According to the PRODESEN, this increase in capacity will require an estimated Ps.2,000 billion (U.S.$109.9 billion) of additional investment for the development of electric infrastructure projects over the next 14 years, including approximately Ps.219 billion (U.S.$12.0 billion) for transmission projects over the period 2017-2031. As a result, we believe that significant opportunities currently exist, and will continue to exist over the long-term, to invest in transmission, generation and distribution assets, related infrastructure projects and other assets in Mexico consistent with our qualification as a FIBRA E. We believe that we will be extremely well-positioned to capitalize on these opportunities as a result of our relationship with CFE and its affiliates, CFE Holding's experience with the SEN and its ability to understand the needs and advantages within the transmission sector, and our enhanced access to capital as a publicly traded FIBRA E.

We are organized as a Mexican trust and intend to qualify, and to be taxed, as a FIBRA E under the Mexican Tax Rules for FIBRAs E. In order to qualify to be taxed as a FIBRA E under current Mexican Tax Rules for FIBRAs E, we must distribute annually at least 95% of our Net Taxable Income and at least 70% of our assets must consist, through the ownership of interests in Eligible Entities, of assets that are related to energy or infrastructure, among other requirements. For a detailed description of FIBRAs E, see "About FIBRAs E."

The Electricity Transmission Sector

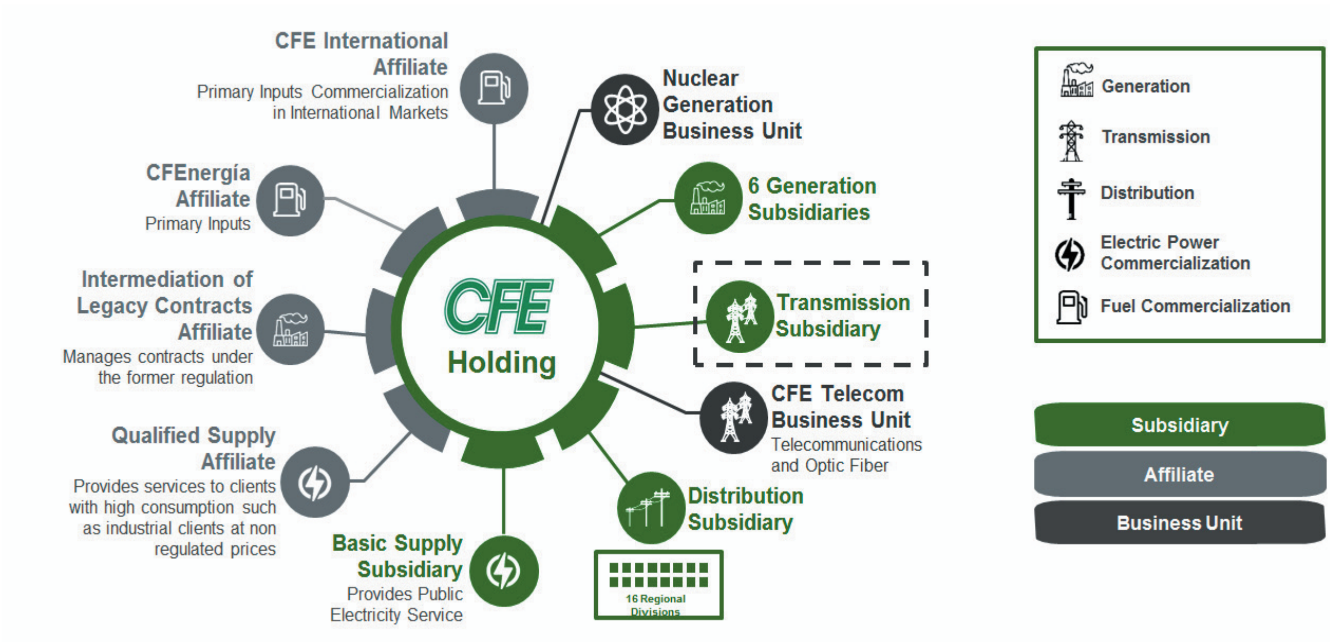
The Mexican energy industry, including the electricity sector, is currently experiencing a period of significant transformation as a result of the landmark Energy Reform, which was published on December 21, 2013 in the Official Gazette. Prior to the Energy Reform in Mexico, the transmission, distribution and commercialization of electricity were exclusive activities of the Mexican Federal Government carried out by CFE, Mexico's second largest state-owned company after the oil and gas company Petróleos Mexicanos ("Pemex"). The principal objective of the Energy Reform was to enable CFE and Pemex to focus on profitable activities while maintaining their strategic functions of providing public services and to open the energy industry to private investment. The implementation of the Energy Reform has resulted in a new legal framework that substantially modified the electricity industry in Mexico, creating operational and legal separation among key electric sector activities, including the transmission sector, as described below. Further, following the Energy Reform, CFE Holding and its productive state subsidiaries (including CFE Transmisión) are now able to use new capital raising structures, including FIBRAs E, to monetize the revenue streams from existing assets and raise capital from a diverse range of investors for investment in new projects.

The Mexican government introduced the Energy Reform in December 2013. This new regulatory and institutional framework opened competition through the energy industry value chain, attracting capital and technology.

CFE

CFE is the national power company of Mexico. CFE was created in 1937 through presidential decree and was converted by the Mexican Congress into a decentralized public entity of the Mexican Federal Government in 1949. As part of the Energy Reform, CFE was transformed into a productive state enterprise (*empresa productiva del Estado*) in October 2014, providing it with greater technical, operating and budgetary autonomy to achieve its corporate purpose of creating economic value. Further, CFE has undertaken a vertical and horizontal segregation of each of its key electric sector activities —generation, transmission, distribution and commercialization. As a result, CFE's new corporate structure includes a holding company (CFE Holding), nine productive state subsidiaries (*empresas productivas subsidiarias*) including six generation subsidiaries, one transmission subsidiary (CFE Transmisión), one distribution subsidiary and one basic supply subsidiary, as well as four other affiliated entities (not including our Manager) (*empresas filiales*) and two business units.

The chart below illustrates CFE's organizational structure:



CFE Transmisión and the NTN

CFE Transmisión was incorporated on March 29, 2016 as a productive state subsidiary of CFE Holding. The purpose of CFE Transmisión is to own the transmission infrastructure and provide the electricity transmission service in Mexico and the related financing, installation, maintenance, management, physical operation, expansion and modernization of the related infrastructure, while generating economic value and profitability for the Mexican Federal Government.

CFE Transmisión is the sole owner of the NTN, which is the electric transmission grid in Mexico. As of September 30, 2017, the NTN consisted of approximately 107,000 km of transmission and sub-transmission lines with voltages ranging from 69kV to 400kV. The NTN is comprised of (i) a backbone network (*red troncal*) integrated by transmission lines with a high voltage ranging from 161kV to 400kV and related substations, (ii) a sub-transmission network integrated by sub-transmission lines with a high voltage ranging from 69kV to 160kV and related substations and (iii) interconnections with foreign electric systems, as may be determined from time to time by the SENER. Within the NTN there are four electric systems, which consist of isolated systems located in Baja California, Mulegé and Baja California Sur, and the National Interconnected System. CFE Transmisión has nine regional offices that provide the service of electricity transmission, covering all 31 states in Mexico and Mexico City. Each regional office is divided into transmission zones, with a total of 55 zones.

CFE Transmisión's revenues from transmission of electricity are derived from the payment by Market Participants of a regulated tariff for the electricity transported through the NTN, which is collected by CENACE as described below. CFE Transmisión's total revenues were Ps.44,886 million (U.S. $2,467 million) and Ps.52,745 million (U.S.$2,898 million) during the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively, and CFE Transmisión's total assets were Ps.357,873 million (U.S.$19,665 million) and Ps.337,235 million (U.S.$18,531 million) as of September 30, 2017 and December 31, 2016, respectively. Although recently enacted legislation provides that other participants may enter the sector, as of the date of this offering memorandum, CFE Transmisión has a 100% market share of the electricity transmission market in Mexico.

CENACE

The CENACE is a decentralized public entity of the Mexican Federal Government that operates Mexico's WEM and manages the electricity market's transmission and distribution services. CENACE acts as an intermediary for transactions carried out by Market Participants, carriers and distributors, and is generally responsible for billing, invoicing and collecting the payments that CFE Transmisión is entitled to receive for providing electricity transmission services. As a result of the assignment by CFE Transmisión of its Collection Rights to the Promoted Trust, as described below under "—Our Initial Asset," the CENACE will invoice and collect payments from Market Participants for the transmission of electricity, and will then pay such amounts directly to the Promoted Trust.

CRE and the Transmission Tariff

Pursuant to Article 138 of the LIE, there are five regulated tariffs across the Mexican electricity sector: transmission, distribution, basic service supply operation, CENACE operation and related services not included in the WEM. CRE is responsible for determining and publishing the calculation and adjustment methodology for each of these regulated tariffs.

With respect to the transmission tariff, Market Participants pay a regulated tariff for the electricity transmitted through the NTN. These payments are collected by the CENACE, acting as an intermediary between CFE Transmisión and the direct users of the electricity transmission service. According to the LIE, the methodology behind transmission tariffs must be based on the recovery of efficient operation, maintenance and financing costs, depreciation, taxes and a reasonable profit. In September 2015, CRE issued a resolution setting forth the applicable rules for the transmission tariff during an initial three-year period from 2016 to 2018.

The calculation for the transmission tariff defines the "required income" that guarantees the repayment of total costs associated with the transmission service and a capital return. The calculation for required income is as follows:

<table>
<tr><td rowspan="3">Required income = C + OMA – X</td><td>C</td><td>capital return and depreciation</td></tr>
<tr><td>OMA</td><td>operation, maintenance and administrative costs, taxes labor obligations, salaries and wages</td></tr>
<tr><td>X</td><td>1% efficiency on OMA costs</td></tr>
</table>

The tariff is set based on the total amount of required income divided by the total amount of energy transported through the NTN. Power Plants (or generators) pay 30% of the costs and Wholesale Load Centers (or consumers) pay the remaining 70%. The use of the NTN is based on two voltage levels: equal to or greater than 220kV and less than 220kV. As a result, there are four different tariffs, two for Power Plants and two for Wholesale Load Centers. The following table presents the transmission tariffs applicable for 2016, 2017 and 2018. The figures for 2017 were published by CFE Transmisión in the Official Gazette on January 16, 2017 and were based on the regulated tariffs published by CRE. On January 19, 2018, CFE Transmisión received a written notice from the CRE indicating the applicable transmission tariffs for 2018. CFE Transmisión issued a press release on January 22, 2018 with the new transmission tariffs applicable for 2018, which became binding for Market Participants upon their publication on January 29, 2018 in the Official Gazette.

Tensions and Market Participant	Tariffs for energy transported (Pesos / kWh) 2016	2017	2018[(3)]
Equal to or greater than 220kV for Power Plants[(1)]	Ps.0.0499	Ps.0.0531	Ps.0.0553
Equal to or greater than 220kV for Wholesale Load Centers[(2)]	Ps.0.0625	Ps.0.0668	Ps.0.0696
Less than 220kV for Power Plants[(1)]	Ps.0.0904	Ps.0.0961	Ps.0.1002
Less than 220kV for Wholesale Load Centers[(2)]	Ps.0.1424	Ps.0.1521	Ps.0.1585

(1) The tariff for Power Plants is applicable to Market Participants and for energy transported at the first interconnection point where energy is transported from the generators.

(2) The tariff for Wholesale Load Centers is applicable to all users participating as Market Participants, including suppliers, merchants who acquire energy from the WEM or their representatives, and extractions of energy at the last interconnection point where the energy is received by consumers.

(3) The 2018 tariffs became effective for the Market Participants on January 29, 2018 following their publication by CFE Transmisión in the Official Gazette.

The transmission tariff adjustment methodology was established by the CRE and became effective on January 1, 2016 for an initial period of three years. The tariff adjustment methodology for the initial period provides for an annual tariff update based on several weighted variables, including inflation and exchange rates. During the initial three-year period the tariffs will be adjusted annually with inflation weighted at 90%, exchange rates weighted at 10%, as reflected in the table below. In addition, the required income will be adjusted at a 1% efficiency rate per year of OMA costs, as reflected in the table below.

Elements that comprise the required income	2016 Millions of Pesos	2017 Millions of Pesos	2018 Millions of Pesos
OMA costs	Ps.21,833	Ps.22,353	Ps.22,477
Capital return and depreciation	Ps.22,854	Ps.22,425	Ps.22,549
Total required income	Ps.44,687	Ps.44,777	Ps.45,025

After the initial three-year period, the CRE is expected to periodically revise tariffs to adjust for capital expenses associated with new infrastructure projects and may review and update the adjustment methodology to include other factors. Transmission tariffs are a key element of CFE Transmisión's business and it intends to pursue capital reinvestments with the purpose of obtaining attractive returns. To achieve this goal, CFE Transmisión believes it is essential to align its levels of costs, losses and services with the transmission tariffs published by the CRE.

For more information, see "CFE Transmisión—Transmission Tariffs."

Our Initial Asset

Following the completion of the Global Offering and the related formation transactions, we expect that our initial asset will consist of Beneficiary Rights representing a 5.96% (or 6.85% if the Initial Purchasers and the Mexican Underwriters exercise their over-allotment option in full) economic ownership interest in the Promoted Trust. The Promoted Trust was formed primarily to own the Collection Rights and receive payments therefrom, establish mechanisms for the reimbursement of certain costs and expenses of CFE Transmisión relating to the public transmission of electricity, and make distributions to holders of Beneficiary Rights, including CFE Transmisión and us. As part of the formation transactions described elsewhere in this offering memorandum, CFE Transmisión assigned the Collection Rights to the Promoted Trust for a period of 30 years, with the possibility of extension subject to the approval of the board of directors of CFE Holding. CFE Transmisión's total revenues were Ps.44,886 million (U.S. $2,467 million) and Ps.52,745 million (U.S.$2,898 million) during the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. The assignment was permitted pursuant to the Amendment to the CENACE Agreement dated January 17, 2018. The electricity transmission service and all related assets, including the NTN, will remain with CFE Transmisión due to the constitutional and legal restrictions in Mexico.

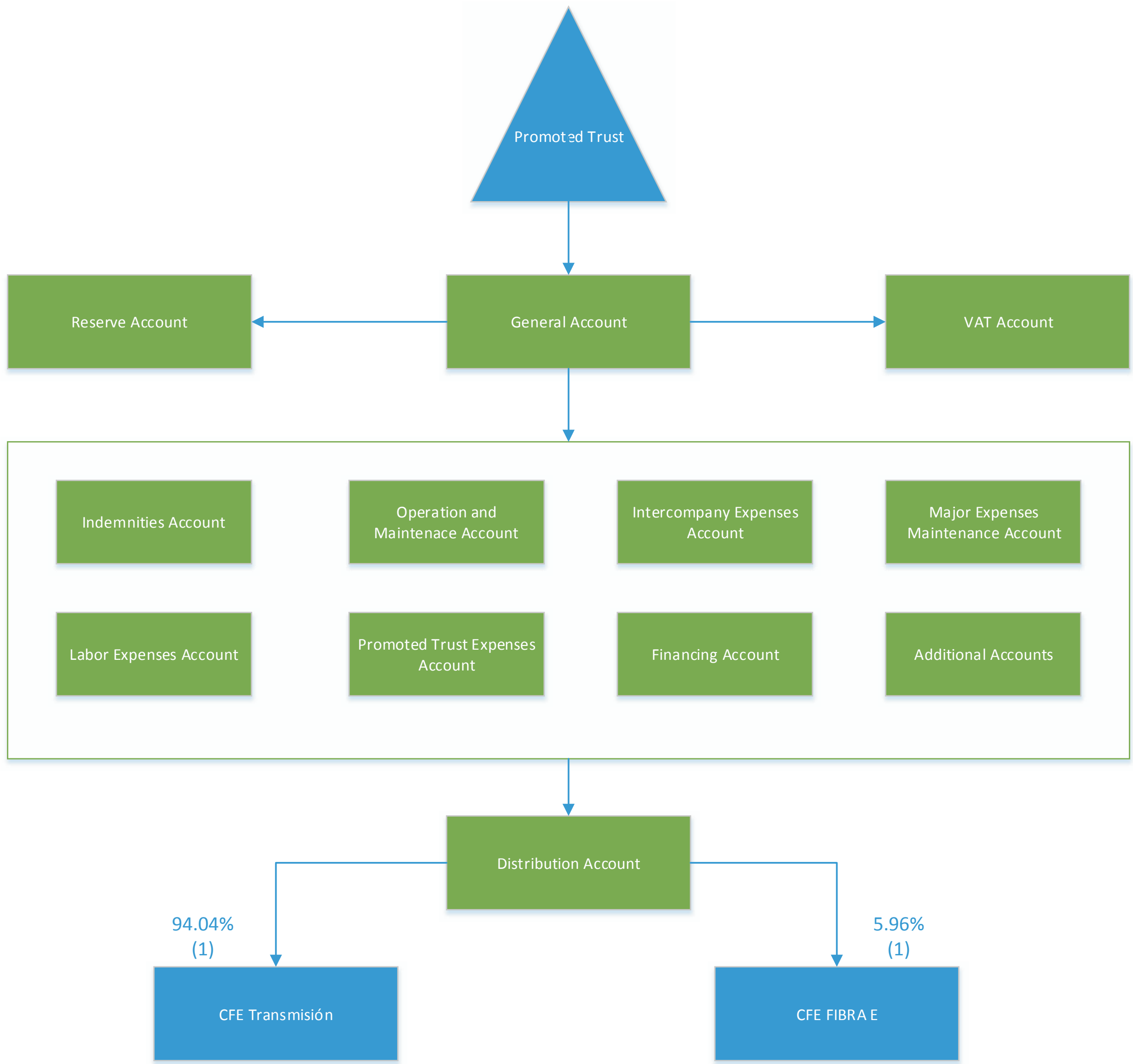
Immediately prior to the completion of this Global Offering, the Promoted Trust will be 100% owned by CFE Transmisión. As part of our formation transactions, we intend to acquire an ownership interest in the Promoted

Trust in the form of Beneficiary Rights using cash sourced from the net proceeds of the Global Offering and the issuance of subordinated CBFEs. The cash component of the purchase price for the Beneficiary Rights will be an amount equal to the net proceeds of the Global Offering, less approximately Ps.45.0 million (U.S.$2.5 million) that will be used by us for the creation of reserves and general corporate purposes. Accordingly, the actual amount of cash consideration that we will pay for the Beneficiary Rights will be determined based on the actual offering price of the CBFEs Series A in the Global Offering. As part of the consideration for the Beneficiary Rights, we will also issue to CFE Transmisión a number of subordinated CBFEs equal to 25% of the total CBFEs outstanding upon the completion of this offering and the formation transactions. Accordingly, the actual number of subordinated CBFEs that we will issue to CFE Transmisión will be determined based on the actual number of CBFEs Series A issued and sold in the Global Offering.

We will issue and sell 750,000,000 CBFEs Series A in this offering at a price per CBFE Series A of Ps.19.00. We intend to acquire Beneficiary Rights representing a 5.96% ownership interest in the Promoted Trust from CFE Transmisión for approximately Ps.13,549 million (U.S.$745 million) in cash sourced from the net proceeds of this offering and the issuance of 250,000,000 subordinated CBFEs. Accordingly, following the completion of this offering and the formation transactions, we expect that the Promoted Trust will be owned approximately 5.96% by us and 94.04% by CFE Transmisión, with our outstanding CBFEs Series A representing a 4.47% indirect ownership interest in the Promoted Trust and our outstanding subordinated CBFEs representing a 1.49% indirect ownership interest in the Promoted Trust. Assuming the exercise by the Initial Purchasers and Mexican Underwriters of their over-allotment option in full and our issuance and sale of an additional 112,500,000 CBFEs Series A in this offering at a price per CBFE Series A of Ps.19.00, we intend to acquire Beneficiary Rights representing an additional 0.89% ownership interest in the Promoted Trust for approximately Ps.2,091 million (U.S.$115 million) in cash using the net proceeds from the sale of such additional CBFEs Series A and the issuance of 37,500,000 subordinated CBFEs. Accordingly, assuming the exercise by the Initial Purchasers and the Mexican Underwriters of their over-allotment option in full, following the completion of this offering and the formation transactions we expect that the Promoted Trust will be owned 6.85% by us, and 93.15% by CFE Transmisión, with our outstanding CBFEs Series A representing a 5.14% indirect ownership interest in the Promoted Trust and our outstanding subordinated CBFEs representing a 1.71% indirect ownership interest in the Promoted Trust. Following the completion of the Global Offering, CFE Transmisión may transfer its subordinated CBFEs and its Beneficiary Rights under the Promoted Trust to CFE Holding and its affiliates and subsidiaries.

The Promoted Trust was created under the irrevocable management and payment trust agreement number 80758, or the Promoted Trust Agreement, which sets forth the rights and obligations of holders of interests in the Promoted Trust. Pursuant to the Promoted Trust Agreement, as a holder of Beneficiary Rights, we will be entitled to our *pro rata* share of any distributions of net cash flow made by the Promoted Trust. Any such distributions will be made after the payment of certain costs and expenses of the Promoted Trust and the reimbursement to CFE Transmisión of certain costs, expenses and investments related to the transmission of electricity business, such as operating and maintenance costs, labor costs, certain intercompany expenses directly related to the operation of transmission lines, certain capital expenditures and financing costs related to the expansion and modernization of the NTN (as long as they are recognized by the tariff), and other costs, expenses and investments necessary for the operation of the NTN. Such estimated aggregate amount to be reimbursed to CFE Transmisión will be subject to an annual budget, which may not be exceeded by over 5% without the prior approval of the majority of the members of the Promoted Trust's technical committee including all of the members appointed by us present at the applicable meeting, as described below. For the period between February 12 and December 31, 2018, the annual budget for the estimated reimbursement of costs and expenses to CFE Transmisión will be Ps.16,792 million. The Promoted Trust may reimburse CFE Transmisión certain expenses that are not included in the annual budget, subject to the prior approval of the members of the Promoted Trust's technical committee appointed by us. Likewise, the Promoted Trust may reimburse CFE Transmisión certain expenses related to contingencies derived from emergencies, force majeure or acts of god affecting the NTN, without the approval of the Promoted Trust's technical committee. For each subsequent year, the annual budget will be submitted by CFE Transmisión to the Promoted Trust's technical committee no later than December 5 of the prior year and may not be increased by more than the average rate of inflation observed in the prior twelve months without the prior approval of a majority of the members of the Promoted Trust's technical committee, including all of the independent members appointed by us present at the respective meeting. The Promoted Trust's technical committee will vote on the annual budget every year no later than December 15, provided that in the final year of a federal administration term in Mexico, the submission and approval dates may be extended as requested by CFE Transmisión.

As set forth in the diagram below, the expenses of the Promoted Trust and the costs and expenses that are to be reimbursed to CFE Transmisión will be managed in a general account (the "General Account") and the funds will then be separated into accounts in accordance with the reimbursement instructions given by CFE Transmisión and subject to the annual budget, as set forth below.



(1) If the Initial Purchasers and the Mexican Underwriters exercise their over allotment option in full, we expect that the Promoted Trust will be owned 6.85% by us and 93.15% by CFE Transmisión.

The Promoted Trust's technical committee is comprised of six members. The Promoted Trust Agreement provides that we will have the right to appoint three members to the Promoted Trust's technical committee. The three members that we appoint must be independent members of our Technical Committee. The remaining members of the Promoted Trust's technical committee will be appointed by CFE, with one member appointed by CFE Transmisión and two members by CFE Holding.

Pursuant to the Promoted Trust Agreement, at least five members of the Promoted Trust's technical committee, including at least two of the members appointed by us, must be present to have a quorum for a meeting.

The following decisions require the prior approval of all the members of the Promoted Trust's technical committee appointed by us that are present at the applicable meeting:

(i) determining, approving and instructing the early termination of the Promoted Trust Agreement;

(ii) determining, approving and instructing the early termination of the CENACE Agreement or any material amendment to such agreement;

(iii) establishing the general guidelines with respect to Related Party transactions that will not require additional approval for execution;

(iv) approving the execution of Related Party transactions with the Promoted Trust in accordance with Section 8.1 of the Promoted Trust Agreement;

(v) approving any amendments to the Promoted Trust Agreement that adversely affect our rights under the Promoted Trust Agreement, that adversely affect our rights relating to the Promoted Trust's technical committee, or that modify CFE Transmisión's obligations pursuant to the Promoted Trust Agreement;

(vi) approving the prepayment of costs and expenses to CFE Transmisión;

(vii) reviewing the annual budget and any amendment to the annual budget and, approving the annual budget if any line item in the annual budget contemplates an increase above the inflation rate observed during the most recent twelve-month period ending October 31;

(viii) approving the reimbursement to CFE Transmisión of any expense included in the annual budget that exceeds by five percent the amounts previously included in such annual budget;

(ix) approving guidelines for the reimbursement to CFE Transmisión of Contingent Financings outside the annual budget in connection with the operation of the NTN that CFE Transmisión may require from time to time, as a result of emergencies, *force majeure* or acts of god events, and such expenses that are related to extraordinary repairs or maintenance of the NTN;

(x) approving the funds that will be considered CFE Transmisión Financings for purposes of the Promoted Trust;

(xi) approving the reimbursement of costs and expenses of CFE Transmisión not included in the Promoted Trust Agreement, or exceeding those included in the annual budget;

(xii) approving the removal and/or substitution of the Promoted Trust's Trustee;

(xiii) reviewing reimbursements made to CFE Transmisión and calculating distributions to the holders of the Beneficiary Rights;

(xiv) approving any of the Promoted Trust's expenses not expressly included in the annual budget that is reasonably proposed by CFE Transmisión;

(xv) amending the reserve of funds of the Promoted Trust;

(xvi) approving any additional contribution to the Promoted Trust; and

(xvii) approving the execution by CFE Transmisión of hedge agreements and bilateral agreements with Market Participants; provided that such approval may only be granted if the collection rights under such agreement are assigned to the Promoted Trust's Trustee.

Our Distribution Policy

We intend to qualify and to be taxed as a FIBRA E under the Mexican Tax Rules for FIBRAs E. In order to qualify to be taxed as a FIBRA E under the current Mexican Tax Rules for FIBRAs E, we must distribute annually at least 95% of our Net Taxable Income.

We intend to pay a Minimum Quarterly Distribution of 0.575 per CBFE, to the extent we have cash available to make such distributions. Before we make any Minimum Quarterly Distributions to holders of our subordinated CBFEs, holders of our CBFEs Series A will be entitled to receive payment of the full Minimum Quarterly Distribution for such quarter plus any arrears in distributions of the Minimum Quarterly Distribution from prior quarters. Upon the completion of this Global Offering, approximately 750,000,000 CBFEs Series A will be outstanding (or 862,500,000 CBFE Series A if the Initial Purchasers and Mexican underwriters exercise their over-allotment option in full), and CFE Transmisión will own an aggregate of 250,000,000 subordinated CBFEs (or 287,500,000 subordinated CBFEs if the Initial Purchasers and Mexican underwriters exercise their over-allotment option in full). In the second quarter following the completion of this Global Offering, we intend to pay a prorated distribution on our CBFEs covering the period from the completion of this Global Offering through June 29, 2018, based on the actual length of that period.

In accordance with the instructions received from the Manager, the FIBRA E Trust Agreement requires the Trustee to distribute the Amount to be Distributed each quarter as follows:

(i) *First*, the Amount to be Distributed will be distributed to the holders of CBFEs Series A on a pro rata basis, until each holder of CBFEs Series A receives the Minimum Quarterly Distribution, plus any unpaid Minimum Quarterly Distributions from previous quarters, if applicable;

(ii) *Second*, the excess of the Amount to be Distributed, once the distributions referred to in subsection (i) above have been fully completed, will then be distributed to the holders of subordinated CBFEs on a pro rata basis, until each holder of subordinated CBFEs receives the Minimum Quarterly Distribution, plus any unpaid Minimum Quarterly Distributions from previous quarters, if applicable; and

(iii) *Third*, the excess of the Amount to be Distributed once the distributions referred to in subsections (i) and (ii) above have been fully completed, will then be distributed to the holders of CBFEs Series A and subordinated CBFEs on a pro rata basis.

In order for us to be able to make distributions to the holders of the CBFEs, the Promoted Trust must have previously made distributions derived from the Beneficiary Rights under the Promoted Trust. This distribution ultimately depends on the cash flow and funds that the Promoted Trust receives from the Collection Rights. We cannot guarantee, however, that we will pay distributions on our CBFEs at our Minimum Quarterly Distribution rate or at any other rate in any quarter.

We will not be able to make Distributions from borrowings. For more information regarding our distribution policy, see "—Distribution Policy."

Subordinated CBFEs and related transfer restrictions

As part of the consideration that we will pay for the acquisition of Beneficiary Rights of the Promoted Trust, we will issue to CFE Transmisión a number of subordinated CBFEs equal to 25% of our outstanding CBFEs upon completion of the Global Offering and the formation transactions. CFE Transmisión may transfer its subordinated CBFEs to CFE Holding and its productive state subsidiaries and affiliates, but only CFE Holding, its productive state subsidiaries (including CFE Transmisión) and affiliates will be permitted to own subordinated CBFEs. CFE Holding or its productive state subsidiaries and affiliates are required to maintain their ownership of the subordinated CBFEs and may not sell or transfer the subordinated CBFEs they own to any third party. In the event of additional issuances of CBFEs the proceeds of which are used for the acquisition of or investments in Eligible Entities owned by CFE Holding or its productive state subsidiaries and affiliates, CFE Holding or its productive state subsidiaries and affiliates shall acquire or receive as consideration in exchange for assets, at a price per subordinated CBFE equal to the offering price, a number of subordinated CBFEs in each such issuance that is at least equal to 25% of the total CBFEs issued and offered in connection with such additional issuance of CBFEs.

We are not required to obtain the approval of the CBFE Holders' Meeting for the issuance of the subordinated CBFEs to comply with the above.

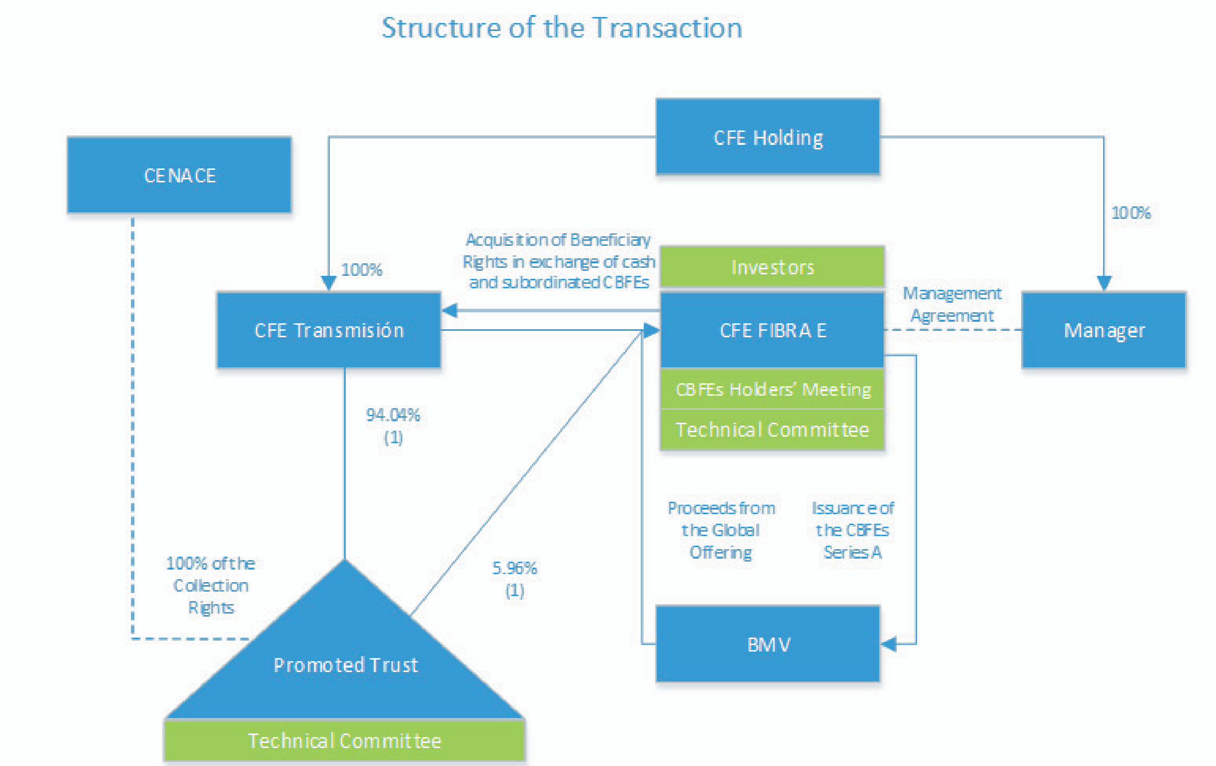
Formation Transactions

Prior to, concurrently with or immediately following the completion of this Global Offering, the following transactions, which we refer to as the "formation transactions," will occur to facilitate this Global Offering and enable us to qualify as a FIBRA E under Mexican Income Tax Law: (1) the Amendment to the CENACE Agreement, pursuant to which CFE Transmisión receives the payment of corresponding tariffs for rendering the service of transmission through the NTN, in order to allow CFE Transmisión to assign the Collection Rights to the Promoted Trust; (2) the irrevocable assignment by CFE Transmisión in favor of the Promoted Trust of 100% of the Collection Rights under the CENACE Agreement for the Irrevocability Term in exchange for 100% of the Beneficiary Rights under the Promoted Trust; (3) the establishment of certain accounts in the Promoted Trust, in order to transfer funds to CFE Transmisión and pay for certain costs, expenses and investments related to the transmission business in accordance with the annual budget, as established by the Promoted Trust Agreement; and (4) our indirect acquisition of 5.96% of the Beneficiary Rights under the Promoted Trust from CFE Transmisión, using cash sourced from the net proceeds of the Global Offering and the issuance and delivery of subordinated CBFEs. Beneficiary Rights indirectly owned by the CBFEs Series A holders will not exceed 6.00% without the prior approval of the board of directors of CFE Holding.

The cash proceeds received by CFE Transmisión from the assignment of 5.96% of the Beneficiary Rights of the Promoted Trust to us will be used to meet its operational and investment needs in the electric energy transmission business and for general corporate purposes.

Our Structure

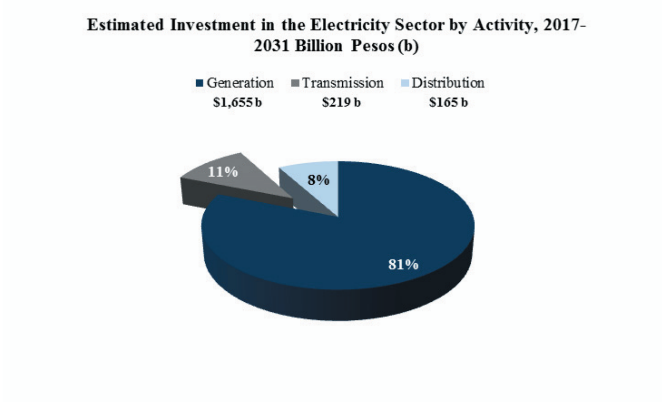
The following chart sets forth our structure after giving effect to this Global Offering and the formation transactions:



(1) If the Initial Purchasers and the Mexican Underwriters exercise their allotment option in full, we expect that the Promoted Trust will be owned 6.85% by us and 93.15% by CFE Transmisión

Market Opportunities

We believe we have the characteristics and competitive advantages necessary to benefit from the opportunities in the Mexican energy sector, specifically because of the national growth in electricity demand and the changes in regulation that arose as a result of the Energy Reform. According to the PRODESEN, an additional capacity of 55,840 MW will be required during the period 2017-2031, an increase of 76% as compared to 2016 capacity (73,510 MW) to meet the electricity demand in Mexico. Based on the PRODESEN, this will require an investment of approximately Ps.2,000 billion (U.S.$109.9 billion) for the development and execution of electric infrastructure projects through 2031. As shown below, 81% of the estimated investments projected in the PRODESEN are related to generation projects, 11% are related to transmission projects and 8% are related to distribution projects.



Source: PRODESEN 2017-2031

For transmission related projects, 97% of estimated investments correspond to expansion of the transmission lines, while the remaining 3% corresponds to modernization projects of the NTN. The PRODESEN estimates investments of nearly Ps.219 billion (U.S.$12.0 billion) through 2031 for transmission projects, as shown in the table below.

Estimated Investment Evolution for expansion and modernization of the NTN 2017-2031 (in millions of Mexican Pesos)

Projects	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**Total**
PRODESEN Projects	6,216	15,940	38,537	42,095	33,739	16,346	3,734	1,312	1,600	1,479	1,039	396	55	-	-	162,488
Financed Public Projects	17,049	8,645	3,001	1,166	281	244	56	-	-	-	-	-	-	-	-	30,442
Budgetary Public Projects	514	159	22	-	-	-	6	8	6	-	-	-	-	-	-	715
Medium- and Long-term Projects	-	-	-	93	1,514	2,589	2,424	1,806	2,320	2,251	1,725	1,207	938	698	591	18,156
Expansion[1]	**23,779**	**24,744**	**41,560**	**43,354**	**35,534**	**19,179**	**6,220**	**3,126**	**3,926**	**3,730**	**2,764**	**1,603**	**993**	**698**	**591**	**211,801**
Modernization[2]	**966**	**2,532**	**2,541**	**1,277**	**343**											**7,659**
Total	**24,745**	**27,276**	**44,101**	**44,631**	**35,877**	**19,179**	**6,220**	**3,126**	**3,926**	**3,730**	**2,764**	**1,603**	**993**	**698**	**591**	**219,460**

[1] Program for the expansion of transmission lines
[2] Modernization projects are planned for 2017-2021. There are no plans for long-term modernization projects.
Source: PRODESEN 2017-2031with data from CENACE

Based on the investment needs estimated for the expansion and modernization of the NTN as described in the PRODESEN, the table below lists each of the transmission projects instructed to CFE Transmisión by SENER that are expected to be developed during the next five years.

Project Name
Guadalajara Industrial
Compensación Capacitiva Occidente
Compensación Capacitiva Baja California, Baja California Sur – Noroeste
Enlace Asíncrono Back-to-Back 150 MW
Potrerillos Banco 4
Chichi Suárez Banco 1
Implementación de Sistemas de Medición para el Mercado Eléctrico Mayorista de CFE Transmisión 2017-2020
Ascensión II Banco 2
Red Eléctrica Inteligente 2017-2021
Interconexión Baja California – Imperial Irrigation District
Querétaro Banco I
El Habal Banco 2
Donato Guerra
Compensación Reactiva Inductiva en SERI
Compensación Reactiva Inductiva en Esperanza
Izúcar de Matamoros MVAR

Project Name
Esfuerzo MVAR
Tabasco Potencia MVAR
Meneadero Entronque Ciprés – Cañón
Alvarado II y San Andrés II MVAR
Amozoc y Acatzingo MVAR
Kilómetro 110 Tulancingo
Frontera Comalapa MVAR
El Arrajal Banco 1
El Carrizo MVAR
Transmisión La Laguna
Incremento de Capacidad de Transmisión entre las regiones de Puebla, Temascal, Coatzacoalcos, Grijalva y Tabasco
Suministro Oaxaca – Huatulco
Interconexión Sin-Baja California Sur
LT CD Ixtepec Potencia – Yautepec Potencia

Source: CFE

These projects represent an estimated total amount of Ps.76 billion (U.S.$4.2 billion) and accounts for nearly 35% of total expected investment for the period between 2017 and 2031. As a result, we believe that we are strategically positioned to seize the growth opportunities in the transmission sector through the development of these projects and additional projects set by the PRODESEN.

Competitive Advantages

We believe that we have the following competitive advantages:

Strategic Position to Capture Potential Growth in the Electricity Transmission Business. As of the completion of this Global Offering, we expect to be the first and only publicly listed FIBRA E focused on the transmission business in Mexico and the first publicly traded company formed by CFE. We believe that we are strategically positioned to capture growth opportunities in the transmission sector for the following reasons:

- CFE Transmisión is the sole owner and operator of the NTN, and as of the date of this offering memorandum, the only participant in the public transmission service.

- The Promoted Trust will own 100% of the Collection Rights associated with the revenues of the public transmission service provided by CFE Transmisión and thus will be the primary beneficiary of any increase in transported energy volume or tariffs.

- We will own Beneficiary Rights of the Promoted Trust and will benefit from our indirect interest in revenues from the transmission business and from any increase in tariffs resulting from new investments for the development of productive infrastructure projects instructed by the SENER to CFE Transmisión.

- As a result of our first-mover advantage, and high barriers to entry for new market participants, we will be strategically positioned to capitalize on CFE's more than 80 years' experience and proven expertise in the operation, maintenance and development of the NTN, as well as its deep understanding of the industry and strong relationship with regulators and government agencies.

Exposure to a Business with Stable, Regulated and High-Quality Cash Flows. Our distributions will be directly related to the Collection Rights from CFE Transmisión under the CENACE Agreement, which are derived from transmission volumes and tariffs. Transmission tariffs are regulated and determined by the CRE, resulting in stable and inflation-indexed cash flows for the Promoted Trust. Additionally, the Promoted Trust will be subject to a defined payment waterfall pursuant to which it will reimburse CFE Transmisión for costs, expenses and investments directly related to the operation, maintenance and development of the transmission infrastructure, in accordance with our annual budget. We will appoint three of the independent members of our Technical Committee to serve on the Promoted Trust's technical committee and will be able to exercise supervisory powers and oversight over reimbursements by the Promoted Trust of CFE Transmisión. In addition, reimbursements will be paid based on an annual budget and agreed limits for cost, expense and investment increases. We believe the stability of the transmission revenues derived from a regulated tariff, together with a defined cost, expense and investment reimbursement structure that is subject to supervisory control and oversight by independent members of our Technical Committee, will provide high-quality and stable cash flow for the Promoted Trust and, ultimately, holders of CBFEs.

High Quality, Long-Lived Assets with Low Operating and Capital Requirements. The transmission business is an attractive investment opportunity because of its long-lived assets with low operating expenses and maintenance costs, which we believe has the potential to result in higher operating margins relative to other electric power sectors. CFE Transmisión's EBIT margin was 44.0% for the nine months ended September 30, 2017, 53.3% for the year ended December 31, 2016 and 41.9% for the year ended December 31, 2015. We believe this Global Offering provides the opportunity for investors to gain exposure to a profitable and predictable long-term business.

Strong Corporate Governance that Aligns Interests among the Promoted Trust, the Manager, CFE Holding, CFE Transmisión and Us. We have structured our relationship with CFE Holding, CFE Transmisión, our Manager and the Promoted Trust to closely align their interests with our interests and those of the holders of our CBFEs Series A, as follows:

- Strong Corporate Governance
    - Following the completion of this Global Offering, our Technical Committee will be comprised of a majority of independent members, three of whom will serve on our Conflicts Committee. Our Conflicts Committee, which will be comprised exclusively of independent members who will be responsible for, among other duties, reviewing and approving matters that may involve conflicts of interests.
    - We will have significant oversight and supervisory powers over the Promoted Trust. Three of the independent members of our Technical Committee will also serve as members of the Promoted Trust's technical committee which will consist of six total members. The following matters, among others, will be subject to the prior approval of a majority of the members of the Promoted Trust's technical committee, including all of the independent members appointed by us present at the respective meeting: (i) the Promoted Trust's financial statements, (ii) additional costs, expenses and investments to be reimbursed by the Promoted Trust to CFE Transmisión, (iii) an early termination of the Promoted Trust, and (iv) the execution by CFE Transmisión of hedge or bilateral agreements with Market Participants.
- Significant, multilevel participation of CFE Holding and CFE Transmisión in us and the Promoted Trust
    - Following the completion of this Global Offering and the formation transactions, CFE Transmisión will own approximately 5.96% of the Beneficiary Rights of the Promoted Trust and CFE Holding or its productive state subsidiaries (including CFE Transmisión) and affiliates will together hold a 25% interest in us. As a result, we believe CFE Holding or its productive state subsidiaries (including CFE Transmisión) and affiliates will be highly incentivized to maximize the value of Beneficiary Rights of the Promoted Trust and our CBFEs.
- Subordination to CBFEs Series A
    - The subordinated CBFEs held by CFE Transmisión will be permanently subordinated to the CBFEs Series A held by investors in this Global Offering with respect to the Minimum Quarterly Distribution.

- Equity financing vehicle
    - CFE's and CFE Transmisión's interests are aligned with our interests because we provide CFE with a complementary financing platform due to the debt ceiling restrictions established by the Mexican Federal Government that CFE Holding and its productive state subsidiaries are subject to, the restrictions on obtaining PIDIREGAS financing and the capital expenditure requirements of CFE Transmisión.
- Long-term commitment
    - CFE Transmisión is committed to holding its subordinated CBFEs over the long-term and will be required to own at least 25% of the CBFEs outstanding upon the completion of the Global Offering and the formation transactions in the form of subordinated CBFEs.
    - In the event that we consummate follow-on offerings of our CBFEs the proceeds of which are used for the acquisition of or investments in Eligible Entities owned by CFE Holding or its productive state subsidiaries and affiliates, CFE Holding will acquire subordinated CBFEs representing at least 25% of the CBFEs issued and sold in any such subsequent offering, which will be subject to permanent transfer restrictions.

First-in-Class Sponsor with Proven Experience and a Privileged Position in the Transmission Business and across the rest of the Electricity Value Chain. CFE has more than 80 years of experience and proven expertise carrying out activities of generation, transmission, distribution, commercialization, fuel supply and related activities in the electricity segment. We believe that having CFE as our sponsor provides us with an unmatched competitive advantage in the electricity sector in Mexico. Our Manager is an affiliate of CFE Holding, providing us access to CFE Holding's accumulated experience and knowledge, as well as its close relationships with leading players in the electricity sector in Mexico and regulatory authorities, particularly the CRE. Additionally, executives of our Manager will be dedicated to our business. Furthermore, through our Manager, we will have access to potential investment opportunities throughout the entire electricity sector value chain, including generation and distribution. In the medium and long term, our Manager will seek to identify, select and capitalize on new investment opportunities in the electricity sector, as well as complementary opportunities consistent with our investment objectives.

Objectives and Growth Strategies

Organic Growth. We believe that there is significant embedded growth potential in the Collection Rights and, as a result, in the cash flows we will receive from our ownership of Beneficiary Rights in the Promoted Trust. We expect tariffs to increase over time as a result of annual inflation and exchange rate adjustments, as well as potential increases in transmission volumes within the existing network as a consequence of population and economic growth.

In addition, we expect tariffs to increase with the development of new transmission projects related to the expansion of the NTN. CFE Transmisión's investment in new infrastructure projects for the expansion of the NTN have a dual positive effect on revenues as they enable the growth of transmission volumes and the capital expenditures for these projects are also recognized in the tariff as a return on equity. The transmission market has extensive infrastructure needs, with a strong pipeline of projects identified, which we believe provides significant opportunities to grow transmission revenues over time.

Growth through the Acquisition of Additional Participation in CFE Transmisión's Business. Our primary source of growth will initially be through acquisitions of additional Beneficiary Rights from the Promoted Trust. These acquisitions will be financed primarily through proceeds from subsequent equity and debt issuances, as well as borrowings and operating cash flow that is not distributed to holders of our CBFEs. We will retain cash from Distributable Amounts, based on the Distribution Ratio, and from equity and debt issuances, for the purpose of making acquisitions and we will undertake these acquisitions with the objective of increasing distributions and delivering attractive risk-adjusted returns to the CBFE holders. In addition, we will seek to invest in Eligible

Entities other than the Promoted Trust focused on the transmission business through which CFE Transmisión could develop new transmission infrastructure.

Growth through Acquisition of other Assets. We have the flexibility to pursue potential acquisitions of other type of assets from CFE or third parties. Given that CFE is our sponsor, we may seek to diversify our sources of income in the medium and long term through investments in other related electricity businesses and their assets, such as generation, distribution and other eligible activities. The PRODESEN has a highly ambitious investment plan for the electricity sector to support the expected growth in demand. Based on the Manager's and CFE Holding's knowledge of the sector and experience in designing an efficient capital structure, we have competitive advantages and will seek to capitalize on opportunities in businesses complementary to transmission.

Financing Strategy

Immediately after the completion of the Global Offering, we will acquire Beneficiary Rights under the Promoted Trust. The acquisition of the Beneficiary Rights will be financed with the proceeds from the Global Offering and the issuance of subordinated CBFEs. The FIBRA E Trust Agreement provides that, for future acquisitions of Beneficiary Rights or investments in additional Eligible Entities, we will be able to select the optimal capital structure to complete the acquisition. For each acquisition, we expect to deploy the capital structure that will minimize the cost of capital for the CBFE holders and maximize their return. Although the FIBRA E Trust Agreement provides a leverage restriction of 50% of the accounting value of our assets, we do not currently expect to incur any indebtedness in the near term.

Our Corporate Governance

CBFE Holders' Meeting

The CBFE Holders' Meeting will be governed by the applicable provisions of the Securities Market Law (*Ley del Mercado de Valores*), the General Law of Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Credito*) and by the FIBRA E Trust Agreement.

Matters to be addressed by the CBFE Holders' Meeting include discussing and approving:

(i) any modification to our investment regime;

(ii) the leverage guidelines and the minimum limit of the debt service coverage ratio proposed by the Manager, which decision requires the vote of a majority of the members of our Technical Committee and the favorable vote of the members of our Technical Committee related to CFE, and any amendment to the leverage guidelines or approval of any other rules for obtaining any kind of financing;

(iii) the corrective plan proposed by the Manager and approved by the Technical Committee pursuant to the FIBRA E Trust Agreement, which decision requires the vote of a majority of the members of our Technical Committee and the favorable vote of the members of our Technical Committee related to CFE;

(iv) the removal and substitution of the Manager, with or without cause, pursuant to the terms of the Management Agreement and the FIBRA E Trust Agreement;

(v) any amendment to the purposes of the FIBRA E Trust Agreement;

(vi) the early termination or extension of the validity period of the FIBRA E Trust Agreement;

(vii) any additional issuance of CBFEs and the amount and terms of such issuance;

(viii) any amendment to the FIBRA E Trust Agreement, only in such circumstances that such amendment affects the rights of the holders of CBFEs;

(ix) any investment in Eligible Entities within a business sector other than the transmission and distribution of electricity;

(x) the independence and performance of independent members of our Technical Committee;

(xi) any proposal from our Nominations Committee or the Manager regarding the substitution of an independent member of our Technical Committee, as well as the renewal or removal of such independent members; and

(xii) any modification to any compensation payable by us to the Manager (including the Management Fee) or to any of the members of our Technical Committee.

Technical Committee

Our Technical Committee will act during the term of the FIBRA E Trust Agreement and will consist of a maximum of 21 members, with at least a majority of independent members. Initially, our Technical Committee will be composed of 5 members, of which 3 will be independent members and the remaining 2 members will be affiliated with CFE.

Each member of the Technical Committee will act in good faith and in our best interest and in the best interest of the CBFE holders. Pursuant to the FIBRA E Trust Agreement, the members of our Technical Committee are responsible, among others, for:

(i) reviewing the performance of the Manager and its compliance with its duties along with reviewing the quarterly performance report of the Manager;

(ii) reviewing and approving the investment proposals presented by the Manager, except for those that might require approval from our Conflicts Committee;

(iii) discussing and approving the methods and internal controls related to the presentation of the information related to the trust estate;

(iv) discussing and approving any debt, restructuring or refinancing proposed by the Manager, subject to the leverage guidelines approved by the CBFE Holders' Meeting;

(v) discussing and approving the appointment of an external auditor and our accounting advisers, as proposed by the Manager;

(vi) discussing and approving the Amount to be Distributed to holders and the distributions proposed by the Manager;

(vii) creating any committees that may be necessary for its purposes;

(viii) approving our financial statements with the prior approval of the Audit Committee;

(ix) determining the policies and guidelines for our liquidation; and

(x) approving any modification to the Minimum Quarterly Distribution.

In this respect, actions pursuant to subsections (iii), (iv), (v), (vi), (vii), (viii) and (ix) of the paragraph above will require approval by the majority of the independent members of our Technical Committee. Actions pursuant to subsection (x) of the paragraph above will require a unanimous vote of the members of our Technical Committee.

Conflicts Committee

Our Technical Committee will appoint at least three independent members from our Technical Committee to form our Conflicts Committee, which will have, among others, the following powers:

(i) discussing and approving transactions (including investments, divestments and acquisitions) that we intend make either (1) involving a Related Party or (2) involving entities or persons that may present a conflict of interest (each, a "Potential Conflict");

(ii) discussing and approving any transaction (including investments, divestments and acquisitions) that we intend to make that represents 5% or more of our trust estate;

(iii) discussing and approving the Distribution Ratio proposed by the Manager;

(iv) discussing and approving the appointment and substitution of the members of the Promoted Trust's technical committee;

(v) approving and submitting for approval of the CBFE Holders' Meeting any modification to any compensation payable by us to the Manager or to any of the members of our Technical Committee;

(vi) discussing and approving the appointment and removal of the key officers of the Manager;

(vii) approving and proposing a substitute Manager for the approval of the CBFE Holders' Meeting, provided that such substitute Manager must be an affiliate of CFE;

(viii) reviewing the Manager's annual budget and any amendment to the annual budget and, approving the annual budget if the annual budget contemplates an increase above the inflation rate observed during the most recent twelve-month period ending October 31; and

(ix) exercising and complying with all rights and obligations of the Promoted Trust's technical committee.

Audit Committee

Our Technical Committee will appoint at least three of its independent members, together with their respective substitutes, to create the Audit Committee which will have, among others, the following duties:

(i) monitoring compliance with accounting policies, internal control rules and audit rules applicable to us;

(ii) evaluating the performance of the external auditor and making the necessary recommendations to our Technical Committee pursuant to the FIBRA E Trust Agreement;

(iii) reviewing and approving the adoption of any new accounting policies proposed by the Manager; and

(iv) reviewing our financial statements and the financial statements of the Eligible Entities.

Nominations Committee

Our Nominations Committee will convene whenever there is a vacancy of an independent member of our Technical Committee. The members of the Nominations Committee will be all the remaining independent members of our Technical Committee and an additional member appointed by our Manager. Our Nominations Committee will have, among others, the duty of proposing to the Manager for its presentation to the CBFE Holders' Meeting a candidate to join the Technical Committee as an independent member. The Manager will be required to propose to the CBFE Holders' Meeting the person nominated by the Nominations Committee.

For more information regarding our Corporate Governance, see "Management of the Issuer".

Conflicts of Interest

We are subject to conflicts of interest arising out of our relationship with the Promoted Trust, the Manager, CFE Transmisión and their respective affiliates, including CFE Holding. However, we believe we have certain mechanisms in place to manage potential conflicts of interests. Under the FIBRA E Trust Agreement, at least a majority of the members of our Technical Committee are required to be independent members and each member has a duty to act in good faith and in our best interest and the interests of the CBFE holders. Additionally, the CBFE Holders' Meeting may approve the appointment and removal of the independent members of our Technical Committee and will review annually their independence and performance.

As discussed under our Corporate Governance above, our Conflicts Committee assists with resolving any potential conflicts of interests that we may have with Related Parties or other Potential Conflicts. For more information related to potential conflicts of interest, see "Conflicts of Interest," "Risk Factors— Risk Factors Related to Our Relationship with CFE Holding, CFE Transmisión, the Promoted Trust and the Manager" and "Management of the Issuer."

Risk Factors

An investment in our CBFEs involves risks associated with our and CFE Transmisión business, our structure as a FIBRA E, certain conflicts of interests, risks associated with our operations in Mexico and certain of our tax characteristics. You should carefully consider the risks described in "Risk Factors" and the other information in this offering memorandum before investing in these CBFEs. Please also read "Cautionary Statements Regarding Forward-Looking Statements."

Principal Offices

Our principal executive office is located at Paseo de la Reforma 164, Col. Juárez, 06600 Ciudad de México, México.

Recent Developments

On October 19, 2017, CFE Holding issued three series of Certificados Bursátiles (*Cebures*) (long-term notes) under its Shelf Registration in Mexico: (i) a Ps.3,000,000,000 fixed rate series due 2027, (ii) a Ps.1,500,000,000 floating rate series due 2020, and (iii) a 944,092,800 UDIS (approximately Ps.5,499,999,536) series due 2032. Each series will be guaranteed by all of CFE Holding's subsidiaries, including CFE Transmisión, pursuant to the guarantee agreement entered into on January 30, 2017 and further described in this offering memorandum. The fixed and variable rate series were reopenings of previous issuances. Neither the Issuer nor the Promoted Trust will guarantee any of the three series of long-term notes.

On December 7, 2017, SENER announced and published draft terms for the first tender for private investment and participation in transmission lines in Mexico. The project will consist in a bid for the financing, installation, maintenance, development and operation of the first interconnection of the isolated system of Baja California with the rest of the country through the National Interconnected System. Once the project is awarded, the CRE will determine the regulated tariff and CENACE will perform the payments directly to the carrier. The interconnection project will include two substations and a high voltage transmission line with a length of 1,400 km, with a capacity of 1,500 MW. The tender process is expected to be completed on September 2018.

On January 8, 2018, SENER published in the Official Gazette the manual for the development of the Market Rules. This manual includes the guidelines for evaluating, reviewing and amending the Market Rules. The manual states that CRE, CENACE and SENER are responsible for evaluating and reviewing the Market Rules to ensure that all Market Participants are subject to equal conditions.

Also on January 8, 2018, the SENER published in the Official Gazette the manual for hedge agreements for the transmission and distribution services. This manual includes the guidelines for the execution and registration with CENACE of hedge agreements and bilateral agreements between the Market Participants and carriers (including CFE Transmisión) or distributors of electric energy. These typse of agreements will enable Market Participants to enter into hedge agreements directly with the carrier or distributor and agree to pay the regulated tariffs for the transmission or distribution services to the carrier or distributor rather than CENACE. The tariffs to be paid by the Market Participants to the carrier or distributor will be the same regulated tariffs published by CRE. While this type of hedge agreement and bilateral transaction could potentially divert certain funds out of the CENACE Agreement if CFE Transmisión were to enter into such agreements or transactions, CFE Transmisión does not expect to execute any hedge agreement or enter into any bilateral transaction with any Market Participant. Nevertheless, if CFE Transmisión were to enter into such agreements or transactions, the Promoted Trust Agreement and the Assignment Agreement include provisions that require CFE Transmisión to obtain the prior approval of the Promoted Trust's technical committee (which requires the approval of a majority of the independent members of such technical committee appointed by the Fibra E) before entering into any such hedge agreements or bilateral transactions, which approval may be granted only to the extent that CFE Transmisión assigns all present and future collection rights derived from such hedge agreements or bilateral transactions to the Promoted Trust, to be used in accordance with the terms of the Promoted Trust Agreement.

On January 19, 2018, CFE Transmisión received a written notice from the CRE indicating the applicable transmission tariffs for 2018. The applicable tariffs for 2018 are shown in the chart below and were published in the Official Gazette on January 29, 2018:

Electricity transmission rates applicable in 2018		
Voltage Level	Power Plants	Wholesale Load Centers
Voltage ≥ 220 kV	Ps.0.0553	Ps.0.0696
Voltage < 220 kV	Ps.0.1002	Ps.0.1585

THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the CBFEs, see "Description of the CBFEs and Certain Provisions of the Fibra E Trust Agreement and Mexican Law" in this offering memorandum.

The Global Offering	750,000,000 CBFEs Series A
The International Offering	250,256,522 CBFEs Series A
The Mexican Offering	499,743,478 CBFEs Series A
Reallocations	The number of CBFEs Series A to be offered pursuant to the Global Offering is subject to reallocation by the Initial Purchasers and the underwriters in Mexico (the "Mexican Underwriters").
Over-allotment option	We have granted to the Initial Purchasers and the Mexican Underwriters an option, exercisable within 30 calendar days from the date of this offering memorandum, to purchase up to an aggregate of 112,500,000 additional CBFEs Series A to cover over-allotments, if any.
CBFEs outstanding upon the completion of this Global Offering	750,000,000 CBFEs Series A and 250,000,000 subordinated CBFEs (excludes up to 112,500,000 CBFEs Series A issuable upon exercise of the over-allotment option in full and up to 37,500,000 subordinated CBFEs issuable in connection with the acquisition of additional Beneficiary Rights if the over-allotment option is exercised in full).
Use of proceeds	We expect to receive net cash proceeds from the Global Offering of approximately Ps.13,594 million (U.S.$747 million), or approximately Ps.15,731 million (U.S.$864 million) if the Initial Purchasers and the Mexican Underwriters exercise their over-allotment option in full at the offering price of Ps.19.00 per CBFE, after deducting the Initial Purchasers' and Mexican Underwriters' transaction fees and estimated expenses of the Global Offering. We intend to use approximately Ps.45.0 million (U.S.$2.5 million) of the net proceeds of the Global Offering for the creation of reserves and for general corporate purposes and the remaining Ps.13,549 million (U.S.$745 million) to acquire from CFE Transmisión 4.47% of the Beneficiary Rights under the Promoted Trust. In connection with the completion of the Global Offering, we will acquire an additional 1.49% of total Beneficiary Rights of the Promoted Trust from CFE Transmisión in exchange for 250,000,000 subordinated CBFEs. Accordingly, following the completion of the Global Offering and the formation transactions, we expect that the Promoted Trust will be owned approximately 5.96% by us and 94.04% by CFE Transmisión. See "Use of Proceeds."

Voting rights	The Manager will manage and operate our business. Holders of the CBFEs will have only limited voting rights on matters affecting our business. Holders of the CBFEs will have no right to appoint the initial Manager. Holders of the CBFEs Series A will have the right to approve the substitution of independent members of our Technical Committee. The Nominations Committee will propose persons who are independent in order to substitute the independent members of the Technical Committee. The Manager may be removed with "cause" (as defined in the FIBRA E Trust Agreement) by the affirmative vote of at least 66% of the outstanding CBFEs Series A, and without "cause" by the affirmative vote of at least 75% of the outstanding CBFEs Series A and in both cases, the substitute manager must be an affiliate of CFE that is capable of, and legally eligible to, serve as manager. See "Management of the Issuer—Voting."
Term	The initial term of the FIBRA E and the Promoted Trust will be 50 years from the date thereof, subject in each case to the determination of CBFEs holders meeting and the Promoted Trust's technical committee, as applicable.
Transfer restrictions	We have not registered, nor do we expect to register, the CBFEs Series A under the Securities Act and, unless so registered, the CBFEs Series A may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See "Transfer Restrictions."
Settlement procedures	Settlement of the transfer of CBFEs Series A will be made through the book-entry system of Indeval.
Listing	We have applied to list the CBFEs Series A for trading on the BMV (*Bolsa Mexicana de Valores, S.A.B. de C.V.*) under the symbol "FCFE18".
Taxation	For certain Mexican and U.S. federal income tax consequences with respect to an investment in our CBFEs Series A, see "Taxation." For U.S. federal income tax purposes, we expect to be treated as a passive foreign investment company (a "PFIC") and U.S. Holders should consider making a "qualified electing fund" election with respect to our CBFEs Series A.

SUMMARY CARVE-OUT FINANCIAL AND OPERATING DATA OF CFE TRANSMISIÓN

We are a FIBRA E that, as of the date of this offering memorandum and as described throughout this offering memorandum, will not have any material operations or assets other than the ownership of Beneficiary Rights under the Promoted Trust. The Promoted Trust, as of the date of this offering memorandum and as described throughout this offering memorandum, will not have any material operations or assets other than the ownership of the Collection Rights assigned by CFE Transmisión. Accordingly, we have not presented our historical financial information or historical financial information for the Promoted Trust. Instead, we present the following historical carve-out financial information of the transmission business of CFE. The summary carve-out financial information and operating data presented in this section is derived only from CFE Transmisión accounting records or from the CFE Transmisión Carve-Out Financial Statements and relates only to CFE Transmisión. This information should be read in conjunction with "Presentation of Financial and Certain Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the CFE Transmisión Carve-Out Financial Statements included elsewhere in this offering memorandum. Because CFE Transmisión was created in March 2016 and only commenced operations as a separate legal entity in January 1, 2017, the only historical financial information on a stand-alone basis available for CFE Transmisión is the carve-out financial information included in this offering memorandum.

	Carve-Out Financial Information					
	For the Nine-Month Period Ended September 30,			**For the Year Ended December 31,**		
	2017	**2017**	**2016**	**2016**	**2016**	**2015**
	(in millions of U.S. dollars) (1)	**(in millions of Mexican pesos)**		**(in millions of U.S. dollars) (1)**	**(in millions of Mexican pesos)**	
Statement of Comprehensive Income Information						
Total revenue	2,467	44,886	39,434	2,898	52,745	48,288
Total costs	(1,336)	(24,307)	(6,019)	(785)	(14,280)	(28,031)
Operating income	**1,131**	**20,579**	**33,415**	**2,113**	**38,465**	**20,257**
Total financial cost	(36)	(661)	6,569	622	11,323	12,391
Income tax	350	6,372	(22,551)	(1,580)	(28,757)	4,222
Net income	**817**	**14,868**	**49,397**	**3,072**	**55,899**	**3,644**
Other comprehensive income:						
Re-measurements of employee benefits liabilities, net of deferred taxes	-	-	-	(75)	(1,362)	3,219
Recognition of the assumptions by the Federal Government in the setting of obligations for the employee benefit liabilities	-	-	-	587	10,685	-
Revaluation of installations and equipment	-	-	-	922	16,787	-
Cash flow hedging	24	444	724	66	1,207	(236)
Comprehensive income	**841**	**15,312**	**50,121**	**4,572**	**83,216**	**6,627**

(1) Translations into U.S. dollars of statement of comprehensive income amounts in Mexican pesos for the nine month period ended September 30, 2017, and for the year ended December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette.

	Carve-Out Financial Information				
	As of September 30,		As of December 31,		
	2017	2017	2016	2016	2015
	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)	
Statement of Financial Position					
Accounts receivables	1,436	26,131	134	2,436	1,434
Other current assets	63	1,153	89	1,614	1,365
Accounts receivables (non-current)	61	1,119	57	1,047	910
Installations and equipment, net	15,879	288,957	15,874	288,873	270,072
Derivative financial instruments	118	2,152	272	4,954	730
Other assets	1,531	27,864	1,528	27,814	27,761
Deferred income tax	577	10,497	577	10,497	-
Total assets	**19,665**	**357,873**	**18,531**	**337,235**	**302,272**
Short-term debt (2)	1,131	20,577	549	9,993	11,410
Other current liabilities (3)	1,081	19,668	82	1,509	991
Long-term employee benefit obligations (4)	1,939	35,277	1,889	34,367	61,425
Long-term debt (5)	5,237	95,300	6,222	113,229	95,468
Deferred income tax	-	-	-	-	17,704
Deferred revenue	31	560	33	594	1,448
Total liabilities	**9,418**	**171,382**	**8,775**	**159,692**	**188,446**
Total equity	**10,247**	**186,491**	**9,756**	**177,543**	**113,826**
Total liabilities and equity	**19,665**	**357,873**	**18,531**	**337,235**	**302,272**

(1) Translations into U.S. dollars of statement of financial position amounts in Mexican pesos as of September 30, 2017, and as of December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette.

(2) Represents current portion of documented intercompany debt due to CFE Holding plus current portion of PIDIREGAS debt.

(3) Represents liabilities derived from (i) suppliers and contractors, (ii) taxes and fees payable, (iii) other accounts payable and accrued liabilities, and (iv) deposits from users and contractors.

(4) Represents employee benefits plus provision for long-term employee benefit obligations upon retirement.

(5) Represents long-term documented intercompany debt due to CFE Holding plus long-term portion of PIDIREGAS debt.

	Carve-Out Information					
	As of and for the Nine-Month Period Ended September 30,			As of and for the Year Ended December 31,		
	2017	2017	2016	2016	2016	2015
(amounts in millions, except for ratios, percentages and GWh)	(U.S. dollars)(1)	(Mexican pesos)		(U.S. dollars)(1)	(Mexican pesos)	
Other Financial and Operating Information						
EBITDA (2)	1,633	29,716	41,250	2,689	48,932	28,835
Ratio of EBITDA to net interest expense (3)	44.93	44.93	(6.28)	(4.32)	(4.32)	(2.33)
Ratio of debt to EBITDA (4)	3.90	3.90	2.92	2.52	2.52	3.71
Ratio of debt to equity (5)	0.62	0.62	0.70	0.69	0.69	0.94
Capital expenditures (6)	173	3,141	3,140	475	8,638	7,767
GWh transported	231,625	231,625	221,653	292,228	292,228	283,013

(1) Translations into U.S. dollars of amounts in Mexican pesos as of and for the nine month period ended September 30, 2017, and as of and for year ended December 31, 2016, have been translated at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

(2) CFE Transmisión calculates EBITDA as earnings before interest, tax and depreciation and amortization. The ratios of EBITDA to net interest expense, debt to EBITDA and debt to equity are presented in this offering memorandum because CFE Transmisión believes that they are widely accepted as financial indicators of its ability to internally fund capital expenditures and service or incur debt. EBITDA and such ratios should not be considered as indicators of CFE Transmisión's financial performance, as alternatives to cash flow, as measures of liquidity or as being comparable to other similarly titled measures of other companies.

(3) Ratio of EBITDA to net interest expense, represents the measurement of how much income CFE Transmisión is earning (EBITDA) over its interest payments. Ratio is calculated by dividing EBITDA by interest expenses.

(4) Ratio of debt to EBITDA, measures the ability of CFE Transmisión to pay off its intercompany debt. This financial ratio is the result of dividing total debt by EBITDA. Debt includes documented debt and PIDIREGAS debt (plus interests and expenses pending amortization).

(5) Ratio of debt to equity is a financial ratio used to measure the leverage ratio, by comparing the total debt of CFE Transmisión with its total equity. This ratio indicates the percentage of financing of CFE Transmisión that comes from creditors, measures the relation between the levels of financing obtained from creditors and investors. In addition, it measures the coverage level that the company has over its capital to comply with its debt obligations in case of

liquidation. The ratio includes documented debt and PIDIREGAS debt (plus interests and expenses pending amortizations) short and long-term as the equity associated to CFE Transmisión.

(6) Does not include capital expenditures related to assets that were transferred to CFE Transmisión by other subsidiaries of CFE Holding pursuant to the terms of the TESL.

Reconciliation of CFE Transmisión's EBITDA to net income

The table below presents the reconciliation of CFE Transmisión's EBITDA to net income:

	Carve-Out Financial Information					
	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,		
	2017	2017	2016	2016	2016	2015
	(in millions of U.S. dollars)[(a)]	(in millions of Mexican pesos)		(in millions of U.S. dollars)[(a)]	(in millions of Mexican pesos)	
Earnings (net income)	817	14,868	49,397	3,072	55,899	3,644
Interest expense	(36)	(661)	6,569	622	11,323	12,391
Taxes	350	6,372	(22,551)	(1,580)	(28,757)	4,222
Depreciation	502	9,137	7,835	575	10,467	8,578
EBITDA	**1,633**	**29,716**	**41,250**	**2,689**	**48,932**	**28,835**

(a) Translations into U.S. dollars of amounts in Mexican pesos for the nine month period ended September 30, 2017, and for the year ended December 31, 2016, has been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

SUMMARY PRO FORMA FINANCIAL INFORMATION OF THE PROMOTED TRUST

The Promoted Trust's unaudited *pro forma* financial information presented below reflects: (i) the pro forma financial position of the Promoted Trust as of September 30, 2017 as if the Promoted Trust had been formed and the formation transactions had been completed on September 30, 2017; (ii) the pro forma financial position of the Promoted Trust as of December 31, 2016 as if the Promoted Trust had been formed and the formation transactions had been completed on December 31, 2016; and (iii) the pro forma income statement of the Promoted Trust for the nine-month period ended September 30, 2017 and the year ended December 31, 2016, as if the Promoted Trust had been formed and the formation transactions had been completed on January 1, 2016. The Promoted Trust's unaudited *pro forma* financial information is being provided solely for illustrative purposes and it is not necessarily indicative of results that would have occurred if the Promoted Trust had been created prior to January 1, 2016 and had it operated as a separate business during the periods presented, nor is it necessarily indicative of future results the Promoted Trust. This information should be read in conjunction with, and is qualified in its entirety by, the Promoted Trust's Pro Forma Financial Statements and accompanying notes.

	Promoted Trust Pro Forma Financial Information			
	For the Nine-Month Period Ended September 30,		**For the Year Ended December 31,**	
	2017	**2017**	**2016**	**2016**
	(in millions of U.S. dollars)[(1)]	**(in millions of Mexican pesos)**	**(in millions of U.S. dollars) [(1)]**	**(in millions of Mexican pesos)**
Statement of Operation Information				
Effect of valuation of financial instrument at fair value [(2)]	1,710	31,116	1,993	36,274
Total income	1,710	31,116	1,993	36,274
Trustee expenses	0.16	3	0.27	5
Total direct operating expenses	0.16	3	0.27	5
Total interest income, net	5.55	101	3.74	68
Net income	**1,715**	**31,214**	**1,997**	**36,337**

(1) Translations into U.S. dollars of statement of operation information amounts in Mexican pesos presented for the nine month period ended September 30, 2017, and for the twelve month period ended as of December 31, 2016, has been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

(2) Effect of valuation of the financial instruments at fair value represents the net gain (loss) associated with the valuation at fair value of the Promoted Trust's certificates classified as financial instruments for the purpose of the balance sheet, determined as set forth below:

	As of September 30,	
	2017	**2016**
	(in millions of Mexican pesos)	
Distributable remaining cash	29,560	34,460
Issuer shareholding	5.96%	5.96%
Distributions from shareholding in Promoted Trust	1,762	2,054

	Promoted Trust Pro Forma Financial Information			
	As of September 30,		As of December 31,	
	2017	2017	2016	2016
	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)
Statement of Financial Position				
Cash reserve initial contribution	14	250	14	250
Distributable cash reimbursement	91	1,657	103	1,882
Financial instruments designed at fair value with changes in the income statement (2)	19,420	353,398	19,420	353,398
Accounts receivable CENACE	116	2,118	103	1,871
Creditable VAT	10	176	9	160
Total assets	**19,651**	**357,599**	**19,649**	**357,561**
Suppliers and other operational accounts payable	79	1,431	71	1,294
Payable VAT	18	339	17	299
Total liabilities	**97**	**1,770**	**88**	**1,593**
Equity	19,420	353,398	19,420	353,398
Working capital initial contribution	43	774	38	688
Retained earnings	91	1,657	103	1,882
Total equity	**19,554**	**355,829**	**19,561**	**355,968**
Total liabilities and equity	**19,651**	**357,599**	**19,649**	**357,561**

(1) Translations into U.S. dollars of statement of financial position amounts in Mexican pesos presented as of September 30, 2017, and as of December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

(2) As part of the structure of the Promoted Trust, CFE Transmisión would irrevocably transfer for a period of 30 years its Collection Rights to the Promoted Trust. In exchange for the assignment of such Collection Rights, CFE Transmisión will acquire Beneficiary Rights from the Promoted Trust. As a result of the assignment of the Collection Rights and in connection with the formation transactions, CFE Transmisión will have a beneficial interest in the Promoted Trust with respect to 100% of the distributions to which such interest is entitled. For purposes of this pro forma information, the estimated total value of the Promoted Trust related to the contribution of Collection Rights is Ps.353,398 million, which is based on the price we will pay to acquire the 5.96% ownership interest in the Promoted Trust with the net proceeds of the Global Offering, assuming a price per CBFE of Ps.20.50. This estimated price was based on a financial model that considers the discounted cash flows associated with the Collection Rights and other factors. The summary of activities is set forth below:

	Summary of Activities	
	For the nine month period ended September 30, 2017 and for the year ended December 31, 2016	
	2017	2016
	(in millions of Mexican pesos)	
Cash receipts:		
Participation from collection rights(1)	43,997	51,804
Cash outflows:		
Remunerations and personnel benefits(2)	(4,731)	(6,314)
Maintenance, materials and general services(2)	(4,684)	(4,932)
Taxes and rights(2)	(29)	(96)
Trust expenses(2)	(3)	(5)
Expenses for retirement and pensions(3)	(2,930)	(3,388)
Security of operating assets(2)	(504)	(795)
Total expenses	(12,881)	(15,530)
Remaining amount to be distributed	**31,116**	**36,274**
Minimum distribution at 95%	29,560	34,460
Distributable cash reimbursement	1,556	1,814
Interest income, net	101	68
Total Distributable cash reimbursement	**1,657**	**1,882**

(1) Revenues according to reported historical figures of CFE Transmisión financial statements.
(2) Operating expenses determined and approved based on a payment instructions per the Promoted Trust Agreement.
(3) Corresponds to the expense for payment of pensions and retirement according the actuarial study for CFE Transmisión, considering that the mechanism for distribution is based on cash flows this concept only includes the payment of real labor obligations.

	Promoted Trust Pro Forma Financial Information, Payment Waterfall			
	For the Nine Month Period Ended September 30,		For the Year Ended December 31,	
	2017	2017	2016	2016
	(in millions of Mexican pesos)	(in millions of Mexican pesos)	(in millions of Mexican pesos)	(in millions of Mexican pesos)
	CFE Transmisión	Promoted Trust	CFE Transmisión	Promoted Trust
Reconciliation between CFE Transmisión and the Promoted Trust, Payment Waterfall				
Transmision service revenue	43,997	43,997	51,804	51,804
Other income	889	-	941	-
Total revenue	44,886	43,997	52,745	51,804
Salaries and related costs	4,731	4,731	6,314	6,314
Maintenance	4,213	4,213	4,399	4,399
Material	223	223	402	402
Technical services	248	248	131	131
Tax and duties	29	29	96	96
Administrative services	858	-	361	-
Labor obligations (benefit) cost	3,842	2,930	(10,353)	3,388
Loss on disposal of fixed assets	446	-	288	-
Depreciation	9,137	-	10,467	-
Operating assets security	504	504	795	795
Non-operating Income (Expense)	1	-	-	-
Other expenses	75	-	1,380	-
Trust expenses	-	3	-	5
Total costs	24,307	12,881	14,280	15,530
Operating results / Remaining amount to be distributed	**20,579**	**31,116**	**38,465**	**36,274**
Minimum distribution at 95%	**-**	**29,560**	**-**	**34,460**
Distributable cash reimbursement	-	1,556	-	1,814
Net interest income	-	101	-	68
Total Distributable cash reimbursement	**-**	**1,657**	**-**	**1,882**

(1) The table above represents the reconciliation between CFE Transmisión's operating income and net reimbursement granted from the Promoted Trust. According to the Promoted Trust Agreement, only operating revenues and operating expenses are part of the waterfall payments. Expenses such as fixed assets disposals, depreciation, administrative services and other expenses are not considered as reimbursable operating expenses. At every distribution, the Promoted Trust will retain (from the total of distributable operating results) an amount equivalent to 5% of the distributable cash reimbursements. For balance sheet purposes, such amount is recorded within distributable cash reimbursement line item, which also includes interest income (net) amounts.

SUMMARY PRO FORMA FINANCIAL INFORMATION OF THE ISSUER

Our *pro forma* financial information presented below reflects: (i) our pro forma financial position as of September 30, 2017 as if we had been formed and our formation transactions had been completed on September 30, 2017; (ii) our pro forma financial position as of December 31, 2016 as if we had been formed and our formation transactions had been completed on December 31, 2016; and (iii) our pro forma income statements for the nine-month period ended September 30, 2017 and the year ended December 31, 2016 as if we had been formed and our formation transactions had been completed on January 1, 2016. Our *pro forma* financial information is being provided solely for illustrative purposes and is not necessarily indicative of results that would have occurred if we had been created and our formation transactions had been completed prior to January 1, 2016 and operated as a separate business during the periods presented, nor is it necessarily indicative of our future results. This information should be read in conjunction with, and is qualified in its entirety by, our Pro Forma Financial Statements, included elsewhere in this offering memorandum.

	Issuer Pro Forma Financial Information			
	For the Nine-Month Period Ended September 30,		For the Year Ended December 31,	
	2017	2017	2016	2016
	(in millions of U.S. dollars) [(1)]	(in millions of Mexican pesos)	(in millions of U.S. dollars) [(1)]	(in millions of Mexican pesos)
Income derived from Investments				
Effect for fair value of financial instruments [(2)]	97	1,762	113	2,054
Trust operating expenses	3	51	4	68
Interest income, net	1	5	0	3
Trust operating results	**95**	**1,716**	**109**	**1,989**

(1) Translations into U.S. dollars of income derived from investment amounts in Mexican pesos for the nine month period ended as of September 30, 2017, and for the year ended as of December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate. Unless otherwise indicated.

(2) For practical purposes, the effect of the fair value of the financial instruments is equivalent to the total amount associated with cash distributions to us derived from our participation in the Promoted Trust. This cash distribution follows the guidelines determined in accordance with the Promoted Trust Agreement, according to which, the cash distributions are recognized based on the remaining distributable cash from the Promoted Trust corresponding to its participation (5.96%). Note that capital distributions means each and every amount of cash received from dividends, distributions, reductions, reimbursements, amortizations or any other distributions of capital, products, quantities, or other benefits of any nature payable in cash, arising from or related to shares, or resources from disinvestment or sale, of the Issuer in any eligible entity.

	Issuer Pro Forma Financial Information			
	As of September 30,		As of December 31,	
	2017	2017	2016	2016
	(in millions of U.S. dollars)[1]	(in millions of Mexican pesos)	(in millions of U.S. dollars) [1]	(in millions of Mexican pesos)
Statement of Financial Position				
Cash (not distributed) subject to capital re-investments	5	91	6	102
Financial instruments designated at fair value with changes in the income statement [2]	1,126	20,500	1,126	20,500
Total assets	**1,131**	**20,591**	**1,132**	**20,602**
Trust equity	1,126	20,500	1,126	20,500
Retained earnings	5	91	6	102
Total liabilities and equity	**1,131**	**20,591**	**1,132**	**20,602**

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(1) Translations into U.S. dollars of statement of financial position amounts in Mexican pesos as of September 30, 2017, and as of December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

(2) As part of the structure, we will acquire a 5.96% participation of the Beneficiary Rights under the Promoted Trust. According to the preliminary valuation of these Beneficiary Rights, the estimated sale price is deemed to be Ps.20.50 per CBFE, which corresponds to the midpoint of the range of prices set forth on the cover page of this offering memorandum. The total expected amount to be received from the sale of the Promoted Trust's Beneficiary Rights to us is Ps.20,500 million. This value is reflected as a financial instrument on our balance sheet.

RISK FACTORS

An investment in the CBFEs Series A involves a high degree of risk. In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our structure as a FIBRA E could materially affect our future performance and results of operations. You should carefully review the following risk factors, together with the other information contained in this offering memorandum, before deciding whether this investment is suited to your particular circumstances. Any of these risks could have a material adverse effect on our performance, financial condition, cash flows and results of operations, which could, in turn, affect our ability to pay distributions to the holders of the CBFEs Series A. The trading price of the CBFEs Series A could decline due to any of these risks, and investors may lose all or part of their investment. The risks described below are those known to us and those we currently believe may materially affect CFE Transmisión and us. Additional risks not presently known to us or that we currently consider immaterial may also impair our future operations.

Risk Factors Related to an Investment in the Issuer

Following the completion of this Global Offering, our sole material asset will consist of Beneficiary Rights under the Promoted Trust and substantially all of our cash flow will be derived from distributions that we receive from the Promoted Trust. The Promoted Trust's cash flow, in turn, will depend upon the collection payments it receives from the Collection Rights under the CENACE Agreement, net of the costs and expenses to be reimbursed to CFE Transmisión under the Promoted Trust Agreement.

Following the consummation of the Global Offering, we expect that our sole material asset will consist of Beneficiary Rights under the Promoted Trust pursuant to the Promoted Trust Agreement. As a result, our cash flow will depend on the Promoted Trust's ability to make distributions to the owners of its Beneficiary Rights, including us. The Promoted Trust's ability to make distributions each quarter will depend upon the payments it receives from the Collection Rights, net of the costs and expenses reimbursed to CFE Transmisión under the Promoted Trust Agreement.

The amount of cash generated from the Collection Rights is expected to fluctuate and will depend upon, among other factors:

- the amount of electric power transported through CFE Transmisión's transmission networks;
- the transmission tariffs set by the CRE;
- regulatory actions affecting the supply of or demand for transmission, CFE Transmisión's operations, and CFE Transmisión's existing contracts and operating costs;
- competition as a result of new participants entering the transmission sector;
- CFE Transmisión's operating, maintenance and leverage costs and capital expenditures;
- economic conditions in Mexico and in the regions served by CFE Transmisión's transmission networks;
- political risks or changes in policy, including the results of presidential and congressional elections in Mexico in July 2018 and changes in the regulation of the Mexican energy sector as a result;
- renegotiation or termination of NAFTA;
- penalties asserted by the CRE against CFE Transmisión related to the suspension of services and/or damages claimed by users and other market participants;

- the occurrence of *force majeure* events, including natural disasters;
- CFE's financial condition;
- other operational risks inherent to transmission activities;
- The costs and expenses to be reimbursed to CFE Transmisión under the Promoted Trust Agreement are also expected to fluctuate and will depend upon, among other things:
- CFE Transmisión's operating costs, including salaries and employee benefits, maintenance and general services, fees and taxes, intercompany operating expenses and other operating expenses;
- CFE Transmisión's capital expenditures for the maintenance and modernization of the NTN;
- CFE's pension liabilities;
- level of and payments under certain long-term labor obligations; and
- extraordinary expenses, such as expenses resulting from *force majeure* events including natural disasters or acts of god.

In addition to the costs and expenses reimbursed to CFE Transmisión, the Promoted Trust will also incur certain administrative expenses and will be required to maintain maintenance expense reserves. Through the appointment of members to the Promoted Trust's technical committee, we will have oversight over the expenses of the Promoted Trust and its reimbursement of certain expenses of CFE Transmisión. However, we will not have any control, other than through certain approval rights and certain supervisory powers of the Promoted Trust's technical committee, over many important aspects of CFE Transmisión's revenues and expenses, including tariffs, the amount and frequency of payments under the Collection Rights and the amount of operating costs and expenses of CFE Transmisión.

Cash distributions are not guaranteed and may fluctuate with CFE Transmisión's or our performance or other external factors.

In accordance with the Mexican Tax Rules for FIBRAs E, we will be required to distribute, by March 15 of each year, beginning in March 2019, at least 95% of our Net Taxable Income for the immediately preceding fiscal year. Initially, the main source of our earnings and cash flow will be distributions received from the Promoted Trust. As a result, our cash available for distribution may fluctuate based on the amount of distributions made by the Promoted Trust, the performance of which will ultimately depend upon the performance of CFE Transmisión. The performance of CFE Transmisión is subject to risks and uncertainties that are beyond our control. Neither the Mexican Federal Government nor CFE guarantees CFE Transmisión's cash obligations, nor do the Mexican Federal Government or CFE have an obligation to satisfy CFE Transmisión's performance in the event that the Collection Rights are not sufficient for the Promoted Trust to make distributions under the Promoted Trust Agreement.

The Promoted Trust's cash flows are expected to be initially derived from a single asset, the performance of which is subject to the ability of CFE Transmisión to successfully operate its transmission lines, and other factors, including regulatory and market factors, which we cannot control.

Following the consummation of the Global Offering, our sole material asset is expected to be Beneficiary Rights under the Promoted Trust Agreement. The Promoted Trust's only asset will be the Collection Rights. In order to make cash distributions, the Promoted Trust will depend upon cash flows from the Collection Rights, which in turn will depend upon CFE Transmisión's successful operation of its transmission business. Neither the Promoted Trust nor we are able to directly implement strategic business decisions with respect to the daily operation of the transmission lines, the setting of tariffs or the management of operational costs and expenses. The Promoted Trust and we will rely substantially on CFE Transmisión's ability to operate the transmission lines. Any disruption of payments from the transmission tariffs payable to the Promoted Trust from the Collection Rights will have an adverse effect on the financial performance of the Promoted Trust and, consequently, our ability to make distributions to holders of the CBFEs and the trading price of the CBFEs. Likewise, if CFE Transmisión is unable to successfully operate the transmission lines, or transmission services are disrupted or reduced for any reason, including disruptions and reductions of service relating to market factors, government policy, theft, natural disasters and other similar events, the Promoted Trust's cash flows will likely be reduced and adversely affected, which in turn will reduce our cash flows and adversely impact our ability to make distributions, including the Minimum Quarterly Distribution, to holders of our CBFEs and the trading price of the CBFEs.

Furthermore, transmission tariffs are regulated by the CRE and are established to provide for the reimbursement of operating, maintenance and administrative costs and capital expenditures of CFE Transmisión, as well as a non-guaranteed 'reasonable' return. After the expiration of the initial three year period in 2018, the CRE will set new transmission tariffs and will update the tariffs on an annual basis based on several variables, including inflation and exchange rates. For a description of transmission tariffs, see "CFE Transmisión—Transmission Tariffs." Future tariffs may be volatile and unpredictable. Although the CRE increased tariffs from 2016 to 2018, we can provide no assurance that the CRE will continue to increase tariffs, that it will not decrease tariffs, or that it will change the methodology for the tariff calculation, in the future. We are not able to provide any assurance regarding the level or volatility of tariffs, maintenance and administrative costs and required capital expenditures. If the CRE does not increase transmission tariffs, or if the CRE decreases such tariffs, CFE Transmisión could incur a significant material adverse effect on its business, results of operations and financial condition and, as a result, the cash available for distribution to the Promoted Trust, which would result in a decrease in distributions to us, adversely impacting our ability to make distributions to holders of the CBFEs and the trading price of the CBFEs.

On January 8, 2018, the SENER published in the Official Gazette the manual for hedge agreements for the transmission and distribution services. This manual includes the guidelines for the execution and registration with CENACE of hedge agreements and bilateral agreements between the Market Participants and carriers (as CFE Transmisión) or distributors of electric energy. These types of agreements will enable Market Participants to enter into hedge agreements directly with the carrier or distributor and agree to pay the regulated tariffs for the transmission or distribution services to the carrier or distributor rather than CENACE. The tariffs to be paid by the Market Participants to the carrier or distributor shall be the same regulated tariffs published by CRE. While this type of hedge agreement and bilateral transaction could potentially divert certain funds out of the CENACE Agreement, if CFE Transmisión were to enter into such agreements or transactions, CFE Transmisión does not expect to execute any hedge agreement or enter into any bilateral transaction with any Market Participant. Nevertheless, if CFE Transmisión were to enter into such agreements or transactions, the Promoted Trust Agreement and the Assignment Agreement include provisions that require CFE Transmisión to obtain the prior approval of the Promoted Trust's technical committee (which requires the approval of a majority of the independent members of such technical committee appointed by the Fibra E) before entering into any such hedge agreements or bilateral transactions, which approval may be granted only to the extent that CFE Transmisión assigns all present and future collection rights derived from such hedge agreements or bilateral transactions to the Promoted Trust, to be used in accordance with the terms of the Promoted Trust Agreement.

As recently formed entities, neither the Promoted Trust nor we have a significant operating history and the Promoted Trust and we may not be able to operate our respective businesses successfully or implement our respective business strategies as described in this offering memorandum.

We and the Promoted Trust were formed on January 22, 2018 and January 22, 2018, respectively, and will begin operations after the consummation of the Global Offering. Neither we nor the Promoted Trust have a history of operations. Therefore, both the Promoted Trust and we are subject to all the risks and uncertainties related to any new business, including the risk that the Promoted Trust or we may not be successful in achieving our respective business objectives and that the value of our investments and assets could decline substantially.

We have no prior experience operating, and the Manager and its officers do not have any experience advising, a FIBRA E or a public entity and therefore we and the Manager may have difficulty successfully and profitably operating our business or complying with regulatory requirements, including the FIBRA E requirements of the Mexican Income Tax Law and the Miscellaneous Fiscal Resolution, which may hinder our ability to achieve our objectives or result in loss of our qualification as a FIBRA E.

Prior to the Global Offering, we had no experience operating, and the Manager and its officers had no experience advising, a FIBRA E or another public entity, or complying with regulatory requirements, including the FIBRA E requirements of the Mexican Income Tax Law and the Miscellaneous Fiscal Resolution. The Mexican securities laws and regulations and the FIBRA E rules and regulations are highly technical and complex and, consequently, the failure to comply with these rules and regulations could force us to pay additional taxes, interest or penalties. The lack of experience of the Manager and its personnel managing a public Mexican FIBRA E may hinder our ability to achieve our objectives or result in our failure to comply with applicable regulatory requirements under Mexican Income Tax Law and Mexican Tax Rules for FIBRAs E. As a result, we cannot assure you that we will be able to successfully maintain our compliance with regulations applicable to Mexican public entities and FIBRAs E or execute our business strategy as a Mexican public entity.

We are dependent upon the Manager to advise us with respect to the management of our business and investment strategy and we may not find a suitable replacement manager if our Management Agreement is terminated.

As of the date of this offering memorandum, we have no direct employees. The Manager, pursuant to the Management Agreement, will provide the personnel and services that are necessary to the operation of our business. The Manager is a newly created entity and an affiliate of CFE. Our ability to achieve our business objectives depends on the Manager and its ability to advise us in the management of our operations and investment strategy, and its ability to successfully hire, train, supervise and manage its personnel. We believe that our success depends to a significant extent upon the Manager's and its personnel's efforts, experience, diligence and ability. In the event that we were to lose the services rendered by the Manager or by any of its employees, our business and financial performance could be adversely affected. Under the FIBRA E Trust Agreement and the Management Agreement, the Manager may be terminated under certain circumstances, including a resolution from more than 75% of the holders of outstanding CBFEs Series A for a removal without cause, and more than 66% of the outstanding CBFEs Series A for a removal with cause, and the approval from the Conflicts Committee. In case the Manager is replaced, the new manager shall be an affiliate or any other entity created by CFE Holding. We offer no assurance that the Manager will remain our manager or that we will continue to have access to its officers, professionals and personnel. If the Manager is terminated, we cannot assure you that it will be possible to hire a suitable replacement manager in a timely manner or at all. In addition, in accordance with the FIBRA E Trust Agreement, the key personnel of the Manager may be substituted with the approval of our Conflicts Committee. The termination of our Management Agreement, or the substitution of key personnel, could have a material adverse effect on our business and financial performance, and on our ability to pay distributions to holders of the CBFEs.

The Manager may not be able to identify new Eligible Entities in which we may invest.

The contribution of the Collection Rights to the Promoted Trust is subject to the Irrevocability Term, commencing on the execution date of the Promoted Trust Agreement. At the end of the Irrevocability Term, the Collection Rights will be automatically reverted to CFE Transmisión. The Promoted Trust and CFE Holding will have the option to renew the Irrevocability Term, with the prior approval of CFE Holding's board of directors. If the Promoted Trust and CFE Holding fail to renew the Irrevocability Term and the Manager fails to timely identify new Eligible Entities, other than the Promoted Trust, in which we may invest, the CBFE holders will not have access to the cash flow derived from energy projects or related assets. In addition, if the Manager fails to timely identify new Eligible Entities, we may not be able to accomplish our growth objectives. Any such failure of the Promoted Trust and CFE Holding to renew the Irrevocability Term or of the Manager to identify new Eligible Entities could have a material adverse effect on our results of operations and our ability to continue qualifying as a FIBRA E.

There are a limited number of potential Eligible Entities in which we are authorized to invest, which may limit our ability to successfully make new investments and to expand and diversify our operations and sources of revenue.

We may explore investing in additional sectors and assets within the energy and infrastructure market other than electricity transmission. Currently, the primary participants in the energy and infrastructure market in Mexico are government-owned entities and the number of potential Eligible Entities in the market is limited. Furthermore, Eligible Entities must be dedicated to Exclusive Activities (as this term is defined below) under the Mexican Income Tax Law, which may further limit our opportunities to make investments in Eligible Entities. As a result, our ability to expand and diversify our operations and sources of revenue may be limited. If we are unable to expand and diversify our operations and sources of revenue, we could incur material adverse effects on our business and financial performance, and on our ability to pay distributions to holders of the CBFEs.

If the opportunity arises, we may explore additional investment in other Eligible Entities. However, such investments may prove not to be accretive to our results upon acquisition. If we cannot successfully expand and diversify our operations and sources of revenue, our financial performance may be adversely affected.

We will rely on external sources of capital to fund future capital needs, and if we encounter difficulty in obtaining such capital, we may not be able to make future investments in Eligible Entities necessary to grow our business, or meet other obligations.

In accordance with applicable Mexican law, we will be required to distribute, by March 15 of each year, beginning in March 2019, at least 95% of our Net Taxable Income for the immediately preceding fiscal year. In addition, we will be required to make Minimum Quarterly Distributions. Although the Distribution Ratio will allow us to build up a reserve amount to support funding of certain acquisitions, because of these distribution requirements, we may not be able to fund, from cash retained from operations, all of our future capital needs, including capital needed to make investments in Eligible Entities. Accordingly, we will rely on external sources of capital, including debt and equity financing, to fund future capital needs. The availability of financing to Mexican companies and the interest rates and general terms and conditions are often not competitive with those available to issuers and borrowers operating in the United States and other developed economies. In addition, global economic volatility has resulted in an environment characterized by the limited availability of capital, increasing costs and significant volatility in the financial markets. If we are unable to obtain financing on satisfactory terms or at all, we may not be able to make the investments in Eligible Entities needed to expand our business, or meet our obligations and commitments as they mature. Our access to capital depends upon a number of factors over which we have little or no control, including general market conditions, the market's perception of our current and potential future earnings and cash distributions and the market price of the CBFEs. We may not be in a position to take advantage of attractive investment opportunities for growth if we are unable to access the capital markets on a timely basis on favorable terms.

Our ability to raise capital through equity offerings to expand our business depends, in part, on the market price of the CBFEs, and the failure to meet market expectations with respect to our business could negatively affect the market price of the CBFEs and as a result limit our ability to raise capital.

The availability of equity capital to us depends, in part, on the market price of the CBFEs, which, in turn, depends upon various market conditions and other factors that may change from time to time, including:

- changes in investor interest in FIBRAs E or the Mexican electricity industry;
- our ability to satisfy the distribution requirements applicable to FIBRAs E;
- the general acceptance of FIBRAs E given their recent creation and the attractiveness of their equity securities in comparison to the equity securities of other FIBRAs and other equity securities;
- the financial performance of CFE Transmisión;

- analyst reports about us, FIBRAs E, FIBRAs, and the Mexican electricity industry;
- negative news media relating to CFE and CFE Transmisión;
- Mexican economic growth;
- general conditions of the debt and equity capital markets, including changes in interest rates, which may lead prospective holders of the CBFEs to demand a higher annual yield from future distributions;
- dividend yield of FIBRAs in general and other FIBRAs E;
- changes in the regulated tariffs for the electricity transmission service;
- volatility in exchange rates;
- a failure to maintain or increase the distributions, which are dependent on the Promoted Trust's ability to make cash distributions to holders of Beneficiary Rights under the Promoted Trust, and the amount of cash it receives from the Collection Rights contributed by CFE Transmisión; and
- other factors such as governmental regulatory action and changes in tax laws applicable to FIBRAs E.

If the trading price of the CBFEs declines for any of the above or other reasons, we may be unable to raise equity capital on favorable terms or at all. If we are unable to raise equity capital on favorable terms or at all, we will not be able to make additional investments in Eligible Entities, which could result in a material adverse effect on our business and financial performance, and on our ability to pay distributions to holders of the CBFEs.

We expect to be treated as a passive foreign investment company for U.S. federal income tax purposes, which could result in adverse U.S. tax consequences for certain U.S. investors.

As discussed under "Taxation—Certain U.S. Federal Income Tax Considerations," a non-U.S. corporation generally will be considered a PFIC for any taxable year in which at least 75% of its gross income is passive income, or at least 50% of the quarterly average market value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Based on our organization and our intended operations, we expect that all of our income will be treated as passive income and all of our assets will be treated as passive assets. Thus, we expect to be treated as a PFIC for U.S. federal income tax purposes for the current taxable year and thereafter.

The characterization of us as a PFIC generally will result in adverse U.S. federal income tax consequences to U.S. investors. U.S. investors will be subject to a special tax at the highest ordinary income tax rate on "excess distributions" (generally, any distributions that an investor receives in a taxable year that are greater than 125 percent of the average annual distributions that such investor has received in the preceding three taxable years, or its holding period, if shorter) and any gain recognized on the sale of our CBFEs. The amount of income tax on any excess distribution or gain recognized on the sale of our CBFEs will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distribution or gain recognized on the sale of our CBFEs were earned ratably over the holding period of the CBFEs. In addition, dividends paid by us would not be eligible for reduced rates of U.S. federal income taxation applicable to U.S. investors that are individuals.

A U.S. investor may avoid the rules described above if it makes a "qualified electing fund" election (a "QEF Election") with respect to our CBFEs, in which case the U.S. investor will be required to include annually its proportionate share of our income and net capital gain, but any gain such investor subsequently recognizes upon the sale of its CBFEs generally will be taxed as capital gain and any distributions made in respect of its CBFEs will not be subject to U.S. federal income tax to the extent such distributions relate to previously taxed earnings. A "mark-to-market" election may also be available to mitigate the consequences of us being treated as a PFIC for U.S. federal income tax purposes. U.S. investors are urged to read the section below under "Taxation—Certain U.S. Federal Income Tax Considerations" and consult with their own tax advisors regarding the U.S. federal income tax considerations discussed above including the desirability of making a QEF Election or a "mark-to-market" election.

If we are deemed to be an investment company, it would not be practical for us to register as an investment company under the ICA or to comply with the requirements of the ICA applicable to registered investment companies without materially and negatively impacting our business.

We intend to conduct our operations so that we will not be deemed an investment company under Section 3(a)(1) of the Investment Company Act of 1940, as amended (the "ICA"). If we are deemed to be an investment company within the meaning of the ICA at any point in the future, it would not be practical for us to register as an investment company under the ICA or to comply with the requirements of the ICA applicable to registered investment companies without materially and negatively impacting our business. As a result, in the event that we are deemed to be an investment company under the ICA, we would not be permitted to publicly offer, promote or make any further issuances of our securities in the United States. In order to avoid falling within the definition of an "investment company" under the 1940 Act, we may be required to restrict our investments, in the short-term and in the long-term. Such investments might not be as favorable to us as the investments we might make if we were not concerned about being deemed an "investment company" under the ICA.

We are exposed to risks related to the operation, maintenance, expansion and modernization of CFE Transmisión's transmission infrastructure.

Because we will own an indirect investment in CFE Transmisión's revenues through our ownership interest in the Promoted Trust, we are exposed to risks related to CFE Transmisión's operations. In the ordinary course of business, CFE Transmisión must repair and maintain the transmission lines and substations. In addition, CFE Transmisión plans to expand and modernize its transmission infrastructure over the next several years. There are several factors that can increase operating costs and delays in the maintenance and modernization processes, such as construction materials shortages, labor related problems, natural disasters and bad weather. Increases in costs and delays in maintenance, repair, expansion or modernization processes could affect CFE Transmisión's ability to meet schedules, which in turn could then adversely affect the cash flows to the Promoted Trust and consequently, our results of operations.

A lack of maintenance to the transmission infrastructure could result in lower payments on the Collection Rights, which would have an adverse effect on the revenues of the Promoted Trust and, therefore, on our ability to make distributions to the holders of our CBFEs. Increases in costs and construction delays may also have an adverse effect on our ability to obtain expected distribution on our Beneficiary Rights, increase operating expenses or investments in assets, which in turn would adversely affect our financial condition and results of operation. Additionally, delays in passing new budgets for CFE Transmisión or budget overruns may also limit CFE Transmisión's ability to modernize its transmission assets or to comply with its annual operations and maintenance programs. Any such increases in costs, or delays in the maintenance and repair of the transmission infrastructure or the planned expansion and modernization projects, could adversely affect the cash flows to the Promoted Trust and, consequently, our results of operations.

Because the CBFEs will be registered with the RNV, we will be subject to periodic reporting obligations and other requirements under Mexican legislation.

As a Mexican FIBRA E with securities registered with the RNV, we will incur significant legal, accounting and other expenses, including costs associated with public entity reporting requirements and corporate governance requirements, including requirements under the Mexican Securities Market Law (*Ley del Mercado de Valores)*, Mexican Stock Exchange Internal Rules (*Reglamento Interior de la BMV*) and the General Provisions Applicable to Securities Issuers and other Participants of the Securities Market (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a otros Participantes del Mercado de Valores*). These reporting obligations include quarterly and annual reports. We are a newly formed entity and as such continue to develop and enhance an integrated accounting platform. If we fail, or if the Manager fails on our behalf, to implement proper overall business controls, our results of operations could be harmed or we could fail to meet our reporting obligations. In addition, if we identify, or the Manager on our behalf identifies, significant deficiencies or material weaknesses in our internal control over financial reporting that we cannot remediate in a timely manner, we could become subject to delisting from any Mexican Stock Exchange, an investigation by the CNBV and civil or criminal sanctions. The Manager and its personnel may be required to devote significant time and incur significant expense to remediate any significant deficiencies or material weaknesses that may be discovered and they may not be able to remediate any significant deficiency or material weakness in a timely manner. Deficiencies, including any material weaknesses, in our internal control over financial reporting which may occur in the future could result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet reporting obligations and cause holders of the CBFEs to lose confidence in our reported financial information, all of which could lead to a decline in the trading price of the CBFEs, or otherwise materially adversely affect our business, reputation, results of operations, financial condition, or liquidity.

For purposes of Mexican law, we are an issuing trust, not a guarantee trust.

Holders of the CBFEs have the right to receive distributions from the cash flow that we expect to receive from our assets. As a consequence of being an issuing trust and not a guarantee trust, the receipt of sufficient cash flows from our investments in Eligible Entities is essential in order for the holders of the CBFEs to yield a return on their investment and there will be no liens or attachments over our assets to secure such distributions.

Changes in Mexican tax laws may adversely affect the Promoted Trust and us.

The Mexican Federal Government proposes amendments to tax laws from time to time. Changes to tax laws and regulations may directly adversely affect our or the Promoted Trust's business, financial condition and results of operations, or the financial position of CFE Transmisión. Furthermore, certain parts of the tax regulations applicable to FIBRAs E, including the Promoted Trust and us, were established pursuant to the Miscellaneous Fiscal Resolution, which are general provisions issued by the Mexican tax authorities annually with the purpose of developing tax law provisions, as well as to remedy any deficiencies of these laws. Unlike laws issued by the Mexican Congress, these general administrative provisions must be issued and published annually. As a result, these regulations are constantly revised and can even be completely revoked or modified year-to-year. Consequently, the rights and obligations of a FIBRA E could easily change due to the revisions in the content of the Fiscal Miscellaneous Resolution. Thus, investors in a FIBRA E should consider the likelihood of such revisions and the possibility that there could be changes to the investor's interests based on regulatory changes. A presidential change after the 2018 elections in Mexico may lead to changes in Mexican tax laws in general, and in particular, to the energy and FIBRA E sectors.

The pro forma financial information included in this offering memorandum does not reflect the Promoted Trust's or our actual results of operations, financial condition and cash flows, and may not be indicative of what the Promoted Trust's and our actual results of operations, financial position and cash flows would have been.

The pro forma financial information included in this offering memorandum is presented for illustrative purposes only. The Promoted Trust and we were formed on January 22, 2018. Prior to January 22, 2018, the Promoted Trust and we had no operations. Further, the current transmission tariffs were not introduced until 2016. Therefore, the pro forma financial information presented in this offering memorandum does not reflect the Promoted Trust's or our results of operations, financial position and cash flows and is not indicative of what the Promoted Trust's and our results of operations, financial position and cash flows will be in the future.

Our Technical Committee may change certain of our trust policies without the approval of holders of the CBFEs.

Within the parameters established in the FIBRA E Trust Agreement, our investment, financing, borrowing and distribution policies and our policies with respect to other activities, including growth, debt, capitalization and operations, are determined by the Technical Committee. In certain circumstances, these policies may be amended or revised at any time and from time to time at the discretion of the Technical Committee without a vote of holders of the CBFEs, although certain decisions require the affirmative vote of a majority of independent members of the Technical Committee. A change in these policies could have an adverse effect on our business, financial condition, results of operations and cash flow, the trading price of the CBFEs and our ability to make distributions to holders of the CBFEs.

Risk Factors Related to Our Relationship with CFE Holding, CFE Transmisión, the Promoted Trust and the Manager

CFE Holding will exercise substantial influence over us and we are highly dependent on CFE Holding.

CFE Holding will have substantial influence over our affairs. Our Technical Committee is required to have a majority of independent members. However, the Manager, an affiliate of CFE Holding, will appoint the non-independent members of our Technical Committee. The Manager may also remove such non-independent members of our Technical Committee at any time. Furthermore, we will depend on the executive services and management support provided by the Manager, which is an affiliate of CFE Holding. Any failure by the Manager to effectively support our operations or implement our strategy could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are subject to conflicts of interest arising out of our relationship with the Promoted Trust, the Manager, and their respective affiliates, including CFE Holding.

We are subject to conflicts of interest arising out of our relationship with the Promoted Trust, the Manager and their respective affiliates, including CFE Holding. Officers of the Manager may also be officers of CFE Holding, and the Manager appointed all members of our Technical Committee. Transfer pricing rules in Mexico require transactions between related parties to be negotiated on an arms-length basis, and we believe that these agreements were prepared and negotiated in accordance with these rules. However, there can be no assurance that the terms of these agreements, including fees and other amounts payable, are as favourable to us as if they have been negotiated at an arm's-length basis with unaffiliated third parties. As a result, we are subject to conflicts of interest arising out of our relationship with the Promoted Trust, the Manager, and their respective affiliates, including CFE Holding, and we may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationship with our Manager and CFE Holding.

Certain decisions of the Promoted Trust's technical committee may have an adverse effect on us.

Given that the distributions made by us rely upon the distributions made by the Promoted Trust, certain decisions of the Promoted Trust's technical committee relating to the amount of distributions made to the holders of Beneficiary Rights may have an adverse effect on us. We may be directly affected by any decision that decreases the amount of distributions made by the Promoted Trust.

CFE Transmisión's business is affected by related party transactions, which are often not within the control of CFE Transmisión.

Several entities related to CFE Transmisión, including affiliates, subsidiaries and related parties are involved in providing operation and maintenance services to CFE Transmisión. Neither the Manager, the Common Representative, nor we can guarantee that the provision of such services will not result in conflicts of interest. As a result, revenues and cash flow derived from the Collection Rights might be affected by external factors beyond the control of CFE Transmisión, such as the maintenance services rendered by CFE Distribución and other general services rendered by CFE Holding.

The Management Agreement may be difficult to terminate or renew, and any substitute manager will be an affiliate of CFE.

Termination of the Management Agreement with our Manager may be difficult. Pursuant to the terms of the FIBRA E Trust Agreement and the Management Agreement, our Manager may be removed for "cause" or without "cause". Under the FIBRA E Trust Agreement and the Management Agreement, the Manager may be terminated under certain circumstances, including a resolution from more than 75% of the outstanding CBFEs Series A for a removal without "cause," and more than 66% of the outstanding CBFEs Series A for a removal with "cause," and the approval of our Conflicts Committee. Our Technical Committee is responsible for the appointment of a new manager, provided that the new manager must be an affiliate of CFE.

"Cause" is defined as (i) the failure of the Manager to be accountable of its management, pursuant to the terms of the Management Agreement of the FIBRA E Trust Agreement; (ii) the failure of the Manager to cause us to make distributions on the CBFEs; (iii) an un-appealable judgment or judicial resolution declaring the Manager liable for fraud, willful misconduct, bad faith or gross negligence in respect of its duties; or (iv) a breach by the Manager of its legal or contractual obligations under the Management Agreement or the FIBRA E Trust Agreement, as determined by an un-appealable judgment or judicial resolution.

Risk Factors Related to CFE Transmisión

Upon completion of this offering, our sole initial asset will be the Beneficiary Rights in the Promoted Trust. The Promoted Trust's sole initial asset will be Collection Rights entitling it to receive payments from CENACE. Accordingly, investment in the CBFEs initially represents an indirect investment in CFE Transmisión's transmission business. The following risk factors relate to an investment in CFE Transmisión and the transmission business in Mexico.

The Mexican Federal Government controls CFE and CFE Transmisión, and its current policies and priorities directly affect CFE Transmisión's operations and may conflict with the interests of the CBFE holders.

The Mexican Federal Government controls CFE Holding and CFE Transmisión and, as a result, it exercises substantial influence over the strategic orientation of their businesses. The Mexican Federal Government also has the power to appoint four of the five members of CFE Transmisión's board of directors and, through them, a majority of the executive officers responsible for CFE Transmisión's day-to-day management. CFE and its subsidiaries and affiliates are also subject to the Mexican Federal Government's supervision and regulation, and the Ministry of Energy acts as chairman of CFE's board of directors. CFE and its subsidiaries' activities are monitored by the Ministry of Energy and the CRE, and CFE's annual budget can be adjusted by the Mexican Federal Government. The influence of the Mexican Federal Government may cause CFE and CFE Transmisión's business and activities to be driven by political factors that may not be aligned with increasing their efficiency and/or profitability. CFE and CFE Transmisión's operations impact the commercial, industrial and social development promoted by the Mexican government. Therefore, they may incur costs or engage in transactions that may not necessarily meet the interests of the CBFE holders.

Although CFE and CFE Transmisión are wholly owned by the Mexican Federal Government, their financing and/or other payment obligations do not constitute obligations of, and are not guaranteed by, the Mexican Federal Government. In addition, the Mexican Federal Government has the power, upon further amendment to the Mexican Constitution and applicable federal law, to reorganize CFE and its subsidiaries and affiliates, including transferring the rest or a portion of CFE Transmisión's assets to an entity not controlled by the Mexican Federal Government. The reorganization contemplated by the Energy Reform Decree and the Secondary Legislation, or any other reorganization implemented by the Mexican Federal Government in the future could adversely affect CFE Transmisión's operations, cause a disruption in its workforce and ultimately cause CFE Transmisión to default on the performance of its obligations under the CENACE Agreement.

Increased competition in the electricity sector could adversely affect CFE Transmisión's business and financial performance.

Because of the Energy Reform Decree and the enactment of the Secondary Legislation, CFE expects a greater involvement of the private sector in the electric power industry, including power generation, transmission, distribution and commercialization, resulting in increased competition. More specifically, on September 18, 2017, the SENER announced the first auction to award a transmission services agreement to a second carrier. A representative of the Mexican Ministry of Energy explained that the SENER will promote public auctions that are transparent and competitive through which the private sector can finance, develop and operate transmission lines in Mexico, as part of the PRODESEN. These projects will seek to reduce electricity production costs and energy losses, enable an increase in the integration of clean energies, and promote the introduction of new participants to the market. Additionally, private companies are allowed to enter into partnerships or agreements with CFE or the Ministry of Energy for the financing, installation, maintenance, management, operation and expansion of transmission and distribution infrastructure. These changes could result in increased competition in electric transmission, and could make it more difficult for CFE Transmisión to hire and retain skilled personnel.

As an example and in accordance with the LIE, on September 18, 2017 the SENER published a new model of services agreement for the electric transmission industry, which will allow for the hiring of third parties in order to finance, develop and operate new transmission projects derived from the PRODESEN. The level and amount of competition this will create in the electric transmission business and the date on which this agreement is actually implemented and executed remains uncertain. However, this may affect CFE Transmisión's market participation and ability to collect tariffs and it may not be the sole and exclusive carrier of electricity in Mexico.

CFE Transmisión may suffer from a significant interruption of service, which could adversely affect payments under the Collection Rights.

Although CFE Transmisión conducts a comprehensive maintenance program, it may not be able to prevent service interruptions due to technical failures and other factors outside of its control. Much of CFE Transmisión's equipment is installed outdoors and is subject to the weather conditions and natural disasters that affect Mexico from time to time. As a result, this equipment, including, in particular, the transmission towers and utility poles, often incurs weather-related and other damage as well as wear-and-tear from aging, which in certain instances causes electricity service interruptions for customers.

Furthermore, CFE Transmisión may suffer from significant and prolonged interruptions of service in any one or more of its facilities due to natural disasters (*e.g.*, hurricanes, earthquakes, flooding and/or tsunamis), accidents, sabotage, cyber-based security intrusions, terrorist acts, theft or failure of its technical systems or emergency maintenance plans, which could adversely affect its business, financial condition and results of operations, affecting the payments to be made by CENACE under the Collection Rights and, therefore, the distributions to be made to the CBFE holders. In addition, CFE Transmisión's electricity transmission system is interconnected with the facilities of Power Plants and Wholesale Load Centers. Any curtailment of Market Participants' facilities could have a negative impact on CFE Transmisión's electricity transmission facilities that are directly interconnected with such Market Participants' facilities. In some cases, events caused or actions taken by Market Participants could cause service interruptions and unavailability of transmission equipment. Such events or actions could have a negative impact on CFE Transmisión's financial conditions and results of operations.

CFE Transmisión cannot guarantee that its contingency plan will be sufficient to limit or mitigate the effects of a natural disaster and that its insurance coverage will be sufficient. As an example, in September 2017, two earthquakes with magnitudes of 8.2 and 7.1 were registered in Mexico, with their epicenters in the southwest of Chiapas and the southeast of Morelos, respectively. These earthquakes caused damage in at least 23 sub-stations in the southeast and center regions of the country and interrupted the service of electric energy transmission for several days resulting in repair costs estimated by CFE Transmisión's management to be Ps.100 million. CFE was able to restore a majority the electric service in the affected regions (over 90% in each instance) shortly after each instance.

A failure in the National Communications Network (*Red Nacional de Comunicaciones*) may lead to a lack of communication between the work centers and facilities in the different regions of CFE Transmisión, and may result in a shutdown of the WEM due to the lack of communication between the strategic facilities and the control and operation centers, in addition to the blockage of the services provided by the governmental entities and third parties.

CFE Transmisión currently does not hold insurance policies for business interruptions and CFE Transmisión cannot assure you that it will do so in the future. Additionally, as demand for electricity in Mexico increases in the future, CFE Transmisión's ability to maintain the quality of its service and avoid service interruptions may depend in part on its ability to expand and modernize the NTN.

CFE Transmisión is subject to risks outside of its control, including environmental risks, and possible claims and lawsuits inherent to the transmission of electricity.

CFE Transmisión is subject to claims and lawsuits for damages arising from its operations, including environmental risks. Additional risks may include natural disasters that could damage electric power transformers, which is the most expensive component of a substation, theft of structural steel from transmission towers, which could undermine the structural integrity of a transmission tower, and political pressures that can lead to large expenses, such as onerous indemnities. Furthermore, a wide range of general and industry-specific Mexican federal and state environmental laws and regulations apply to CFE Transmisión's operations, and a violation of any of these laws can result in penalties and other expenses. Although compliance with such environmental regulations has not historically resulted in significant expenditures, it is difficult to predict if this will change in the future.

CFE Holding maintains a general liability insurance policy that includes environmental risk insurance. Should an uninsured loss occur, CFE Transmisión may incur losses to its electric transmission lines, anticipated profits and cash flow. If any such loss is insured, CFE Transmisión may be required to pay a significant deductible on any claim for recovery of such a loss prior to its insurer being obligated to reimburse it for the loss, or the amount of the loss may exceed its coverage for the loss. In addition, insurance carrier may increase premiums or reduce coverage. If CFE Transmisión were to incur uninsured or uninsurable losses, or losses in excess of its current coverage, or if insurance carriers increased premiums or reduced coverage, CFE Transmisión's and, consequently, our business, financial condition, results of operations, cash flow, and the trading price of the CBFEs and our ability to make distributions to holders of the CBFEs may be materially and adversely affected.

CFE and CFE Transmisión are subject to anti-corruption, anti-bribery and anti-money laundering laws. Failure to comply with these laws could result in penalties, which could harm CFE's and CFE Transmisión's reputation and have an adverse effect on their respective business, results of operations and financial condition.

CFE and CFE Transmisión are subject to anti-corruption, anti-bribery and anti-money laundering laws. Although both CFE and CFE Transmisión maintain policies and processes intended to comply with these laws, including the review of their internal control over financial reporting, CFE and CFE Transmisión cannot ensure that these compliance policies and processes will prevent intentional, reckless or negligent acts committed by its officers or its employees. If CFE's or CFE Transmisión's officers or employees fail to comply with any applicable anti-corruption, anti-bribery or anti-money laundering laws, CFE's or CFE Transmisión's officers and employees may be subject to criminal, administrative or civil penalties and other remedial measures, which could have material adverse effects on CFE's or CFE Transmisión's reputation and business, financial condition and results of operations and, as a result, our reputation and the trading price of the CBFEs. Any investigation of potential violations of anti-corruption, anti-bribery or anti-money laundering laws by governmental authorities in Mexico or other jurisdictions could result in an inability to prepare CFE Transmisión's financial statements in a timely manner. This could adversely affect CFE Transmisión's reputation and ability to obtain contracts, assignments, permits and other authorizations necessary to conduct its operations which, in turn, could have adverse effects on CFE Transmisión's ability to perform its obligations under the CENACE Agreement.

CFE Transmisión may not be successful in implementing its business strategies.

As part of its overall business strategy, CFE Transmisión plans to undertake new or expand ongoing projects. Such projects include expanding the NTN, increasing the transmission and transformation capacity of its transmission lines and substations, modernizing equipment within the substations and transmission lines, and further developing "smart grid" technology to improve the operational efficiency of the electricity transmission network. Because of inherent uncertainties affecting these strategic initiatives, CFE Transmisión is exposed to a number of risks and challenges, including, among others, the following:

- new and expanded business activities may require additional and unanticipated capital expenditures, financing and/or increased regulatory compliance costs;
- new and expanded business activities may result in lower profits than CFE Transmisión currently anticipates and there can be no guarantee that such activities will become profitable at the levels CFE Transmisión desires or at all;
- CFE Transmisión may need to retrain existing personnel to oversee and operate the relevant new business activities; and
- the transmission tariff may be insufficient to cover cost overruns or capital expenditures not recognized in the tariff, which would result in an adverse effect on CFE Transmisión's profitability.

CFE Transmisión's failure to complete these initiatives on time or within its budget may result in adverse effects on our business, financial condition, results of operations, cash flow, and the trading price of the CBFEs and our ability to make distributions to holders of the CBFEs.

Labor unrest, employee benefits obligations and labor-related lawsuits may adversely affect CFE Transmisión's business, financial condition and results of operations.

Currently, CFE Transmisión has no employees. However, it intends to hire CFE's employees dedicated to the electricity transmission business who were previously employed by the former Transmission Deputy Department (*Subdirección de Transmisión*). As of September 30, 2017, approximately 78% of CFE Holding's employees under the Transmission Deputy Department were members of the SUTERM. Every two years, CFE renegotiates the terms of its *contrato colectivo* (collective bargaining agreement) with SUTERM, while wages are reviewed on an annual basis. CFE Holding and CFE Transmisión cannot guarantee that they will be able to negotiate collective bargaining agreements on terms at least as favorable as they have been able to in the past. Any labor related conflict with SUTERM may adversely affect the electric transmission business, and our results of operations and financial condition.

In addition, as of September 30, 2017, CFE Transmisión reported a liability for labor obligations costs of Ps.35,277 million (U.S.$1,939 million), which represents 20.6% of CFE Transmisión's total liabilities as of such date. Any inability to meet these obligations at any time in the future may result in labor unrest, which could adversely affect CFE Transmisión's business, financial condition and results of operations.

As of September 30, 2017, CFE Transmisión was involved in approximately 1,000 labor-related lawsuits filed against it by current and past employees of the former Transmission Deputy Department. CFE Transmisión cannot guarantee a favorable outcome in these lawsuits or avoid being subject to future claims or lawsuits that could have an adverse effect on its business, results of operation and financial condition.

Changes in financial reporting standards may affect CFE Transmisión's operating results and financial position.

Recent changes in IFRS are to be applied after accounting periods beginning on January 1, 2018. These changes to financial reporting standards may adversely affect CFE Transmisión's financial information presented herein. New financial reporting standards may require a change to CFE Transmisión's internal accounting policies.

We cannot predict the effect, if any, that changes in IFRS reporting standards will have on our financial reporting. We cannot exclude the possibility that this and other changes to financial reporting standards may have a material impact on our assets, income, or cash flows. For a summary of significant accounting policies, refer to Note 16 of the CFE Transmisión Audited Carve-Out Financial Statements.

If CFE Transmisión does not comply with certain operational performance requirements, it could be subject to certain fines and penalties.

CFE Transmisión's business depends on its ability to transmit electricity in accordance with the LIE. CFE Transmisión's financial condition and results of operation could be adversely affected if it fails to meet certain obligations relating to the operational performance indicators established by the CRE or other obligations in accordance with Article 165 of the LIE. CFE Transmisión can be fined from two to ten percent of its gross annual income from the previous year if it incurs a series of violations listed under Article 165 of the LIE. For more information refer to "CFE Transmisión — Operational Performance Indicators of CFE Transmisión". CFE Transmisión does not maintain business interruption insurance and no assurance can be made that any future disruption in CFE Transmisión's transmission services would not result in the imposition of fines or penalties that could have a material adverse effect on CFE Transmisión's financial condition and results of operations.

The only historical financial information on a stand-alone basis available for CFE Transmisión is the carve-out financial information included in this offering memorandum which may not necessarily reflect the results of operations, financial condition and cash flows of CFE Transmisión.

CFE Transmisión was created on March 29, 2016. Prior to January 2017, CFE Transmisión had no stand-alone operations and its operations and financial statements had previously been reported on a combined basis with CFE. The only historical financial information on a stand-alone basis available for CFE Transmisión is the CFE Transmisión Carve-Out Financial Statements included in this offering memorandum. Furthermore, because CFE Transmisión was created in March 2016 and it only commenced operations in January 2017, the carve-out financial information may not reflect CFE Transmisión's expected future financial condition, results of operations or cash flows. The lack of historical financial statements with respect to CFE Transmisión may make it difficult to assess CFE Transmisión's financial position and results of operations for the dates and periods presented.

In addition, the current transmission tariffs were not introduced in Mexico until 2015. Therefore, the carve-out financial information presented in this offering memorandum may not reflect what CFE Transmisión's actual results of operations, financial position and cash flows would have been had it operated as a stand-alone legal entity during the periods presented in this offering memorandum and is not indicative of what CFE Transmisión's cash flows, results of operations and financial position will be in the future.

The financial statements included elsewhere in this offering memorandum have been prepared and are presented in accordance with IFRS, which differs in certain material respects from U.S. GAAP.

CFE Transmisión's Carve-Out Financial Statements included elsewhere in this offering memorandum have been prepared in accordance with IFRS. Significant differences exist between IFRS and U.S. GAAP, which are material to the presentation of the financial statements and other financial information included in this offering memorandum. CFE Transmisión has not attempted to identify or quantify the impact of those differences in this offering memorandum. In making an investment decision, you must rely upon your own examination, the terms of this offering and the financial information included in this offering memorandum. You should consult your own professional advisors for an understanding of the differences between IFRS and U.S. GAAP, and how those differences might affect the presentation of the financial information and statements included in this offering memorandum.

CFE Transmisión depends on the information and processing systems of CENACE to operate its business, the failure of which could adversely affect CFE Transmisión's financial condition and results of operations.

As an intermediary to CFE Transmisión's transactions, the CENACE is responsible for issuing the account statements for services rendered to the Market Participants, by issuing corresponding invoices and processing payments. These invoicing and processing systems are vital to CFE Transmisión's ability to monitor its transmission facilities and network performance, generate invoices to customers, achieve operating efficiencies and meet CFE Transmisión's service targets and standards. The failure of any of these information and processing systems to operate properly could have a material adverse effect on CFE Transmisión's financial condition, results of operations and cash flow. For more information regarding the CENACE, see "Mexican Electricity Industry and General Regulatory Framework—About CENACE" below.

Adverse decisions in lawsuits and other proceedings to which CFE Transmisión is a party may adversely affect CFE Transmisión's business and affect CFE Transmisión's results of operations and financial condition.

CFE Transmisión is a party to various civil, commercial, administrative and rights-of-way or easement lawsuits that, either alone or in combination with other proceedings, could, if resolved in whole or in part adversely to CFE Transmisión, result in the imposition of material costs, fines, judgments or other losses. While CFE Transmisión believes that it has provisioned such risks appropriately based on the opinions and advice of external legal advisors and in accordance with applicable accounting rules, certain loss contingencies, particularly those relating to environmental matters, are subject to change and it is possible that losses resulting from these proceedings, if they are decided in whole or in part in an adverse manner, could significantly exceed any provisions CFE Transmisión may have established. The Promoted Trust will directly reimburse any penalties or indemnities charged by CENACE or the CRE against CFE Transmisión. However, CFE Transmisión may not be able to be reimbursed for other extraordinary expenses, which could include adverse resolutions in civil, commercial, administrative and rights-of-way or easement lawsuits, and would be directly paid by CFE Transmisión.

CFE Transmisión's results of operations may be adversely affected by technological or other changes in the energy transmission industry.

CFE Transmisión's results of operations could be adversely affected if, because of technological changes, the energy transmission industry in Mexico evolves into a competitive market-based industry. Such changes may include the publication by the SENER of the new service agreement guidelines for electric transmission lines. No assurance can be made that future developments will not introduce competition, which would adversely affect the market share of CFE Transmisión, and its financial condition, results of operation and cash flows.

The demand for certain of CFE Transmisión's electricity transmission systems fluctuates seasonally.

Regional demand for CFE Transmisión's electricity transmission is impacted by changes in weather. As a result, CFE Transmisión's results of operations are significantly affected by seasonal changes. During the summer months, the demand for electricity doubles in comparison to the winter months, especially in the northern states of Mexico. Lower than expected transmission volumes during a fiscal year could have a material adverse effect on the timing of CFE Transmisión's cash flows and revenues and therefore the Promoted Trust's ability to make distributions to holders of Beneficiary Rights under the Promoted Trust Agreement. In addition, climate change could result in more extreme weather patterns which could have significant and unpredictable effects on the demand for electric transmission in Mexico. See ''CFE Transmisión—Seasonality.''

The demand for certain of CFE Transmisión's electricity transmission systems changes based on the economic cycle.

Historically, demand for CFE Transmisión's electricity transmission has been impacted by significant economic changes, such as the 2007-2009 financial crisis. However, the overall trend has been a steady growth in demand with expected seasonal increases and decreases. To the extent that a financial recession or any significant economic changes were to occur globally or in in Mexico, either event could have a significant and unpredictable effect on CFE Transmisión's financial condition and results of operations.

CFE Transmisión has substantial intercompany indebtedness, which may limit its free cash flow and prevent CFE Transmisión from making future assignments of its Beneficiary Rights under the Promoted Trust.

As of September 30, 2017, CFE Transmisión had Ps.115,877 million (U.S.$6,368 million) of total intercompany indebtedness allocated from CFE Holding, corresponding to the indebtedness originally incurred by CFE Holding and allocated as intercompany indebtedness to CFE Transmisión pursuant to the terms of the TESL and certain Financial Framework Agreement (as such term is defined under "CFE Transmisión's Management Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources of CFE Transmisión —Indebtedness"). Operating with this level of intercompany indebtedness may require CFE Transmisión to direct a significant portion of its cash flow from operations to make payments to CFE Holding on this intercompany indebtedness, which reduces the funds otherwise available for operations, capital expenditures, payment of distributions, the pursuit of future business opportunities and other corporate purposes, including any future assignment of its Beneficiary Rights under the Promoted Trust Agreement. It may also limit CFE Transmisión's flexibility in planning for or reacting to changes in its business plans and may impair its ability to obtain additional financing. As a result, these consequences could have a negative impact on the amount of distributions that we receive from the Promoted Trust. As of the date of this offering memorandum, CFE Transmisión is not contemplating any other assignments of its Beneficiary Rights.

CFE Holding uses a centralized approach to cash management and financing of its operations, excluding debt directly incurred by any of its subsidiaries identified as PIDIREGAS, debt assumed in an acquisition and certain capital lease obligations. A portion of CFE Holding's consolidated financial debt, consisting primarily of documented and public debt at fixed and variable rates, including amounts incurred directly, has been allocated as intercompany indebtedness to CFE Transmisión pursuant to the Financial Framework Agreement based on debt levels consistent with an internally developed investment grade credit rating.

Both CFE Transmisión and CFE Holding believe the basis for the allocation of indebtedness and net interest expense is reasonable based on the debt levels consistent with an investment grade credit rating for CFE Transmisión. However, these amounts may not be indicative of the actual amounts that CFE Transmisión would have incurred had CFE Transmisión been operating as an independent, publicly-traded company for the periods presented. The amount of intercompany indebtedness has been classified in CFE Transmisión's balance sheet based on the maturities of the underlying debt of CFE Holding. When the allocated intercompany debt is replaced by third party debt, the maturity of such debt will be determined.

In addition, CFE Transmisión's revenues are collected in pesos pursuant to tariffs that are not indexed to the U.S. dollar, while a substantial portion of CFE Transmisión's intercompany indebtedness is denominated in U.S. dollars, which may expose it to the risk of loss from a devaluation of the peso. CFE Transmisión may seek to enter into hedging transactions with CFE Holding to cover all or a part of its exposure to foreign exchange fluctuations; however, CFE Transmisión has not previously been able to hedge all of its exposure to the U.S. dollar on terms it considers viable. If CFE Transmisión continues to be unable to effectively hedge all or a significant portion of its currency risk exposure, a devaluation of the peso may significantly increase its debt service burden, which, in turn, may have a material adverse effect on CFE Transmisión's financial condition and results of operations. Although CFE Transmisión's intercompany indebtedness currently does not have an impact on the Collection Rights or the waterfall within the Promoted Trust, new debt obligations incurred directly by CFE Transmisión will be included in the waterfall of the Promoted Trust if such debt is used to finance the expansion or modernization of the NTN. The current intercompany indebtedness of CFE Transmisión with CFE Holding will be paid directly by CFE Transmisión through distributions it receives from the Promoted Trust.

CFE Holding′s subsidiaries, including CFE Transmisión, guarantee 100% of the total indebtedness of CFE Holding and are expected to continue to guarantee any additional indebtedness incurred by CFE Holding, which may have a material adverse effect on CFE Transmisión's financial condition.

As part of the reorganization of CFE resulting from the Energy Reform, the LIE and the TESL, on January 30, 2017, CFE Holding entered into (i) a guarantee agreement with its subsidiaries, including CFE Transmisión, pursuant to which each of CFE Holding's subsidiaries agreed to unconditionally and irrevocably guarantee and be jointly and severally liable with CFE Holding and each of the other guarantors for the payment in full of all current and future obligations incurred by CFE Holding under any international financial obligation and (ii) a joint and several liability agreement with its subsidiaries, including CFE Transmisión, pursuant to which each of CFE Holding's subsidiaries agreed to unconditionally and irrevocably guarantee and be jointly and severally liable for the payment in full of all current and future obligations incurred by CFE Holding under any financing, credit or derivative transaction not covered by the guarantee agreement.

As of September 30, 2017, the total amount of consolidated indebtedness of CFE Holding guaranteed by CFE Transmisión was Ps.435,766 million (U.S.$23,946 million). CFE Holding's other subsidiaries also guarantee this indebtedness. If the revenues and cash flows of CFE Holding and its subsidiaries are significantly affected by any factor, including for example, serious technical failures in the functioning of its generation facilities, or increases in fuel prices or labor costs, CFE Holding may have difficulties making payments under its financial agreements as they become due. In addition, the instruments governing CFE Holding's indebtedness contain certain covenants that, if not met by CFE Holding, could give rise to an obligation to prepay or the occurrence of an event of default. If CFE Holding is unable to meet its obligations under its existing financial indebtedness in a timely manner, CFE Holding's creditors may request payments in full directly from CFE Transmisión based on the guarantee agreement and initiate proceedings to seize all of CFE Transmisión's assets, including its Beneficiary Rights. Any such action, if successful, would have a material adverse effect on CFE Transmisión's financial condition and results of operation. The Promoted Trust will not be a guarantor of CFE Holding's debt obligations.

CFE Transmisión may not be able to recover the costs of planned investments for the expansion and modernization of the NTN and other projects instructed by SENER.

As directed by SENER, CFE Transmisión's future business plan calls for extensive investments in capital improvements, the expansion and modernization of the NTN and the optimization and utilization of its facilities to increase operating efficiencies. There is no assurance that CRE will increase transmission tariffs to account for CFE Transmisión's future business plan. CFE Transmisión's revenues are derived from the payment by the CENACE of a regulated tariff for the energy transported through the NTN. If these tariffs do not provide the cash flows necessary to fund CFE Transmisión's future business plan, then CFE Transmisión may not be able to recover the costs for such investments and its operations and planned investments could be impacted. The Promoted Trust will not reimburse any capital expenditures that are not recognized by the tariff, except for Contingent Financings. If CFE Transmisión is unable to pursue its business plan or if any adjustments to the transmission tariffs in the future do not sufficiently account for capital expenditures by CFE Transmisión, payments under Collection Rights may be reduced, which may have a material adverse effect on our financial condition and results of operation, and our ability to make distributions on the CBFEs.

Regulated transmission revenues, earnings and results of transmission services are dependent upon government regulation that may limit CFE Transmisión's ability to recover costs and other amounts.

The tariffs that CENACE pays to CFE Transmisión are subject to approval by the CRE. In certain cases, CFE Transmisión may agree to negotiated settlements related to tariffs that are subject to regulatory approval. CFE Transmisión cannot predict the ultimate outcome of any settlements or the actions by the CRE, including the setting of tariffs.

If regulated earnings exceed the returns considered by the CRE within the methodology for calculating the transmission tariff, tariffs may be subject to review and possible reduction, which may decrease future earnings. Additionally, if regulatory bodies do not permit recovery of costs incurred in providing service on a timely basis, it could reduce CFE Transmisión's future net income and cash flows, which would negatively affect CFE Transmisión's financial condition. Similarly, if recovery or other tariff relief authorized in the past is overturned or reversed on appeal, CFE Transmisión's future earnings could be negatively impacted. Any regulatory action or litigation outcome that triggers a reversal of a regulatory asset or deferred cost can result in impairment to CFE Transmisión's balance sheet and a charge to its income statement.

CFE Transmisión's financial performance may be adversely affected if CFE is unable to successfully operate facilities or perform certain corporate functions.

CFE Transmisión's performance is highly dependent upon the successful operation of CFE's generation, transmission and distribution facilities. Operating these facilities involves many risks, including:

- Operator error, theft and breakdown or failure of equipment or processes.
- Operating limitations that may be imposed by environmental or other regulatory requirements.
- Labor disputes.
- Compliance with certain reliability standards.
- Information technology failures that impair any of CFE Transmisión's operations, including information technology infrastructure or causes disruption of its normal business operations.
- Information technology failures that may result in cyber-attacks, loss of company information or unauthorized access to such data.
- Catastrophic events such as fires, earthquakes, explosions, hurricanes, tornadoes, storms, terrorism (including cyber-terrorism), floors or other similar occurrences.

Any of these risks could have an adverse impact on CFE Transmisión's financial performance and no assurance can be provided that CFE Transmisión will be able to execute internal measures to mitigate these risks.

The operation of CFE Transmisión's businesses is subject to cyber-based security and integrity risk.

Numerous functions affecting the efficient operation of CFE Transmisión's business are dependent upon the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of electricity transmission lines depends on cyber-based technologies. Therefore, it is subject to the risk that such systems could be the target of disruptive actions, principally by terrorists or vandals, or otherwise be compromised by unintentional events. As a result, operations could be interrupted, property could be damaged and company information could be lost or stolen, causing CFE Transmisión to incur significant losses of revenues, other substantial liabilities and damages, costs to replace or repair damaged equipment and damage to its reputation. In addition, CFE Transmisión may experience increased capital and operating costs to implement increased security for its cyber systems and infrastructure.

Risk Factors Related to Mexico

Economic conditions and government policies in Mexico and elsewhere may have a material impact on our, the Promoted Trust's and CFE Transmisión's operations and financial performance.

All of our, the Promoted Trust's and CFE Transmisión's operations and assets are located in Mexico and our and their revenues, therefore, are indirectly related to economic conditions in Mexico, including, among other factors, changes in Mexico's gross domestic product, per capita disposable income, unemployment rates, the value of the Mexican peso as compared to the U.S. dollar, regulations affecting convertibility, inflation, changes in oil prices, interest rates, taxation, social instability, and other political, social, regulatory and economic developments. These events could also lead to increased volatility in the foreign exchange and financial markets, thereby affecting our and CFE Transmisión's ability to obtain new financing. The Mexican Federal Government cut spending for the 2016 and 2017 budgets in response primarily to a downward trend in international crude oil prices, and it may cut spending in the future. See "—Risk Factors Related to CFE Transmisión—The Mexican Federal Government controls CFE and CFE Transmisión, and its current policies and priorities directly affect CFE Transmisión's operations and may conflict with the interests of the CBFE holders." These cuts could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects.

In the past, Mexico has experienced several periods of slow or negative economic growth, high inflation, high interest rates, currency devaluation (in particular with respect to the Mexican peso-U.S. dollar exchange rate), convertibility restrictions and other economic problems. These problems may worsen or reemerge, as applicable, in the future and could adversely affect CFE Transmisión's ability to perform its obligations under the CENACE Agreement and, in turn, our and the Promoted Trust's business and ability to make the distributions to the holders of their respective CBFEs. During 2016 and the nine-month period ended September 30, 2017, *Banco de México* increased its reference rate by 375 basis points, from 3.25% to 7.00%. Future increases in interest rates may adversely affect CFE Transmisión's and our results of operations by increasing its and our financing cost. In addition, a worsening of international financial or economic conditions, such as a slowdown in growth or recessionary conditions in Mexico's trading partners, including the United States, or the emergence of a new financial crisis, could have adverse effects on the Mexican economy and, consequently, our financial condition and ability to make distributions to the CBFE holders.

Upcoming elections and other political developments in Mexico may have a material impact on our, the Promoted Trust's and CFE Transmisión's operations and financial performance.

Political events in Mexico may significantly affect Mexican economic policy and, consequently, our, the Promoted Trust's and CFE Transmisión's results of operations. The Mexican Federal Government has exercised, and continues to exercise, significant influence over the Mexican economy and the energy sector. Mexican Federal Government actions concerning the economy and regulation of certain industries, including the energy sector, could have a significant effect on us, the Promoted Trust, CFE Transmisión and on market conditions in Mexico. Mexico's next presidential election will be held in July 2018. The Mexican president influences new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, which could negatively affect each of our, the Promoted Trust's and CFE Transmisión's business, financial condition and results of operations. Further, although as of the date of this offering memorandum no political party holds a simple majority in either house of the Mexican Congress, Mexico's next federal legislative election will be held in July 2018. We cannot predict the impact that political developments in Mexico will have on the Mexican economy nor can we provide any assurances that these events, over which we have no control, will not have an adverse effect on our, the Promoted Trust's or CFE Transmisión's business, financial condition and results of operations.

Mexico is experiencing increasing levels of violence and crime that could affect the operations of CFE Transmisión.

Recently, Mexico has experienced increasing levels of violence, mainly because of drug trafficking and organized crime. These activities, their possible increase and related violence have affected and may continue to affect the operation of CFE Transmisión's business, including through damage to its assets and hindrance of repairs, and could force the Mexican Federal Government to adopt drastic measures that adversely affect CFE Transmisión's business, which would have a negative effect on our activities, financial condition and results of operation.

Economic, political and regulatory developments in the United States and in other countries, including the termination or renegotiation of NAFTA, may adversely affect the Mexican economy.

Changes in economic, political and regulatory conditions in the United States and in other countries or in laws and policies governing foreign trade could create uncertainty in the international markets and could have a negative impact on the Mexican economy. Economic conditions in Mexico are highly correlated with economic conditions in other countries, particularly the United States. This correlation is due, in part, to the high degree of economic activity between the two countries generally, including the trading facilitated by NAFTA, as well as geographic proximity.

Donald Trump's victory in the U.S. 2016 presidential election, as well as the Republican Party maintaining control of both the House of Representatives and Senate, has created uncertainty regarding the future of NAFTA and trade between the United States and Mexico. President Trump and members of his administration have made comments suggesting that President Trump's administration intends to re-negotiate the free trade agreements that the United States is party to, including NAFTA, and to implement high import duties, although it remains unclear what specifically President Trump's administration and U.S. Congress will do in this respect. On August 17, 2017, a formal NAFTA renegotiation process commenced among representatives of Mexico, the United States and Canada. As of the date of this offering memorandum, more than five rounds of negotiations have occurred and few significant agreements have been reached. The Trump administration has publicly announced its commitment to reducing the trade deficit with Mexico; however, the results of this process are still uncertain and might take some time to materialize. Because the Mexican economy is heavily influenced by the U.S. economy, the re-negotiation, or even termination, of NAFTA and/or other U.S. trade policies that may be adopted by the new U.S. administration may adversely affect economic conditions in Mexico. These developments could, in turn, have an adverse effect on CFE Transmisión's financial performance and our financial condition, results of operations and ability to make distributions to the CBFE holders.

Changes in exchange rates or in Mexico's exchange controls may adversely affect our ability to make distributions to the CBFE holders.

The Mexican Federal Government does not currently restrict the ability of Mexican companies or individuals to convert Mexican pesos into U.S. dollars or other currencies, and Mexico has not had a fixed exchange rate control policy since 1982. However, in the future, the Mexican Federal Government could impose a restrictive exchange control policy or devalue the Mexican peso, as it has done in the past. We cannot provide assurances that the Mexican Federal Government will maintain its current policies with regard to the Mexican peso or that the Mexican peso's value will not fluctuate significantly in the future.

The Mexican peso has been subject to significant devaluations against the U.S. dollar in the past and has recently been subject to significant fluctuations. Mexican Federal Government policies affecting the value of the Mexican peso could prevent us from paying our foreign currency obligations.

Depreciation of the Mexican peso against the U.S. dollar and/or volatility in the financial markets could adversely affect CFE Transmisión's operating expenses. A substantial portion of CFE Transmisión's intercompany indebtedness, 46.6% as of September 30, 2017, was denominated in U.S. dollars or other foreign currencies, and CFE Transmisión may incur additional intercompany indebtedness denominated in U.S. dollars or other foreign currencies in the future. The depreciation of the Mexican peso against the U.S. dollar during 2016 resulted in a Ps.1,750 million decrease in CFE Transmisión's foreign exchange loss, net, compared to a loss of Ps.7,098 million in 2015. The value of the Mexican peso in U.S. dollar terms depreciated by 19.5% in 2016, as compared to a 17.0% depreciation of the Mexican peso in U.S. dollar terms in 2015. Declines in the value of the Mexican peso relative to the U.S. dollar or other foreign currencies would increase CFE Transmisión's interest expense in Mexican pesos and may result in foreign exchange losses.

Regulatory developments in Mexico could have a negative impact on our, the Promoted Trust's and CFE Transmisión's cash flows, results of operations and financial condition.

We, the Promoted Trust and CFE Transmisión operate in industries that are heavily regulated by the Mexican Federal Government. As a result, our cash flows and results of operations are closely linked to certain factors that are under the control of the Mexican Federal Government, such as the regulation of FIBRAs E and transmission tariffs in Mexico. Consequently, a change in applicable law, regulations or policies in Mexico (in general and related particularly to the regulation of FIBRAs E and Energy Reform), or the interpretation thereof, if adverse to us, the Promoted Trust or CFE Transmisión could have a negative impact on each of our, the Promoted Trust's and CFE Transmisión's business, financial condition and results of operations. See "About FIBRAs E" and "Mexican Electricity Industry and General Regulatory Framework—General Regulatory Framework."

Risks Relating to the Tax Regime

Changes to the Mexican Income Tax Law could have an adverse effect on our financial performance.

We are expected to qualify as energy and infrastructure investment trust, or FIBRA E, in accordance with the Mexican Income Tax Law. In order to qualify as an energy and infrastructure investment trust, certain requirements related to, among others, distributions and the investment of our estate will have to be satisfied.

The tax regime applicable to energy and infrastructure investment trusts was announced on September 17, 2015 and was amended on December 23, 2015, April 1, 2016, September 21, 2017 and December 15, 2017; this regime being relatively new, it cannot be guaranteed that the Mexican Income Tax Law or the interpretation or application thereof will not change in the future in a manner that may adversely affect the tax regime of the Eligible Entities, the Issuer or CBFE holders. To the extent that the Mexican tax authorities modify the requirements necessary for a trust to qualify as a FIBRA E, it may be necessary to adjust our strategy and consequently to pay taxes that could adversely affect the distributions made to the CBFE holders, or the market value or liquidity of the CBFEs. In the event of a breach of the applicable provisions of the tax regime, we could, among other consequences, be required to change the way in which it operates, which in turn could affect its financial performance, the price of the CBFEs or their liquidity, and our ability to make distributions to CBFE holders.

Neither the Trustee, nor the trustee of the Promoted Trust, the Manager, the Mexican Underwriters, the Initial Purchasers, the Common Representative or any of their affiliates or subsidiaries, can guarantee that the Mexican Income Tax Law applicable to us or the Eligible Entities or the CBFE holders will not be amended in the future, and that such revisions will not affect the CBFE holders.

Mexican taxes and fiscal reforms could have an adverse effect on our financial performance.

Mexican taxes and fiscal reforms could have an adverse effect on the financial performance of the Eligible Entities and/or us. Mexican authorities could impose or suspend various taxes. Neither the Trustee, nor the Manager, the Mexican Underwriters, the Initial Purchasers, the Common Representative or any of their respective affiliates or subsidiaries can provide any assurance that Mexican governmental authorities will not impose new taxes or increase the taxes applicable to Eligible Entities, us or the CBFE holders, in the future. The imposition of new taxes or increased taxes related to the energy and infrastructure industry could have an adverse effect on the business, financial condition and results of operation of the Eligible Entities or us.

There may be changes in tax and legal reforms that could adversely affect us and our status as a FIBRA E.

The Mexican Tax Rules for FIBRAs E are mainly set forth in the Miscellaneous Fiscal Resolution, a set of rules issued annually by an administrative authority (the Mexican tax authorities), that is continuously being amended and/or supplemented, therefore there is no guarantee that in the future the current legal regime, including but not limited to tax matters relating to, and requirements for being qualified as, a FIBRA E, will not be revised in a manner that may affect the performance of the Eligible Entities, the Promoted Trust or us, the distributions of the CBFEs or the revenues from the operations of the Eligible Entities, the Promoted Trust or us, affecting the CBFE holders, us, the Eligible Entities or the Promoted Trust, or creating material adverse consequences for them.

Mexican taxes and fiscal reforms could adversely affect holders of CBFEs.

There is no guarantee that in the future the current legal regime applicable to holders of CBFEs will remain the same. Amendments or the repeal of the Mexican Tax Rules for FIBRAs E could affect the tax treatment of income obtained by Holders of CBFEs, either by eliminating the withholding exemption on gains obtained from the disposition of the CBFEs by holders that are Non-Mexican residents or Mexican resident individuals, or by increasing the withholding rate applicable to distributions made by us to holders, generating adverse consequences for them.

Risks Relating to the CBFEs

There is no obligation to make distributions to the holders of the CBFEs other than from funds available in the trust accounts.

We are not obligated to make distributions to the holders of the CBFEs other than from funds available in the trust accounts. In order to qualify as a FIBRA E, we are required to distribute annually prior to March 15 at least 95% of the Net Taxable Income of our most recently completed fiscal year. The availability of funds in the trust accounts will depend on the cash flow received from the Eligible Entities in which we invest. In the event our assets are insufficient to make all the cash distributions under the CBFEs, we have no obligation and there is no obligation of the Initial Purchasers, the Mexican Underwriters, the Common Representative, the Manager or the Trustee to make any payments to the holders of the CBFEs.

All distributions will be made at the discretion of our Technical Committee and will depend on our receipts from the Beneficiary Rights, our financial condition, maintenance of our FIBRA E qualification and other factors as our Technical Committee may deem relevant from time to time. We will not have assets or resources other than those that constitute our assets. We may be required to fund distributions from working capital, net proceeds of the Global Offering to the extent distributions exceed earnings or cash flows from the Beneficiary Rights. We may not be able to make distributions in the future and we cannot assure you that our distribution policy will not change in the future.

The CBFEs Series A have never been publicly traded, and an active market for the CBFEs Series A may not develop or be sustained following the Global Offering.

Prior to the Global Offering, there has been no public market for the CBFEs Series A. Because the CBFEs Series A have not been registered under the Securities Act or listed on any U.S. securities exchange, these securities are subject to transfer restrictions. We do not intend to provide registration rights to holders of the CBFEs Series A and we do not intend to file any registration statement with the SEC in respect of the CBFEs Series A. Although we have applied for the CBFEs Series A to be listed on the BMV, an active trading market may not develop, or if developed, be sustained. The Mexican securities markets, including the BMV as the primary trading market, are substantially smaller, less liquid, and more volatile, have a lower institutional investor base and are more concentrated than major international securities markets, such as those in the United States. For example the BMV had an exchange capitalization of approximately U.S.$252.8 billion as of December 31, 2016, and an average daily trading volume of U.S.$227.4 million in 2016. The top 10 stocks in terms of trading volume accounted for approximately 96.1% of all equity securities traded on the BMV in 2016. We cannot assure you as to the liquidity of any markets that may develop for the CBFEs Series A or the price at which the CBFEs Series A may be sold. Agreement among the Mexican Underwriters, the Initial Purchasers, and us will determine the initial offering price of the CBFEs Series A, and we cannot assure you that the CBFEs Series A will not trade below the initial offering price following the completion of the Global Offering.

The market price of the CBFEs Series A may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of the CBFEs Series A may prevent you from being able to sell the CBFEs Series A at or above the price you paid for the CBFEs Series A. The market price and liquidity of the market for the CBFEs Series A may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, among others:

- general economic trends in the Mexican, U.S. or global economies or financial markets;
- significant volatility in the market price and trading volume of securities of companies in the energy and infrastructure sector, which are not necessarily related to the operating performance of these companies;
- the general reputation of CFE, CFE Transmisión, FIBRAs E and the attractiveness of CBFEs Series A in comparison to other equity securities (including securities issued by other energy and infrastructure-based companies);
- increases in market interest rates, which may lead purchasers of the CBFEs Series A to demand a higher yield;
- actual or anticipated fluctuations in the exchange rate between the Peso and the U.S. Dollar, particularly depreciations of the Peso;
- actual or anticipated variations in our and CFE Transmisión's operating results;
- changes in our and CFE Transmisión's revenues or earnings estimates or publication of research reports about us or the energy and infrastructure industry;
- speculation or negative coverage in the press or investment community;
- changes in IFRS;
- passage of new laws or regulations or changes in interpretations of laws and regulations, including tax guidelines or accounting policies, applicable to the electricity industry; and
- the market's perception of our growth potential and our current and potential future cash distributions, as well as the market value of the underlying assets.

Furthermore, securities offered in an initial public offering in Mexico often trade at a discount to the initial offering price. If the CBFEs Series A trade at a discount following the completion of the Global Offering, holders of CBFEs Series A who purchased their CBFEs Series A in the Global Offering will incur an immediate dilution in the equity value of their CBFEs Series A. Because of this dilution, investors purchasing CBFEs Series A in the Global Offering may receive significantly less than the full purchase price that they paid for the securities purchased in the Global Offering in the event of liquidation. The possibility that the CBFEs Series A may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per CBFE Series A may decline. We cannot predict whether the CBFEs Series A will trade above, at or below net asset value.

If securities analysts do not publish research or reports about our business or if they downgrade the CBFEs Series A or our sector, the price of the CBFEs could decline.

The trading market for the CBFEs Series A will rely in part on the research and reports that industry or financial analysts publish about our business or us. We do not control these analysts. Furthermore, if one or more of the analysts who do cover us downgrades the CBFEs Series A or our industry, or the securities of any of our competitors, the price of the CBFEs Series A could decline. If one or more of these analysts ceases coverage of us, the CBFEs Series A could lose attention in the market, which in turn could cause our price to decline.

Future issuances of CBFEs by us, or a sale by our principal CBFE holders of their ownership stake in us and speculation about such possible sales, may dilute the CBFE holders or adversely affect the market price of the CBFEs.

We intend to grow in large part through acquisitions, which will require us to raise additional funding. We may attempt to raise capital through future issuances of CBFEs, which may dilute the holdings of the existing holders or reduce the market price of the CBFEs, or both. Because the decision to issue CBFEs in the future will depend on market conditions and other factors beyond our control and will be subject to approval by the CBFE holders, we cannot predict or estimate the amount, timing or nature of the future issuances. Furthermore, the FIBRA E Trust Agreement does not grant holders of the CBFEs preemptive rights that entitle them to participate in future public or private offerings. Thus, holders of the CBFEs bear the risk of the future issuances diluting their interest in us and reducing the market price of the CBFEs. In addition, the principal CBFE Series A holders, or any investors that qualify as related parties, the Manager and any of their affiliates may, subject to restrictions, sell their interests in us or sell a significant number of CBFEs. However, only CFE Holding, its productive state subsidiaries and its affiliates will own subordinated CBFEs. CFE Holding or its productive state subsidiaries and affiliates may not sell or transfer the subordinated CBFEs they own to any third party. Any such issuances could result in a dilution of the economic and voting rights of the holders of the CBFEs Series A, and any such sales or the prospect or speculation of any such sales could result in a negative market perception of the CBFEs and potentially a decrease in the market price of the CBFEs.

Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of the future offerings or financings, any of which could reduce the market price of the CBFEs and dilute the value of the CBFEs.

Future offerings of securities or incurrence of indebtedness ranking senior to the CBFEs may limit our operating and financial flexibility, and any issuance of convertible or exchangeable securities may be dilutive to the CBFE holders.

If we decide to issue securities in the future ranking senior to the CBFEs or otherwise incur indebtedness, it is possible that these securities or indebtedness will be governed by an indenture or other instrument that may contain covenants restricting our operating flexibility and limiting our ability to make distributions to holders of the CBFEs, or requiring us to maintain specified financial ratios and a debt service reserve and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements that could be more restrictive than required by the FIBRA E Trust Agreement, applicable law and our leverage policy. Additionally, any convertible or exchangeable securities that we may issue in the future may have rights, preferences and privileges, including with respect to distributions, more favorable than those of the CBFEs, which may result in dilution to holders of the CBFEs. Because our decision to issue securities in any future offering or otherwise incur indebtedness will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of the future offerings or financings, any of which could impact our ability to make distributions, reduce the market price of the CBFEs Series A and dilute the value of the CBFEs Series A.

Distributions to holders of the CBFEs will be made in Pesos.

We will make distributions to holders of the CBFEs in Pesos. Any significant fluctuations in the exchange rates between Pesos to U.S. dollars or other currencies could have an adverse impact on the U.S. dollar or other currency equivalent amounts holders of the CBFEs receive from the conversion. In addition, the amount paid by us in Pesos may not be readily convertible into U.S. dollars or other currencies. While the Mexican Federal Government does not currently restrict the ability of Mexican or foreign persons or entities to convert Pesos into U.S. dollars or other currencies, the Mexican Federal Government could institute restrictive exchange control policies in the future. Future fluctuations in exchange rates and the effect of any exchange control measures adopted by the Mexican Federal Government on the Mexican economy cannot be predicted.

The protections afforded to minority holders of the CBFEs in Mexico are different from those in the United States and certain other jurisdictions.

Under Mexican law, the protections afforded to minority holders of the CBFEs and the fiduciary duties of the Manager and members of our Technical Committee are, in some material respects, different from those in the United States and certain other jurisdictions. In particular, the Mexican legal regime concerning fiduciary duties of members of our Technical Committee is not as developed as in the United States, and the criteria applied in the United States to ascertain the independence of members of our Technical Committee is different from the criteria applicable under corresponding Mexican laws and regulations. As a result, in practice, it may be more difficult for minority holders of the CBFEs to enforce their rights against us and members of our Technical Committee or controlling holders of the CBFEs than it would be for shareholders of a U.S. company.

It may be difficult to enforce civil liabilities against us, members of our Technical Committee, the Manager or its directors and officers.

We are a trust formed under the laws of Mexico and all of our assets will be located in Mexico. Certain members of our Technical Committee and certain directors and officers of the Manager reside in Mexico and a significant portion of the assets of such persons are located in Mexico. As a result, it may not be possible for you to effect service of process within the United States or in other jurisdictions outside Mexico upon such persons or us or to enforce judgments against such persons or us in courts of the United States or other jurisdictions outside Mexico. There is doubt as to the enforceability, in original actions in Mexican courts or in actions for enforcement of judgments obtained in courts of jurisdictions outside of Mexico, of civil liabilities under the laws of any jurisdiction outside of Mexico, including any judgment predicated solely upon the federal and state securities laws of the United States.

In addition, the FIBRA E Trust Agreement provides that any legal action relating to the execution, interpretation or performance of the FIBRA E Trust Agreement is governed by Mexican law and may be brought only in Mexican courts. As a result, it is not possible for holders of the CBFEs to enforce their rights as holders under the FIBRA E Trust Agreement before courts other than Mexican courts.

USE OF PROCEEDS

We estimate that we will receive net cash proceeds of approximately Ps.13,594 million (U.S.$747 million) from the sale of 750,000,000 CBFEs Series A in the Global Offering, or approximately Ps.15,731 million (U.S.$864.5 million) if the Initial Purchasers and the Mexican Underwriters exercise their over-allotment option in full and acquire an additional 112,500,000 CBFEs Series A, in each case, of the offering price of Ps.19.00 per CBFE Series A, after deducting the Initial Purchasers' and Mexican Underwriters' transaction fees and legal, accounting and other expenses relating to the Global Offering of approximately Ps.656 million (U.S.$36 million) or approximately Ps.703 million (U.S.$39 million) if the Initial Purchasers and the Mexican Underwriters exercise their over-allotment option in full.

We intend to use approximately Ps.45.0 million (U.S.$2.5 million) of the net proceeds of the Global Offering for the creation of reserves and general corporate purposes and the remaining Ps.13,549 million (U.S.$745 million) to acquire from CFE Transmisión 4.47% of the Beneficiary Rights under the Promoted Trust. In connection with the completion of the Global Offering, we will acquire an additional 1.49% of total Beneficiary Rights of the Promoted Trust from CFE Transmisión in exchange for 250,000,000 subordinated CBFEs. Accordingly, following the completion of the Global Offering and the formation transactions, we expect that the Promoted Trust will be owned approximately 5.96% by us and 94.04% by CFE Transmisión.

Assuming the exercise by the Initial Purchasers and Mexican Underwriters of their over-allotment option in full and our issuance and sale of an additional 112,500,000 CBFEs Series A in this offering at a price per CBFE Series A of Ps.19.00, we intend to acquire Beneficiary Rights representing an additional 0.89% ownership interest in the Promoted Trust for approximately Ps.2,091 million (U.S.$115 million) in cash using the net proceeds from the sale of such additional CBFEs Series A and the issuance of 37,500,000 subordinated CBFEs. Accordingly, assuming the exercise by the Initial Purchasers and the Mexican Underwriters of their over-allotment option in full, following the completion of the Global Offering and the formation transactions we expect that the Promoted Trust will be owned 6.85% by us, and 93.15% by CFE Transmisión.

EXCHANGE RATES AND CURRENCY

Mexico has had a free market for foreign exchange since 1994, allowing the Peso to float freely against the U.S. dollar and other foreign currencies. Exchange rate policy is determined by the Exchange Rate Commission (*Comisión de Cambios*), members of which are officers of the Mexican Ministry of Finance and Public Credit (or "SHCP") and the Mexican Central Bank. The Mexican Central Bank is responsible for managing international reserves through rule-based operations or discretional interventions to promote a stable float and prevent excess accumulation or reduction of Mexico's international reserves. Furthermore, the Mexican Central Bank intervenes directly in the foreign exchange market to reduce excessive short-term volatility. The Mexican Central Bank conducts open market operations on a regular basis to determine the size of Mexico's monetary base. Changes in Mexico's monetary base have an impact on the Peso exchange rate. There can be no assurance that the Mexican Federal Government will maintain its current policies with respect to the Peso or that the Peso will not depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the period-end, average, high and low, the Mexican Central Bank Exchange Rate expressed in Pesos per U.S. dollar. The Mexican Central Bank Exchange Rate is currently determined by the Mexican Central Bank every business day in Mexico based on an average of wholesale foreign exchange market quotes and published the following business banking day in the Official Gazette and on the Mexican Central Bank's website (www.banxico.org.mx). The rates shown below are in nominal Pesos that have not been restated in constant currency units. No representation is made that the Peso amounts referred to in this offering memorandum could have been or could be converted into U.S. dollars at any particular rate or at all. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps.18.198 to U.S.$1.00, the Mexican Central Bank Exchange Rate determined by the Mexican Central Bank on September 30, 2017, and published in the Official Gazette on October 1, 2017.

	Exchange Rate			
Year ended December 31,	**End of Period**	**Average[(1)]**	**High**	**Low**
2013	13.084	12.770	13.439	11.981
2014	14.741	13.303	14.785	12.846
2015	17.249	15.881	17.377	14.566
2016	20.619	18.689	21.051	17.177
2017	19.662	18.906	21.907	17.493
Monthly (2017)				
July	17.865	17.828	18.356	17.494
August	17.815	17.807	17.967	17.621
September	18.198	17.819	18.198	17.644
October	19.147	18.713	19.200	18.159
November	18.623	18.954	19.227	18.519
December	19.786	19.057	19.786	18.519
Monthly (2018)				
January (through January 22, 2018)	18.581	19.076	19.490	18.581

(1) The average of the exchange rate for Mexican pesos is calculated taking daily quotations during the applicable period.

Source: Banco de México

CAPITALIZATION

The following table presents (i) our actual capitalization and (ii) our capitalization on an as adjusted basis giving effect to our formation and the initial capital contribution of Ps.1,000 as if they had occurred on September 30, 2017 and to the Global Offering (at the offering price of Ps. 19.00) and the application of the net proceeds as described under "Use of Proceeds".

Investors should read this table in conjunction with the "Use of Proceeds", "Selected Carve-Out Financial and Other Information of CFE Transmisión", "CFE Transmisión's Management's Discussion and Analysis of Operating Results and Financial Position" and the information contained in the CFE Carve-out Financial Statements and notes thereto included elsewhere in this offering memorandum.

	As of September 30, 2017			
	Actual		As Adjusted(2)	
	(U.S. Thousands)(1)	(Ps. Thousands)	(U.S. Thousands)(1)	(Ps. Thousands)
Initial capital contribution	0.0	0.0	0.0	1.0
CBFEs Series A	–	–	783,053	14,250,000
Subordinated CBFEs(3)	–	–	261,018	4,750,000
Total capitalization	**-**	**-**	**1,200,681.3**	**21,850,000.0**

(1) Translations into U.S. dollars of amounts in Mexican pesos as of September 30, 2017, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

(2) Excludes up to 112,500,000 CBFEs Series A issuable upon exercise of the over-allotment option in full.

(3) As part of the consideration that we will pay for our acquisition of Beneficiary Rights of the Promoted Trust, we will issue to CFE Transmisión a number of subordinated CBFEs equal to 25% of our outstanding CBFEs upon completion of the Global Offering and the formation transactions.

The as adjusted information included in the table assumes that (i) the Initial Purchasers' and the Mexican underwriters' over-allotment option is not exercised and (ii) we were formed and received our initial capital contribution of Ps.1,000 on September 30, 2017.

DISTRIBUTION POLICY

Pursuant to the Mexican Tax Rules for FIBRAs E, a FIBRA E must distribute at least 95% of its Net Taxable Income to the CBFE holders at least once a year and no later than 15 March of the following year. We expect to make our first distribution on June 29, 2018. Notwithstanding the foregoing, our Net Taxable Income may be different than the cash available for distributions, and therefore, a cash distribution is not guaranteed. Any cash distribution is subject to our distribution policy and will depend on our results of operations, financial condition and other applicable factors.

The FIBRA E Trust Agreement sets forth that the Trustee shall make distributions to the holders of CBFEs at least quarterly. At least seven business days prior to each Distribution Date, the Manager will calculate the Amount to be Distributed to the holders of the CBFEs. The Amount to be Distributed for each quarter will be calculated by the cash distributions made by the Promoted Trust or by any Eligible Entity plus interest income from investments, *less* our expenses, including the Management Fee for such quarter and the interest and principal due and payable under financial debt contracted by the FIBRA E, divided by the Distribution Ratio.

Minimum Quarterly Distribution

We are required to pay the holders of the CBFEs on each Distribution Date at least the Minimum Quarterly Distribution. The Manager may instruct that the Amount to be Distributed be paid with the cash proceeds available in the General Account in order to comply with the Minimum Quarterly Distribution.

Distribution of the Distributable Amount

Pursuant to the Manager's instructions, the Trustee shall distribute the Amount to be Distributed in the corresponding Distribution Date as follows, in the understanding that, any of the payments mentioned below shall be made until the previous payment has been fully satisfied:

(i) *First*, the Amount to be Distributed will be distributed to the holders of CBFEs Series A on a pro rata basis, until each holder of CBFEs Series A receives the Minimum Quarterly Distribution, plus any unpaid Minimum Quarterly Distributions from previous quarters, if applicable;

(ii) *Second*, the excess of the Amount to be Distributed, once the distributions referred to in subsection (i) have been fully completed, will then be distributed to the holders of subordinated CBFEs on a pro rata basis, until each holder of subordinated CBFEs receives the Minimum Quarterly Distribution, plus any unpaid Minimum Quarterly Distributions from previous quarters, if applicable;

(iii) *Third*, the excess of the Amount to be Distributed once the distributions referred to in subsections (i) and (ii) have been fully completed, will then be distributed to the holders of CBFEs Series A and subordinated CBFEs on a pro rata basis.

In order for us to be able to make distributions to the holders of the CBFEs, the Promoted Trust must have previously made distributions derived from the Beneficiary Rights under the Promoted Trust. This distribution ultimately depends on the cash flow and funds that the Promoted Trust receives from the Collection Rights.

We will not be able to make Distributions from borrowings. We can distribute cash generated in prior periods only on a pro rata basis to CBFE holders and never to the Manager.

SELECTED CARVE-OUT FINANCIAL AND OTHER INFORMATION OF CFE TRANSMISIÓN

The selected carve-out financial information and operating data presented in this section is derived only from CFE Transmisión accounting records or from the CFE Transmisión Carve-Out Financial Statements and relates only to CFE Transmisión. This information should be read in conjunction with the "Presentation of Financial and Certain Other Information," "CFE Transmisión's Management Discussion and Analysis of Financial Condition and Results of Operations" and the CFE Transmisión Carve-Out Financial Statements included elsewhere in this offering memorandum. Because CFE Transmisión commenced operations as a separate legal entity on January 1, 2017 the only historical financial information on a stand-alone basis available for CFE Transmisión is the carve-out financial information included in this offering memorandum. We are a FIBRA E formed on January 22, 2018. As of the date of this offering memorandum and as described herein, we do not have any material operations or assets. The Promoted Trust was formed on January 22, 2018. As of the date of this offering memorandum and as described throughout, the Promoted Trust does not have any material operations or assets other than the ownership of the Collection Rights assigned by CFE Transmisión. Accordingly, no financial information on a historical-basis is available for the Promoted Trust or us.

Therefore the CFE Transmisión Carve-Out Financial Information is not necessarily indicative of results that would have occurred if CFE Transmisión had been incorporated prior to March 29, 2016 and had it operated as a single business during the periods presented, nor is it necessarily indicative of future results of CFE Transmisión.

	Carve-Out Financial Information					
	For the Nine-Month Period Ended September 30,			**For the Year Ended December 31,**		
	2017	**2017**	**2016**	**2016**	**2016**	**2015**
	(in millions of U.S. dollars) (1)	**(in millions of Mexican pesos)**		**(in millions of U.S. dollars) (1)**	**(in millions of Mexican pesos)**	
Statement of Comprehensive Income Information						
Total revenue	2,467	44,886	39,434	2,898	52,745	48,288
Total costs	(1,336)	(24,307)	(6,019)	(785)	(14,280)	(28,031)
Operating income	**1,131**	**20,579**	**33,415**	**2,113**	**38,465**	**20,257**
Total financial cost	(36)	(661)	6,569	622	11,323	12,391
Income tax	350	6,372	(22,551)	(1,580)	(28,757)	4,222
Net income	**817**	**14,868**	**49,397**	**3,072**	**55,899**	**3,644**
Other comprehensive income:						
Re-measurements of employee benefits liabilities, net of deferred taxes	-	-	-	(75)	(1,362)	3,219
Recognition of the assumptions by the Federal Government in the setting of obligations for the employee benefit liabilities	-	-	-	587	10,685	-
Revaluation of installations and equipment	-	-	-	922	16,787	-
Cash flow hedging	24	444	724	66	1,207	(236)
Comprehensive income	**841**	**15,312**	**50,121**	**4,572**	**83,216**	**6,627**

(1) Translations into U.S. dollars of statement of comprehensive income amounts in Mexican pesos for the nine month period ended September 30, 2017, and for the year ended December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette.

	Carve-Out Financial Information				
	As of September 30,		As of December 31,		
	2017	2017	2016	2016	2015
	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)	
Statement of Financial Position					
Accounts receivables	1,436	26,131	134	2,436	1,434
Other current assets	63	1,153	89	1,614	1,365
Accounts receivables (non-current)	61	1,119	57	1,047	910
Installations and equipment, net	15,879	288,957	15,874	288,873	270,072
Derivative financial instruments	118	2,152	272	4,954	730
Other assets	1,531	27,864	1,528	27,814	27,761
Deferred income tax	577	10,497	577	10,497	-
Total assets	**19,665**	**357,873**	**18,531**	**337,235**	**302,272**
Short-term debt (2)	1,131	20,577	549	9,993	11,410
Other current liabilities (3)	1,081	19,668	82	1,509	991
Long-term employee benefit obligations (4)	1,939	35,277	1,889	34,367	61,425
Long-term debt (5)	5,237	95,300	6,222	113,229	95,468
Deferred income tax	-	-	-	-	17,704
Deferred revenue	31	560	33	594	1,448
Total liabilities	**9,418**	**171,382**	**8,775**	**159,692**	**188,446**
Total equity	**10,247**	**186,491**	**9,756**	**177,543**	**113,826**
Total liabilities and equity	**19,665**	**357,873**	**18,531**	**337,235**	**302,272**

(1) Translations into U.S. dollars of statement of financial position amounts in Mexican pesos as of September 30, 2017, and as of December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette.

(2) Represents current portion of documented intercompany debt due to CFE Holding plus current portion of PIDIREGAS debt.

(3) Represents liabilities derived from (i) suppliers and contractors, (ii) taxes and fees payable, (iii) other accounts payable and accrued liabilities, and (iv) deposits from users and contractors.

(4) Represents employee benefits plus provision for long-term employee benefit obligations upon retirement.

(5) Represents long-term documented intercompany debt due to CFE Holding plus long-term portion of PIDIREGAS debt.

	Carve-Out Information					
	As of and for the Nine-Month Period Ended September 30,			As of and for the Year Ended December 31,		
	2017	2017	2016	2016	2016	2015
(amounts in millions, except for ratios, percentages and GWh)	(U.S. dollars)(1)	(Mexican pesos)		(U.S. dollars)(1)	(Mexican pesos)	
Other Financial and Operating Information						
EBITDA (2)	1,633	29,716	41,250	2,689	48,932	28,835
Ratio of EBITDA to net interest expense (3)	44.93	44.93	(6.28)	(4.32)	(4.32)	(2.33)
Ratio of debt to EBITDA (4)	3.90	3.90	2.92	2.52	2.52	3.71
Ratio of debt to equity (5)	0.62	0.62	0.70	0.69	0.69	0.94
Capital expenditures (6)	173	3,141	3,140	475	8,638	7,767
GWh transported	231,625	231,625	221,653	292,228	292,228	283,013

(1) Translations into U.S. dollars of amounts in Mexican pesos as of and for the nine month period ended September 30, 2017, and as of and for year ended December 31, 2016, have been translated at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

(2) CFE Transmisión calculates EBITDA as earnings before interest, tax and depreciation and amortization. The ratios of EBITDA to net interest expense, debt to EBITDA and debt to equity are presented in this offering memorandum because CFE Transmisión believes that they are widely accepted as financial indicators of its ability to internally fund capital expenditures and service or incur debt. EBITDA and such ratios should not be considered as indicators of CFE Transmisión's financial performance, as alternatives to cash flow, as measures of liquidity or as being comparable to other similarly titled measures of other companies.

(3) Ratio of EBITDA to net interest expense, represents the measurement of how much income CFE Transmisión is earning (EBITDA) over its interest payments. Ratio is calculated by dividing EBITDA by interest expenses.

(4) Ratio of debt to EBITDA, measures the ability of CFE Transmisión to pay off its intercompany debt. This financial ratio is the result of dividing total debt by EBITDA. Debt includes documented debt and PIDIREGAS debt (plus interests and expenses pending amortization).

(5) Ratio of debt to equity is a financial ratio used to measure the leverage ratio, by comparing the total debt of CFE Transmisión with its total equity. This ratio indicates the percentage of financing of CFE Transmisión that comes from creditors, measures the relation between the levels of financing obtained from creditors and investors. In addition, it measures the coverage level that the company has over its capital to comply with its debt obligations in case of

liquidation. The ratio includes documented debt and PIDIREGAS debt (plus interests and expenses pending amortizations) short and long-term as the equity associated to CFE Transmisión.

(6) Does not include capital expenditures related to assets that were transferred to CFE Transmisión by other subsidiaries of CFE Holding pursuant to the terms of the TESL.

Reconciliation of CFE Transmisión's EBITDA to net income

The table below presents the reconciliation of CFE Transmisión's EBITDA to net income:

	Carve-Out Financial Information					
	For the Nine-Month Period Ended September 30,			For the Year Ended December 31,		
	2017	2017	2016	2016	2016	2015
	(in millions of U.S. dollars)[(a)]	(in millions of Mexican pesos)		(in millions of U.S. dollars)[(a)]	(in millions of Mexican pesos)	
Earnings (net income)	817	14,868	49,397	3,072	55,899	3,644
Interest expense	(36)	(661)	6,569	622	11,323	12,391
Taxes	350	6,372	(22,551)	(1,580)	(28,757)	4,222
Depreciation	502	9,137	7,835	575	10,467	8,578
EBITDA	**1,633**	**29,716**	**41,250**	**2,689**	**48,932**	**28,835**

(a) Translations into U.S. dollars of amounts in Mexican pesos for the nine month period ended September 30, 2017, and for the year ended December 31, 2016, has been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

SELECTED PRO FORMA FINANCIAL INFORMATION OF THE PROMOTED TRUST

We are a FIBRA E formed on January 22, 2018. As of the date of this offering memorandum and as described throughout this offering memorandum, we do not have any material operations or assets. The Promoted Trust was formed on January 22, 2018. As of the date of this offering memorandum and as described throughout this offering memorandum, the Promoted Trust does not have any material operations or assets other than the ownership of the Collection Rights assigned by CFE Transmisión. Accordingly, no financial information on a historical-basis is available for us or the Promoted Trust. The unaudited pro forma financial information of the Promoted Trust presented in this section is derived from Promoted Trust's Pro Forma Financial Statements. The Promoted Trust's Pro Forma Financial Statements reflects: (i) the pro forma financial position of the Promoted Trust as of September 30, 2017 as if the Promoted Trust had been formed and the formation transactions had been completed on September 30, 2017; (ii) the pro forma financial position of the Promoted Trust as of December 31, 2016 as if the Promoted Trust had been formed and the formation transactions had been completed on December 31, 2016; and (iii) the pro forma incomes of the Promoted Trust for the nine-month period ended September 30, 2017 and the year ended December 31, 2016, as if the Promoted Trust had been formed and the formation transactions had been completed on January 1, 2016.

The unaudited Pro Forma Financial Information of the Promoted Trust and related explanatory notes are being provided solely for illustrative purposes and do not purport to represent what actual results of operations would have been had the incorporation of the Promoted Trust occurred on January 1, 2016, nor are they indicative of the Promoted Trust's future consolidated results of operations. The unaudited *pro forma* financial information were prepared based on currently available information and estimates and assumptions that CFE Transmisión's management believes are reasonable as of the date of this offering memorandum. Any of the factors underlying these estimates and assumptions may change or prove to be materially different and the estimates and assumptions may not be representative of facts existing as of the date of the consummation of the segregation of assets, liabilities and operations of the transmission business, the date of this offering memorandum or any future date.

The unaudited *pro forma* financial information of the Promoted Trust has been derived from, and should be read in conjunction with, the CFE Transmisión Carve-Out Financial Statements, together with the notes thereto. The unaudited *pro forma* financial information of the Promoted Trust does not purport to represent what its actual results of operations or financial position would have been had the events and transactions occurred on the dates assumed, nor is it necessarily indicative of its future financial condition or results of operations.

	Promoted Trust Pro Forma Financial Information			
	For the Nine-Month Period Ended September 30,		For the Year Ended December 31,	
	2017	2017	2016	2016
	(in millions of U.S. dollars)(1)	(in millions of Mexican pesos)	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)
Statement of Operation Information				
Effect of valuation of financial instrument at fair value (2)	1,710	31,116	1,993	36,274
Total income	1,710	31,116	1,993	36,274
Trustee expenses	0.16	3	0.27	5
Total direct operating expenses	0.16	3	0.27	5
Total interest income, net	5.55	101	3.74	68
Net income	**1,715**	**31,214**	**1,997**	**36,337**

(1) Translations into U.S. dollars of statement of operation information amounts in Mexican pesos presented for the nine month period ended September 30, 2017, and for the twelve month period ended as of December 31, 2016, has been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

(2) Effect of valuation of the financial instruments at fair value represents the net gain (loss) associated with the valuation at fair value of the Promoted Trust's certificates classified as financial instruments for the purpose of the balance sheet, determined as set forth below:

	As of December 31,	
	2017	2016
	(in millions of Mexican pesos)	
Distributable remaining cash	29,560	34,460
Issuer shareholding	5.96%	5.96%
Distributions from shareholding in Promoted Trust	1,762	2,054

	Promoted Trust Pro Forma Financial Information			
	As of September 30,		As of December 31,	
	2017	2017	2016	2016
	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)
Statement of Financial Position				
Cash reserve initial contribution	14	250	14	250
Distributable cash reimbursement	91	1,657	103	1,882
Financial instruments designed at fair value with changes in the income statement (2)	19,420	353,398	19,420	353,398
Accounts receivable CENACE	116	2,118	103	1,871
Creditable VAT	10	176	9	160
Total assets	**19,651**	**357,599**	**19,649**	**357,561**
Suppliers and other operational accounts payable	79	1,431	71	1,294
Payable VAT	18	339	17	299
Total liabilities	**97**	**1,770**	**88**	**1,593**
Equity	19,420	353,398	19,420	353,398
Working capital initial contribution	43	774	38	688
Retained earnings	91	1,657	103	1,882
Total equity	**19,554**	**355,829**	**19,561**	**355,968**
Total liabilities and equity	**19,651**	**357,599**	**19,649**	**357,561**

(1) Translations into U.S. dollars of statement of financial position amounts in Mexican pesos presented as of September 30, 2017, and as of December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate.

(2) As part of the structure of the Promoted Trust, CFE Transmisión would irrevocably transfer for a period of 30 years its Collection Rights to the Promoted Trust. In exchange for the assignment of such Collection Rights, CFE Transmisión will acquire Beneficiary Rights from the Promoted Trust. As a result of the assignment of the Collection Rights and in connection with the formation transactions, CFE Transmisión will have a beneficial interest in the Promoted Trust with respect to 100% of the distributions to which such interest is entitled. For purposes of this pro forma information, the estimated total value of the Promoted Trust related to the contribution of Collection Rights is Ps.353,398 million, which is based on the price we will pay to acquire the 5.96% ownership interest in the Promoted Trust with the net proceeds of the Global Offering, assuming a price per CBFE of Ps.20.50. This estimated price was based on a financial model that considers the discounted cash flows associated with the Collection Rights and other factors. The summary of activities is set forth below:

	Summary of Activities	
	For the nine month period ended September 30, 2017 and for the year ended December 31, 2016	
	2017	2016
	(in millions of Mexican pesos)	
Cash receipts:		
Participation from collection rights(1)	43,997	51,804
Cash outflows:		
Remunerations and personnel benefits(2)	(4,731)	(6,314)
Maintenance, materials and general services(2)	(4,684)	(4,932)
Taxes and rights(2)	(29)	(96)
Trust expenses(2)	(3)	(5)
Expenses for retirement and pensions(3)	(2,930)	(3,388)
Security of operating assets(2)	(504)	(795)
Total expenses	(12,881)	(15,530)
Remaining amount to be distributed	**31,116**	**36,274**
Minimum distribution at 95%	29,560	34,460
Distributable cash reimbursement	1,556	1,814
Interest income, net	101	68
Total Distributable cash reimbursement	**1,657**	**1,882**

(1) Revenues according to reported historical figures of CFE Transmisión financial statements.
(2) Operating expenses determined and approved based on a payment instructions per the Promoted Trust Agreement.
(3) Corresponds to the expense for payment of pensions and retirement according the actuarial study for CFE Transmisión, considering that the mechanism for distribution is based on cash flows this concept only includes the payment of real labor obligations.

	Promoted Trust Pro Forma Financial Information, Payment Waterfall			
	For the Nine Month Period Ended September 30,		For the Year Ended December 31,	
	2017	2017	2016	2016
	(in millions of Mexican pesos)	(in millions of Mexican pesos)	(in millions of Mexican pesos)	(in millions of Mexican pesos)
	CFE Transmisión	Promoted Trust	CFE Transmisión	Promoted Trust
Reconciliation between CFE Transmisión and the Promoted Trust, payment waterfall				
Transmision service revenue	43,997	43,997	51,804	51,804
Other income	889	-	941	-
Total revenue	44,886	43,997	52,745	51,804
Salaries and related costs	4,731	4,731	6,314	6,314
Maintenance	4,213	4,213	4,399	4,399
Material	223	223	402	402
Technical services	248	248	131	131
Tax and duties	29	29	96	96
Administrative services	858	-	361	-
Labor obligations (benefit) cost	3,842	2,930	(10,353)	3,388
Loss on disposal of fixed assets	446	-	288	-
Depreciation	9,137	-	10,467	-
Operating assets security	504	504	795	795
Non-operating Income (Expense)	1	-	-	-
Other expenses	75	-	1,380	-
Trust expenses	-	3	-	5
Total costs	24,307	12,881	14,280	15,530
Operating results / Remaining amount to be distributed	**20,579**	**31,116**	**38,465**	**36,274**
Minimum distribution at 95%	**-**	**29,560**	**-**	**34,460**
Distributable cash reimbursement	-	1,556	-	1,814
Net interest income	-	101	-	68
Total Distributable cash reimbursement	**-**	**1,657**	**-**	**1,882**

(1) The table above represents the reconciliation between CFE Transmisión's operating income and net reimbursement granted from the Promoted Trust. According to the Promoted Trust Agreement, only operating revenues and operating expenses are part of the waterfall payments. Expenses such as fixed assets disposals, depreciation, administrative services and other expenses are not considered as reimbursable operating expenses. At every distribution, the Promoted Trust will retain (from the total of distributable operating results) an amount equivalent to 5% of the distributable cash reimbursements. For balance sheet purposes, such amount is recorded within distributable cash reimbursement line item, which also includes interest income (net) amounts.

SELECTED PRO FORMA FINANCIAL INFORMATION OF THE ISSUER

The accompanying unaudited *pro forma* financial information reflect: (i) our pro forma financial position as of September 30, 2017 as if we had been formed and our formation transactions had been completed on September 30, 2017; (ii) our pro forma financial position as of December 31, 2016 as if we had been formed and our formation transactions had been completed on December 31, 2016; and (iii) our pro forma income statements for the nine-month period ended September 30, 2017 and the year ended December 31, 2016 as if we had been formed and our formation transactions had been completed on January 1, 2016.

Our unaudited *pro forma* financial information and related explanatory notes are being provided solely for illustrative purposes and do not purport to represent what actual results of operations would have been had the formed of the Issuer occurred on January 1, 2016, nor are they indicative of the Issuer's future consolidated results of operations. The unaudited *pro forma* financial information were prepared based on currently available information and estimates and assumptions that CFE Transmisión's management believes are reasonable as of the date of this offering memorandum. Any of the factors underlying these estimates and assumptions may change or prove to be materially different and the estimates and assumptions may not be representative of facts existing as of the date of the consummation of the segregation of assets, liabilities and operations of the transmission business, the date of this offering memorandum or any future date.

The unaudited *pro forma* financial information of the Issuer has been derived from, and should be read in conjunction with, the CFE Transmisión Carve-Out Financial Statements, together with the notes thereto. The unaudited *pro forma* financial information of the Issuer does not purport to represent what its actual results of operations or financial position would have been had the events and transactions occurred on the dates assumed, nor is it necessarily indicative of its future financial condition or results of operations.

	Issuer Pro Forma Financial Information			
	For the Nine-Month Period Ended September 30,		For the Year Ended December 31,	
	2017	2017	2016	2016
	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)
Income derived from Investments				
Effect for fair value of financial instruments (2)	97	1,762	113	2,054
Trust operating expenses	3	51	4	68
Interest income, net	1	5	0	3
Trust operating results	**95**	**1,716**	**109**	**1,989**

(1) Translations into U.S. dollars of income derived from investment amounts in Mexican pesos for the nine month period ended as of September 30, 2017, and for the year ended as of December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate. Unless otherwise indicated.

(2) For practical purposes, the effect of the fair value of the financial instruments is equivalent to the total amount associated with cash distributions to us derived from our participation in the Promoted Trust. This cash distribution follows the guidelines determined in accordance with the Promoted Trust Agreement, according to which, the cash distributions are recognized based on the remaining distributable cash from the Promoted Trust corresponding to its participation (5.96%). Note that capital distributions means each and every amount of cash received from dividends, distributions, reductions, reimbursements, amortizations or any other distributions of capital, products, quantities, or other benefits of any nature payable in cash, arising from or related to shares, or resources from disinvestment or sale, of the Issuer in any eligible entity.

	Issuer Pro Forma Financial Information			
	As of September 30,		As of December 31,	
	2017	2017	2016	2016
	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)	(in millions of U.S. dollars) (1)	(in millions of Mexican pesos)
Statement of Financial Position				
Cash (not distributed) subject to capital re-investments	5	91	6	102
Financial instruments designated at fair value with changes in the income statement (2)	1,126	20,500	1,126	20,500
Total assets	**1,131**	**20,591**	**1,132**	**20,602**
Trust equity	1,126	20,500	1,126	20,500
Retained earnings	5	91	6	102
Total liabilities and equity	**1,131**	**20,591**	**1,132**	**20,602**

(1) Translations into U.S. dollars of statement of financial position amounts in Mexican pesos as of September 30, 2017, and as of December 31, 2016, have been made at an exchange rate of Ps.18.198 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2017, and published on October 1, 2017, in the Official Gazette. Such translations should not be construed as a representation that the Mexican peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other applicable rate. Unless otherwise indicated.

(2) As part of the structure, we will acquire a 5.96% participation of the Beneficiary Rights under the Promoted Trust. According to the preliminary valuation of these Beneficiary Rights, the estimated sale price is deemed to be Ps.20.50 per CBFE. The total expected amount to be received from the sale of the Promoted Trust's Beneficiary Rights to us is Ps.20,500 million. This value is reflected as a financial instrument on our balance sheet.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. CFE Transmisión's actual results may differ materially from those discussed in the forward looking statements as a result of various factors, including, without limitation, those set forth in "Forward-Looking Statements," "Risk Factors" and other sections in this offering memorandum. The following discussion should be read in conjunction with the CFE Transmisión Carve-Out Financial Statements, together with the notes thereto, included elsewhere in this offering memorandum, as well as the information presented under "Presentation of Financial and Certain Other Information," "Risk Factors" and "Selected Carve-Out Financial and Other Information of CFE Transmisión."

Overview

On March 29, 2016, CFE Transmisión was incorporated as a productive subsidiary of CFE with the purpose of providing the public service of electricity transmission, as well as the related financing, installation, maintenance, management, physical operation, and expansion of the necessary infrastructure to provide such service in accordance with the provisions of the LCFE, the LIE, the TESL and other applicable legal provisions, generating economic value and profitability for the Mexican Federal Government as its owner.

CFE Transmisión has nine regional offices that provide the public service of electricity transmission, covering the 31 states in Mexico and Mexico City. Each regional office is divided into transmission zones, with a total of 55 zones in the country, in charge of providing maintenance to the NTN. The physical operation and control of the NTN is conducted through 31 control centers, also called transmission operation zones (*zonas de operación de transmisión*). CFE Transmisión is not considered a market participant of the WEM. However, it has interconnection agreements with Power Plants and connection agreements with Wholesale Load Centers. CENACE instructs the execution of interconnection and connection agreements. Additionally, the electric energy to final customers through the General Distribution Networks (*Redes Generales de Distribución*) is done by block transfer and credited through the CENACE Agreement.

The NTN consists of (i) a backbone network (*red troncal*) integrated by transmission lines with a high voltage ranging from 161kV to 400kV and related substations, (ii) a sub-transmission network integrated by sub-transmission lines with a high voltage ranging from 69kV to 160kV and related substations and (iii) the interconnections to the foreign electric systems, as determined by the SENER. Within the NTN there are four electric systems, which consist of isolated systems located in Baja California, Mulegé and Baja California Sur, and the National Interconnected System.

Before 2016, the SEN was integrated by different networks such as the transmission and sub-transmission lines which were operated by different entities. In November of 2016, and as a result of the redefinition of voltages established by the Energy Reform, CFE Holding transferred all assets related to the sub-transmission network to CFE Transmisión. The energy transported by the NTN in 2016 is shown in the chart below.

Energy transported by the NTN in 2016

Voltage	Generation:: Energy received by the NTN (GWh)	Demand: Energy delivered by the NTN (GWh)
≥ 220 kV	249,385	15,202
< 220 kV	42,843	241,251(1)
Total	**292,228**	**256,453**

(1) The transmission-distribution threshold is 69kV.
Source: CFE.

As of September 30, 2017, the NTN was integrated by 107,000 km of transmission and sub-transmission lines with voltages ranging from 69kV to 400kV.

The growth in electricity generation and demand is expected to result in an increase in the demand for transmission infrastructure, as the interconnection of new generation plants, as well as the connection of new large industrial consumers and market participants and the increase in the demand of the present centers will require the construction of new facilities, as well as the modernization of some others.

Except for its Collection Rights under the CENACE Agreement, CFE Transmisión maintains the ownership of all its assets, including in particular the NTN, and will continue providing and controlling the public service of electric transmission in Mexico. For a detailed description of CFE Transmisión and its electric transmission business, see "CFE Transmisión."

Presentation of Financial Information

The carve-out financial information of the transmission business of CFE Holding as of and for the year ended December 31, 2015 included in this offering memorandum has been derived from the 2015 CFE Transmisión Audited Carve-Out Financial Statements. The carve-out financial information of CFE Transmisión as of and for the year December 31, 2016 included in this offering memorandum has been derived from the 2016 CFE Transmisión Audited Carve-Out Financial Statements. The carve-out financial information of CFE Transmisión as of and for the nine-month periods ended September 30, 2017 and 2016 included in this offering memorandum has been derived from the CFE Transmisión Unaudited Condensed Carve-Out Interim Financial Statements. References to the "CFE Transmisión carve-out financial information" in this offering memorandum are to the carve-out financial information of the transmission business of CFE Holding as of and for the year ended December 31, 2015 and the carve-out financial information of CFE Transmisión as of and for the year December 31, 2016, and as of and for the nine-month periods ended September 30, 2017 and 2016.

CFE Transmisión maintains its books and records in Mexican pesos, its functional currency. The CFE Transmisión Carve-Out Financial Statements have been prepared in accordance with IFRS, as issued by the IASB.

Carve-out Financial Information

This offering memorandum presents CFE Transmisión Audited Carve-Out Financial Statements and CFE Transmisión Unaudited Condensed Carve-Out Interim Financial Statements, in each case, of CFE Transmisión. The CFE Transmisión Audited Carve-Out Financial Statements are based on the historical financial information of CFE's transmission business. Prior to January 1, 2016, CFE Transmisión was vertically integrated as a business unit of CFE. As a result of the TESL, CFE Transmisión began the process of accounting, financial and operational segregation in the last quarter of 2016. The carve-out information presented in this offering memorandum have been prepared specifically for the purpose of presenting the carve-out financial statements for CFE Transmisión as if it had operated as a stand-alone business during the periods presented. The carve-out information was prepared based on CFE's accounting books and records, including the fiber optic operations through the recognition of carve-out adjustments and reclassifications.

The accompanying CFE Transmisión Carve-Out Financial Statements represent the business operations identified as the transmission operations of CFE, including the fiber optic operations. The carve-out financial statements present the transmission operations of CFE's financial position, results of operations, and cash flows as derived from the consolidated financial statements and accounting records of CFE and its subsidiaries. Management believes the assumptions underlying the allocations included in the financial statements are reasonable. These carve-out financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Set forth below is an explanation of the basis of preparation for CFE Transmisión's Carve-Out Financial Information's during each annual historical period:

2015

During 2015, CFE Transmisión had not yet been incorporated as a separate legal entity and, accordingly, it had no individual financial statements for the period. For purpose of the Global Offering, CFE Transmisión prepared carve-out financial information relating to the transmission business of CFE Holding. The principal adjustments applied in connection with the preparation of the carve-out financial information for 2015 related to: i) intercompany transactions, ii) financial debt allocation, iii) allocation of financial instruments, iv) income taxes, v) employees' labor obligation on retirement, vi) incorporation of fixed assets related to CFE Holding's transmission business, as required pursuant to CFE's legal separation guidelines.

2016

In March 2016, CFE Transmisión was legally incorporated and as such began to prepare financial information for its business on a stand-alone basis. However, certain transactions and balances relating to the transmission business continued to be recorded at the CFE Holding level or as part of the financial information of other CFE business units (*e.g.,* the generation and distribution businesses). As a result, certain carve-out adjustments have been made in order to incorporate transmission-related items that were allocated elsewhere. The principal adjustments applied in connection with the preparation of the carve-out financial information related to: i) intercompany transactions, ii) financial debt allocation, iii) allocation of financial instruments, iv) income taxes, v) employees' labor obligation on retirement, vi) incorporation of fixed assets pending to be transferred by other business units pursuant to CFE's legal separation guidelines.

2017

For all periods in 2017, certain transactions and balances relating to the transmission business continued to be recorded elsewhere. Accordingly, adjustments similar to those made in 2016 have been applied in order to prepare the carve-out financial information of CFE Transmisión as of and for the nine months ended September 30, 2017.

The CFE Transmisión Carve-Out Financial Statements include certain income and expenses that are allocated by CFE to CFE Transmisión for purposes of the carve-out financial statements, including, but not limited to, energy transmission revenues in 2015, as well as, general corporate expenses related to finance, legal, technology of information, human resources, communications, shared services, employee benefits and incentives in 2016 and 2015. Revenues from the energy transmission service, as there was no wholesale electricity market in 2015 and 2016 with the exception of the last 23 days of such year, were allocated by multiplying the energy effectively transmitted by an assumed tariff based on the rates for the transmission service determined according to the rules established by the CRE. On the other hand, expenses were allocated on the basis of direct use when it is identifiable, with the rest allocated on the basis of income, staff or other measures. Management considers that the basis on which the expenses have been allocated is a reasonable reflection of the use of the services provided or of the benefit received during the periods presented. However, the allocations and/or contributions to CFE Transmisión's operations as a result of the carve-out process would not represent the actual costs that would have been incurred if CFE Transmisión had operated as a separate/independent entity outside CFE.

Carve-out of assets and liabilities according to the conditions set-forth in the TESL consisted of reclassifications on the items described below:

(i) The impact of the allocation of fixed assets and related depreciation expenses among the subsidiaries of CFE Holding, attributing to CFE Transmisión depending on the voltage defined by the TESL (above 68kw).

(ii) Debt and associated financial cost and derivatives instruments were assigned based on management's criteria, which was based on allocating 50% of the total documented CFE debt to CFE Transmisión.

(iii) Long-term labor obligations and corresponding costs – were assigned in connection to employees' structure associated to transmission operations.

(iv) Remaining assets and liabilities were directly attributable to the transmission operations of CFE.

The preparation of the CFE Transmisión Carve-Out Financial Statements in accordance with IFRS requires estimates and assumptions from the management that affect the reported amounts in the carve-out, financial statements and accompanying notes. Such estimates include, but are not limited to, inventory, impairment of intangible assets and other provisions. Furthermore, CFE Transmisión's carve-out financial statements may not be indicative of CFE Transmisión's future performance and do not necessarily reflect what the results of operations, financial position and cash flows as if it would have been operating as an independent company during the presented periods.

The CFE Transmisión Carve-Out Financial Statements have been prepared on a historical cost basis, except for certain derivative financial instruments and the installations and equipment, which are recorded at fair value.

As of December 31, 2016 and 2015, the employees which are part of the work structure of transmission operations are incorporated in the employer's register of CFE, however, these are identifiable by cost center so the liabilities and the net cost of the related period have been included in the carve-out financial statements.

The income tax has been determined under the assumption that transmission operations, were a separate taxable entity. This assumption implies that the current and deferred income taxes are calculated separately and the recoverability of the deferred tax is also assessed accordingly. Due to the fact that transmission operations did not file separate tax returns in previous years, the respective current tax assets and liabilities, are deemed either contributed or distributed to CFE with a corresponding effect in equity as of the end of the respective fiscal year. The taxes actually paid by transmission operations have been presented in the carved out statements of cash flows; the detailed contributions or distributions have not been included.

For 2015 and 2016, revenues on a carve-out basis were estimated by applying an assumed tariff rate based on the methodology established by the CRE for transmission rates published in September 2015 to the GWh transmitted in each year, with the exception of the last 23 days of 2016, in which CFE Transmisión billed CENACE for the energy transmission services provided to the WEM.

To determine "the estimated generated energy level" for 2015, the following assumptions where considered:

- The energy received by the NTN during 2015.
- The rate was determined according to the mechanism defined by CRE for the purpose of publishing the tariffs.

Carve-out revenues increase is related with estimated transmitted energy applying tariffs under the methodology established by the CRE, which considers specific operating and maintenance expenses that are regularly affected (increased) by inflation and foreign exchange rate.

For a complete description of the accounting policies followed in preparing the CFE Transmisión Audited Carve-Out Financial Statements, see note 3 to the CFE Transmisión Audited Carve-Out Financial Statements included elsewhere in this offering memorandum.

Principal Factors Affecting CFE Transmisión's Results of Operations and Financial Condition

The following sets forth the principal factors affecting CFE Transmisión's results of operations and financial condition. Because substantially all of our revenues will initially be derived from Collection Rights representing revenues generated by CFE Transmisión from the transmission services it provides to the WEM, and because we expect that our growth will in large part be driven by the growth of CFE Transmisión 's business, we believe that many of the factors discussed below will also impact our results of operations and financial condition.

Economic conditions in Mexico

All of the operations and facilities of CFE Transmisión are located in Mexico. Consequently, its results of operations and financial condition are strongly affected by the general economic environment and political conditions existing in Mexico. In particular, the general performance of the Mexican economy affects demand for electricity, and inflation primarily affects CFE Transmisión's business by leading to increases in wages and other operating costs.

The Mexican economic environment has been characterized by significant variations in economic growth, inflation and currency exchange rates. The following table sets forth certain macroeconomic and other information about Mexico as of and for the years ended December 31, 2016 and 2015 and as of and for the nine-month period ended September 30, 2017:

	As of and for the Nine-Month Period Ended September 30,	As of and for the Year Ended December 31,	
	2017	**2016**	**2015**
GDP growth	1.7%	2.3%	2.5%
Inflation (IPC) (1)	4.4%	3.4%	2.1%
Inflation (IPP) (2)	4.5%	8.5%	2.8%
Unemployment	3.6%	3.6%	4.4%
Population (millions)	129	127	120
Mexican Federal Trust Certificates (*Cetes)* (average) (3)	6.57%	6.09%	4.17%
Merchandise export growth	3.4%	6.6%	0.8%
Change in electricity demand in Mexico	(.2)%	2.8%	2.9%
Appreciation (devaluation) of *Peso* against the U.S. dollar	12.4%	(19.5)%	(17.0)%
Exchange rate of *Peso* against U.S.$1.00	18.198	20.619	17.249
Average exchange rate — *Peso* against U.S.$1.00 (4)	17.819	18.689	15.881

Sources: INEGI and Mexican Central Bank.

(1) National Consumer Price Index (*Índice Nacional de Precios al Consumidor*), or "IPC," is the consumer price index calculated by INEGI and as published by the Mexican Central Bank (accumulated for the end of each period).

(2) National Producer Price Index (*Índice Nacional de Precios al Productor*), or "IPP," is the producer price index calculated by INEGI and as published by the Mexican Central Bank (accumulated for the end of each period).

(3) The interest rates on 28-day Mexican government treasury securities (*Certificados de la Tesorería de la Federación*), or "Cetes."

(4) The average of the exchange rate for Mexican pesos is calculated taking daily quotations during the relevant period.

Electricity Generation and Demand in Mexico

As of December 31, 2016, the total electricity generation installed capacity in Mexico was 73.51 GW, of which 42.61 GW were directly operated by CFE through 157 active plants, while 12.95 GW were operated by CFE contractors; the rest of the installed capacity belongs to private generators.

The maximum demand in 2016 was 40,893 MW, and 43,319 MW in 2017, indicating an increase of 7.3% compared to the previous year. Energy demand increased from 299 TWh in 2016 to 309 TWh in 2017, representing a growth of 3.3%.

According to the PRODESEN, the development of new generation sources during 2017-2031 will be based mainly on the construction of combined cycle power plants operating with natural gas and power plants generating with clean energy. Of a total of 55,840 MW of expected additions, approximately 34% MW will be from combined cycle power plants, 62% MW from clean energy, and only 3% from carbon plants.

The growth in electricity generation and demand is expected to result in an increase in the demand for transmission infrastructure, as the interconnection of new generation plants, as well as the connection of new large industrial consumers and market participants and the increase in the demand of the present centers will require the construction of new facilities and the modernization of existing ones.

Transmission Tariffs

The revenues of CFE Transmisión depend on the energy transported through its transmission network, taking into account the tariffs established by the CRE. The CRE has defined the tariffs for the public electricity transmission service for an initial tariff period of three years, from January 1, 2016 through December 31, 2018.

The transmission tariffs that CFE Transmisión receives from CENACE are regulated and must be approved by the CRE. As a result, CFE Transmisión cannot unilaterally modify tariffs, which limits its functional flexibility. The CRE periodically adjusts the regulated transmission tariffs based on applicable guidelines; and such adjustments are outside the control of CFE Transmisión. Although the transmission tariffs have been initially determined based on the operation costs and the costs of assets of the transmission business of CFE, if CFE Transmisión is not able to increase its revenues in the same proportion that its costs increase, its margins may decrease.

Labor Relations and Employee Benefits

As of the date of this offering memorandum, CFE Transmisión does not have any direct employees. Historically, CFE's relationship with SUTERM has been cordial and respectful despite their differing interests. Every two years, CFE renegotiates the terms of its collective bargaining agreement with SUTERM, while wages are reviewed on an annual basis.

The current collective bargaining agreement was renegotiated in May 2016, and CFE employee wages were adjusted in May 2016. In September 2016, CFE's employee benefits and pension reserve was reduced as a direct consequence of this collective bargaining agreement renegotiation. The labor liabilities allocated to CFE Transmisión by the TESL amounted to Ps.35,277 million, 0.1% of its total assets as of September 30, 2017. As a result of the new labor contract, signed on May 19, 2016, between CFE and SUTERM, the labor liabilities allocated to CFE Transmisión were reduced by Ps.15,877 million, and were further reduced by another Ps.15,264 million by the end of 2016 as a result of the Mexican government's agreement to match the savings achieved under the collective bargaining agreement.

In 2008, as a result of its collective bargaining negotiations with SUTERM, CFE entered into a new "defined contribution" employee benefits program, wherein CFE agreed to establish individual retirement accounts for each employee that CFE hires after August 18, 2008. As currently set forth in the collective bargaining agreement with SUTERM, employees subject to the defined contribution plan are required to contribute 5% of their monthly salary into their individual retirement account, and CFE Holding provides a corresponding contribution in the amount of 7.5% of each employee's monthly salary (although these percentages are subject to change in accordance with the terms of the collective bargaining agreement). This program replaces CFE's previous "defined benefits" plan, which entitled CFE's employees to certain retirement benefits, including a pension and health insurance, which were allocated to CFE's retired employees in amounts that corresponded, in large part, to their years of service and seniority level at CFE. The new defined contribution plan does not apply retroactively to CFE's employees that were employed as of or prior to August 18, 2008, nor does it apply to temporary employees. Labor unrest, employee benefits obligations and labor-related lawsuits may adversely affect CFE Transmisión' business, financial condition and results of operations.

Financing of Long-Term Infrastructure Projects

Considering the investment needs estimated for the expansion and modernization of the NTN as mentioned in the PRODESEN, in the next two years 25 projects for the expansion of the NTN that were previously authorized (also known as legacy projects) are estimated to be done, representing an investment amount of up to Ps.16.3 billion (U.S.$896.1 million). In the next five years, there are additional plans to carry out 30 investment projects instructed by SENER, which represent an estimated total amount of up to Ps.76 billion and account for nearly 35% of total expected investment for the period between 2017 and 2031.

In the past CFE has used the following mechanisms to finance its long-term infrastructure projects for transmission:

- PIDIREGAS: financing mechanism used by certain government-owned enterprises which are subject to direct budgetary control. The financing and execution of the works are entrusted to private companies that carry out the corresponding investments on behalf of the public entity. The project is required to generate its own revenues to cover the project costs. The use of private financing reduces the impact of the financing on CFE's budget by deferring the related costs to subsequent fiscal periods. This mechanism is only available for projects pre-approved prior to the Energy Reform in 2014.

- Direct investment (*Obra Pública Financiada*): the private contractor obtains the financing only during the construction phase and the public entity contracting the project is responsible for obtaining the long term financing. CFE assumes a direct and firm obligation to acquire the productive assets built to its satisfaction.

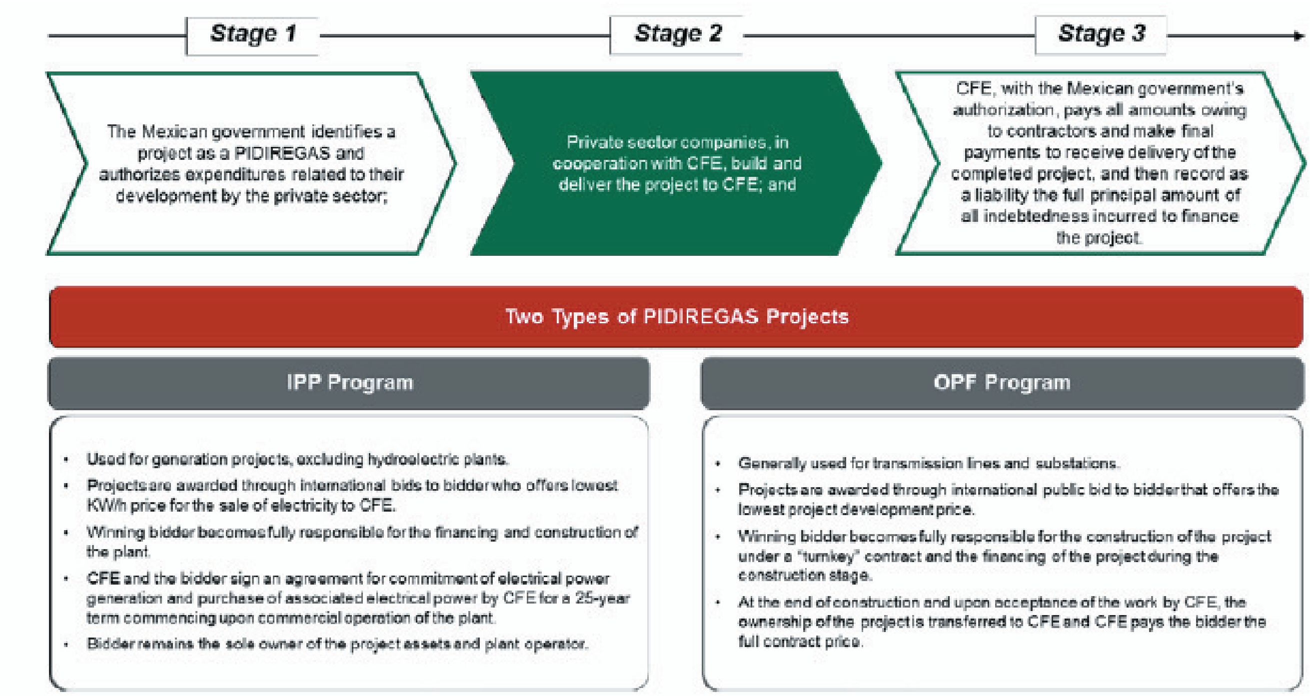
- Public budget work (*Obra Pública Presupuestal*): Investment financed with own funds. These investments are financed with operating cash flows from the relevant business areas, which could result in incremental debt according to the generation of cash flow of the business. The investment budget of CFE is defined each year as part of the budget of the Mexican Federal Government.

An important component of CFE's capital expenditures is PIDIREGAS. The Mexican government approves the designation of certain infrastructure projects as PIDIREGAS and this designation means that these projects are treated as off-balance sheet items for annual Mexican government budgetary purposes, until delivery of the completed project or until CFE's payment obligations begin under the contract.

The distinction between PIDIREGAS and non-PIDIREGAS expenditures on the budget of the Mexican government is important in that, due to the private financing of PIDIREGAS projects during the planning and construction stages, PIDIREGAS are immune from across-the-board budget cuts by the Mexican Congress, while non-PIDIREGAS investments are not.

There are two types of PIDIREGAS projects: conditioned investment (IPPs) and direct investment (OPFs). These two primary private investment programs address the two central needs of CFE: generation and transmission.

PIDIREGAS has three stages, as described in the following chart:



PIDIREGAS affect the results of operations of CFE Transmisión because they will have to absorb the financing cost (principal plus interest costs) of these projects, once they are delivered for operation. On the other hand, the leverage cost and other costs related to the construction are financially transferred to CFE Transmisión.

Changes in Interest Rates

As of September 30, 2017, CFE Transmisión did not have any direct indebtedness with financial institutions but it was responsible for a portion of CFE Holding's indebtedness related to its transmission operations pursuant to the terms of the TESL and the Financial Framework Agreement (as this term is defined under "—Indebtedness"). As of September 30, 2017, the total intercompany indebtedness of CFE Transmisión was Ps.93,746 million, of which Ps.1,109 million accrued interest at floating interest rates. If the interest rates applicable to the floating rate of intercompany indebtedness of CFE Transmisión increase, CFE Transmisión's interest expense will also increase, which may reduce its net income. CFE Transmisión has entered into interest rate swaps with CFE Holding covering 4.72% of the floating rate *Peso*-denominated intercompany indebtedness of CFE Transmisión, and 32.71% of the floating rate foreign currency denominated intercompany indebtedness of CFE Transmisión.

Changes in Foreign Currency Exchange Rates

CFE Transmisión's intercompany debt denominated in a foreign currency represented 27% (after hedging) of total intercompany indebtedness of CFE Transmisión as of September 30, 2017. The intercompany indebtedness of CFE Transmisión is denominated in several currencies, with the most substantial portion being denominated in U.S. dollars. CFE Transmisión has entered into hedging transactions with CFE Holding to minimize its exposure to foreign exchange risk with respect to a portion of its U.S. dollar denominated debt, but the majority of this U.S. dollar denominated debt is not swapped into Mexican pesos. If the Mexican peso depreciates against the U.S. dollar, CFE Transmisión may need to apply a higher percentage of its revenues to the service of the U.S. dollar-denominated intercompany debt, which may reduce CFE Transmisión's net income.

Seasonality

CFE Transmisión's revenues and operating income are subject to fluctuations during the year, primarily due to the impact that seasonal factors have on the volumes of electricity consumption and demand. CFE Transmisión's operations have a higher demand in the summer cooling months (especially in the northern states of Mexico), compared to the winter. Further, to the extent that climate change may affect weather patterns, this could result in more extreme weather patterns which could impact demand for electricity. For additional information on the seasonality patterns of the SEN, see "CFE Transmisión—Seasonality."

Critical Accounting Policies of CFE Transmisión

The preparation of financial information and financial statements in accordance with IFRS requires CFE Transmisión to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. IFRS also requires the disclosure of CFE Transmisión's contingent assets and liabilities at the date of preparation of such financial information or financial statements. CFE Transmisión bases these estimates, judgments and assumptions on the historical experience of its senior management team with respect to the operation of its transmission assets as well as on various other factors that CFE Transmisión's senior management believes to be reasonable under the circumstances. CFE Transmisión will continue to use its historical experience and other related factors in making the estimates, judgments and assumptions as it relates to the future accounting policies in conformity with IFRS. The following are what CFE Transmisión considers to be its critical accounting policies.

Fair value of assets and liabilities

CFE Transmisión has substantial assets and financial liabilities recognized at fair value that are an estimate of the amount to which the assets and liabilities could be exchanged in a transaction between parties willing to do so. The methodologies and assumptions that CFE Transmisión uses to estimate fair value vary according to the financial instrument as follows:

- Cash and cash equivalents, trade accounts receivable and trade accounts payable, and other liabilities are recognized as of the date of the statement of financial position at their nominal value.

- Financial instruments listed on exchanges or other quotation systems at prices on those exchanges or quotation systems at the date of the statement of financial position.

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

- Other valuation techniques, such as performing calculations of present value for derivative financial instruments are applied.

- Installations and equipment are revalued considering the fair value method.

The use of different methodologies or the use of different assumptions to calculate the fair value of CFE Transmisión's assets and financial liabilities assumptions could significantly impact its financial results, as reported.

Installations and equipment

CFE Transmisión's installations and equipment in operation are depreciated considering an estimated useful life of each asset individually. In determining the useful life, CFE Transmisión considers the particular conditions of operation and maintenance of each of its assets and the historical experience with each type of asset, and it considers changes in technologies and various other factors, including the practices of other companies in the electric power industry. Annually, the useful lives of CFE Transmisión's assets are reviewed to determine whether or not to modify them. The useful life could be modified by changes in the number of years in which CFE

Transmisión uses the assets, or by changes in technology, the market or other factors. Should the life of CFE Transmisión's assets be shortened, a greater expense for depreciation would be recognized.

Depreciation on installations and equipment is calculated over the fair value or acquisition cost, as applicable, on the straight-line method over the estimated useful lives of the asset, starting the following month when the asset was first ready for use. In case of subsequent sale or retirement of revaluated property, the revaluation surplus attributable to the revaluation reserve of the remaining properties is transferred directly to retained earnings.

Depreciation rates according to the total useful lives of assets, as determined by CFE Transmisión, are as follow:

	Annual rate %
Substations	From 1.33 to 2.56
Transmission lines	From 1.33 to 2.86
Sub-transmission lines	From 1.67 to 3.33

Impairment of long-lived assets

CFE Transmisión's properties, facilities and equipment represent a significant portion of total assets. IFRS requires reporting companies to determine the impairment of long-lived assets when circumstances indicate that there is a potential detriment to the value of these assets.

Deferred taxes

CFE Transmisión is required to estimate income taxes for the year, as well as to recognize the temporary differences between the financial carrying amount of its existing assets and liabilities and their respective tax basis, such as depreciation, tax losses and other tax credits. These items generate deferred tax assets and liabilities, which are included in CFE Transmisión's statement of financial position, when applicable. As part of this process, CFE Transmisión assesses at the end of each fiscal year the realization of its assets and deferred tax liabilities, and whether or not there is taxable income in those periods to support the recognition of deferred tax assets. This involves the application of CFE Transmisión's management's judgment which impacts the provisions of the income tax payable and the amounts of deferred tax assets and liabilities. If CFE Transmisión's estimates differ from the results actually obtained, or if the estimates are adjusted in the future, the results and the financial position of CFE Transmisión could be affected significantly.

Deferred tax assets are recognized considering the amount that is most likely to be materialized. In this estimation, CFE Transmisión's management considers taxable income for future years based on its tax projections, as well as the benefits of tax strategies.

If CFE Transmisión's estimates of future profits and the expected benefits of tax strategies are reduced or if there are changes in tax laws that impose restrictions on the opportunity to use the tax benefits of tax losses in the future, the amount of deferred tax assets may decrease, and thereby increasing the expense for income taxes.

Provisions

CFE Transmisión recognizes provisions when (i) there is a present obligation, which results from past events, (ii) it is probable (more likely than not) that an outflow of resources will be required to settle the obligation and (iii) a reasonable amount of the outflow of resources can be reliably estimated. The amount of provisions recognized is CFE Transmisión's management's best estimate of the expense CFE Transmisión will incur to meet the obligations, taking into account all the information available at the date of the consolidated financial statements, including in some cases the opinion of external experts as legal advisers or consultants. Provisions are adjusted to recognize changes in the circumstances or current facts and the occurrence of new obligations.

In those cases in which CFE Transmisión cannot reliably quantify the obligation, no provision is recognized, but the notes to its financial statements include the relevant information. The amounts recognized may be different from the amount we finally incurred given the uncertainties inherent to them.

Labor obligations

The amounts for pension and retirement plan obligations and other postretirement obligations recognized as liabilities in the statement of financial situation and as expenses in profit or losses, are calculated by CFE Transmisión annually by actuaries considering assumptions and estimations over the postretirement benefits.

The assumptions that are majorly impacted by such estimations are as follows:

- Rate of compensation/salaries increase;
- Discount rate to determine the present value of future obligations;
- Expected inflation rate;
- Expected return on pension plan assets.

Such estimations are determined by CFE Transmisión's independent experts who prepare the actuarial calculation by using the projected unit credit method.

Description of the Principal Income Statement Items of CFE Transmisión

Revenues

CFE Transmisión's revenues are derived from services provided to the CENACE and services it provides to CFE Holding and its productive state subsidiaries:

- Revenues from CENACE: corresponds to the transmission tariffs CFE Transmisión receives from services provided to CENACE for the transmission of electricity for the WEM. Revenues from CENACE represent the revenues from the Collection Rights that the Promoted Trust will own and of which we will have an indirect interest through our ownership of Beneficiary Rights in the Promoted Trust.
- Related party revenues: CFE Transmisión's main sources of related party revenues are services it provides to CFE Holding and its productive state subsidiaries such as (i) maintenance of infrastructure for CFE Generación and CFE Distribución on selected plants and facilities, (ii) infrastructure leasing of facilities and equipment, (iii) telecommunication advisory services related to leasing of its optic fiber infrastructure. The amounts to be paid for these services are determined on an arm's-length basis under a transfer pricing study prepared on an annual basis by an independent firm and in accordance with the terms of certain framework agreement with CFE dated January 1, 2017. For a detail description of this agreement, see "Related Party Transactions of CFE Transmisións" below and note 13 to the CFE Transmisión Audited Carve-out Financial Statements. Neither the Promoted Trust nor we have an interest in CFE Transmisión's related party revenues.

The main components of CFE Transmisión's operating costs are:

- Salaries and employee benefits: employee compensation and benefits consisting of salaries, productivity and performance bonuses, holiday bonuses, other variable compensation and social security expenses.

- Labor obligations cost: represents the net cost for the relevant period of the long-term labor liabilities for the corresponding period for pensions, severance and seniority premium. During May, 2016 there was a modification to the pension plan after the renegotiation of the collective bargain agreement with SUTERM, which reduced CFE Transmisión's long-term labor obligations.

- Maintenance and materials: maintenance costs include both preventive and corrective maintenance of the NTN infrastructure as well as all the spare parts and related services to perform such work.

- Administrative services: represents the operating and recurring services provided by CFE Holding, such as payroll, treasury, information technology, among other back-office services.

- Taxes and duties: refers to local taxes such as payroll taxes, withholding taxes, and rights of use of communication frequencies, among others.

- Depreciation expense of installations and equipment.

- Loss on disposal of installations and equipment: represents the net effect on the disposal/sale of fixed assets over the period.

- Fixed assets security: consists of physical security on site to the installation of security and equipment among security personal and infrastructure of surveillance.

- Other income (expenses), net: includes network services.

All CFE Transmisión's operating costs that represent cash flow are being reimbursed through the Promoted Trust, except for i) CFE Holding's allocation of corporate expenses, ii) a portion of the labor obligation and iii) disposal of installation and equipment and other expenses not directly associated to the nature of the operation.

Financing costs

CFE Transmisión's financial expenses comprise:

- Interest expense on direct and indirect indebtedness: refers to payments of interest and other amounts due under financing agreements entered into by CFE Transmisión with CFE Holding pursuant to the terms of the TESL and the Financial Framework Agreement.

- Exchange rate fluctuations related to the financial instruments: corresponds to the effects of foreign exchange variations on derivative instruments entered into by CFE Transmisión to mitigate exposure to foreign exchange risk associated to its foreign indebtedness, including foreign intercompany indebtedness.

Financing costs are excluded from the reimbursement scheme through the Promoted Trust.

Income tax

CFE Transmisión is subject to 30% income tax rate over its taxable profits which is payable on a monthly and annual basis as well as the deferred income tax recognition.

Results of Operations of CFE Transmisión

The following discussion of CFE Transmisión's results of operations is based on CFE Transmisión audited Carve-Out Financial Statements prepared in accordance with IFRS.

CFE Transmisión was created in March 2016 and commenced operations as a separate legal entity on January 1, 2017. The only historical financial information on a stand-alone basis available for CFE Transmisión is the carve-out financial information included in this offering memorandum. The CFE Transmisión Carve-Out Financial Information may not reflect what CFE Transmisión's actual results of operations, financial position and cash flows would have been had it operated as a stand-alone legal entity during the periods presented in this offering memorandum and may not be indicative of what CFE Transmisión's cash flows, results of operations and financial position will be in the future.

CFE Transmisión's revenues are derived from the rate of the transmission tariffs established by Resolution A/045/2015 ("Resolution A/045/2015") which was issued by the CRE in September 2015 and sets forth the rules applicable to transmission tariffs during an initial tariff period of three years, starting on January 1, 2016 and ending on December 31, 2018. These resolutions establish the methodology for determining the tariff and the tariff is then set based on the total costs divided by the energy transported. Accordingly, Power Plants pay 30% of the costs and Wholesale Load Centers pay the remaining 70%. For the years 2015 and 2016, the revenues were determined by applying the mechanics defined by the CRE for the purpose of publishing rates except for the last 23 days of 2016, where CFE Transmisión invoiced the users of the WEM for the electric power transmission services.

Nine-month Period Ended September 30, 2017 Compared to the Nine-month Period Ended September 30, 2016

The following table sets forth CFE Transmisión carve-out financial information for each of the nine-month periods ended September 30, 2017 and 2016:

	For the Nine-Month Period Ended September 30,		Variation	
	2017	**2016**	**Amount**	**Percentage**
	(*in millions of Ps.*)		(*in millions of Ps.*)	(%)
Statement of comprehensive income (loss)				
Total Revenues	44,886	39,434	5,452	13.8
Total costs	(24,307)	(6,019)	(18,288)	(303.8)
Operating income	20,579	33,415	(12,836)	(38.4)
Total financing income (cost)	661	(6,569)	7,230	110.0
Income tax	(6,372)	22,551	(28,923)	(128.3)
Net income	**14,868**	**49,397**	(34,529)	(69.9)

Total Revenues

CFE Transmisión's revenues increased by 13.8%, or Ps.5,452 million, to Ps.44,886 million for the nine-month period ended September 30, 2017 from Ps.39,434 million for the corresponding period in 2016. The increase was primarily a result of:

(1) a 4% increase in the volume of energy transported, which reached 231,625 GWh during the nine-month period ended September 30, 2017 compared to 221,653 GWh for the same period in 2016, attributable to the increase in Mexico's economic growth; and

(2) a 7% increase in transmission tariffs to an average rate of 0.0920 (Pesos/kWh) during the nine-month period ended September 30, 2017 from an average rate of 0.0863 (Pesos/kWh) during the corresponding period in 2016, as a result of the tariff adjustment made by the CRE, which reflects the cost of the public transmission services increases.

Total costs

CFE Transmisión's total costs increased by 303.7%, or Ps.18,286 million, to Ps.24,307 million in the nine-month period ended September 30, 2017 from Ps.6,021 million in the corresponding period in 2016, mainly as a result of the non-recurring benefit related to long-term employee pensions recognized in September 30, 2016 that amounted to Ps.15,877 million or (133%) with respect to the corresponding period in 2017. The other operating expenses remain mainly consistent in both periods except for the depreciation expense as it was directly impacted by installations and equipment received based on TESL in the last quarter of the year ended December 31, 2016.

CFE Transmisión's salaries and employee benefits expense decreased slightly to Ps.4,731 million for the nine-month period ended September 30, 2017 from Ps.4,757 million for the corresponding period in 2016, mainly due to the measures of productivity and cost control that CFE Transmisión has implemented. Compensation and employee benefits are based on the performance evaluations and contractual revisions of collective bargaining agreements. Both cases also include an additional impact based on inflation.

CFE Transmisión recorded a benefit of Ps.15,877 million recognized during the nine-month period ended September 30, 2016 compared to no such benefit recorded during the corresponding period in 2017. The Ps.15,877 million benefit relates to the renegotiation of the existing collective bargaining agreement between CFE and its unionized employees and corresponds to the amount in, which represented a decrease for the same amount in the balance of liabilities for long-term labor obligations.

The depreciation expense represents the depreciation of the fixed assets assigned to CFE Transmisión which were revalued on December 31, 2016, thereby increasing depreciation of expenses in 2017. Additionally, the investment in fixed assets that increase the installed capacity of the NTN, affected the amount recognized for depreciation for the first nine months of 2017. For the nine-month period ended September 30, 2017 and 2016, the cost of depreciation was Ps.9,137 million and Ps.7,835 million, respectively. In both periods it represented 20% of total revenues and between 38% and 130% of total operating costs.

Operating income

As a result of the factors described above, CFE Transmisión's operating income decreased by 38.4%, or Ps.12,836 million, to Ps.20,579 million for the nine-month period ended September 30, 2017 from Ps.33,415 million for the corresponding period in 2016. Excluding the one-time positive impact in CFE Transmisión's labor costs, CFE Transmisión's operating income increased from Ps.17,538 million to Ps.20,579 million, or 17.3%.

As a result, CFE Transmisión's net operating margin increased to 45.8% during the nine-month period ended September 30, 2017 from 44.4% for the corresponding period in 2016, on a normalized basis.

Financing Costs

CFE Transmisión's total financing costs decreased by 110.1%, or Ps.7,230 million, to Ps.661 million (income) for the nine-month period ended September 30, 2017 from Ps.6,569 million for the corresponding period in 2016, mainly as a result of foreign exchange gains of Ps.6,013 million recorded during the nine-month period ended September 30, 2017 compared to a foreign exchange loss of Ps.2,197 million during the corresponding period in 2016, primarily due to the positive effects of the associated derivative financial instruments coverage on the documented debt and the PIDIREGAS debt applied proportionally. As of January 2, 2017, there was a Mexican peso/U.S. dollar exchange rate of Ps.20.7323 to U.S $1.00 and September 29, 2017 there was an exchange rate of Ps.18.1590 per U.S.$1.00, which accounted for a recovery of 12.41% Mexican peso/U.S. dollar. As of September 30, 2016, the Mexican peso/U.S. dollar exchange rate was Ps.19.3776 to U.S $1.00, resulting in a 6.53% appreciation of the peso during the period ended September 30, 2017 with respect to the corresponding period in 2016.

Income tax

CFE Transmisión is required to pay income taxes based on its income, as are all corporate entities in Mexico. CFE Transmisión's taxable income represents the difference between its taxable revenues, including profits, capital gains and passive income, and its expenses. Since it was incorporated in March 2016, 2016 was the first fiscal year that CFE Transmisión was subject to the provisions of the Mexican Income Tax Law. CFE Transmisión recorded an income tax expense of Ps.6,372 million during the nine-month period ended September 30, 2017 and an income tax gain of Ps.22,551 during the corresponding period in 2016, mainly due to the change in the tax value of its installations and equipment, which was reinstated considering the carrying book value at the date such amounts were transferred to CFE Transmisión, thereby eliminating the deferred tax liability recognized in 2015. The step up in the tax value of such assets represented an estimated benefit of Ps.16,159 million as of September 30, 2016.

Net Income

CFE Transmisión's net income decreased by 69.9%, or Ps.34,529 million, to Ps.14,868 million for the nine-month period ended September 30, 2017 from Ps.49,397 million for the corresponding period in 2016. Excluding the impacts related to labor obligations and deferred taxes, net income increased by Ps.7,507 million or 50.4%.

Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

The following table sets forth CFE Transmisión carve-out financial information for each of the financial years ended December 31, 2016 and 2015:

	For the Financial Year Ended December 31,		Variation	
	2016	**2015**	**Amount**	**Percentage**
	(in millions of Ps.)		*(in millions of Ps.)*	(%)
Statement of comprehensive income				
Total revenues	52,745	48,288	4,457	9.2
Total costs	14,280	28,031	(13,751)	(49.1)
Operating income	38,465	20,257	18,208	89.9
Total Financing income (cost)	(11,323)	(12,391)	1,068	(8.6)
Income tax	28,757	(4,222)	(32,979)	(781.1)
Net income	**55,899**	**3,644**	**52,255**	**1,434.0**

Total revenues

CFE Transmisión's revenues increased by 9.2%, or Ps.4,457 million, to Ps.52,745 million for the year ended December 31, 2016 from Ps.48,288 million for the corresponding period in 2015, primarily as a result of:

(1) a 3.3% increase in the volume of energy transported, which reached 292,228 GWh during the financial year ended December 31, 2016 was delivered compared to 283,013 GWh during the corresponding period in 2015, related to the economic growth of Mexico; and

(2) a 8.3% increase in transmission tariffs to 0.0863 (Pesos/kWh) during the financial year ended December 31, 2016 from 0.0797 (Pesos/kWh) during the corresponding period in 2015.

Total costs

CFE Transmisión's total cost decreased by 49.1%, or Ps.13,751 million, to Ps.14,280 million for the financial year ended December 31, 2016 from Ps.28,031 million for the corresponding period in 2015, mainly as a result of a Ps.15,877 million one-time benefit recognized during the financial year ended December 31, 2016 related to the renegotiation of the existing collective bargaining agreement between CFE and its unionized employees and corresponds to the amount in which the outstanding balance of the liability for long-term labor obligations was decreased as a result of the new terms of the collective bargaining agreement. Total operating costs and expenses, excluding such benefit, increased from Ps.28,031 million in 2015 to Ps.30,157 million in 2016, by Ps.2,126 million (7.6%). This increase is mainly attributable to an increase in depreciation expense by Ps.1,889 associated to higher installations and equipment as a result of capitalizations and items received from the productive state subsidiaries related to generation and distribution of electricity after the legal separation occurred in the fourth quarter of 2016.

CFE Transmisión's salaries and employee benefits expense decreased in 2016 slightly to Ps.6,314 million from Ps.6,345 million for the corresponding period in 2015, mainly due to measures of productivity and cost control implemented by CFE Transmisión. The most representative operating costs for CFE Transmisión are remuneration and employee benefits, costs for labor obligations and depreciation.

CFE Transmisión maintenance expense increased slightly by Ps.57 million from Ps.4,875 million in 2016 to Ps.4,932 million as a result of acquisitions and transfers of installation and equipment received from the productive state subsidiaries related to generation and distribution of electricity after the legal separation.

CFE Transmisión's depreciation expense increased by 22.0%, or Ps.1,889 million, to Ps.10,467 million in 2016 from Ps.8,578 million for the corresponding period in 2015, mainly as a result of the receipt of fixed assets belonging to the company Luz y Fuerza del Centro, which was managed by the INDAABIN, in addition to the capitalizations of new investments during the period, while the loss on the disposal of fixed assets decreased from Ps.1,148 million in 2015 to Ps.288 million in 2016. Other expenses in 2016 increased to an expense of Ps.1,380 million from a net other income of Ps.1,056 million, as a result of the recovery of expenses from CENACE in the amount of Ps.1,490 million.

Operating income

As a result of the factors described above, CFE Transmisión's operating income increased by 89.9%, or Ps.18,208 million, to Ps.38,465 million for the financial year ended December 31, 2016 from Ps.20,257 million for the corresponding period in 2015. On a normalized basis, excluding the one-time benefit related to labor obligations, operating income increased by Ps.2,331 million or 11.5%.

As a result of the increase in CFE Transmisión's operating income, CFE Transmisión's net operating margin increased to 72.9% during the financial year ended December 31, 2016 from 41.9% for the corresponding period in 2015. Excluding the one-time benefit related to labor obligations, CFE Transmisión's net operating margin increased to 42.8% in 2016 from 41.9% in 2015.

Financing cost

CFE Transmisión's financing costs decreased by 8.6%, or Ps.1,068 million, to Ps.11,323 million for the financial year ended December 31, 2016 from Ps.12,391 million for the corresponding period in 2015. The most representative variation was related to the foreign exchange result that went from Ps.7,098 million in 2015 to Ps.5,348 million in 2016 and the decrease of 24.7% is associated with the appreciation of the Dollar in relation to the Mexican Peso, along with the decrease in the level of debt in 2016.

Income tax expense

CFE Transmisión is required to pay income taxes based on its income, as are all corporate entities in Mexico. CFE Transmisión's taxable income represents the difference between its taxable revenues, including profits, capital gains and passive income, and its expenses. 2016 was the first fiscal year that CFE Transmisión was subject to the provisions of the Mexican Income Tax Law, since it was incorporated in March 2016. CFE Transmisión recorded a net income tax gain of Ps.28,757 million during the financial year ended December 31, 2016 and an income tax expense of Ps.4,222 million during the corresponding period in 2015, related to the revenue of the deferred tax liability relating to the step-up in the tax basis of CFE Transmisión's fixed assets. The gain during 2016 was due to a deferred income tax effect of Ps.33,364 million.

Net Income

CFE Transmisión's net income increased by 1,434%, or Ps.52,255 million, to Ps.55,899 million for the financial year ended December 31, 2016 from Ps.3,644 million for the corresponding period in 2015. This increase in net income was primarily due to increased transmission revenues, the gain on the revaluation of long-term labor obligations and the gain associated with deferred taxes. On a normalized basis, net income increased by 82.7% or Ps.3,014 million.

Liquidity and Capital Resources of the Issuer

Liquidity is a measure of our ability to meet potential cash requirements, including the payment of distributions to holders of our CBFEs, trust expenses, repayments of borrowings and other general business needs. Our primary sources of cash include the net proceeds from this offering, distributions received from the Promoted Trust and other operating cash flows, borrowings, and the issuance of CBFEs. Our primary uses of cash include funding acquisitions and investments consistent with our investment strategy, making distributions to holders of our CBFEs, repaying principal and interest on outstanding borrowings, funding our operations and paying accrued expenses and amounts due to our Manager pursuant to the Management Agreement. We do not expect to have any indebtedness outstanding following the completion of this Global Offering.

Liquidity and Capital Resources of CFE Transmisión

CFE Transmisión currently has, and expects to continue to have, substantial liquidity and capital resource requirements, principally relating to the construction and maintenance of its transmission substations and power-line network and to service the portion of the intercompany indebtedness of CFE Transmisión, as described under "—Indebtedness." CFE Transmisión expects to meet its liquidity and capital resource requirements primarily from distributions from the Promoted Trust and borrowings.

As of September 30, 2017 and December 31, 2016, CFE Transmisión had working capital (defined as current assets excluding cash and cash equivalents less current liabilities excluding short term portion of debt and income tax) of Ps.13,839 million and Ps.2,206 million, respectively. The increase in CFE Transmisión's working capital during the nine-month period ended September 30, 2017 was primarily due to the variation of the intercompany balances, which balances were not relevant as of December 2016. As of September 30, 2017, CFE Transmisión had an intercompany balance amounting to Ps.23,118 million, representing the balances from the electric wholesale market consumers that were collected by CFE Holding. The intercompany balance as of September 30, 2017 amounted to Ps.13,715 million related to the intercompany services provided by other subsidiaries, such as: maintenance, administrative and technical services, among others.

Cash Flows

The table below sets forth CFE Transmisión's cash flows from operating activities, investing activities and financing activities for the periods indicated.

	For the Nine-Month Period Ended September 30		**For the Year Ended December 31,**	
	2017	**2016**	**2016**	**2015**
	(in millions of Ps.)		*(in millions of Ps.)*	
Net cash flows provided by (used in):				
Operating activities	17,805	21,348	32,344	50,040
Investing activities	(3,811)	(5,925)	(6,702)	(27,552)
Financing activities	(14,180)	(15,193)	(25,380)	(22,298)
Net (decrease) increase in cash and cash equivalents	(186)	230	262	190

Net Cash Used In Operating Activities

Net cash provided by operating activities decreased by Ps.3,543 million, to Ps.17,805 million for the nine months ended September 30, 2017, compared to Ps.21,348 million for the nine months ended September 30, 2016, primarily due to the net change in operating assets and a substantial increase in items charged to income that do not require the use of cash, such as labor obligations, depreciation and unrealized exchange gains.

Net cash provided by operating activities decreased by Ps.17,696 million, or 35.4%, to Ps.32,344 million for the year ended December 31, 2016, compared to Ps.50,040 million for the year ended December 31, 2015, primarily due to a decrease in CFE Transmisión's liabilities from 2015 to 2016.

Net Cash Used In Investing Activities

Net cash used in investing activities decreased by 35.6% to Ps.3,813 million for the nine months ended September 30, 2017, from Ps.5,924 million for the nine months ended September 30, 2016, primarily due to a delay in the reception of new projects derived from the construction terms and the duration of such projects.

Net cash used in investing activities decreased by 75.7% to Ps.6,702 million for the year ended December 31, 2016, compared to Ps.27,552 million for the year ended December 31, 2015, primarily due to the transfer of transmission assets held in 2015 as part of the CFE's unbundling process. However, the variation on investment activities on a normalized basis (eliminating that one-off effect) is not relevant.

Net Cash Used in Financing Activities

Net cash provided by (used in) financing activities represented an outflow of Ps.25,380 million for the year ended December 31, 2016, compared to an outflow of Ps.22,298 million for the year ended December 31, 2015, primarily due to lower financing obtained in 2016 and the higher debt payments made in 2016.

Net cash provided by (used in) financing activities represented an outflow of Ps.14,180 million for the nine months ended September 30, 2017, compared to an outflow of Ps.15,193 million for the nine months ended September 30, 2016, primarily due to higher financing obtained in 2017 and the higher debt payments made in 2017.

Net (decrease) increase in Cash and Cash Equivalents

Net cash and cash equivalents decreased by Ps.417 million, or 181%, to an outflow of Ps.186 million for the nine months ended September 30, 2017, compared to an inflow of Ps.230 million for the nine months ended September 30, 2016, primarily due to a larger amount of debt issuance during that period.

Net cash and cash equivalents increased by Ps.72 million, or 37.9%, to Ps.262 million for the year ended December 31, 2016, compared to Ps.190 million for the year ended December 31, 2015, primarily due to an increase in revenues and invoices to CENACE and a reduction in collection days.

Indebtedness

On January 1, 2017, CFE Holding, CFE Distribución and CFE Transmisión entered into a Framework Agreement for the Allocation of Financial Liabilities (the "Financial Framework Agreement"), pursuant to which CFE Holding allocated among its productive state subsidiaries all of the indebtedness (including obligations in respect of PIDIREGAS) it had incurred on or prior to January 1, 2017, and its productive state subsidiaries party thereto agreed to provide CFE Holding with the necessary funds to satisfy its payment obligations (including payment of principal and interest under the relevant financing agreement and related hedging expenses) under CFE Holding's existing financing agreements. The result of the Financial Framework Agreement and CFE Holding's allocation among its productive state subsidiaries is intercompany indebtedness among the productive state subsidiaries to CFE Holding. As of September 30, 2017, 100.0% of CFE Transmisión's indebtedness is intercompany indebtedness (including obligations in respect of PIDIREGAS) pursuant to the terms of the TESL and the Financial Framework Agreement.

As of September 30, 2017, the total amount of intercompany indebtedness (including obligations in respect of PIDIREGAS) of CFE Transmisión was Ps.115.8 billion, of which Ps.20.57 billion correspond to short-term indebtedness and Ps.95.30 billion to long-term indebtedness. As of the date of this offering memorandum, CFE Transmisión has not directly incurred any indebtedness with financial institutions. The Issuer and the Promoted Trust will not guarantee or assume any of CFE Transmisión's or CFE Holding's indebtedness.

The major categories of intercompany indebtedness of CFE Holding to CFE Transmisión are as follows:

	As of September 30,	As of December 31,	
	2017	2016	2015
		(in millions of Ps.)	
Allocated Debt			
Domestic	43,518	45,198	51,664
External	50,186	59,185	38,625
Interest	1,109	963	742
Expenses pending amortization	(1,067)	(1,154)	(1,062)
Total allocated debt	**93,746**	**104,192**	**89,969**
PIDIREGAS obligations			
Domestic	18,141	17,987	16,394
External	3,707	912	-
Interest	283	131	515
Total PIDIREGAS obligations	**22,131**	**19,030**	**16,909**
Total debt, PIDIREGAS obligations	**115,877**	**123,222**	**106,878**

The following table sets forth the total intercompany debt (including obligations in respect of PIDIREGAS) of CFE Holding to CFE Transmisión as of September 30, 2017:

	Payments Due by December 31 of Each Year (as of September 30, 2017)			
	Total	2017	2018	2019 and beyond
		(in millions of Ps.)		
Total debt	169,849	27,154	23,361	119,334

After giving effect to hedging derivatives, as of September 30, 2017, 73% of the total intercompany indebtedness (including obligations in respect of PIDIREGAS) of CFE Transmisión was denominated in Mexican pesos and 27% was denominated in other currencies (primarily U.S. dollars). As of September 30, 2017, 33% of the total intercompany indebtedness of CFE Transmisión bore interest at floating rates, after hedging. The weighted average cost of all intercompany borrowed funds of CFE Transmisión as of September 30, 2017 (including interest and reimbursement of certain lenders for Mexican taxes withheld, but excluding fees and the effect of interest-rate swaps) was 6.34%. Such cost does not include the effect of exchange rate variations. All of the intercompany indebtedness of CFE Transmisión is unsecured debt.

Related Party Transactions of CFE Transmisión

Guarantee Agreement and Joint and Several Liability Agreement between CFE Holding and its subsidiaries, including CFE Transmisión

On January 30, 2017, CFE Holding entered into: (i) a guarantee agreement and (ii) a joint and several liability agreement, with each of its subsidiaries, including CFE Transmisión. For more information see "CFE Transmisión— Relationship between CFE Transmisión and CFE Holding". As of September 30, 2017, the total amount of consolidated indebtedness of CFE Holding guaranteed by CFE Transmisión was Ps.435,766 million (U.S.$23,946 million). CFE Holding's other subsidiaries also guarantee this indebtedness. CFE Holding has in principle reached an agreement with creditors under two of the instruments governing certain of its indebtedness to provide a waiver in connection with the transfer by CFE Transmisión of the Collection Rights to the Promoted Trust. The waiver would remove the requirement that the Promoted Trust become a guarantor of the related indebtedness. CFE Holding expects to execute the final agreements prior to the pricing of the Global Offering.

Framework Agreement between CFE and CFE's productive state subsidiaries

CFE and CFE's productive state subsidiaries are considered Related Parties of CFE Transmisión. The transactions between CFE and CFE's productive state subsidiaries (including CFE Transmisión) are executed under a framework agreement, which includes annexes describing each of the services or transactions and the applicable collection arrangements between CFE and each productive state subsidiary. The services among the parties under this agreement include the following: technology services, leasing of helicopters and land vehicles, staff training, engineering management, security, risk management and insurance, human resources, telecom services and legal services. Each applicable service is included in an annex within the framework agreement. The services provided by CFE Transmisión include: operation and maintenance, automated systems (use of equipment for the automatization of services), modernization or renovations, training, infrastructure leasing, administrative services (including payroll services) and emergency support. For more information about the framework agreement, see CFE Transmisión's Carve-out Financial Information as of and for the years ended December 31, 2016 and 2015, and the notes thereto.

Guaranteed Demand between CFE Transmisión and Basic Supply

In order to comply with the strict separation requirements established in the LIE, CFE adopted certain policies from the Organization for Economic Cooperation and Development ("OECD") to ensure that the prices of related party transactions are comparable with the prices of transactions between independent parties. These provisions are also included in the Mexican Income Tax Law.

Financial adjustments may be made to certain transactions entered into by related parties to establish a comparable price that would be similar to the price if the transaction was executed by an independent party.

Price comparisons are usually made through a market value financial analysis within the specific sector. However, since there are currently no other carriers for electric transmission services in Mexico, the comparable prices for electric transmission services are made with reference to similar operations, markets and economic principals and the regions where they would operate in Mexico, among other factors.

CFE Transmisión has agreed with the other productive state subsidiaries of CFE to use this pricing analysis for the inter-company services with Basic Supply, a state productive subsidiary of CFE Transmisión. CFE Transmisión has verbally agreed with Basic Supply to implement the policies issued by the OECD and established in the Mexican Income Tax Law. The agreement will be formally implemented by the end of October 2017. This agreement will result in an annual global adjustment in favor of Basic Supply, identified as Guaranteed Demand (*Demanda Garantizada*), that allows a comparable price to the global market and therefore comply with the corresponding tax regulations, if applicable. As a result, this agreement may decrease the cash flows of CFE Transmisión which may indirectly affect the Promoted Trust and us.

The provisions established by the Mexican Income Tax Law relating to arm's length transactions authorize the Mexican tax authorities to determine the necessary adjustments that enable a comparison between prices in transactions entered into between independent parties. These determinations have a definitive effect and result in tax implications and consequences. CFE Transmisión performs these adjustments in compliance with the applicable provisions of its agreements.

Quantitative and Qualitative Disclosures About Market Risk of CFE Transmisión

Foreign Exchange Rate Risk

A substantial part of the indebtedness of CFE Transmisión's intercompany indebtedness, 27% (after hedging) as of September 30, 2017, is denominated in foreign currencies, mostly U.S. dollars, and CFE Transmisión has very limited assets and revenues denominated in U.S. dollars. As a result, CFE Transmisión is exposed to the risk of depreciation of the Mexican peso. As of September 30, 2017, CFE Transmisión's U.S. dollar-denominated indebtedness (including obligations in respect of PIDIREGAS) amounted to Ps.31,459 million.

To offset the foreign exchange rate risk, CFE Transmisión enters into derivative financial instruments with CFE Holding to minimize the impact of fluctuations in exchange rates on CFE Transmisión's intercompany indebtedness. These derivative instruments typically consist of cross-currency swaps in which we pay Mexican peso amounts based on Mexican peso interest rates and receive U.S. dollar amounts based on U.S. dollar interest rates. As of September 30, 2017, CFE Transmisión had outstanding cross-currency swaps covering the portion of its intercompany indebtedness (including U.S. dollar-denominated PIDIREGAS debt) of Ps.22,434 million.

The intercompany indebtedness of CFE Transmisión denominated in yens, as of September 30, 2017, amounted to Ps.2,443 million, or 2% of the total intercompany indebtedness of CFE Transmisión. For further discussion relating to derivative and hedging transactions, see notes 14 to CFE Transmisión Audited Carve-out Financial Statements and note 15 to CFE Transmisión Unaudited condensed carve-out interim financial information.

Interest Rate Risk

A substantial part of the indebtedness of CFE Transmisión's intercompany indebtedness bears interest at variable rates, 33% (after hedging) as of September 30, 2017. As a result, CFE Transmisión is exposed to risks from changing interest rates.

CFE Transmisión's enters into derivative financial instruments with CFE Holding to minimize the impact of fluctuations in variable interest rates on its indebtedness. The types of derivative instruments CFE Transmisión's has typically entered into in recent periods include interest-rate swaps (in which it generally pays amounts based on fixed interest rates and receive amounts based on variable interest rates). The general effect of these swaps is to replace an obligation to pay variable-rate interest on certain debt with an obligation to pay fixed-rate interest. As of September 30, 2017, the aggregate notional amount of the Mexican peso-denominated variable rate to fixed rate interest-rate swaps associated with CFE Transmisión's intercompany indebtedness was Ps.1.9 billion.

The fair value of the derivative instruments associated with the intercompany indebtedness of CFE Transmisión was Ps.2,152 million as of September 30, 2017.

CFE Transmisión's use of derivative instruments with CFE Holding varies from time to time, depending on management's judgment about its level of exposure to exchange rate and interest rate risks, and the costs of derivative instruments. The aggregate notional amount of CFE Transmisión's interest-rate swaps may be greater or less than the principal amount of its debt, and CFE Transmisión may discontinue hedging at any time. CFE Transmisión reviews and changes its derivatives positions regularly, and its derivatives policies change from time to time. Under IFRS, CFE Transmisión account for their interest rate swaps on a fair value basis. See note 7 to the CFE Transmisión Carve-out Financial Statements and note 8 to CFE Transmisión Unaudited Condensed Carve-Out Interim Financial Information.

Long-Term Productive Infrastructure Projects (PIDIREGAS) of CFE Transmisión

An important component of CFE Transmisión's capital expenditures is PIDIREGAS. Because of federal budgetary constraints, in 1996, the Mexican government sought private sector participation in the building and financing of PIDIREGAS in the electricity sector. The Mexican government approves the designation of certain infrastructure projects as PIDIREGAS. This designation means that these projects are treated as off-balance sheet items for annual Mexican government budgetary purposes, until delivery of the completed project to CFE Transmisión or until its payment obligations begin under the contract, and are excluded from across-the-board Mexican government budget reductions.

The Federal Law of Public Debt (*Ley Federal de Deuda Pública*) and the Federal Law of Budget and Fiscal Accountability (*Ley Federal de Presupuesto y Responsabilidad Hacendaria*) define the PIDIREGAS legal framework. The Federal Law of Public Debt outlines the treatment of financial obligations under PIDIREGAS, defining as a direct liability the amounts payable under a financing during the current and immediately following fiscal years, and the remaining amounts as a contingent liability until its full payment. The Federal Law of Budget and Fiscal Accountability grants PIDIREGAS preferential and priority treatment for inclusion in the Mexican government's budget in future years, until the full payment of a project's costs. The distinction between

PIDIREGAS and non-PIDIREGAS expenditures on the budget of the Mexican government (which includes the expenditures of the various decentralized public entities) is important in that, due to the private financing of PIDIREGAS projects during the planning and construction stages, they are immune from across-the-board budget cuts by the Mexican Congress, while non-PIDIREGAS investments are not.

PIDIREGAS have three stages:

- The Mexican government identifies a project as a PIDIREGAS and authorizes expenditures related to their development by the private sector;
- Private sector companies, in cooperation with CFE, build and deliver the project to CFE Transmisión; and
- CFE, with the Mexican government's authorization, pay all amounts owing to contractors and make final payments to receive delivery of the completed project, and then record as a liability the full principal amount of all indebtedness incurred to finance the project.

Compliance with the Mexican government's financial reporting standards and the Guidelines for the Accounting Treatment of Investments in Long-Term Productive Infrastructure Projects (Technical Release NIF-09-B), which outlines the accounting and budgetary treatment applicable to PIDIREGAS, is mandatory during the construction period and after delivery of the PIDIREGAS. In accordance with IFRS, all of the accounts, expenditures and liabilities related to PIDIREGAS are incorporated into CFE Transmisión's financial statements.

There are currently two types of PIDIREGAS projects: conditioned investment (IPPs) and direct investment (OPFs). CFE uses direct investment (OPFs) for transmission infrastructure.

Obra Pública Financiada (Financed Public Works Program). The OPF program addresses CFE Transmisión's infrastructure needs with respect to the transmission of electrical energy. CFE enters into relatively short-term agreements (1-2 years) under which a private company is responsible for the construction of a project, but not for its ongoing operation and maintenance. International bidders place their bids to receive a total payment upon the completion of the project involved. The main advantage of this program is that CFE avoid to the development of the project that may arise during the construction stage, such as risks relating to cost escalation and failure of the completed project to meet the technical specifications. CFE is able to secure competitive prices for the OPFs as a result of an international bidding process.

The table below sets for the existing PIDIREGAS transmission projects allocated to CFE Transmisión:

OPF 027 LT 406 Red Asociada a Tuxpan II, III y IV	OPF 204 SLT 1119 Transmisión y Transformación del Sureste
OPF 028 LT 407 Red Asociada a Altamira II, III y IV	OPF 206 SE 1206 Conv. a 400 kV de la LT Mazatlán II - La Higuera
OPF 030 LT 411 Sistema Nacional	OPF 208 SE 1205 Compensación Oriental - Peninsular
OPF 031 LT 409 Manuel Moreno Torres Red Asociada (2a. Etapa)	OPF 209 SE 1212 Sur - Peninsular
OPF 039 LT 414 Norte - Occidental	OPF 210 SLT 1204 Conversión a 400 kV del Área Peninsular
OPF 041 LT 506 Saltillo - Cañada	OPF 211 SLT 1203 Transmisión y Transformación Oriental - Sureste

OPF 042 LT 715 Red Asociada de la Central Tamazunchale	OPF 212 SE 1202 Suministro de Energía a la Zona Manzanillo
OPF 043 LT 509 Red Asociada de la Central Rio Bravo III	OPF 214 SE 1210 Norte - Noroeste
OPF 045 SE 413 Noroeste - Occidental	OPF 215 SLT 1201 Transmisión y Transformación de Baja California
OPF 049 LT 609 Transmisión Noroeste - Occidental	OPF 218 LT 1220 Red de Tr Asoc al Pry de Temp Abierta y Oax. II, I
OPF 050 LT 610 Transmisión Noroeste - Norte	OPF 219 SLT Red de Transmisión Asociada a Manzanillo I U-1 y 2
OPF 052 LT 613 Sub-transmisión Occidental	OPF 228 LT Red de Transmisión Asociada a la CCC Norte II
OPF 057 LT 1012 Red de Transm. Asocida a la CCC Baja California	OPF 231 SLT 1304 Transmisión y Transformación del Oriental
OPF 058 SE 607 Sistema Bajío - Oriental	OPF 233 SLT 1303 Transmisión y Transformación Baja - Noroeste
OPF 065 LT 714 Red de Transmisión Asociada a la CH El Cajón	OPF 234 SLT 1302 Transformación del Noreste
OPF 066 LT 710 Red de Transmisión Asociada a Altamira V	OPF 237 LT 1313 Red asociada a Baja California III
OPF 068 LT 718 Red de Transmisión Asociada a El Pacifico	OPF 243 SE 1322 Distribución Centro
OPF 070 LT 717 Riviera Maya	OPF 244 SE 1321 Distribución Noreste
OPF 099 SE 708 Compensación Dinámicas Oriental - Norte	OPF 245 SE 1320 Distribución Noroeste
OPF 100 SLT 701 Occidente - Centro	OPF 247 SLT 1404 Subestaciones del Oriente
OPF 101 SLT 702 Sureste - Peninsular	OPF 248 SLT 1401 SES y LTS de la Áreas Baja California y Noroeste
OPF 104 SLT 706 Sistemas Norte	OPF 249 SLT 1405 Subestaciones y Líneas de Transmisión de las Áreas Sures
OPF 105 SLT 709 Sistemas Sur	OPF 250 SLT 1402 Cambio de Tensión de la LT Culiacán - Los Mochis
OPF 124 SE 813 División Bajío	OPF 252 SE 1403 Compens. Capacitiva de las Áreas Noroeste - Norte
OPF 126 SLT 801 Altiplano	OPF 253 SE 1420 Distribución Norte
OPF 127 SLT 802 Tamaulipas	OPF 262 SLT 1601 Transmisión y Transformación Noroeste - Norte

OPF 128 SLT 803 Noine	OPF 267 SLT 1604 Transmisión Ayotla - Chalco
OPF 130 SLT 806 Bajío	OPF 273 SE 1621 Distribución Norte - Sur
OPF 139 SE 912 División Oriente	OPF 274 SE 1620 Distribución Valle de Mexico
OPF 141 SE 915 Occidental	OPF 280 SLT 1721 Distribución Norte
OPF 142 SLT 901 Pacifico	OPF 288 SLT 1722 Distribución Sur
OPF 143 SLT 902 Istmo	OPF 292 SE 1701 Subestación Chimalpa II
OPF 144 SLT 903 Cabo - Norte	OPF 293 SLT 1703 Conversión a 400 kV de la Riviera Maya
OPF 148 RFO Red de Fibra Óptica Proyecto Sur	OPF 294 SLT 1702 Transmisión y Transformación Baja - Noine
OPF 149 RFO Red de Fibra Óptica Proyecto Centro	OPF 295 SLT 1704 Interconexión Sist. Aislados Guerrero Negro Sta. Rosalia
OPF 150 RFO Red de Fibra Óptica Proyecto Norte	OPF 297 LT Red de Transmisión Asociada al CC Empalme I
OPF 152 SE 1005 Noroeste	OPF 305 SE 1801 Subestaciones Baja - Noroeste
OPF 152 SE 1005 Noroeste	OPF 306 SE 1803 Subestaciones del Occidental
OPF 164 SE 1003 Subestaciones Eléctricas de Occidente	OPF 307 SLT 1802 Subestaciones y Lineas del Norte
OPF 165 LT 1011 Red de Transmisión Asociada a la CC San Lorenzo	OPF 308 SLT 1804 Subestaciones y Líneas Transmisión Oriental - Peninsular
OPF 166 SLT 1002 Compensación y Transmisión Noreste - Sureste	OPF 310 SLT 1821 Divisiones de Distribución
OPF 170 LT Red de Transmisión Asociadad a la CH La Yesca	OPF 314 LT Red de Transmisión Asociada al CC Empalme II (S05)
OPF 176 LT Red de Transmisión Asociada a la CC Agua Prieta II	OPF 316 SE 1901 Subestaciones de Baja California
OPF 177 LT Red de Transmisión Asociada a la CE La Venta III	OPF 317 SLT 1902 Subestaciones y Compensación del Noroeste
OPF 185 SE 1110 Compensación Capacitiva del Norte	OPF 318 SE 1903 Subestaciones Norte - Noreste
OPF 188 SE 1116 Transformación del Noreste	OPF 319 SLT 1904 Transmisión y Transformación de Occidente
OPF 189 SE 1117 Transformación de Guaymas	OPF 320 LT 1905 Transmisión Sureste Peninsular
OPF 190 SE 1120 Noroeste	OPF 104 SLT 706 Sistemas Norte
OPF 193 SE 1123 Norte	OPF 234 SLT 1302 Transformación del Noreste

OPF 194 SE 1124 Bajío Centro	OPF 292 SE 1701 Subestación Chimalpa II
OPF 195 SE 1125 Distribución	OPF 297 LT Red de Transmisión Asociada al CC Empalme I
OPF 197 SE 1127 Sureste	OPF 306 SE 1803 Subestaciones del Occidental
OPF 199 SE 1129 Compensación Redes	OPF 314 LT Red de Transmisión Asociada al CC Empalme II (S05)
OPF 200 SLT 1111 Transmisión y Transformación del Central - Occide	OPF 316 SE 1901 Subestaciones de Baja California
OPF 201 SLT 1112 Transmisión y Transformación del Noroeste	OPF 317 SLT 1902 Subestaciones y Compensación del Noroeste
OPF 201 SLT 1112 Transmisión y Transformación del Noroeste	OPF 320 LT 1905 Transmisión Sureste Peninsular

CFE TRANSMISIÓN

History and Overview

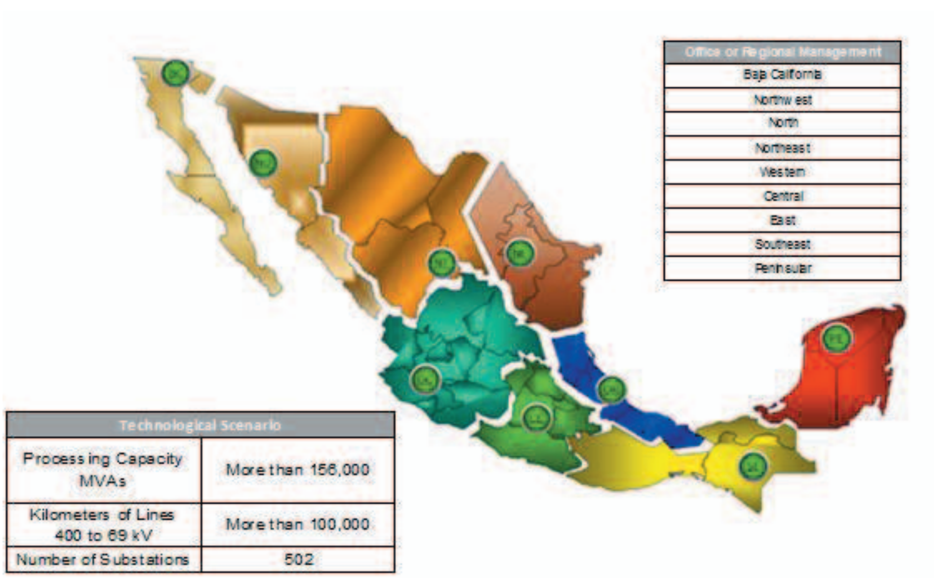
CFE was created in 1937 by presidential decree, and then converted into a decentralized public entity of the Mexican Federal Government by the Mexican Congress in 1949. In connection with the Energy Reform, which among other things repealed the LSPEE, CFE was converted from a decentralized public entity of the Mexican Federal Government into a productive state enterprise upon the implementation of the LCFE in October 2014. As part of the Energy Reform, the Mexican Constitution was amended, and the transmission and distribution of electricity were considered strategic economic areas where the Mexican Federal Government would continue to maintain ownership.

CFE is a productive state enterprise created and owned by the Mexican Federal Government. CFE has generally been responsible for generating, transmitting, distributing and marketing electric power for approximately 41.9 million customers and serves more than a million new customers each year. The CFE Law mandates that CFE separate into the following strategic electric power segments: (1) generation, (2) transmission, (3) distribution and (4) commercialization, each of which has been created as of the date of this offering memorandum.

On March 29, 2016, CFE Transmisión was incorporated as a productive state subsidiary of CFE with the purpose of providing the service of electricity transmission, as well as the related financing, installation, maintenance, management, physical operation and expansion of the necessary infrastructure to provide such service in accordance with the provisions of the LCFE, the LIE, the TESL and other applicable legal provisions, generating economic value and profitability for the Mexican Federal Government as its owner.

As of the date of this offering, CFE Transmisión has a 100% market share of the electricity transmission market in Mexico. CFE Transmisión is organized into nine regions that provide the public service of electricity transmission, covering the 31 states in Mexico and Mexico City. Each region is divided into transmission zones, with a total of 55 zones in the country.

The following map shows the nine regions that CFE Transmisión covers:



Source: CFE Transmisión.

Transmission

As of today, CFE Transmisión has a 100% market share of the transmission business in Mexico. Transmission is the process by which electrical power is carried from electrical generators to distribution substations. Transmission is one of the core businesses and an important cash flow generator for CFE. The NTN enables the interconnection of Power Plants and the transportation of electricity from these Power Plants to Wholesale Load Centers, as shown in the diagram below.

(1) The transmission-distribution threshold is 69 kV.
Source: CFE Transmisión.

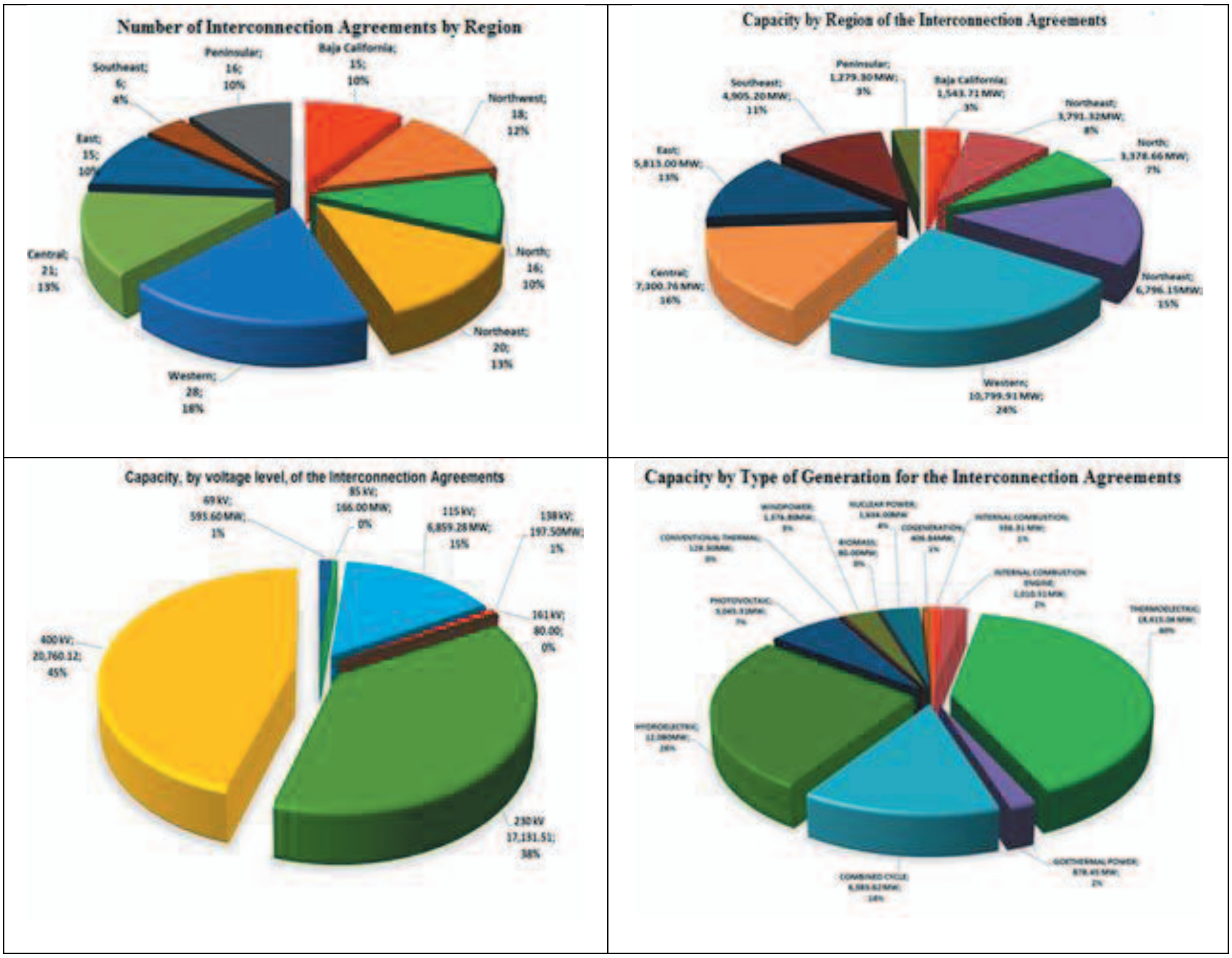
Before 2016, the SEN consisted of different networks such as the transmission and sub-transmission lines which were operated by different entities. In November 2016, as a result of the redefinition of voltages established by the Energy Reform, CFE Holding transferred all assets related to the sub-transmission network to CFE Transmisión. The energy transported by the NTN in 2016 is shown in the table below.

Energy transported by the NTN in 2016		
Voltage	**Generation: Energy received by the NTN (GWh)**	**Demand: Energy delivered by the NTN (GWh)**
≥ 220 kV	249,385	15,202
< 220 kV	42,843	241,251[(1)]
Total	**292,228**	**256,453**

(1) The transmission-distribution threshold is 69 kV.
Source: CFE.

CFE Transmisión is not considered a Market Participant. However, it has interconnection agreements with Power Plants and connection agreements with Wholesale Load Centers. As such, the delivery of electricity to final customers through the General Distribution Networks (the "GDN") (*Redes Generales de Distribución*) is conducted by bulk transfer and credited through the CENACE Agreement. The execution of interconnection and connection agreements is directed by CENACE, and CFE Transmisión doesn't have any influence on the negotiation of such agreements. Wholesale Load Centers usually have their own infrastructure (such as substations) to connect to the NTN.

The following charts show (1) the number of interconnection agreements by region, (2) the capacity of each agreement by region, (3) the capacity by voltage levels of these agreements, and (4) the capacity by type of generation of these agreements.

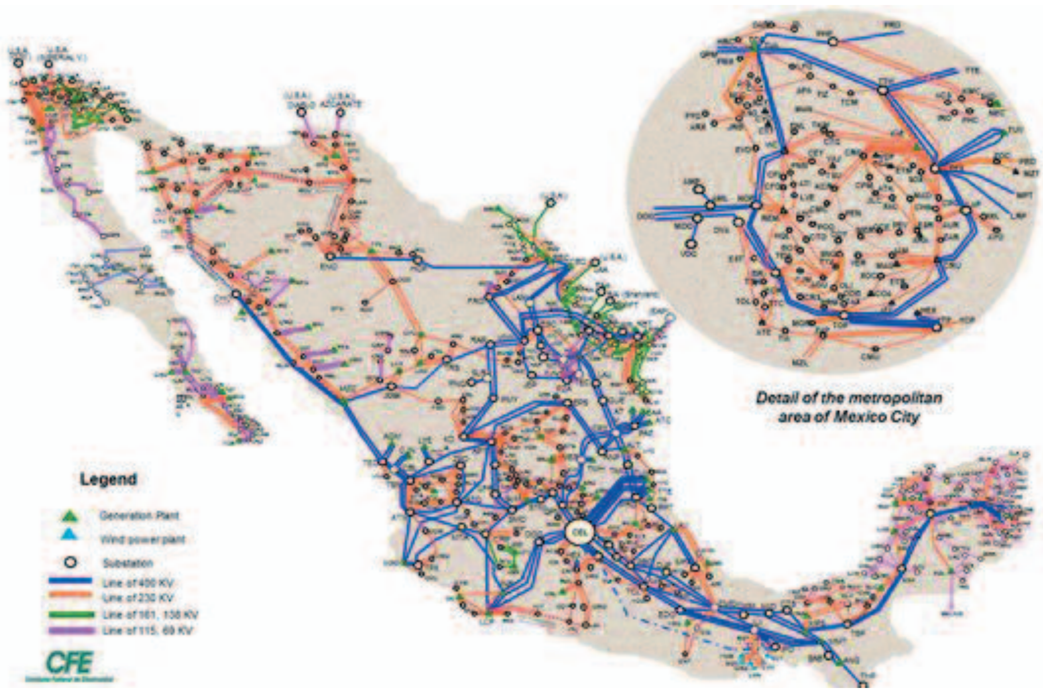


Source: CFE Transmisión.

Components of the National Transmission Network

As of September 30, 2017, the NTN consisted of approximately 107,000 km of transmission and sub-transmission lines with voltages ranging from 69kV to 400kV. The NTN is comprised of (i) a backbone network (*red troncal*) integrated by transmission lines with a high voltage ranging from 161kV to 400kV and related substations, (ii) a sub-transmission network integrated by sub-transmission lines with a high voltage ranging from 69kV to 160kV and related substations and (iii) interconnections with foreign electric systems, as may be determined from time to time by the SENER.

Within the NTN there are four electric systems, which consist of isolated systems located in Baja California, Mulegé and Baja California Sur, and the National Interconnected System. The map below shows the geographic distribution of the NTN.



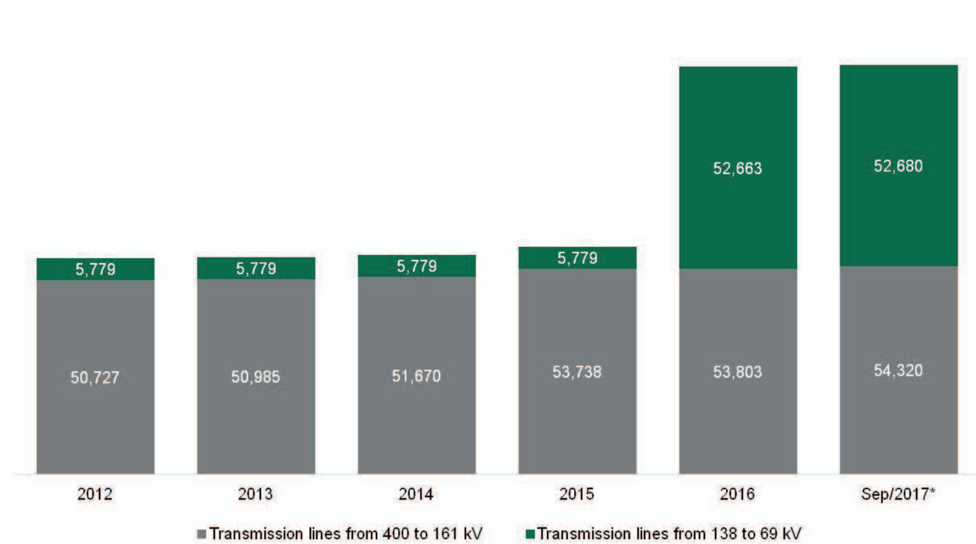
Source: CFE Transmisión.

Transmission and Sub-Transmission Lines

As of September 30, 2017, the NTN consisted of 107,000 km of transmission and sub-transmission lines with voltages ranging from 69kV to 400 kV. Of this total, 24,737 km are transmission lines with a voltage of 400 kV, 29,075 km are transmission lines with a voltage of 230 kV, 507 km are transmission lines with a voltage of 161 kV and 52,681 km are sub-transmission lines from with a voltage ranging from 138 to 69 kV. These numbers include the three isolated systems in Baja California, Mulegé and Baja California Sur.

Pursuant to PRODESEN, the SENER instructed CFE Transmisión to add an additional 4,616 km of transmission lines in the next four years. In 2016, transmission and sub-transmission lines grew substantially as a result of the new voltage limits between CFE Transmisión and CFE Distribución implemented as part of the Energy Reform. Below is a graph showing the growth, in kilometers, of the NTN's transmission and sub-transmission lines from 2012 to September 2017.

Kilometers of lines of the NTN



* Rounded data
Source: CFE Transmisión

The transmission and sub-transmission lines are supported by transmission and sub-transmission towers located throughout Mexico. The transmission towers are self-supported steel structures and the sub-transmission towers are either steel, wood or concrete structures.

The following table provides the length of the transmission and sub-transmission lines by voltage for the years ended on December 31, 2015 and 2016 and for the nine-month period ended September 30, 2017.

Lines in the NTN

Voltage	Length as of December 31, 2015 (km)	Length as of December 31, 2016 (km)	Length as of September 30, 2017 (km)*
400 kV	24,696	24,714	24,737
230 kV	28,518	28,565	29,075
161 kV	522	523	507
138 kV	156	1,690	1,691
115 kV	5,596	47,834	47,852
85 kV	0	794	795
69 kV	27	2,342	2,343
Total	**59,517**	**106,466**	**107,000**

* Rounded data
Source: CFE Transmisión

Transmission and Sub-transmission Substations

Another major component of the NTN are the 504 transmission substations, which contain transformers, meters, circuit-breakers and associated switching equipment. On September 30, 2017, these substations had a transformation capacity of 156,684 MVA. In addition, there are 1,615 substations shared with CFE Distribución for sub-transmission lines. CFE Transmisión plans to add 39 more substations to the NTN with a transformation capacity of 30,145 MVA in the next four years. These substations connect the different parts of the NTN and provide the entry and exit points at which Power Plants and Wholesale Load Centers are connected to the NTN. There are no employees physically located in the majority of the substations, however, since the control and acquisition systems allow for their remote control and monitoring.

There are protection mechanisms within the transmission and sub-transmission substations which were implemented to identify, limit and correct failures in the transmission lines and avoid general blackouts. These mechanisms work jointly with the circuit-breakers.

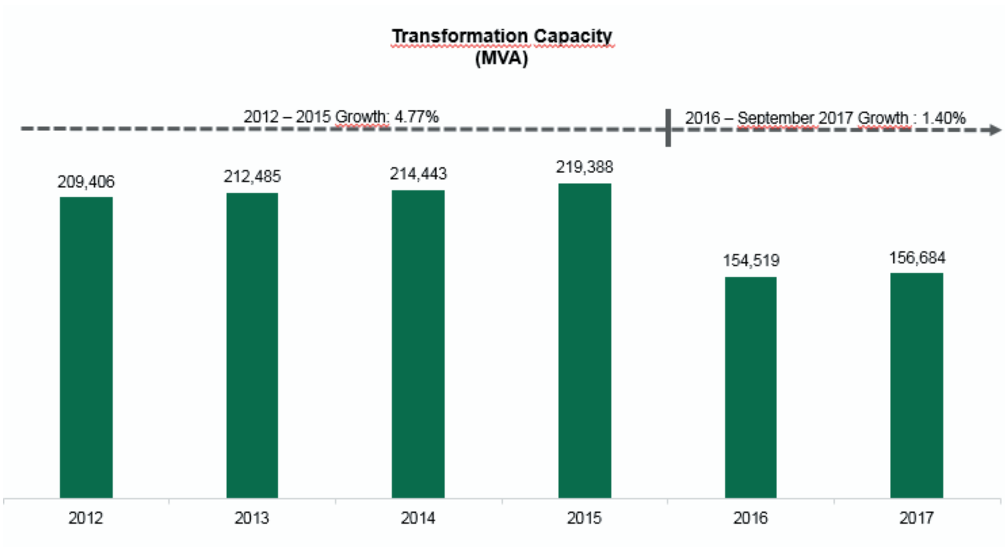
The transmission substations are focused on changing and regulating the voltage levels of the electric infrastructure to facilitate the transportation of electricity between the NTN and the GDN. Electric substations used in the transmission business are classified as follows:

a) Generation substations associated with the generation facilities that increase the voltage and direct the power to the electric system in voltages equal to or greater than 69kV;

b) Transformation substations that reduce the voltage and direct the power to the GDN; or

c) Switching substations that connect different circuits or lines to distribute the power to the system and do not have transformation capacity.

The graph below shows the growth in the transformation capacity of the substations. During 2016, as part of the Energy Reform, certain transformers were delivered to CFE Distribución and CFE Generación to comply with the new voltage limits. In prior years, there was no distinction between the transformers, as was the case for the transmission and sub-transmission lines.



Source: CFE Transmisión

Control Centers

The NTN has 31 control centers or transmission operation zones (*zonas de operaciones de transmisión*) in Mexico. Through these control centers, CFE Transmisión is responsible for the physical control and operation of the NTN. CENACE maintains operative control and manages the WEM. CENACE owns two control centers located in Baja California. The map below shows all of the control centers by region.

Regional Office	Control Centers
Baja California	Valle
	Costa
Northwest	Culiacán
	Hermosillo
	Obregón
North	Juárez
	Chihuahua
	Camargo
	Laguna
	Durango
Northeast	Huasteca
	Frontera
	Coahuila
	Monterrey-Saltillo
West	Sauz
	Centro Norte
	Jalisco - Nayarit
	Centro Occidente
	Bajío
Center	Guerrero- Morelos
	Puebla - Tlaxcala
	Toluca
	Pachuca
	Metropolitan Area
East	Coatzacoalcos - Istmo
	Poza Rica - Teziutlán
	Veracruz
Southeast	Southeast
Peninsular	Cancún
	Chetumal
	Yucatán

Source: CFE Transmisión

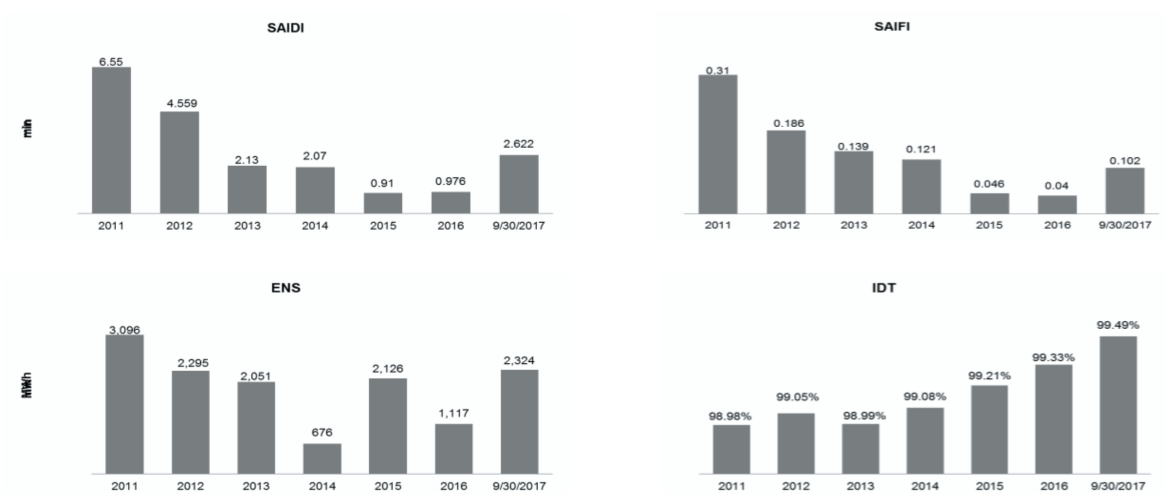
Interconnections to Foreign Networks

There are 13 international interconnections between Mexico and North and Central America, of which 11 are located on the border with the United States, one on the border with Belize and one on the border with Guatemala. The map below shows these interconnections.

Source: CFE Transmisión

Operational Performance Indicators of CFE Transmisión

The CRE established the following indicators to measure the operational performance of the NTN: (i) System Average Interruption Duration Index ("SAIDI"), which measures the average time of interruption of electricity supply to a final user, (ii) System Average Interruption Frequency Index ("SAIFI"), which indicates the average number of interruptions of service from the NTN for a final user, (iii) Energy not delivered (*Energía no suministrada*) ("ENS"), which refers to energy not supplied to users due to interruptions for periods longer than five minutes that occur as a consequence of failures in the NTN, and (iv) Transmission System Availability Index (*Índice de disponibilidad del sistema de transmisión*) ("IDT"), which refers to availability of all component elements of the NTN. The following graphs show the corresponding indicators over the last six years as of September 30, 2016 and September 30, 2017, respectively.



Source: CFE Transmisión.

The performance goals of CFE Transmisión for 2017 are: (i) three minutes for SAIDI, (ii) 0.20 interruptions per customer for SAIFI, (iii) 3,000 MWh for ENS, and (iv) 99% for IDT for the Baja California, Northwest, North, Northeast, Central, East and Peninsular regions, and 98.5% for the Southwest and West regions.

In the event that CFE Transmisión does not comply with the operational performance indicators, it could be subject to certain fines and penalties. More specifically, CFE Transmisión can be fined from two to ten percent of its gross annual income from the previous year if it incurs a series of violations listed under Article 165 of the LIE, including among others, if it (i) refuses to act as instructed by CENACE, without cause; (ii) stops the transmission services on a general basis, without cause; (iii) breaches any obligations related to the accounting, operational, functional and legal separation; (iv) breaches any obligations related to the interconnection of new Power Plants and the connection with new Wholesale Load Centers; (v) breaches the tariff regulations; or (vi) fails to comply with the provisions applicable to quality, reliability, continuity and security of the SEN. As of the date of this offering memorandum, no penalties have been imposed by the CRE on CFE Transmisión.

Transmission System Configuration

Mexico's transmission system configuration has evolved into an integrated transmission grid system, which connects areas of generation to areas of demand by transmission lines. In a fully integrated grid system, there are multiple connections that provide alternative routes through which electricity can be transmitted. Security and stability, two principal operating concerns, are particularly important because the outage of any transmission or sub-transmission line may completely disconnect entire sections of the system. The fully integrated system may experience problems when the capacity of one line is insufficient to carry the necessary load. The capacity of each transmission line is limited by its thermal or operative capacity, as determined by CFE Transmisión and CENACE.

Maintenance of the NTN

CFE Transmisión is responsible for maintaining the NTN, which it does through 55 operation zones. The NTN and all grid components are currently registering elevated transmission levels due to an increase in the demand for electricity. As a result, the PRODESEN has established expansion projects for the NTN in order to avoid congestions risks. CFE Transmisión dedicates a significant portion of its financial and human resources to ensuring that the NTN employs state-of-the-art technology and maintains optimal working conditions.

CFE Transmisión also seeks to reduce electricity service interruptions. Much of its equipment is installed outdoors and is subject to weather conditions and natural disasters that affect Mexico from time to time. As a result, this equipment (including, in particular, the transmission towers and utility poles) often incurs weather-related damage, which can cause electricity service interruptions for customers. CFE Transmisión maintains a well-trained staff of technicians located throughout the 55 transmission zones that prevent, fix, preserve and repair damaged equipment upon receipt of notice of any such damage. CFE Transmisión keeps a formal registry of all maintenance activities performed on the NTN.

Over the last three years CFE Transmisión has been working to transform its maintenance program from a time-based program into a condition-based program. This new focus will allow CFE Transmisión to directly supervise and maintain precise records of the age and condition of all equipment used in the transformation and transmission of electricity instead of performing maintenance based on a time schedule. The new maintenance program is part of the smart grid technology in which CFE Transmisión has been investing and will continue to invest. CFE Transmisión expects to complete the transformation in the next four years. A pilot program has been launched in the Northeast region with favorable results.

According to CFE Transmisión's investment plan, in the next five years investments for the maintenance program are expected to be around Ps.11.1 billion (U.S$607.2 million).

Investments

CFE Transmisión's main objective in the mid- to long-term is to maintain the reliability, quality and safety of the transmission of electricity among the participants in the WEM. In addition, CFE Transmisión intends to further develop its “smart-grid” technology, which will include asset management, control and automatization of all transmission substations.

New investments are subject to the guidelines for planning, evaluation, approval, financing and follow-up of investment projects and programs of CFE, its productive state subsidiaries and, if applicable, its affiliates, issued by the board of directors of CFE, which describe the processes to make capital investments and prioritize among investments. Such processes include the validation of the investment plan, evaluation of investment projects, determination of a financing structure, final approval, execution and monitoring.

After the Energy Reform, CFE and its productive state subsidiaries (including CFE Transmisión) are able to use new investment sources, including public-private partnerships, outsourcing (where a third party is responsible for carrying out all the activities required for a service, including the design, construction, operation, management and infrastructure financing), issuance of FIBRAs E (targeting pension funds, institutional investors and insurance companies who seek to invest in strategic productive projects for the national economy, including energy) and sale of assets that are not required for their operations, other than assets that are state-mandated public services of the transmission and distribution of electric power.

Expansion Investments

The program for the expansion and modernization of the NTN (*Programa de Ampliación y Modernización de la Red Nacional de Transmisión*) prioritizes minimizing costs associated with providing services, reducing congestion costs (*costos de congestión*), and incentivizing an efficient growth in generation. In addition, the program’s objective is to strengthen the connections between the southeast and center regions of Mexico, connect the National Interconnected System with the three isolated systems, connect the NTN with North America and Central America and efficiently match the supply and demand of electricity.

Based on the investment needs estimated for the expansion and modernization of the NTN as described in the PRODESEN, we estimate that in the next two years 25 previously authorized projects for the expansion of the NTN (also known as legacy projects) will be completed, representing investments of Ps.16.3 billion (U.S$896.1 million). In the next five years, there are additional plans to carry out 30 investment projects instructed by SENER, which represent an estimated total amount of Ps.76 billion and account for nearly 35% of total expected investment for the period between 2017 and 2031.

Investments to Comply with the TESL and Market Bases

In addition to the expansion and smart grid investments, the PRODESEN proposed the development of a new measurement system for the WEM. As part of the separation plan established by the Energy Reform Decree for CFE Transmisión and CFE Distribución, certain delivery or reception points require new meters to accurately measure the transmitted and distributed electricity.

Transmission Tariffs

Pursuant to Article 138 of the LIE, there are five regulated tariffs across the Mexican electricity sector: transmission, distribution, basic service supply operation, CENACE operation and related services not included in the WEM. CRE is responsible for determining and publishing the calculation and adjustment methodology for each of these regulated tariffs. Under the LIE and its regulations, the CRE is responsible for determining and publishing the rules applicable to the determination of transmission tariffs, including the methodology for the calculation of such tariffs, through general administrative provisions.

CFE Transmisión’s revenues from transmission of electricity are derived from the payment by Market Participants of a regulated tariff for the electricity transported through the NTN, which is collected by CENACE. On September 7, 2015, the CRE issued Resolution A/045/2015 setting forth the rules applicable to the tariffs for the transmission service during an initial tariff period of three years, commencing on January 1, 2016 and ending on December 31, 2018. The initial regulation established for 2016 as part of the Energy Reform indicated the applicable prices in Ps./kWh for the electricity transmission service for interconnected Power Plants (or generators) and connected Wholesale Load Centers (or consumers), setting the price for each type of Market Participant by voltage level (less than 220 kV or equal to or greater than 220kV), as explained below. These prices were calculated by taking into consideration the required income of CFE Transmisión for 2016, as well as the weighting factors by level of tension and the demand projection of that service. The required incomes for the three years (2016, 2017 and 2018) were published in Resolution A/045/2015. For the years 2017 and 2018, the 2016 tariff will be used as a base for calculation, taking into account the corresponding update factors, such as a weight of 90% for inflation and 10% for exchange rate, and an adjustment of a 1% efficiency rate per year of OMA costs reflected in the table below.

Elements that comprise the required income	2016 Millions of Pesos	2017 Millions of Pesos	2018 Millions of Pesos
OMA costs	Ps.21,833	Ps.22,353	Ps.22,477
Cost of Assets	Ps.22,854	Ps.22,425	Ps.22,549
Total costs	Ps.44,687	Ps.44,777	Ps.45,025

Note that the operating, maintenance and administration costs are the OMA costs referred to above, while the asset costs refer to the component of return on capital and asset depreciation.

The tariff is set based on the total amount of required income divided by the total amount of energy transported through the NTN. Power Plants (or generators) pay 30% of the costs and Wholesale Load Centers (or consumers) pay the remaining 70%. The use of the NTN is based on two voltage levels: equal to or greater than 220kV and less than 220kV. As a result, there are four different transmission tariffs, two for Power Plants and two for Wholesale Load Centers. The following table presents the transmission tariffs applicable for 2016 and 2017. The figures for 2017 were published by CFE Transmisión in the Official Gazette on January 16, 2017 and were based on the regulated tariffs published by CRE. On January 19, 2018, CFE Transmisión received a written notice from the CRE indicating the applicable transmission tariffs for 2018. CFE Transmisión issued a press release on January 22, 2018 with the new transmission tariffs applicable for 2018, which became binding for Market Participants upon their publication on January 29, 2018 in the Official Gazette.

	Tariffs for energy transported (Pesos / kWh)		
Tensions and Market Participant	**2016**	**2017**	**2018**[3]
Equal to or greater than 220kV for Power Plants[1]	Ps.0.0499	Ps.0.0531	Ps.0.0553
Equal to or greater than 220kV for Wholesale Load Centers[2]	Ps.0.0625	Ps.0.0668	Ps.0.0696
Less than 220kV for Power Plants[1]	Ps.0.0904	Ps.0.0961	Ps.0.1002
Less than 220kV for Wholesale Load Centers[2]	Ps.0.1424	Ps.0.1521	Ps.0.1585

(1) The tariff for Power Plants is applicable to Market Participants and for energy transported at the first interconnection point where the energy is transported from the generators.

(2) The tariff for Wholesale Load Centers is applicable to all users participating as Market Participants, including suppliers, merchants who acquire energy from the WEM or their representatives, and extractions of energy at the last interconnection point where the transported energy is received by consumers.

(3) The 2018 tariffs became effective for the Market Participants on January 29, 2018 following their publication by CFE Transmisión in the Official Gazette.

With respect to the transmission tariff, Market Participants pay a defined regulated tariff for the electricity transmitted through the NTN. These payments are collected by the CENACE, acting as an intermediary between CFE Transmisión and the direct users of the electricity transmission service. According to the LIE, the methodology behind transmission tariffs must be based on the recovery of efficient operation, maintenance and financing costs, depreciation, taxes and a reasonable profit. In September 2015, CRE issued a resolution setting forth the applicable rules for the transmission tariff during an initial three-year period from 2016 to 2018.

Regulated tariffs are a key element for CFE Transmisión's business and it will pursue capital reinvestments with the purpose of obtaining attractive returns. To reach this goal, CFE Transmisión considers it essential to have levels of costs, losses and services that are aligned with the transmission tariffs published by the CRE. Costs of labor obligations are the highest OMA costs for CFE Transmisión. Between 2010 and 2015, these costs represented 39% of CFE Transmisión's total OMA costs, while wages and remunerations represented 34%. These two costs represented 73% of the OMA costs for CFE Transmisión during the above-mentioned period.

The following chart establishes the 2017 regulated tariffs and weighted average tariff:

2017 Tariff (MXN$/kWh)[1]

Tension Level	Generators	Consumers
≥ 220kV	$0.0531	$0.0668
< 220kV	$0.0961	$0.1521

2017 Weighted Average Tariff (MXN$/kWh)[2]

$0.1004

(1) On September 2015, the CRE issued a resolution setting forth the rules applicable to the tariffs during an initial three year period (2016-2018)
(2) The product of tariffs and the corresponding % of total volume transmitted to each market participant.

Environmental regulation

CFE Transmisión is subject to an extensive and constantly growing catalog of environmental laws, including the General Law on Ecological Equilibrium and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*), which is Mexico's framework environmental law, as well as the Law of National Waters (*Ley de Aguas Nacionales*), General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos*), General Law on Climate Change (*Ley General de Cambio Climático*), Energy Transition Law (*Ley de Transición Energética*) and General Law of Sustainable Forestry Development (*Ley General de Desarrollo Forestal Sustentable*). These laws and regulations impose strict environmental protection standards on the use of water, air and sound emissions, pollution control, wastewater discharges, the use and handling of wastes or toxic materials and the disposal practices of waste. These laws also subject major commercial projects to an environmental impact and risk assessment.

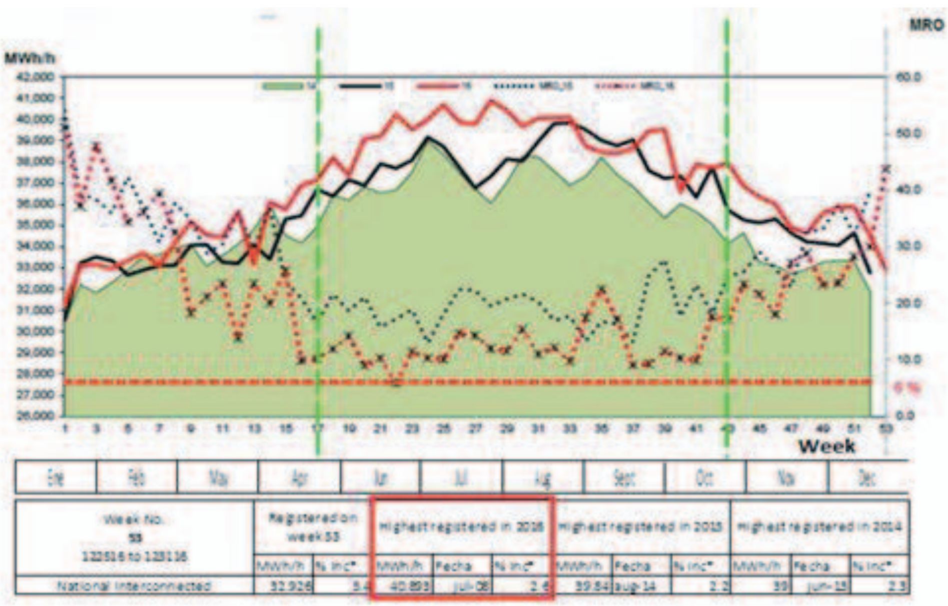
These standards expose CFE Transmisión to risks of incurring costs or liabilities, including strict and joint liabilities in the case of the performance of hazardous activities, as well as indirect damages in the cases contemplated by the Federal Law on Environmental Liability (*Ley Federal de Responsabilidad Ambiental*). In response to these regulations and standards, CFE Transmisión has implemented policies to comply with all applicable environmental laws. In addition to the environmental laws and regulations applicable to CFE Transmisión's operations, CFE Transmisión attempts to use the least environmentally costly electricity production technologies possible, both short and long term, after considering the environmental impact of such technologies. Likewise, CFE Transmisión is required to use electricity production technologies that offer optimal stability, quality and safety for the public services that it provides.

CFE Transmisión has a general liability insurance policy specifically for environmental risks, in compliance with the provisions of Mexican laws and regulations and international treaties to which Mexico is a party. Further CFE Transmisión is certified under the international standard ISO 14001:2015 for environmental management which helps organizations identify, manage, monitor and control their environmental issues in a specified manner.

Seasonality

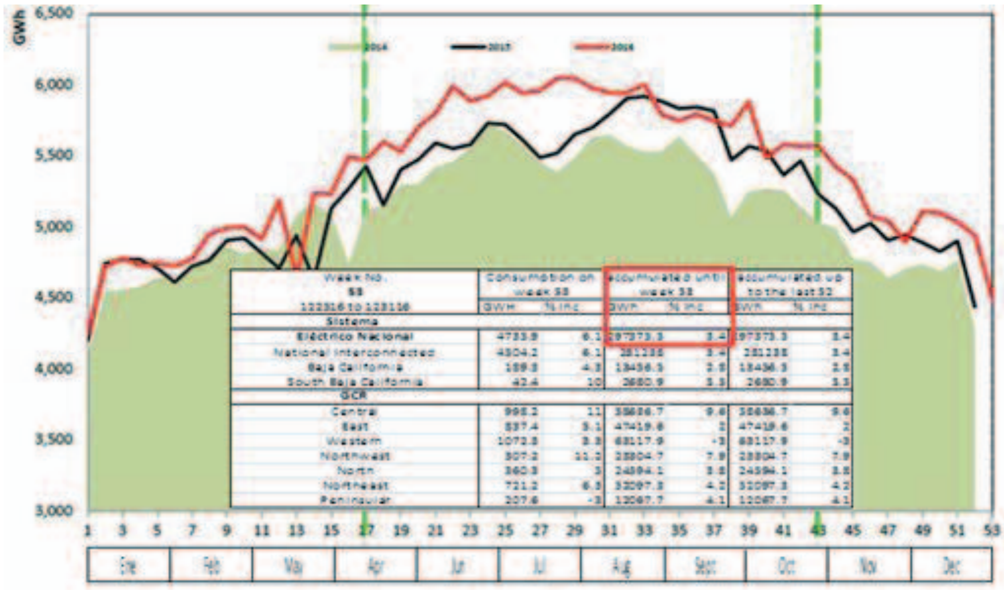
CFE Transmisión's revenues and operating income are, and consequently the distributions that we receive from our Beneficiary Rights under the Promoted Trust will be, subject to fluctuations during the year, primarily due to the impact that seasonal factors have on the volumes of electricity consumption and demand. CFE Transmisión's operations have a higher demand in the summer months with heavy cooling demand (especially in the northern states of Mexico) than in the winter. Further, to the extent that climate change may affect weather patterns, more extreme weather patterns could impact demand for electricity.

The following graph shows the seasonality patterns in 2016 of the SEN, which reached the highest level of electricity demand in July and the lowest level of demand in January and December.



Source: CENACE

The following chart shows the consumption of energy in 2016 of the SEN, with the highest levels of consumption between May and August.



Source: CENACE

Employees and Labor Relations

Currently, CFE Transmisión has no employees. CFE Transmisión expects to complete the transfer of employees from the former Transmission Department from CFE Holding to CFE Transmisión during the first quarter of 2018. As of September 30, 2017, CFE Holding had 8,371 employees (including temporary employees) in the Transmission Deputy Department, compared to 8,501 employees as of December 31, 2016. As of September 30, 2017, approximately 78% of CFE's employees under the Transmission Deputy Department were unionized under the SUTERM labor union, and the remaining 22% were not unionized. CFE has never experienced a labor-related work stoppage or strike, and considers its overall relationship with its unionized employees to be stable. The average tenure of CFE's full-time employees (union and non-union) is 13 years.

The following table sets forth the breakdown of CFE labor force under the Transmission Deputy Department between unionized and non-unionized employees from 2011 through 2016, and as of September 30, 2017:

	As of December 31,						As of September 30,
Employees*	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Non-unionized Employees	1,936	1,988	1,973	1,913	1,965	1,930	1,845
Unionized Employees	5,890	6,289	6,428	6,288	6,575	6,571	6,526
Total Active Employees	**7,826**	**8,277**	**8,401**	**8,201**	**8,540**	**8,501**	**8,371**

In the third quarter of 2016, CFE and SUTERM entered into a new collective bargaining agreement (*contrato colectivo de trabajo*), with the goal of guaranteeing long term sustainability of labor liabilities. As a result of the new agreement, clauses affecting retirement were amended, which will result in a decrease in CFE Transmisión's labor liabilities. Among other things, the agreement included the following: age for retirement was increased by 10 years (women now can retire after 35 years of work and men after 40 years); individual pension accounts are now kept for new employees; and amendments were made to the performance recognition systems for bonuses.

Assets

As of September 30, 2017, the total value of CFE Transmisión's fixed assets is Ps$.288,956 million. The operating life of CFE Transmisión's principal assets is around 30 years and each asset's maintenance cost represents an average of 1% of its value during the operating life. CFE Transmisión's main assets consist of transmission lines and substations. As of September 30, 2017, transmission lines and substations represented 52% and 41%, respectively, of the net book value of CFE Transmisión's total property, plant and equipment. In addition, CFE Transmisión is the owner of certain land and buildings, and has the legal right to some easements where the substations and transmission lines are located.

Insurance

CFE Transmisión considers its insurance coverage to be adequate and in accordance with the standards prevailing for the electricity industry. CFE Holding has a comprehensive insurance policy, which covers CFE Transmisión for loss or damage to property (including towers, substations and transmission lines) and damage due to electrical malfunction, tornadoes, hurricanes and earthquakes, and a general liability policy which covers, among other things, any damage to third parties; all subject to a maximum annual limit of U.S.$50 million with deductibles of U.S.$2.5 million per catastrophic event and U.S.$1 million for other events. CFE Transmisión does not have any business interruption insurance.

In addition, the insurance policy covers damages to electronic, laboratory and communication equipment subject to a maximum annual limit of U.S.$25 million with deductibles of U.S.$100,000 per event.

Information Systems and Intellectual Property

CFE Transmisión has 11 intellectual property registrations for different systems and programs from the government regulator of intellectual property or the INDAUTOR.

CFE Transmisión uses the SAP/R planning software, which assists in accounting, administration and finance management. This system carries out numerous daily processes, multiple commercial transactions and relevant business operations.

Furthermore, to facilitate efficient maintenance and control, and specifically to monitor the performance of the NTN, CFE Transmisión has a system called SISNOV. The human resources management is supported by the SIRH system.

Litigation and Regulatory Proceedings

In the ordinary course of business, CFE Transmisión is party to various labor-related lawsuits filed against it by current and past employees. CFE Transmisión does not believe that the resolution of these lawsuits will have a material adverse effect on its financial condition or results of operations.

Furthermore, in the ordinary course of business, CFE Transmisión is party to several civil, commercial, administrative and agricultural lawsuits and proceedings. Although CFE Transmisión does not believe that any such lawsuits or proceedings are material, given the various stages of such proceedings, CFE Transmisión is not yet able to assess whether an adverse result in any such lawsuit or proceeding would have a material adverse effect on its financial condition or results of operations.

Management

Board of Directors of CFE Transmisión

CFE Transmisión is managed by a board of directors and its chief executive officer. CFE Transmisión's board meets quarterly in accordance with the Operating Rules of the Board of Directors of the productive state subsidiary of the CFE (*Reglas de Operación y Funcionamiento del Consejo de Administraciónde la Empresa Productiva Subsidiaria de la Comisión Federal de Electricidad*).

The board of directors may authorize projects of less than one billion pesos. The Board is composed of six members (four directors from the Mexican Federal Government, one independent director and one representative of the labor union (without voting rights)):

- The chief executive officer of CFE, who shall serve as chairman of the Board, or the CFE official appointed by the CEO, Jaime Francisco Hernández Martínez.
- A director appointed by the Board of Directors, at the proposal of the chairman of the Board, Jorge Alberto Mendoza Sánchez.
- A director appointed by the Ministry of Energy, with the approval of the Board of Directors, Nelson Ricardo Delgado Contreras.
- A director appointed by the Ministry of Finance, with approval of the Board of Directors, Eduardo Camero Godínez.
- An independent director appointed by the Board of Directors, at the proposal of the chairman of the Board, Genaro Alarcón Benito.
- The representative of the SUTERM with no voting rights, María Elena Carrillo Ruiz.

Audit Committee of the Board of Directors

The Audit Committee is composed of three directors and is chaired by an independent director. The Audit Committee is responsible for the following functions:

- Review the financial and operational performance of CFE Transmisión, prepare for the corporate Audit Committee of CFE reports related to these issues, with prior knowledge of the board of directors;
- Request from the CEO the information required for the proper exercise of its functions;
- Verify and certify the rationale and sufficiency of accounting and financial information;
- Supervise the processes for formulating, integrating and disseminating accounting and financial information, as well as the execution of the audits carried out in the financial statements in accordance with the accounting policies and auditing standards applicable to it, in coordination with CFE Transmisión's internal audit;
- Inform the corporate audit committee of CFE of the status and performance of the internal control systems and propose to the CEO pertinent adjustments and other measures and actions necessary to correct the deficiencies identified;
- Promote the implementation of internal control measures that foster an efficient organizational climate;
- Promote the creation of a risk map that CFE Transmisión could face, from financial, organizational, market and operational points of view, among others;
- Issue an opinion on the CEO's annual report;

- Support the board of directors in the preparation of its reports;

- Present to the board of directors, on a semiannual basis, the reports on the results of its management, as well as deficiencies and irregularities detected in the exercise of its functions and, if necessary, propose actions to rectify them; and

- Other activities assigned by the board of directors and those established by applicable regulations.

The independent director shall remain in his position for three years, and may be reappointed for an additional term. The directors of the Mexican Federal Government, the SHCP, and SENER may be removed at the discretion of the Board of Directors of CFE Transmisión, at any time, by instruction of the CEO of the Commission, SENER or SHCP, respectively.

Relationship between CFE Transmisión and CFE Holding

In general, CFE carries out the activities of generation, transmission, distribution, marketing, basic supply, qualified supply, supply of last resource, supply of last resort, primary inputs for the electrical industry and related activities. Similarly, the basic supply service and each of the other supply services are separated. Each of CFE's activities is intended to operate in a strictly independent manner, for which CFE establishes the accounting, operative, legal and functional separation required between each sector in accordance with the LIE and under the terms of the TESL, the regulations on economic competition and the regulation established for that purpose by the CRE.

To assist with creating an efficient system under the strict legal separation requirements, the SENER established TESLs to promote open access and efficient operation of the electric sector while also monitoring compliance. SENER is also authorized to establish and monitor the terms for legal separation of the participants in the electric industry and the division of assets, rights, shares and related rights.

The LIE orders CFE to carry out the accounting, operational, functional and legal separation corresponding to each of the generation, transmission, distribution and commercialization activities, and provides that the SENER and the CRE establish the terms under which the CFE will carry out the separation, which shall be vertical a the different lines of business and horizontal between the same line of business, according to the following guidelines:

I. Generation, transmission, distribution and marketing activities within the CFE shall observe a strict vertical legal separation;

II. Generation must observe a legal separation, from the horizontal point of view, into a number of different business units that fosters the efficient operation of the sector and encourages competition; and

III. Distribution must observe a horizontal separation by sector, which may be accounting, operational and functional or legal. This promotes the efficient operation of the sector and encourages the production of information to perform a comparative analysis of performance and efficiency in operations.

Guarantee Agreement and Joint and Several Liability Agreement between CFE Holding and its subsidiaries, including CFE Transmisión

As part of the reorganization of CFE resulting from the Energy Reform, the LIE and the TESL, on January 30, 2017, CFE Holding entered into a guarantee agreement with its subsidiaries, pursuant to which each of the subsidiaries agreed to unconditionally and irrevocably guarantee and be jointly and severally liable with CFE Holding and each of the other guarantors for the payment in full of all current and future obligations incurred by CFE Holding under any international financial obligation. On January 30, 2017, CFE Holding also entered into a joint and several liability agreement with each of its subsidiaries, including CFE Transmisión, pursuant to which each of the subsidiaries agreed to unconditionally and irrevocably guarantee and be jointly and severally liable for the payment in full of all current and future obligations incurred by CFE Holding under any financing, credit or derivative transaction. As of September 30, 2017, the total amount of indebtedness of CFE Holding guaranteed by CFE Transmisión was Ps.435,766 million (U.S.$23,946 million). CFE Holding's other subsidiaries also guarantee this indebtedness.

CFE Holding has in principle reached an agreement with creditors under two of the instruments governing certain of its indebtedness to provide a waiver in connection with the transfer by CFE Transmisión of the Collection Rights to the Promoted Trust. The waiver would remove the requirement that the Promoted Trust become a guarantor of the related indebtedness. CFE Holding expects to execute the final agreements prior to the pricing of the Global Offering.

Relationship between CFE Transmisión and CENACE

The CENACE is a public agency that controls Mexico's electric system and manages the planning of the SEN, including the expansion and modernization of the NTN and the general distribution in the WEM. The CENACE is under the control of SENER. The Network Code (*Código de Red*), establishes the operational control and physical control relationship of the NTN, which is useful to assess the relationship between CFE Transmisión and the CENACE. The Regulatory Manual for Operational Coordination contains the criteria of efficiency, quality, reliability, continuity, safety and sustainability of the SEN. The transporter control center is responsible for supervising and physically operating the NTN in a given geographic area, organizing all requests for its scope of influence and preliminary filtering based on criteria approved by the CENACE, for which it must coordinate with CENACE regional control managements and distribution control centers, to carry out certain controls of NTN equipment's connection under the instructions and guidelines issued by the CENACE regional control center.

Pursuant to the LIE, CFE was required to transfer to the CENACE the necessary human, material and financial resources for the operation of the SEN and the WEM. Accordingly, on November 28, 2014, CFE transferred to the CENACE the following assets:

- the national center located in Mexico City;
- the alternate national center located in Puebla;
- eight control areas located in Mexicali, Hermosillo, Gómez Palacio, Monterrey, Guadalajara, Mexico City, Puebla and Mérida;
- the control centers in La Paz and Santa Rosalía;
- the Office of Planning of the Budget Department located in Mexico City; and
- employees and assets associated with the operation of the above.

For more information regarding the CENACE, see "Mexican Electricity Industry and General Regulatory Framework—About CENACE" below.

Relationship between CFE Transmisión and other productive state subsidiaries

General intercompany agreements have been entered into between CFE Transmisión, CFE Holding and its other productive state subsidiaries. As necessary, new exhibits or schedules are added to these general agreements describing the services to be rendered by or in favor of CFE Transmisión. Approximately 93% of the total amount of CFE Transmisión's intercompany transactions during the first three quarters of 2017 referred to services it received, while 7% was due to services rendered by it. The most relevant agreements are those entered with CFE Distribución and CFE Generación 1, CFE Generación 2, CFE Generación 3, CFE Generación 4 and CFE Generación 6 for maintenance and operative services for the sub-transmission network and the generation substations.

MEXICAN ELECTRICITY INDUSTRY AND GENERAL REGULATORY FRAMEWORK

General Overview

The Mexican energy industry is highly regulated by the Mexican Federal Government. The Mexican Federal Government owns the CFE, which before becoming a productive state enterprise, was a decentralized entity responsible for Mexico's power grid as well as the generation, transmission, distribution, and sale of electrical energy. CFE is the country's second largest state-owned company after the oil and gas company, Pemex. Pemex, along with its subsidiaries, is the productive state enterprise in charge of all exploration and exploitation of petroleum and other hydrocarbons.

The first attempt to reform the energy sector in Mexico occurred in the 1990s in both the power and oil and gas sectors, which led to significant private investments opportunities. In 2008, another effort to reform the sector was conducted by President Felipe Calderón when his administration introduced the "integrated contracts" concept. This concept encouraged participation of private investments in the upstream segment and paid companies based on production volume. In 2013, a set of structural reforms, including the Energy Reform, which contemplated amendments to the Mexican Constitution, was approved by the Mexican Congress. The implementation of the Energy Reform resulted in a new legal framework for the oil and gas and electric power industries in Mexico. The principal objectives of the Energy Reform were to enable Pemex and the CFE to focus on profitable activities and to open the energy industry to private investment. Both Pemex and the CFE play a strategic role in the oil, gas, and power industries of Mexico as productive state enterprises and focus on entrepreneurial, financial and commercial growth while still remaining owned and controlled by the Mexican Federal Government.

On August 14, 2014, the Energy Reform was published in the Official Gazette. The Energy Reform substantially modified the electrical industry in Mexico. Prior to the Energy Reform, the generation, transmission, distribution and marketing of electricity, to the extent that it was deemed a public service, was an exclusive activity of the Mexican Federal Government carried out by the CFE.

Following the Energy Reform, the Mexican Federal Government has maintained its strategic functions with regards to the planning and control of the SEN, as well as responsibility for the transmission and distribution of electricity, which continue to be considered public services and, consequently, strategic activities reserved for the Mexican Federal Government. Further, pursuant to the Energy Reform, private companies may participate in generation and marketing of electricity, and may also participate in transmission and distribution activities to a limited extent, through contractual arrangements with the Mexican Federal Government.

As a part of the Energy Reform, CFE ceased to be a public instrumentality and instead became a productive state enterprise. Through various affiliate entities, including both state productive subsidiaries and other affiliates, CFE is able to compete with private companies in the electricity generation and marketing industry, and at the same time, CFE continues to manage the transmission and distribution of electric energy as a public service. In its capacity as a productive state enterprise, CFE is responsible for (i) procurement, leases, services and construction work; (ii) managing assets; (iii) budget and public debt; (iv) administrative responsibilities; and (v) remunerations, as well as other matters pertinent to the effective realization of its objectives.

The LIE aims to regulate the planning and control of SEN, the transmission and distribution of electricity as a public service and the electricity industry functions identified above.

In addition to the various changes after the Energy Reform, on September 18, 2017 the SENER announced a new contracting model of services agreements for electric transmission, which will allow (i) biddings for the award of such agreements through the SENER in order to finance, develop and operate new transmission line projects derived from the PRODESEN, (ii) financing these projects from the WEM's current budget without requesting an additional budget, (iii) increasing the participation in clean energies from the generation business, and (iv) creating competition in the electric transmission business. This announcement is part of Mexico's effort to modernize its transmission infrastructure, anticipating increases in electricity generation and demand by promoting the participation of the private sector. Relatedly, on September 18, 2017, the CRE issued a resolution announcing the first auction to award a transmission services agreement to a second carrier. The increased presence of competition in the transmission industry may reduce some of CFE Transmisión's competitive cost advantages and create future competition for CFE Transmisión.

As a consequence of the Energy Reform, supervision and regulation of the Mexican electric power industry was assigned to three governmental entities, as described below.

Generation of Electricity

The LIE distinguishes between two types of generators of electricity (i) generators and (ii) exempt generators, depending on whether a generation permit is required for a given generator. The CRE is the entity authorized to grant generation permits.

Electric generation plants with a capacity equal to or greater than 0.5 MW, as well as plants of any size that are represented by a generator in the WEM, are required to obtain a generation permit in order to generate electricity. The holder of such a permit is defined in the LIE as a "generator", as opposed to an "exempt generator", which refers to an owner or holder of one or more electric plants that neither require nor hold a permit to generate electricity.

Generators

Generators may conduct marketing activities related to electricity produced by their plants. However, they may not provide direct electrical supply (i.e., the sale of energy to "final users") nor may they represent exempt generators in the WEM. Generators are entitled to sell electricity either (i) in the WEM or (ii) through electricity hedge agreements with marketers, suppliers and/or qualified users. In general terms, a supplier is an entity conducting marketing activities which holds a permit to provide direct electrical supply to final users and to represent exempt generators in the WEM. Each of these activities is to be regulated in accordance with Market Rules.

Exempt Generators

Exempt generators cannot conduct marketing activities (i.e., they cannot participate in the WEM on their own behalf). They can sell electricity that they generate only to a supplier, which will in turn represent the exempt generator in the WEM or dedicate a portion of its electricity production for its own electrical needs.

Distributed Generation

The LIE recognizes "distributed generation" as a new method of generation defined by meeting the following criteria: (i) it is generated by an exempt generator; and (ii) it is generated in an electric plant that is interconnected with a distribution circuit that contains a high concentration of load centers.

In general terms, distributed generation consists of the generation of electricity on a small scale and with a direct connection to a distribution network, and is characterized by being installed at locations close to the site of consumption (i.e., it does not need to be dispatched through transmission networks).

It is expected that, by means of distributed generation, small generators of renewable energy will be able to sell the electricity they produce in a simpler and more efficient manner than larger-capacity sources. General regulations issued by CENACE, the CRE, and SENER will endeavor to govern the sale of electricity produced via distributed generation by exempt generators.

Transmission and Distribution of Electricity

The LIE states that the Mexican Federal Government retains responsibility for the transmission and distribution of electricity for public service purposes, which service is to be provided through the CFE and/or its productive state subsidiaries. The owners of the transmission and distribution networks (i.e. CFE Transmisión and

CFE Distribución, respectively) are responsible for the operation of such networks, in accordance with CENACE regulations.

CFE provides transmission and distribution services, as well as certain other ancillary activities, through a productive state subsidiary, which is legally independent from other subsidiaries of CFE.

Tariffs for transmission and distribution services are regulated by the CRE. CFE, in its capacity as a generator, must pay the same carrier fee (as established by the CRE) as a private generator would pay for the same service

Interconnection to the SEN

CFE is required to interconnect its network with all electric plants and load centers whose representatives request such an interconnection, under conditions that are not unduly discriminatory, so long as the facilities requesting such interconnection have complied with the technical requirements established by CENACE.

For the purpose of complying with this open-access principle, the Energy Market Rules define the criteria used by the CENACE in order to establish an order of priority for interconnection requests. In no case shall a generation permit be used as a criterion for such prioritization.

Once CENACE has requested the specifications required for the interconnection, the interested party may request that CENACE incorporate the relevant project into the expansion and modernization plans to be developed for the SEN. In the event that the project in question is not included in such plans, the generator, exempt generator or final user may choose to build the relevant infrastructure at its own expense, or to make contributions to the transporter or distributor in order to enable such projects to be completed. The interested party will also have the option of acquiring the corresponding transmission financial rights or, alternatively, receiving any revenues resulting from the sale of such rights, pursuant to the Market Rules.

Expansion of the SEN

The CFE will carry out expansion and improvement projects for the SEN to be developed in accordance with relevant modernization and expansion plans, with the understanding that CENACE may propose such projects to the SENER.

In addition to the foregoing, the Mexican Federal Government may, through the SENER, enter into contracts and form associations with private parties so that the latter can conduct, on behalf of the Mexican Federal Government, such financing, installation, maintenance, management, operation and expansion of infrastructure as may be necessary to improve the transmission and distribution of electricity for public use. These contracts shall be subject to tariff regulations, as well as to conditions for the provision of services to be issued by the CRE, among other requirements.

The Wholesale Electricity Market

Through the WEM, which is operated by the CENACE, the suppliers, generators, marketers, and qualified users who participate in the market may purchase and sell the following: (i) electricity; (ii) related services included in the WEM; (iii) power; (iv) transmission financial rights; (v) clean energy certificates; and (vi) other products, collection rights, and the right to impose penalties required for the efficient functioning of the SEN, which are regulated by the Market Rules.

The CENACE determines the assignment of electric plants on the basis of safety criteria and economic efficiency.

Prices in connection with transactions conducted in the WEM will be calculated by CENACE on the basis of offers received from the generators, in the understanding that the offers made by generators must be based on their operational expenses, in accordance with the terms of the Market Rules.

In the event that any action or transaction has the effect of manipulating market prices, the CRE will instruct CENACE to rectify the relevant invoicing, and will issue the necessary account statements in order to reverse the monetary damages caused by such manipulative actions or transactions.

The LIE provides that any agreement, arrangement, or coordination among market participants that has the intent or effect of restricting the efficient functioning of the WEM will be considered collusive monopolistic conduct.

Mexican Electricity Industry

Prior to the enactment of the Energy Reform and the LIE, the generation of electricity was the only sector of the electric industry in Mexico that allowed for the participation of private companies. Private companies were allowed to make the following investments in electric generation:

a) *Self-Consumption:* Generation of electric power for self-consumption.

b) *Co-Generation:* Simultaneous production of heat and electric power, out of which the resulting heat is captured and used for heat emission purposes.

c) *Independent generation for export:* Generation of electric power authorized by the CRE, which must be exclusively exported.

d) *Retail generation:* The self-supply of small rural communities or remote areas that lack sufficient electricity utilities, with a maximum total capacity of 1 MW.

e) *Import:* Obtain permits to import electric power from foreign power generation facilities, according to contracts executed between the foreign supplier and such private companies.

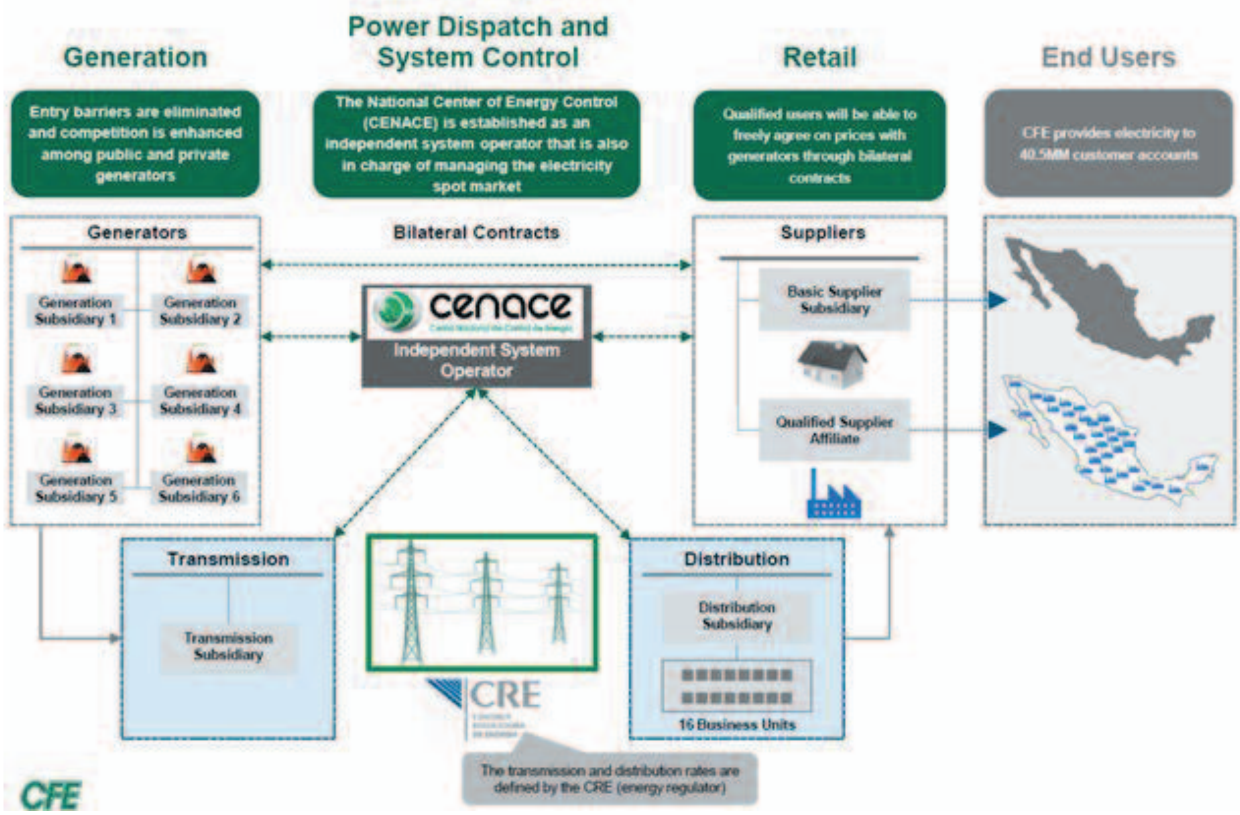
According to the LIE, private companies are now allowed to make the following investments in the energy sector:

a) *Generation:* Obtain the permits necessary to build, dispose, and operate generation facilities with a generation capacity equal to or greater than 0.5 MW, in order to sell electric power to authorized suppliers or to qualified users in the WEM. The purchase of electric energy from foreign facilities requires only the authorization from the CRE, while the generation of electric power by a private company, limited to its self-consumption requires no authorization at all.

b) *Transmission and Distribution:* Engage with CFE and/or SENER in activities related to the financing, installation, maintenance, management, operation, and expansion of transmission and distribution infrastructure. As a SPE, CFE, through its subsidiaries CFE Transmisión and CFE Distribución, continues to exclusively provide the public service of transmission and distribution of electricity and remains responsible for the NTN and the GDG.

c) *Commercialization:* Obtain the required permits to supply electric power to final users under a regulated tariff regime, as well as to sell electric power through the WEM. Private companies can also sell electricity to qualified users under supply contracts.

The chart below summarizes how the Mexican energy sector operates and interacts:



Source: CFE as of August 2017.

The Energy Reform

Starting in October 2014, a new set of rules became effective for the Mexican power sector, specifically through the LIE, the LCFE and the secondary laws and regulation that came as a consequence of the amendment of Articles 25, 27, and 28 of the Mexican Constitution. Through this new framework, the new generation capacity required by the SEN will be added on an open market basis through the WEM. Additionally, users that comply with a minimum demand will be able to purchase electric energy directly from CFE or from private companies through non-regulated tariffs. The activities of transmission and distribution will remain exclusively in the hands of the Mexican Federal Government through CFE. However, CFE will be able to enter into partnerships and agreements with private companies through the SENER (which shall approve all bidding processes that involve private investments in transmission and distribution infrastructure) in order to develop the necessary infrastructure.

The main purpose of the LIE is to promote and ensure the development and operation of the electric industry, as well as to ensure the compliance of universal and public services obligations regarding renewable energy sources and the reduction of pollutant emissions. The LCFE also sets forth CFE's organization, management, operation and information disclosure, as well as its regime as a productive state enterprise in terms of subsidiaries, compensation, acquisitions, responsibilities, state dividends, budget and debt profile, among others.

The following are some of the most relevant changes introduced by the Energy Reform and the Secondary Legislation that impact CFE's operations:

- *Participation of the Mexican Federal Government:* The supervision and regulation of the Mexican electric power industry was assigned to three governmental entities: the SENER, the CRE and the CENACE.

- *Participation of the private sector:* The Mexican Federal Government will allow private companies to enter into agreements with CFE related to the financing, maintenance, management, operation and expansion of electric transmission infrastructure, as well as to develop infrastructure for electric distribution. However, concessions regarding transmission and distribution activities remain prohibited. Additionally, private companies are now able to invest and participate in every segment of electric generation and commercialization activities.

- *Transformation into a productive state enterprise:* CFE was transformed from a decentralized public entity into a productive state enterprise on October 7, 2014, and its new board of directors was appointed. Additionally, the new regime granted CFE the autonomy to determine its own budget, to incur new debt, to award and execute contracts and to adopt anti-corruption policies and salaries schemes, among others. This became effective on February 16, 2015, after SENER declared that all of CFE's fiscal, transparency and disclosure mechanisms were in compliance with the requirements set forth in the LCFE.

- *CFE's Horizontal and Vertical Separation:* CFE was given the legal mandate to carry out a vertical and horizontal segregation of each of its core activities: generation, transmission, distribution and commercialization of electric power, which must include appropriate accounting and operative characteristics. Both SENER and CRE will establish guidelines with additional legal, operative or accounting controls that must be implemented by CFE to carry out its own activities without discrimination.

- *Creation of subsidiaries and affiliates:* The LCFE also required CFE to create productive state subsidiaries to carry out the transmission and distribution of electric power. As for its generation and commercialization activities, CFE can continue to operate through affiliates and/or any other legal entities or business partnerships. Likewise, CFE's board of directors was granted power to create additional affiliates to undertake any new line of business without the need for congressional approval. Finally, SENER is responsible for determining the way that some of CFE's contracts with third parties will be awarded to its productive subsidiaries and affiliates.

- *Authority and regulatory supervision:* SENER and CRE were granted the technical and administrative authority to oversee CFE's operations and the overall electric industry. SENER is in charge of designing, executing, and coordinating the Mexican energy policy, executing infrastructure programs, monitoring the profitability and return on equity of CFE and its productive state subsidiaries, and establishing mechanisms to promote the generation of clean energy through clean energy certificates. The CRE was granted separate legal status and technical and administrative autonomy, and is now in charge of the regulation and issuance of permits for electricity generation, as well as the implementation of standards to promote the SEN's sustainability and efficiency. Additionally, the CENACE was created as a decentralized public entity to manage the SEN, operate the WEM and to assure the neutrality of the NTN and the GDGs.

- *Law of the Electric Industry:* The LIE established a new regulatory framework that allows private companies to obtain permits for electricity generation and commercialization. The participants in the Mexican electric sector, including CFE, are now allowed to sell electricity to big industrial and commercial clients at prices fixed by the WEM. According to the LIE, CFE is subject to a permit regime to continue to generate and sell electricity to domestic consumers, as well as to small and medium industrial and commercial clients, subject to a regulated tariffs regime. CFE also has the authority to execute contracts with private companies, including for the financing, maintenance, acquisition, operation and expansion of the electric grid's infrastructure. The LIE repealed the LSPEE.

- *Legal Regime:* CFE was transformed into a productive state enterprise, and although it kept the same rights, powers, and privileges that it had as a decentralized public entity, it now operates under a new legal framework, which gives CFE and its subsidiaries a greater management and budgetary autonomy to create economic value.

- *Scope of the Mandate:* As a SPE, CFE's corporate purpose is the creation of economic value and the increase of revenues for the Mexican Federal Government. CFE remains the sole entity responsible for the public service of transmission and distribution of electric energy. The scope of its mandate has been expanded, which allows CFE to evolve from an exclusive electric company into an energy company able to participate in other aspects of the Mexican energy value chain, including the commercialization of natural gas. CFE's new corporate purpose gives it greater flexibility to allocate its resources to activities with high return in order to maximize its profits.

- *Operative focus:* CFE, through its subsidiaries, will continue to operate Mexico's electricity transmission and distribution grids and sell electricity to domestic consumers and small and medium industrial and commercial clients. CFE also expects to remain the only entity of the Mexican Federal Government dedicated to electricity generation. As a result, and given CFE's increasing participation in Mexico's natural gas industry, CFE will remain a key participant of the energy sector in Mexico.

- *Tariffs:* In compliance with the Secondary Legislation, a new mechanism to determine the tariffs that CFE charges its clients was implemented, particularly regarding some of the industrial and commercial clients that participate in the new electric market. The tariffs that CFE charges its domestic and agriculture clients continue to be determined and regulated by the Mexican Federal Government. The tariffs that CFE charges its large industrial and commercial clients categorized as qualified users registered with the CRE (as long as the existing demand surpasses certain thresholds) are no longer regulated, which provides CFE with additional flexibility to determine its pricing strategy for the qualified users and allow them to equally compete with private electricity producers. CFE also expects to continue to generate revenues from the new tariffs for its transmission and distribution activities, which are designed to allow CFE to make a profit that the Mexican Federal Government considers reasonable for the services provided to third parties. The new tariffs regime also provides additional transparency to CFE's operating results. The CRE issued an order in September 2015 that the transmission tariffs that must be updated on a yearly basis according to inflation and exchange rate.

- *Tax Regime*: CFE is no longer required to pay the Mexican Federal Government a usage fee (*aprovechamiento*) based on the value of its net fixed assets. The Secondary Legislation modified CFE's tax regime by eliminating this usage fee and replacing it with an income tax rate that is similar to that paid by private companies in Mexico. Additionally, CFE is required to pay an annual state dividend to the Mexican Federal Government based on its net income. The Ministry of Finance will determine the amount of any dividend that CFE must pay to the Mexican Federal Government each year, after taking into consideration CFE's business plan and capital expenditures requirements for the next fiscal year. The proposed amount will be established in the Mexican Income Law approved each year by the Mexican Congress. After obtaining congressional approval, the Ministry of Finance will determine the terms under which CFE must pay such dividend.

- *Business Flexibility:* CFE is allowed to make strategic alliances with private companies for electricity generation, transmission and distribution, as well as for distribution and commercialization of natural gas to industrial clients. CFE's knowledge of Mexico's hydrological conditions and its capacity to be a natural gas supplier will give CFE access to new technologies that are expected to allow it to update its transmission and distribution grids and, therefore, reduce the amount of unpaid electricity used in Mexico.

- *Budgetary Autonomy:* CFE's transformation into a productive state enterprise is designed to give CFE greater budgetary autonomy and flexibility than it had as a decentralized public entity. The Mexican Congress will continue to approve CFE's budget and cap on personal service expenses, but CFE's board of directors can now set forth its five-year business plan, determine its annual budget, and freely approve its priorities and investment projects. Additionally, the Secondary Legislation granted CFE greater autonomy and flexibility regarding its bidding, hiring and compensation policies, which will allow CFE to reduce hiring costs and to increase its ability to attract and retain specialized human capital.

- *Corporate Governance:* Following its transformation into a SPE, CFE has adopted a corporate governance structure based on best international practices and closely aligned to private companies' corporate governance. CFE's board of directors is currently composed of five representatives of the Mexican Federal Government, including the Minister of Finance and the head of the SENER, four independent directors, and one representative from its workers' union. In order to align CFE's internal supervision practices with those of private companies, its internal audit, control, and disclosure duties are carried out by separate and independent bodies, instead of a unique control body.

Operational Ratios of the Industry

Performance of the NTN

On February 16, 2016, Resolution RES/948/2015 ("RES/948/2015") was published in the Mexican Official Gazette, pursuant to which the CRE issued the General Administrative Provisions on Open Access and Provision of Services in the NTN and in the GDG. This resolution established the metric and indicators to be used to evaluate availability, continuity and quality of the transmission service and defined the performance parameters of the NTN.

Transmission System Availability Index (or IDT)

This measurement shall include, but shall not be limited to:

- Transmission lines at 69 kV, 85 kV, 115 kV, 138 kV, 161 kV, 230 kV and 400 kV.

- Transformation equipment for the abovementioned transmission levels.

- Reactive power compensation equipment: power reactors, capacitor banks, inductive branches of VARs Static Compensators and their capacitive branches.

At levels greater than or equal to 69 kV and less than 161 kV, the Regional Transmission Management must comply with a minimum availability of 95% during the first year of effectiveness of these provisions, 96% during the second year and subsequently a value minimum of 97% from the third year. Voltages higher than these values must comply with the following values:

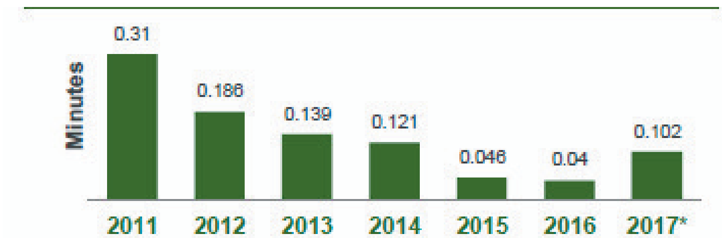
Minimum availability to be fulfilled according to RES/948/2015

Management	% Availability 161, 230, and 400 kV Minimum
Baja California Northwest North Northeast Central East Peninsular	99.0
Southeast	98.5
West	98.5
IDTN (National)	NA

Source: CFE Transmisión

System Average Interruption Frequency Index ("SAIFI")

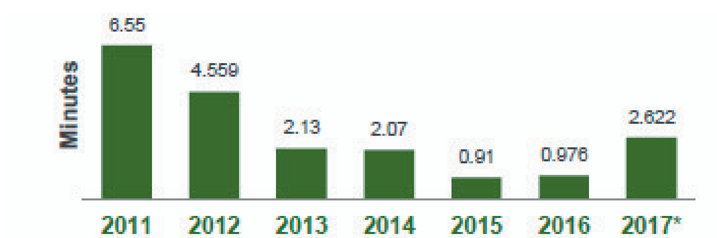
This measurement represents the average number of interruptions caused by the NTN longer than 5 minutes that an end user experiences during a certain period. The CRE requests the computation of two values: the SAIFI attributable only to the operator of the NTN, and the SAIFI that includes all the interruptions, including those attributable to the operator of the NTN and those due to unforeseeable circumstances and force majeure. According to the CRE, the maximum national SAIFI value in a year should be an average of less than 0.20 interruptions per customer.



Source: CFE Transmisión
** denotes figures as of September 30, 2017*

System Average Interruption Duration Index (SAIDI)

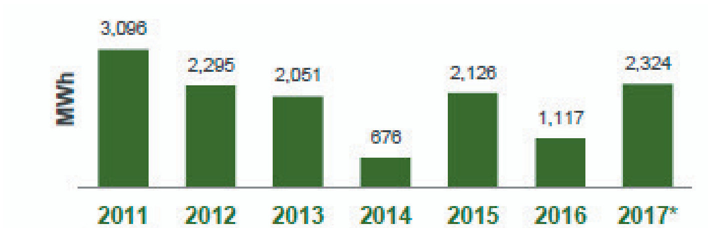
This measurement represents the average time (expressed in minutes) that an end user remains without electric service caused by interruptions longer than 5 minutes in the NTN. The CRE requests the computation of two values: the SAIDI attributable only to the operator of the NTN, and the SAIDI that includes all the interruptions, including those attributable to the operator of the NTN and those due to unforeseeable circumstances and force majeure. According to the CRE, the maximum national SAIDI value in a year should be an average of less than 3 minutes per interruption.



Source: CFE Transmisión
** denotes figures as of September 30, 2017*

Energy Not Delivered (Energía No Suministrada)

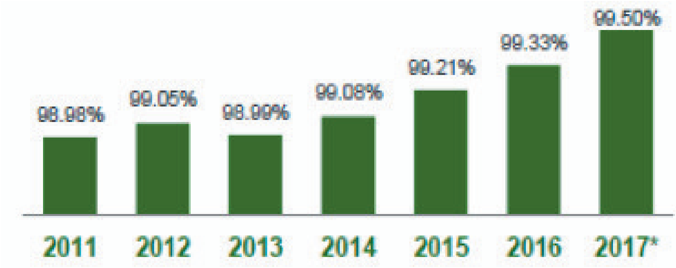
This is the electrical energy that is not supplied to end users due to interruptions of supply in the NTN for longer than 5 minutes. The CRE has not set a maximum value for this index, but CFE's goal for 2017 is 3,000 MWh.



Source: CFE Transmisión
** denotes figures as of September 30, 2017*

Transmission System Availability Index (IDT)

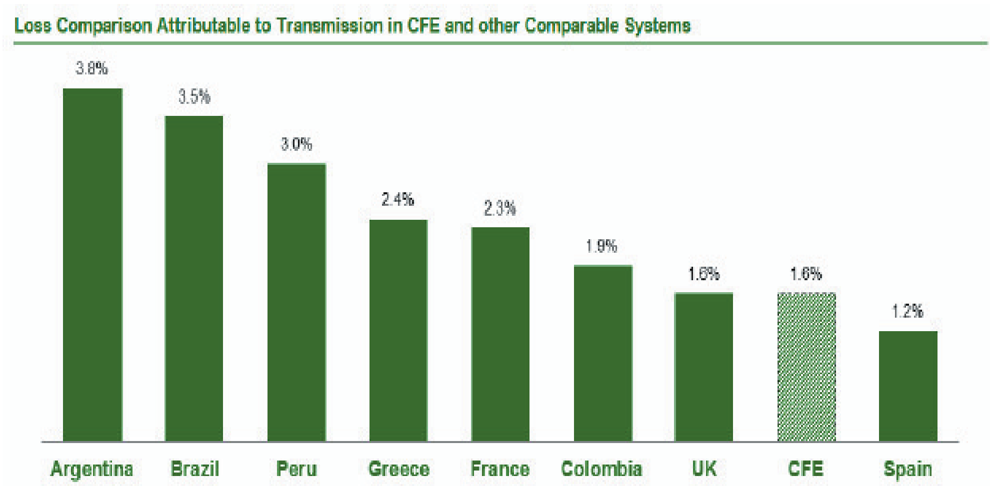
This is the availability of all component elements of the NTN.



Source: CFE Transmisión
** denotes figures as of September 30, 2017*

Loss Comparison Attributable to Transmission in CFE and other Comparable Systems

Energy losses in the NTN are mainly due to the effect of resistance of conductors to the passage of current, caused by the flow of energy through the transmission lines and the power transformers, and their value depends mainly on the grid design and their operating conditions. As far as losses are concerned, CFE has managed to reduce the technical losses attributable to the transmission system in the last 10 years, bringing them to comparable levels to similar systems in Europe and significantly lower than those in other countries in Latin America.



However, it is estimated that this loss value will increase from 1.64% to approximately 4% with the transfer of the sub-transmission grid to CFE Transmisión.

General Regulatory Framework

CFE Transmisión is subject to various regulations of its operations and status as a productive subsidiary. These regulations affect all of the activities carried out by CFE Transmisión.

CFE Transmisión's commercial activities are regulated by the Mexican Constitution, the LCFE, the LIE, the Electric Market Guidelines, the TESL, the Network Code, the Market Rules, the environmental regulation indicated previously in this offering memorandum and others. Because CFE Transmisión is a public service provided by the Mexican Federal Government, it is subject to broad regulations relating to the transmission service and environmental laws that can be implicated by its operations. Consequently, the state must perform necessary assessments to ensure the continuity of the transmission service and ensure that CFE Transmisión's operations meet certain quality standards.

CFE Transmisión must carry out its activities in accordance with the criteria of efficiency, quality, reliability, safety and sustainability, established in the LIE and in the Network Code. In order to ensure that CFE Transmisión has the necessary resources to maintain its operations, a number of mechanisms are provided under the Market Rules to ensure that CFE Transmisión receives the regulated transmission tariffs that Market Participants must pay. In general, CENACE will act as an intermediary for the transactions with the Market Participants and carry out collection procedures for CFE Transmisión. These mechanisms are described in more detail in the section "Mexican Electricity Industry and General Regulatory Framework—About CENACE."

In addition, the Electricity Industry Law requires that CFE maintain ownership and control of the assets necessary to operate the electricity industry in an efficient and transparent manner, including transmission services. Further, the NTN is a public property protected constitutionally; therefore, its ownership cannot be transferred.

In order to comply with these regulations, the structure of this transaction will involve transferring the Collection Rights of CFE Transmisión under the CENACE Agreement to the Promoted Trust to ensure that: (i) CFE Transmisión will continue providing the public transmission service; (ii) CFE Transmisión will maintain ownership of all its assets, particularly the NTN, except for the Collection Rights under the CENACE Agreement, and (iii) CFE Transmisión will maintain control over the NTN and the public transmission services. In order to allow for this structure, there will be rules relating to the distribution of resources to cover CFE Transmisión's operating and maintenance costs, working capital, debt services and labor obligations, among others, as is more fully described under "—Description of the Promoted Trust, Certain Provisions of the Promoted Trust Agreement and the CENACE Agreement."

About the SEN

The SEN is organized into nine control regions. The operation of these regions is under 10 control centers located in the cities of Mexico City, Mérida, Puebla, Guadalajara, Hermosillo, Gómez Palacio, Monterrey, Mexicali, La Paz and a small control center in Santa Rosalía for the Mulegé System. The national center located in Mexico City has the Office of Planning (*Coordinación de Planificación*) of the Budget Department (*Subdirección de Programación*) in charge of the economic dispatch and safe and trustworthy operation of the SEN, with an alternate national center in Puebla. The seven regions located in the center of Mexico are interconnected and comprise the National Interconnected System. These seven regions share resources and capacity reserves before the diversity in demand and operative situations; this enhances the feasibility of the exchange and sharing of energy to achieve a functional, economic and trustworthy operation.

The Baja California Norte system is linked to the Western Electricity Coordinating Council of the United States through two transmission lines with a voltage of 230 kV. The power systems of Baja California Sur and Mulegé are electrically isolated from the rest of the SEN.

About CENACE

On August 28, 2014, the CENACE, a decentralized public entity of the Mexican Federal Government, was created to act as the independent operator of the SEN and the WEM, and to ensure open and non-discriminatory access to the electric transmission grid and distribution systems. The CENACE is also responsible for submitting proposals to the Ministry of Energy to promote the expansion and modernization of the GDN. The WEM is expected to allow generators, suppliers and qualified users to purchase and sell electricity through competitive processes managed by the CENACE, and the CENACE is also permitted to enter into contracts or partnerships with private companies for the provision of ancillary services related to the operation of the WEM.

As part of its network expansion and modernization plan, the CENACE has built a number of facilities as provided under the Electricity Industry Law, as well as by the Market Bases and their respective manuals. These facilities enable the CENACE to act as an intermediary for transactions carried out by Market Participants, carriers, distributors and the CENACE itself. In order to be able to act as an intermediary between the carriers and distributors, the CENACE requires each of the carriers and distributors that it works with to execute an agreement that legitimizes it operational role. As a result, CFE Transmisión signed the Technical and Commercial Operation of the Transmission, number TC-001- MAR-2016, which allows the CENACE to collect the payments to which CFE Transmisión is entitled for providing transmission services.

As an intermediary for these transactions, the CENACE is responsible for issuing the account statements for the services rendered to the Market Participants by the carriers and distributors, issuing the corresponding invoices and administering the payments made, as well as accounting for the debits and credits of the different agents that are involved. To carry out these intermediary actions, the CENACE employs four consecutive procedures:

(i) *Market Settlements*

The settlement process of the WEM includes the amounts charged by CENACE to the Market Participants for the different types of charges included in the services regulated by the CRE, as well as other charges, costs, income and credits established in the LIE.

For the calculation of these amounts, the generators, suppliers, transporters, and distributors provide CENACE with information, which is obtained from: (a) offers of purchase and sale of the

Market Participants; (b) energy outputs, congestion and related services; (c) records; (d) measurements; (e) exchanges for reliability; (f) regulated services —tariffs and supplier performance; (g) fines; (h) requirements and reimbursements of the Universal Electric Service Fund (*Fondo de Servicio Universal Eléctrico*); and (i) uncollectible accounts, among others.

(ii) *Issuance of Daily Statements*

This process consists of the issuance of daily statements to provide Market Participants information regarding the settlements of electric energy and associated products, and the amounts that will be invoiced for the sale of electric energy and associated products.

These daily statements contain, at minimum, the following information: (a) date of issue; (b) date of day of operation (*Día de Operación*); (c) record of daily statements (*Folio Único de Estado de Cuenta Diario*); (d) Name of the Market Participant; (e) Market Participant registration number and Order Account (*Cuenta de Orden*); (f) date on which the payment shall be made, and (g) type of settlement, specifying the unique billing record (*Folio Único de Facturación*), unique settlement record (*Folio Único de Facturación*), type of payment, quantity, unit, price or rate, amount, value-added tax and total. In all cases, the Market Participant will receive its daily statement no later than 7 calendar days after the Day of Operation.

The information regarding any type of payment, once verified, will be included in the following daily statement.

(iii) *Billing*

In this process an invoice is issued for each unique billing record for fiscal and payment purposes for a given day.

If the daily statements contain unique billing records for re-settlements, both CENACE and Market Participants must issue the respective credit notes and debit notes.

All invoices issued by both CENACE and Market Participants must include the unique settlement record that corresponds to the unique billing record included in the respective daily statements since these records identify the types of charges must be paid.

The information obtained from this process allows the identification of accounts payable and receivable to maintain the balance of CENACE transactions and ensure the neutrality of their income.

(iv) *Payment process*

This process determines the actions to be taken by CENACE and Market Participants to collect and pay invoices, credit notes and debit notes resulting from the sale of electric energy, associated products and other settlements from the WEM.

This process concludes when CENACE: (a) receives income from invoices and debit receivables and credit notes issued by Market Participants, and (b) pays invoices and debit notes issued by the Market Participants and the credit notes issued by CENACE for the corresponding transactions.

All information used as an input for the processes described above is continuously reviewed. As a result, both CENACE and Market Participants require changes in the WEM settlements, which results in the need to modify the original amount and content of the unique settlement records that form part of the unique billing records that contain the daily statements. This clarification process is called re-settlement, and its purpose is to recalculate all settlements with the information that has been revised or should be modified.

This re-settlement process can be conducted up to four times, so there is an initial, intermediate, final and dispute settlement, all of which are issued in the daily statements 49, 105 and 210 calendar days, respectively for initial, intermediate and final settlements, following the day of operation that originates the re-settlement. Dispute settlements, if issued, are issued in one of the daily statements within 30 calendar days following the settlement of the dispute.

In further detail, CENACE and the Market Participants shall carry out the settlement, issue of Daily Account Statements, and the Billing and Payment process with the following timing:

(i) The CENACE shall issue the daily statements for the settlements of each Operation Day within 7 calendar days following the corresponding Day of Operation.

(ii) CENACE will issue invoices to be paid by the Market Participants on the same day as the related daily statement of Account.

(iii) The Market Participant must issue the invoices that CENACE is required to pay, which must correspond to a weekly period from Monday to Sunday ("Weekly Cycle") that is not later than Wednesday of the Weekly Cycle in which it was issued the daily statement.

(iv) The Market Participants will carry out the payment process to CENACE on the Wednesday following the Weekly Cycle corresponding to the invoices and debit notes issued by CENACE, as well as the credit notes issued by CENACE. If the payday is unscheduled, the process will be carried out on the next business day.

(v) The CENACE shall carry out the payment process to the Market Participants within the 7 calendar days following the Wednesday in which Market Participants have a limit to deliver invoices and debit notes.

As discussed above, each of these processes is carried out daily or weekly, as previously agreed with each of the carriers and distributors. To prevent or avoid any defaults in payment, the issuance of statements of account and the billing process each include a contingency plan in the case of delay.

All transactions carried out by Market Participants must be guaranteed, and the amount of the obligations they assume should not exceed this guaranteed amount. If the amount of an obligation is increased and the guaranteed amount is not respectively increased, then default on the Market Participant's obligation would result. A default can lead to certain penalties and a loss of registration as a Market Participant. A loss of registration would make a Market Participant unable to carry out operations in the WEM. Under the CENACE's Risk, Guarantees and Investments Committee (*Comité de Riesgos, Garantías e Inversiones*), the following types of guarantees may be presented by the Market Participants:

(i) Letter of credit, which must be granted by banking institutions that accept the CENACE acceptance, and which contain different specifications;

(ii) Low credit risk financial instruments, such as Cetes (*Certificados de Tesoreria*), Bonds D (*Bonos de Desarrollo*), BREMs (*Bonos de Regulación Monetaria*), M Bonds, UDIBONOS, or any other financial instrument put into circulation by the Mexican Federal Government;

(iii) Deposit of funds, or

(iv) Guarantee of the Mexican Federal Government, which can only be used to guarantee the obligations assumed, before the CENACE, by the basic service providers.

Consequently, if a Market Participant incurs default or non-payment of any invoice or debit notes issued by CENACE or credit notes issued by the Participant of the Market in question, it will be subject to the following actions:

(i) CENACE suspends any payment due to the participant in the market in question until the corresponding invoice, credit note or debit note and the interest generated have been completely settled;

(ii) When the default event occurs, alerts and collection notices will automatically be generated for the Market Participant;

(iii) That CENACE executed any performance guarantee presented by the market participant following the provisions of the Manual of Guarantees of Compliance (*Manual de Garantías de Cumplimiento*);

(iv) That the accounts payable that are generated in addition to the above shall be covered with funds from the Working Capital Fund (*Fondo de Capital de Trabajo*) in order to allow CENACE to balance its payments to other Market Participants, carriers, distributors and to CENACE itself;

(v) That the default in their payments will generate a penalty of 2% per month plus 2 times the 28-day interbank interest rate (*TIIE*), in force on the day on which the default period begins, converted into a rate for day and calculated daily, starting from the date of expiration of the corresponding invoice and until it is settled together with the interest generated;

(vi) That CENACE transfers the amount obtained from the execution of the Market Participant's performance guarantees to the Working Capital Fund, and

(vii) If for any reason the value of the compliance guarantees is insufficient to settle the corresponding invoice and the interest generated, CENACE will proceed to collect the missing resources by the appropriate route and, once obtained these resources together with the reimbursement of expenses and additional costs incurred in obtaining them, will transfer them to the Working Capital Fund.

When a Market Participant, within a 12-month period, incurs default or non-payment of any invoice issued by CENACE, CENACE shall perform the following:

(i) In the case this occurs once, notify the Market Participant;

(ii) If two or more times, notify the Market Participant and publish such situation in the Market Information System (*Sistema de Información del Mercado*);

(iii) If four times, double the value of the Prudential Margin (*Margen Prudencial*), which is intended to ensure the Aggregate Estimated Accountability (*Responsabilidad Estimada Agregada*) of each Market Participant corresponds to the total amount of money that each Market Participant may have due to CENACE for its participation and for the transactions that it carries out in the WEM;

(iv) If five times, restrict that Market Participant's participation in the WEM for three months, limiting it to transactions that do not have the effect of increasing its Aggregate Estimated Responsibility, and

(v) If seven times, initiate the procedure for early termination of the Market Participant contract, for incurring of serious breaches of the Market Rules.

Finally, to ensure that there are no imbalances in the WEM operations, the CENACE has a working capital fund ("Working Capital Fund") that serves to respond to any default in payment by a Market Participant in order to avoid any delay in payment caused by the execution of the guarantees or default itself. Also, to encourage transparency, all of these operations are visible on the Market Information System. Specifically, the Market Information Systems provides invoices, daily statements, settlement processes, as well as information regarding if Market Participants exceeded or are at the limit of their operations concerning their guarantees.

The CENACE is also responsible for auctioning long-term agreements (15-year) *contratos de cobertura* (power purchase agreements). The purpose of these auctions is to allow us to purchase electricity at competitive prices from qualified bidders and to promote the purchase and sale of clean energy certificates. As of December 2016, the CENACE auctioned around 80% of power requested by CFE in the WEM.

The CENACE conducted two auctions in 2016. The first auction received 227 offers from 69 prequalified bidders. As a result, in March 2016, 18 offers were granted to 11 companies for wind and solar projects totaling 1,720MW. The average price offered by the winning companies was around 38% lower than the maximum purchase price offered by us. The projects selected in the auction have a total generating capacity of 2,085 MW. In the second auction, 23 companies were selected out of 57 that participated. The winning bids were selected in September 2016 and covered 83.8% of the energy requested by CENACE. The projects selected have a total generating capacity of 3,776 MW. In May 8, 2017, the Ministry of Energy and the CENACE published the preliminary bidding rules to conduct its third auction.

Relationship between the CENACE and the Distribution and Generation subsidiaries of CFE

As discussed above, the CENACE controls the SEN and determines the elements and operations of the electric transmission grids and distribution systems that correspond with the WEM, leaving open the possibility for CFE Distribución to engage in any other operations in the grids in coordination with CENACE.

CFE Distribución and the CENACE entered into an agreement for the technical and commercial operation of distribution grids, by which supply and billing conditions for public service, as well as rights and obligations of parties, were established (art 38 of LIE). As a result, CFE Distribución is responsible for the GDG, which must be operated according to CENACE's instructions.

Further, CFE's generation subsidiaries must enter into an agreement with CENACE for the interconnection to the SEN and operate in accordance with CENACE's instructions (including, among others, actions for maintenance and programmed retirement of plants).

About SENER

In accordance with the LIE, SENER is responsible for carrying out the planning and development of the National Electrical System, for which it will have, among others, the following powers:

(i) Establish, conduct and coordinate the Mexico's energy policy on electric energy;

(ii) Formulate sectoral programs for the development of the electricity industry;

(iii) Establish and monitor the terms for the legal separation of members of the electricity industry and the disincorporation of assets, rights, shares or shares;

(iv) Issue opinions on the Market Rules;

(v) Issue opinions on the operation of the WEM;

(vi) Establish criteria for the delimitation of Power Plants, transmission networks, distribution networks, Wholesale Load Centers and the National Electrical System, and to classify electrical installations in the corresponding categories;

(vii) Authorize the programs for the expansion and modernization of the NTN and the GDN that are submitted by CENACE or by the Distributors and request changes to them, listening to the opinion that, if applicable, issues the CRE;

(viii) Instruct the Transporters and Distributors to execute the projects contained in the programs for the expansion and modernization of the NTN and the GDN;

(ix) Form partnerships or enter into contracts necessary to provide the Public Service for the Transmission and Distribution of Electric Power, and

(x) Interpret for administrative purposes the LIE within the scope of its powers.

About CRE

As described above, CRE issues the tariff regulation applicable to the public electricity transmission service, and has the following powers, among others, in accordance with the LIE:

(i) Grant the permits referred to in the LIE and resolve on their modification, revocation, assignment, extension or termination;

(ii) Issue the Market Bases;

(iii) Monitor the operation of the WEM and the determinations of CENACE in order to ensure the efficient functioning of the WEM and compliance with the Market Rules;

(iv) Resolve disputes arising between CENACE and other members of the electricity industry, once the routes established in the Market Rules are exhausted;

(v) Verify compliance with this LIE, its Regulations and other applicable administrative provisions, order and carry out verification visits, request the presentation of information and summon the members of the electricity industry to supervise and to monitor, within the scope of its competence, compliance with the applicable legal provisions,

(vi) Issue and monitor compliance with administrative provisions of a general nature in relation to the powers conferred by this LIE.

Unlike SENER, CRE has a series of authorities to be more involved in the operation of the WEM, due to its nature as sector regulator. Consequently, the interaction of the different participants in the WEM is more constant with the CRE.

ABOUT FIBRAS E

General

FIBRAs E are security-issuing trusts created pursuant to a trust agreement in accordance with Mexican law. One of the essential purposes of a FIBRA E is to acquire assets in eligible Mexican companies or beneficiary rights in Eligible Entities" devoted exclusively to the activities set forth in the Mexican Tax Rules for FIBRAs E (the "Exclusive Activities") (*i.e.*, projects related to hydrocarbons, power and infrastructure). Additionally, the FIBRAs E should invest mostly (75% of their non-monetary assets) in mature projects (with at least one year of operations).

Trusts that adopt the rules applicable to the FIBRAs E will issue CBFEs for investment in energy and infrastructure (*certificados bursátiles fiduciarios de inversión en energía e infraestructura*), which will be publicly traded on the Mexican stock market and, generally, registered in the National Securities Registry and listed on a Mexican stock exchange.

Holders of the CBFEs issued by a FIBRA E will benefit directly from revenue generated by the projects developed by the Eligible Entities. To this end, the Eligible Entities and FIBRAs E will be regarded as pass-through vehicles for Mexican income tax purposes. FIBRAs E, like FIBRAs and Real Estate Investment Trusts (REITs), may also have an external management structure.

The holders of the CBFEs will be the taxpayers for purposes of the Mexican income tax that is due in respect of the projects in which the FIBRAs E invest through the Eligible Entities. Accordingly, Eligible Entities, such as the Promoted Trust, would only be required to determine their taxable income and income tax due to be distributed to the FIBRAs E (in the proportion corresponding to the FIBRAs E share participation) as if the Eligible Entities were a trust themselves, and in turn, the trustee or broker dealer holding the CBFEs issued by the FIBRAs E is required to withhold income tax at a rate of 30% on the distributions made to CBFE holders with respect to their ratable share of Net Taxable Income (except with respect to tax-exempt holders).

As an issuer of securities sold in a public offering in Mexico, FIBRAs E are subject to disclosure rules applicable to corporations with securities registered with the National Securities Registry and listed on the BMV in accordance with the Mexican Securities Market Law (*Ley del Mercado de Valores*). FIBRAs E are also subject to corporate governance rules similar, in some ways, to those applicable to FIBRAs.

The description of the Mexican Tax Rules for FIBRAs E set forth below is only a summary. Certain details of our structure, activities and governance arrangements may differ from the description below, as discussed elsewhere in this offering memorandum.

Requirements for FIBRAs E

Although Articles 187 and 188 of the Mexican Income Tax Law have the expressed purpose of promoting the real estate market and do not include the Exclusive Activities assigned to FIBRAs E (and no such inclusion has been proposed in a tax amendment bill submitted by the current Mexican President or the House of Representatives), the main requirements and tax treatment applicable to FIBRAs E are those set forth in such articles, with a few adjustments.

Some of the most important of such adjustments to the eligibility requirements in the articles are described below:

- A FIBRA E must be a trust created according to Mexican legal guidelines. A Mexican tax resident banking institution or an authorized brokerage house must act as trustee.

- All shareholders of an Eligible Entity must be legal entities that reside in Mexico for tax purposes. This requirement should be met before a FIBRA E acquires shares of an Eligible Entity.

- At least 90% of an Eligible Entity's annual taxable income should derive from the Exclusive Activities listed below.

- A FIBRA E trustee must distribute to CBFE holders, at least once a year and no later than 15 March of the following year, at least 95% of a FIBRA E Net Taxable Income.

- At least 70% of the annual average net worth of a FIBRA E must be invested in shares of Eligible Entities, which in turn must comply with the Exclusive Activities test. The remainder must be invested in securities issued by Mexico's Federal Government and registered at the National Securities Registry, or in shares of debt-related mutual funds.

- A FIBRA E trustee must issue CBFEs amounting to the entire trust's estate. Such certificates must be registered with the National Securities Registry.

- A notice must be filed before the Mexican tax authorities stating under oath that all the requirements of the FIBRA E tax regime are met.

- A FIBRA E must be registered in the FIBRA registry, which is managed by the Mexican tax authorities.

- Eligible Entities' shareholders must fulfill a number of formal obligations to ensure that income tax is paid on tax profits pertaining to such Eligible Entities.

- All shareholders of an Eligible Entity must state in writing, before the Mexican tax authorities, that they (i) accept to offset their tax losses from previous years to the first sale of shares to a FIBRA E, only against profits not obtained from the Eligible Entity; (ii) assume a joint liability with respect to the income tax resulting from the FIBRA E tax regime (vis-à-vis their shareholding participation); (iii) assume a joint liability with regards to all the tax obligations of the Eligible Entity, before its shares are transferred to a FIBRA E (vis-à-vis their shareholding participation); and (iv) accept the primacy of the Eligible Entity's rules of distributions.

- An Eligible Entity should not be subject, either before or after a FIBRA E acquires its shares, to the regimes of "*Sociedad Anónima Promotora de Inversión Bursátil*" or "*Sociedad Anónima Bursátil*," as defined by the Mexican Securities Market Law.

- The FIBRA E Trust Agreement must include compensation arrangements for managers, the trust settlor or their related parties, that subordinate the payment of their fees, commissions or distributions to the payment of a preferred return to CBFE holders, excepting those fees, comissions or distributions that are required to keep the fund functioning properly.

Exclusive Activities

Eligible Entities shall be dedicated exclusively to the following Exclusive Activities:

- The treatment, refinement, transportation and storage of oil; the processing, compression, liquefaction, decompression, regasification, transportation, storage and distribution of natural gas; the transportation, storage and distribution of oil products; and the transportation by pipeline and subsequent storage of petrochemicals, among others.

- Recognition, surface exploration and extraction of hydrocarbons, as well as their transfer, commercialization and public sale, are expressly excluded and therefore not considered Exclusive Activities.

- The generation, transmission and distribution of electricity, in compliance with the LIE and its regulations.
- Infrastructure investment projects that include concessions, services or any other contractual arrangement executed between private parties and the Mexican Federal Government for performing services for the public sector or the final user, provided that such projects are currently in operation and have a remaining term of at least seven years, in the following areas:
  - Roads, highways, railways and bridges;
  - Ports, maritime terminals and port facilities;
  - Civilian airfields, excluding private airfields;
  - The expansion of the country's telecommunications network;
  - Construction of new airfield intended to replace an existing operating airport;
  - Public safety and social reintegration;
  - Drinking water, sewage and wastewater treatment.
- The administration and management of the FIBRA E.
- The investment in beneficiary rights, certificates of ownership or other securities representing beneficiary rights in trusts (*fideicomisos*) like us, or trusts created by state productive companies in the electricity industry or their productive subsidiaries.

Permitted Assets

At least 75% of an Eligible Entity's non-monetary assets in any given year must be invested in mature projects (with at least one year of operations).

Although there is no eligibility requirement, there is a limit with respect to monetary assets that can be owned by an Eligible Entity at the time of acquisition by a FIBRA E.

Transfer of an Eligible Entity to a FIBRA E

An Eligible Entity's shareholders, whose shares are transferred (totally or partially) to a FIBRA E, must determine the taxable gain or loss from the sale of the company's land, fixed assets and deferred expenses on a proportional basis, as if they were selling assets instead of shares. The sale price of such assets will be the amount agreed to for the share transfer, plus the debt that the Eligible Entity may have at such a date, also on a proportional basis. To determine the gain or loss, the Eligible Entity's shareholders must compare the sale price with the tax cost basis of such assets.

If a taxable gain is due, shareholders are obliged to pay the applicable income tax without any deferral option, unless the Eligible Entity's shares are transferred in exchange for CBFEs, in which case, shareholders will be allowed to defer the recognition of such gains, and the obligation to pay the income tax applicable thereupon. In such case, 15% of the deferred gain must be recognized annually as of the year of the transfer until the full gain is recognized and the applicable tax is paid. The taxable gain obtained by shareholders generates a deferred expense for the applicable FIBRA E. The sale of shares issued by an Eligible Entity must be audited by a certified public accountant registered before the Mexican tax authorities.

Drop-down rules

Contribution of assets. The transfer of land, fixed assets or deferred expenses from a legal entity residing in Mexico to another (an Eligible Entity) is not considered as a sale of goods for Mexican federal tax purposes if these requirements are met: (i) assets are related only to the Exclusive Activities described above; (ii) the transfer is made as an equity contribution to an Eligible Entity, as long as the full consideration for the assets' contribution is paid with shares issued by the Eligible Entity; (iii) a trust that complies with FIBRA E requirements acquires at least 2% of the shares issued by the Eligible Entity within up to six months from the date on which the assets' contribution is effective; and (iv) the Eligible Entity complies with all the requirements to qualify as an investment target of a FIBRA E. If any of the applicable requirements are not met, the transfer of the assets will be considered as a taxable sale of goods for Mexican federal tax purposes, and the applicable taxes will have to be paid retroactively.

Spin-off. The spin-off of a Mexican resident entity, whereby land, fixed assets and/or deferred expenses are transferred to an Eligible Entity, will not be considered as a sale of goods for Mexican federal tax purposes if these requirements are met: (i) assets are related only to the Exclusive Activities referred to above; (ii) a trust that complies with the FIBRA E requirements acquires at least 2% of the shares issued by the Eligible Entity within up to six months from the date on which the spinoff is effective; and (iii) the Eligible Entity complies with all the requirements to qualify as an investment target of a FIBRA E. The assets transferred as consequence of the spin-off will be deemed transferred at a carryover basis (there is no basis step-up for tax purposes). If any of the applicable requirements is not met, then the transfer of the assets will be considered as a taxable sale of goods for Mexican federal tax purposes, and the applicable taxes will have to be paid retroactively.

Corporate Governance of a FIBRA E

CBFE Holders' Meeting

A CBFE holders' meeting shall approve, among other matters, the following: (a) changes in the investment regime, (b) rules for incurring (either by the trustee or manager) of financial liabilities of the assets of the FIBRA E, which will establish the maximum borrowing limit, (c) removal and replacement of the manager (as detailed below), (d) modification or increase in compensation and management fees or any other item on behalf of the manager, (e) changes in the purpose of the FIBRA E or its early termination and (f) increases in intended issuances (in value or in number of CBFEs).

One of the most important differences of the FIBRA E corporate governance regime, compared to that of real estate FIBRAs, is that in the CBFE holders' meeting, it is not necessary for such holders to approve intended investments and acquisitions if they represent 20% (or more) of the assets of the FIBRA E.

Removal and Substitution of the Manager

Unlike traditional real estate FIBRAs, in the case of FIBRA Es, the manager of a FIBRA E may be removed with "cause" by the affirmative vote of at least 66% of the outstanding CBFEs with voting rights. Additionally, in our case, the manager may be removed with "cause" (as defined in the FIBRA E Trust Agreement) by the affirmative vote of at least 66% of the outstanding CBFEs Series A, and without "cause" by the affirmative vote of at least 75% of the outstanding CBFEs Series A and in both cases, the substitute manager must be an affiliate of CFE that is capable of, and legally eligible to, serve as manager. Further, the minimum grounds for the removal and replacement of the manager must include at least the following:

(i) Lack of accountability;

(ii) Fraud, negligence or willful misconduct;

(iii) Failure to make agreed distributions; and

(iv) Serious breaches of legal or contractual obligations.

These rules are similar to the structure of a U.S. MLP, in which the removal of the manager is an extraordinary circumstance and not something that happens commonly. This is derived from the important role of the Manager in such funds, in which investors generally make their investment decision based largely on the reputation and track record of the Manager. These rules contrast with the rules applicable to real estate FIBRAs, where the percentage of holders of trust CBFEs in circulation can never exceed 66% and no minimum grounds are established for removal.

Series of CBFEs

One of the new elements introduced by the new rules is that FIBRAs E can issue separate series of CBFEs with limited voting rights. Such CBFEs must have a preferential right to certain distributions and minimum voting rights.

Minority Rights

Among other minority rights, holders that, individually or collectively, represent the percentages of outstanding CBFEs (or higher percentages) listed below may:

- With 20%, judicially oppose resolutions of CBFE holders' meeting, provided they have not attended the meeting or have voted against the relevant resolution;
- With 15%, bring actions for damages against the manager;
- For every 10%, designate a member of a technical committee, unless the manager, the trustee or similar persons have been granted the right to appoint all the members of the technical committee of a FIBRA E; and
- With 10%, request the convening of a general holders' meeting or postpone the vote of any matter (in each case, for 3 calendar days) in respect of which they are not well-informed.

In addition, holders are entitled to have at their disposal, free of charge and with at least 10 calendar days' notice prior to the holding of a CBFE holders' meeting, information and documentation relating to the matters contained in the meeting agenda.

Technical Committee

The technical committee of a FIBRA E may be comprised of a maximum of 21 members, of which the majority must be independent (in terms of the Mexican Securities Market Law). Independence is also measured with respect to the trustee and the manager of the FIBRA E. The auxiliary committees set up by the technical committee of a FIBRA E may only be formed by independent members.

The technical committee of a FIBRA E has the following delegated powers:

(i) Propose and evaluate investments;

(ii) Monitor the performance of the manager;

(iii) Review the quarterly reports of the manager;

(iv) Require information and documentation from the manager that the technical committee considers necessary for the performance of its duties; and

(v) Require that the trustee or common representative call a CBFE holders' meeting and ask that issues that the committee considers appropriate be inserted into the agenda when it detects serious breaches of the obligations of the manager.

Tax Regime of FIBRA E and Eligible Entities

Tax Treatment Applicable to Eligible Entities

An Eligible Entity is considered as a business trust for Mexican tax purposes. As a result, an Eligible Entity is not considered a taxpayer per se with regards to income tax. According to the tax regime applicable to business trusts, an Eligible Entity must determine its yearly Net Taxable Income as per Title II of the Mexican Income Tax Law and then apportion it proportionally among its shareholders. The latter, in turn, are responsible for settling their respective tax payment. Meanwhile, the FIBRA E must take into account such distribution when determining its own yearly Net Taxable Income.

An Eligible Entity's tax loss in a given year cannot be apportioned among shareholders. Such a loss can be offset only against its future taxable profits. The FIBRA E tax regime does not allow for a step-up with regards to the assets that belong to an Eligible Entity, as opposed to the step-up granted under the real-estate FIBRA regime. Therefore, an Eligible Entity must determine its Net Taxable Income based on the assets' remaining tax cost. An Eligible Entity is not obliged to make income tax advance payments; this is consistent with the regime contained in the Mexican Income Tax Law for real-estate FIBRAs. Finally, an Eligible Entity may freely distribute cash flow to its shareholders as dividends or capital reimbursements without triggering a corporate income tax payment. The 10% dividend tax withholding applicable in distribution of dividends by Mexican resident entities to shareholders that are Mexican resident individuals or non-Mexican residents, is not applicable in respect of dividends distributed by an Eligible Entity to the FIBRA E.

Tax Treatment Applicable to FIBRA E

Net Taxable Income computation. A FIBRA E trustee must determine the yearly taxable income of the Issuer in accordance with the provisions of Title II of the Mexican Income Tax Law. To do so, the Trustee must take into account (i) all the tax income distributed by an Eligible Entity to the FIBRA E; (ii) a tax deduction through the amortization of the deferred expense arising from the acquisition of an Eligible Entity shares; and (iii) any other deduction that may be required for the proper operation of the FIBRA E. This computation may differ from an equivalent computation under U.S. federal income tax rules.

Net Taxable Income distribution. In general terms, Net Taxable Income distributions should be subject to a 30% income tax withholding, except on the portion attributable to exempt CBFE holders (e.g. SIEFORES). Any Undistributed Net Taxable Income is subject to a 30% tax rate and is considered as a final payment. Distributions considered as capital reimbursements reduce the CBFE's basis.

Main Benefits of Investing in a FIBRA E Relative to Certain Other Investments

The main benefits of investing in a FIBRA E, relative to other investments, are:

- the potential for a high dividend yield on investment (on a cash basis) relative to other investments due to the requirements for distribution of 95% of Net Taxable Income, a portion of which may constitute tax-advantaged return of capital not subject to withholding tax;
- the potential for capital appreciation of CBFEs commensurate with increases in value of the assets held by the FIBRA E;
- access to the Mexican energy and infrastructure markets as an investment option through a security that can be traded easily and has a readily identifiable market price;
- broader diversification with respect to geographic exposure and asset type for investors seeking to invest in the Mexican energy and infrastructure markets or generally for an investor's investment portfolio;
- FIBRAs E may serve as a vehicle to attract foreign investment into Mexico; and

- applicable tax benefits.

FIBRAs E encourage the development of the Mexican energy and infrastructure market by providing a vehicle through which institutional and retail investors can access this market, by serving as a source of liquidity for developers and investors, and by contributing to the diversification of energy and infrastructure risks for investors.

A FIBRA E that is traded on the BMV or another securities exchange in Mexico has several benefits under the Mexican tax laws, such as not being subject to income tax for some investors, and exempting its investors who qualify as exempted investors under the Mexican tax laws (such as individuals who reside in Mexico, tax-exempt entities or non-Mexican persons) from being subject to taxes with respect to secondary market transactions involving CBFEs. For more detailed information, see "Taxation—Certain Mexican Income Tax Consequences."

General Comparison of Mexican FIBRAs E and U.S. MLPs

The rules and regulations governing FIBRAs E under Mexican law have similar, as well as certain analogous, but nonetheless different, characteristics to the rules and regulations governing Master Limited Partnerships ("MLP") under U.S. federal income tax law. The table below highlights the principal differences between FIBRAs and U.S. MLPs:

	Mexican FIBRAs E	U.S. MLPs
Legal Form	• Trust. • Contract between trustee and sponsor. • Managed by manager.	• Limited partnership under state law. • For offshore assets, limited partnership or limited liability company under Marshall Islands or other non-U.S. law. • Managed by general partner.
Income Requirement	• At least 90% of gross income each year must come from Exclusive Activities.	• At least 90% of gross income each year must come from certain qualifying sources, generally produced only by natural resource companies. • Midstream (gathering, transmission pipelines, storage, compression); oil and gas exploration; mining; refining; wholesale fuel distribution.
Asset Requirement	• No more than 25% of annual average book value of non-monetary assets are new assets (less than one year of use in Mexico).	• None.
Investment Requirements	• At least 70% of annual average value of trust's estate is invested in shares of Eligible Entities (balance may be invested in government securities or debt investment funds).	• None

Distributions	• Required to distribute at least 95% of annual Net Taxable Income to CBFE holders (similar to REITs in the U.S. and FIBRAs in Mexico). • May also distribute tax-free capital returns.	• There is no legal requirement for any entity to distribute cash. • The MLP distributes all available cash from operations not reserved in the business each quarter. General partner has broad discretion to reserve • Makes quarterly distributions to unitholders and holders of incentive distribution rights. Market expects steady or increasing amounts. General partner can lower or suspend distributions.
Managing Body	• Technical committee at trust level handles oversight of manager and approve conflicts. • Maximum 21 members. • Manager handles administration	• Board of directors at general partner. • No maximum number of directors; three minimum.
Majority Independent Members	• Required.	• Not required under rules of major U.S. stock exchanges.
Entity Level Mexican Taxes	• No taxation at company (FIBRA E and Eligible Entities) level.	• No taxation at company (MLP) level.
Investor Level Mexican Taxes	• In general investors are subject to Mexican income tax on the distribution of Net Taxable Income. Distributions of a FIBRA E in excess of its Net Taxable Income are considered a return of capital up to the CUCA balance of the FIBRA E and are not subject to income tax. Such return of capital reduce the investor's basis in the FIBRA E CBFEs. • Capital gains realized on the disposition of CBFEs are exempted from income tax if CBFEs are sold in Recognized Markets and transferors are Mexican resident individuals or non-Mexican tax residents.	• In general investors are subject to U.S. federal income tax on the distribution of net taxable income. MLP distributions that exceed the net income of the entity are considered a return of capital. This return of capital reduces the owner's tax basis in MLP's units.

DESCRIPTION OF THE PROMOTED TRUST, CERTAIN PROVISIONS OF THE PROMOTED TRUST AGREEMENT AND THE CENACE AGREEMENT

Set forth below is certain information that provides a brief summary of certain provisions of the Promoted Trust Agreement and the CENACE Agreement. The descriptions do not purport to be complete and are qualified in their entirety by reference to the Promoted Trust Agreement and the CENACE Agreement, accordingly.

The Promoted Trust and the Promoted Trust Agreement

On January 22, 2018, CFE Transmisión entered into the Promoted Trust Agreement between CFE Transmisión, acting as the settlor and the beneficiary of the trust and Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, acting as the Promoted Trust's Trustee, to create the Promoted Trust. Pursuant to the terms of the Promoted Trust Agreement, the Promoted Trust is valid for a term of 50 years, subject to extension. Upon the termination of the Promoted Trust, all cash available after reimbursing any pending costs and expenses to TransCo is distributed on a pro rata basis and the Promoted Trust is terminated. Simultaneously, Collection Rights are reverted back to CFE Transmisión.

The Promoted Trust was created primarily to acquire the Collection Rights under the CENACE Agreement and to establish the mechanisms for the reimbursement of costs and expenses of CFE Transmisión related to the electric energy transmission public service through the NTN. Thus, the Promoted Trust's primary assets are the Collection Rights under the CENACE Agreement and the cash in the accounts held by the Promoted Trust.

The Promoted Trust includes provisions that require CFE Transmisión to obtain the prior approval of the Promoted Trust's technical committee (which requires the approval of a majority of the independent members of such technical committee appointed by the Fibra E) before entering into any such hedge agreements or bilateral transactions, which approval may be granted only to the extent that CFE Transmisión assigns any present and future collection rights derived from hedging agreements and bilateral transactions entered by CFE Transmisión and any Market Participant. The payments derived from these collection rights, if any, will be applied using the mechanism set forth in the Promoted Trust Agreement, and as explained below.

CFE Transmisión assigned certain rights as beneficiary of the Promoted Trust to the Issuer, which grant to the holder the right to receive a part of the distributions made by the Promoted Trust. Further, CFE Transmisión agreed to undertake certain obligations, which include: (i) complying with its obligations derived from applicable law; (ii) appointing certain members of the Promoted Trust's technical committee; (iii) performing all the legal acts required from time to time in order to maintain and protect the property by the Promoted Trust's Trustee of the Promoted Trust estate against any claim or acts of any third person; (iv) refraining from creating, assuming or allowing the creation of any lien or guaranty in relation to the Promoted Trust estate; (v) refraining from selling, transferring, pledging, delivering, transferring in trust, or disposing the Promoted Trust estate; (vi) complying with the provisions of the Mexican Tax Rules for FIBRAs E, including the provisions included in the Miscellaneous Fiscal Resolution; and (vii) complying with the operative obligations under the CENACE Agreement.

Our and CFE Holding's only obligations under the Promoted Trust Agreement are: (i) to appoint the members of the Promoted Trust's technical committee that we each are entitled to appoint and (ii) to exercise our respective voting rights on the Promoted Trust's technical committee.

The proceeds derived from the Collection Rights deposited in the General Account will be distributed in respective accounts of the Promoted Trust in the following order:

(1) *VAT Account*: The Promoted Trust's Trustee will transfer to the VAT account an amount equal to the payment of the VAT paid by CENACE in respect of the Collection Rights, to be reimbursed to CFE Transmisión.

(2) *Reserves Account:* The Promoted Trust's Trustee will transfer to the reserves account an amount equal to 10% of the proceeds from the Collection Rights after discounting payment of VAT until the reserve reaches an aggregate amount of Ps.250 million. The resources of this account will be

used in case the balance of the other Promoted Trust´s accounts is insufficient to cover any payment when due.

(3) *Indemnities Account*: The Promoted Trust's Trustee will transfer to the indemnities account an amount equal to the amount indicated by CFE Transmisión by instructions of CENACE to reimburse indemnities paid to CENACE during the corresponding period.

(4) *Operation and Minor Maintenance Expenses Account:* The Promoted Trust's Trustee will transfer to the operation and maintenance account the amount requested by CFE Transmisión through an instruction to reimburse operation and maintenance expenses paid by CFE Transmisión during the corresponding period.

(5) *Intercompany Expenses Account:* The Promoted Trust's Trustee will transfer to the intercompany expenses account the amount requested by CFE Transmisión through an instruction to reimburse the expenses between related parties paid by CFE Transmisión during the corresponding period.

(6) *Major Maintenance and Modernization Expenses Account:* The Promoted Trust's Trustee will transfer to the major expenses maintenance account the amount requested by CFE Transmisión through an instruction to reimburse major and modernization expenses paid by CFE Transmisión during the corresponding period.

(7) *Obligations Expenses Account:* The Promoted Trust's Trustee will transfer to the labor expenses account the amount requested by CFE Transmisión through an instruction to reimburse labor expenses paid by CFE Transmisión during the corresponding period.

(8) *Promoted Trust Expenses Account*: The Promoted Trust's Trustee will transfer to the promoted trust expenses account the amount requested by CFE Transmisión through an instruction to reimburse PIDIREGAS and the Promoted Trust expenses during the corresponding period that have to be paid by the Promoted Trust's Trustee.

(9) *Financing Account*: The Promoted Trust's Trustee, when applicable, will transfer to the financing account the amount requested by CFE Transmisión in the instruction to reimburse CFE Transmisión Financing and the Contingent Financing paid by CFE Transmisión during the corresponding period.

(10) *Distribution Account:* The Promoted Trust's Trustee will transfer to the distribution account, every quarter, the balance deposited in the General Account to be distributed pro rata to the beneficiaries of the Promoted Trust.

All amounts transferred pursuant to the above, except for the transfers to the Distribution Account, shall be in accordance with the annual budget prepared by CFE Transmisión or, if applicable, through modifications made to the annual budget that are approved by the Promoted Trust's technical committee upon the favorable vote of all the members appointed by us.

Promoted Trust's Annual Budget

No later than ten business days after the execution of the Promoted Trust Agreement, CFE Transmisión will deliver to the Promoted Trust's technical committee the initial estimated annual budget, which will be effective until December 31, 2018.

The Promoted Trust's budget for the period between February 12 and December 31, 2018, is Ps. 16,792 million, which includes the following expenses: salaries, material supplies, general services, intercompany expenses, modernization and mayor maintenance expenses, non-cash labor expenses, promoted trust expenses and financing expenses.

No later than December 5 of each fiscal year, or the immediate consecutive business day, if applicable, CFE Transmisión will deliver to the Promoted Trust's technical committee and to the Promoted Trust's Trustee an annual budget for the next fiscal year, covering all the concepts set forth in the Promoted Trust Agreement.

The annual budget shall be updated annually, with the understanding that if the update of such annual budget results in an increase of any line item from the current budget in a percentage greater than the inflation observed during the most recent twelve-month period ended October 31, CFE Transmisión will deliver the annual budget to the Promoted Trust's technical committee for approval, explaining the reason for the increase. The favorable vote of the majority of the members of the Promoted Trust's technical committee will be required, with the favorable vote of the members of the Promoted Trust's technical committee appointed by us and present in the respective meeting.

As long as the annual budget increases remain consistent with inflation, CFE Transmisión shall only deliver such annual budget to the Promoted Trust's technical committee and the Promoted Trust's Trustee for the calculation and confirmation of the amounts to be deposited to the Promoted Trust accounts.

Corporate Governance of the Promoted Trust

Management of the Promoted Trust

Management of the Promoted Trust will be entrusted to the Promoted Trust's technical committee, which will include six members appointed as follows:

- CFE Transmisión will have the right to appoint one member;
- CFE Holding will have the right to appoint two members; and
- We will have the right to appoint three members.

As of the date hereof, the following persons have been appointed as members of the Promoted Trust's technical committee:

Name	Appointed by	Position
José Javier Jaime Peralta	CFE Holding	Chairman
David Constantino Plascencia Perdomo	CFE Holding	Member, Secretary
Gregorio Cortes Viveros	CFE Transmisión	Member
Xavier de Uriarte	Issuer	Member
Maria Inés de Miranda	Issuer	Member
Leopoldo Burillo	Issuer	Member

Biographical Information of the members of the Promoted Trust's technical committee

José Javier Jaime Peralta. Mr. Peralta has an MBA from the Kellogg School of Management and a Bachelor's degree from UNAM and Universidad La Salle. He is currently the Deputy Director of Financial Control of CFE Holding. He has previously held various positions at Ernst & Young México, including Accounting Advice Partner and IPO Leader and he was the Senior Manager of Capital Markets and International Accounting at Ernst & Young, New York.

David Constantino Plascencia Perdomo. Mr. Plascencia has a university degree in Actuarial Sciences from Universidad Nacional Autónoma de México and has over 17 years of experience in financial markets. He joined CFE Holding in 2017 as Deputy Chief Financial Officer and currently he is responsible for the financial program, hedging strategy and the risk management framework for CFE, its subsidiaries and affiliates. From 2009 to 2017 he was the General Director of Financial Supervision in the Mexican pension funds Commission (Comisión Nacional del Sistema de Ahorro para el Retiro). He worked in Banco de Mexico (the Mexican Central Bank) and he also worked as a consultant developing platforms to operate financial derivatives. Mr. Plascencia has been a professor, and taught courses in in options valuation topics, statistics and probability.

Gregorio Cortes Viveros. Mr. Cortes has university degrees in Public Accounting and Law, both from Universidad Veracruzana. He has an MBA from Instituto de Estudios Universitarios A.C. He joined CFE Holding in 1987 as a manager in the distribution business, then worked within the generation power plants division and finally joined the transmission team in 2007. From 2007 to 2010, he served as Deputy Manager in the East Regional Transmission Office in Veracruz. Since 2010, he has served as Chief Financial Officer in the Transmission Department from Mexico City.

Xavier de Uriarte. Mr. de Uriarte is a public accountant with a degree from Instituto Tecnológico Autónomo de México and a masters degree in business administration from Durham University, United Kingdom. He was country manager of Sura México, General Manager of Afore Sura México and General Manager of Afore ING. Prior to that, he worked at ING Seguros Comercial América, where he held several top level positions in Mexico and New York City. Mr. de Uriarte was Director of Corporate Finance at GBM/Bando including Afore Banamex.

María Inés de Miranda. Ms. Miranda has a degree in Industrial Engineering from Universidad de las Américas and a masters degree from Stanford University in Engineering-Economic Systems & Operations Research and a PhD from Stanford University in Management Science and Engineering. She has more than 15 years of experience in corporate finance, investment banking and business development, and currently works as an independent advisor. She was director at Grupo Bal from 2010 to 2016, where she was in charge of the identification and structuring of new business areas for the group. From 2002 to 2010, she was director of Energy and Project Finance at Evercore Partners and prior to that she worked as advisor for Options, Markets & Analytics in Palo Alto, California. Miranda was a professor at the School of Engineering of Universidad Anahuac and she has been published.

Leopoldo Burillo. Mr. Burillo has more than 27 years of experience in investment banking, structured finance, corporate banking, financial restructures and public and private capital and debt offerings. He has advised several Mexican and foreign companies, including Pinebridge Investments, Grupo Pegaso, SURA, Neology, Deutsche Bank, HSBC, Media Products, CI Banco, Arcelor Mittal, Afore XXI, Prudential Financial, Alta Growth Capital, Henkel KGaA, Nacional Financiera, Banobras, Lockheed Martin, General Electric, General Motors Electro-Motive Division, Grupo ICA, Mexichem and Corporación Scribe. Currently, Mr. Burillo is managing partner at Fimecap, S.A. de C.V. and before that, he was Managing Director, Head of Corporate Finance/M&A at The Royal Bank of Scotland in Mexico. He was Head of Client Coverage for ABN AMRO Mexico and Managing Partner in Serficor S.A. de C.V. Mr. Burillo has participated in the board of directors at Afore XXI, Car Mart (a subsidiary of Lo-Jack Corporation), Alta Growth Capital, International Network of M&A Partners, Association of International Corporate Advisors and Club de Golf Chapultepec.

Meetings

The Promoted Trust's technical committee will meet (i) quarterly and (ii) at any other time as requested in writing by the chairman of the Promoted Trust's technical committee and submitted to all the members of the Promoted Trust's technical committee. Notice of an ordinary meeting will be delivered to the Promoted Trust's Trustee and to all the members of the Promoted Trust's technical committee at least ten business days prior to the date of such meeting and should include a list of the matters to be discussed at such meeting. Notice of an extraordinary meeting will be delivered to the Promoted Trust's Trustee and to all the members of the Promoted Trust's technical committee at least five business days prior to the date of such meeting and should include a list of the matters to be discussed at such meeting. Such notifications will include the place, date and time of the meeting.

Authority of the Promoted Trust's Technical Committee

The Promoted Trust's technical committee duties include:

(a) Determining, approving and instructing the early termination of the Promoted Trust Agreement;

(b) Determining, approving and instructing the early termination of the CENACE Agreement or any material amendment to such agreement;

(c) Establishing the general guidelines with respect to Related Party transactions that will not need an individual approval for its execution;

(d) Approving the execution of Related Party transactions with the Promoted Trust in accordance with section 8.1 of the Promoted Trust Agreement;

(e) Approving any amendments to the Promoted Trust Agreement; provided that the approval of all the members of the Promoted Trust's technical committee appointed by us that are present in the applicable meeting will be required to approve any amendment that adversely affect our rights under the Promoted Trust Agreement, that adversely affect our rights relating to the Promoted Trust's technical committee, or that modify CFE Transmisión's obligations pursuant to the Promoted Trust Agreement;

(f) Approving the prepayment of costs and expenses to CFE Transmisión;

(g) Monitoring the compliance by the Promoted Trust's Trustee of its obligations under the Promoted Trust Agreement;

(h) Reviewing and approving the use of the Promoted Trust's estate pursuant to the terms of the Promoted Trust Agreement;

(i) Instructing the Promoted Trust's Trustee to execute any agreements or amendments, as well as any waivers, consents or related documents;

(j) Instructing the Promoted Trust's Trustee in connection with the engagement of the accounting and tax advisor;

(k) Instructing the Promoted Trust's Trustee any other actions that are deemed to be required to comply with the Promoted Trust Agreement;

(l) Requesting confirmation of the Promoted Trust's Trustee in connection with the compliance with the requirements set forth in the Tax Requirements of a FIBRA E;

(m) Reviewing the annual budget and any amendment to the annual budget and if any line item in the annual budget contemplates an increase above the inflation rate observed in the last twelve months in any of its concepts, on the amounts of the previous year, approve the annual budget;

(n) Approving the reimbursement to CFE Transmisión of any expense included in the annual budget that exceeds five percent the amounts previously included in such annual budget;

(o) Approving guidelines for the reimbursement to CFE Transmisión of Contingent Financing or funds outside the annual budget in connection with the operation of the NTN that CFE Transmisión may require from time to time, as a result of emergencies, acts of god or *force majeure* events, and such expenses that are related to extraordinary repairs or maintenance of the NTN;

(p) Approving the funds derived from financings or loans incurred by CFE Transmisión that will be considered as CFE Transmisión Financings;

(q) Approving the reimbursement of costs and expenses of CFE Transmisión not included in the Promoted Trust Agreement, or exceeding those included in the annual budget;

(r) Approving the removal or substitution of the Promoted Trust's Trustee in accordance with the Promoted Trust Agreement;

(s) Instructing the opening of any new accounts of the Promoted Trust's that may be required to comply with the Promoted Trust's purpose;

(t) Reviewing the reimbursements made to CFE Transmisión and calculating distributions to the holders of Beneficiary Rights, considering any applicable adjustment;

(u) Approving any of the Promoted Trust's expenses not expressly included in the annual budget that has been reasonably proposed by CFE Transmisión;

(v) Modifying the reserve of funds of the Promoted Trust;

(w) Approving any additional contributions to the Promoted Trust;

(x) Approving the execution by CFE Transmisión of hedge agreements and bilateral agreements with Market Participants; provided that such approval may only be granted if the collection rights under such agreement are assigned to the Promoted Trust's Trustee;

(y) Approving and instructing the Trustee to grant any powers of attorney for the defense of the Promoted Trust's estate; and

(z) Approving any other duty expressly reserved for the Promoted Trust's technical committee.

Pursuant to the Promoted Trust Agreement, five members of the Promoted Trust's technical committee must be present to have a quorum for a meeting, two of whom must be the members appointed by us. All resolutions of the Technical Committee shall be adopted by a simple majority vote of the members with voting rights present during the session in question, except in the matters mentioned in paragraphs (a), (b), (c), (d), (e), (f),, (o), (p), (q), (r), (s), (t), (v), (w), (x) and (y) above, which must be authorized by all the members of the Technical Committee appointed by us and present in the respective meeting.

Distributions

The Promoted Trust's technical committee will instruct the Promoted Trust's Trustee to carry out distributions to the holders of Beneficiary Rights pursuant to the following guidelines:

(a) Distributions shall be made on each distribution date, according to the definition of such term in the Promoted Trust Agreement;

(b) The Promoted Trust's Trustee shall distribute all the resources deposited in the Distribution Account to the holders of Beneficiary Rights;

(c) Distributions shall be made to the holders of Beneficiary Rights on a pro rata basis pursuant to their corresponding ownership percentage, provided that the Promoted Trust's technical committee may adjust the amounts to be distributed to each holder of Beneficiary Rights pursuant to the Promoted Trust Agreement; and

(d) Distributions shall be made in Pesos directly to the bank accounts of each holder of Beneficiary Rights.

Conflicts of Interest

The Promoted Trust Agreement has certain mechanisms for the resolution of any potential conflicts of interests. Because CFE Holding, its subsidiaries and affiliates participate in activities in which their respective interests may conflict with the Promoted Trust's interest, the Promoted Trust's Trustee must abstain from carrying out any transaction between related parties unless such transaction has been previously authorized by the Promoted Trust's technical committee. In addition, such transaction should be made on terms and conditions equal or better to the terms and conditions that the Promoted Trust may have obtained independently from third parties.

If the Promoted Trust intends to carry out a transaction between related parties, in addition to the provisions of the preceding paragraph and the approval by all members of the Promoted Trust's technical committee, the Promoted Trust's Trustee must obtain an opinion from an independent expert on the price of such transaction, provided that such independent expert will be appointed by the members of the Promoted Trust's technical committee.

The Promoted Trust's technical committee may issue generic authorizations stating that certain transactions between related parties will not require an approval.

Beneficiary Rights

Beneficiary Rights under the Promoted Trust may only be held by CFE Holding, CFE Transmisión and us. The assignment of the Beneficiary Rights to any other person is not allowed by the Promoted Trust Agreement.

The CENACE Agreement

On March 28, 2016, CFE Holding entered into the CENACE Agreement with CENACE in order to agree, among others, on the terms and conditions for the provision of services, billing and invoicing of the electric energy transmission public service, as well as the coordination between the parties thereto for the technical and commercial operation of such public service, under efficiency, quality, continuity, security and sustainability standards of the SEN. The CENACE Agreement was transferred from CFE Holding to CFE Transmisión pursuant to a transfer agreement dated as of October 10, 2016.

On January 17, 2018, CFE Transmisión and CENACE entered into Amendment to the CENACE Agreement, by which they agreed to amend the terms of the CENACE Agreement in order to allow CFE Transmisión to assign the Collection Rights under the CENACE Agreement in favor of the Promoted Trust.

Pursuant to the CENACE Agreement, CENACE will invoice the Market Participants the tariffs for the electric energy transmission service, and then will pay such amounts to CFE Transmisión or its assignee, pursuant to the tariffs approved for such purposes by the CRE.

The CENACE Agreement sets forth, among others, the following obligations for CFE Transmisión: (i) measure the energy injections and withdrawals from the NTN; (ii) comply with the information and measurement requirements under the terms set forth by the CENACE; (iii) make available all the infrastructure elements of the NTN to CENACE; (iv) notify CENACE of any emergency conditions of the infrastructure elements under its responsibility; (v) determine and report to CENACE the changes to operative capacity and limits of the elements of the NTN; and (vi) cover any indemnities charged by CENACE.

Likewise, the CENACE Agreement sets forth, among others, the following obligations for CENACE: (i) coordinate the resources intended for voltage control; (ii) operate the transmission elements (transmission lines, transformers and compensation equipment), within the preset guidelines; and (iii) issue the instructions for the operation of the NTN.

Under the CENACE Agreement, the CENACE will invoice and charge to the Market Participants any expenses resulting from its participation in the WEM, in accordance with the Market Rules, subject to the tariffs and other applicable provisions issued by the CRE, amounts due to CFE Transmisión, in accordance with the aforementioned regulations. Likewise, the CENACE is authorized by CFE Transmisión to collect or apply, through the corresponding invoices: (i) penalties, (ii) conventional penalties, (iii) indemnities, and (iv) other items to be determined according to the applicable regulations. The CENACE will make all payments in respect of the collection made to Market Participants, by means of electronic transfer of immediately available funds, to the account that CFE Transmisión notifies to CENACE in writing, or in case CFE Transmisión assigned the Collection Rights to the Promoted Trust, to the account of the Promoted Trust that is notified in writing to CENACE by CFE Transmisión or by the Promoted Trust's Trustee, authorizing CFE Transmisión for such purposes.

Summary of the Assignment Agreement of the Collection Rights

Pursuant to the Assignment Agreement entered into by CFE Transmisión and the Promoted Trust's trustee, CFE Transmisión assigned to the Promoted Trust 100% of the Collection Rights under the CENACE Agreement and CFE Transmisión and the Promoted Trust agreed to complete all the procedures established in the Manual of Statement, Invoicing and Payments (*Manual de Estado de Cuenta, Facturación, y Pagos*) and the Manual of Registration and Accreditation of Market Participants (*Manual de Registro y Acreditación de Participantes del Mercado*) in order to register the main and backed account of the Promoted Trust so that CENACE could transfer the resources derived from the assigned Collection Rights in those accounts.

In addition, the Promoted Trust Agreement sets forth, among other things, that: (i) the Promoted Trust does not assume any obligation derived from the CENACE Agreement; (ii) the Promoted Trust has to cooperate with CFE Transmisión to comply with any process or action that is required or requested in accordance with the above referred manuals; (iii) CFE Transmisión will immediately deliver any amount that has been received to the corresponding accounts of the Promoted Trust, as long as such amounts correspond to the assigned Collection Rights; (iv) CFE Transmisión must obtain prior written authorization from the Promoted Trust to carry out any modification to the CENACE Agreement, and (v) CFE Transmisión must notify the Promoted Trust of any event that may have any negative effect on the assigned Collection Rights.

For the assignment of the Collection Rights under the CENACE Agreement, the Promoted Trust issued to CFE Transmisión 100% of the Beneficiary Rights, under the terms agreed in the Promoted Trust Agreement.

Under the Assignment Agreement, CFE Transmisión agrees to assign any present or future collection rights derived from any hedge agreement or bilateral transaction entered into between CFE Transmisión and any Market Participant. The funds derived from these collection rights will be used as provided in the Promoted Trust Agreement.

Summary of the Beneficiary Rights Assignment Agreement entered into by and between CFE Transmisión and us

Under the assignment agreement entered into among CFE Transmisión, as the assignor, us, as the assignee, and the Promoted Trust's Trustee, CFE Transmisión assigned to us 5.96% of the Beneficiary Rights in the Promoted Trust, free of liens, guarantees or other limitations. Pursuant to the agreement, we are considered a beneficiary under the Promoted Trust and are entitled to 5.96% of the distributions thereunder.

For the assignment of the Beneficiary Rights in the Promoted Trust, we will pay to CFE Transmisión Ps.13,549 million (U.S.$745 million) and 250,000,000 subordinated CBFEs, under the terms agreed in the Promoted Trust Agreement.

DESCRIPTION OF THE MANAGEMENT AGREEMENT

General

On January 22, 2018, we entered into a management agreement with the Manager (the "Management Agreement"). Pursuant to the terms of the Management Agreement, the Manager will have certain powers, under the direction of the Technical Committee, which include, among others, the following: (i) to prepare and deliver a quarterly performance report to the Technical Committee, the Common Representative and the holders of the CBFEs who request it; (ii) to instruct the Trustee and publish relevant events to the investors; (iii) to submit to the Technical Committee for approval any amendment to the corrective plan in respect of the leverage limit and the coverage ratio limit and, once approved by the Technical Committee, to the CBFE Holders' Meeting for approval; (iv) to analyze and approve, if applicable, potential investments and acquisitions of Eligible Entities or submit them to the Conflicts Committee; (v) to appoint all non-independent members of the Technical Committee and their alternates, as well as to increase the number of members; (vi) to carry out the activities required to comply with any tax obligation and any obligations under the FIBRA E Trust Agreement; (vii) to provide our investor relations services; (viii) to monitor coordination with internal and external auditors, the legal, accounting and financial advice and from other services providers; (ix) propose to the CBFE Holders' Meeting the leverage guidelines, subject to the majority vote of our Technical Committee and the favorable vote of the members of our Technical Committee related to CFE; (x) to confirm the establishment of mechanisms and controls to verify that each financing complies with applicable regulations; (xi) to restructure or refinance any financing approved by the Technical Committee, subject to the leverage guidelines; (xii) to instruct the Trustee to make any expenditures and incur any other obligations, subject to the FIBRA E Trust Agreement policies and other applicable limits; (xiii) to propose the distribution policies applicable to us with respect to different series of CBFEs, with the understanding that we will make quarterly distributions and the payment of distributions to holders of subordinated CBFEs will be subordinated to the payment to the holders of Series A CBFEs; (xiv) to propose any modifications to the Distribution Ratio; (xv) to advise on hiring by the Issuer; (xvi) to propose to the Audit Committee the accounting policies of the Issuer; (xvii) to propose the repurchase and cancelation of CBFEs; (xviii) to review the external auditor opinion; (xix) to prepare the annual budget and submit it to the Conflicts Committee for approval; and (xx) to instruct the Trustee to reestablish the reserve account.

The Manager has the obligation to act with diligence, in good faith and in our best interests and in the best interests of the holders of the CBFEs.

Officers of the Manager

The following table sets forth certain information with respect to the officers of the Manager, as of the date of this offering memorandum:

Name	Position
Joaquín Escamilla Orozco	CEO and CFO
Alain Gerard Jaubert Luengas	Investor Relationship and GC

Biographical Information

Joaquín Escamilla Orozco, CEO and CFO. Mr. Escamilla holds a Master Degree in International Management and a Bachelors Degree in Economics, both from Instituto Tecnológico Autonomo de México. He is a partner and member of the board of directors of Construcciones Funcionales K, S.A. de C.V., Corporativo Isakar, S.A. de C.V., RULU S.A. d C.V. and Logistica en Tierras SAPI de C.V. He is also founding partner in GIVSI, Servicios, S.C. His professional experience includes positions at GIVSI, Servicios, S.C., Grupo Inmobiliario Viviendas Si, S.A. de C.V., INFONAVIT, Tesorería de la Federación (Secretaría de Hacienda y Crédito Público), Grupo Financiero Bancomer BBVA, S.A. and Procter & Gamble. He was also a professor at Instituto Tecnológico Autónomo de México. Finally, he has been a member of different corporate governance bodies such as Operadora de Fondos NAFINSA, Comisión Nacional de Seguros y Fianzas, Sociedad Hipotecaria Federal and Banco del Ahorro Nacional y Servicios Financieros, S.N.C.

Alain Gerard Jaubert Luengas, Investor Relationship and General Counsel. Mr. Jaubert holds a Law Degree from Universidad Nacional Autónoma de México. He served as board member of Arka Casa de Bolsa, S.A. de C.V. His professional experience includes different positions in within CFE, INFONAVIT, Instituto para la Protección al Ahorro Bancario, Procuraduría Fiscal de la Federación, Fideicomiso Liquidador de las Organizaciones Auxiliares del Crédito and Banco Nacional de Comercio Interior, en Liquidación. He has taught banking law at Universidad Tecnológica de México.

Reports

The Management Agreement requires the Manager to furnish to the Trustee and our Technical Committee a performance report, quarterly reports and an annual report, as well as any information that the Trustee or our Technical Committee may reasonably request.

Management Fee

The Management Agreement provides for the payment of a quarterly Management Fee to the Manager, which will be an amount equal to the expenses of the Manager incurred in a quarter multiplied by a factor of 1.07x. The expenses should be included in the Manager's annual budget. The Management Fee will be paid in advance each quarter through distributions made by the Trustee to the Manager from a reserve account. The Manager must submit relevant invoices at the end of each quarter. In case the expenses actually incurred by the Manager exceed the advance payment and the Manager does not receive the Management Fee for such quarter in full, the Manager will instruct the Trustee (with a copy to the Technical Committee) to transfer such difference to the Manager from the reserve account. If the advance payment received by the Manager for the relevant quarter exceeds the Management Fee for such quarter, the excess amount received by the Manager will be used by the Manager to pay for the immediately following quarter's manager's expenses in terms of the annual budget and the Trustee will deduct such excess amount from the payment of the Management Fee for such immediately following quarter.

Annual Budget

The Manager shall deliver to the Conflicts Committee its initial estimated annual budget, which shall be effective until December 31, 2018.

The Manager's budget for 2018 is Ps.79.7 million, which includes the following expenses: payroll, office lease, hardware systems, software systems, telecom services, stationary, company vehicles, travel and marketing expenses, consulting expenses and external accounting services, including expenses related to our PFIC status.

No later than December 5 of each fiscal year, or the immediate consecutive business day, if applicable, the Manager shall deliver to the Conflicts Committee an annual budget for the next fiscal year.

The annual budget will be updated annually, with the understanding that if the update of the annual budget results in an increase above the inflation rate observed during the prior twelve months to the end of October, the Manager will deliver the annual budget to the Conflicts Committee for approval, explaining the reason for the increase. The favorable vote of the majority of the members of the Conflicts Committee will be required.

As long as the annual budget increases remain within such percentage, the Manager will only deliver the annual budget to the Conflicts Committee for approval.

Term

The Management Agreement has an undefined term, and may be terminated if (i) the FIBRA E Trust Agreement is terminated or (ii) the Manager is removed or resigns.

Removal of the Manager; Termination

The Manager may be removed for "cause" (as defined below) or without "cause". The Manager may be removed for "cause" by the affirmative vote of at least 66% of the outstanding CBFEs Series A, and "without cause" by the affirmative vote of at least 75% of the outstanding CBFEs Series A, and in both cases, our Technical Committee is responsible for the appointment of a new manager, provided that the new manager must be an affiliate of CFE.

"Cause" is defined as (i) the failure of the Manager to be accountable of its management, pursuant to the terms of the Management Agreement of the FIBRA E Trust Agreement; (ii) the failure of the Manager to cause us to make distributions on the CBFEs; (iii) an un-appealable judgment or judicial resolution declaring the Manager liable for fraud, willful misconduct, bad faith or gross negligence in respect of its duties; or (iv) a breach by the Manager of its legal or contractual obligations under the Management Agreement or the FIBRA E Trust Agreement, as determined by an un-appealable judgment or judicial resolution.

Governing Law; Submission to Jurisdiction

The Management Agreement is governed by Mexican law. The Management Agreement provides that the parties thereto have submitted to the jurisdiction of the courts of Mexico City in connection with any controversy arising from the interpretation of or non-compliance with the Management Agreement.

MANAGEMENT OF THE ISSUER

The Technical Committee

The Technical Committee will consist of a maximum of 21 members, and at least the majority will be independent members.

Members of the Technical Committee

The following table sets forth certain information with respect to each of the members of the Technical Committee as of the date of this offering memorandum.

Name	Position
Leopoldo Burillo*	Board Member
Xavier de Uriarte*	Board Member
María Inés de Miranda*	Board Member
Jorge Mendoza Sánchez	Board Member
Noe Peña Silva	Board Member

*Independent member

Biographical Information

Leopoldo Burillo. Mr. Burillo has more than 27 years of experience in investment banking, structured finance, corporate banking, financial restructures and public and private capital and debt offerings. He has advised several Mexican and foreign companies, including Pinebridge Investments, Grupo Pegaso, SURA, Neology, Deutsche Bank, HSBC, Media Products, CI Banco, Arcelor Mittal, Afore XXI, Prudential Financial, Alta Growth Capital, Henkel KGaA, Nacional Financiera, Banobras, Lockheed Martin, General Electric, General Motors Electro-Motive Division, Grupo ICA, Mexichem and Corporación Scribe. Currently, Mr. Burillo is managing partner at Fimecap, S.A. de C.V. and before that, he was Managing Director, Head of Corporate Finance/M&A at The Royal Bank of Scotland in Mexico. He was Head of Client Coverage for ABN AMRO Mexico and Managing Partner in Serficor S.A. de C.V. Mr. Burillo has participated in the board of directors at Afore XXI, Car Mart (a subsidiary of Lo-Jack Corporation), Alta Growth Capital, International Network of M&A Partners, Association of International Corporate Advisors and Club de Golf Chapultepec.

Xavier de Uriarte. Mr. de Uriarte is a public accountant with a degree from Instituto Tecnológico Autónomo de México and a masters degree in business administration from Duham University, United Kingdom. He was country manager of Sura México, General Manager of Afore Sura México and General Manager of Afore ING. Prior to that, he worked at ING Seguros Comercial América, where he occupied several top level positions in Mexico and New York City. Mr. de Uriarte was Director of Corporate Finance at GBM/Bando del including Afore Banamex.

María Inés de Miranda. Ms. Miranda has a degree in Industrial Engineering from Universidad de las Américas and a masters degree from Stanford University in Engineering-Economic Systems & Operations Research and a PhD from Stanford University in Management Science and Engineering. She has more than 15 years of experience in corporate finance, investment banking and business development, and currently works as independent advisor. She was director at Grupo Bal from 2010 to 2016, where she was in charge of the identification and structuring of new business areas for the group. From 2002 to 2010, she was director of Energy and Project Finance at Evercore Partners and prior to that she worked as advisor for Options, Markets & Analytics in Palo Alto, California. Miranda was a professor at the School of Engineering of Universidad Anahuac and she has been published.

Jorge Mendoza Sánchez. Mr. Sánchez is currently the CFO at CFE Holding. Prior to this role he served as Deputy Director General of Debt Issuance at the Ministry of Finance and Public Credit of Mexico. He has extensive experience and has previously served as in varios roles in the investment banking groups at Barclays and Credit Suisse. He holds an MBA from Harvard Business School, BA from University of Texas, Austin.

Noe Peña Silva. Mr. Peña joined CFE Holding in 1976 as project supervisor. He currently serves as the CEO of CFE Transmisión. During his tenure at CFE, Mr. Peña has held different positions such as Head of the Northeastern Transmission and Transformation and Subdirector of Transmission, before being appointed as CEO of CFE Transmisión in 2016. He holds a Electronics and Telecommunications from ITESM.

Independence of the Members of the Technical Committee

Under the FIBRA E Trust Agreement and applicable regulations, at least a majority of the members of the Technical Committee are required to be independent members in accordance with the criteria set forth in the Mexican Securities Market Law. During the CBFE Holders Meeting in which members are appointed or ratified, a majority of the holders of Series A CBFEs is required to confirm these members' independence.

Appointment of the Technical Committee Members

The Manager may appoint and remove the non-independent members of the Technical Committee and increase the number of members of the Technical Committee, provided that at all times the Technical Committee is required to be comprised by a majority of independent members; the appointment and removal of independent members will be voted on by a majority of the holders of Series A CBFEs in a CBFE Holders' Meeting.

The Nominations Committee will propose persons who are independent in order to substitute the independent members of the Technical Committee.

For each appointed non-independent member, the Manager will also have the right to appoint one or more substitute members. Further, these substitute members will have the right to attend the Technical Committee meetings in the absence of the other members. If more than one substitute member is appointed, the Manager will indicate the order in which such substitute members replace the designated members in case of absence.

Duration and Removal of Members

The term of the members of the Technical Committee will be for one year, and the term will automatically renew for consecutive periods of one year, unless the Manager or the CBFE Holders' Meeting, as applicable, decides otherwise. The Manager may remove and/or replace the non-independent members of the Technical Committee at any time by a resolution duly notified to the Trustee with a copy to the Common Representative. In the case of independent members, the CBFE Holders' Meeting will review on an annual basis their independence and performance, having the authority to remove them at any time.

Meetings

The Manager and/or any of the members of the Technical Committee may call a meeting of the Technical Committee by delivering a written notice five days prior to such meeting to the Trustee, Common Representative and all the members of the Technical Committee. Any member may request matters to be discussed at the meeting by delivering a notice at least three days prior to the meeting to the Trustee and the Common Representative with such request.

The meetings are considered valid if a majority of the members (or their respective substitutes) are in attendance. If this requirement is not met, a second meeting will be proposed, and the meeting will be valid regardless of the number of members who attend. Except as provided otherwise, the resolutions of the Technical Committee will be considered valid when voted on by the majority of the members (or their respective substitutes) who attend the meeting.

In the first meeting of the Technical Committee, the members will appoint a chairman and a secretary, who is not required to be a member of the Technical Committee. The secretary will prepare the minutes with the resolutions approved during the meetings.

If a majority of the independent members of the Technical Committee do not agree with a resolution adopted by the Technical Committee, such situation will be disclosed to the investors by the Trustee through the BMV.

If a member of the Technical Committee has a conflict of interest in any matter to be discussed in a meeting, that member will disclose the conflict to the rest of the members in the Technical Committee and such member will refrain from participating and voting in that meeting.

Voting agreements

The members of the Technical Committee may enter into voting agreements to exercise their voting rights in the Technical Committee meetings. A notice regarding the execution of such agreements should be delivered to the Trustee and the Common Representative within five business days after the execution. The Trustee will disclose the voting agreements to the Manager investors through the BMV and the annual report in Mexico.

Authority of the Technical Committee

The Technical Committee is our legal representative and is authorized to take any action in connection with its operations not expressly reserved to holders of the CBFEs.

Each member of the Technical Committee will act in good faith and in our best interest and in the best interest of the CBFE holders. Pursuant to the FIBRA E Trust Agreement, the members of the Technical Committee are responsible, among others, for: (i) reviewing the performance of the Manager and its duties along with reviewing the quarterly performance report of the Manager; (ii) reviewing and approving the investment proposals presented by the Manager, except for those that might require approval from our Conflicts Committee; (iii) discussing and approving the methods and internal controls related to the presentation of the information related to the trust estate, (iv) discussing and approving any debt, restructuring or refinancing proposed by the Manager, subject to the leverage guidelines approved by the CBFEs Holders' Meeting; (v) discussing and approving the appointment of an external auditor and our accounting advisers proposed by the Manager; (vi) discussing and approving the Amount to be Distributed to holders and the distributions proposed by the Manager; (vii) creating any committees that may be necessary for its purposes; (viii) approving previous authorizations of the Audit Committee of our financial statements; (ix) determining the policies and guidelines for our liquidation and (x) approving any modification to the Minimum Quarterly Distribution.

In this respect, the actions established in subsections (iii), (iv), (v), (vi), (vii), (viii) and (ix) of the paragraph above shall be approved by the majority of the independent members of our Technical Committee. Actions pursuant to subsection (x) of the paragraph above will require a unanimous vote of the members of our Technical Committee.

Compensation

During the term of the FIBRA E Trust Agreement, the Manager will submit for the approval of the CBFEs Holders' Meeting, any modification of the compensation plans (and any increase thereto) of the independent members of the Technical Committee for their participation in the commitees of the FIBRA E Trust and the Elegible Entities; provided that such compensation plans will be approved by the CBFEs Holders' Meeting. Only independent members will have the right to receive compensation. Any compensation paid to the independent members of the Technical Committee will be paid by us.

Confidentiality Obligations

The members of the Technical Committee must comply with the confidentiality obligations set forth in the FIBRA E Trust Agreement.

Subcommittees of the Technical Committee

Conflicts Committee

The Technical Committee will appoint at least three independent members from the Technical Committee, together with their respective substitutes, to form our Conflicts Committee, which will have, among others, the following powers: (i) discuss and approve any transactions (including investments, divestments and acquisitions) intended to be made either involving Related Parties or that represent Potential Conflicts, (ii) discuss and approve any transactions (including investments, divestments and acquisitions) that represent 5% or more of our trust estate; (iii) discuss and approve the Distribution Ratio proposed by the Manager; (iv) discuss and approve the appointment and substitution of the members of the Promoted Trust's technical committee; (v) approve and submit for approval of the CBFE Holders' Meeting of any modification to any compensation payable by us to the Manager or to any of the members of our Technical Committee; (vi) approve the appointment and removal of the key officers of the Manager; (vii) discuss and approve and propose a substitute Manager for the approval of the CBFE Holders' Meeting; (viii) review the Manager's annual budget and any amendment to the annual budget and, approve the annual budget if the annual budget contemplates an increase above the inflation rate observed during the most recent twelve-month period ending October 31 of the corresponding year; and (ix) exercise and comply with all rights and obligations of the Promoted Trust's technical committee.

The appointment of the members of the Conflicts Committee will be valid for one year and will automatically renew for consecutive periods of one year, unless the Technical Committee decides otherwise.

During the term of the FIBRA E Trust Agreement, the Manager will submit for the approval of the CBFEs Holders' Meeting any increase to the compensation plans of the members of the Conflicts Committee; provided that any compensation plans will be approved by the CBFEs Holders' Meeting. Any compensation paid to the members of the Conflicts Committee will be paid by us.

Audit Committee

The Technical Committee will appoint at least three of its independent members, together with their respective substitutes, to create the Audit Committee, which will have, among others, the following duties: (i) monitor compliance with accounting policies, internal control rules and audit rules applicable to us; (ii) evaluate the performance of the external auditor and make the necessary recommendations to our Technical Committee pursuant to the FIBRA E Trust Agreement; (iii) review and approve the adoption of any new accounting policies proposed by the Manager; and (iv) review our financial statements and the Eligible Entities financial statements.

The appointment of the members of the Audit Committee will be valid for one year, and it will automatically renew for consecutive periods of one year, unless the Technical Committee decides otherwise.

During the term of the FIBRA E Trust Agreement, the Manager will submit for the approval of the CBFEs Holders' Meeting any increase to the compensation plans of the members of the Audit Committee; provided that compensation plans will be approved by the CBFEs Holders' Meeting. Any compensation paid to the members of the Auditor Committee will be paid by us.

Nominations Committee

Our Nominations Committee will convene whenever there is a vacancy of an independent member of our Technical Committee. The members of the Nominations Committee will be all the remaining independent members of our Technical Committee and an additional member appointed by our Manager. Our Nominations Committee will have, among others, the duty of proposing to the Manager for its presentation to the CBFE Holders' Meeting, candidates to join the Technical Committee as an independent member. The Manager will be required to propose to the CBFE Holders' Meeting the person nominated by the Nominations Committee.

CBFEs Holders' Meeting

The CBFE Holders Meetings will be comprised of the holders of each series of CBFE issued and will be governed by the applicable provisions of the General Law of Negotiable Instrument and Credit Transactions (*Ley General de Títulos y Operaciones de Credito*), the Securities Market Law (Ley del Mercado de Valores) and by the regulations applicable to us. The holders of the CBFEs will meet each time they are called by the Trustee or the Common Representative, and the meeting will be held in the domicile of the Common Representative or in such place specified in the meeting invite.

Any holder(s), representing at least 10% of the outstanding CBFEs, will have the right to request that the Common Representative call a CBFE Holders' Meeting. If the Common Representative fails to call such meeting, these holder(s) may request that the meeting be made by a competent court in the Trustee's domicile, which is currently Mexico City.

At any time during the term of the FIBRA E Trust Agreement, the Manager, the Technical Committee, the Conflicts Committee and the Audit Committee may request the Trustee or the Common Representative to call a CBFE Holders Meeting; provided that the approval of the Common Representative has been obtained. The Trustee or the Common Representative will publish the meeting to CBFE holders within ten calendar days from the date on which the respective request was received. If the Trustee or the Common Representative fails to comply, a competent court in the domicile of the Trustee, at the request of the Manager, may host the meeting.

Any holder(s) representing 10% or more of the outstanding CBFEs, will have the right, which may only be exercised once in respect of a meeting, to postpone a meeting for three days if such holder(s) does not consider themselves sufficiently informed on the matter to be voted upon.

Holder(s) of 20% more of the outstanding CBFEs will have the right to contest and suspend any holders' resolution, subject to certain requirements under Mexican law.

The Common Representative is required to preside over the CBFE Holders Meeting. Subject to the provisions of the FIBRA E Trust Agreement regarding the restrictions on ownership and transfer of the CBFEs, each outstanding CBFE entitles the holder to one vote on all matters submitted to a vote of holders.

The secretary of the CBFEs Holders' Meeting will prepare minutes with the resolutions adopted by the holders. The minutes will include a list of attendees signed by the present holders. The Common Representative will keep the signed minutes of the CBFE Holders' Meeting.

Information and documents related to the agenda of the CBFE Holders Meeting will be available for free at the offices of the Trustee and/or of the Common Representative at the address indicated in the respective call, or if a holder requests in writing, the holder may request to receive the information by e-mail. The information and documents will be made available at least ten calendar days in advance to the date of the CBFE Holders Meeting.

The Trustee and the Common Representative will have the right to attend any CBFE Holders Meeting but will be unable to vote. Further, they will not have any liabilities related to the resolutions adopted in said CBFE Holders Meeting.

Holder(s) of at least 15% or more of the outstanding CBFEs, may exercise liability actions against the Manager for breach of its obligations under the FIBRA E Trust Agreement, the respective prospectus and/or in any other related document; provided that right to present the action will expire in five years.

CBFE Holders' Meeting Rights and Duties

Certain matters that may be discussed and approved in a CBFEs Holders' Meeting include, among others: (i) any modification to our investment regime; (ii) the leverage guidelines proposed by the Manager, with the approval of a majority of our Technical Committee, including the members related to CFE on our Technical Committee, and any amendment to the leverage guidelines or approval of any other rules for obtaining any kind of financing; (iii) corrective plan proposed by the Manager and approved by the Technical Committee, with the prior approval of the members of our Technical Committee related to CFE, pursuant to the FIBRA E Trust Agreement; (iv) the removal and substitution of the Manager, with or without a cause, pursuant to the terms of the Management Agreement and the FIBRA E Trust Agreement; (v) any amendment to the purposes of the FIBRA E Trust Agreement; (vi) the early termination or extension of the validity period of the FIBRA E Trust Agreement; (vii) any additional issuance of CBFEs and the amount and terms of such issuance; (viii) any amendment to the FIBRA E Trust Agreement, only in such circumstances where such amendment affects the rights of the holders of the CBFEs, (ix) any investment in Eligible Entities within a business sector other than the transmission and distribution of electricity; (x) the independence and performance of independent members of our Technical Committee; (xi) any proposal from our Nominations Committee regarding the substitution of an independent member of our Technical Committee; and (xii) any modification to any compensation payable by us to the Manager or to any of the members of our Technical Committee.

Voting

Each outstanding CBFE entitles the holder to one vote on all matters submitted to a vote of holders. A CBFE Holders Meeting will be valid if the attendance of the holders represents at least the majority of the holders of CBFEs, except for the following cases: (i) the removal or substitution of the Manager without "cause" (requires 75% of outstanding CBFEs Series A); (ii) the removal or substitution of the Manager with "cause" (requires 66% of outstanding CBFEs); (iii) the removal or substitution of the Common Representative (requires 75% of outstanding CBFEs Series A); (iv) investment regime, anticipated termination, trust purposes and cancelation of the registry before the RNV (requires 95% of outstanding CBFEs); and (v) amendments to the FIBRA E Trust Agreement, the CBFEs or other documents related to the issuance of the CBFEs (except for amendments regarding the investment regime and the trust purposes) (requires 66% of outstanding CBFEs). Except for the cases mentioned above, which always will need to be approved with the majorities mentioned above, in the case of a second call for a meeting, the meeting will be valid regardless of the number of the holders who attend. The resolutions adopted in a CBFE Holders Meeting will be valid with the vote of the majority of the CBFEs having voting rights in the meeting.

The Manager

The Manager was incorporated on December 7, 2017 and is an affiliate of CFE Holding. Pursuant to the Management Agreement, the Manager is delegated certain powers under the direction of the Technical Committee to oversee certain of our functions and operations. The Manager has the obligation to act in good faith and in our best interests and the best interests of the holders of the CBFEs. The Manager may be removed by approval from the CBFE Holders Meeting, provided that the new manager appointed by the holders shall be an affiliate of CFE.

See "The Management Agreement" for the full description of the Manager's responsibilities.

Minority Protections Under the FIBRA E Trust Agreement

The FIBRA E Trust Agreement contains a number of minority protections, including for: (i) any holder, or group of holders, representing 10% of outstanding CBFEs to request that the Common Representative call a CBFE Holders' Meeting; (ii) any holder, or group of holders, representing 10% of outstanding CBFEs that are represented at a CBFE Holders' Meeting to postpone the meeting for three days with respect to a vote on any matter to which such holder(s) do not consider themselves sufficiently informed; (iii) any holder, or group of holders, representing of at least 20% of outstanding CBFEs to oppose any holders' resolution, subject to certain requirements under Mexican law; and (iv) any holder, or group of holders, representing 15% of outstanding CBFEs, to bring actions for damages against the Manager.

CONFLICTS OF INTEREST

We are subject to conflicts of interest arising out of our relationship with CFE Holding, the Manager, CFE Transmisión, the Promoted Trust and their affiliates. In particular, CFE Holding will have substantial influence over our business and affairs, including through its affiliation with the Manager and CFE Transmisión, and we will enter into agreements with related parties in connection with this offering relating to our formation and ongoing operations, including the Management Agreement, the Promoted Trust Agreement and the Beneficiary Rights Assignment Agreement. Transfer pricing rules in Mexico require transactions between related parties to be negotiated on an arms-length basis, and we believe that these agreements were prepared and negotiated in accordance with these rules. However, there can be no assurance that the terms of these agreements, including fees and other amounts payable, are as favourable to us as if they have been negotiated at an arm's-length basis with unaffiliated third parties. Pursuant to the Promoted Trust Agreement and the Beneficiary Rights Assignment Agreement, we will also acquire our initial asset consisting of Beneficiary Rights representing a 5.96% economic ownership interest in the Promoted Trust. We did not obtain a third party appraisal of the Beneficiary Rights in connection with our acquisition of the Beneficiary Rights and the consideration being paid by us may exceed the value as determined by a third party appraisal. In addition, CFE Holding, CFE Transmisión, the Promoted Trust and their affiliates have entered into or will enter into agreements among related parties to which we are not a party but which will have an effect on our business, including the Amendment to the CENACE Agreement. These agreements were negotiated among related parties and their terms may not reflect terms that would otherwise be agreed to in negotiations among unaffiliated third parties. For descriptions of these agreements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Related Party Transactions of CFE Transmisión" and "Description of the Promoted Trust, Certain Provisions of the Promoted Trust Agreement and the CENACE Agreement."

CFE Holding will have substantial influence over our business and affairs, including in its capacity as the sole owner of the Manager and CFE Transmisión. Pursuant to the FIBRA E Trust Agreement, the Manager will appoint all of the initial members of our Technical Committee and may also remove non-independent members of our Technical Committee at any time. We do not have any employees and will rely on the Manager to provide the executive services and management support necessary to operate our business. Pursuant to the terms of the Management Agreement, if the Manager is removed or resigns, our Technical Committee is responsible for the appointment of a new manager provided that the new manager must be an affiliate of CFE. We will pay the Manager a quarterly management fee in an amount equal to approved expenses of the Manager multiplied by a factor of 1.07x, and the payment of this fee will impact the amount of cash we have available for distribution to holders of CBFEs.

Only CFE Holding, its productive state subsidiaries (including CFE Transmisión) and affiliates will own subordinated CBFEs. CFE Holding, its productive state subsidiaries and affiliates will together own at least 25% of our outstanding CBFEs following the completion of this Global Offering in the form of subordinated CBFEs. In the event of additional issuances of CBFEs for the acquisition of or investments in Eligible Entities owned by CFE Holding or its productive state subsidiaries and affiliates, CFE Holding or its productive state subsidiaries and affiliates will acquire at the offering price, or receive as consideration in exchange for assets, an amount of subordinated CBFEs per issuance, at least equal to 25% of the total CBFEs issued and offered in connection with such additional issuance of CBFEs.

Through this ownership of CBFEs and its control over the Manager, CFE Holding will have substantial influence over decisions relating to our business. In addition, CFE Holding and CFE Transmisión will have the right to appoint three of the six members of the Promoted Trust's technical committee and, accordingly, will have influence over the business and affairs of the Promoted Trust. We will have the right to appoint the three remaining members. See "Description of the Promoted Trust, Certain Provisions of the Promoted Trust Agreement and the CENACE Agreement—Corporate Governance of the Promoted Trust." Because of our relationship with the Promoted Trust, the Manager, and their respective affiliates, including CFE Holding, we may choose not to enforce, or to enforce less vigorously, our rights under agreements Management Agreement, the Promoted Trust Agreement, the Beneficiary Rights Assignment Agreement and other agreements with related parties to which we are or may become party or of which we are or may become beneficiaries.

We cannot guarantee that CFE Holding, CFE Transmisión, the Promoted Trust or any of their affiliates will pursue a business strategy that favors us or offer or sell to us additional interests in the Promoted Trust or any other assets that may be suitable for acquisition by us. Further, CFE Holding, CFE Transmisión and their affiliates are not prohibited from engaging in other businesses or activities and may in the future sponsor or co-sponsor other investments that compete directly with us for business opportunities.

We have structured our relationship with CFE Holding, the Manager, CFE Transmisión and the Promoted Trust to closely align their interests with our interests and believe that our governance structure and policies include important safeguards to us when we enter into transactions with related parties. As discussed under our "Management of the Issuer" above, our Conflicts Committee assists with resolving any potential conflicts of interests that we may have with Related Parties or other Potential Conflicts. Further, we believe we have economic incentives in place to avoid such conflicts of interest including the requirement that, upon completion of the Global Offering, CFE Holding, its productive state subsidiaries and affiliates will jointly own, a number of CBFEs (in the form of subordinated CBFEs) equal to at least 25% of the outstanding CBFEs, and such subordinated CBFEs will be permanently subordinated to the CBFEs Series A held by investors in this Global Offering in right of payment of the Minimum Quarterly Distribution. However, there can be no assurance that any of our policies or economic incentives will be successful in eliminating the influence of conflicts of interest.

DESCRIPTION OF THE CBFES AND CERTAIN PROVISIONS OF THE FIBRA E TRUST AGREEMENT AND MEXICAN LAW

Set forth below is certain information concerning the CBFEs and a brief summary of certain provisions of the FIBRA E Trust Agreement and Mexican law. The description does not purport to be complete and is qualified in its entirety by reference to the FIBRA E Trust Agreement and Mexican law. Unless otherwise indicated, this description gives effect to capitalization after the Global Offering.

General

We were formed as an irrevocable securities issuing trust on January 22, 2018, with the Trustee under the laws of Mexico and the terms of the FIBRA E Trust Agreement. The FIBRA E Trust Agreement provides that our main business purpose is to invest in (i) Eligible Entities with Exclusive Activities related to the investment in assets or projects for the generation, transmission and distribution or electric power and infrastructure projects and (ii) other activities permitted under Mexican Tax Rules for FIBRAs E or the applicable regulations.

The Trustee

The Trustee must comply with all terms of the FIBRA E Trust Agreement. In order to comply, the Trustee shall:

(i) distribute and manage our assets along with carrying out all distributions, payments and collection activities to holders of the CBFEs related to our assets;

(ii) deliver to CFE Transmisión, our Technical Committee and the Common Representative the information it receives from the external auditor;

(iii) execute any agreements and to assignments as required under the FIBRA E Trust Agreement;

(iv) carry out the activities requested by the Manager with respect to our assets in accordance with the terms of the FIBRA E Trust Agreement;

(v) open, manage and keep, as per instructions of the Manager, the bank accounts of the FIBRA E;

(vi) abstain from carrying out any activity that could be contrary to the FIBRA E Trust Agreement;

(vii) take any actions that are necessary to allow the parties of the FIBRA E Trust Agreement the exercise of their rights;

(viii) grant powers of attorney; and

(ix) abide by all other obligations set forth under the FIBRA E Trust Agreement.

CBFEs

The FIBRA E Trust Agreement provides that the Trustee may issue CBFEs from time to time, including the CBFEs Series A to be issued in the Global Offering and any future CBFEs related to investments in Eligible Entities. Application to list the CBFEs Series A under the symbol "FCFE18" on the BMV has been made. The CBFEs have no nominal value, and may be issued to, paid for and held by either Mexican or non-Mexican investors. The CBFEs do not grant holders participation rights in any of our investments in Eligible Entities.

After giving effect to the Global Offering, 750,000,000 CBFEs Series A will have been issued and outstanding (112,500,000 if the over-allotment option is exercised in full by the Initial Purchasers and Mexican Underwriters) and 250,000,000 CBFEs Series B will have been issued and outstanding (37,500,000 if the over-allotment option is exercised in full by the Mexican Underwriters). Under Mexican law, holders of the CBFEs are not generally liable for any of our debts or obligations.

All CBFEs Series A offered pursuant to the Global Offering will be duly authorized and validly issued. Subject to the provisions of the FIBRA E Trust Agreement regarding the restrictions on ownership and transfer of the CBFEs, holders of the CBFEs are entitled: (i) to receive distributions over 95% of the Net Taxable Income if, as and when determined by the Manager and authorized by our Technical Committee and (ii) to share ratably in assets legally available for distribution to holders of the CBFEs in the event of liquidation, dissolution or winding up after payment or adequate provision for all the known debts and liabilities, all in accordance with Mexican law.

The CBFEs Series A being offered pursuant to the Global Offering will be issued by us and do not represent any interest in or obligation of the Trustee, the Common Representative or any of their respective affiliates. Further, these CBFEs are unsecured obligations and rank junior to secured creditors and tax creditors, in case of an insolvency or a reorganization proceeding. The CBFEs will not receive any insurance guaranty association coverage or any similar protection.

By acquiring CBFEs Series A, holders will be deemed to consent that the Manager is responsible for our compliance with the Mexican Income Tax Law and the determination of the tax due thereunder.

Additional Issuances

Additional CBFEs may be issued from time to time, in accordance with the Mexican Securities Market Law and the FIBRA E Trust Agreement, as instructed by the Manager and approved by the CBFE Holders' Meeting. Mexican law may also require obtaining any necessary governmental authorizations. The FIBRA E Trust Agreement does not impose a limit on the number of CBFEs that we are authorized to issue.

The Common Representative

We have appointed Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero (or any entity appointed as a successor thereto) as the Common Representative. The Common Representative shall represent all the CBFE holders together and not individually. The Common Representative will act in accordance with the instructions provided by the majority of the holders of the CBFEs, in addition to the obligations provided under the CBFEs, the FIBRA E Trust Agreement and the other documents relating to the Global Offering.

The FIBRA E Trust Agreement provides that the Common Representative's obligations include:

(i) execute the global certificates representing the CBFEs, and the applications to be submitted to the CNBV in order to exchange the CBFEs or update the registry at the National Securities Registry of the CNBV;

(ii) verify the intention of the FIBRA E Trust Agreement and execute documents related to the Global Offering of the CBFEs;

(iii) verify the existence of the FIBRA E's assets;

(iv) verify that the Trustee and the Manager comply with their obligations under the FIBRA E Trust Agreement, the CBFEs and the Management Agreement and begin any action against the Trustee or request the Trustee to begin actions against the Manager;

(v) notify the holders of the CBFEs of any failure of the Trustee or the Manager to comply with their applicable obligations;

(vi) call and preside over CBFE Holders' Meeting as required under the FIBRA E Trust Agreement or the applicable law, or at any other time it considers it necessary;

(vii) take all actions required to comply with the CBFE Holders' Meeting resolutions;

(viii) execute on behalf of the holders of the CBFEs any documents and agreements necessary to be entered into with the Trustee;

(ix) take all actions required to preserve the rights of the holders of the CBFEs;

(x) act as intermediary between the Trustee and the holders of the CBFEs for purposes of delivering any amounts due to the holders under the FIBRA E Trust Agreement and any other matter;

(xi) exercise the rights and obligations established in the CBFEs, the FIBRA E Trust Agreement and other documents to which it is a party;

(xii) deliver to the holders of the CBFEs copies of reports delivered to the Common Representative by the Trustee; and

(xiii) in general, carry out all the acts and comply with the obligations of the FIBRA E Trust Agreement, the applicable law and the best stock-market practices.

The Common Representative will not be liable for the decisions taken by our Technical Committee or the CBFE Holders' Meeting and will not be required to make any out-of-pocket payments in order to carry out the actions related to its duties set forth in the FIBRA E Trust Agreement. If, for any given reason, the Trustee, underwriter or any third party, or any conflict that involves these parties, prevents the making of any necessary payment of the CBFEs, the Common Representative will inform holders of the CBFEs of the situation, and in conformity with any resolutions passed by holders of the CBFEs, the Common Representative will be allowed to grant rights or confer powers to any given individual or group of individuals so that they can effectuate the necessary payments. The Common Representative will not be responsible for the authenticity of the documents or information provided to it by the Trustee, the external auditor or the Advisor, such as financial reports, property evaluations, debt/loan documents, portfolio information or any other document related to any issuance that the Common Representative may require and that it did not prepare itself.

The FIBRA E Trust Agreement provides that all actions taken by the Common Representative on behalf of holders of the CBFEs and any other document to which it is a party, or under applicable law, will be binding upon and be deemed to be accepted by holders of the CBFEs.

The Common Representative may be removed or replaced by the CBFE Holders' Meeting, but such removal will not be effective until a new Common Representative has been appointed and accepted such appointment. The Common Representative may resign from its role only under circumstances qualified by a judge, as provided by Mexican law.

As remuneration for the services provided under the FIBRA E Trust Agreement, the Common Representative will have the right to receive the fee set forth in said agreement. The fees paid to the Common Representative will be considered as issuance expenses or maintenance expenses.

The CBFE Holders' Meeting

See "Management of the Issuer" for the description of the operation of the CBFE Holders' Meeting.

Assets

The FIBRA E Trust Agreement provides that our assets will be comprised of (i) the initial contribution of one thousand pesos from the Manager; (ii) the proceeds of the Global Offering and any other proceeds received from any additional offering of CBFEs; (iii) funds deposited in our accounts; (iv) the Beneficiary Rights of the Promoted Trust and other shares or capital stock or beneficiary rights from the participation of a trust in an Eligible Entity that we acquire, including associated rights, considering that during the term of the FIBRA E Trust agreement at least 70% of the annual average value of the assets shall be invested in the participations mentioned in this item; (v) any future additional contributions; (vi) the cash from the Permitted Investments, including returns; (vii) any

CBFEs acquired by us in compliance with the applicable tax legal framework and the FIBRA E Trust Agreement; (viii) funds resulting from the sale or transfer of participations in Eligible Entities; (ix) all other assets and rights assigned to or acquired by us, as long as any obligation entered by the Trustee in connection with our purpose; and (x) cash or any type of return or right resulting from the aforementioned assets.

Registration and Transfer

The CBFEs Series A will be registered with the RNV of the CNBV, as required under the Mexican Securities Market Law and regulations issued by the BMV. The CBFEs Series A are evidenced by a global certificate. Holders will hold their CBFEs Series A indirectly, in book entry form through brokers, banks, other financial entities or other entities approved by the BMV that maintain accounts with Indeval, or Indeval Participants.

Indeval is the holder of record in respect of all CBFEs Series A held in book-entry form. Indeval will issue certifications to any Indeval participant who may request them. Only those persons holding CBFEs Series A as registered holders through any relevant Indeval Participants will be recognized as holders of the CBFEs Series A, subject to the FIBRA E Trust Agreement and Mexican law.

Transfers of CBFEs Series A deposited with Indeval will be registered in book entry form pursuant to the Mexican Securities Market Law. Transfer of CBFEs not deposited with Indeval must be registered with the Trustee.

Distributions

For more information regarding our Distribution Policy, see "Distribution Policy".

Term and Termination

The FIBRA E Trust Agreement will be terminated (i) when the total assets of the trust are divested under the terms set forth in FIBRA E Trust Agreement and all the amounts deposited in our accounts are distributed to the Holders of the CBFEs; or (ii) by resolution of the CBFE Holders' Meeting, with the approval of the Manager. Notwithstanding, the FIBRA E Trust Agreement will not be terminated until all payment obligations have been covered. The term of the FIBRA E Trust Agreement cannot exceed 50 years, according to article 394 of the Mexican General Law on Negotiable Instruments and Credit Operations.

PLAN OF DISTRIBUTION

Goldman Sachs & Co. LLC and Evercore Group L.L.C. are acting as international global coordinators and joint bookrunners of the International Offering and as representatives of each of the Initial Purchasers named below, and Barclays Capital Inc., Banco Bilbao Vizcaya Argentaria, S.A., Morgan Stanley & Co. LLC and Santander Investment Securities Inc. are acting as joint bookrunners of the International Offering. Subject to certain conditions set forth in the purchase agreement for the International Offering among us and the representatives dated the date of this offering memorandum, or the International Purchase Agreement, we have agreed to sell to the Initial Purchasers, and each Initial Purchaser has agreed, severally and not jointly, to purchase the number of CBFEs Series A indicated in the following table.

Initial Purchaser	**Number of CBFEs Series A**
Goldman Sachs & Co. LLC	188,443,360
Evercore Group L.L.C	0
Barclays Capital Inc.	20,604,387
Banco Bilbao Vizcaya Argentaria, S.A.	0
Morgan Stanley & Co. LLC	20,604,387
Santander Investment Securities Inc.	20,604,387
Total	250,256,522

With respect to the Mexican Offering, subject to certain conditions stated in the Mexican underwriting agreement among us and the Mexican Underwriters dated the date of this offering memorandum, or the Mexican Underwriting Agreement, we have agreed to sell, and each Mexican Underwriter has agreed, to place in the Mexican Offering the number of CBFEs Series A indicated in the following table.

Mexican underwriter	**Number of CBFEs Series A**
Evercore Casa de Bolsa, S.A. de C.V.	294,739,503
Barclays Capital Casa de Bolsa, S.A. de C.V., Grupo Financiero Barclays México	70,468,258
Casa de Bolsa BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer	93,086,730
Morgan Stanley México, Casa de Bolsa, S.A. de C.V.	39,151,403
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	2,297,584
Total	499,743,478

A prospectus in Spanish pursuant to Mexican law and practice has been prepared and will be used in connection with the Mexican Offering in accordance with applicable law.

The Initial Purchasers are committed, severally and not jointly, to take and pay for all of the CBFEs Series A being offered in the International Offering, if any are taken, other than the CBFEs Series A covered by the international option described below unless and until the international option is exercised. The Mexican Underwriters are committed to place on a best efforts basis, on behalf of us, all of the CBFEs Series A being offered in the public offering in Mexico, other than the CBFEs Series A covered by the Mexican option described below unless and until such Mexican option is exercised.

The Initial Purchasers and Mexican Underwriters have an option to buy up to an additional 112,500,000 CBFEs Series A from us to cover sales by the Initial Purchasers and Mexican Underwriters of a greater number of CBFEs Series A than the total number set forth in the tables above. They may exercise this option for 30 days. It is expected that the additional CBFEs Series A will be delivered at the same time as the firm CBFEs Series A and paid for in cash or exchange of CBFEs Series A as exercised within 30 days after the date of this offering memorandum.

The initial offering price is set forth on the cover page of this offering memorandum. After the CBFEs Series A are released for sale, the Initial Purchasers may change the Global Offering price and other selling terms. The Global Offering of the CBFEs Series A by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers' right to reject any order in whole or in part. If an Initial Purchaser defaults, the International Purchase Agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the International Purchase Agreement may be terminated.

We, the officers of our Manager, our technical committee members, technical committee members of the Promoted Trust, the Manager, CFE Holding and CFE Transmisión have agreed with the Initial Purchasers and Mexican Underwriters, subject to certain exceptions, not to dispose of or hedge any CBFEs Series A or securities convertible into or exchangeable for CBFEs Series A during the period from the date of this offering memorandum continuing through the date 180 days after the date of this offering memorandum, except with the prior written consent of the representatives and Mexican Underwriters.

The CBFEs Series A have not been and will not be registered under the Securities Act. Each Initial Purchaser has agreed that it will only offer or sell the CBFEs Series A (A) in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act, or (B) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. Terms used above have the meanings given to them by Rule 144A and Regulation S under the Securities Act.

In connection with sales outside the United States, the Initial Purchasers have agreed that they will not offer, sell or deliver the CBFEs Series A to, or for the account or benefit of, U.S. persons (i) as part of the Initial Purchasers' distribution at any time or (ii) otherwise until 40 days after the date of this offering memorandum. The Initial Purchasers will send to each dealer to whom it sells such CBFEs Series A during such 40-day period a confirmation or other notice setting forth the restrictions on offers and sales of the CBFEs Series A within the United States or to, or for the account or benefit of, U.S. persons.

In addition, with respect to CBFEs Series A initially sold pursuant to Regulation S, until 40 days after the date of this offering memorandum, an offer or sale of such CBFEs Series A within the United States by a dealer that is not participating in the Global Offering may violate the registration requirements of the Securities Act.

Prior to this offering, there has been no public market for the CBFEs Series A. The initial offering price has been negotiated among us and the Initial Purchasers and Mexican Underwriters. Among the factors considered in determining the initial offering price of the CBFEs Series A, in addition to prevailing market conditions, were the historical performance of the CFE Holding's electricity transmission business, estimates of our, the Promoted Trust's and CFE Transmisión's business potential and earnings prospects, an assessment of our management and the consideration of the above factors in relation to market valuation of companies in related businesses.

The initial offering price of our CBFEs Series A does not necessarily bear any relationship to the book value of our assets or the assets to be acquired in the formation transactions, our financial condition or any other established criteria of value and may not be indicative of the market price for our CBFEs Series A after this offering. The consideration to be paid by us for our assets in the formation transactions may exceed the fair market value of such assets.

The CBFEs Series A will trade under the symbol "FCFE18". If the CBFEs Series A are traded, they may trade at a price below their initial offering price, depending on prevailing market conditions, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors. We cannot assure the liquidity of the trading market for the CBFEs Series A. If an active trading market for the CBFEs Series A does not develop or continue, the market price and liquidity of the CBFEs Series A may be adversely affected.

Until the distribution of the CBFEs Series A is completed, SEC rules may limit Initial Purchasers and selling group members from bidding for and purchasing our CBFEs Series A. However, the stabilization agent may engage in transactions that stabilize the price of the CBFEs Series A, such as bids or purchases to peg, fix or maintain that price. Casa de Bolsa BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer will act as stabilization coordinator.

In connection with this offering, the lead Mexican Underwriters may purchase and sell the CBFEs Series A in the open market as stabilizing transactions. Stabilizing transactions consist of certain bids or purchases of CBFEs Series A made for the purpose of preventing or retarding a decline in the market price of the CBFEs Series A while this combined offering is in progress. Any of these activities may have the effect of raising or maintaining the market price of the CBFEs Series A or preventing or retarding a decline in the market price of the CBFEs Series A. As a result, the price of the CBFEs Series A may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the CBFEs Series A. In addition, neither we nor any of the Initial Purchasers make any representation that the lead Mexican Underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. Reports of stabilization activity, if any, are required to be furnished to the CNBV.

The International Offering and the Mexican Offering are conditional on the closing of each other.

The Initial Purchasers and the Mexican Underwriters may enter into an international intersyndicate agreement, or the Intersyndicate Agreement, pursuant to which CBFEs may be allocated between the Initial Purchasers and the Mexican underwriters of such number of CBFEs Series A as may be determined by the international joint book-running managers. Except as otherwise may be agreed, the price of any CBFEs Series A so sold shall be the offering price applicable thereto. To the extent that there are allocations between the Initial Purchasers and the Mexican underwriters pursuant to the Intersyndicate Agreement, the number of CBFEs Series A initially available for sale by the Initial Purchasers may be more or less than the number appearing on the cover page of this offering memorandum. Under the Intersyndicate Agreement, the Mexican underwriters will not offer to sell or sell CBFEs Series A outside of Mexico to persons who are non-Mexican persons or to persons they believe intend to resell to persons who are non-Mexican persons, except in the case of transactions under the Intersyndicate Agreement. Similarly, the Initial Purchasers and any dealer to whom they sell CBFEs Series A will not offer to sell or sell CBFEs Series A in Mexico to Mexican persons or to persons they believe intend to resell to Mexican persons, except in the case of transactions under the Intersyndicate Agreement.

United Kingdom

In the United Kingdom, this offering memorandum is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order), and (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order, and to persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities of the Issuer or any member of its group may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This offering memorandum must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this offering memorandum relates is only available to, and will be engaged in with, relevant persons. This document is not intended to be marketing under the Alternative Investment Fund Managers Directive (2011/61/EU). Marketing to investors registered or domiciled in the EEA will only take place in accordance with the AIFMD marketing regime in the relevant EEA jurisdiction or following a reverse enquiry from the investor.

The CBFE Series A are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently no key information document, if required by Regulation (EU) No 1286/2014 (as amended) for offering or selling the CBFEs Series A or otherwise making them available to retail investors in the EEA, has been or will be prepared.

The manager CFECapital, S. de R.L. de C.V.has registered with the UK Financial Conduct Authority pursuant to article 42 of Directive 2011/61/EU (AIFM Directive) for the purpose of marketing the CBFEs Series A to professional investors that are in the territory of the United Kingdom.

Australia

The offer of CBFEs Series A is only made in circumstances under which no disclosure is required under Chapter 6D or Chapter 7 (as the case may be) of the Corporations Act 2001 (Cth) ("Corporations Act"). This Offering Memorandum is not a prospectus or product disclosure statement under the Corporations Act (each an "Australian Regulated Disclosure Document"). The distribution of this Offering Memorandum in Australia has not been authorised by ASIC or any other regulatory authority in Australia. In addition, the Issuer is not a registered scheme, as defined in the Corporations Act.

If the CBFEs Series A are to be on sold to investors in Australia within 12 months of the issue of the CBFEs Series A, they may only be offered, issued, sold or distributed in Australia in circumstances where an Australian Regulated Disclosure Document is not required to be given.

This Offering Memorandum is provided for general information purposes only and is not intended to constitute, does not constitute, the provision of any financial product advice or a recommendation to acquire, an invitation to apply for, an offer to apply for or buy, an offer to arrange the issue or sale of, or an offer or invitation for issue or sale of, any securities in Australia.

The information included in this Offering Memorandum does not take into account your investment objectives, financial situation or needs. You should read this Offering Memorandum in its entirety and seek your own independent Australian legal, financial and taxation advice before making any decisions in respect of CBFEs Series A. There is no cooling off regime that applies in relation to the acquisition of any CBFEs Series A in Australia.

Singapore

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the CBFEs Series A may not be circulated or distributed, nor may the CBFEs Series A be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the CBFEs Series A are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the CBFEs Series A pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Chile

Disclosure under General Rule No. 336

The date of commencement of the Global Offering is January 23, 2018

(i) The present offering is subject to General Rule No. 336 (Norma de Carácter General N° 336) of the Chilean securities and insurance regulator, the "Comisión para el Mercado Financiero" ("Commission").

(ii) The present offering deals with securities ("Securities") that are not registered in the Securities Registry, the Registro de Valores, nor in the Foreign Securities Registry, Registro de Valores Extranjeros, kept by the Commission, and, therefore, the Securities that this offer refers to are not subject to the supervision of the Commission.

(iii) Given the fact that the Securities of the present offering are not registered with the Commission, there is no obligation for the issuer to disclose in Chile public information about said Securities.

(iv) These Securities may not be publicly offered as long as they are not registered in the corresponding Securities Registry kept by the Commission.

Fecha de inicio de la oferta: January 23, 2018.

(i) La presente oferta se acoge a la Norma de Carácter General N° 336 de la Comisión para el Mercado Financiero.

(ii) La presente oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Comisión para el Mercado Financiero, por lo que los valores sobre los cuales ésta versa, no están sujetos a su fiscalización;

(iii) Que por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de estos valores; y

(iv) Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente.

Representation and Agreement by Subscriber

By subscribing for the Securities, each subscriber (a "Subscriber") in Chile will be deemed to represent to the Initial Purchasers, and to the dealer with whom the subscription was placed (if any) that, as the case may be, that such Subscriber is a "Qualified Investor" pursuant to numbers 1 to 6 of Section II of General Rule No. 216 issued by the Commission.

Canada

This offering memorandum constitutes an "exempt offering document" as defined in and for the purposes of applicable Canadian securities laws. No prospectus has been filed with any securities commission or similar regulatory authority in Canada in connection with the offer and sale of the CBFEs Series A. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this offering memorandum or on the merits of the CBFEs Series A and any representation to the contrary is an offence.

Canadian investors are advised that this offering memorandum has been prepared in reliance on section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"). Pursuant to section 3A.3 of NI 33-105, this offering memorandum is exempt from the requirement that the Issuer and the Initial Purchasers provide Canadian investors with certain conflicts of interest disclosure pertaining to "connected issuer" and/or "related issuer" relationships that may exist between the Issuer and the Initial Purchasers as would otherwise be required pursuant to subsection 2.1(1) of NI 33-105.

The offer and sale of the CBFEs Series A in Canada is being made on a private placement basis only and is exempt from the requirement that the Issuer prepares and files a prospectus under applicable Canadian securities laws. Any resale of CBFEs Series A acquired by a Canadian investor in this offering must be made in accordance with applicable Canadian securities laws, which may vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with Canadian prospectus requirements, pursuant to a statutory exemption from the prospectus requirements, in a transaction exempt from the prospectus requirements or otherwise under a discretionary exemption from the prospectus requirements granted by the applicable local Canadian securities regulatory authority. These resale restrictions may under certain circumstances apply to resales of the CBFEs Series A outside of Canada.

Each Canadian investor who purchases CBFEs Series A will be deemed to have represented to the Issuer, the Initial Purchasers and to each dealer from whom a purchase confirmation is received, as applicable, that the investor is (i) purchasing as principal, or is deemed to be purchasing as principal in accordance with applicable Canadian securities laws, for investment only and not with a view to resale or redistribution; (ii) an "accredited investor" as such term is defined in section 1.1 of National Instrument 45-106 Prospectus Exemptions or, in Ontario, as such term is defined in section 73.3(1) of the Securities Act (Ontario); and (iii) is a "permitted client" as such term is defined in section 1.1 of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations.

Any discussion of taxation and related matters contained in this offering memorandum does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a Canadian investor when deciding to purchase the CBFEs Series A and, in particular, does not address any Canadian tax considerations. No representation or warranty is hereby made as to the tax consequences to a resident, or deemed resident, of Canada of an investment in the CBFEs Series A or with respect to the eligibility of the CBFEs Series A for investment by such investor under relevant Canadian federal and provincial legislation and regulations.

Securities legislation in certain of the Canadian jurisdictions provides certain purchasers of securities pursuant to an offering memorandum (such as this offering memorandum), including where the distribution involves an "eligible foreign security" as such term is defined in Ontario Securities Commission Rule 45-501 Ontario Prospectus and Registration Exemptions and in Multilateral Instrument 45-107 Listing Representation and Statutory Rights of Action Disclosure Exemptions, as applicable, with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum, or other offering document that constitutes an offering memorandum, and any amendment thereto, contains a "misrepresentation" as defined under applicable Canadian securities laws. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed under, and are subject to limitations and defences under, applicable Canadian securities legislation. In addition, these remedies are in addition to and without derogation from any other right or remedy available at law to the investor.

Upon receipt of this document, each Canadian investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

We, our Manager, CFE Transmisión and the Promoted Trust have agreed to indemnify the several Initial Purchasers against certain liabilities, including liabilities under the Securities Act.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Initial Purchasers and their respective affiliates have provided, and may in the future provide, a variety of these services to us and to persons and entities with relationships with us including CFE Holding and CFE Transmisión, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Initial Purchasers and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Issuer. The Initial Purchasers and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

TRANSFER RESTRICTIONS

The International Offering is being made in accordance with Rule 144A and Regulation S under the Securities Act. The CBFEs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction except Mexico and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered (i) within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except to qualified institutional buyers, or QIBs, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, pursuant to Section 4(a)(2) of the Securities Act, or (ii) outside the United States to non-U.S. persons in accordance with Regulation S.

Rule 144A

Each purchaser of CBFEs Series A offered to U.S. persons, and therefore in reliance on Rule 144A, will be deemed to have represented and agreed that it understands that:

- such CBFEs Series A have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction except Mexico; and
- such CBFEs Series A may not be offered, sold, pledged or otherwise transferred except (a) to a person whom the seller and any person acting on its behalf reasonably believe is a QIB in a transaction meeting the requirements of Rule 144A, pursuant to Section 4(a)(2) of the Securities Act or (b) in accordance with Regulation S under the Securities Act, or (c) in accordance with Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States.

Regulation S

Each purchaser of CBFEs Series A offered to non-U.S. persons outside the United States, and therefore in reliance on Regulation S, will be deemed to have represented and agreed that it understands that:

- such CBFEs Series A have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction except Mexico; and
- such CBFEs Series A may not be offered, sold, pledged or otherwise transferred prior to the expiration of 40 days after the date of this offering memorandum, except (a) in accordance with Regulation S under the Securities Act or (b) to a person whom the seller and any person acting on its behalf reasonably believe is a QIB in a transaction meeting the requirements of Rule 144A, pursuant to Section 4(a)(2) of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

TAXATION

The following discussion summarizes certain federal Mexican and U.S. income tax consequences to beneficial owners arising from the purchase, ownership or disposition of the CBFEs. The summary does not purport to be a comprehensive description of all potential Mexican federal income tax and U.S. federal income tax considerations that may be relevant to a decision to purchase, own or dispose of the CBFEs, and is not intended as tax advice to any particular investor. This discussion is for general information purposes only and is based upon the federal tax laws of Mexico (including the Mexican Income Tax Law–Ley del Impuesto sobre la Renta- and the Mexican Federal Tax Code – Código Fiscal de la Federación) and the United States as in effect on the date of this offering memorandum, which are subject to change, and such changes may have retroactive effect. This summary does not describe any tax consequences arising under the laws of any state, municipality or other taxing jurisdiction other than federal income tax consequences applicable in Mexico and the United States.

Prospective purchasers of the CBFEs should consult their own tax advisors as to the Mexican, United States or other tax consequences (including tax consequences arising under double-taxation treaties that are in full force and effect) of the purchase, ownership and disposition of the CBFEs, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, municipal, foreign or other tax laws.

Certain United States Federal Income Tax Considerations

The following discussion is a general summary of the U.S. federal income tax consequences generally applicable to U.S. Holders (as defined below) of the acquisition, ownership and disposition of CBFEs. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the U.S. Treasury Regulations promulgated thereunder, administrative guidance and court decisions and the income tax treaty between the United States and Mexico, in each case as of the date hereof, all of which are subject to change, possibly with retroactive effect, and to differing interpretations. This discussion addresses only those U.S. Holders that purchase their CBFEs in this Global Offering and will hold their CBFEs as "capital assets" within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address the Medicare tax on net investment income or any aspect of non-U.S. tax law or U.S. state, local, alternative minimum, estate, gift or other tax law that may be applicable to a U.S. Holder. This discussion does not constitute tax advice and does not address all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders in light of their personal circumstances, or to any U.S. Holders subject to special treatment under the Code, such as:

- banks, mutual funds and other financial institutions;
- real estate investment trusts and regulated investment companies;
- traders in securities who elect to apply a mark-to-market method of accounting;
- tax-exempt organizations or governmental organizations;
- insurance companies;
- dealers or brokers in securities or foreign currency;
- individual retirement and other deferred accounts;
- U.S. Holders whose functional currency is not the U.S. dollar;
- former citizens or long-term residents of the United States;
- persons subject to the alternative minimum tax;

- persons that actually or constructively own 10% or more of the total voting power or value of all of the Issuer's outstanding equity interests;
- persons that are resident or ordinarily resident in or have a permanent establishment in a jurisdiction outside the United States;
- persons who hold their CBFEs as part of a straddle, hedging, conversion, constructive sale or other risk reduction transaction;
- persons who purchase or sell their CBFEs as part of a wash sale for tax purposes;
- "S corporations," partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes, or other pass-through entities (and investors therein); and
- persons who received their CBFEs through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan.

For purposes of this discussion, a "U.S. Holder" means a beneficial owner of CBFEs that for U.S. federal income tax purposes is:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership, including for this purpose any arrangement or entity that is treated as a partnership for U.S. federal income tax purposes, holds or disposes of CBFEs, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships for U.S. federal income tax purposes and the partners in such partnerships are urged to consult their tax advisors about the U.S. federal income tax consequences of the acquisition, ownership and disposition of CBFEs.

This discussion is for informational purposes only and is not tax advice. U.S. Holders of CBFEs should consult their tax advisors with respect to the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of CBFEs in light of their particular circumstances, as well as any tax consequences of such matters arising under the U.S. federal tax laws other than those pertaining to income tax, including estate or gift tax laws, or under any state, local or non-U.S. tax laws or under any applicable income tax treaty.

Tax Classification of the Issuer and the Promoted Trust

The Issuer will elect to be treated as a corporation and the Promoted Trust will elected to be treated as a partnership for U.S. federal income tax purposes.

Passive Foreign Investment Company Status

Special and potentially adverse U.S. federal income tax rules apply to companies that are considered to be PFICs for U.S. federal income tax purposes. A non-U.S. corporation is a PFIC in any taxable year in which either (i) at least 75% of its gross income is "passive income" or (b) at least 50% of the quarterly average market value of its assets is attributable to assets that produce or are held to produce “passive income”. Passive income generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions, and income that is equivalent to interest (including certain factoring income). The PFIC provisions contain a look-through rule under which a non-U.S. corporation shall be treated as if it received directly its proportionate share of the income and as if it held its proportionate share of the assets of any other corporation in which it owns at least 25% of the value of the stock.

Our sole asset is a less than 25% interest in the Promoted Trust, which will be classified as a partnership for U.S. federal income tax purposes. We expect that the income of the Promoted Trust will be treated as income that is equivalent to interest and thus passive income. Accordingly, we expect that all of our income and all of our assets will be treated as passive assets. Therefore, we expect to be treated as a PFIC for U.S. federal income tax purposes for the current taxable year and thereafter. The remainder of this summary assumes that we are and will continue to be a PFIC.

Distributions

Assuming a U.S. Holder does not make one of the elections described under “QEF Election” or “Mark-to-Market Election” below, the U.S. Holder generally would be subject to additional taxes (including taxation at ordinary income rates and an interest charge) under the PFIC excess distribution rule on any “excess distributions” received from the Issuer and on any gain realized from a sale or other disposition of such CBFEs, regardless of whether the Issuer continues to be a PFIC in the year such distribution is received or gain is realized. A U.S. Holder would be treated as receiving an excess distribution in a taxable year to the extent that distributions on the CBFEs during that year exceed 125 percent of the average annual distributions to the U.S. Holder on such CBFEs during the preceding three taxable years (or shorter period during which the U.S: Holder held such CBFEs). The total excess distribution with respect to such CBFEs is deemed to be zero for the taxable year in which such U.S. Holder’s holding period for such CBFEs begins. The tax payable by a U.S. Holder on an excess distribution with respect to our CBFEs will be determined by allocating such excess distribution ratably to each day of the U.S. Holder’s holding period for such CBFEs. The amount of excess distribution allocated to the taxable year of such distribution will be included as ordinary income for the taxable year of such distribution. The amount of excess distribution allocated to any other period included in such U.S. Holder’s holding period cannot be offset by any net operating losses of such U.S. Holder and will be taxed at the highest marginal rates applicable to ordinary income for each such period and, in addition, an interest charge will be imposed on the amount of tax for each such period.

To the extent a distribution of the CBFEs does not constitute an excess distribution to a U.S. Holder, such U.S. Holder generally will be required to include the amount of such distribution in gross income as a dividend to the extent of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) that are not allocated to excess distributions. To the extent the amount of such distribution exceeds our current and accumulated earnings and profits, it will be treated first as a non-taxable return of capital to the extent of the U.S. Holder’s adjusted tax basis in such CBFEs and, to the extent the amount of such distribution exceeds such adjusted tax basis, then as gain from the sale or exchange of such CBFEs (which gain should be treated as an excess distribution and be subject to the tax consequences relating to an excess distribution described above). Distributions on our CBFEs that are treated as dividends will not be eligible for the “dividends received” deduction generally allowed to corporate shareholders with respect to dividends received from U.S. corporations or for the reduced tax rate applicable to “qualified dividend income” of non-corporate taxpayers.

The amount of any distribution paid in pesos that a U.S. Holder will be required to include in income will equal the U.S. dollar value of the gross amount of the pesos distributed (i.e, before deduction of any Mexican withholding tax), calculated by reference to the exchange rate in effect on the date the payment is received by the U.S. Holder, regardless of whether the payment is converted into U.S. dollars on the date of receipt. If the pesos so received are converted into U.S. dollars on the date of receipt, such U.S. Holder generally will not recognize foreign currency gain or loss on such conversion. If the pesos so received are not converted into U.S. dollars on the date of receipt, such U.S. Holder will have a basis in the pesos equal to its U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the pesos generally will be treated as ordinary income or loss to such U.S. Holder and generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to applicable limitations, Mexican taxes withheld from distributions on the CBFEs may be creditable against the U.S. Holder's U.S. federal income tax liability (or at a U.S. Holder's election, may be deducted in computing taxable income if the U.S. Holder has elected to deduct all foreign income taxes for the taxable year). The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. For this purpose, the distributions should generally constitute "passive category income," or in the case of certain U.S. Holders, "general category income." The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes based on their particular circumstances.

The U.S. federal income taxation of distributions from a PFIC is extremely complex. Each U.S. Holder should consult its own tax adviser with respect to the appropriate U.S. federal income tax treatment of any distributions on our CBFEs.

Sale, Exchange or Other Disposition of our CBFEs

Assuming a U.S. Holder does not make one of the elections described under "QEF Election" or "Mark-to-Market Election" below, a U.S. Holder generally will recognize gain or loss for U.S. federal income tax purposes upon the sale, exchange or other disposition of our CBFEs in an amount equal to the difference, if any, between the amount realized on such sale, exchange or other disposition and the U.S. Holder's adjusted tax basis in the CBFEs as determined in U.S. dollars. Any such gain generally will be treated as an excess distribution subject to the tax consequences relating to an excess distribution described above under "Distributions." Any such loss generally will be treated as a capital loss. The deductibility of capital losses is subject to limitations.

A U.S. Holder will have an initial tax basis in the CBFEs equal to the U.S. dollar value of the peso-denominated purchase price established on the date of purchase. If our CBFEs are treated as traded on an "established securities market," a cash basis U.S. Holder, or, if it elects, an accrual basis U.S. Holder, will determine the U.S. Dollar value of the cost of such CBFEs by translating the amount paid at the spot rate on the settlement date of the purchase. If this rule applies to you and you convert U.S. Dollars to pesos and immediately use such currency to purchase our CBFEs, such conversion generally will not result in foreign currency gain or loss to you.

If the consideration a U.S. Holder receives upon a sale or other taxable disposition of CBFEs is not paid in U.S. dollars, the amount realized will be the U.S. dollar value of the payment received, determined by reference to the spot rate of exchange on the date of the sale or other taxable disposition. However, if the CBFEs are treated as traded on an established securities market and the U.S. Holder is either a cash basis taxpayer or an accrual basis taxpayer who has made the special election described above, the U.S. Holder will determine the U.S. dollar value of the amount realized in a foreign currency by translating the amount received at the spot rate of exchange on the settlement date of the sale or other taxable disposition. A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency on the settlement date. Any gain or loss realized on a subsequent conversion or other disposition of the foreign currency for a different U.S. dollar amount will be exchange gain or loss and generally will be treated as U.S. source ordinary income or loss for foreign tax credit limitation purposes.

The U.S. federal income taxation of the sale, exchange or other disposition of shares of a PFIC is extremely complex involving, among other things, significant issues as to the sourcing of any gain or loss realized on such sale, exchange or other disposition and any foreign currency that a U.S. Holder receives upon such sale, exchange or disposition. Each U.S. Holder should consult its own tax adviser with respect to the appropriate U.S. federal income tax treatment of any sale, exchange or other disposition of, our CBFEs.

Because gains on a sale or other disposition of CBFEs generally will be treated as U.S. source, the use of foreign tax credits relating to any Mexican income tax imposed upon gains in respect of CBFEs generally will be limited. U.S. Holders should consult their tax advisors regarding the application of Mexican taxes to a sale or other disposition of CBFEs and their ability to credit a Mexican tax against their U.S. federal income tax liability.

Indirect Investments in lower-tier PFICs

The PFIC rules described above under "Distributions" and "Sale, Exchange or Other Disposition of our CBFEs" generally will apply to direct and indirect dispositions of our interest in any lower-tier PFICs (including a disposition by a U.S. Holder of our CBFEs) and excess distributions by the lower-tier PFICs. U.S. Holders should consult their own tax advisers regarding the tax consequences to them as a result of our direct or indirect investment in a PFIC.

Mark-To-Market Election

A U.S. Holder may be able to mitigate the adverse tax consequences resulting from our PFIC status discussed above by electing mark-to-market treatment for its CBFEs, provided the relevant CBFEs constitute "marketable stock" as defined in U.S. Treasury regulations. The CBFEs will be ''marketable stock'' if they are "regularly traded" on a ''qualified exchange or other market'' within the meaning of the U.S. Treasury regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. A non-U.S. securities exchange constitutes a qualified exchange if it is regulated or supervised by a governmental authority of the country in which the securities exchange is located and meets certain trading, listing, financial disclosure and other requirements set forth in the U.S. Treasury regulations. U.S. Holders should consult their tax advisors as to whether the Mexican Stock Exchange is a qualified exchange and whether the CBFEs are "marketable stock" for this purpose. A U.S. Holder electing the mark-to-market regime generally would, during any year in which the Issuer is treated as a PFIC, compute gain or loss at the end of such year as if the CBFEs had been sold at fair value. Any gain recognized by the U.S. Holder under the mark-to-market election, including on an actual sale, would be treated as ordinary income, and the U.S. Holder would be allowed an ordinary deduction for any decrease in the value of CBFEs as of the end of any taxable year and for any loss recognized on an actual sale, but only to the extent, in each case, of previously included mark-to-market income not offset by previously deducted decreases in value. Any loss on an actual sale of CBFEs would be a capital loss to the extent in excess of previously included mark-to-market income not offset by previously deducted decreases in value. A U.S. Holder's tax basis in CBFEs would increase or decrease by gain or loss taken into account under the mark-to-market regime.

A mark-to-market election under the PFIC rules applies to all future years of an electing U.S. Holder during which the CBFEs are regularly traded on a qualifying exchange or other market, unless revoked with the Internal Revenue Service's ("IRS") consent. A mark-to-market election under the PFIC rules with respect to CBFEs would not apply to a lower-tier PFIC, if any, and a U.S. Holder would not be able to make such a mark-to-market election in respect of its indirect ownership interest in that lower-tier PFIC. Consequently, U.S. Holders of CBFEs could be subject to the PFIC rules with respect to income of the lower-tier PFIC the value of which already had been taken into account indirectly via mark-to-market adjustments.

Qualified Electing Fund Election

As an alternative to a mark-to-market election, a U.S. Holder would also be able to avoid the PFIC excess distribution rules described above with respect to the CBFEs by electing to treat the Issuer (for the first taxable year in which the U.S. Holder owns CBFEs) as a "qualified electing fund" (a "QEF Election"). A U.S. Holder that makes a QEF Election will be required to include in its taxable income its proportionate share of our income and net capital gain in years in which we were a PFIC (and increase its adjusted tax basis in the CBFEs by the same amount), but any gain subsequently recognized upon such holder's sale of its CBFEs generally will be taxed as capital gain and any distributions made in respect of its CBFEs will not be subject to U.S. federal income tax to the extent such distributions relate to previously taxed earnings (but such holder will reduce its adjusted tax basis in the CBFEs by the same amount). A U.S. Holder may, however, recognize at the time of any such distribution, foreign currency gain or loss (treated as ordinary income or loss) attributable to fluctuations in the peso exchange rate between the time such previously taxed income was included in income by such holder and the time of the actual distribution.

We intend to comply with the applicable information reporting requirements so that U.S. Holders are able to make a QEF Election.

Each U.S. Holder generally will be required to file a separate annual information return with the IRS with respect to the Issuer if it is treated as a PFIC and any Lower-tier PFICs.

U.S. Holders should consult their own tax advisors concerning the Issuer's PFIC status and the consequences to them of the treatment of the Issuer and entities in which the Issuer holds equity interests as PFICs for any taxable year.

PFIC Tax Filing

A U.S. Holder of CBFEs will be required to file an annual IRS Form 8621(Information Return by Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund). Significant penalties are imposed for failure to file IRS Form 8621, and the failure to file such form may suspend the running of the statute of limitations.

Information Reporting and Backup Withholding

U.S. Holders may be required to file IRS Form 926 reporting the payment of the Offer Price for our CBFEs. Substantial penalties may be imposed upon a U.S. Holder that fails to comply with such reporting requirements. Each U.S. Holder should consult its own tax advisor as to the possible obligation to file IRS Form 926.

Information returns may be filed with the IRS in connection with distributions to U.S. Holders, as well as in connection with the proceeds from sales of the CBFEs by U.S. Holders, unless a U.S. Holder establishes that it is exempt from the information reporting rules. If a U.S. Holder does not establish that it is exempt from these rules, it may be subject to backup withholding on these payments if it fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against its U.S. federal income tax liability and such U.S. Holder may be entitled to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders may be required to report to the IRS certain information relating to an interest in the CBFEs unless such CBFEs are held in accounts maintained by certain financial institutions. A U.S. Holder required to report such information must file a complete IRS Form 8938 (Statement of Specified Foreign Financial Assets) with its tax return for each year in which it holds an interest in the CBFEs. Penalties apply if a U.S. Holder is required to submit such information to the IRS and fails to do so. U.S. Holders should consult their tax advisors regarding the application of these rules in their particular circumstances.

U.S. Holders should consult their own tax advisors regarding any reporting obligations they may have as a result of their acquisition, ownership or disposition of the CBFEs. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

The discussion above is a general summary. It does not cover all tax matters that may be important a prospective purchaser. Prospective purchasers should consult their own tax advisors about the tax consequences of an investment in the CBFEs under the investor's own circumstances.

Certain Mexican Income Tax Considerations

The following summary of certain Mexican federal tax considerations refers only to prospective holders of CBFEs that are not residents of Mexico for Mexican tax purposes that purchase their CBFEs in this International Offering and that will not hold CBFEs or a beneficial interest therein through a permanent establishment for tax purposes in Mexico (non-Mexican resident Holders). The summary below is based on the Mexican Income Tax Law and the Mexican Tax Rules for FIBRAs E, which are subject to change, possibly with retroactive effect, and to differing interpretations.

For purposes of Mexican taxation, an individual is a resident of Mexico if he/she has established his/her home in Mexico, unless he/she has a home in another country as well, in which case, such individual will be considered a resident of Mexico for tax purposes if such individual has his/her center of vital interest in Mexico; an individual would be deemed to maintain his/her center of vital interest in Mexico if, among other, (i) more than 50% of his/her total income for the calendar year derives from Mexican sources, or (ii) his/her principal center of professional activities is located in Mexico. A legal entity is a resident of Mexico if it maintains the main place of its management in Mexico or has established its effective management in Mexico. A Mexican national is presumed to be a resident of Mexico unless such person can demonstrate the contrary. If a legal entity or individual has a permanent establishment for tax purposes in Mexico, such legal entity or individual shall be required to pay taxes in Mexico on income attributable to such permanent establishment in accordance with the Mexican Income Tax Law.

We will elect to apply the tax treatment described in Rule 3.21.3.2 of the Miscellaneous Fiscal Resolution and therefore we expect to receive the tax treatment for FIBRAs E described therein and in other provisions of the Mexican Tax Rules for FIBRAs E. Such tax treatment is briefly described below.

In general, a FIBRA E does not incur income tax and rather all investors of the FIBRA E are subject to taxation in Mexico on income obtained through the FIBRA E according to the regime applicable to each of them.

The following requirements apply to the FIBRA E tax regime, in addition to other established in the Mexican Tax Rules for FIBRAs E and other set forth in the Mexican Income Tax Law with regards to real-estate FIBRAS:

- The primary activity of a FIBRA E shall be the investment in shares issued by Eligible Entities;
- At least 90% of an Eligible Entity's annual Net Taxable Income should derive from Exclusive Activities. It is important to note that in order to be considered an Eligible Entity, a corporation must have projects currently in operation and remaining that will last at least seven years;
- A trust, like us, solely devoted to receiving the cash flows derived from the Collection Rights, is deemed to be compliant with the requirement set forth in the preceding paragraph.
- At least once a year and no later than March 15 of the following year, the FIBRA E must distribute at least 95% of its Net Taxable Income to the Holders of CBFEs;
- The financial intermediary shall be responsible for withholding and paying the income tax accrued at the 30% rate, unless taxpayers are exempt from tax withholdings pursuant to the Mexican Income Tax Law;
- If a negative tax loss is obtained, such tax loss cannot be assigned to investors and the FIBRA E shall carry forward during the subsequent years until depleted;
- A notice should be filed before the Mexican tax authorities stating under oath that all the requirements of the FIBRA E tax regime are met; and
- CBFEs issued by a FIBRA E must be registered at the RNV of the CNBV.

Under the Mexican Tax Rules for FIBRAs, the tax regime for an Eligible Entity will be the same as that applicable to business trusts provided in the Mexican Income Tax Law and shall meet the following requirements:

- Eligible Entities must distribute their Net Taxable Income to the FIBRA E, such distributions will not be subject to income tax withholding, including the 10% dividend withholding tax for shareholders who are individuals or those who are non-Mexican residents;
- Eligible Entities will not need to make monthly estimated income tax payments;
- The sale of shares issued by Eligible Entities will have the same tax treatment applicable for the sale of land, fixed assets or deferred expenses owned by such Eligible Entities, as the case may be.

The legal provisions established under the Mexican Constitution applicable to certain assets that form part of the NTN establish that those assets cannot be sold, transferred or assigned to third parties, a requirement that is generally applicable in order to apply the tax regime of a FIBRA E. However, certain provisions of the Mexican Tax Rules for FIBRAs E, that are specifically applicable to the CFE FIBRA, E allow that:

- The CFE FIBRA E's primary purpose is the investment in the Beneficiary Rights or other fiduciary rights, participation certificates or other credit instruments representing beneficiary rights of trusts created by Eligible Entities, subject certain requirements;
- For purposes of the Mexican Tax Rules for Fibra E, any trust, such as the Issuer, established by state productive companies or their productive subsidiaries, is considered a business entity so as to be able to opt for the tax regime applicable to the FIBRA E;
- The holders of beneficiary rights of the Promoted Trust may only be the CFE FIBRA E; state productive companies in the electricity industry, or their productive subsidiaries or a trust that complies with the Mexican Tax Rules for FIBRAs E;
- The Promoted Trust will be deemed to be carrying out an Exclusive Activity if its sole activity performed in Mexico is the procurement of the cash flows derived from the Collection Rights.

Rule 3.21.3.9 under the Mexican Tax Rules for FIBRAS E determines the specific treatment for the CFE FIBRA E.

The tax treatment applicable to each of the participants in the current structure considered under this offering memorandum consists of the following:

CFE Transmisión

Prior to this Global Offering CFE Transmisión assigned 100% of its Collection Rights for the transmission of electricity to the Promoted Trust and in return received as consideration all the Beneficiary Rights to the Promoted Trust. As consequence of the foregoing, CFE Transmisión has assigned to the Promoted Trust any cash flows generated from the transmission of electricity, thus isolating CFE Transmisión's revenues from its assets and liabilities into the Promoted Trust.

As it is expected that the requirements set forth in Rules 3.21.3.9 and 2.1.47 of the Miscellaneous Fiscal Resolution will be satisfied, CFE Transmisión considered that the Collection Rights were not transferred for tax purposes at the time they were contributed to the Promoted Trust.

However, as CFE Transmisión will transfer to us a portion of the Beneficiary Rights, at the time of such transfer, CFE Transmisión shall consider as transferred for tax purposes the Collection Rights in the corresponding portion, therefore, it shall determine the gain realized on such transfer as provided in the Mexican Tax Rules for FIBRAs E, and in connection with the foregoing:

- CFE Transmisión shall provide to us the information needed to determine the taxable gains referred to in the preceding paragraph, so we may consider such gains as our basis or tax cost in the deferred expense of the Issuer;
- As pursuant to rule 3.21.3.9, CFE Transmisión's basis in the Collection Rights cannot be higher than the sale price, CFE Transmisión cannot transfer the Beneficiary Rights at a loss.
- CFE Transmisión shall recognize the gains realized in the fiscal year in which the Beneficiary Rights are transferred, except for the portion of the gains that correspond to the price that is paid with CBFEs.

- CFE Transmisión may defer the recognition of the gain on the portion of the price for which it receives CBFEs. In such case, in each fiscal year following the year of the transfer, CFE Transmisión will be required to recognize 15% of the deferred gain corresponding to each CBFE it received.

At the time we acquire the Beneficiary Rights, all the beneficiaries of the Promoted Trust, including CFE Transmisión, shall determine the tax basis of their respective Beneficiary Rights. Such tax basis, adjusted as provided in Rule 3.21.3.3 of the Miscellaneous Fiscal Resolution shall be the basis that will be used for determining any taxable gain or loss resulting from further transfers of Beneficiary Rights, except if such transfer is made to us or to another trust that complies with the Mexican Tax Rules for FIBRAs E.

In any subsequent sales of Beneficiary Rights to CFE Holding or the Issuer, for subsequent offerings in the financial market, as their tax cost is adjusted for the amortization of the intangible asset equivalent to the amount of the contribution of the collection rights to the Promoted Trust, a taxable income might be generated due to the difference between such tax cost and the selling price.

If cash is received as consideration for subsequent sales, the accruable gain must be accrued immediately on the sale date. If CBFEs are received as considerations, the accrual of the gain obtained may be deferred at the rate of 15% a year. Such deferral may be ended if the CBFEs are sold, in the percentage that they were sold. Any such gain generated must be considered as taxable income, both for purpose of determining its monthly estimated payment of income tax and the taxable income of the respective year.

The accruable gain determined, generates in the CFE FIBRA E a deferred expense (the deferred expense of the Issuer) subject to annual amortization at the 15% rate, which will be treated as a deduction for purposes of determining the distributable Net Taxable Income of the CFE FIBRA E itself.

To determine monthly estimated payments of annual income tax, CFE Transmisión must not consider the revenues applicable on the invoices issued for the electricity transmission and distribution service. CFE Transmisión must consider as taxable income any distributions from its Net Taxable Income made by the Promoted Trust.

Consequently, the tax treatment applicable to CFE Transmisión allows it to apply a tax deferral regime on revenues obtained from the Net Taxable Income distributed by the Promoted Trust, for purposes of making estimated payments on account of annual income tax.

CFE Transmisión shall have the following obligations:

- Within 45 days following the date in which we acquire the Beneficiary Rights, CFE Transmisión shall file a notice (the "Initial Notice") through its tax inbox declaring that: 1. It elects to apply the tax treatment set forth in Article 188 of the Mexican Income Tax Law and Rule 3.21.3.3 of the Miscellaneous Fiscal Resolution and obligates to use its unamortized tax losses generated in previous fiscal years to offset profits that do not derive from the Promoted Trust; 2. It assumes a joint and several liability with the Promoted Trust, up to the income tax caused as consequence of applying the tax treatment provided in Rule 3.21.3.3 of the Miscellaneous Fiscal Resolution and the applicable penalties and sanctions, and 3. It assumes the obligation of being subject to the distribution rules of the Promoted Trust which shall be consistent with the distribution rules of the Issuer.

- CFE Transmisión shall be obliged to file notices (the "Annual Notices") through its tax inbox by July 15 of each year following the date in which the Initial Notice was filed. In each Annual Notice it shall declare that it will continue applying the tax regime mentioned in the Initial Notice.

- It shall be obliged to cooperate bi-annually with the Mexican tax authorities participating in its real time verification program

The Promoted Trust

To determine its Net Taxable Income, the Promoted Trust shall consider any cash flows and collections received from the CENACE as accrued revenue, as well as any–other revenues obtained from its treasury investments, against which it will apply the respective deductions. These deductions may consist of the Promoted Trust's expenses including fiduciary fees, administrative expenses, compensation of the Promoted Trust's Technical Committee, reimbursement of any expenses and costs assigned to it by CFE Transmisión, as well as the amortization of the intangible asset equivalent to the amount of discounted future cash flows it will receive over the life of the trust (or, the "Deferred Expense of the Promoted Trust"). The Deferred Expense of the Promoted Trust includes the intangible asset that the Promoted Trust will recognize, generated by its acquisition of the Collection Rights which, in terms of the Mexican Income Tax Law, may be amortized annually at a maximum rate of 15%.

With regard to the deduction of intangible assets, the Mexican Income Tax Law establishes the annual maximum percentages to be applied to the original amount of the investment, whereby it is amortized over a certain period of time. The amortization percentage that will be applied for the Deferred Expense of the Promoted Trust will be lower than the maximum established in the Mexican Income Tax Law.

Such amortization rate may be changed by the Promoted Trust so long as it does not exceed the maximum rate established in the Mexican Income Tax Law of 15%. If the amortization percentage is changed more than once, at least five years must elapse from the date of the last change. If the Promoted Trust elects to change the amortization rate before the termination of such deadline, certain requirements must be fulfilled. We expect to apply an initial amortization rate of 5%.

The general rules applicable to a FIBRA E establish a tax transparency regime for the Eligible Entities, for which the investors of the FIBRA E are subject to taxation based on the income obtained through the FIBRA E. The Mexican Tax Rules for FIBRA E, applicable to CFE FIBRA E allow the Promoted Trust to apply this tax transparency regime and it will not be required to:

- Make estimated payments on account of annual income tax;
- Be considered a taxpayer of income tax;
- Determine an annual balance of CUFIN and treat distributions of Net Taxable Income as dividends;
- Withhold income tax on any Net Taxable Income distributed to CFE Transmisión, as the case may be to CFE Holding, and to the CFE FIBRA E;
- To withhold tax on any revenues obtained from treasury investments;
- If it makes reductions in net assets through reimbursements to its trustors or beneficiaries, determine distributed profit.

The tax transparency regime applicable to the Promoted Trust allows for the distribution of a Net Taxable Income without any tax burden, inasmuch as the beneficial owners are those who must determine and, if applicable, pay the respective income tax, based on their own tax characteristics.

The Eligible Entities, including the Promoted Trust, are not subject to the provisions set forth in articles 10, 77 and 78 of the Mexican Income Tax Law, therefore, Eligible Entities neither are subject to income tax nor are obliged to withhold income tax on distributions made by them to us.

The CFE FIBRA E

It is expected that the Issuer will comply with the requirements set forth in the Mexican Tax Rules for Fibra E, therefore it should be entitled to apply the tax treatment applicable to FIBRAs E.

The Mexican Tax Rules for FIBRA E applicable to a FIBRA E establish a tax transparency regime in which the Issuer neither will be considered an income tax taxpayer nor shall be obligated to make monthly estimated income tax payments in behalf of its beneficiaries, including holders of CBFEs.

Notwithstanding the foregoing, the Trustee shall be obliged to determine the Net Taxable Income of the Issuer of each fiscal year, being obliged to distribute at least 95% of the Net Taxable Income of the preceding fiscal year by March 15 of each year.

Accordingly, to determine the CFE FIBRA E's Net Taxable Income, it must consider as accruable revenue any distributions of Net Taxable Income that it receives from the Promoted Trust or the portion of the Net Taxable Income of the Eligible Entities that it is entitled to receive based in its average percentage of ownership in the fiscal year.

With regard to its deductions, the FIBRA E may consider deductions applicable to its activity, which might include fiduciary fees, services received from the Manager, and an amortization of the deferred expense of the Issuer generated in terms of the Mexican Tax Rules for FIBRAs E, among others.

Such deferred expenses of the Issuer will be the intangible asset generated by our purchase of Beneficiary Rights from CFE Transmisión that we may recognize and which tax basis shall be equal to the taxable gain, if any, recognized by CFE Transmisión in connection with the sale to us of its Beneficiary Rights.

When the Net Taxable Income of a fiscal year is higher than the distributions made by the FIBRA E to its Holders by March 15 of the following year (an Undistributed Net Taxable Income), the Trustee shall be obliged to pay income tax on such difference by applying a 30% rate on behalf of the Holders without being required to identify them. Such payment must be made within 15 days following the aforementioned date.

The Trustee shall keep a CUCA of the Issuer, but shall not be required to keep an individual CUCA for each Holder. Distributions of the Net Taxable Income of the Issuer shall not reduce the CUCA, but once the Net Taxable Income is distributed the exceeding distributions shall be considered reimbursement of contributed capital up to the balance of the CUCA.

Distributions in excess of the Net Taxable Income of the fiscal year and of the balance of the CUCA shall not be considered reimbursements of contributed capital and shall be subject to the regime set forth in Article 188, fraction V, of the Mexican Income Tax Law, and Rule 3.21.3.3, fractions V and VI of the Miscellaneous Fiscal Resolution, as it corresponds to each Holder.

The Mexican Tax Rules for FIBRA E establish a tax transparency regime where the beneficial owners of the Net Taxable Income are responsible for paying the respective income tax. The Mexican Tax Rules for FIBRA E enables the FIBRA E to apply this tax transparency regime and it will not be required to:

- Make estimated payments on account of annual income tax;
- Be considered a taxpayer of income tax; and
- Determine an annual balance of CUFIN and treat distributions of Net Taxable Income as dividends.

Distributions by the FIBRA E

In general, any cash flows that we distribute will come from:

- Net Taxable Income derived from distributions received from the Eligible Entities;
- Reimbursements of contributions or paid in capital; and

- Income derived from cash investments made by us in securities as allowed by the Mexican Tax Rules for FIBRAs E.

Given that the CBFEs will be offered to general investors, listed on the BMV and traded in Recognized Markets, any cash flows will be distributed first through the central securities depository for the Mexican Securities Market, Indeval, and the foreign settlement agent selected, as the case may be.

Based on the information provided by us, the financial intermediary may withhold the respective income tax and fulfill the formal obligations established in the Mexican Income Tax Law and other tax provisions, which include the issuance of a certification of revenues and withholdings, filing of information with the Mexican tax authorities, as well as information related to FATCA and CRS.

Distributions made by us to Holders will generally be treated as follows: (i) Distributions deriving from our Net Taxable Income of the fiscal year will be considered business profits and Holders that are Mexican tax residents must declare them along with other items of income in their annual tax return being allowed to credit the tax withheld if any; Holders that are non-Mexican tax residents will only be obliged to accept the withholding, which will be considered a final payment of the tax; (ii) Distributions exceeding our Net Taxable Income of the fiscal year shall be considered as capital reimbursements until exhausting our CUCA balance and will be free of income tax for the recipients, and; (iii) Distributions exceeding the CUCA balance and the Net Taxable Income of the fiscal year shall not be treated as capital reimbursements and shall be subject to the regime set forth in Article 188, fraction V, of the Mexican Income Tax Law and Rule 3.21.3.3, fractions V and VI of the Miscellaneous Fiscal Resolution.

Except for investors that are considered exempt under the Mexican Income Tax Law (such as SIEFORES), the withholding rate applicable to such Taxable Distributions is 30%.

The financial intermediaries must not withhold tax on reductions in the CFE FIBRA E's net assets for reimbursements to the trustors or beneficiaries if the origin is the CUCA's balance.

The Trustee may be required to withhold income tax at a 30% rate on Taxable Distributions made to Holders of CBFEs that are part of the International Offering (CBFEs that are traded outside of Mexico). In such case the Trustee would also be required to issue the respective certificate of withholding.

Tax Regime of Holders for Distribution Received from the CFE FIBRA E

Individuals Residing in Mexico

Individuals residing in Mexico must consider revenues they receive from the distribution of the Net Taxable Income as income derived from business activities. In general, Taxable Distributions are subject to a 30% income tax withholding, which is considered a provisional payment.

In the individual's annual return, the individual shall accrue other revenues and Taxable Distributions received from the CFE FIBRA E, and shall calculate its income tax liability on the totality of its revenues, against which it may credit the income tax withheld.

Business entities residing in Mexico

Business entities residing in Mexico must consider revenues received from the distribution of the Net Taxable Income determined by the FIBRA E, as well as those distributions in excess of our Net Taxable Income and our CUCA, as taxable income in the determination of monthly estimated payments, and in the determination of annual income tax they are entitled to credit the tax withheld by the financial intermediary.

Non-Mexican resident Holders

Taxable Distributions received by Non- Mexican resident entities and or individuals are considered business profits, and as such profits are generated through a Mexican trust, for Mexican tax purposes such profits are considered attributed to a permanent establishment located in Mexico.

Notwithstanding the foregoing, non-Mexican resident Holders are not subject to formal obligations related to the creation of a permanent establishment in Mexico, exclusively for the income obtained through the Issuer, therefore such holders will not be obliged to register in the Federal Taxpayers Registry nor will be obliged to file income tax returns in Mexico with respect to Distributions received from the Issuer, provided that the Mexican Tax Rules of FIBRA E are complied with. The income tax withheld on distributions made to non-Mexican resident Holders is considered a definitive payment.

Mexico has entered into several tax treaties with various jurisdictions. Non-Mexican resident Holders should consult their own tax advisors as to the Mexican, or other tax consequences (including tax consequences arising under double-taxation treaties that are in full force and effect) of the purchase, ownership and disposition of the CBFEs.

Reimbursements of contributions or paid in capital

Distributions considered reimbursements of contributions or paid-in capital made by us to holders will not be considered taxable income and would not be subject to income tax withholding, provided that the reimbursement does not exceed the CUCA balance of the Issuer. The tax cost or basis in the CBFEs shall be adjusted as consequence of distribution treated as reimbursement of contributions or paid in capital pursuant to the applicable tax provisions.

Secondary Market Sale of the CBFEs Issued by the FIBRA E

Revenues from the sale of the CBFEs issued by the FIBRA E are considered exempt from income tax for individuals residing in Mexico and non-Mexican resident Holders, provided that CBFEs are listed and the sale is made through Recognized Markets.

THIS SECTION HAS BEEN PREPARED IN ACCORDANCE WITH THE TAX PROVISIONS APPLICABLE TO THE STRUCTURE OF A FIBRA E AND SPECIFICALLY THE FIBRA E AS OF THE DATE OF THIS OFFERING MEMORANDUM, WHICH MIGHT BE AMENDED, RESTRICTED IN ITS APPLICATION OR REPEALED, FOR WHICH REASON ANY TAX TREATMENT RESULTING FROM SUCH EVENTS MIGHT DIFFER FROM THAT OUTLINED HEREIN.

THE INFORMATION ESTABLISHED IN THIS SECTION MUST NOT UNDER ANY CIRCUMSTANCES BE CONSIDERED AS A CONSULTATION, ADVICE OR OPINION FOR INVESTORS IN CBFES ISSUED BY THE FIBRA E, FOR WHICH REASON EACH INVESTOR MUST CONSULT THEIR INDIVIDUAL TAX ADVISOR OR ADVISERS TO OBTAIN THE APPROPRIATE ADVICE AND OPINION ABOUT THE SPECIFIC EFFECTS GENERATED BY INVESTING IN THESE CBFES.

CERTAIN ERISA CONSIDERATIONS

ERISA imposes certain requirements on "employee benefit plans" subject thereto including entities (such as collective investment funds, insurance company separate accounts and some insurance company General Accounts) the underlying assets of which include the assets of such plans (collectively, "ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of prudence, diversification, and that investments be made in accordance with the documents governing the plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment.

Section 406 of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan, as well as assets of those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts and Keogh plans, and entities the underlying assets of which include the assets of such plans (together with ERISA Plans, "Plans") and certain persons (referred to as "parties in interest" under ERISA or "disqualified persons" under the Code (collectively, "Parties in Interest")) having certain relationships to such Plans, unless a statutory or administrative exception or exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code and the transaction may have to be rescinded at significant cost to the Issuer.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and certain non U.S. plans (as described in Section 4(b)(4) of ERISA), while not subject to the fiduciary responsibility or prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to substantially similar rules under federal, state, local or non U.S. laws, and may be subject to the prohibited transaction rules of the Code. Fiduciaries of any such plans should consult with their counsel before acquiring any Notes. In addition, such plans may be subject to federal, state, local, non-U.S. or other law or regulation that could cause the underlying assets of the Issuer to be treated as assets of the investor in the CBFEs (or any interest therein) considered to represent an equity interest by virtue of its interest and thereby subject the Issuer and the Collateral Manager (or other persons responsible for the investment and operation of the Issuer's assets) to laws or regulations that are similar to the fiduciary responsibility or prohibited transaction provisions contained in Title I of ERISA or Section 4975 of the Code ("Similar Law").

Under ERISA and a regulation issued by the United States Department of Labor (29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA (the "Plan Asset Regulation")), if a Plan invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the 1940 Act, the Plan's assets are deemed to include both the equity interest and an undivided interest in each of the entity's underlying assets, unless it is established (a) that the entity is an "operating company," as that term is defined in the Plan Asset Regulation, or (b) that less than 25 per cent. of the total value of each class of equity interest in the entity, disregarding the value of any equity interests held by persons (other than Benefit Plan Investors) with discretionary authority or control over the assets of the entity or who provide investment advice for a fee with respect to such assets (such as the Initial Purchasers), and their respective affiliates (each a "Controlling Person"), is held by Benefit Plan Investors (the "25 per cent. Limitation"). A "Benefit Plan Investor" means (1) an employee benefit plan (as defined in Section 3(3) of ERISA), subject to the provisions of Part 4 of Subtitle B of Title I of ERISA, (2) a plan to which Section 4975 of the Code applies, or (3) any entity whose underlying assets include plan assets by reason of such an employee benefit plan or plan's investment in such entity.

If the underlying assets of the Issuer are deemed to be Plan assets, the obligations and other responsibilities of Plan sponsors, Plan fiduciaries and Plan administrators, and of Parties in Interest, under Parts 1 and 4 of Subtitle B of Title I of ERISA and Section 4975 of the Code, as applicable, may be expanded, and there may be an increase in their liability under these and other provisions of ERISA and the Code. In addition, various providers of fiduciary or other services to the Issuer, and any other parties with authority or control with respect to the Issuer, could be deemed to be Plan fiduciaries or otherwise parties in interest or disqualified persons by virtue of their provision of such services (and there could be an improper delegation of authority to such providers). The Initial Purchasers, on behalf of the Issuer, may be prevented from engaging in certain investments or other transactions or fee arrangements because they might be deemed to cause non-exempt prohibited transactions. Moreover, if the underlying assets of the Issuer were deemed to be assets constituting plan assets, (i) the assets of the Issuer could be subject to ERISA's reporting and disclosure requirements, (ii) a fiduciary causing a Benefit Plan Investor to make an investment in the equity of the Issuer could be deemed to have delegated its responsibility to manage the assets of the Benefit Plan Investor, (iii) various providers of fiduciary or other services to the Issuer, and any other parties with authority or control with respect to the Issuer, could be deemed to be Plan fiduciaries or otherwise Parties in Interest or disqualified persons by virtue of their provision of such services, and (iv) it is not clear that Section 404(b) of ERISA, which generally prohibits plan fiduciaries from maintaining the indicia of ownership of assets of plans subject to Title I of ERISA outside the jurisdiction of the district courts of the United States, would be satisfied in all instances.

The Plan Asset Regulation defines an "equity interest" as any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is little guidance on how the definition of "equity interests" applies, the CBFEs may be considered "equity interests" for purposes of the Plan Asset Regulation. Accordingly, the Issuer intends to prohibit investments by Benefit Plan Investors in the CBFEs. Accordingly, if you are a purchaser or transferee of the CBFEs, or an interest therein, you will be deemed to represent, warrant and agree that (1) you are not and you are not acting on behalf of, a Benefit Plan Investor and (2) if you are a governmental, church, non-U.S. or other plan, (x) you are not, subject to any federal, state, local, non-U.S. or other law or regulation that could cause the underlying assets of the Issuer to be treated as assets of the investor in any Note (or interest therein) by virtue of its interest and thereby subject the Issuer and the Collateral Manager (or other persons responsible for the investment and operation of the Issuer's assets) to laws or regulations that are similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, and (y) your acquisition, holding and disposition of the CBFEs do not and will not constitute or give rise to a non-exempt violation of any law or regulation that is substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code. No transfer of an interest in the CBFEs to a Benefit Plan Investor will be permitted.

It should be noted that an insurance company's general account may be deemed to include assets of Plans under certain circumstances, e.g., where a Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the United States Supreme Court in John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank, 510 U.S. 86 (1993). An insurance company considering the purchase of the CBFEs with assets of its general account should consider such purchase and the insurance company's ability to make the representations described above in light of John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank, Section 401(c) of ERISA and a regulation promulgated by the U.S. Department of Labor under that Section of ERISA, 29 C.F.R. Section 2550.401c-1.

There can be no assurance that, despite the transfer restrictions relating to acquisitions by Benefit Plan Investors and the procedures to be employed by the Issuer to attempt to prohibit ownership by Benefit Plan Investors of the CBFEs, Benefit Plan Investors will not in actuality own 25% or more of the outstanding CBFE.

Any Plan fiduciary or other person who proposes to use assets of any Plan to acquire the CBFEs should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of the CBFEs to a plan, or to a person using assets of any plan to effect its acquisition of any CBFEs, is in no respect a representation by the Issuer, the Initial Purchasers or the Trustee that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

LEGAL MATTERS

Certain matters relating to the validity of the CBFEs will be passed upon for us by White & Case, S.C., Mexico and White & Case LLP, New York, New York. Certain legal matters will be passed upon for the initial purchasers by Creel, García-Cuéllar, Aiza y Enríquez, S.C., Mexico and Clifford Chance US LLP, New York, New York.

INDEPENDENT AUDITORS

The carve-out financial statements of CFE Transmisión as of December 31, 2016, and for the year then ended, included in the offering memorandum, have been audited by KPMG Cardenas Dosal, S.C., independent auditors, as stated in their report herein.

The carve-out financial statements of CFE Transmisión as of December 31, 2015, and for the year then ended, included in the offering memorandum, have been audited by Gossler, S.C., independent auditors, as stated in their report herein.

With respect to the unaudited condensed carve-out interim financial information as of September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016, included herein, KPMG Cárdenas Dosal, S.C., our independent auditors, has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

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Transmission operations of Comision Federal de Electricidad, Productive Enterprise and subsidiaries

Unaudited Condensed Carve out Financial Statements
September 30, 2017.

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Independent Auditors' Report on Condensed Carve-out Interim Financial Information

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

Introduction

We have reviewed the accompanying September 30, 2017 condensed carve-out interim financial information of the Transmission Operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries (the Reporting Entity"), which comprises:

- the condensed carve-out statements of financial position as at September 30, 2017;
- the condensed carve-out statements of comprehensive income for the three-month and nine-month periods ended September 30, 2017;
- the condensed carve-out statements of changes in equity for nine-month period ended September 30, 2017;
- the condensed carve-out statements of cash flows for the nine-month period ended September 30, 2017; and
- notes to the condensed carve-out interim financial information.

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

Aguascalientes, Ags.
Cancún, Q. Roo.
Ciudad de México.
Ciudad Juárez, Chih.
Culiacán, Sin.
Chihuahua, Chih.
Guadalajara, Jal.
Hermosillo, Son.
León, Gto.
Mérida, Yuc.
Mexicali, B.C.
Monterrey, N.L.
Puebla, Pue.
Querétaro, Qro.
Reynosa, Tamps.
Saltillo, Coah.
San Luis Potosí, S.L.P.
Tijuana, B.C.

Emphasis of Matter – Basis of Preparation

We draw attention to note 2 to the condensed carve-out interim financial information, which describes their basis of preparation, including the approach to and the purpose of their preparation. The condensed carve-out interim financial information were prepared to assist Irrevocable Trust CIB/2919 in respect of an international and a local offerings of Energy and Infrastructure Trust Certificates. Consequently, the Reporting Entity's condensed carve-out interim financial information may not necessarily be indicative of the financial performance that would have been achieved if the Reporting Entity had operated as an independent entity, nor may they be indicative of the results of operations of the Reporting Entity for any future period. Our conclusion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 30, 2017 condensed carve-out interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

KPMG CARDENAS DOSAL, S.C.

Jesus Zuñiga

Mexico City, January 22, 2018.

Transmission operations of Comision Federal de Electricidad, Productive Enterprise and subsidiaries

(Unaudited) Condensed Carve-out statement of financial position

As at September 30, 2017, and December 31, 2016

(Millions of pesos)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 149	$ 335
Accounts receivable (note 5)	26,131	2,436
Inventory of operation materials, net	1,004	1,279
Total current assets	27,284	4,050
Accounts receivable	1,119	1,047
Installations and equipment, net (note 6)	288,957	288,873
Derivative financial instruments (note 7)	2,152	4,954
Other assets (note 8)	27,864	27,814
Deferred income taxes (note 10)	10,497	10,497
Total assets	**$ 357,873**	**$ 337,235**

	2017	2016
Liabilities and equity		
Current liabilities:		
Short term portion of long-term debt (note 12)	$ 20,577	$ 9,993
Other payables and accrued liabilities	13,296	1,509
Income tax payable	6,372	-
Total current liabilities	40,245	11,502
Long-term liabilities		
Long-term debt (Note 12)	95,300	113,229
Employee benefits liability due to parent (note 9)	35,277	34,367
Deferred revenue	560	594
Total long-term liabilities	131,137	148,190
Total liabilities	171,382	159,692
Equity:		
Net parent investment	33,623	39,987
Retained earnings	74,411	59,543
Other Comprehensive Income	78,457	78,013
Total Equity	186,491	177,543
Total liabilities and equity	**$ 357,873**	**$ 337,235**

See accompanying notes to unaudited condensed interim carve out financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

(Unaudited) Condensed Carve-out statements of comprehensive income

For the three-month and nine-month period ended September 30, 2017 and 2016

(Millions of pesos)

	Accumulated Sep 2017	Accumulated Sep 2016	Jul-Sep 2017	Jul-Sep 2016
Revenues:				
Transmission service revenue	$ 43,997	$ 39,150	$ 15,891	$ 14,018
Other income	889	284	254	108
Total revenues	44,886	39,434	16,145	14,126
Costs:				
Salaries and related costs	4,731	4,757	1,242	1,645
Labor obligations (benefit) cost (note 9)	3,842	(11,734)	1,281	1,381
Maintenance and materials	4,684	3,785	2,713	1,408
Administrative services	858	260	675	78
Tax and duties	29	28	3	1
Depreciation	9,137	7,835	2,988	2,385
Loss on disposal of fixed assets	446	283	358	(86)
Operating assets security	504	662	45	336
Other operating costs (Income)	76	143	(315)	(50)
Total costs	24,307	6,019	8,990	7,098
Operating income	20,579	33,415	7,155	7,028
Financing costs, net	(661)	6,569	4,751	(520)
Income before income taxes and other comprehensive income	21,240	26,846	2,404	7,548
Tax expense (income)	6,372	(22,551)	721	(6,341)
Net income	**$ 14,868**	**$ 49,397**	**$ 1,683**	**$ 13,889**
Other comprehensive income				
Items that are not subsequently reclassified to the results of the period:				
Cash flow hedging	444	724	(496)	984
Total other comprehensive income	444	724	(496)	984
Comprehensive income	**$ 15,312**	**$ 50,121**	**$ 1,187**	**$ 14,873**

See accompanying notes to unaudited condensed interim carve out financial statements

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

(Unaudited) Condensed Carve-out statements of changes in equity

For the nine-month period ended as of September 30, 2017 and 2016

(Millions of pesos)

	Net parent investment	Retained earnings	Other comprehensive income	Total
Balance as of January 1, 2016	**$ 59,486**	**$ 3,644**	**$ 50,696**	**$ 113,826**
Parent company investment	(18,604)		-	(18,604)
Comprehensive income		49,397	724	50,121
Balance as of September 30, 2016	**$ 40,882**	**$ 53,041**	**$ 51,420**	**$ 145,343**

	Net parent investment	Retained earnings	Other comprehensive income	Total
Balance as of January 1, 2017	**$ 39,987**	**$ 59,543**	**$ 78,013**	**$ 177,543**
Parent company investment	(6,364)	-	-	(6,364)
Comprehensive income		14,868	444	15,312
Balance as of September 30, 2017	**$33,623**	**$74,411**	**$78,457**	**$186,491**

See accompanying notes to unaudited condensed interim carve out financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

(Unaudited) Condensed Carve-out statements of changes in cash flows

For the nine-month period ended as of September 30, 2017 and 2016

(Millions of pesos)

	2017	2016
Cash flow from operating activities:		
Income before income taxes and other comprehensive income	$ 21,240	$ 26,846
Items not affecting cash flows:		
Items related to operating activities:		
Labor obligations cost (benefit)	3,842	(11,734)
Items related to investing activities:		
Depreciation	9,137	7,835
Loss of installations and equipment	446	283
Items related to financing activities:		
Unrealized foreign exchange loss (gain), interest expense and changes in the fair value of financial derivative instruments	(2,581)	(2,922)
Changes in operating assets and liabilities, net	(14,279)	1,040
Net cash provided by operating activities	17,805	21,348
Cash flow from investing activities:		
Acquisitions of installations and equipment	(3,811)	(5,925)
Net cash (used in) investing activities	(3,811)	(5,925)
Cash flow from financing activities:		
Debt proceeds	3,319	11,630
Debt payments	(6,556)	(7,123)
Interest paid	(4,127)	(5,147)
Net transfer of investment in parent company	(6,364)	(18,604)
Financial instruments proceeds	379	4,204
Payments of derivative financial instruments	(831)	(153)
Net cash flows used in financing activities	(14,180)	(15,193)
Net (decrease) increase in cash and cash equivalents	(186)	230
Cash and cash equivalents:		
At beginning of period	335	73
At end of period	**$ 149**	**$ 303**

See accompanying notes to unaudited condensed interim carve out financial statements

1. Definition of the Transmission operations of Comision Federal de Electricidad, Productive Enterprise and subsidiaries (subsequently referred to as "Transmission operations of CFE", "CFE Transmission" or "the Company") and relevant events

- **Definition of the Transmission operations of CFE.**

The Comision Federal de Electricidad Law ("CFE Law") was published on August 11, 2014, and became effective on October 7, 2014. The CFE Law mandates the transformation of Comision Federal de Electricidad, Productive State Enterprise (subsequently referred as "CFE" or "the Holding") into a Productive State Enterprise (EPE for its acronym in Spanish).

CFE purpose is 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.

Transmission operations of CFE´s, purpose is to provide the public service of electricity transmission in Mexico, as well as to carry out, among other activities, the financing, installation, maintenance, management, operation and expansion of the National Transmission Network (NTN) to provide such service in accordance with the provisions in the CFE Law, the terms of strict legal separation of the CFE ("TESL) and any other applicable legal provision. The Company's registered address is Paseo de la Reforma 164, Colonia Juarez in Mexico City.

- **Relevant Events**

<u>Strict legal separation</u>

According to the guidelines set forth by the Law of the Electric Industry ("LEI") and the CFE Law, in order to guarantee the open access, efficient operation and competition of the electricity industry, CFE will carry out in a strict independent way among them, the activities of Generation, Transmission, Distribution, Marketing, Basic Supply, Qualified Supply, and Last resource supply, Supply of primary inputs for the electric industry, as well as the auxiliary activities, for which, the above mentioned laws, establish the accounting, functional and structural CFE´s separation process required.

The terms for the strict legal separation (TESL for its acronym in Spanish) 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 and so that its market share is independent through each of the units in which is separated with the purpose of generating economic value and profitability for the Mexican State as its owner.

Based on the TESL, all this activities would be carried out by the incorporated Productive State Subsidiaries (EPS for its acronym in Spanish)

Mexican Wholesale Electricity Market (MEM)

Following the beginning of operations of the Mexican Wholesale Electricity Market (MEM), and pursuant to Transitory Article Three of the Electricity Industry Law, the Ministry of Energy extended the term to December 31, 2016 for CFE to conduct its activities of transmission, distribution, basic supply, commercialization other than primary inputs supply and primary inputs, including any participation on the Wholesale Electricity Market (MEM), and extended the term to February 1, 2017, to conduct its activities of generation.

Incorporation of CFE Transmision (EPS) (part of Transmission operations of Comision Federal de Electricidad)

On March 29, 2016, the resolutions for the incorporation of the CFE Transmision, EPS were published in the DOF. CFE Transmision, EPS were established to provide the public service of electricity transmission, as well as to finance, install, maintain, manage, operate and enhance the necessary infrastructure pursuant the CFE Law, the Electricity Industry Law, the terms for the strict legal separation of CFE and other applicable regulations. CFE Transmission EPS as an independent legal entity began formal operations with the MEM on January 1st, 2017.

Amendments to the Collective Labor Agreement

On May 19, 2016, CFE and the Sole Union of Electricity Workers of the Mexican Republic ("SUTERM", for its acronym in Spanish) finalized their negotiations of the terms of the Collective Labor Agreement.

As disclosed in note 9, as a result of such negotiations, various clauses of the agreement, mainly related pension benefits were modified, causing a reduction in the employee pension benefit liability, and consequently, a reduction in the liabilities pertaining to the Transmission's operations of Comision Federal de Electricidad in relation to its headcount.

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

On December 29, 2016, the Federal Government announced the conclusion of the review of the reduction of CFE's employee pension benefits obligations as indicated in the paragraph above.

On November 14th, 2016, the Ministry of Finance and Public Credit ("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", by which the Federal Government, through the SHCP, assumes a fraction of the obligation to settle employee benefits liabilities currently shown in CFE´s consolidated financial statements, related to obligations for employees hired before August 18, 2008.

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.

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) for a total amount of $161,080, of which $15,264 were attributed to CFE Transmission that will be paid in annual distributions to meet the commitment. Resources received for these securities shall be used solely for the settlement of the aforementioned employee benefits.

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

Tax Obligations

A the time of its incorporation, CFE Transmision became a State Productive Subsidiary of CFE, and starting on March 30, 2016 began complying its tax obligations in terms of the Title II of the Income Tax Law, which sets forth the general regime of legal entity. The "Public Use Tax" established in Article 46 of the Public Service of Electricity Law (referred as exploitation per the regulation) was repealed with the enactment of the CFE Law (repealed).

Revaluation of installations and equipment

As part of the activities related to the strict legal separation of CFE, during 2016 the CFE revalued its installations and equipment that were contributed to the EPS as part of the spin-off process. As a result, a net increase in the value of Transmission operation's assets of $16,787 was recognized in other comprehensive income.

Assignment of financial liabilities to CFE Transmission, EPS

On January 1, 2017, CFE Holding, CFE Distribucion, EPS and CFE Transmision, EPS entered into a Framework Agreement for the Allocation of Financial Liabilities (the "Financial Framework Agreement"), pursuant to which CFE Holding allocated among its productive state subsidiaries all of the indebtedness (including obligations in respect of PIDIREGAS) it had incurred on or prior to January 1, 2017, and its productive state subsidiaries party thereto agreed to provide CFE Holding with the necessary funds to satisfy its payment obligations (including payment of principal and interest under the relevant financing agreement and related hedging expenses) under CFE Holding's existing financing agreements. The allocation of the Financial Framework Agreement results in intercompany indebtedness payable among the State Productive Subsidiaries to CFE Holding.

2. Purpose of the unaudited condensed carve-out interim financial information and basis of preparation

a) Purpose of the unaudited condensed carve-out interim financial information

The purpose of these unaudited condensed interim carve-out financial information is to provide general purpose historical financial information of the Transmission operations of CFE and assist Irrevocable Trust CIB/2919 in respect of an international and a local offerings of Energy and Infrastructure Trust Certificates Consequently, the Reporting Entity's condensed carve-out interim financial information may not necessarily be indicative of the financial performance that would have been achieved if the Reporting Entity had operated as an independent entity, nor may they be indicative of the results of operations of the Reporting Entity for any future period.

The Transmission operations of CFE historically did not exist as a separate legal and no separate (statutory) financial statements were therefore prepared. Accordingly, for purpose of the evaluation of the historical financial results of the Transmission operations, condensed interim carve-out financial information have been prepared.

b) Basis of preparation

The accompanying unaudited condensed interim financial information at September 30, 2017 and for the nine-month period then ended have been prepared on a "carve –out basis" from the consolidated interim financial information and accounting records of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries for the purpose of presenting the business operations identified as the Transmission operations of CFE, including the fiber optic operations. The carve-out financial information reflect the substance of the activities and its results of operations, assets and liabilities and cash flows attributable to the Transmission operations of CFE's. The legal structure was not considered the key factor in determining the perimeter of the carve-out financial statements, but rather the basis of the economic activity. Therefore, these set of carve out financial statements reflects the Transmission operations as a part of the whole economic entity.

<u>Condensed carve-out statement of financial position</u>

The carve-out statement of financial position includes the assets and liabilities, which have been determined, based on the conditions set-forth in the TESL described below:

(i) Fixed assets and related depreciation expense – Installation and equipment consisting of transmission and sub-transmission lines with voltages ranging from 69kV to 400kV (as defined by the TESL) were attributed to CFE Transmission and recognize in the carve-out financial statements together with its related accumulated depreciation and depreciation expense (refer note 6).

(ii) Debt and its associated financial cost and derivatives financials instruments - CFE uses a centralized approach to cash management and financing of its operations, excluding debt directly incurred by any of its businesses identified as "PIDIREGAS", which consisted of direct debt assumed in acquisitions of installation and equipment. A portion of CFE Holding's consolidated financial debt, consisting primarily of documented and public debt at fixed and variable rates, including amounts incurred directly, has been allocated as intercompany indebtedness to CFE Transmision pursuant to the Financial Framework Agreement based on debt levels consistent with an internally developed investment grade credit rating. However, these amounts may not be indicative of the actual amounts that CFE Transmision would have incurred had CFE Transmision been operating as an independent company for the periods presented. (Refer to notes 7 and 12).

(iii) Employee benefit liability due to Parent and other employee related costs were assigned in connection to employees' structure associated to transmission operations. As of September 30, 2017 and December 31, 2016, the employees which are part of the work structure of Transmission operations are incorporated in the employer's register of CFE, however, the employees associated to transmission operations are identifiable by cost center (department) so the liabilities and the net employee benefit cost for the periods presented have been included in the carve-out financial statements (refer to note 9).

(iv) Remaining assets and liabilities were directly attributable to the Transmission operations of Comision Federal de Electricidad.

(v) CFE Holding participated in the Transmission's operation of CFE centralized cash management and financing. Cash receipts derived from the CENACE agreement are received and in centralized accounts maintained by CFE. Disbursements were made from centralized accounts to the reporting entity's accounts in accordance with its cash requirements. As cash was disbursed and received by CFE Holding, it was accounted for by the Transmission's operation of CFE through Parent Company Net Investment.

(vi) Net parent investment represents CFE interest in the recorded net assets of CFE Transmision and represents the cumulative net investment by CFE in CFE Transmision through the dates presented.

Condensed carve-out statement of comprehensive income

The unaudited condensed interim carve-out financial statements include income from electricity transmission service and expenses that are allocated from general corporate expenses related to finance, legal, technology of information, human resources, communications, shared services, employee benefits and incentives for the same period. On the other hand, expenses were allocated based on its direct use when it is identifiable, with the rest allocated based on income, staff or other measures. The Company considers that the basis on which the expenses have been allocated is a reasonable reflection of the use of the services provided or of the benefit received during the periods presented. However, the allocations and / or contributions to the CFE Transmission operation as a result of the carve-out process would not represent the actual cost that we would have incurred as a separate / independent entity outside CFE.

The income tax has been determined under the assumption that Transmission operations were a separate taxable entity. This assumption implies that the current and deferred income taxes are calculated separately and the recoverability of the deferred tax is assessed accordingly. Due to the fact that the Transmission operations did not file separate tax returns in previous years, the respective current tax assets and liabilities, are deemed either contributed or distributed to CFE with a corresponding effect in equity as of the end of the respective fiscal year. The taxes actually paid by Transmission operations have been presented in the carved out statements of cash flows; the detailed contributions or distributions have not been included.

Management believes the assumptions underlying the allocations included in the financial statements are reasonable.

This unaudited condensed interim carve-out financial information have been prepared in accordance with the International Accounting Standard (IAS) 34 “Interim Financial Reporting” and does not include all of the information required for a complete set of annual financial statement prepared under International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Furthermore, these unaudited condensed interim carve-out financial information may not be indicative of CFE Transmision future performance and do not necessarily reflect what the results of operations, financial position and cash flows as if we would have been operating as an independent company during the presented periods.

The unaudited condensed interim carved-out financial statements have been prepared on a historical cost basis, except for certain derivative financial instruments and the installations and equipment, which are recorded at fair value.

c) Functional and reporting currency

The unaudited condensed interim carved out financial statements and their notes are presented in Mexican pesos (reporting currency), the Company’s functional currency.

For purposes of disclosure in the notes to the unaudited condensed interim carve-out financial statements, reference to pesos or “$” refers to Mexican pesos, reference to dollars refers to dollars of the United States of America, reference to euros refers to legal currency of the European Union, reference to yen refers to the currency in legal course in Japan, and reference to Swiss francs refers to the legal currency in Switzerland. All information is presented in millions of pesos and has been rounded to the nearest unit, except when otherwise indicated

d) Statements of comprehensive income

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

3. Summary of significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the annual carve-out financial statements as of December 31, 2016.

4. Financial Instruments - Fair Value and Risk Management

Objectives of financial risk management

The treasury department's function is directed by the SHCP's policies as to the cash management, which holds that investments are not made long-term and are made in low risk instruments. Status reports are made in a monthly basis to the Treasury's Investments Committee.

Credit Risk

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 Company 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 Company only carries out operations with parties having high solvency, creditworthiness and standing. The Company 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 Company to have a limited risk. The Company accounts for an allowance for doubtful accounts under the incurred losses model.

Liquidity risk

Liquidity risk is the risk a Company faces when having difficulties meeting its obligations associated with financial liabilities to be settled with cash or any other financial asset.

The financing obtained by the Company is mainly through CFE; which has made available its assigned debt and PIDIREGAS. In order to manage liquidity risk, the Company periodically performs cash flow analysis and maintains open credit lines with CFE. In addition, the Company is subject to a budgetary control exerted by the Federal Government, having a net debt ceiling authorized by the Federal Congress in a yearly basis based on its budgeted revenues.

The following table shows the contractual maturities of the Company's financial liabilities (not including derivative financial instruments) based on the payment terms:

At September 30, 2017	**Less than 1 year**	**More than 1 year and less than 3**	**More than 3 year and less than 5**	**More than 5 years**	**Total**
Documented debt	$ 15,081	$ 6,041	$ 17,635	$ 54,946	$ 93,703
Interest payable of documented debt*	5,334	9,175	7,318	25,525	47,352
PIDIREGAS debt	5,171	5,999	3,993	6,685	21,848
Interest payable of PIDIREGAS debt*	1,568	2,146	1,250	1,982	6,946
Suppliers and contractors	116				116
Total	**$ 27,270**	**$ 23,361**	**$ 30,196**	**$ 89,138**	**$ 169,965**

At December 31, 2016	**Less than 1 year**	**More than 1 year and less than 3**	**More than 3 year and less than 5**	**More than 5 years**	**Total**
Documented debt	$ 6,810	$ 14,775	$ 20,158	$ 62,640	$ 104,383
Interest payable of documented debt*	5,811	10,491	8,759	32,151	57,212
PIDIREGAS debt	3,243	7,727	3,785	4,144	18,899
Interest payable of PIDIREGAS debt*	1,108	1,457	708	649	3,922
Suppliers and contractors	78				78
Total	**$ 17,050**	**$ 34,450**	**$ 33,410**	**$ 99,584**	**$ 184,494**

* Includes all the interest cash flows to be paid in accordance to the corresponding contractual terms.

Market Risks

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company uses derivatives to manage market risks. All such transactions are carried out within the guidelines set by the Company's Financial Office. Generally, the Company seeks to apply hedge accounting to manage volatility in profit or loss.

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

Foreign currency exchange risk management

The Company borrows credits preferably in local currency.

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

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

Carrying amounts of monetary assets and liabilities denominated in foreign currency at the end of the reporting periods.

Sensitivity analysis of foreign currency

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

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

The sensitivity analysis only includes monetary open items denominated in foreign currency, adjusting its translation by a 5% change in foreign exchange rates at period end. The sensitivity analysis includes external loans, as well as loans derived from foreign operations within the Company, where the loan is in a currency other than the loaner or the borrower currency. A positive amount 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.

	Millions of pesos	
	30/09/2017	**31/12/2016**
Gain or loss	$ 3,010	$ 3,255

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

Management considers the impact of the inherent exchange risk affects electricity tariffs in the long-term due to inflation adjustments and the peso/dollar exchange rate.

Interest rate risk management

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

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the period reported.

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

	Millions of pesos	
	31/09/2017	**31/12/2016**
Gain or loss	$ 37	$ 42

The previous sensitivity analysis was estimated based on the fair value of the loans

Fair value of financial instruments

The carrying values of the following financial assets and liabilities recognized at amortized cost in the financial statements are considered to approximate their fair value, excepting for the long-term debt, as shown below:

	2017		**2016**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents (1)	$ 149	149	335	335
Accounts receivables (2)	26,131	26,131	2,436	2,436
Long-term accounts receivables (2)	1,119	1,119	1,047	1,047
Derivative financial instruments (1)	2,152	2,152	4,954	4,954
Financial liabilities:				
Short term portion of debt (2)	20,577	20,577	9,993	9,993
Long-term debt (2)	95,300	100,604	113,229	112,907
Suppliers and contractors (2)	116	116	78	78

(1) At fair value; (2) at amortized cost

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 requests a revision from its counterparty.

Valuations at fair value recognized in the statement of financial position

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:

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 7.

The levels referred to above are considered as follows:

- Level 1 valuation at fair value are those derived from quoted prices (not adjusted) on asset markets for identical liabilities or 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 (i.e., as prices) or indirectly (i.e., derived from prices).

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

5. Accounts receivable, net

At September 30, 2017 and December 31, 2016, accounts receivable are summarized as shown below:

	September 30, 2017	December 31, 2016
	(in millions of Mexican pesos)	
Accounts receivable, net		
Accounts receivable CENACE	$2,391	$1,844
Related Parties	23,118	-
Other	652	621
Allowance for doubtful accounts	(30)	(29)
Total	**$26,131**	**$2,436**

6. Installations and equipment

Carrying value of Installations and equipment at September 30, 2017, 2016 and December 31, 2016 are summarized below:

Investment as of September 30, 2017:

	Installations and equipment in operation	Spare parts	Construction in-progress	Construction materials	Total
Balances at January 1, 2017	$ 459,877	$ 766	$ 5,163	$ -	$ 465,806
Acquisitions	5,599	-	3,706	406	9,711
Disposals	(1,777)	-	-	-	(1,777)
Capitalization	4,356	(471)	(3,885)	-	-
Balances at September 30, 2017	**$ 468,055**	**$ 295**	**$ 4,984**	**$ 406**	**$ 473,740**

Accumulated depreciation as of September 30, 2017:

	Installations and equipment in operation	Spare parts	Construction in-progress	Construction Materials	Total
Balance at January 1, 2017	$ (176,933)	$ -	$ -	$ -	$ (176,933)
Net balances at January 1, 2017	282,944	766	5,163	-	288,873
Depreciation of the period	(9,137)	-	-	-	(9,137)
Depreciation on retirements	1,287	-	-	-	1,287
Depreciation	(7,850)	-	-	-	(7,850)
Balances at September 30, 2017	(184,783)	-	-	-	(184,783)
Net balances at September 30, 2017	**$ 283,272**	**$ 295**	**$ 4,984**	**$ 406**	**$ 288,957**

For the three months period ended September 30, 2017, additions and disposals of installations and equipment amounted to $4,904 and $225, respectively.

Investment as of September 30, 2016:

	Installations and equipment in operation	Spare parts	Construction in-progress	Construction Materials	Total
Balances at January 1, 2016	$ 435,229	$ 939	$ 1,575	$ 27	$ 437,770
Acquisitions	4,164	-	4,126	597	8,887
Revaluation of the period	-	-	-	-	-
Disposals	(1,511)		-	-	(1,511)
Capitalization	368	(368)			-
Balances at September 30, 2016	**$ 438,250**	**$ 571**	**$ 5,701**	**$ 624**	**$ 445,146**

Accumulated depreciation as of September 30, 2016

	Installations and equipment in operation	Spare parts	Construction in-progress	Construction Materials	Total
Balance at January 1, 2016	$ (167,698)	$ -	$ -	$ -	$ (167,698)
Net balance at January 1, 2016	267,531	939	1,575	27	270,072
Depreciation of the period	(7,835)	-	-	-	(7,835)
Depreciation on retirements disposals	1,233	-	-	-	1,233
Depreciation	(7,623)	-	-	-	(7,623)
Balances at September 30, 2016	(174,300)	-	-	-	(174,300)
Net balances at September 30, 2016	**$ 263,950**	**$ 571**	**$ 5,701**	**$ 624**	**$ 270,846**

For the three months period ended September 30, 2016, additions and disposals of installations and equipment amounted to $3,519 and $343 respectively.

Based on the periodic review of the fair values of installations and equipment in operation, 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.

From the above management performed an analysis, with the objective to revalue the assets and to review the useful lives assigned to them remaining life, and establish the process for the calculation of the impairment in the value thereof.

During the year ended December 31, 2016, the Company recorded a revaluation of $16,787 as part of its review of the assets' value and useful lives. For the nine-month and three-month period ended September 30, 2017 and 2016 and the year ended December 31, 2016, there were no impairment triggering events.

7. Assigned derivatives Financial Instruments

As of September 30, 2017 and December 31, 2016, the derivative financial instruments included in the carve-out financial statements correspond to values assigned and allocated to CFE Transmision pursuant to the terms of the TESL and the Financial Framework Agreement. In accordance with such terms, the purpose of the assignment is to apportion CFE Transmision the responsibility of providing CFE with the necessary funds to satisfy its payment obligations (including payment of principal and interest under the relevant financing agreement and related hedging expenses) under CFE Holding's existing financing agreements.

a. Accounting classifications and fair values

Transmission operations of CFE, in accordance with the risk management strategy, enter into assigned derivative financial instruments to mitigate exchange rate and interest rate exposure, which then affects Transmision operations. Of 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 September 30, 2017 and December 31, 2016 amounted to $2,152 and $4,954, respectively.

Financial instruments held for trading - As of September 30, 2017 and December 31, 2016 Transmission operations of CFE maintained designated derivative financial instruments whose fair value represented a liability of $149 and $249, respectively.

The transaction consists of a series of currency "Forwards" that allow fixing the exchange rate yen/dollar, during the agreed term of the operation in 54.0157 yen per one US dollar. CFE pays an interest rate equivalent to 8.42% per annum in US dollars. These instruments are not classify 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 the CFE decides to cancel this economic hedge (currency forwards on yen/dollar exchange rate) in advance, an estimated extraordinary loss would occur at September 30, 2017 and December 31, 2016 at $ 149 and $249, respectively, equivalent to the amount of the instruments.

Instrument	Underlying	Maturity	2016	2015
FWD				
JPY/Usd	Exchange and interest rate	2036	149	249
		Total	**149**	**249**

Financial instruments held for hedging purposes – As of September 30, 2017 and December 31, 2016, Transmission operations maintains its designated hedges on, exchange rate and interest rate hedging position. CFE acts as a counterparty of all the Transmission Operations hedges, as described below:

Instrument	Underlying	Hedging type	Maturity	2017	2016
CCS	Exchange and interest rate	Cash Flow	2021	133	239
CCS	Exchange and interest rate	Cash Flow	2022	38	-
CCS	Exchange and interest rate	Cash Flow	2023	606	1,373
CCS	Exchange and interest rate	Cash Flow	2024	1,280	2,812
CCS	Exchange and interest rate	Cash Flow	2027	(11)	-
CCS	Exchange and interest rate	Cash Flow	2036	372	718
IRS	Interest rate	Cash Flow	2017	-	(1)
IRS	Interest rate	Cash Flow	2018	-	(1)
IRS	Interest rate	Cash Flow	2020	38	63
Call Spread	Exchange rate	Cash Flow	2027	(155)	-
				2,301	**5,203**
				(149)	(249)
			Total	**$ 2,152**	**$ 4,954**

IRS = Interest Rate Swaps
CCS = Cross Currency Swap

The table above includes the mark to market of the hedging derivatives. The total mark to market of the portfolio including trading and hedge derivatives was $2,152 and $4,954 for its carrying amount at September 30, 2017 and December 31, 2016.

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

b. Fair value Measurement

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

Fair Value Adjustment or Mark to Market by Credit Risk

The net of the fair value of financial derivatives (Mark to Market) effective as of September 30, 2017, before considering credit risk, amounted to $2,152, which is included in the balance sheet and consists of ($149) of instruments at fair value to profit and losses and $2,301 at fair value to OCI.

CFE applies a valuation adjustment (CVA) to take into account the possibility of a counterparty's default. CVA is the market value of counterparty credit risk and reflects the estimated fair value of the protection required to hedge the counterparty credit risk embedded in such instrument.

Fair Value Adjustment Methodology

The Financial Risk Management Committee (Comité Delegado Interinstitucional para la administración de riesgos financieros asociados a la posición financiera y a los precios de los combustibles fósiles) approved the methodology.

As of September 30, 2017, the adjustment to fair value by the CVA (Credit Value Adjustment) detailed as follows:

Counterparty	Fair value MTM	Adjusted fair value MTM	Adjustment at September 30, 2017
CFE Holding	$ 2,627	$ 2,606	$ 21
Total	**$ 2,627**	**$ 2,606**	**$ 21**

As of December 31, 2016, the fair value adjustment (Credit Valuation Adjustment) detailed as follows:

Counterparty	Fair value MTM	Adjusted fair value MTM	Adjustment at December 31, 2016
CFE Holding	$ 5,276	$ 5,203	$ (73)
Total	**$ 5,276**	**$ 5,203**	**$ (73)**

The adjustment of fair value corresponds for those positions 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

All the financial derivatives are valued by the counterparty acting as the valuation agent. The counterparty uses valuation techniques where all significant inputs into the valuation are based on observable market data in a monthly basis.

Therefore, the hierarchy level of the Company's Mark-to-Market for derivatives financial instruments as September 30, 2017 is level 2 by the following:

a) Quoted prices for identical or similar assets or liabilities in markets that are not active.
b) Quoted prices for similar assets or liabilities in active markets.
c) Inputs other than quoted prices that are observable for the asset or liabilities.

c. Financial Risk Management

Transmissions operations are exposed to the following financial risks for maintaining and using derivative financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

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. In order to mitigate the credit risk, the Company only trade with high solvency counterparties.

The Company manages the credit risk by monitoring the credit rating and the probability of default of the counterparty, the market value of the derivative is adjusted with the probability of default implied in the credit default swap contracts.

The carrying amount of derivative financial assets represents the maximum exposure to credit risk. As of September 30, 2017 and December 31, 2016, this amounted to $2,301 and $4,954, respectively.

Liquidity risk

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

The Company manages the liquidity risk by monitoring the market value of the derivative and the consumption of the Threshold.

Exposure to liquidity risk by holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of September 30, 2017 and December 31, 2016, this amount amounted to $ 149 and $ 249, respectively.

Market risks

The market risk of financial derivatives is the risk that changes in market prices, such as exchange rates and interest rates, affect the Company income because of holding of derivative financial instruments.

The Company 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 income statement.

a) *Foreign Currency exchange risks.*

35% of our debt is denominated in foreign currency, mainly in US dollars, while most of our assets and revenues are denominated in pesos. Transmission Operations of CFE is exposed to currency risk. CFE contracts cross-currency swaps to reduce the impact of currency variations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay fixed rates in pesos. As of September 30, 2017 and December 31, 2016, CFE Transmision maintains cross-currency swaps and forwards interest rate swaps as a hedge of our foreign currency debt for $25,597 and $22,764, respectively.

To hedge the foreign exchange rate risks of the $32 billion JPY debt, CFE contract a series of fx forwards and call options in order to receive JPY. The market value of this transaction as September 30, 2017 and December 31, 2016 is ($149) and ($249) respectively. These derivative instruments were not classified for hedging purpose.

<u>Sensitivity analysis for exchange rate effect</u>

A possible increased (weakening) of the MXN / USD and JPY / USD exchange rates as of September 30, 2017 will affect the fair value of the total position of foreign currency derivative financial instruments. 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 table.

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

30/09/17	Instrument	+1 Cent	-1 Cent
	Cross Currency	13	(13)
	JPY / USD Derivatives	2	(2)
	Total	15	(15)

b) Interest rate risk

39% of our debt accrues interest at floating rates, use the MXN TIIE as a reference rate. As of September 30, 2017 and December 31, 2016, the Company hedged $1,645 and $2,288 million pesos of our floating rate peso-denominated debt.

Sensitivity analysis for interest rates

A possible increased (weakening) of interest rates as of September 30, 2017 will affect 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:

30/09/17	+ 1 Basis point	- 1 Basis point
Interest rate swaps	0.2	(0.2)

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

8. Other Assets

The other assets are integrated as follows:

	September 30, 2017	December 31, 2016
Intangible assets (1)	$27,858	$27,813
Other amortizing costs	6	1
Total	**$27,864**	**$27,814**

(1) Includes rights of way that are not subject to amortization.

9. Employee benefits liabilities due to Parent

As of September 30, 2017 and December 31, 2016, the employee benefit obligation included in the unaudited condensed interim carve-out financial statements corresponds to values assigned and allocated to CFE Transmission pursuant to the terms of the CFE Law, the Law of the Electric Industry and the TESL. Such terms mandates the assignment of the total labor liability cost to the different EPS. At the date of issuance of these unaudited condensed interim carve-out financial statements, the Company continues in process to complete the transfer of employees from the former Transmission Department from CFE Holding to CFE Transmission. Given that CFE Transmission has no employees, the employee benefits liability has been presented as a related party liability due to parent. As indicated in note 2, employee benefits obligation and corresponding costs were assigned in connection to the employees' structure associated to transmission operations.

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

For the nine-month and three month period ended September 30, 2017, there was no significant changes or modifications made to the plan.

As mentioned in note 1, on May 19, 2016, the Company carried out a review and negotiation of the term of its Collective Labor Agreement. Derived from this review, various clauses mainly affecting the retirement account were modified causing a reduction in the labor liabilities. Therefore, for the nine-month period ended September 30, 2016, these plan amendments contributed to have an income in profit and losses of $11,734. For the three month period ended September 30, 2016, there was no significant changes or modification made to the plan.

10. Income tax

During 2015, CFE was Transformed into a Productive State Enterprise, previously was a Decentralized Public Company, This Situation consequently lead CFE to no longer apply for the regime included in Title III of the Income Tax Law (Non-Profit Legal Entities), and rather, to apply the provisions in the Title II of the above Law (General regime for corporations and legal entities).

Tax expense is recognized based on management's best estimate of the weighted-average annual income tax rate expected for the full financial year multiplied by the pre-tax income of the interim reporting period.

CFE Transmision effective tax rate in respect of income from continuing operations for the nine and three months period ended September 30, 2017 and 2016 were 30% and 84%, respectively. The change in effective tax rate was caused mainly by the re-measurement of the tax basis of installments and equipment and the effect of the assumption by the Federal Government in settling the obligation for the employee benefit liability occurred in 2016. The quantified effect of the facts previously indicated was (138%) and 17%, respectively.

11. Foreign currency position

As of September 30, 2017 and December 31, 2016, Transmission operations of CFE had liabilities denominated in foreign currency as follows:

	September 30, 2017		
	Liabilities		
	External Debt	PIDIREGAS	Short position In foreign currency
US dollars	$ 2,719	$ 204	$ 2,923
Euros	1	-	1
Swiss francs	28	-	28
Japanese yen	2,201	-	2,201

	December 31, 2016		
	Liabilities		
	External Debt	PIDIREGAS	Short position In foreign currency
US dollars	$ 2,791	$ 44	$ 2,835
Euros	1	-	1
Swiss francs	39	-	39
Japanese yen	2,926	-	2,926

These liabilities in foreign currency were converted to local currency at the exchange rate established by Mexico´s Central Bank (Banco de México) in the Official Gazette effective September 30, 2017 and December 31, 2016 as follows:

	As of	
Currency	**September 30, 2017**	**December 31, 2016**
US Dollars	$18.1300	$20.7314
Euros	21.4666	21.7534
Japanese Yen	0.1613	0.1768
Swiss francs	18.7673	20.2936

12. Assigned long-term debt

As of September 30, 2017 and December 31, 2016, the debt included in the carve-out financial statements corresponds to intercompany indebtedness (documented and PIDIREGAS obligations) assigned and allocated to CFE Transmision pursuant to the terms of the TESL and the Financial Framework Agreement. In accordance with such terms, the purpose of the assignment is to apportion CFE Transmision the responsibility of providing CFE with the necessary funds to satisfy its payment obligations (including payment of principal and interest under the relevant financing agreement and related hedging expenses) under CFE Holding's existing financing agreements.

Documented debt

The documented debt balances at September 30, 2017 and December 31, 2016 are as follows:

Foreign debt	Weighted Interest rate	Maturities	Sep17	Sep17	Dec16	Dec16
In US dollars			Local Currency	Foreign currency	Local Currency	Foreign currency
	Fixed and variable 1.36%	Several until 2023	$842	$46	$1,348	$ 65
	Fixed and variable 5.12%	Several until 2045	44,108	2,568	53,563	2,718
	Fixed and variable 2.10%	Several until 2020	85	5	149	7
	Fixed and variable 1.54%	2018	1,813	100	-	-
		Total US dollars:	**46,848**	**2,719**	**55,060**	**2,790**
In Euros						
	Fixed and variable 2%	Several until 2024	19	1	22	1
	Fixed and variable 0.93%	Several until 2020	3	-	5	-
		Total Euros:	**22**	**1**	**27**	**1**
In Swiss Francs						
	Fixed and variable 0.61%	Several until 2021	518	28	788	39
		Total Swiss Francs:	**518**	**28**	**788**	**39**
In Japanese yens						
	Fixed and variable 1.54%	Several until 2021	355	2,201	517	2,926
	Fixed - 3.83%	2032	2,581	16,000	2,829	16,000
Assets received by financial instruments:			(138)	-	(36)	-
		Total Japanese yen:	**2,798**	**18,201**	**3,310**	**18,926**
Total foreign debt			**$50,186**	**$20,949**	**$59,185**	**$21,756**

Type of credit	Weighted Interest rate	Maturities	Sep17	Dec16
Domestic debt				
Local currency				
	Fixed and variable 7.32%	Several until 2021	$7,550	$9,350
	Fixed and variable 7.37%	Several until 2023	33,250	33,250
Total Mexican pesos:			**40,800**	**42,600**
In UDIS:				
	Fixed - 4.37%	2025	2,718	2,598
Total UDIS			**$ 2,718**	**$ 2,598**
Total domestic debt			**$43,518**	**$45,198**

Summary		
Type of debt	**Sep17**	**Dec16**
Total foreign debt	50,186	59,185
Total domestic debt	43,518	45,198
Total documented debt	**93,704**	**104,383**
Interest payable	1,109	963
Expenses for amortization of debt	(1,067)	(1,154)
Total documented debt	**$93,746**	**$104,192**

In summary, the balance of the documented debt is as follows:

	2017	2016
Documented debt		
Short term	$ 15,123	$ 6,619
Long term	78,623	97,573
Total	**$ 93,746**	**$ 104,192**

The integrations of the financing obtained for the nine-month period ended September 30, 2017 and 2016, are shown below:

In July 2017, two issues of Certificados Bursatiles (CEBURES) were placed by CFE Holding in the national markets and assigned to CFE Transmission for a total of $4,000 as follows: 1) CFE 17 series for an amount of $3,500, which will pay monthly interest at a fixed rate of 8.18% with maturity in December 2027 and; 2) CFE 17-2 series for an amount of $500, which will pay monthly interest at a 28-day TIIE variable rate plus 0.40%, due in July 2020.

In July 2017, a loan subscribed of $1,250 was obtained at a 28-day TIIE rate plus 0.13%, with monthly interest payments and which will be amortized in the last quarter of the year.

In August 2017, a loan subscribed of $1,250 was obtained at a 28-day TIIE rate plus 0.48%, with monthly interest payments, which will be amortized in the last quarter of the year.

During April 2017, 0.5 million of USD dollars (in its equivalent in JPY) of the line of credit subscribed with Japan Bank for International Cooperation (JBIC). During March 2017, 1.06 million of USD dollars of the credit line signed with the Export Development of Canada (EDC) were assigned to CFE Transmission.

In April 2017, a line of credit for $ 1,250 million of internally documented debt contracted with was available. (TIIE rate 28 + 0.13) with maturity to October 2017.

On January 13, 2016, a syndicated loan of $625 was arranged, acting as the administrative agent. The loan bears an interest rate of LIBOR USD plus 1.15% and matures the last quarter of 2016.

In the first quarter of 2016, proceeds of $8.3 million of US dollars (in its equivalent in JPY) were obtained.

On September 29, 2016, $150 million of US dollars were placed through a private bond. Such bond bears an interest rate of 4.39%, having a 20-year term and a maturity in September 2036.

On October 18, 2016, a fixed rate bond of $500 of US dollars was placed. This bond was contracted at a coupon fixed rate of 4.75%, with a term of 10 years and four months, and a maturity in February 2027.

On October 19, 2016, $187.5 of US dollars were placed through a fixed rate bond. This bond was contracted at a fixed coupon rate of 5.00%, with a term of 20 years and a maturity in September 2036.

In the second quarter of 2016, proceeds of $0.36 of US dollars (in its equivalent in JPY) were obtained from a credit line.

In the second quarter of 2016, proceeds of $11.75 of US dollars (in its equivalent JPY and CHF) were obtained from a credit line executed.

In the third quarter of 2016, proceeds of $3.75 million of US dollars (in its equivalent JPY and CHF) were obtained from a credit line executed.

Also, in the fourth quarter of 2016, proceeds of 1.98 million of US dollars (in its equivalent in JPY) were obtained from a credit line subscribed.

Long-term debt related to Productive Infrastructure projects (PIDIREGAS by its acronym in Spanish)

The balances of PIDIREGAS (direct investment) debt as of September 30, 2017 and December 31, 2016 mature as follows:

	Sep 2017	Dec 2016
Short term		
	$5,171	$3,243
Long term		
2018	1,056	4,964
2019	3,153	2,763
2020	2,518	2,130
2021	2,042	1,655
2022	1,446	1,197
Subsequent years	6,462	2,947
Total long term	16,677	15,656
	21,848	**18,899**
Interest	283	131
Total	**$22,131**	**$19,030**

At December 31, 2016 and September 30 2017, the debt corresponding to the acquisition of plants, facilities and equipment through PIDIREGAS is summarized as follows:

Foreign debt		As of September 30, 2017			
		Local Currency		Foreign currency	
Value of the credit (Millions of US dollars)	Maturity	Short term	Long term	Short term	Long term
141	2036	$ 112	$ 2,451	$ 6	$ 135
63	2047	38	1,106	2	61
Total		**$ 150**	**$ 3,557**	**$ 8**	**$ 196**

Foreign debt		As of December 31, 2016			
		Local Currency		Foreign currency	
Value of the credit (Millions of US dollars)	Maturity	Short term	Long term	Short term	Long term
44	2036	$ 38	$ 874	$ 2	$ 42
Total		**$ 38**	**$ 874**	**$ 2**	**$ 42**

Domestic Debt		As of September 30, 2017		As of December 31, 2016	
		Local Currency		Foreign currency	
Value of the credit (Millions of pesos)	Maturities	Short term	Long term	Short term	Long term
614	2017	$ 33	$ -	$ 241	$ -
3,418	2018	1,948	-	203	1,948
3,260	2019	399	418	397	776
5,930	2020	703	1,487	703	1,902
2,044	2021	217	671	217	823
4,239	2022	459	1,773	459	2,143
1,425	2023	159	851	159	987
4,248	2024	454	2,725	453	3,158
2,382	2025	250	1,872	250	1,997
3,722	2026	376	3,134	123	1,048
211	2027	23	189	-	-
Total		**$ 5,021**	**$ 13,120**	**$ 3,205**	**$ 14,782**

In summary, the balance of the PIDIREGAS debt is as follows:

	2017	2016
PIDIREGAS debt		
Short term	5,171	3,243
Long term	16,677	15,656
Interests	283	131
Total	**$ 22,131**	**$ 19,030**

In summary, the balance of total debt assigned is as follows:

Summary		
Short term of documented debt	$ 15,123	$ 6,619
Short term of PIDIREGAS debt	5,454	3,374
Total short term portion of long term debt	20,577	9,993
Long term of documented debt	78,623	97,573
Long term of PIDIREGAS debt	16,677	15,656
Total long term portion	95,300	113,229
Total debt	**$ 115,877**	**$ 123,222**

13. Other related parties transactions

The EPS and the corporate CFE mentioned in this note, which arose derived from the treaties of strict legal separation, are considered related parties of the Transmission operations, since they are all part of the productive company of the State CFE.

These transactions are regulated by a framework contract among these components, which also has attachments that describe each of the services or operations that exist between them and their method of collection.

The services between the EPS, described below, are regulated by the following exhibits in the respective contract:

* Transactions between Transmission operations of CFE and CFE Holding:

- Technological services – Corporate CFE provides tech communication and IT security.
- Air transportation leasing – Helicopter use rental services, needed to supervise transmission lines.
- Vehicle Leasing – Vehicle leasing for the Transmission operations of CFE
- Training – Advice and support for SIC R1 (CFE´s Training platform) users, specialists in training education and, the rental and administration of the SIC R1 platform.
- Specialized Engineering – Failure analysis of the National Transmission Network, studies and other specialized services.

- Security Personnel – Deployment of navy and military personnel, in charge of the surveillance and the safety of the company´s facilities and transmission lines, and studies regarding CFE Transmission's assets and their safety.
- Risk and insurance administration – In charge of the biddings and hiring insurance carriers, policy administration and follow up of recovery of insurance claims.
- Laboratory services – Studies and analysis about flaws or failures in transmission lines or substations, lab tests, advice and assurance of operating quality.
- Telecom services – Existing annex but it does not apply since CFE Transmision owns the optic fiber.
- Legal Services – From CFE´s general attorney.
- Housing Mortgages (FHSSTE, for its acronym in Spanish) – Housing Mortgages for employees.
- Human resources (SIRH) – Payroll and related services.
- Financed investment Projects Direction (DPIF, for its acronym in Spanish) – Feasibility studio, prior to the construction of additions to the National Transmission Network, the supervision and the setup of granted works to third parties.
- Strategy and regulation – Regulatory agenda administration, performance evaluation and case-by-case analysis of new investment projects.
- Purchases – The purchase of materials needed by CFE´s companies is consolidated to make faster biddings and get better prices.
- Management of Institutional Information System – License payment, services and support regarding SAP platform.
- Energy Saving Projects – Evaluation and follow on of new projects regarding energy efficient use and energy saving. New technology evaluation, workshops and promotion of energy saving.
- Properties in sale – Managing the sales of assets.
- Rental of properties coming from Luz y Fuerza del Centro– The rental of properties which CFE became the owner after the extinction of the former state enterprise Luz y Fuerza del Centro.
- This annex is divided into 4 sections: A) Services regarding derivatives and hedging of assigned debt, B) Computation, administration and allocation of the annual Budget corresponding to each of CFE´s companies, C) Treasury services, y D) Negotiation and management of the assigned debt.
- Media and marketing –Publicity and marketing services.
- General Services – Maintenance and cleaning of administrative properties, in charge of office supplies, travel agency and Messenger services.
- Specialized Training – Managing of the National Center of Specialized Training.
- Evaluation and planning – Specialized engineering services, includes technical training
- Industrial Security – Planning and managing safety measures for accident prevention in the company´s facilities.

Transmission between operations of CFE and other CFE Holding subsidiaries:

- Operating and maintenance – The use of one's Company personnel for another one´s purposes.
- Automation systems (SCADA) – The use of control equipment for the automation of services provided by the EPS.

- Modernization and work setup – Support between EPS regarding renovations and new construction works in progress.
- Training – Given training one´s Company personnel to another one´s.
- Infrastructure leasing – Form one´s EPS to another one.
- Administrative services– Payroll services.
- Emergency response – Support between EPS in case of a sinister.

Related parties transactions are summarize below:

	for the nine-months period ended		for the three months period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Services Revenues				
Maintenance	$273	$406	111	135
Operation	51	27	8	9
Reading	2	4	1	1
Scada-Operation	16	19	7	6
Infrastructure lease	44	43	15	14
Training	4	7	1	2
Administrative Services	10	9	4	3
Other Income	9	-	3	-
Total	**$409**	**$515**	**$150**	**$170**

	for the nine-months period ended		for the three-months period ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Services Expenses				
Maintenance	$ 3,803	$ 2,542	$ 1,889	$ 846
Insurance policy	700	436	457	246
Security for operational assets	329	360	113	120
General services	51	85	18	28
Personnel services	-	19	(422)	7
Technical services	249	172	168	62
Administrative Services	844	268	155	86
Total	**$5,451**	**$3,882**	**$2,378**	**$1,395**

The intercompany transactions shown above are disclosed at their fair value.

14. Contingent liabilities and commitments

a. Contingencies

The Company is involved in several lawsuits and claims derived from the normal course of its operations, which are not expected to have a material effect in the financial position and future results.

b. Commitments

- **Financing public works agreement**

  As of September 30, 2017 CFE Transmision has been assigned with some financed public works agreements, whose payment commitments will begin on the dates when the private investors finish the construction of each of the investment projects and deliver to the Company the assets for its operation. The estimated amounts of these financed public works contracts which payments commitment dates will begin in 2017 and 2018 and 2019, are $33,814 (1,798 million of US dollars), $7,881 (420 million of US dollars) and $2,419 (118 million of US dollars), respectively.

- **Guaranteed debt**

  As of September 30, 2017, the total amount of indebtedness of CFE Holding guaranteed by CFE Transmision, was $115,551 ($6,373 million of US dollars).

- **Commercial operation agreement**

  On CFE Transmission has formalized an agreement with CENACE for the commercial operation of the transmission. Transmission operations of CFE celebrate contracts of Interconnection and connection with users of the National Transmission Network (RNT for its acronym in Spanish). CENACE formalizes market participants' contracts with Power Plants, Cargo Centers and Suppliers. Charges for the use of the network are made by CENACE to market participants and paid to CFE Transmission through daily statements.

15. New accounting pronouncements

The following recent changes in the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), are to be applied after accounting periods beginning on January 1'st, 2018. The changes are described below:

<u>IFRS 9 "Financial Instruments" (January 1st, 2018)</u>

The group has made a preliminary assessment of the possible impact of the adoption of IFRS 9 based on the positions as of December 31, 2016 and the hedging relationships designated during 2016 under IAS 39.

IFRS 15 ""Revenue from Contracts with Customers" (January 1st, 2018)

IFRS 15 establishes a complete conceptual framework for determining whether to recognize Income from ordinary activities, when to recognize it and in what amount. This standard replaces the existing revenue recognition guideline, including IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and IFRIC 13 Customer Loyalty Programs.

The Company is performing its initial assessment of the possible impact of the adoption of the IFRS 15 in its financial statements.

IFRS 16 "Leases" (January 1st, 2019)

IFRS 16 replaces existing lease guidance including IAS 17 “Leases”, IFRIC 4 I, the SIC 15 “Operational Leases-Incentives” and SIC 27 “Evaluation of the substance of transactions that take the legal form of a lease”.

The Company is performing its initial assessment of the potential impact. The most significant impact identified is that the Company will recognize new assets and liabilities for its operating leases. Furthermore, the nature of the expenses related to these leases will change in the new standard, as IFRS 16 replaces the operating lease expense for a depreciation charge on a Right of Use asset, and an interest expense for the corresponding lease liability.

Likewise, the IASB promulgated improvements to the standard that comes into force beginning January 1, 2016, and which are continuation:

Disclosure Initiative (Adaptations to IAS 7)

The modifications require disclosures that allow users of the financial statements to assess changes in liabilities arising from financing activities, including changes arising from cash flows and changes not related to cash.

Recognition of deferred tax assets for unrealized losses (Adjustments to IAS 12)

The amendments clarify the accounting of deferred tax assets by unrealized losses related to debt instruments measured at fair value.

The amendments are effective for annual periods beginning on January 1st, 2017 or later.

The Company is assessing the possible impact that these changes may have on the financial statements. Currently, no significant impacts are expected. The Company will evaluate the impact that financial rules may have before the standard enters into force.

16. Issuance of condensed financial statements

The issuance of these carve-out financial statements and the corresponding notes were approved by Management on January 22, 2018. Subsequent events were considered until such date. Likewise, the unaudited condensed interim Carve-out Financial Statements shall be made known to the Board of Directors. This body has the power to amend the accompanying financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

Carve out Financial Statements as of December 31, 2016 and 2015 and for the years then ended.

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Independent Auditors' Report on Carve-out Financial Statements

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

Opinion

We have audited the carve-out financial statements of Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries (the "Reporting Entity"), which comprise the carve-out statement of financial position as at December 31, 2016, the carve-out statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying carve-out financial statements present fairly, in all material respects, the carve-out financial position of the Reporting Entity as at December 31, 2016, and its carve-out financial performance and its carve-out cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the carve-out Financial Statements* section of our report. We are independent of the Reporting Entity in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the carve-out financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Preparation

We draw attention to note 2 to the carve-out financial statements, which describes their basis of preparation, including the approach to and the purpose of their preparation. The carve-out financial statements were prepared to assist Irrevocable Trust CIB/2919 in respect of an international and a local offerings of Energy and Infrastructure Trust Certificates. Consequently, the Reporting Entity's carve-out financial statements may not necessarily be indicative of the financial performance that would have been achieved if the Reporting Entity had operated as an independent entity, nor may they be indicative of the results of operations of the Reporting Entity for any future period. Our opinion is not modified in respect of this matter.

(Continued)

Aguascalientes, Ags.
Cancún, Q. Roo.
Ciudad de México.
Ciudad Juárez, Chih.
Culiacán, Sin.
Chihuahua, Chih.
Guadalajara, Jal.
Hermosillo, Son.
León, Gto.
Mérida, Yuc.
Mexicali, B.C.
Monterrey, N.L.
Puebla, Pue.
Querétaro, Qro.
Reynosa, Tamps.
Saltillo, Coah.
San Luis Potosí, S.L.P.
Tijuana, B.C.

Responsibilities of Management and Those Charged with Governance for the Carve-out Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Carve-out Financial Statements

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

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

- Identify and assess the risks of material misstatement of the carve-out financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Reporting Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(Continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Reporting Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the carve-out financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Reporting Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the carve-out financial statements, including the disclosures, and whether the carve-out financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Reporting Entity to express an opinion on the carve-out financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

Other matter

The financial statements of the Reporting Entity at December 31, 2015 and for the year then ended, were audited by other auditors who, on November 17, 2017, issued and unmodified opinion thereon.

KPMG CARDENAS DOSAL, S.C.

Jesus Zuñiga

Mexico City, January 22, 2018.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

Carve-out statement of financial position

As of December 31, 2016 and 2015

(Millions of pesos)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 335	$ 73
Accounts receivable (note 5)	2,436	1,434
Inventory of materials for operation, net	1,279	1,292
Total current assets	4.050	2,799
Accounts receivable	1,047	910
Installations and equipment, net (note 6)	288,873	270,072
Derivative financial instruments (note 7)	4,954	730
Other assets (note 8)	27,814	27,761
Deferred income taxes (note 10)	10,497	-
Total assets	**$ 337,235**	**$ 302,272**

	2016	2015
Liabilities and equity		
Current liabilities:		
Short term portion of long term debt (note 13)	$ 9,993	$ 11,410
Other payables and accrued liabilities	1,509	991
Total current liabilities	11,502	12,401
Long-term liabilities:		
Long-term debt (note 13)	113,229	95,468
Employee benefits due to parent (note 9)	34,367	61,425
Deferred income taxes (note 10)	-	17,704
Deferred revenue	594	1,448
Total long-term liabilities	148,190	176,045
Total liabilities	159,692	188,446
Equity:		
Net parent investment	39,987	59,486
Retained earnings	59,543	3,644
Other comprehensive income (note11)	78,013	50,696
Total Equity	177,543	113,826
Total liabilities and equity	**$ 337,235**	**$ 302,272**

See accompanying notes to carve-out financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

Carve-out statements of comprehensive income

For the years ended December 31, 2016 and 2015

(Millions of pesos)

	2016	2015
Revenues:		
Transmission services revenue	$ 51,804	$ 46,740
Other income	941	1,548
Total revenues	52,745	48,288
Costs:		
Salaries and related costs	6,314	6,345
Labor obligations (benefits) cost (note 9)	(10,353)	6,694
Maintenance and materials	4,932	4,875
Administrative services	361	363
Tax and duties	96	115
Depreciation	10,467	8,578
Loss on disposal of fixed assets	288	1,148
Operating assets security	795	969
Other operating costs (income)	1,380	(1,056)
Total costs	14,280	28,031
Operating income	38,465	20,257
Financing costs, net:		
Interest expense	5,975	5,293
Foreign exchange loss and derivate financial instruments results	5,348	7,098
Total financing cost	11,323	12,391
Income before income taxes and other comprehensive income	27,142	7,866
Income taxes (note 10):		
Current income tax expense	4,607	1,191
Deferred tax (income) expense	(33,364)	3,031
	28,757	4,222
Net income	**$ 55,899**	**$ 3,644**
Other comprehensive income (note 11)		
Items that are not subsequently reclassified to the results of the period:		
Re-measurements of employee benefits liabilities, net of taxes	(1,362)	3,219
Recognition of the assumptions by the Federal Government in the settling of obligation for the employee benefit liabilities, net of taxes	10,685	-
Revaluation of installations and equipment	16,787	-
Cash flow hedging	1,207	(236)
Total other comprehensive income	27,317	2,983
Comprehensive income	**$ 83,216**	$ **6,627**

See accompanying notes to carve-out financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

Carve-out statements of changes in equity

For the years ended December 31, 2016 and 2015

(Millions of pesos)

	Net parent investment	Retained earnings	Other comprehensive income	Total
Balance as of January 1, 2015	$ 80,967	$ -	$ 47,713	$ 128,680
Net transfers of investment from parent company	(21,481)	-	-	(21,481)
Net comprehensive income for the year	-	3,644	2,983	6,627
Balance as of December 31, 2015	**59,486**	**3,644**	**50,696**	**113,826**
Net transfers of investment from parent company	(19,499)	-	-	(19,499)
Net comprehensive income for the year	-	55,899	27,317	83,216
Balance as of December 31, 2016	**$ 39,987**	**$ 59,543**	**$ 78,013**	**$ 177,543**

See accompanying notes to carve-out financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

Carve-out statements of changes in cash flows

For the years ended December 31, 2016 and 2015

(Millions of pesos)

	2016	2015
Cash flow from operating activities:		
Income before income taxes and other comprehensive income	$ 27,142	$ 7,866
Items related to operating activities:		
Labor obligations (benefit) cost	(10,353)	6,694
Items related to investing activities:		
Depreciation	10,467	8,578
Loss of installations and equipment	288	1,148
Items related to financing activities:		
Unrealized exchange loss, interest expense and change in the fair value of derivate financial instruments	13,532	21,618
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,002)	158
Inventory of materials for operation	13	(530)
Other accounts payable and accrued liabilities	(4,940)	7,706
Employee's benefit payments	(2,803)	(3,198)
Net cash provided by operating activities	32,344	50,040
Cash flow from investing activities:		
Acquisitions of installations and equipment	(7,088)	(26,492)
Other assets	386	(1,060)
Net cash used in investing activities	(6,702)	(27,552)
Cash flow from financing activities:		
Debt proceeds	24,228	24,108
Debt payments	(23,740)	(19,722)
Interest paid	(6,144)	(5,217)
Financial Instruments proceeds	811	342
Payments of derivative financial instruments	(1,036)	(517)
Net transfer of investment in parent company	(19,499)	(21,292)
Net cash flows used in financing activities	(25,380)	(22,298)
Net increase in cash and cash equivalents	262	190
Cash and cash equivalents:		
At beginning of period	73	(117)
At end of period	**$ 335**	**$ 73**

See accompanying notes to carve-out financial statements.

1. Definition of the Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries (subsequently referred to as "Transmission operations of CFE", CFE Transmision" or "the Company") and relevant events

- **Definition of Transmission operations of CFE.**

The Comision Federal de Electricidad Law ("CFE Law") was published on August 11, 2014, and became effective on October 7, 2014. The CFE Law mandates the transformation of Comision Federal de Electricidad, Productive State Enterprise (subsequently referred as "CFE" or "CFE Holding") into a Productive State Enterprise (EPES for its acronym in Spanish).

CFE purpose is 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.

Transmission operations of CFE's purpose is to provide the public service of electricity transmission in Mexico, as well as to carry out, among other activities, the financing, installation, maintenance, management, operation and expansion of the National Transmission Network (NTN) to provide such service in accordance with the provisions in the CFE Law, the terms of strict legal separation of the CFE ("TESL") and any other applicable legal provision. The Company's registered address is Paseo de la Reforma 164, Colonia Juarez in Mexico City.

- **Relevant events.**

<u>Strict legal separation</u>

According to the guidelines set forth by the Law of the Electric Industry ("LEI") and the CFE Law, in order to guarantee the open access, efficient operation and competition of the electricity industry, CFE will carry out, in a strict independent way among them, the activities of Generation, Transmission, Distribution, Marketing, Basic Supply, Qualified Supply, and Last resource supply, Supply of primary inputs for the electric industry, as well as the auxiliary activities, for which, the above mentioned laws, establish the accounting, functional and structural CFE's separation process required.

The terms for the strict legal separation (TESL for its acronym in Spanish) 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 and so that its market share is independent through each of the units in which is separated with the purpose of generating economic value and profitability for the Mexican State as its owner.

Based on the TESL, all this activities would be carried out by the incorporated Productive State Subsidiaries (EPS for its acronym in Spanish).

Mexican Wholesale Electricity Market (MEM)

Following the beginning of operations of the Mexican Wholesale Electricity Market (MEM), and pursuant to Transitory Article Three of the Electricity Industry Law, the Ministry of Energy extended the term to December 31, 2016 for CFE to conduct its activities of transmission, distribution, basic supply, commercialization other than primary inputs supply and primary inputs, including any participation on the Wholesale Electricity Market (MEM), and extended the term to February 1, 2017, to conduct its activities of generation.

Incorporation of CFE Transmision, EPS (part of Transmission operations of Comision Federal de Electricidad)

On March 29, 2016 the resolutions for the incorporation of the CFE Transmision, EPS were published in the DOF. CFE Transmision, EPS were established to provide the public service of electricity transmission, as well as to finance, install, maintain, manage, operate and enhance the necessary infrastructure pursuant the CFE Law, the Electricity Industry Law, the terms for the strict legal separation of CFE and other applicable regulations. CFE Transmision, EPS, as an independent legal entity, began formal operations with the MEM on January 1st, 2017.

Amendments to the Collective Labor Agreement

On May 19, 2016, CFE and the Sole Union of Electricity Workers of the Mexican Republic ("SUTERM", for its acronym in Spanish) finalized their negotiations of the terms of the Collective Labor Agreement.

As disclosed in note 9, as a result of such negotiations, various clauses of the agreement, mainly related pension benefits were modified, causing a reduction in the employee pension benefit liability of CFE, and consequently; a reductions in the liabilities pertaining to the Transmission's operations of Comision Federal de Electricidad in relation to its headcount.

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

On December 29, 2016, the Federal Government announced the conclusion of the review of the reduction of CFE's employee pension benefits obligations as indicated in the paragraph above.

On November 14, 2016, the Ministry of Finance and Public Credit ("SHCP" for its acronym in Spanish) published in the DOF the "Agreement establishing the general provisions related to the assumption of the CFE´s employee pension benefits liability by the Federal Government", by which the Federal Government, through the SHCP, assumes portion the settlement of the employee benefits obligations for employees hired before August 18, 2008.

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.

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) for a total amount of $161,080, of which $15,264 were attributed to CFE Transmision, that will be paid in annual distributions to meet the commitment. Resources received for these securities shall be used solely for the settlement of the aforementioned employee benefits.

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

Tax Obligations

At the time of its incorporation, CFE Transmision became a State Productive Subsidiary of CFE, and starting on March 30, 2016 began complying its tax obligations in terms of the Title II of the Income Tax Law, which sets forth the general regime of legal entity. The "Public Use Tax" established in Article 46 of the Public Service of Electricity Law (referred as exploitation per the regulation) was repealed with the enactment of the CFE Law (repealed).

Assets contributed by the Federal Government

On October 7, 2015, the Ministry of Public Administration ("SFP" for its acronym in Spanish) transferred the legal and physical possession of a group of assets, which have been previously granted to the CFE under a free use agreement.

Procedures for their release from the federal public domain regime began on that date (October 7, 2015). The assets attributable to CFE Transmission were recognized in the carve out financial statements as part of installation and equipment and other assets (rights of way) for a total value of $45,476, as determined by the Asset Management and Divestiture Service ("SAE" for its acronym in Spanish). This amount may be adjusted, if required, as the detailed listing is integrated and reviewed by the corresponding significant area.

Revaluation of installations and equipment

As part of the activities related to the strict legal separation of CFE, during 2016 the CFE revalued its installations and equipment that was contributed to the EPS as part of the spin-off process. As a result, a net increase in the value of Transmission operation's assets of $16,787 was recognized in other comprehensive income.

2. Purpose of the carve-out financial statements and basis of preparation

a) Purpose of the carve out financial statements

The purpose of these carve out Financial Statements is to provide general purpose historical financial information of the Transmission operations of CFE and assist Irrevocable Trust CIB/2919 in respect of an international and a local offerings of Energy and Infrastructure Trust Certificates Consequently, the Reporting Entity's carve-out financial statements may not necessarily be indicative of the financial performance that would have been achieved if the Reporting Entity had operated as an independent entity, nor may they be indicative of the results of operations of the Reporting Entity for any future period.

The Transmission operations of CFE, historically did not exist as a separate legal and no separate (statutory) financial statements were therefore prepared. Accordingly, for purpose of the evaluation of the historical financial results of the Transmission operations, Carve out Financial Statements have been prepared.

b) Basis of preparation

The accompanying financial statements for the years ended December 31, 2016 and 2015 have been prepared on a "carve –out basis" from the consolidated financial statements and accounting records of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries for the purpose of presenting the business operations identified as the Transmission operations of CFE, including the fiber optic operations. The carve-out financial statements reflect the substance of the activities and its results of operations, assets and liabilities and cash flows attributable to the Transmission operations of CFE's. The legal structure was not considered the key factor in determining the perimeter of the carve-out financial statements, but rather the basis of the economic activity. Therefore, these set of carve out financial statements reflects the Transmision operations as a part of the whole economic entity.

Carve-out statement of financial position

The carve-out statement of financial position include the assets and liabilities, which have been determined, based on the conditions set-forth in the TESL as described below:

(i) Fixed assets and related depreciation expense – Installation and equipment consisting of transmission and sub-transmission lines with voltages ranging from 69kV to 400kV (as defined by the TESL) were attributed to CFE Transmission and recognized in the carve-out financial statements together with its related accumulated depreciation and depreciation expense (refer to note 6).

(ii) Debt and its associated financial cost and derivative financial instruments – CFE uses a centralized approach to cash management and financing of its operations, excluding debt directly incurred by any of its businesses identified as "PIDIREGAS", which consisted of direct debt assumed in acquisition of installation and equipment. A portion of CFE Holding's consolidated financial debt, consisting primarily of documented and public debt at fixed and variable rates, including amounts incurred directly, has been allocated as intercompany indebtedness to CFE Transmision pursuant to the Financial Framework Agreement based on debt levels consistent with an internally developed investment grade credit rating. However, these amounts may not be indicative of the actual amounts that CFE Transmision would have incurred had CFE Transmision been operating as an independent company for the periods presented (refer to notes 7 and 13).

(iii) Employee benefit liability due to Parent and other employee related costs were assigned in connection to employees' structure associated to transmission operations. As of December 31, 2016 and 2015, the employees which are part of the work structure of Transmission operations are incorporated in the employer's register of CFE, however, the employees associated to transmission operations are identifiable by cost center (department) so the liabilities as of December 31, 2016 and 2015 and the net employee benefit costs for the years then ended have been included in the carve-out financial statements (refer to note 9).

(iv) Remaining assets and liabilities were directly attributable to the Transmission operations of Comision Federal de Electricidad.

(v) CFE Holding participated in the Transmission's operation of CFE centralized cash management and financing. Cash receipts derived from the CENACE agreement are received and in centralized accounts maintained by CFE. Disbursements were made from centralized accounts to the reporting entity's accounts in accordance with its cash requirements. As cash was disbursed and received by CFE Holding, it was accounted for by the Transmission's operation of CFE through Parent Company Net Investment.

(vi) Net parent investment represents CFE interest in the recorded net assets of CFE Transmision and represents the cumulative net investment by CFE in CFE Transmision through the dates presented

Carve-out statement of comprehensive income

The carve-out financial statements include income from electricity transmission service and expenses that are allocated from general corporate expenses related to finance, legal, technology of information, human resources, communications, shared services, employee benefits and incentives in 2016 and 2015. Revenues from the electricity transmission service, were allocated by multiplying the energy effectively transmitted by the rates applicable to the transmission service. These rates are based on the rules established by the Energy Regulatory Commission. Despite there was not such rules applicable to 2015 the same rules for 2016 were applied due to there was no wholesale electricity market in 2015. On the other hand, expenses were allocated on the basis of direct use when it is identifiable, with the rest allocated on the basis of income, staff or other measures. The Company considers that the basis on which the expenses have been allocated is a reasonable reflection of the use of the services provided or of the benefit we receive during the periods presented. However, the allocations and / or contributions to the CFE Transmission operation as a result of the carve-out process would not represent the actual cost that we would have incurred as a separate / independent entity outside CFE.

The income tax has been determined under the assumption that Transmission operations, were a separate taxable entity. This assumption implies that the current and deferred income taxes are calculated separately and the recoverability of the deferred tax is also assessed accordingly. Due to the fact that Transmission operations did not file separate tax returns in previous years, the respective current tax assets and liabilities, are deemed either contributed or distributed to CFE with a corresponding effect in equity as of the end of the respective fiscal year. The taxes actually paid by Transmission operations have been presented in the carved out statements of cash flows; the detailed contributions or distributions have not been included.

Management believes the assumptions underlying the allocations included in the financial statements are reasonable.

These carve-out financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The preparation of carve-out financial statements in accordance with IFRS requires estimates and assumptions from CFE's Management that affect the reported amounts in the carve-out, financial statements and accompanying notes. In addition to the carve out allocations mentioned above, such estimates also include, but are not limited to, inventory valuation, carrying amount of installation and equipment and intangible assets, and assets and liabilities related to employee benefits, and other provisions. Furthermore, these carve-out financial statements may not be indicative of CFE Transmission future performance and do not necessarily reflect what the results of operations, financial position and cash flows as if the transmission operations would have been operating as a stand-alone entity during the presented periods.

These carved-out financial statements are part of a larger reporting entity (Comision Federal de Electricidad), which has already issued its financial statements under IFRS; consequently, these carved-out financial statements are already reflected (under IFRS) in the consolidated financial statements of Comision Federal de Electricidad and they are not considered as IFRS first-time adopter.

The carved-out financial statements have been prepared on a historical cost basis, except for certain derivative financial instruments and the installations and equipment, which are recorded at fair value.

c) Functional and reporting currency

The carved out financial statements and their notes are presented in Mexican pesos (reporting currency), the Company's functional currency.

For purposes of disclosure in the notes to the carve-out financial statements, reference to pesos or "$" refers to Mexican pesos, reference to dollars refers to dollars of the United States of America, reference to euros refers to legal currency of the European Union, reference to yen refers to the currency in legal course in Japan, and reference to Swiss francs refers to the legal currency in Switzerland. All information is presented in millions of pesos and has been rounded to the nearest unit, except when otherwise indicated.

d) Statements of comprehensive income

Transmission operations prepared statements of comprehensive income, and classified costs and expenses based on their nature, pursuant to the specific substance of the type of cost or expense of the Company, as set forth in IAS 1 "Presentation of financial statements".

3. Summary of significant accounting policies

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

a. Transactions in foreign currency

Transactions in foreign currency are converted into the Company's functional currency at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are converted to the functional currency at the exchange rate of the reporting date. The non-monetary assets and liabilities that are valued at fair value in a foreign currency are converted to the functional currency at the exchange rate on the date on which the fair value was determined. Non-monetary items that are measured in terms of historical cost are converted using the exchange rate on the date of the transaction. Differences in foreign currency translation are generally recognized in the results of operations.

Cash flow hedges are recognized in other comprehensive income, when the hedging is effective.

b. Cash and cash equivalents

They consist of cash, bank deposits and short-term investments. Cash and bank deposits are presented at nominal value and interest is recognized in income as it accrues.

The cash equivalents correspond to investments with high liquidity and very short-term maturities. They are valued at fair value and have a low risk of change in their value.

c. Inventory of operating materials

Inventories of operating materials are measured at the lower of cost or net realizable value. The cost is determined using the acquisition method.

Unit cost is determined using the formula of average cost.

Inventories are reviewed periodically to determine the existence of obsolete material, as well as to evaluate the sufficiency of the allowance or provision. When the case arises, the allowance is increased and recognized in the results of the year.

d. Installations and equipment

Installations and equipment are initially recognized at acquisition cost.

<u>Installations and equipment in operation (electric infrastructure)</u>

Installations and equipment used as infrastructure for the transmission of electricity are subsequently revalued to adjust such cost to fair value, net from accumulated depreciation or accumulated impairment losses. The Company periodically reviews the fair values of installations and operating equipment and every five years evaluates the need to perform appraisals so that the carrying amount of these assets does not differ significantly from the values we would have by using their fair values at end of the reporting period.

Increases in the value of those installations and equipment is recognized as a surplus in other comprehensive income, except if such increase reverse a revaluation decrease previously recognized in the results of operations, in which case the increase is credited to the results of the period to the extent it reduces the expense previously recognized. A decrease in carrying value generated by the revaluation of those installations and equipment is recorded in the results of operations to the extent it exceeds the revaluation in installations and equipment, if any.

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

In addition to the acquisition costs and other costs directly attributable to the process of preparing the asset (so it can operate in the location and conditions foreseen by our technicians).

The depreciation of installations and equipment in the revalued operation is recognized in the results. Depreciation on installations and equipment is calculated over the fair value or acquisition cost, as applicable, on the straight-line method over the estimated useful lives of the asset, starting the following month when the asset was ready for use.

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

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

	Annual depreciation rate %
Substations	From 1.33 to 2.56
Transmission lines	From 1.33 to 2.86
Sub-transmission lines	From 1.67 to 3.33

Management periodically evaluates total useful lives, depreciation methods, and residual values of installations and equipment. In those cases where changes to estimations are deemed necessary, the effects are recognized prospectively.

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

Property and assets allocated to offices and general services.

Property and assets allocated to offices and general services are depreciated in accordance with the following rates:

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

An element of installations and equipment is disposed when sold or when it is not expected to obtain future economic benefits derived from the continued use of the asset. The gain or loss generated by the sale or retirement of an item of installations and equipment, is calculated as the difference between the sales proceeds and the carrying value of the asset, and it is recognized in the income statement.

The value of installations and equipment is reviewed annually by indications of impairment in the value of such assets.

e. Intangible assets

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

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

f. Financial assets and liabilities

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

Financial assets

Financial assets are classified in any of the following categories: financial assets at fair value with changes through profit and losses, financial assets and liabilities held-to-maturity, financial assets and liabilities available-for-sale, loans and accounts receivable. The classification is made based upon the nature and purpose of the financial asset, and it is determined at the time of initial recognition.

Accounts receivable

Accounts receivable and loans are financial instruments, usually with a maturity less than a year with established payments, not listed on an active market. Accounts receivable with maturities over a year (including accounts receivable from the Electric Wholesale Market, related party accounts receivable and other receivables) are valued at amortized cost, by using the effective interest method, and they are subject to impairment tests.

Items receivable are mainly comprised by transmission services of electricity in process of billing.

Financial assets at fair value through profits and losses

Financial assets which changes in fair value are recognized in profits and losses, including financial assets held for trading. Derivative financial instruments, including embedded derivatives that qualify to be recognized separately, are classified as held for trading unless they are designated as hedging instruments. Financial assets with changes in fair value recognized in profits and losses are recognized and presented in the balance sheet at their fair value and their changes in fair value are included in interest expense as part of the net financing cost in the profit and losses of the period.

Financial assets held-to-maturity

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

Financial instruments available-for-sale

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

Write-off of financial assets

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

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

Impairment of financial assets

At the end of each reporting period, an assessment is performed to ascertain whether there is any objective evidence that the value of a financial asset or group of financial assets has suffered any impairment.

A financial asset or group of financial assets are considered impaired in value when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the investment have been adversely affected.

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

Financial liabilities

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

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

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

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

Financial liabilities at fair value through profit or loss

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

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

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

Debt and loans

After initial recognition, debt and interest-bearing loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when liabilities are disposed, as well as through the amortization process when applying the effective interest rate method.

The amortized cost is calculated taking into account any discount or premium in the issuance or acquisition, commissions and other directly attributable costs that are an integral part of the effective interest rate. The amortization of this is recognized as a financial cost in the statement of comprehensive income.

Write-off of financial liabilities

A financial liability is derecognized when the obligation arising from the liability has been settled, canceled or expired.

When a financial liability is replaced by another from the same creditor in terms substantially different, or when the terms of the existing liability are substantially modified, such replacement or modification is reflected by derecognizing the original liability and recognizing a new liability. The difference between the values of these liabilities is included in the statement of comprehensive income.

Offsetting

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

Fair value of financial instruments

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

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

g. Derivative financial instruments

CFE Holding assigned derivative financial instruments through an internal contract to CFE Transmision.

Derivative financial instruments are recognized at fair value in the statement of financial position.

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

The effectiveness of derivative financial instruments classified as hedging instruments is determined before the inception of the transaction as well as during the hedging period, which is reassessed at least quarterly. If the hedge is not highly effective, the derivative financial instrument ceases to be treated as a hedge.

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

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

h. Employee benefits liability due to parent

Various benefits are granted to employees of the transmission operation of CFE, which for purposes of the financial statements have been classified as direct employees benefits and pension benefits, seniority premiums and termination of employment relationship benefits.

<u>Direct employee benefits</u>

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

<u>Employee benefits for pensions and others</u>

The Transmission operations of CFE has been assigned by the parent with the liability related to pensions to cover its employees.

A defined benefit pensions plan is given to employees who started their employment relationship before August 18, 2008, and a defined contribution pensions plans is given to employees who began their employment after August 19, 2008.

In addition, there are plans to defined contribution pension established by the Federal Government and which must make contributions on behalf of workers.These costs for defined contribution plans are calculated by applying the percentages indicated in the corresponding regulations on the amount of wages and eligible salaries, and deposited with the fund retirement managers chosen by our employees and to the Mexican Social Security Institute (IMSS for its acronym Spanish). The costs of defined contribution pensions and related liability are recognized in the results of the period as incurred.

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

The costs of pensions, seniority premiums and other related benefits (defined benefit pensions) are recognized based on independent actuaries' calculations considering the projected unit credit method and using nominal financial assumptions.

i. Income taxes

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

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

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

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

j. Revenue recognition

Revenues are recognized when the service of transmission of electric power is rendered; consequently, the services corresponding to the electricity transmited that is in the process of being billed is considered as revenue for the period, and accounted using the current measurement.

k. Other liabilities

Received payments corresponding to the leasing of a pair of dark optic fiber wires and their maintenance.

l. Use of estimates

In the preparation of the financial statements, estimates are made for certain items, some of which are highly uncertain and their estimation involves opinions reached based on the information available. In the following paragraphs, Management discloses matters identified which could materially affect our financial statements if they were using different estimates to the ones reasonably used, or if the Company changes its estimates in the future due to changes in circumstances and facts that may occur in the future.

Our analysis covers only those estimates that the Company considers most important, taking into account the degree of uncertainty and the likelihood of a significant impact if different estimates were used. There are other areas involving uncertain matters, but where the Company believes that the effect of changing our estimate would not significantly impact the financial statements.

Fair value of assets and liabilities

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

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

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

Financial instruments not listed on any market, are recognized by discounting future cash flows using interest rates for similar instruments.

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

The installations and equipment are valued considering the fair value method.

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

Useful life of our installations and equipment

The Company´s installations and equipment in operation are depreciated considering an estimated useful life.

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

Impairment of long-lived assets

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

Deferred taxes

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

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

Deferred tax assets are recognized considering the amount that is most likely to be materialized. In this estimation, Management considers taxable income for future years based on its tax projections, as well as the benefits of tax strategies.

If our estimates of future profits and the expected benefits of tax strategies are reduced or if there are changes in tax laws that impose restrictions on the opportunity to use the tax benefits of tax losses in the future, the amount of deferred tax assets may decrease, and thereby increasing the expense for income taxes.

Provisions

Provisions are recognized when there is a present obligation, which results from past events, it is probable (more likely than not) that an outflow of resources will be required to settle the obligation and that a reasonable amount of the outflow of resources can be reliably estimated. The amount of provisions recognized is the Management´s best estimate of the expense we will incur to meet the obligations, taking into account all the information available at the date of the consolidated financial statements, including in some cases the opinion of external experts as legal advisers or consultants. Provisions are adjusted to recognize changes in the current circumstances or facts and the occurrence of new obligations.

In those cases in which the Company cannot reliably quantify the obligation, no provision is recognized, however, our notes to the financial statements include the relevant information.

The amounts recognized may be different from the amount we finally incurred given the uncertainties inherent to them.

Labor obligations

The amounts for pension and retirement plan obligations and other postretirement obligations recognized as liabilities in the statement of financial situation and as expenses in profit or losses, are calculated annually by actuaries considering assumptions and estimations over the postretirement benefits.

The assumptions that are majorly impacted by such estimations are as follows:

- Increase rate of salaries for the following years;
- Discount rate to determine the present value of future obligations;
- Rate of expected inflation; and
- Expected return on pension plan assets.

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

The presentation of costs and expenses by nature used in the preparation of the statements of comprehensive income is different from that used in the last annual financial statements, since Management considers that the financial information presented is clearer due to it is a service company.

4. Financial Instruments – Fair Value and Risk Management

Objectives of financial risk management

The treasury department's function is directed by the SHCP's policies as to the cash management, which holds that investments are not made long-term and are made in low risk instruments. Status reports are made in a monthly basis to the Treasury's Investments Committee.

Credit Risk

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 Company 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 Company only carries out operations with parties having high solvency, creditworthiness and standing. The Company 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 are deemed by the Company to have a limited risk. The Company accounts for an allowance for doubtful accounts under the incurred losses model.

At December 31, 2016 and 2015, the maximum exposure to credit risk for short-term and long term accounts receivable amounted to $3,483 and $1,047 in 2016 and $2,344 and $910 in 2015, respectively.

Liquidity risk

Liquidity risk is the risk a Company faces when having difficulties meeting its obligations associated with financial liabilities to be settled with cash or any other financial asset.

The financing obtained by the Company is mainly through assigned debt by CFE and PIDIREGAS. In order to manage liquidity risk, the Company periodically performs cash flow analysis and maintains open credit lines with CFE. In addition, the Company is subject to a budgetary control exerted by the Federal Government, having a net debt ceiling authorized by the Federal Congress in a yearly basis based on its budgeted revenues.

The following table shows the contractual maturities of the Company's financial liabilities (not including derivative financial instruments) based on the payment terms:

At December 31, 2016	Less than 1 year	More than 1 year and less than 3	More than 3 year and less than 5	More than 5 years	Total
Assigned documented debt	$6,810	$14,775	$20,158	$62,640	$104,383
Interest payable of documented debt*	5,811	10,491	8,759	32,151	57,212
PIDIREGAS debt	3,243	7,727	3,785	4,144	18,899
Interest payable of PIDIREGAS debt*	1,108	1,457	708	649	3,922
Suppliers and contractors	78	-	-	-	78
Total	**$17,050**	**$34,450**	**$33,410**	**$99,584**	**$184,494**

At December 31, 2015	Less than 1 year	More than 1 year and less than 3	More than 3 year and less than 5	More than 5 years	Total
Assigned documented debt	$7,587	$17,220	$12,423	$53,059	$90,289
Interest payable of documented debt*	4,744	8,572	7,695	27,128	48,139
PIDIREGAS debt	3,044	6,653	3,667	3,030	16,394
Interest payable of PIDIREGAS*	733	1,078	477	227	2,515
Suppliers and contractors	354	-	-	-	354
Total	**$16,462**	**$33,523**	**$24,262**	**$83,444**	**$157,691**

*Includes all the interest cash flows to be paid in accordance to the corresponding contractual terms.

Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company uses derivatives to manage market risks. All such transactions are carried out within the guidelines set by the Company's Financial Office. Generally, the Company seeks to apply hedge accounting to manage volatility in profit or loss.

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

Foreign currency exchange risk management

The Company borrows credits preferably in local currency, although it also carries out foreign currency transactions. Consequently, exposures to foreign currency exchange arises.

	Total outstanding debt 31/12/2016
Local Currency	63,185
Foreign Currency	60,097

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

Carrying amounts of monetary assets and liabilities denominated in foreign currency at the end of the reporting periods are shown in note 12.

Sensitivity analysis of foreign currency

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

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

The sensitivity analysis only includes monetary open items denominated in foreign currency, adjusting its translation by a 5% change in foreign exchange rates at period end. The sensitivity analysis includes external loans, as well as loans derived from foreign operations within the Company, where the loan is in a currency other than the loaner or the borrower currency. A positive amount 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:

	Millions of pesos	
	31/12/2016	31/12/2015
Gain or loss	$ 3,255	$ 2,052

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

Management considers the impact of the inherent exchange risk affects electricity tariffs in the long-term due to inflation adjustments and the peso/dollar exchange rate.

Interest rate risk management

The Company is exposed to interest rate risks for loans assigned at variable interest rates. The Company manages this risk by maintaining an appropriate combination between fixed rate and floating rate loans and by contracting financial derivatives classify as interest rate hedges.

	Total Outstanding debt 31/12/2016
Fixed Rate	83,512
Floating Rate	39,770

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the period reported.

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

	Millions of pesos	
	31/12/2016	31/12/2015
Gain or loss	$ 42	$ 30

The previous sensitivity analysis was estimated based on the fair value of the loans.

Fair value of financial instruments

The carrying values of the following financial assets and liabilities recognized at amortized cost in the financial statements are considered to approximate their fair value, excepting for the long-term debt, as shown in the following page.

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents (1)	$ 335	335	$ 73	73
Accounts receivables (2)	2,436	2,436	1,434	1,434
Long term accounts receivables (2)	1,047	1,047	910	910
Derivative financial instruments (1)	4,954	4,954	730	730
Financial liabilities:				
Short term portion of long term debt (2)	9,993	9,993	11,410	11,410
Long-term debt (2)	113,229	112,907	95,468	97,598
Suppliers and contractors (2)	78	78	354	354

Measured at (1) fair value; (2) amortized cost

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 requests a revision from its counterparty.

Valuations at fair value recognized in the statement of financial position

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:

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 7.

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 identical liabilities or 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 (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 valuations at fair value are those derived from unobservable indicators for the asset or liability.

5. Accounts receivable, net

At December 31, 2016 and 2015, accounts receivable are summarized as shown below:

	2016	2015
Accounts receivable		
CENACE	$1,844	$ -
Other	621	1,360
VAT Receivable	-	101
Allowance for doubtful accounts	(29)	(27)
Total	**$2,436**	**$1,434**

6. Installations and equipment

Carrying value of installations and equipment at December 31, 2016 and 2015 are summarized below:

Investment as of December 31, 2016:

	Installation and equipment in operation	Spare parts	Construction in-progress	Construction materials	Total
Balances at January 1, 2016	$ 435,229	$ 939	$ 1,575	$ 27	$ 437,770
Acquisitions	4,923	-	7,838	-	12,761
Revaluation of the period	16,787	-	-	-	16,787
Disposals	(1,512)	-	-	-	(1,512)
Capitalization	4,450	(173)	(4,250)	(27)	-
Balances at December 31, 2016	**$ 459,877**	**$ 766**	**$ 5,163**	**$ -**	**$ 465,806**

Accumulated depreciation as of December 31, 2016:

	Installations and equipment in operation	Spare parts	Construction in-progress	Construction Materials	Total
Balance at January 1, 2016	$ (167,698)	$ -	$ -	$ -	$ (167,698)
Net balance at January 1, 2016	267,531	939	1,575	27	270,072
Depreciation of the period	(10,467)	-	-	-	(10,467)
Depreciation on disposals	1,232	-	-	-	1,232
Depreciation	(9,235)	-	-	-	(9,235)
Balances at December 31, 2016	(176,933)	-	-	-	(176,933)
Net balances at December 31, 2016	**$ 282,944**	**$ 766**	**$ 5,163**	**$ -**	**$ 288,873**

Investment as of December 31, 2015:

	Installations and equipment in operation	Spare parts	Construction in-progress	Construction Materials	Total
Balances at January 1, 2015	$ 409,207	$ 955	$ 1,323	$ 968	$ 412,453
Acquisitions	29,637	-	508	-	30,145
Disposals	(4,828)	-	-	-	(4,828)
Capitalization	1,213	(16)	(256)	(941)	-
Balances at December 31, 2015	**$ 435,229**	**$ 939**	**$ 1,575**	**$ 27**	**$ 437,770**

Accumulated depreciation as of December 31, 2015:

	Installations and equipment in operation	Spare parts	Construction in-progress	Construction Materials	Total
Balance at January 1, 2015	$ (162,761)	$ -	$ -	$ -	$ (162,761)
Net balance at January 1, 2015	246,446	955	1,323	968	249,692
Depreciation of the period	(8,578)	-	-	-	(8,578)
Depreciation on disposals	3,641	-	-	-	3,641
Depreciation	(4,937)	-	-	-	(4,937)
Balance at December 31, 2015	(167,698)	-	-	-	(167,698)
Net balances at December 31, 2015	**$ 267,531**	**$ 939**	**$ 1,575**	**$ 27**	**$ 270,072**

Based on the periodic review of the fair values of installations and equipment in operation of CFE, a revaluation of the assets is 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.

From the above Management performed an analysis, with the objective to revalue the assets and to review the useful lives assigned to them remaining life, and establish the process for the calculation of the impairment in the value thereof.

During the year ended December 31, 2016, the Company recorded a revaluation of $16,787 as part of its review of the assets' value and useful lives. For the years ended December 31, 2016 and 2015, there were no impairment triggering events.

The amount of financing costs capitalized at December 31, 2016 and 2015 were $1,017 and $509 respectively.

<u>Fair value measurement</u>

As mentioned in note 1, during 2016 an assessment was made of installations and equipment. Derived from this process, a net increase in the value of these assets of $16,787 was recognized in other comprehensive income.

i. Fair Value Hierarchy

The fair value of installations and equipment in operation was determined by independent external appraisers with a recognized professional capacity and experience in the property, plant and equipment category that was the subject of the appraisal. Independent external appraisers provide the fair value of installations and equipment as of December 31, 2016.

The fair value of installation and equipment has been classified as a fair value Level 3 based on the input data of the valuation technique used.

ii. Valuation technique and significant non-observable input data

The table in the following page shows the valuation technique used to measure the fair value of the installation and equipment as well as the significant non-observable input data used.

Valuation technique	Significant non-observable input data	Interrelation between data non-observable input and measurement of the fair value
Discounted cash flows: The valuation model considers the present value of the net cash flows that will be generated by the installations and equipment, considering the rate of expected growth of the income. Net cash flows expected are discounted using discount rates adjusted for risk.	Transmission Useful life of the assets (30 years) Discount rate 7.67%	The estimated fair value would increase (decrease) if: - Income growth was higher (lower) - The useful life was greater (less) - The discount rate adjusted for risk was lower (higher)

7. Assigned derivatives financial Instruments

As of December 31, 2016 and 2015, the derivative financial instruments included in the carve-out financial statements corresponds to values assigned and allocated to CFE Transmision pursuant to the terms of the TESL and the Financial Framework Agreement. In accordance with such terms, the purpose of the assignment is to apportion CFE Transmision the responsibility of providing CFE Holding with the necessary funds to satisfy its payment obligations (including payment of principal and interest under the relevant financing agreement and related hedging expenses) under CFE Holding's existing financing agreements.

a. Accounting classifications and fair values

Transmission operations, in accordance with the risk management strategy, of assigned derivative financial instruments agreements to mitigate exchange rate and interest rate exposure, which then affects Transmission operations. Transmission operation'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 December 31, 2016 and 2015 amounted to $4,954 and $730 respectively.

Financial instruments held for trading – as of December 31, 2016 and 2015, Transmission operations of CFE maintained designated derivative financial instruments whose fair value represented a liability of $249 and $500 respectively.

The transaction consists of a series of currency “Forwards” that allow fixing the exchange rate yen/dollar, during the agreed term of the operation in 54.0157 yen per one US dollar. CFE pays an interest rate equivalent to 8.42% per annum in US dollars. These instruments are not classify 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 the CFE decides to cancel this economic hedge (currency forwards on yen/dollar exchange rate) in advance, an estimated extraordinary loss would occur at December 31, 2016 and December 31, 2015 at $ 247 and $500, respectively, equivalent to the amount of the instruments.

Instrument	Underlying	Maturity	2016	2015
FWD JPY/Usd	Exchange and interest rate	2036	249	500
		Total	**249**	**500**

Financial instruments held for hedging purposes – As of December 2016 and 2015, Transmission operations maintains its designated hedges on, exchange rate and interest rate hedging position. CFE acts as a counterparty of all the Transmission Operations hedges, as described below:

Instrument	Underlying	Hedging type	Maturity	2016	2015
CCS	Exchange and interest rate	Cash Flow	2021	239	169
CCS	Exchange and interest rate	Cash Flow	2022	-	42
CCS	Exchange and interest rate	Cash Flow	2023	1,373	93
CCS	Exchange and interest rate	Cash Flow	2024	2,812	276
CCS	Exchange and interest rate	Cash Flow	2036	718	228
IRS	Interest Rate	Cash Flow	2017	(1)	(11)
IRS	Interest Rate	Cash Flow	2018	(1)	(3)
IRS	Interest Rate	Cash Flow	2020	63	(35)
			Subtotal	**5,203**	**759**
				(249)	**(29)**
			Total	**4,954**	**730**

The table above includes the mark to market of the hedging derivatives. The total mark to market of the portfolio including trading and hedge derivatives was 4,954 million of pesos for its carrying value.

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

As of December 31, 2016, the OCI effect and profit & loss result for the next years for the current derivative portfolio are detailed as follows:

Year	Mark-to-market	OCI	Profit & Loss (Interest & Foreign Currency Exchange Hedge)
2017	3,858	3,720	148
2018	5,427	5,302	119
2019	6,019	5,256	760
2020	7,261	5,888	1,374
2021	8,460	7,029	1,431
2022	9,664	8,242	1,422
2023	8,726	6,697	2,030

The above fair value (Mark to market - MTM) is determined using present value valuation techniques for discounting future cash flows, which are estimated using observable market data. The OCI carrying amount includes the fair value (mark to market), and the reclassifications to profit and loss regarding accrual interest and foreign currency exchanges hedge (gain or loss).

b. Fair value Measurement

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

Fair Value Adjustment or Mark to Market by Credit Risk

The net of the fair value of financial derivatives (Mark to Market) effective as of December 31, 2016, before considering credit risk, amounted to $4,954 which is included in the balance sheet and consists of ($249) of instruments at fair value to profit and losses and $5,203 fair value to OCI.

CFE applies a valuation adjustment (CVA) to take into account the possibility of a counterparty's default. CVA is the market value of counterparty credit risk and reflects the estimated fair value of the protection required to hedge the counterparty credit risk embedded in such instruments.

Fair Value Adjustment Methodology.

The Methodology for fair value measurement was approved by the Financial Risk Management Committee (Comité Delegado Interinstitucional para la administración de riesgos financieros asociados a la posición financiera y a los precios de los combustibles fósiles).

As of December 31, 2016, the fair value adjustment (Credit Valuation Adjustment) detailed as follows:

Counterparty	Fair value MTM	Adjusted fair value MTM	Adjustment at December 31, 2016
CFE Holding	$ 5,276	$ 5,204	$ (72)

As of December 31, 2015, the fair value adjustment (Credit Valuation Adjustment) detailed as follows:

Counterparty	Fair value MTM	Adjusted fair value MTM	Adjustment at December 31, 2015
CFE Holding	$ 815	$ 806	$ (9)

The adjustment of fair value corresponds for those positions 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

All the financial derivatives are valued by the counterparty acting as the valuation agent. The counterparty uses valuation techniques where all significant inputs into the valuation are based on observable market data in a monthly basis.

Therefore, the hierarchy level of the Company's Mark-to-Market for derivatives financial instruments at December 31, 2016 is level 2 by the following:

a) Quoted prices for identical or similar assets or liabilities in markets that are not active.
b) Quoted prices for similar assets or liabilities in active markets.
c) Inputs other than quoted price that are observable for the asset or liabilities.

c. Financial Risk Management

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

- Credit Risk
- Liquidity Risk
- Market Risk

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. In order to mitigate credit risk the Company only trades instruments with high solvency counterparties.

The Company manages the credit risk by monitoring the credit rating and the probability of default of the counterparty, the market value of the derivative is adjusted using the implied probability of default from credit default swap contracts.

The carrying amount of derivative financial assets represents the maximum exposure to credit risk. As of December 31, 2016, and as of December, 31, 2015 this amounted to $5,203 and $808 respectively.

Liquidity risk

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

The Company manages the liquidity risk by monitoring the market value of the derivative and the consumption of the Threshold.

Exposure to liquidity risk by holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of December 31, 2016 and December 31, 2015 amounted to $249 and $78 respectively.

The following table shows the cash flows that CFE will pay and the cash flows that CFE will receive for the next years related to the derivatives financial instruments:

As December 31, 2016	Less than 1 year	More than 1 year and less than 5	Total
Payable cash flow			
IRS	116	1,819	1,935
CCS	1,805	11,445	13,250
Forwards	1,501	0	1,501
Total	**$3,422**	**$13,264**	**$16,686**
Receivable cash flow			
IRS	138	1,770	1,908
CCS	1,180	11,560	12,740
Forwards	572	-	572
Total	**$1,890**	**13,330**	**$15,220**

As December 31, 2015	Less than 1 year	More than 1 year and less than 5	Total
Payable cash flow			
IRS	149	1,935	2,084
CCS	1,134	8,780	9,914
Forwards	-	572	572
Total	**1,283**	**11,287**	**12,570**
Receivable cash flow			
IRS	111	1,908	2,019
CCS	900	7,777	8,677
Total	**1,011**	**9,685**	**10,696**

Market risks

The market risk of the financial derivatives is the risk that changes in market prices, such as exchange rates and interest rates, affect the Company´s income because of holding of derivative financial instruments.

The Company 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 income statement.

a) *Foreign Currency exchange risks.*

35% of our debt is denominated in foreign currency, mainly in US dollars, while most of our assets and revenues are denominated in pesos. Transmission Operations of CFE is exposed to currency risk. CFE contracts cross-currency swaps to reduce the impact of currency variations. The effect of this instrument is to replace the obligation to pay fixed interest rates in dollars for an obligation to pay fixed rates in pesos. As of December 31, 2016 and December 31, 2015, CFE Transmission maintains cross-currency swaps and forwards as a hedge of our foreign currency debt for $22,764 and $12,986, respectively.

To hedge the foreign exchange rate risks of the $32 billion JPY debt, CFE contract a series of forwards and call options in order to receive JPY. The market value of this transaction as December 31, 2016 and December 31, 2015 is (249) and (500) respectively. These derivative instruments were not classified for hedging purposes.

Sensitivity analysis for exchange rate effect

A possible increased (weakening) of the MXN / USD and JPY / USD exchange rates as of December 31, 2016 will affect the fair value of the total position of foreign currency derivative financial instruments. The results of the period and the other comprehensive income (as some of them are designated as hedges), in the amounts shown below:

31/12/16	**Instrument**	**+1 Cent**	**-1 Cent**
	Cross Currency	9,359	(9,359)
	JPY / USD Derivatives	1,758	(1,758)
	Total	11,117	(11,117)

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

b) *Interest rate risk*

39% of our debt accrues interest at floating rates, use the MXN TIIE rate as a reference rate. As of December 31, 2016 and December 31, 2015, the Company hedged $2,288 and $3,256 million pesos of our floating rate peso-denominated debt.

Sensitivity analysis for interest rates

A possible increase (weakening) of interest rates as of December 31, 2016 will affect the fair value of the total position of financial derivatives associated with a floating rate, and therefore the results if the period and other comprehensive income. In the following table shows the sensitivity analysis:

31/12/16	**+ 1 Basis point**	**- 1 Basis point**
Interest rate swaps	229	(229)

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

8. Other assets

The other assets at December 31, 2016 and 2015 are integrated as follows:

	2016	2015
Intangible assets (Rights of way) (1)	$ 27,813	$ 27,760
Other	1	1
Total.	**$ 27,814**	**$ 27,761**

(1) Includes rights of way in an amount of $24,076 that are part of the assets contributed by the Federal Government to the Company through INDAABIN and they are not subject to amortization.

a) The reconciliation of rights of way as follows;

	Amount
Balance at 1, January 2015	$ 27,570
Acquisitions	191
Balance at 1, December 2015	27,761
Acquisitions	**53**
Balance at 1, December 2016	**$ 27,814**

9. Employee benefits liability due to Parent

As of December 31, 2016 and 2015, the employee benefit obligation included in the carve-out financial statements corresponds to values assigned and allocated to CFE Transmission pursuant to the terms of the CFE Law, the Law of the Electric Industry and the TESL. Such terms mandates the assignment of the total labor liability cost to the different EPS. At the date of issuance of these carve-out financial statements, the Company continues in process to complete the transfer of employees from the former Transmission Department from CFE Holding to CFE Transmission. Given that CFE Transmission has no employees, the employee benefits liability has been presented as a related party liability due to parent. As indicated in note 2, employee benefits obligation and corresponding costs were assigned in connection to the employees' structure associated to transmission operations.

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

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

a. The economic assumptions in nominal and real terms used for the period ended December 31, 2016 and 2015,are as shown in the next page.

	2016	2015
Employee benefits		
Discount rate	8.00%	8.00%
Expected rate of return on assets	8.00%	8.00%
Wages increase rate	4.02%	6.10%
Average remaining employee active labor life	16.99	12.93
Average remaining employee pensioner labor life	17.19	11.94

b. Net cost of the period ended December 31, 2016 and 2015, is as follows:

	2016	2015
Net cost of the period:		
Cost of services of the year	$ 1,232	$ 1,600
Financial cost	4,166	4,149
Past services recognition	126	945
Plan modifications adjustments	(15,877)	-
Net period (income) cost	$ (10,353)	$ 6,694
Actuarial (Gains)/Losses	**$ 1,946**	**$ 4,599**

The net actuarial gain or loss for the period was originated from the variations in assumptions used by the actuary for the determination of labor liabilities, because of the average wage increase rate and the increase in pensions.

c. The amount included as a liability in the statements of financial position at December 31, 2016 and 2015, is as follows:

	2016	2015
Liabilities on balance sheet:		
Defined Benefit Obligations	$ 50,157	$ 61,941
Fair Value of the Plan Assets	(526)	(516)
Promissory note (see point c)	(15,264)	-
Net, Defined Benefit Obligations	**$ 34,367**	**$ 61,425**

d. Reconciliation between the initial and final balances of the present value of the defined benefits obligation for the periods ended December 31, 2016 and 2015:

	2016	2015
Reconciliation between the initial and final balances of the present value of the defined benefit obligation:		
Initial Defined Benefit Obligation	$ 61,941	$ 53,846
Included in profit or loss		
Current service labor cost	1,232	1,600
Financial cost	4,166	4,150
Past service cost	126	944
Benefits paid	(3,388)	(3,198)
Plan amendment (1)	(15,887)	-
	$ 48,190	**$ 57,342**
Included in OCI		
Actuarial (Gains)/Losses	1,967	4,599
Defined Benefit Obligations	**$ 50,157**	**$ 61,941**

(1) As mentioned in note 1, on May 19, 2016, the Company carried out a review and negotiation of the terms of its Collective Labor Agreement. Derived from this review, various clauses mainly affecting the retirement account were modified, causing a reduction in the labor liabilities.

e. Reconciliation between the initial and final balances of the fair value of plan assets for the periods ended December 31, 2016 and 2015:

	2016	2015
Reconciliation between the initial and final balances of the fair value of plan assets:		
Initial Plan Assets	$ 516	$ 498
Return on assets included in the plan	41	40
Expected returns	(31)	(22)
Plan Assets	526	516
Promissory note (2)	15,264	-
Total Plan Assets	**$15,790**	**$516**

(2) As mentioned in note 1, the Federal Government subscribed in favor of the Company credit certificates supporting the settlement commitment of the Federal Government, which were considered by the Company´s Management as a decrease in labor liabilities.

f. As of December 31, 2016 and 2015, plan assets include;

	2016	2015
Government Securities		
Udibono (Banobras)	$ 132	$ 129
Government bonds	395	387
Plan Assets	**527**	**516**

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by Mexican government and are rate BBB+ based on Standard & Poor and Fitch. In relation to certificates subscribed in favor of the Company by the Federal Government, resources received for these securities are restricted to be used solely for the settlement of the aforementioned employee benefits.

g. The most significant assumptions used in determination of the net current service cost are as follows:

Resulting from the review on the Collective Labor Agreement in May 2016, several clauses affecting the pension and retirement concepts were modified, causing a decrease in the employee benefits liabilities, and therefore; a positive effect in the results of operations.

Employees who from the effective date of this Contract and throughout 2016, meet the conditions of age and / or seniority to retire, in accordance with the provisions of the Collective Labor Agreement 2014-2016, may choose to exercise his right to retirement under the terms set forth in it.

Starting January 1, 2017, any employee may request and obtain, through the SUTERM, his or her retirement with 100% of the average salary of the last four years worked, according to the following criteria: men will be candidates as long as a) they have completed 30 years of service and are at least 65 years old, or b) they have completed 40 years of service without age limit; women will be candidates as long as a) they have completed 30 years of service and are at least 60 years old, or b) they have completed 35 years of service without age limit.

h. Sensitivity analysis.

In order to carry out the sensitivity analysis, a modification of +/- .5 points in the discount rate was considered, as such, the considered scenarios contemplated the following financial assumptions:

	Scenarios		
Sensitivity Analysis Concept	**Lower discount rate**	**Base**	**Higher discount rate**
Long-term inflation rate	3.50%	3.50%	3.50%
Discount rate	7.50%	8.00%	8.50%
Wages increase rate	4.00%	4.00%	4.00%
Minimum increase wages rate	3.50%	3.50%	3.50%

Based on these assumptions, the following liabilities were determined:

	2016		
	Scenarios		
Sensitivity Analysis Concept	**Lower discount rate**	**Base**	**Higher discount rate**
Seniority Premium	$ 2,619	$ 2,498	$ 2,386
Severance Payments	322	309	297
Pensions and Retirements	48,325	46,933	45,686
Seniority bonus	434	417	401
Total	**$ 51,700**	**$ 50,157**	**$ 48,770**

	2015		
	Scenarios		
Sensitivity Analysis Concept	**Lower discount rate**	**Base**	**Higher discount rate**
Seniority Premium	$ 3,329	$ 3,201	$ 3,081
Severance Payments	254	246	239
Pensions and Retirements	61,917	58,117	54,682
Seniority bonus	390	377	364
Total	**$ 65,890**	**$ 61,941**	**$ 58,366**

As shown above, by decreasing the discount rate by 0.5%, the total liability would increase by 3.06% in relation to the base scenario. On the other hand, while increasing the discount rate by 0.5%, would decrease the total liability by 2.75%

10. Income tax

During 2015, CFE was transformed into a Productive State Enterprise from having been a Decentralized Public Company. This situation consequently lead CFE to no longer apply for the regime included in Title III of the Income Tax Law (Non-Profit Legal Entities), and rather, to apply the provisions in Title II of the above Law (General regime for corporations and legal entities).

As of December 31, 2016 and 2015, the Company recognized deferred tax liabilities that are comprised of the following items:

	2015	P&L	OCI	2016
Deferred tax assets:				
Labor obligations	$ 18,428	$ (4,123)	(3,995)	$ 10,310
Deferred revenues	435	(256)	-	179
Allowance for doubtful accounts	8	-	-	8
	18,871	(4,379)	(3,995)	10,497
Deferred tax liabilities:				
Installations and equipment	(36,575)	36,575	-	-
Net, deferred tax asset (liabilities)	**$ (17,704)**	**32,196**	**(3,995)**	**$ 10,497**

	2014	P&L	OCI	2015
Deferred tax assets (DTA):				
Labor obligations	$15,999	$3,809	(1,380)	$18,428
Deferred revenues	488	(53)	-	435
Allowance for doubtful accounts	8	-	-	8
	16,495	3,756	(1,380)	18,871
Deferred tax liabilities (DTL):				
Installations and equipment	(29,788)	(6,787)	-	(36,575)
Net, deferred tax asset (liabilities)	**$(13,293)**	**$(3,031)**	**$(1,380)**	**$(17,704)**

Below is a reconciliation between the tax rates established by law and the effective rate of income tax:

		2016		2015
Profit before taxes		27,142		7,867
	30%	8,143	30%	2,360
Annual adjustment for cumulative inflation	(4%)	(1,167)	(9%)	(190)
Nondeductible expenses	2%	572		-
Re-measurement tax basis of installments and equipment (1)	(138%)	(37,480)	-	-
Others	4%	1,175	33%	2,052
Effective rate	**(105%)**	**(28,757)**	**54%**	**4,222**

(1) For legal purposes, the installation and equipment of the Transmission operation was transferred from CFE to CFE Transmission, EPS. According with the corresponding tax criteria applied for this transaction by management, the tax value for purpose of tax depreciation of the fixed assets was remeasured to equal their carrying value. For accounting purposes, this transfer do not modify the accounting as occurred within the boundary of the reporting entity. This change in the tax value of installation and equipment served to reversed deferred liability, thereby affecting income tax expense in the period of the transfer.

11. Other Comprehensive Income

The balances of other comprehensive income as of December 31, 2016 and 2015 are as follows:

	Items that are not subsequently reclassified to the result of the period			Items that are subsequently reclassified to income for the period	
	Revaluation of plants facilities and equipment	**Remeasurements of employee benefits liabilities**	**Recognition of the assumption by the Federal Government in the settling of obligations for employee benefits liabilities**	**Cash Flow Hedging**	**Total other comprehensive income**
Balances as of December 31, 2014	$ 47,713	$ -	$ -	$ -	$ 47,713
Net Comprehensive income	-	4,599	-	(236)	4,363
Balances as of December 31, 2015	**47,713**	**4,599**	**-**	**(236)**	**52,076**
Net Comprehensive income	16,787	(1,946)	15,264	1,207	31,312
Balances as of December 31, 2016	**$ 64,500**	**$ 2,653**	**$ 15,264**	**$ 971**	**$ 83,388**

Deferred income tax on Other Comprehensive Income amounted to $584 and $1,380 in 2016 and 2015, respectively

	Remeasurements of employee benefits liabilities	Recognition of the assumption by the Federal Government in the setting of obligations for employee benefits liabilities	Total other comprehensive income
Balances as of January 1, 2015			
Deferred Tax	(1,380)	-	(1,380)
Balances as of 1 December de 2015	(1,380)	-	(1,380)
Deferred Tax	584	(4,579)	(3,995)
Balances as of December 31, 2016	**$ (796)**	**(4,579)**	**$ (5,375)**

12. Foreign currency position

As of December 31, 2016 and 2015, Transmission operations had current liabilities denominated in foreign currency as follows:

	2016 Liabilities		
	External Debt (DDC)	PIDIREGAS	Short position In foreign currency
US dollars	2,791	44	2,835
Euros	1	-	1
Swiss francs	39	-	39
Japanese yen	2,926	-	2,926

	2015 Liabilities		
	External Debt (DDC)	PIDIREGAS	Short position In foreign currency
US dollars	2,176	-	2,176
Euros	2	-	2
Swiss francs	55	-	55
Japanese yen	1,320	-	1,320

The liabilities in foreign currency were converted to local currency at the exchange rate established by Mexico´s Central Bank (Banco de México) in the Official Gazette effective December 31, 2016 and 2015 as follows:

Currency:	**2016**	**2015**
US Dollars	$20.7314	$17.2065
Euros	21.7534	18.7873
Japanese Yen	0.1768	0.1433
Swiss francs	20.2936	17.2452

13. Assigned long-term debt

As of December 31, 2016 and 2015, the debt included in the carve-out financial statements corresponds to intercompany indebtedness (documented and PIDIREGAS obligations) assigned and allocated to CFE Transmision pursuant to the terms of the TESL and the Financial Framework Agreement. In accordance with such terms, the purpose of the assignment is to apportion CFE Transmision the responsibility of providing CFE with the necessary funds to satisfy its payment obligations (including payment of principal and interest under the relevant financing agreement and related hedging expenses) under CFE Holding’s existing financing agreements.

Documented debt

The documented debt balances at December 31, 2016 and 2015 are as follows:

Foreign debt

Type of credit	Weighted Interest rate	Maturities	Face Value	Dec16	Dec16
In US dollars:			Foreign currency	Local Currency	Foreign currency
	Fixed and variable - 1.48%	Several until 2023	$ 337	$ 1,348	$ 65
	Fixed and variable - 5.19%	Several until 2045	2,626	53,562	2,718
	Fixed and variable - 1.92%	Several until 2020	29	149	7
		Total US dollars:	**2,992**	**55,060**	**2,790**
In Euros					
	Fixed and variable - 2%	Several until 2024	8	22	1
	Fixed and variable - 1.47%	Several until 2020	7	5	-
		Total Euros:	**15**	**27**	**1**
In Swiss francs					
	Fixed and variable - 0.64%	Several until 2021	180	788	39
		Total Swiss francs:	**180**	**788**	**39**
In Japanese yens					
	Fixed and variable - 1.59%	Several until 2021	7,321	517	2,926
	Fixed -3.83%	2032	16,000	2,829	16,000
Assets received by financial instruments:			-	(36)	-
		Total Japanese yen:	23,321	3,310	18,926
Total foreign debt:			**26,508**	**$59,185**	**$ 21,756**

Foreign debt

Type of credit	Weighted Interest rate	Maturities	Face Value	Dec15	Dec15
In US dollars:			Foreign currency	Local Currency	Foreign currency
	Fixed and variable - 1.48%	Several until 2023	$ 335	$ 1,611	$ 94
	Fixed and variable - 5.19%	Several until 2045	1,978	33,368	1,939
	Fixed and variable - 1.92%	Several until 2020	27	146	8
		Total US dollars:	2,340	35,125	2,041
In Euros					
	Fixed and variable - 2%	Several until 2024	8	29	2
	Fixed and variable - 1.47%	Several until 2020	7	8	-
		Total Euros:	15	37	2
In Swiss francs					
	Fixed and variable - 0.64%	Several until 2021	180	956	55
		Total Swiss francs:	180	956	55
In Japanese yens					
	Fixed and variable - 1.59%	Several until 2021	4,899	189	1,320
	Fixed -3.83%	2032	16,000	2,293	16,000
Assets received by financial instruments:				25	-
		Total Japanese yen:	20,899	2,507	17,320
Total foreign debt:			23,434	$ 38,625	$ 19,418

Domestic debt

Type of credit	Weighted Interest rate	Maturities	Face Value	Dec16	Face Value	Dec15
Local currency						
	Fixed and variable - 6.03%	**Several until 2021**	**$14,311**	**$9,350**	**$18,356**	**$15,900**
	Fixed and variable - 7.03%	**Several until 2023**	**39,500**	**33,250**	**39,500**	**33,250**
Total Mexican pesos:			53,811	42,600	57,856	49,150
In UDIS:						
	Fixed - 4.37%	**2025**	**2,500**	**2,598**	**2,500**	**2,514**
Total UDIS			2,500	2,598	2,500	2,514
Total domestic debt			56,311	45,198	60,356	51,664

Summary		
Total foreign debt	59,185	38,625
Total domestic debt	45,198	51,664
Total documented debt	**104,383**	**90,289**
Interest payable	963	742
Expenses for amortization of debt	(1,154)	(1,062)
Total documented debt	**$104,192**	**$89,969**

In summary, the balance of the documented debt is as follows:

	2016	2015
Short term	$ 6,619	$ 7,852
Long term	97,573	82,117
Total	**$ 104,192**	**$ 89,969**

Documented debt

The integrations of the financing available as of December 2016 and 2015 are shown below:

In November 2015, two credit lines were available, one for $1,250 and another for $250. The former matures in November 2025 at a fixed rate of 7.35 and the latter expires in June 2020 at a rate of TIIE 28 + .20. Moreover, in the same month a third credit line with for 934 million UDIS was used. This credit line matures in November 2027 and bearing a fixed rate of 4.37.

In June 2015, two lines of credit were available, one for $4,500 and the second for $500. The former bears a fixed rate of 7.35 and matures in November 2025, the latter bears a rate of TIIE 28 + .20 and matures in June 2020.

On January 13, 2016, a syndicated loan of $625 million was arranged. The loan bears an interest rate of LIBOR USD plus 1.15% and matures the last quarter of 2016.

On the first quarter of 2016, proceeds of $8.3 million of US dollars (in its equivalent in JPY) were obtained.

On September 29, 2016, $150 million of US dollars were placed through a private bond. Such bond bears an interest rate of 4.39%, having a 20-year term and a maturity in September 2036.

On October 18, 2016, a fixed rate bond of $500 million of US dollars was placed with. This bond was contracted at a coupon fixed rate of 4.75%, with a term of 10 years and four months, and a maturity in February 2027.

On October 19, 2016, $187.5 million of US dollars were placed through a fixed rate bond under the Regulation S, with. This bond was contracted at a fixed coupon rate of 5.00%, with a term of 20 years and a maturity in September 2036.

In the second quarter of 2016, proceeds of $0.36 million of US dollars (in its equivalent in JPY) were obtained.

In the second quarter of 2016, proceeds of $11.75 million of US dollars (in its equivalent JPY and CHF) were obtained.

In the third quarter of 2016, proceeds of $3.75 million of US dollars (in its equivalent JPY and CHF) were obtained.

Also in the fourth quarter of 2016, proceeds of $1.98 million of US dollars (in its equivalent in JPY).

In August 2015, a $30 million of US dollars credit line was obtained with maturity in November 2017 at LIBOR 6M +1.6 interest rate. In October, another credit line was available for 492.9 million of yen, having a maturity in October 2019 and a contracted CIRR rate. In December 2015, another credit line of 113 million of Swiss Francs was available, having a SERB rate and its last amortization in October 2019.

In the second quarter of 2015, proceeds of $350 million of US dollars were obtained from a credit line subscribed with Deutsche Bank at a fixed rate of 6.125 and with its final amortization in 2045. Furthermore, in June 2015, proceeds of $14,949 million of Swiss Francs were obtained, maturing in October 2019 and contracted with a SEBR rate were obtained.

In the first quarter of 2015, we obtained a loan of $625 million of US dollars bearing a LIBOR rate plus 1.15 and maturing in December 2015. Another credit facility of $1.05 million of Swiss Francs was obtained bearing a SERB rate and having its last amortization in August 2019. Finally a credit line was available for $9.95 million of yen contracted at CIRR rate.

Long-term debt related to Productive Infrastructure projects (PIDIREGAS by its acronym in Spanish)

The balances of PIDIREGAS (direct investment) debt as of December 31, 2016 and 2015 mature as shown in the following page.

	Dec 2016	Dec 2015
Short term		
	$3,243	$3,043
Long term		
2017	-	2,525
2018	4,964	4,128
2019	2,763	2,101
2020	2,130	1,566
2021	1,655	1,184
2022	1,197	754
Subsequent years	2,947	1,093
Total long term	15,656	13,351
	18,899	16,394
Interest	131	515
Total	**$19,030**	**$16,909**

At December 31, 2016 and 2015 the debt corresponding to the acquisition of installations and equipment through PIDIREGAS is summarized as follows:

Foreign debt		As of December 31, 2016			
		Local Currency		Foreign currency	
Value of the credit (Millions of US dollars)	Maturity	Short term	Long term	Short term	Long term
44	2036	$ 38	$ 874	$ 2	$ 42
	Total	**$ 38**	**$ 874**	**$ 2**	**$ 42**

Domestic Debt		As of December 31, 2016		As of December 31, 2015	
		Local Currency		Local Currency	
Value of the credit (Millions of pesos)	Maturities	Short term	Long term	Short term	Long term
5,801	2016	-	-	$ 401	$ -
3,237	2017	$ 241	$ -	337	228
3,418	2018	203	1,948	160	1,981
3,260	2019	397	776	338	996
5,930	2020	703	1,902	694	2,097
2,044	2021	217	823	211	1,013
4,239	2022	459	2,143	370	2,479
1,425	2023	159	987	78	878
4,248	2024	453	3,158	407	3,246
2,382	2025	250	1,997	47	433
1,205	2026	123	1,048	-	-
	Total	**$3,205**	**$14,782**	**$ 3,043**	**$ 13,351**

In summary, the balance of the PIDIREGAS debt is as follows:

	2016	2015
Short term	$ 3,243	$ 3,043
Long term	15,656	13,351
Interests	131	515
Total	**$ 19,030**	**$ 16,909**

In summary, the balance of total debt assigned is as follows:

	2016	2015
Total		
Short term of documented debt	$ 6,619	$ 7,852
Short term of Pidiregas debt	3,374	3,558
Total short term portion of long term debt	9,993	11,410
Long term of documented debt	97,573	82,117
Long term of Pidiregas debt	15,656	13,351
Total long term portion	113,229	95,468
Total debt	**$ 123,222**	**$ 106,878**

14. Other related parties transactions

The EPS and the corporate CFE mentioned in this note, which arose derived from the treaties of strict legal separation, are considered related parties of the Transmission operations, since they are all part of the productive company of the State CFE.

These transactions are regulated by a framework contract between the EPS and the corporate CFE, which also has attachments that describe each of the services or operations that exist between them and their method of collection.

The services between the EPS, described below, are regulated by the following exhibits:

* Transactions between Transmission operations and CFE Holding:

- Technological services – CFE provides tech communication and IT security.
- Air transportation leasing – Helicopter use rental services, needed to supervise transmission lines.
- Vehicle Leasing – Vehicle leasing for the Transmission operations.
- Training – Advice and support for SIC R1 (CFE´s Training platform) users, specialists in training education and, the rental and administration of the SIC R1 platform.

- Specialized Engineering – Failure analysis of the National Transmission Network, studies and other specialized services.
- Security Personnel – Deployment of navy and military personnel, in charge of the surveillance and the safety of the company´s facilities and transmission lines, and studies regarding Transmission operation´s assets and their safety.
- Risk and insurance administration – In charge of the biddings and hiring insurance carriers, policy administration and follow on of insurance claims.
- Laboratory services – Studies and analysis about flaws or failures in transmission lines or substations, lab tests, advice and assurance of operating quality.
- Legal Services – From CFE´s general attorney.
- Housing Mortgages (FHSSTE, for its acronym in Spanish) – Housing Mortgages for employees.
- Human resources (SIRH) – Payroll and related services.
- Financed investment Projects Direction (DPIF, for its acronym in Spanish) – Feasibility studio, prior to the construction of additions to the National Transmission Network, the supervision and the setup of granted works.
- Strategy and regulation – Regulatory agenda administration, performance evaluation and case-by-case analysis of new investment projects.
- Purchases – The purchase of materials needed by CFE´s companies is consolidated to make faster biddings and get better prices.
- Management of Institutional Information System – License payment, services and support regarding SAP platform.
- Energy Saving Projects – Evaluation and follow on of new projects regarding energy efficient use and energy saving. New technology evaluation, workshops and promotion of energy saving.
- Properties in sale – Managing the sales of assets.
- Financial services: A) Services regarding derivatives and hedging of assigned debt, B) Computation, administration and allocation of the annual Budget corresponding to each of CFE´s companies, C) Treasury services, y D) Negotiation and management of the assigned debt.
- Media and marketing –Publicity and marketing services.
- General Services – Maintenance and cleaning of administrative properties, in charge of office supplies, travel agency and Messenger services.

  Specialized Training – Managing of the National Center of Specialized Training.
- Evaluation and planning – Specialized engineering services, includes technical training
- Industrial Security – Planning and managing safety measures for accident prevention in the company´s facilities.

* Transactions between Transmission operations and other CFE Holding subsidiaries:

- Operating and maintenance – The use of one's Company personnel for another one´s purposes.
- Automation systems (SCADA) – The use of control equipment for the automation of services provided by the EPS.
- Modernization and work setup – Support between EPS regarding renovations and new construction works in progress.
- Training – Given training form one´s Company personnel to another one´s.
- Infrastructure leasing – Form one´s EPS to another one.
- Payroll services.
- Emergency response – Support between EPS in case of a sinister.

Related parties transactions are summarize below:

	2016	2015
Services Revenues		
Maintenance	$555	$543
Operation	36	36
Reading	5	5
Scada-Operation	25	25
Infrastructure lease	58	57
Training	9	8
Administrative Services	13	12
Other Income	240	862
Total	**$941**	**$1,548**

	2016	2015
Services Expenses		
Maintenance	$3,347	$3,306
Insurance policy	459	557
Security for operational assets	480	556
General services	113	123
Personal services	26	25
Technical services	232	231
Administrative Services	373	363
Total	**$5,030**	**$5,161**

The intercompany transactions shown above are disclosed at their fair value.

15. Contingent liabilities and commitments

a. Contingencies

The Company is involved in several lawsuits and claims derived from the normal course of its operations, which are not expected to have a material effect in the financial position and future results.

b. Commitments

- **Financing public works agreement**

  As of December 31, 2016, CFE Transmission has been assigned with some financed public works agreements, whose payment commitments will begin on the dates when the private investors finish the construction of each of the investment projects and deliver to the Company the assets for its operation. The estimated amounts of these financed public works contracts which payments commitments dates will begin in 2017 and 2018, are $33,812 and $7,881 respectively.

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

- **Commercial operation agreement**

  CFE Transmission has formalized an agreement with CENACE for the commercial operation of the transmission. Transmission operations celebrates contracts of Interconnection and connection with users of the National Transmission Network (RNT for its acronym in Spanish). CENACE formalizes market participants' contracts with Power Plants, Cargo Centers and Suppliers. Charges for the use of the network are made by CENACE to market participants and paid to CFE Transmission through daily statements.

16. New accounting pronouncements

The following recent changes in the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), are to be applied after accounting periods beginning on January 1'st, 2018. The changes are described below:

<u>IFRS 9 "Financial Instruments" (January 1st, 2018)</u>

The Company is performing its initial assessment of the possible impact of the adoption of IFRS 9 based on the positions as of December 31, 2016 and the hedging relationships designated during 2016 under IAS 39.

<u>IFRS 15 "Revenue from Contracts with Customers" (January 1st, 2018)</u>

IFRS 15 establishes a complete conceptual framework for determining whether to recognize Income from ordinary activities, when to recognize it and in what amount. This standard replaces the existing revenue recognition guideline, including IAS 18 “Revenue” and IAS 11 “Construction Contracts” IFRIC 13 “Customer Loyalty Programs”.

The Company is performing its initial assessment of the possible impact of the adoption of the IFRS 15 in its consolidated financial statements.

IFRS 16 "Leases" (January 1st, 2019)

IFRS 16 replaces existing lease guidance including IAS 17 “Leases”, IFRIC 4 I, the SIC-15 “Operational Leases-Incentives” and SIC 27 “Evaluation of the substance of transactions that take the legal form of a lease”.

The Company is performing its initial assessment of the potential impact. The most significant impact identified is that the Company will recognize new assets and liabilities for its operating leases. Furthermore, the nature of the expenses related to these leases will change in the new standard, as IFRS 16 replaces the operating lease expense for a depreciation charge on a Right of Use asset, and an interest expense for the corresponding lease liability.

Likewise, the IASB promulgated improvements to the standard that comes into force beginning January 1, 2016, as follows.

Disclosure Initiative (Adaptations to IAS 7)

The modifications require disclosures that allow users of the Financial Statements to assess changes in liabilities arising from financing activities, including changes arising from cash flows and changes not related to cash.

Recognition of deferred tax assets for unrealized losses (Adjustments to IAS 12)

The amendments clarify the accounting of deferred tax assets by unrealized losses related to debt instruments measured at fair value.

The amendments are effective for annual periods beginning on January 1 2017 or later.

The Company is assessing the possible impact that these changes may have on the financial statements.Currently, no significant impacts are expected. The Company permanently evaluates the impact that financial rules may have before the standard enters into force

17. Subsequent events

On January 1, 2017, CFE Holding, CFE Distribucion and CFE Transmision entered into a Framework Agreement for the Allocation of Financial Liabilities (the “Financial Framework Agreement”), pursuant to which CFE Holding allocated among its productive state subsidiaries all of the indebtedness (including obligations in respect of PIDIREGAS) it had incurred on or prior to January 1, 2017, and its productive state subsidiaries party thereto agreed to provide CFE Holding with the necessary funds to satisfy its payment obligations (including payment of principal and interest under the relevant financing agreement and related hedging expenses) under CFE Holding’s existing financing agreements. CFE Holding’s allocation among its productive state subsidiaries in the Financial Framework Agreement results in intercompany indebtedness among the productive enterprise subsidiaries to CFE Holding (the amount of this indebtedness is already reflected in these financial carve-out financial statements under the caption long and short term debt).

18. Issuance of carve-out financial statements

The issuance of these carve-out financial statements and the corresponding notes were approved by Management on January 22, 2018. Subsequent events were considered until such date. Likewise, the Carve-out Financial Statements shall be made known to the Board of Directors. This body has the power to amend the accompanying financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

Carve-out Financial Statements as of December 31, 2015 and for the year then ended.

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Independent Auditors' Report on Carve-out Financial Statements

To the Board of Directors of
Comision Federal de Electricidad,
Productive State Enterprise

Opinion

We have audited the carve-out financial statements of the CFE Transmision operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries (the "Reporting Entity"), which comprise the carve-out statement of financial position as at December 31, 2015, the carve-out statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as the explanatory notes to the crave-out financial statements which include a summary of significant accounting policies.

In our opinion, the accompanying carve-out financial statements present fairly, in all material respects, the carve-out financial position of the CFE Transmision operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries, as at December 31, 2015, and its carve-out financial performance and its carve-out cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the carve-out Financial Statements section of our report. We are independent of the Reporting Entity in accordance International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the carve-out financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without modifying our opinion, we draw attention to the following matters:

1. We draw attention to Note 2.b) to the carve-out financial statements which describes their basis of preparation, including the approach to and the purpose for preparing them. The carve-out financial statements were prepared to assist in respect of an international and a local offerings of Energy and Infrastructure Trust Certificates. Consequently, the Reporting Entity's carve-out financial statements may not necessarily be indicative of

the financial performance that would have been achieved if the Reporting Entity had operated as an independent entity, nor may they be indicative of the results of operations of the Reporting Entity for any future period.

2. As indicated in Note 2.b) to the attached carve-out financial statements, the attached carve-out financial statements do not include, as required by International Accounting Standard 1, comparative information for the immediately preceding fiscal year, in the absence of concrete evidence of the electric rates that would have been applicable in year 2013 in order to determine the reasonable opening balance for year 2014. Consequently, it is impracticable to prepare financial statements for the year ended on December 31, 2014.

Responsibilities of Management and Those Charged with Governance for the Carve-out Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Carve-out Financial Statements

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

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

- Identify and assess the risks of material misstatement of the carve-out financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our

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opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Reporting Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Reporting Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the carve-out financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Reporting Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the carve-out financial statements, including the disclosures, and whether the carve-out financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Reporting Entity to express an opinion on the carve-out financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

GOSSLER, S.C.

Leobardo Brizuela Arce
Audit Partner

Mexico City, November 17, 2017.

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Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

As of December 31, 2015

Carve-out statement of financial position

(Millions of pesos)

	2015		2015
Assets		**Liabilities and Equity**	
Current assets:		Current liabilities:	
Cash and cash equivalents	$ 73	Short term portion of long term debt (note 13)	$ 11,410
Accounts receivable (note 5)	1,434	Other payables and accrued liabilities	991
Inventory of materials for operation, net	1,292		
Total current assets	2,799	Total current liabilities	12,401
		Long-term liabilities:	
		Long-term debt (note 13)	95,468
		Employee's benefits (note 9)	61,425
Loans to employee's	910	Deferred income taxes (note 10)	17,704
		Deferred revenue	1,448
Installations and equipment, net (note 6)	270,072		
Derivative financial instruments (note 7)	730	Total long-term liabilities	176,045
		Total liabilities	188,446
Other assets (note 8)	27,761	Equity:	
		Parent company investment	59,486
		Retained earnings	3,644
		Other comprehensive income (note 11)	50,696
		Total Equity	113,826
Total Assets	**$ 302,272**	**Total Liabilities and equity**	**$ 302,272**

See accompanying notes to carve-out financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

For the year ended December 31, 2015

Carve-out statement of comprehensive income
(Millions of pesos)

		2015
Revenues:		
Operating revenue	$	46,740
Other income		1,548
Total revenues		48,288
Costs:		
Salaries and related costs		6,345
Labor obligations (benefits) cost (notes 3(h) and 9)		6,694
Maintenance and materials		4,875
Administrative services		363
Tax and duties		115
Depreciation		8,578
(Gain) losses in disposal of fixed assets		1,148
Operating assets security		969
Other operating costs		(1,056)
Total operating costs		28,031
Operating results		20,257
Financing costs, net:		
Interest expense		5,293
Foreign exchange loss		7,098
Total financing cost		12,391
Income before income taxes and other comprehensive income		7,866
Income taxes (note 10):		
Income Tax		1,191
Deferred tax		3,031
Net income	**$**	**3,644**
Other comprehensive income (note 11)		
Items that are not subsequently reclassified to the results of the period:		
Re-measurements of employee benefits liabilities, net of deferred taxes		3,219
Items that are subsequently reclassified to income for the period:		
Cash flow hedging		(236)
Total other comprehensive income		2,983
Comprehensive income	$	**6,627**

See accompanying notes to carve-out financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

For the year ended December 31, 2015

Carve-out statement of changes in equity

(Millions of pesos)

	Parent investment	Retained earnings	Other comprehensive income	Total
Balance as of December 31, 2014	$ 80,967	$ -	$ 47,713	$ 128,680
Net transfers of investment from parent company	(21,481)			(21,481)
Net comprehensive income for the year		3,644	2,983	6,627
Balance as of December 31, 2015	**$ 59,486**	**$ 3,644**	**$ 50,696**	**$ 113,826**

See accompanying notes to carve-out financial statements.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries
For the year ended December 31, 2015
Carve-out statement of changes in cash flows
(Millions of pesos)

	2015
Cash flow from operating activities:	
Income before income taxes and other comprehensive income	$ 7,866
Items related to operating activities:	
Labor obligations cost	6,694
Items related to investing activities:	
Depreciation	8,578
Loss of plants, facilities and equipment	1,148
Items related to financing activities:	
Unrealized exchange loss, interest expense and change in the fair value of derivate financial instruments	21,618
Changes in operating assets and liabilities:	
Accounts receivable, net	158
Inventory of materials for operation	(530)
Other accounts payable and accrued liabilities	7,706
Employee's benefit payments	(3,198)
Net cash provided by operating activities	50,040
Cash flow from investing activities:	
Acquisitions of installations and equipment	(26,492)
Other assets	(1,060)
Net cash used in investing activities	(27,552)
Cash flow from financing activities:	
Debt proceeds	24,108
Debt payments	(19,722)
Interest paid	(5,217)
Financial Instruments proceeds	342
Payments of derivative financial instruments	(517)
Net transfer of investment in parent company	(21,292)
Net cash flows used in financing activities	(22,298)
Net increase in cash and cash equivalents	190
Cash and cash equivalents:	
At beginning of period	(117)
At end of period	**$ 73**

See accompanying notes to carve-out financial statements.

1. Definition of the Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries (subsequently referred to as "Transmission operations of CFE" or "the Company")

- **Purpose of Transmission operations of CFE.**

The Comision Federal de Electricidad Law ("CFE 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 (EPE for its acronym in Spanish).

Transmission operations, purpose is to carry out the necessary activities to provide the public electricity transmission services, as well as to carry out, among other activities, the financing, installation, maintenance, management, operation and expansion of the necessary infrastructure to provide the public transmission service in accordance with the provisions in the Federal Electricity Commission Law (LCFE), the terms of strict legal separation (TESL) of the CFE and any other applicable legal provision.

- **Relevant events.**

Strict legal separation

According to the guidelines set forth by the Law of the Electric Industry (LEI) and the Law of the CFE (LCFE), in order to guarantee the open access, efficient operation and competition of the electric power industry, Comision Federal de Electricidad, Productive State Enterprise (subsequently referred to as "CFE") will carry out in a strictly independent way between them, the activities of Generation, Transmission, Distribution, Marketing, Basic Supply, Qualified Supply, and Last resource supply, Supply of primary inputs for the electric power industry, as well as the auxiliary activities, for which, the above mention laws, establish the accounting, functional and structural CFE unfolding process is required between its divisions, regions, productive/operating subsidiaries (EPS for its acronym in Spanish) and other subsidiaries (EF).

The terms for the strict legal separation (TESL for its acronym in Spanish) 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 and so that its market share is independent through each of the units in which is separated with the purpose of generating economic value and profitability for the Mexican State as its owner.

Based on the TESL, all this activities would be carried out by the incorporated Productive State Subsidiaries (EPS for its acronym in Spanish).

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

Incorporation of CFE Transmision, EPS

On March 29, 2016 the resolutions for the incorporation of the CFE Transmision, EPS were published in the DOF. CFE Transmision, EPS were established to provide the public service of electricity transmission, as well as to finance, install, maintain, manage, operate and enhance the necessary infrastructure pursuant the CFE Law, the Electricity Industry Law, the terms for the strict legal separation of CFE and other applicable regulations.

CFE Transmision begins formal operations on January 1st, 2017. This set of financial statements represents the Transmision operations of Comision Federal de Electricidad and subsidiaries as a part of the whole entity.

Mexican Wholesale Electricity Market (MEM)

Following the beginning of operations of the Mexican Wholesale Electricity Market (MEM), and pursuant to Transitory Article Three of the Electricity Industry Law, the Ministry of Energy extended the term to December 31, 2016 for CFE to conduct its activities of transmission, distribution, basic supply, commercialization other than primary inputs supply and primary inputs, including any participation on the Wholesale Electricity Market (MEM), and extended the term to February 1, 2017, to conduct its activities of generation.

Tax Obligations

With the creation arrangement, dated March 29, 2016 of CFE Transmision became a State Productive Enterprise of CFE, and starting on March 30, 2016 began complying its tax obligations in terms of the Title II of the Income Tax Law, which sets forth the general regime of legal entity. The “Public Use Tax” established in Article 46 of the Public Service of Electricity Law (referred as exploitation per the regulation) was repealed with the enactment of the CFE Law (repealed).

Assets contributed by the Federal Government

On October 7, 2015, the Ministry of Public Administration (“SFP” for its acronym in Spanish) through the Institute of Management and Valuation of Public Property (“INDAABIN” for its acronym in Spanish), terminated the agreement with CFE and transferred the assets detailed in the corresponding annexes to CFE.

Furthermore, CFE received the legal and physical possession of the corresponding assets. Procedures for their release from the federal public domain regime began on that date. These assets were included in the consolidated statements of financial position as of December 31, 2015, for a total value of $95,004, of which an amount of $45,476 which were attributable to CFE Transmission, as determined by the Asset Management and Divestiture Service (“SAE” for its acronym in Spanish). This amount may be adjusted, if required, as the detailed listing is integrated and reviewed by the corresponding significant area.

2. Basis of preparation of the carve-out financial statements

a. Purpose of the carve out financial statements

The purpose of these carve out Financial Statements is to provide general purpose historical financial information of the Transmission operations of CFE and assist in respect of an international and a local offerings of Energy and Infrastructure Trust Certificates Consequently, the Reporting Entity's carve-out financial statements may not necessarily be indicative of the financial performance that would have been achieved if the Reporting Entity had operated as an independent entity, nor may they be indicative of the results of operations of the Reporting Entity for any future period.

The Transmission operations of CFE, historically did not exist as a separate legal and no separate (statutory) financial statements were therefore prepared. Accordingly, for purpose of the evaluation of the historical financial results of the Transmission operations, Carve out Financial Statements have been prepared.

b. Basis of preparation

The accompanying carve-out financial statements for the years ended December 31, 2015 represent the business operations identified as the transmission operations of CFE, including the fiber optic operations. The carve-out financial statements present Transmission operations of CFE's financial position, results of operations, and cash flows as derived from the consolidated financial statements and accounting records of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries. Management believes the assumptions underlying the allocations included in the financial statements are reasonable. These carve-out financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The carve-out financial statements include income and expenses that are allocated from other activities performed by CFE, including, but not limited to, energy transmission revenues in 2015, as well as, general corporate expenses related to finance, legal, technology of information, human resources, communications, shared services, employee benefits and incentives in 2015. Revenues from the energy transmission service, as there was no wholesale electricity market in 2015, were allocated by multiplying the energy effectively transmitted for the rates for the transmission service determined these according to the rules established by the Energy Regulatory Commission. On the other hand, expenses were allocated on the basis of direct use when it is identifiable, with the rest allocated on the basis of income, staff or other measures.

The Company considers that the basis on which the expenses have been allocated is a reasonable reflection of the use of the services provided or of the benefit we receive during the periods presented. However, the allocations and / or contributions to the CFE Transmission operation as a result of the carve-out process would not represent the actual cost that we would have incurred as a separate / independent entity outside CFE.

Carve-out of assets and liabilities according to the conditions set-forth in the TESL consisted of reclassifications on the items described below:

(i) Fixed assets and related depreciation expense – The CFE's operations of Distribution, Generation and Physical Security were attributed to the Company depending on the voltage defined by the TESL (above 68kw) and recognized in the carve-out financial statements together with its related accumulated depreciation and depreciation expense.

(ii) Debt and associated financial cost and derivatives instruments was assigned based on Management's financing strategy.

(iii) Long-term labor obligations and corresponding costs – were assigned in connection to employees' structure associated to transmission operations. As of December 31, 2015, the employees which are part of the work structure of Transmission operations are incorporated in the employer's register of CFE, however, these are identifiable by cost center so the liabilities and the net cost of the related period have been included in the carve-out financial statements.

(iv) Remaining assets and liabilities were directly attributable to the Transmission operations of Comision Federal de Electricidad.

Carve-out statement of comprehensive income

The carve-out financial statements include income from electricity transmission service and expenses that are allocated from general corporate expenses related to finance, legal, technology of information, human resources, communications, shared services, employee benefits and incentives in 2015. Revenues from the electricity transmission service, were allocated by multiplying the energy effectively transmitted by the rates applicable to the transmission service. These rates are based on the rules established by the Energy Regulatory Commission. Despite there was not such rules applicable to 2015 due to there was no wholesale electricity market in 2015. On the other hand, expenses were allocated on the basis of direct use when it is identifiable, with the rest allocated on the basis of income, staff or other measures. The Company considers that the basis on which the expenses have been allocated is a reasonable reflection of the use of the services provided or of the benefit we receive during the periods presented. However, the allocations and / or contributions to the CFE Transmission operation as a result of the carve-out process would not represent the actual cost that we would have incurred as a separate / independent entity outside CFE.

The income tax has been determined under the assumption that Transmission operations, were a separate taxable entity. This assumption implies that the current and deferred income taxes are calculated separately and the recoverability of the deferred tax is also assessed accordingly. Due to the fact that Transmission operations did not file separate tax returns in previous years, the respective current tax assets and liabilities, are deemed either contributed or distributed to CFE with a corresponding effect in equity as of the end of the respective fiscal year. The taxes actually paid by Transmission operations have been presented in the carved out statements of cash flows; the detailed contributions or distributions have not been included.

Management believes the assumptions underlying the allocations included in the financial statements are reasonable.

The preparation of carve-out financial statements in accordance with IFRS requires estimates and assumptions from CFE's Management that affect the reported amounts in the carve-out, financial statements and accompanying notes. Such estimates include, but are not limited to, inventory valuation, impairment of intangible assets and other provisions. Furthermore, our carve-out financial statements may not be indicative of our future performance and do not necessarily reflect what the results of operations, financial position and cash flows as if we would have been operating as an independent company during the presented periods.

The carved out financial statements have been prepared on a historical cost basis, except for certain derivative financial instruments and the installations and equipment, which are recorded at fair value.

These carve-out financial statements do not include, as required by the International Financial Reporting Standard No. 1 "First-time Adoption of International Financial Reporting Standards" comparative information with the immediate prior year, in the absence of concrete evidence of the electric rates that would have been applicable in the fiscal year 2013 to determine the reasonable opening balance for year 2014. Consequently, it is impracticable to prepare financial statements for the year ended on December 31, 2014.

c. Functional and reporting currency

The carved out financial statements and their notes are presented in Mexican pesos (reporting currency), the Company's functional currency.

For purposes of disclosure in the notes to the carve-out financial statements, reference to pesos or "$" refers to Mexican pesos, reference to dollars refers to dollars of the United States of America, reference to euros refers to legal currency of the European Union, reference to yen refers to the currency in legal course in Japan, and reference to Swiss francs refers to the legal currency in Switzerland. All information is presented in millions of pesos and has been rounded to the nearest unit, except when otherwise indicated

d. Statements of comprehensive income

Transmission operations prepared statements of comprehensive income, and classified costs and expenses based on their nature, pursuant to the specific substance of the type of cost or expense of the Company, as set forth in IAS 1 "Presentation of financial statements".

3. Summary of significant accounting policies

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

a. Transactions in foreign currency

Transactions in foreign currency are converted into the Company's functional currency at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are converted to the functional currency at the exchange rate of the reporting date. The non-monetary assets and liabilities that are valued at fair value in a foreign currency are converted to the functional currency at the exchange rate on the date on which the fair value was determined. Non-monetary items that are measured in terms of historical cost are converted using the exchange rate on the date of the transaction. Differences in foreign currency translation are generally recognized in the results of operations.

Cash flow hedges are recognized in other comprehensive income, when the hedging is effective.

b. Cash and cash equivalents

They consist of cash, bank deposits and short-term investments. Cash and bank deposits are presented at nominal value and interest is recognized in income as it accrues.

The cash equivalents correspond to investments with high liquidity and very short-term maturities. They are valued at fair value and have a low risk of change in their value.

c. Inventory of operating materials

Inventories of operating materials are measured at the lower of cost or net realizable value. Unit cost is determined using the formula of average cost.

Inventories are reviewed periodically to determine the existence of obsolete material, as well as to evaluate the sufficiency of the allowance or provision. When the case arises, the allowance is increased and recognized in the results of the year.

d. Installations and equipment

Installations and equipment are initially recognized at acquisition cost.

Installations and equipment in operation (electric infrastructure)

Installations and equipment used as infrastructure for the transmission of electricity are subsequently revalued to adjust such cost to fair value, net from accumulated depreciation or accumulated impairment losses. The Company periodically reviews the fair values of installations and operating equipment and every five years evaluates the need to perform appraisals so that the carrying amount of these assets does not differ significantly from the values we would have by using their fair values at end of the reporting period.

Any increase in the revaluation of those installations and equipment is recognized as a surplus in other comprehensive income, except if such increase reverse a revaluation decrease previously recognized in the results of operations, in which case the increase is credited to the results of the period to the extent it reduces the expense previously recognized. A decrease in carrying value generated by the revaluation of those installations and equipment is recorded in the results of operations to the extent it exceeds the revaluation in installations and equipment, if any.

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

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

The depreciation of installations and equipment in the revalued operation is recognized in the results. Depreciation on installations and equipment is calculated over the fair value or acquisition cost, as applicable, on the straight-line method over the estimated useful lives of the asset, starting the following month when the asset was ready for use.

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

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

	Annual depreciation rate %
Substations	From 1.33 to 2.56
Transmission lines	From 1.33 to 2.86
Sub-transmission lines	From 1.67 to 3.33

Management periodically evaluates total useful lives, depreciation methods, and residual values of installations and equipment. In those cases where changes to estimations are deemed necessary, the effects are recognized prospectively.

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

Property and assets allocated to offices and general services.

Property and assets allocated to offices and general services are depreciated in accordance with the following rates:

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

Land is not depreciated

An element of installations and equipment is disposed when sold or when it is not expected to obtain future economic benefits derived from the continued use of the asset. The gain or loss generated by the sale or retirement of an item of installations and equipment, is calculated as the difference between the sales proceeds and the carrying value of the asset, and it is recognized in the income statement.

The value of installations and equipment is reviewed annually by indications of impairment in the value of such assets. For the year ended December 31, 2015, no impairment losses were recognized.

e. Intangible assets

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

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

f. Financial assets and liabilities

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

Financial assets

Financial assets are classified in any of the following categories: financial assets at fair value with changes through profit and losses, financial assets and liabilities held-to-maturity, financial assets and liabilities available-for-sale, loans and accounts receivable. The classification is made based upon the nature and purpose of the financial asset, and it is determined at the time of initial recognition.

Accounts receivable

Accounts receivable and loans are financial instruments, usually with a maturity less than a year with established payments, not listed on an active market. Accounts receivable with maturities over a year (including accounts receivable from the Electric Wholesale Market, related party accounts receivable and other receivables) are valued at amortized cost, by using the effective interest method, and they are subject to impairment tests.

Financial assets at fair value through profits and losses

Financial assets which changes in fair value are recognized in profits and losses, including financial assets held for trading. Derivative financial instruments, including embedded derivatives that qualify to be recognized separately, are classified as held for trading unless they are designated as hedging instruments. Financial assets with changes in fair value recognized in profits and losses are recognized and presented in the balance sheet at their fair value and their changes in fair value are included in interest expense as part of the net financing cost in the profit and losses of the period.

- Financial assets held-to-maturity

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

- Financial instruments available-for-sale

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

- Write-off of financial assets

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

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

- Impairment of financial assets

At the end of each reporting period, an assessment is performed to ascertain whether there is any objective evidence that the value of a financial asset or group of financial assets has suffered any impairment.

A financial asset or group of financial assets are considered impaired in value when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the investment have been adversely affected.

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

- Financial liabilities

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

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

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

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

- Financial liabilities at fair value through profit or loss

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

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

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

- Debt and loans

After initial recognition, debt and interest-bearing loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when liabilities are disposed, as well as through the amortization process when applying the effective interest rate method.

The amortized cost is calculated taking into account any discount or premium in the issuance or acquisition, commissions and other directly attributable costs that are an integral part of the effective interest rate. The amortization of this is recognized as a financial cost in the statement of comprehensive income.

- Write-off of financial liabilities

A financial liability is derecognized when the obligation arising from the liability has been settled, canceled or expired.

When a financial liability is replaced by another from the same creditor in terms substantially different, or when the terms of the existing liability are substantially modified, such replacement or modification is reflected by derecognizing the original liability and recognizing a new liability. The difference between the values of these liabilities is included in the statement of comprehensive income.

Offsetting

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

Fair value of financial instruments

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

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

g. Derivative financial instruments

CFE Holding assigned derivative financial instruments through an internal contract to CFE Transmisión

Derivative financial instruments are recognized at fair value in the statement of financial position.

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

The effectiveness of derivative financial instruments classified as hedging instruments is determined before its designation the inception of the transaction as well as during the hedging period, which is reassessed at least quarterly. If the hedge is not highly effective, the derivative financial instrument ceases to be treated as a hedge.

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

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

h. Labor obligations

Various benefits are granted to employees, which for purposes of the financial statements have been classified as direct employees benefits and pension benefits, seniority premiums and termination of employment relationship benefits.

Direct employee benefits

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

Employee benefits for pensions and others

The Company has a policy of granting retirement pensions to cover the employees.

A defined benefit pensions plan is given to employees who started their employment relationship before August 18, 2008, and a defined contribution pensions plans is given to employees who began their employment after August 19, 2008.

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

These costs for defined contribution plans are calculated by applying the percentages indicated in the corresponding regulations on the amount of wages and eligible salaries, and deposited with the fund retirement managers chosen by our employees and to the Mexican Social Security Institute (IMSS for its acronym Spanish).

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

The costs of pensions, seniority premiums and other related benefits are recognized based on independent actuaries' calculations considering the projected unit credit method and using nominal financial assumptions.

The costs of defined contribution pensions are recognized in the results of the period as incurred.

i. Income taxes

The income tax payable for the year is determined in accordance with current tax legislation and is presented, when applicable, in short-term liabilities.

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

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

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

j. Revenue recognition

Revenues are recognized when the service of transmission of electric power is rendered; consequently, the electricity delivered that is in the process of being billed is considered as revenue for the period, and accounted using the current measurement.

k. Other liabilities

Received payments corresponding to the leasing of a pair of dark optic fiber wires and their maintenance.

l. Provisions

In cases where the effect of time value of money is important, an estimation of the disbursement necessary to settle the obligation is discounted, using a pretax discount rate that reflects the market conditions at the reporting date, as well as the specific risks of the corresponding liability.

In case of contingent liabilities, the corresponding provision is recognized only when an outflow of resources for its settlement is probable.

m. Use of estimates

In the preparation of the financial statements, estimates are made for certain items, some of which are highly uncertain and their estimation involves opinions reached based on the information available. In the following paragraphs, Management discloses matters identified which could materially affect our financial statements if they were using different estimates to the ones reasonably used, or if the Company changes its estimates in the future due to changes in circumstances and facts that may occur in the future.

Our analysis covers only those estimates that the Company considers most important, taking into account the degree of uncertainty and the likelihood of a significant impact if different estimates were used. There are other areas involving uncertain matters, but where the Company believes that the effect of changing our estimate would not significantly impact the financial statements.

- Fair value of assets and liabilities

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

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

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

c) Financial instruments not listed on any market, are recognized by discounting future cash flows using interest rates for similar instruments.

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

e) The installations and equipment are valued considering the fair value method.

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

- Useful life of our installations and equipment

The Company´s installations and equipment in operation are depreciated considering an estimated useful life.

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

- Impairment of long-lived assets

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

- Deferred taxes

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

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

Deferred tax assets are recognized considering the amount that is most likely to be materialized. In this estimation, Management considers taxable income for future years based on its tax projections, as well as the benefits of tax strategies.

If our estimates of future profits and the expected benefits of tax strategies are reduced or if there are changes in tax laws that impose restrictions on the opportunity to use the tax benefits of tax losses in the future, the amount of deferred tax assets may decrease, and thereby increasing the expense for income taxes.

- Provisions

Provisions are recognized when there is a present obligation, which results from past events, it is probable (more likely than not) that an outflow of resources will be required to settle the obligation and that a reasonable amount of the outflow of resources can be reliably estimated. The amount of provisions recognized is the Management´s best estimate of the expense we will incur to meet the obligations, taking into account all the information available at the date of the consolidated financial statements, including in some cases the opinion of external experts as legal advisers or consultants. Provisions are adjusted to recognize changes in the current circumstances or facts and the occurrence of new obligations.

In those cases in which the Company cannot reliably quantify the obligation, no provision is recognized, however, our notes to the financial statements include the relevant information.

The amounts recognized may be different from the amount we finally incurred given the uncertainties inherent to them.

- Labor obligations

The amounts for pension and retirement plan obligations and other postretirement obligations recognized as liabilities in the statement of financial situation and as expenses in profit or losses, are calculated annually by actuaries considering assumptions and estimations over the postretirement benefits.

The assumptions that are majorly impacted by such estimations are as follows:

a) Increase rate of salaries for the following years;
b) Discount rate to determine the present value of future obligations;
c) Rate of expected inflation; and
d) Expected return on pension plan assets.

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

The presentation of costs and expenses by nature used in the preparation of the statements of comprehensive income is different from that used in the last annual financial statements, since Management considers that the financial information presented is clearer due to it is a service company.

4. Financial Instruments – Fair Value and Risk Management

Objectives of financial risk management

The treasury department's function is directed by the SHCP's policies as to the cash management, which holds that investments are not made long-term and are made in low risk instruments. Status reports are made in a monthly basis to the Treasury's Investments Committee.

Credit Risk

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 Company 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 Company only carries out operations with parties having high solvency, creditworthiness and standing. The Company 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 are deemed by the Company to have a limited risk. The Company accounts for an allowance for doubtful accounts under the incurred losses model.

The following table shows the contractual maturities of the Company's financial liabilities (not including derivative financial instruments) based on the payment terms:

At December 31, 2015	Less than 1 year	More than 1 year and less than 3	More than 3 year and less than 5	More than 5 years	Total
Assigned debt	$7,587	$17,220	$12,423	$53,059	$90,289
Interest payable of documented debt	4,744	8,572	7,695	27,128	48,139
PIDIREGAS debt	3,044	6,653	3,667	3,030	16,394
Interest payable of PIDIREGAS	733	1,078	477	227	2,515
Suppliers and contractors	354	-	-	-	354
Total	**$16,462**	**$33,523**	**$24,262**	**$83,444**	**$157,691**

Liquidity risk

Liquidity risk is the risk a Company faces when having difficulties meeting its obligations associated with financial liabilities to be settled with cash or any other financial asset.

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

Market Risks

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company uses derivatives to manage market risks. All such transactions are carried out within the guidelines set by the Company's Financial Office. Generally, the Company seeks to apply hedge accounting to manage volatility in profit or loss.

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

Foreign currency exchange risk management

The Company borrows credits preferably in local currency.

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

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

Carrying amounts of monetary assets and liabilities denominated in foreign currency at the end of the reporting periods are shown in note 7.

Sensitivity analysis of foreign currency

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

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

The sensitivity analysis only includes monetary open items denominated in foreign currency, adjusting its translation by a 5% change in foreign exchange rates at period end. The sensitivity analysis includes external loans, as well as loans derived from foreign operations within the Company, where the loan is in a currency other than the loaner or the borrower currency. A positive amount 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:

	Millions of pesos
	31/12/2015
Gain or loss	$ 1,174

Management considers the impact of the inherent exchange risk affects electricity tariffs in the long-term due to inflation adjustments and the peso/dollar exchange rate.

Interest rate risk management

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

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the period reported.

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

	Millions of pesos
	31/12/2015
Gain or loss	$ 18

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 financial statements are considered to approximate their fair value, as shown below:

	2015	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents (1)	$ 73	73
Accounts receivables (2)	1,434	1,434
Long term accounts receivables (2)	910	910
Derivative financial instruments (1)	730	730
Financial liabilities:		
Short term portion of long term debt (2)	11,410	11,410
Long-term debt (2)	95,468	97,598
Suppliers and contractors (2)	991	991

Measured at (1) fair value; (2) amortized cost

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 requests a revision from its counterparty.

Valuations at fair value recognized in the statement of financial position

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:

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 7.

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 identical liabilities or 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 (i.e., as prices) or indirectly (i.e., derived from prices).

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

5. Accounts receivable, net

At December 31 2015, accounts receivable are summarized as shown below:

		2015
Accounts receivable		
Trade receivable accounts	$	1,360
VAT Receivable		101
Allowance for doubtful accounts		(27)
Total	**$**	**1,434**

6. Installations and equipment

Carrying value of installations and equipment at December 31, 2015 are summarized below:

Investment as of December 31, 2015:

	Installations and equipment in operation	Spare parts	Construction in-progress	Construction Materials	Total
Balances at January 1, 2015	$ 409,207	$ 955	$ 1,323	$ 968	$ 412,453
Acquisitions	29,637	-	508	-	30,145
Disposals	(4,828)	-	-	-	(4,828)
Capitalization	1,213	(16)	(256)	(941)	-
Balances at December 31, 2015	**$ 435,229**	**$ 939**	**$ 1,575**	**$ 27**	**$ 437,770**

Accumulated depreciation as of December 31, 2015:

	Installations and equipment in operation	Spare parts	Construction in-progress	Construction Materials	Total
Balance at January 1, 2015	$ (162,761)	$ -	$ -	$ -	$ (162,761)
Net balance at January 1, 2015	246,446	955	1,323	968	249,692
Depreciation of the period	(8,578)	-	-	-	(8,578)
Depreciation on disposals	3,641	-	-	-	3,641
Depreciation	(4,937)	-	-	-	(4,937)
Balance at December 31, 2015	(167,698)	-	-	-	(167,698)
Net balances at December 31, 2015	**$ 267,531**	**$ 939**	**$ 1,575**	**$ 27**	**$ 270,072**

Based on the periodic review of the fair values of installations 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 the fixed assets, with the objective to revalue the assets and to review the useful lives assigned to them, as well as to their useful life, and to establish the process for the calculation of the impairment in the value thereof.

For the year ended December 31, 2015, no impairment losses were recognized.

The amount of financing costs capitalize at December 31, 2015 were $509.

7. Derivatives Financial Instruments

As of December 31, 2015, the derivative financial instruments included in the carve-out financial statements corresponds to values assigned and allocated to CFE Transmision pursuant to the terms of the TESL and the Financial Framework Agreement. In accordance with such terms, the purpose of the assignment is to apportion CFE Transmision the responsibility of providing CFE with the necessary funds to satisfy its payment obligations (including payment of principal and interest under the relevant financing agreement and related hedging expenses) under CFE Holding's existing financing agreements.

a. Accounting classifications and fair values

Transmission operations, in accordance with the risk management strategy, of assigned derivative financial instruments agreements to mitigate exchange rate and interest rate exposure, which then affects Transmission operations. Transmission operation'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 December 31, 2015 amounted to $730.

Financial instruments held for trading – As of December 31, 2015 Transmission operations maintained designated derivative financial instruments whose fair value represented a liability of $500.

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 the CFE decides to cancel this economic hedge (currency forwards on yen/dollar exchange rate) in advance, an estimated extraordinary loss would occur at December 31, 2016 and December 31, 2015 at $ 247 and $500, respectively, equivalent to the amount of the instruments.

Instrument	Underlying	Maturity	2015
FWD JPY/Usd	Exchange and interest rate	2036	500
		Total	**$ 500**

Financial instruments held for hedging and trading purposes – As of December 2015, Transmission operations maintains its designated hedges on, exchange rate and interest rate hedging position, as described below:

Instrument	Underlying	Hedging type	Maturity	2015
CCS	Exchange and interest rate	Cash Flow	2021	169
CCS	Exchange and interest rate	Cash Flow	2022	42
CCS	Exchange and interest rate	Cash Flow	2023	93
CCS	Exchange and interest rate	Cash Flow	2024	276
CCS	Exchange and interest rate	Cash Flow	2036	228
IRS	Interest Rate	Cash Flow	2017	(11)
IRS	Interest Rate	Cash Flow	2018	(3)
IRS	Interest Rate	Cash Flow	2020	(34)
			Subtotal	**759**
				(29)
			Total	**$ 730**

The table above includes the mark to market of the hedging derivatives. The total mark to market of the portfolio including trading and hedge derivatives was 730 million of pesos for its carrying value.

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.

As of December 31, 2015, the OCI effect for the next years (currently portfolio) detailed as follows:

Year	MtM	OCI
2016	3,371	3,300
2017	4,111	4,048
2018	4,320	3,953
2019	4,886	4,230
2020	5,437	4,756
2021	6,000	5,325
2022	5,720	4,754

The above fair value (Mark to market - MTM) is determined using present value valuation techniques for discounting future cash flows, which are estimated using observable market data. The OCI carrying amount includes the fair value (mark to market), and the reclassifications to profit and loss regarding accrual interest and foreign currency exchanges hedge (gain or loss).

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 for which the fair value is estimated, CFE uses the corresponding technique to estimate said value.

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 December 31, 2015, before considering credit risk, amounted to $ 730 which is included in the balance sheet and consists of $(29) and $759 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 Company 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 Company adopts the concept of Credit Value Adjustment (CVA) to adjust the fair value of derivative financial instruments under IFRS for credit risk.

This mechanism was approved at the time by the Inter-institutional 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 December 31, 2015, the adjustment to fair value by the CVA (Credit Valuation Adjustment) is detailed as follows:

Counterparty	Fair value MTM	Adjusted fair value MTM	Adjustment at December 31, 2015
CFE Holding	$ 815	$ 806	$ (9)
Total	**$ 815**	**$ 806**	**$ (9)**

The adjustment of fair value corresponds for those positions 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 (International Swaps and Derivatives Association)contracts were entered into the counterparties or banking institutions are the appraisers that calculate and send the Mark-to-Market calculation in a monthly basis.

Therefore, the hierarchy level of the Company's Mark-to-Market for derivatives financial instruments at December 31, 2015 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

Transmission operations are exposed to the following financial risks for maintaining and using derivative financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

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 Company manages the credit risk by monitoring the credit rating and the probability of default of the counterparty, which is applied to the market value of the derivative.

The carrying amount of derivative financial assets represents the maximum exposure to credit risk. As of December, 31, 2015 this amounted to $808.

Liquidity risk

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

The Company manages the liquidity risk by monitoring the market value of the derivative and the consumption of the operative lines. (Threshold).

Exposure to liquidity risk by holding derivative financial instruments arises from the carrying amount of the financial liabilities corresponding to these instruments. As of December 31, 2015 amounted to $78.

The following table shows the contractual maturities of the Company's financial liabilities (not including derivative financial instruments) based on the payment terms:

As December 31, 2015	Less than 1 year	More than 1 year and less than 5	Total
Payable cash flow			
IRS	149	1,935	2,084
CCS	1,134	8,780	9,914
Forwards		572	572
Total	**1,283**	**11,287**	**12,570**
Receivable cash flow			
IRS	111	1,908	2,019
CCS	900	7,777	8,677
Total	**1,011**	**9,685**	**10,696**

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 because of holding of 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 income statement.

a) Foreign currency exchange risks.

A significant portion of CFE's debt assigned to transmission operations is denominated in foreign currency, mainly in US dollars, 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 December 31, 2015, CFE maintains cross-currency swaps and forwards as a hedge of our foreign currency debt for $12,986, as assigned to hedge of our foreign currency debt.

Likewise, Transmision operations has assigned 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 enter into a series of exchange rate forwards under which we acquire 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 December 31, 2015 is (500). 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 December 31, 2015 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).

31/12/15	Instrument	+1 Cent	-1 Cent
MXN/USD	Cross Currency	7,545	(7,545)
JPY/USD	Derivatives	1,815	(1,815)
	Total	**9,360**	**(9,360)**

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 December 31, 2015, CFE hedged $3,256 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, 2015 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:

31/12/15	+ 1 Basis point	- 1 Basis point
Interest rate swaps	325	(325)

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

8. Other assets

The other assets at December 31, 2015 are integrated as follows:

	2015
Other assets	
Rights of way (1)	$ 27,760
Other amortizing costs	1
Total.	**$ 27,761**

(1) Rights of way in an amount of $24,076 are part of the assets contributed by the Federal Government to the Company through INDAABIN and they are not subject to amortization.

9. Employee benefits due to parent company

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

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

a. The economic assumptions in nominal and real terms used for the period ended December 31, 2015 are as follows:

	2015
Employee benefits	
Discount rate	8.00%
Expected rate of return on assets	8.00%
Wages increase rate	6.10%
Average remaining employee active labor life	12.93
Average remaining employee pensioner labor life	11.94

Net cost of the period ended December 31, 2015 is as follows:

		2015
Net cost of the period:		
Cost of services of the year	$	1,600
Financial cost		4,149
Past services recognition		944
Net period cost	$	6,693
Actuarial Losses	**$**	**4,599**

The net actuarial gain or loss for the period was originated from the variations in assumptions used by the actuary for the determination of labor liabilities, because of the average wage increase rate and the increase in pensions.

The amount included as a liability in the statements of financial position at December 31, 2015, is as follows:

	2015
Liabilities on balance sheet:	
Defined Benefit Obligations	$ 61,941
Fair Value of the Plan Assets	(516)
Projected Net Liability	**$ 61,425**

b. Reconciliation between the initial and final balances of the present value of the defined benefits obligation for the period ended December 31, 2015:

		2015
Reconciliation between the initial and final balances of the present value of the defined benefit obligation:		
Initial Defined Benefit Obligation	$	53,847
Current service labor cost		1,600
Financial cost		4,149
Past service cost		944
Actuarial Losses		4,599
Benefits paid		(3,198)
Final Defined Benefit Obligations	**$**	**61,941**

c. Reconciliation between the initial and final balances of the fair value of plan assets for the period ended December 31, 2015:

		2015
Reconciliation between the initial and final balances of the fair value of plan assets:		
Initial Plan Assets	$	498
Return on assets included in the plan		40
Expected returns		(22)
Total Plan Assets	**$**	**516**

d. As of December 31, 2015 plan assets include;

		2015
Udibono (Banobras)	$	129
Government bonds		387
Plan Assets	**$**	**516**

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by Mexican government and are rate BBB+ based on Standard & Poor and Fitch. In relation to certificates subscribed in favor of the Company by the Federal Government, resources received for these securities are restricted to be used solely for the settlement of the aforementioned employee benefits.

e. Sensitivity analysis.

In order to carry out the sensitivity analysis, a modification of +/- .5 points in the discount rate was considered, as such, the considered scenarios contemplated the following financial assumptions:

	Scenarios		
Sensitivity Analysis	**Lower discount rate**	**Base**	**Higher discount rate**
Concept			
Long-term inflation rate	3.50% annual	3.50% annual	3.50% annual
Discount rate	7.50% annual	8.00% annual	8.50% annual
Wages increase rate	4.00% annual	4.00% annual	4.00% annual
Minimum increase wages rate	3.50% annual	3.50% annual	3.50% annual

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

	As of and for the Year Ended December 31, 2015		
	Scenarios		
Sensitivity Analysis	**Lower discount rate**	**Base**	**Higher discount rate**
Concept			
Seniority Premium	$ 3,329	$ 3,201	$ 3,081
Severance Payments	254	246	239
Pensions and Retirements	61,917	58,117	54,682
Seniority bonus	390	377	364
Total	**$ 65,890**	**$ 61,941**	**$ 58,366**

As shown above, by decreasing the discount rate by 0.5%, the total liability would increase by 3.06% in relation to the base scenario. On the other hand, while increasing the discount rate by 0.5%, would decrease the total liability by 2.75%.

10. Income tax

During 2015, CFE was transformed into a Productive State Enterprise from having been a Decentralized Public Company. This situation consequently lead CFE to no longer apply for the regime included in Title III of the Income Tax Law (Non-Profit Legal Entities), and rather, to apply the provisions in Title II of the above Law (General regime for corporations and legal entities).

As of December 31, 2015, the Company recognized deferred tax liabilities that are comprised of the following items:

	2014	P&L	2015
Deferred tax assets:			
Labor obligations	$15,999	$2,429	$18,428
Deferred revenues	488	117	435
Allowance for doubtful accounts	8	-	8
	16,495	2,546	18,871
Deferred tax liabilities:			
Installations and equipment	29,788	6,787	36,575
Net, deferred tax asset (liabilities)	**$(13,293)**	**$(4,411)**	**$(17,704)**
Other comprehensive items	-	1,380	-
Total	**$ (13,293)**	**$ (3,031)**	**$ (17,704)**

Below is a reconciliation between the tax rates established by law and the effective rate of income tax:

		2015
Profit before taxes		$ 7,866
Plus (less):		
Annual adjustment for cumulative inflation	30%	2,360
Nondeductible expenses	(9%)	(190)
Revaluation of fixed assets	33%	2,052
Effective rate	**54%**	**$ 4,222**

11. Other Comprehensive Income

The balances of other comprehensive income as of December 31, 2015 are as follows:

	Items that are not subsequently reclassified to income for the period		Items that are subsequently reclassified to income for the period	
	Revaluation of plants facilities and equipment	Remeasurements of employee benefits liabilities	Cash Flow Hedging	Total other comprehensive income
Balances as of December 31, 2014	$ 47,713	$ -	$ -	$ 47,713
Net Comprehensive income	-	3,219	(236)	2,983
Balances as of December 31, 2015	**$ 47,713**	**$ 3,219**	**$ (236)**	**$ 50,696**

Deferred income tax on Other Comprehensive Income amounted to $1,380 in 2015.

	Remeasurements of employee benefits liabilities	Total other comprehensive income
Balances as of January 1, 2015	$ -	$ -
Deferred Tax	(1,380)	(1,380)
Balances as of 31 December de 2015	**$ (1,380)**	**$ (1,380)**

12. Foreign currency position

As of December 31, 2015, Transmission operations had liabilities denominated in foreign currency as follows:

	2015	
	Liabilities	
	External Debt (DDC)	**Short position In foreign currency**
US dollars	2,176	2,176
Euros	2	2
Swiss francs	55	55
Japanese yen	1,320	1,320

These liabilities in foreign currency were converted to local currency at the exchange rate established by Mexico´s Central Bank (Banco de México) in the Official Gazette effective December 31, 2015 as follows:

Currency	2015
US Dollars	$ 17.2065
Euros	18.7873
Japanese Yen	0.1433
Swiss francs	17.2452

13. Related parties balances and transactions

Assigned debt

The documented debt balances at December 31, 2015 are as follows:

Foreign debt

Type of credit	Weighted Interest rate	Maturities	Dec15 Local Currency	Dec15 Foreign currency
In US dollars:				
Bilateral	Fixed and variable -1.48%	Several until 2023	$1,611	$94
Bonds	Fixed and variable -5.19%	Several until 2045	33,368	1,939
Revolving	Fixed and variable -1.92%	Several until 2020	146	8
		Total US dollars:	**35,125**	**2,041**
In Euros				
Bilateral	Fixed and variable -2%	Several until 2024	29	2
Revolving	Fixed and variable -1.47%	Several until 2020	8	-
		Total Euros:	**37**	**2**
In Swiss francs				
Revolving	Fixed and variable -0.64%	Several until 2021	956	55
		Total Swiss francs:	**956**	**55**
In Japanese yens				
Bilateral	Fixed and variable -1.59%	Several until 2021	189	1,320
Bonds	Fixed -3.83%	2032	2,293	16,000
Assets received by financial instruments:			25	-
		Total Japanese yen:	**2,507**	**17,320**
Total foreign debt:			**$38,625**	

Domestic debt

Type of credit	Weighted Interest rate	Maturities	Dec15
Local currency			
Bank loans	Fixed and variable -6.03%	Several until 2021	$ 15,900
Securities market	Fixed and variable -7.03%	Several until 2023	33,250
Total Mexican pesos:			**$ 49,150**
In UDIS:			
Stock market	Fixed - 4.37%	2025	2,514
Total UDIS			**2,514**
Total domestic debt			**$ 51,664**

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

Summary	
Type of credit	**Dec15**
Total foreign debt	$ 38,625
Total domestic debt	51,664
Total documented debt	**$ 90,289**
Interest payable	742
Expenses for amortization of debt	(1,062)
Total documented debt	**$ 89,969**

In summary, the balance of the documented debt is as follows:

	2015
Documented debt	
Short term	$ 7,852
Long term	82,117
Total	**$ 89,969**

Documented debt

The integrations of the financing available as of December 2015 are shown below:

(i) Domestic debt

In November 2015, two credit lines were available, one for $1,250 and another for $250. The former matures in November 2025 at a fixed rate of 7.35 and the latter expires in June 2020 at a rate of TIIE 28 + .20. Moreover, in the same month a third credit line with Indeval for 467 million UDIS was used. This credit line matures in November 2027 and bearing a fixed rate of 4.37.

In June 2015, two lines of credit were available, one for $4,500 and the second for $500. The former bears a fixed rate of 7.35 and matures in November 2025, the latter bears a rate of TIIE 28 + .20 and matures in June 2020.

(ii) Foreign debt

In August 2015, a $30 million of US dollars credit line was obtained from Banco Santander with maturity in November 2017 at LIBOR 6M +1.6 interest rate. In October, another credit line was available for 492.9 million of yen with Eximbank Japan, having a maturity in October 2019 and a contracted CIRR rate. In December 2015, another credit line of 113 million of Swiss Francs was available, having a SERB rate and its last amortization in October 2019.

In the second quarter of 2015, proceeds of $350 million of US dollars were obtained from a credit line subscribed with Deutsche Bank at a fixed rate of 6.125 and with its final amortization in 2045. Furthermore, in June 2015, proceeds of $14,949 million of Swiss Francs were obtained, maturing in October 2019 and contracted with a SEBR rate were obtained.

In the first quarter of 2015, CFE obtained proceeds from a syndicated loan of $625 million of US dollars contracted with BBVA Bancomer, S. A., as agent bank, bearing a LIBOR rate plus 1.15

and maturing in December 2015. Another credit facility of $1.05 million of Swiss Francs was obtained from UBS, AG bearing a SERB rate and having its last amortization in August 2019. Finally a credit line was available for $9.95 million of yen with Eximbank Japan contracted at CIRR rate.

Debt for long-term Productive Infrastructure projects (PIDIREGAS by its acronym in Spanish)

The balances of PIDIREGAS (direct investment) debt as of December 31, 2015 are comprised and mature as follows:

	Dec15
Short term	
	$3,043
Long term	
2017	2,525
2018	4,128
2019	2,101
2020	1,566
2021	1,184
2022	754
Subsequent years	1,093
Total long term	13,351
	16,394
Interest	515
Total	**$16,909**

PIDIREGAS debt (Direct Investment)

At December 31, 2015 the debt corresponding to the acquisition of installations and equipment through PIDIREGAS was accounted for in accordance with IFRS, and is summarized as follows:

Domestic debt		As of December 31, 2015 Local Currency	
Value of the credit (Millions of pesos)	**Maturities**	**Short term**	**Long term**
5,801	2016	$ 401	$ -
3,237	2017	337	228
3,418	2018	160	1,981
3,260	2019	338	996
5,930	2020	694	2,097
2,044	2021	211	1,013
4,239	2022	370	2,479
1,425	2023	78	878
4,248	2024	407	3,246
2,382	2025	47	433
	Total	**$ 3,043**	**$ 13,351**

In summary, the balance of the debt by type is as follows:

	2015
PIDIREGAS	
Short term	$ 3,043
Long term	13,351
Interests	515
Total	**$ 16,909**

	2015
Summary	
Short term of documented debt	$ 7,852
Short term of Pidiregas debt	3,558
Total short term portion of long term debt	11,410
Long term of documented debt	82,117
Long term of Pidiregas debt	13,351
Total long term portion	95,468
Total debt	**$106,878**

The EPS and the corporate CFE mentioned in this note, which arose derived from the treaties of strict legal separation, are considered related parties of the Transmission operations, since they are all part of the productive company of the State CFE.

These transactions are regulated by a framework contract between the EPS and the corporate CFE, which also has attachments that describe each of the services or operations that exist between them and their method of collection.

The services between the EPS, described below, are regulated by the following exhibits:

* Transactions between Transmission operations and CFE Holding:

- Technological services – CFE provides tech communication and IT security.
- Air transportation leasing – Helicopter use rental services, needed to supervise transmission lines.
- Vehicle Leasing – Vehicle leasing for the Transmission operations.
- Training – Advice and support for SIC R1 (CFE´s Training platform) users, specialists in training education and, the rental and administration of the SIC R1 platform.
- Specialized Engineering – Failure analysis of the National Transmission Network, studies and other specialized services.
- Security Personnel – Deployment of navy and military personnel, in charge of the surveillance and the safety of the company´s facilities and transmission lines, and studies regarding Transmission operation´s assets and their safety.

Transmission operations of Comision Federal de Electricidad, Productive State Enterprise and subsidiaries

- Risk and insurance administration – In charge of the biddings and hiring insurance carriers, policy administration and follow on of insurance claims.
- Laboratory services – Studies and analysis about flaws or failures in transmission lines or substations, lab tests, advice and assurance of operating quality.
- Telecommunication Services - The annex exists, but does not apply, since the transmission operation is the owner of the Fiber Optic.
- Legal Services – From CFE´s general attorney.
- Housing Mortgages (FHSSTE, for its acronym in Spanish) – Housing Mortgages for employees.
- Human resources (SIRH) – Payroll and related services.
- Financed investment Projects Direction (DPIF, for its acronym in Spanish) – Feasibility studio, prior to the construction of additions to the National Transmission Network, the supervision and the setup of granted works.
- Strategy and regulation – Regulatory agenda administration, performance evaluation and case-by-case analysis of new investment projects.
- Purchases – The purchase of materials needed by CFE´s companies is consolidated to make faster biddings and get better prices.
- Management of Institutional Information System – License payment, services and support regarding SAP platform.
- Energy Saving Projects – Evaluation and follow on of new projects regarding energy efficient use and energy saving. New technology evaluation, workshops and promotion of energy saving.
- Properties in sale – Managing the sales of assets.
- Lease of property of Luz y Fuerza del Centro- Income of administrative buildings that were in the possession of the CFE when the former company of the state Luz y Fuerza del Centro extinguished.
- Financial services: A) Services regarding derivatives and hedging of assigned debt, B) Computation, administration and allocation of the annual Budget corresponding to each of CFE´s companies, C) Treasury services, y D) Negotiation and management of the assigned debt.
- Media and marketing –Publicity and marketing services.
- General Services – Maintenance and cleaning of administrative properties, in charge of office supplies, travel agency and Messenger services.
- Specialized Training – Managing of the National Center of Specialized Training.
- Evaluation and planning – Specialized engineering services, includes technical training
- Industrial Security – Planning and managing safety measures for accident prevention in the company´s facilities.

*Transactions between Transmission operations and other CFE Holding subsidiaries:

- Energy transmission.
- Operating and maintenance – The use of one’s Company personnel for another one´s purposes.

- Automation systems (SCADA) – The use of control equipment for the automation of services provided by the EPS.
- Modernization and work setup – Support between EPS regarding renovations and new construction works in progress.
- Training – Given training form one´s Company personnel to another one´s.
- Infrastructure leasing – Form one´s EPS to another one.
- Payroll services.
- Emergency response – Support between EPS in case of a sinister.

Related parties transactions are summarize below:

	2015
Services Revenues	
Energy transmission	$46,740
Maintenance	543
Operation	36
Reading	5
Scada-Operation	25
Infrastructure lease	57
Training	8
Administrative Services	12
Other Income	862
Total	**$48,288**

	2015
Services Expenses	
Maintenance	$3,306
Insurance policy	557
Security for operational assets	556
General services	123
Personal services	25
Technical services	231
Administrative Services	363
Total	**$5,161**

As explained in note 2, we identified each of the intercompany transactions for the historical period plus the margin comparable to those applied to those defined in the price manual to ensure that they were at market value.

14. Contingent liabilities and commitments

a. Contingencies

The Company is involved in several lawsuits and claims derived from the normal course of its operations, which are not expected to have a material effect in the financial position and future results.

b. Commitments

- **Commercial operation agreement**

CFE Transmission has formalized an agreement with CENACE for the commercial operation of the transmission. Transmission operations celebrates contracts of Interconnection and connection with users of the National Transmission Network (RNT for its acronym in Spanish). CENACE formalizes market participants' contracts with Power Plants, Cargo Centers and Suppliers. Charges for the use of the network are made by CENACE to market participants and paid to CFE Transmission through daily statements.

15. New accounting pronouncements

The following recent changes in the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), are to be applied after accounting periods beginning on January 1’st, 2018. The changes are described below:

<u>IFRS 9 "Financial Instruments" (January 1st, 2019)</u>

The group has made a preliminary assessment of the possible impact of the adoption of IFRS 9 based on the positions as of December 31, 2016 and the hedging relationships designated during 2016 under IAS 39.

<u>IFRS 15 "Customer contract income" (January 1st, 2018)</u>

IFRS 15 establishes a complete conceptual framework for determining whether to recognize Income from ordinary activities, when to recognize it and in what amount. This standard replaces the existing revenue recognition guideline, including IAS 18 “Income from Ordinary Activities” and IAS 11 “Construction Contracts” and the IFRIC 13.

The Company is performing its initial assessment of the possible impact of the adoption of the IFRS 15 in its consolidated financial statements.

<u>IFRS 16 "Leases" (January 1st, 2019)</u>

IFRS 16 replaces existing lease guidance including IAS 17 “Leases”, IFRIC 4 I, the SIC-15 “Operational Leases-Incentives” and SIC 27 “Evaluation of the substance of transactions that take the legal form of a lease”.

The Company is performing its initial assessment of the potential impact. The most significant impact identified is that the Company will recognize new assets and liabilities for its operating leases. Furthermore, the nature of the expenses related to these leases will change in the new standard, as IFRS 16 replaces the operating lease expense for a depreciation charge on a Right of Use asset, and an interest expense for the corresponding lease liability.

Likewise, the IASB promulgated improvements to the standard that comes into force beginning January 1, 2016, and which are continuation:

Disclosure Initiative (Adaptations to IAS 7)

The modifications require disclosures that allow users of the Financial Statements to assess changes in liabilities arising from financing activities, including changes arising from cash flows and changes not related to cash.

Recognition of deferred tax assets for unrealized losses (Adjustments to IAS 12)

The amendments clarify the accounting of deferred tax assets by unrealized losses related to debt instruments measured at fair value.

The amendments are effective for annual periods beginning on January 1 2017 or later. The Company is assessing the possible impact that these changes may have on the consolidated financial statements.

Currently, no significant impacts are expected. The Company permanently evaluates the impact that financial rules may have before the standard enters into force.

16. Subsequent events

In adherence to the initiatives of the Federal Government, where the creation of Fiber E is announced as a new investment vehicle, that will allow public and private investors to monetize assets that have predictable and stable cash flows, the CFE has a project for the fiscal year 2018 to capitalize assets of CFE transmission EPS, with the purpose of developing the infrastructure of the RNT (investment trust in energy goods).

17. Issuance of financial statements

The issuance of these carve-out financial statements and the corresponding notes were approved by Management on November 17, 2017. Subsequent events were considered until such date. Likewise, the Carve-out Financial Statements shall be made known to the Board of Directors. This body has the power to amend the accompanying financial statements.

Irrevocable Trust No. CIB/2919 (CI Banco, S. A., Institución de Banca Múltiple) (FIBRA E)

Pro forma Unaudited Condensed Financial Information as of September 30, 2017 and as of December 31, 2016 and for the nine-month period and the year ended on those dates.

Irrevocable Trust No. CIB/2919
(CI Banco, S.A., Institución de Banca Múltiple)

Content:

IRREVOCABLE TRUST NO. CIB/2919 (CI Banco, S. A., Institución de Banca Multiple)

Pro forma unaudited condensed statement of financial position

As of September 30, 2017.

(Millions of pesos)

	Historical figures	Pro Forma adjustments	Notes	Pro Forma information
Assets				
Cash (not distributed) subject to capital re-investments	$ -	91	3.1	91
Financial instruments designated at fair value with changes in the income statement	-	20,500	3.2	20,500
Total assets	$ -	20,591		20,591
Patrimony				
Trust patrimony	$ -	20,500	3.3	20,500
Retained earnings	-	91	3.4	91
Total liabilities and patrimony	$ -	20,591		20,591

See accompanying notes to pro forma unaudited condensed financial information.

IRREVOCABLE TRUST NO. F/2919 (CIbanco, S. A., Institución de Banca Multiple)

Pro forma unaudited condensed statement of financial position

As of December 31, 2016

(Millions of pesos)

Assets	Historical figures	Pro Forma adjustments	Notes	Pro Forma information
Cash (not distributed) subject to capital re-investments	$ -	102	3.1	102
Financial instruments designated at fair value with changes in the income statement	-	20,500	3.2	20,500
Total assets	$ -	20,602		20,602
Patrimony				
Trust patrimony	$ -	20,500	3.3	20,500
Retained earnings	-	102	3.4	102
Total liabilities and patrimony	$ -	20,602		20,602

See accompanying notes to pro forma unaudited condensed financial information.

IRREVOCABLE TRUST NO. F/2919(CIbanco, S. A., Institución de Banca Multiple)

Pro forma unaudited condensed income statement

For the nine month period ended September 30, 2017

(Millions of pesos)

	2017			
	Historical figures	Pro Forma adjustments	Notes	Pro Forma information
Effect for fair value of financial instruments	$ -	1,762	3.5	1,762
Trust operating expenses	-	(51)	3.5	(51)
Interest income, net	-	5	3.6	5
Trust net profit	$ -	1,716		1,716

See accompanying notes to pro forma unaudited condensed financial information.

IRREVOCABLE TRUST NO. F/2919(CIbanco, S. A., Institución de Banca Multiple)

Pro forma unaudited condensed income statement

For the year ended December 31, 2016.

(Millions of pesos)

	2016			
	Historical figures	Pro Forma adjustments	Notes	Pro Forma information
Effect for fair value of financial instruments	$ -	2,054	3.5	2,054
Trust operating expenses	-	(68)	3.5	(68)
Interest income, net	-	3	3.6	3
Trust net profit	$ -	1,989		1,989

See accompanying notes to pro forma unaudited condensed financial information.

Notes to the pro forma unaudited condensed financial information as of September 30, 2017 and for the nine months ended on that date and as of December 31, 2016 and for the year then ended on that date

(Figures in millions of Mexican pesos, unless otherwise indicated)

1. General information of the reporting entity

The Trust No. CIB/2919(CI Banco, S.A., Institución de Banca Múltiple) ("FIBRA E" or the "Trust") was incorporated on January 22, 2018, as an Investment Trust for the issuance of Fiduciary Stock Certificates (“CBFE”). Its offices are located in Mexico City.

The Trust Parties are as follows:

Trustor and manager	CFE Capital, S. de R. L. de C. V.
Fiduciary (Trustee)	CI Banco, S.A., Institución de Banca Múltiple, or whoever takes over its functions of fiduciary.
Beneficiaries in First Place	Holders of Series "A" CBFEs, as stated in the Trust agreement.
Beneficiaries in Second Place	Holders of Series "B" CBFEs, as stated in the Trust Agreement.
Common Representative	Monex Casa de Bolsa, S. A. de C. V., Monex Grupo Financiero or whoever takes over its functions of common representative.

Purpose of the Trust. The primary purpose of the Trust is to invest in eligible entities, which exclusive activity consists of (i) investing in assets or projects of generation, transmission and distribution of electric energy and infrastructure projects; and (ii) investing in or performing any other activity as stated in accordance with tax regulation related to the Trust as well as in Rule 3.21.3.9. of the Resolucion Miscelanea Fiscal (“RMF” per its acronym in Spanish) (or any tax regulation that replaces it).

The initial asset of the Trust will consist of Beneficiary Rights representing an economic ownership interest in the Irrevocable Trust of Administration and Source of Payment No. 80758, (hereinafter "the Promoted Trust"). The Promoted Trust was formed primarily to own the Collection Rights derived from an Agreement for the Technical and Commercial Operation of Electricity Transmision between CFE Transmision, EPS (“CFE Transmision”) and the National Center of Energy Control (“CENACE” per its acronym in Spanish) and receive payments therefrom, establish mechanisms for the reimbursement of certain costs and expenses of CFE Transmision relating to the public transmission of electricity, and make distributions to holders of Beneficiary Rights, as well as CFE Transmision. CFE Transmision assigned the Collection Rights to the Promoted Trust for a period of 30 years, with the possibility of extension. The Trust sets forth the rights and obligations of the beneficiaries of the Promoted Trust.

(Continued)

CFE Transmision would own 100% of the Beneficiary Rights in the Promoted Trust. Following the completion of the offering, the Trust would own 5.96% of the Promoted Trust. Pursuant to the Promoted Trust Agreement, as a holder of Beneficiary Rights, the Trust will be entitled to pro rata share of any distributions of net cash flow made by the Promoted Trust. Any such distributions will be made after the payment of certain expenses of the Promoted Trust and the reimbursement to CFE Transmision of certain costs and expenses related to the transmission of electricity business, such as operating and maintenance costs, labor costs, certain intercompany expenses directly related to the operation of transmission lines, certain capital expenditures and financing costs related to the expansion and modernization of the transmission grid.

In order to comply with the purpose described above, the main activities of the Trustee shall: (i) perform the initial issuance and registration of the initial CBFEs before the Registro Nacional de Valores (RNV per its acronym in Spanish), and should perform the public offering of the Series "A" CBFEs, as well as carry out any additional issuance, (ii) acquire, subscribe and / or pay, and be shareholder or right holder of trust of eligible entities; (iii) distribute and manage the Trust´s patrimony in accordance with what is stated in the irrevocable trust agreement; (iv) make distributions in accordance with the "Distribution Policy" included in the irrevocable trust agreement; and (v) perform all activities that are necessary, recommended, convenient or incidental to the activities described in the irrevocable trust agreement; in each case this should be based on previous and written instructions of the Manager or, as the case may be, any other person or body who, pursuant to the terms of the trust agreement, has the right to instruct the Trustee (including, without limitation, the Technical Committee , the Common Representative and those people to whom these powers of the Manager have been delegated or assigned in accordance with the terms of the corresponding Administration Agreement), in accordance with the terms of the Irrevocable Trust Agreement (the "Purpose of the Trust").

For the inception of the Trust, the Trustor appoints CI Banco, S.A., Institución de Banca Múltiple, as fiduciary or trustee to manage and hold the Trust´s patrimony for the purposes of the Trust in accordance with the agreement and applicable laws. The aforementioned Trust will be called "Fibra E Trust Agreement". The Trustor transfers to the Trust the assets and rights that are mentioned below in order to comply with the purpose of the Trust:

a. Contributions of the Trustor. In order to preserve the Trust´s equity and to comply with the purposes of the Trust, the Trustor irrevocably transfers to the Trustee, free of any charge, lien or limitation of title, the amount of $ 0.01 (one thousand pesos 00/100) as an initial contribution (the "Initial Contribution"), funds that will be applied to the General Account.

b. Additional contributions by the Trustor. To the extent that, subsequent to the celebration of the Fibra E Trust Agreement, the Trustor invests additional assets to the Trust, such contribution must be formalized through agreements entered into in accordance with the requirements established in the applicable law between the Trustor, CFE and any of its subsidiaries or affiliated companies and the Fiduciary, pursuant to which the Trustor, invests, transmits, assigns and irrevocably contributes assets and / or rights to the Trust's Equity subsequent to the constitution of the Trust (the "Additional Contributions").

On the initial issuance date, the Fiduciary will conduct an issuance of fiduciary certificates of investment in energy and infrastructure in accordance with the following (the "Initial issuance"):

i. ***Offering of Series "A" CBFEs.*** The Fiduciary will conduct a primary public offering (the "Offer") of fiduciary investment certificates in energy and infrastructure with full Series "A" (the "Series" A "" CBFEs) voting rights consisting of (i) an initial public offering of Series "A" CBFEs registered in the RNV of the Comisión Nacional Bancaria y de Valores (CNBV per its acronym in Spanish) and listed on the Mexican Stock Exchange; and (ii) an offer of Series "A" CBFEs in international markets pursuant to Rule 144A and Regulation S of the US Securities Act of 1933. (Rule 144A and Regulation S of the U.S. Securities Act of 1933). Such CBFEs "Series" "A" will be issued in a single title that will be deposited in Instituto para el Deposito de Valores (INDEVALper its acronym in Spanish), these CBFEs must be registered in the RNV and must be listed on a stock exchange

ii. ***Issuance of Series "B" CBFEs.*** The Fiduciary shall issue and deliver in favor of CFE Transmision subordinated CBFEs series"B" (the Series "B" CBFEs) which will have the same corporate rights as the CBFEs series "A" and will be subordinated to the CBFEs Series "A" only in in relation to the minimum quarterly distribution, in the terms set forth in section 6.03 of the Fibra E Trust Agreement, in the understanding that only CFE or any of its affiliates or subsidiaries may hold the CBFEs series "B". The aforementioned Series "B" CBFEs will be issued in a single title and deliver to CFE Transmision, and will be secured in Instituto para el Deposito de Valores (INDEVAL per its acronym in Spanish), and must be registered at the RNV.

Use of resources obtained from the offer of the CBFEs series "A" and "B".

The Trustee shall use the offering resources obtained of the CBFEs series "A" and "B" to: (i) pay the issuance expenses related to the initial issuance, (ii) pay for the acquisition of the initial beneficiary rights of the Promoted Trust (iii) establish the maintenance expense reserve; and, (iv) to the extent that there is a remaining balance after attending to what is described in (i), (ii) and (iii) above, for other authorized payments, in accordance with the prior written instructions of the Manager.

(Continued)

Placement Agreement.

In order to carry out the Initial Issuance of Series "A" CBFEs, the Trustee must enter into a Placement Agreement with the placing intermediary, as indicated in the terms instructed by the Manager.

Additional Issuances.

The Trust may issue additional CBFEs in one or more existing series or in a "new series", (the "Additional CBFEs"), either public or private, inside or outside of Mexico (each one, an "Additional Issuance"), in accordance with prior and written instructions of the Manager and with the prior approval of the holders' meeting. The Holders' meeting shall approve the terms of the additional issuance, including the price determination and the amount or number of additional CBFEs to be issued.

Distributions

Distribution timing. According to the agreement, the Trustee shall make distributions to the Holders on a quarterly basis on each distribution date; understanding that in any case the Trust shall distribute among the CBFEs Holders at least once a year and no later than March 15th, at least 95% (ninety five percent) of its fiscal profit of the preceding year, under the terms of the tax regulations related to Fibra-E.

Currency. The Distributions will be made in cash, in Mexican pesos and through INDEVAL.

Distribution Process. At least 7 (seven) Business Days prior to each Distribution Date, the Manager shall calculate the amount to be distributed (the "Amount to be distributed") to the Holders of each CBFEs series on a pro-rata basis, and subject to the subordination of CBFEs serie "B" set out in Trust Agreement ("the distributions"). In this respect, the amount to be distributed in an specific quarter will be equivalent to the portion of the capital distributions received by the Trust, plus income from permissible investments, less Trust expenses and principal and interest expense derived from indebtedness contracted by the Trust, in each case, for the respective quarter ("distributable amount"), divided by the distribution ratio.

Once those determinations are performed, the Manager should notify on writing, at least 7 days prior each distribution date, the distributable amount to be distributed at the respective distribution date, to the Fiduciary, the common representative and the Technical Committee, specifying the amounts to be paid to the Holders of each outstanding CBFEs series. Accordingly; the Trust shall notify INDEVAL in writing (only with respect to the Distributions amount), to the CNBV through the STIV (per its acronym in Spanish) and to the Mexican Stock Exchange through SEDI, in each case, at least 6 (six) Business Days prior to the respective distribution date.

(Continued)

Distributions of the distributable amount. In accordance with the Manager's instructions, the Trustee shall distribute the amount to be distributed on the respective distribution date as follows, understanding that no payment as described below must be made until the previous payments have been made in full:

(i). First, 100% of the Distributable Amount will be distributed to the Holders of CBFEs series "A", on a pro rata basis, until funds equivalent to the minimum quarterly distribution have been distributed to each CBFE s series "A" holder, plus any minimum quarterly distribution amounts unpaid in preceding quarters;

(ii). Second, the surplus of the amount distributed in accordance to (i) above, will be distributed to the Holders of CBFEs series "B" until funds equivalent to the Minimum Quarterly Distribution have been distributed to each CBFEs series "B" holder, plus any minimum quarterly distributions amounts unpaid in preceding quarters, and

(iii). Third, the surplus of the amount distributed in accordance to (i) and (ii) above, will be distributed to the holders of CBFEs series "A" and to the holders of CBFEs series "B" on a pro rata basis

Duration of the Trust

Irrevocable Trust Agreement shall remain in full force and effect until the Purposes of the Trust has been fully satisfied, understanding that such Agreement will terminate (i) when all of the Trust investments have been divested and all amounts deposited in the Trust accounts have been distributed to the holders; or (ii) by resolution of the Holders' meeting, solely and exclusively with the consent of the Manager. Despite what described previously, the Trust shall not terminate until all obligations due from Trust Funds have been fully paid.

Despite what discussed previously, the term of this Agreement may not exceed the term of 50 (fifty) years as stated in Article 394 of the LGTOC; under the understanding that in the event that the term of the contract per Article 394 is to expire, the Holders' meeting shall instruct the Fiduciary to either (i) create a new Trust to which all assets and rights of the Trust's equity are transferred, in which case the Manager shall instruct the Fiduciary to carry out all actions related to the CBFEs in order to establish the time in which the measures concerning the CBFEs issued under the Trust shall be taken, or (ii) to proceed with the dissolution and liquidation of the Trust and the distribution of the Trust's equity to the holders on a pro rata basis, in accordance with the terms approved by the Holders' meeting.

If the Holders' meeting does not approve any of the aforementioned alternatives, then the Trust, upon instruction of the Manager, shall carry out the dissolution and liquidation of the Trust and the distribution of the Trust's equity to the Holders on a pro rata basis. In the event of termination of the Trust, or in the event that the Trust cancels the registration of the CBFEs in the RNV as set forth in the Trust Agreement, the Trustee shall give INDEVAL a written notice of such situation, on a timely basis.

(Continued)

2. Pro forma Unaudited Condensed Financial Information presentation basis

a) Basis of presentation

The pro forma unaudited condensed financial information present the financial position and results of the Trust as if it had been incorporated and as if the public offering of CBFE's, the acquisition of the Trust Rights on the Promoted Trust, and the commencement of operations had already occurred on January 1st, 2016 regarding the pro forma unaudited income statement, and as of September 30, 2017 and December 31, 2016 regarding the pro forma unaudited statements of financial position.

The pro forma unaudited financial information do not include historical information in the statement of financial position as of September 30, 2017 and December 31, 2016, nor in the pro forma unaudited statement of income for the nine months period and for the year ended on those dates, respectively, due to the fact that the Trust did not carry out any transactions, as it was incorporated on January 22, 2018. The pro forma unaudited financial information do not intend to reflect the financial position or results of the FIBRA E as if the CBFE Offer and related transactions had been made on the specified dates. Also, this information does not intend to project the financial situation and the results of the Trust at any date. All balances presented in the Pro forma Unaudited Condensed Financial Information are based on the assumptions and estimates made by the Trust's Management ("Management") and considering the provisions established in the Irrevocable Trust Agreement for the incorporation of the Trust and the execution of the Public Offering and, as such, are subject to review when the public Offering process is concluded and the related transactions have been completed.

Management's consider that all necessary adjustments, which are described in note 3, have been included, and those adjustments can be objectively supported in relation to the preparation of the pro forma unaudited condensed financial statements and that are necessary to reflect the Irrevocable Trust No. CIB/2919 pro forma financial position as of September 30, 2017 and December 31, 2016, and its operating results for the nine-month period and the year ended at those dates. The pro forma adjustments could be modified based on additional information or events.

Once the final pricing of the CBFEs and the consideration to be paid in connection with the transactions have been determined, the pro forma unaudited financial statements could be subject to adjustments that may result in material changes to the information presented.

b) Functional currency and presentation

Pro forma unaudited condensed financial statements and their respective notes are presented in Mexican Pesos, which is also the functional currency of the Trust.

(Continued)

When reference is made in the notes to the pro forma unaudited condensed financial statements to "pesos" or "$" such amounts correspond to Mexican Pesos. All numbers are presented in millions and have been rounded to the nearest integer, unless otherwise stated.

c) Pro forma condensed income statement

The pro forma condensed income statements are presented by classifying costs and expenses by type based on their nature, as indicated in the IAS 1 "Financial Statement presentation".

d) Update on pro forma financial information

Subsequent to January 22, 2018, issuance date of the pro forma unaudited condensed financial information originally issued, Management modified information previously reported and made some changes in notes 1 and 3.2 in order to update certain references. Regarding note 3.2, the reference of Trust certificates previously used was replaced by the reference of Beneficiary Rights. Regarding note 1, the procedure of conversion of Series B CBFEs previously referred in paragraph eight bullet ii) was eliminated, and some precisions in relation to the distribution process were made in paragraphs fourteen and sixteen bullets (iv) and (v) as those were no longer applicable in the executed version of the Trust's agreement. In addition, the aforementioned references were aligned in the rest of the notes to the pro forma financial information.

e) Undistributed cash subject to equity reinvestment

Undistributed Cash subject to equity reinvestments is mainly comprised by bank deposits associated with outstanding return on capital pending distribution, and funds available for capital reinvestments, specifically in assets or projects related to the generation, transmission and distribution of electric energy and infrastructure projects in accordance with the trust's purpose as established in its founding contract. According to the guidelines of the FIBRA E Trust's management contract, the trust assumes the obligation to distribute at least 95% of the operating cash flows generated by distributions received from the Promoted Trust, net of the FIBRA E Trust's operating expenses.

f) Financial instruments stated at fair value and with changes reflected in the income statement

Financial assets are initially and subsequently recognized at fair value.

(Continued)

g) Determination of purchase price

Due to the estimated sale price of the Series “A” and “B” CBFEs applied in the preparation of these pro forma financial statements may vary from the real sale price at the time of the issuance; consequently, that variation could produce different scenarios / outcomes in these pro forma financial statements. The Management elected to present a mid-point valuation scenario for the preparation of these pro-forma financial statements. The Management does not estimate that there could be significant deviations to this mid-point value estimation.

3. Pro forma adjustments

The pro forma adjustments to the unaudited financial statements are described below:

3.1 Undistributed cash subject to equity reinvestments

The balances reflected as of September 30, 2017 in the amount of $91, and as of December 31, 2016 in the amount of $102, represent, respectively, 5% for additional distributions to the holders of trust right in accordance to the clause per Fibra E trust agreement.

3.2 Financial instruments stated at fair value and with changes reflected in the income statement

As part of the Fibra E Trust’s structure, the Trust will acquire a 5.96% shareholding of the Beneficiary rights to be issued by the Promoted Trust through its public offer.

Given the aforementioned, for purpose of this pro forma information, it is assumed that the portion of the beneficiary rights acquired of the Promoted Trust certificates would have a value equivalent to the amount expected to be paid in the acquisition of $20,500. This value is reflected as a financial instrument on the Trust’s balance sheet. For purpose of this pro forma financial information, distributable cash is estimated to be equivalent to the financial instrument realized gain; consequently, the instrument value remains static during the presented periods.

(Continued)

3.3 Initial Public Offering of CFBEs

This adjustment includes the issuance of CFBEs to investors in the Offering. For purpose of this pro-forma financial statement is estimated that 750,000,000 Series "A" CFBEs and 250,000,000 Series "B" CFBEs would be issued. According to the preliminary valuation of these trust rights, the estimated sale price for each certificate is considered to be $20.50 that represents the mid-point of the estimated price range based on Management's financial model considering the discounted cash flows associated with the collection rights held by the Promoted Trust and other factors. The total expected amount of the Fibra E Trust's shareholding would amount to $20,500, which does not include related offering costs. The Trust will use the resources obtained to invest in the eligible entity described in 3.2. The corresponding public offering is scheduled for the first days of February 2018.

3.4 Retained earnings

The balance of retained earnings represents: (i) the corresponding amounts of the year distributable to certificate holders of CFBEs and (ii) 95% of the aforementioned amount considered as effectively distributed. The difference is captured as distributable cash subject to capital reinvestments (5%), according to the considerations of the Trusts operations.

3.5 Effect for fair value of the financial instruments and expenses from Trust management

(i) Effect for fair value of the financial instruments

For purposes of this pro forma information, it is considered that the effect for the fair value of the financial instruments is equivalent to the revenues from "distributions from shareholdings in Energy and Infrastructure investment trust." Such distributions are recognized based on the remaining distributable cash from the Promoted Trust corresponding to its share in the Beneficiary rights (5.96%). Note that capital distributions means each and every amount of money received from dividends, distributions, reductions, reimbursements, amortizations or any other distributions of capital, products, quantities, or other benefits of any nature payable in cash, arising from or related to shares, or resources from disinvestment or sale, of the Trust in any eligible entity.

For purposes of the pro forma condensed financial statements it is considered that the Promoted Trust reported the following amounts as remaining distributable cash.

(Continued)

	2017	2016
Distributable remaining cash from Promoted Trust	$ 29,560	$ 34,460
Fibra E Trust shareholding	5.96%	5.96%
Distributions from shareholding in promoted Trust	**$ 1,762**	**$ 2,054**
Trust operating expenses	(51)	(68)
Distributable cash flows to GP's	1,711	1,986
Minimum distribution at 95%	$ 1,625	$ 1,887
Interest income, net	5	3
Total cash (not distributable) subject to capital reinvestments	$91	$102

(ii) Trust operating expenses

The Fibra E Trust recognizes operating expenses that are mainly associated with administrative expenses incurred by the Manager that manage the Fibra E Trust's operations. The trust operating expense estimated for the nine-month period and the year ended September 30, 2017 and December 31, 2016 was $51 and $68, respectively.

3.6 Interest income, net

Amount represents the net of interest income expected to be earned on cash and restricted cash accounts and the financial commission cost paid to the financial institutions that manage the accounts.

The interest income for the nine-month period and the year ended September 30, 2017 and December 31, 2016 was $5 and $3, respectively on remaining cash investments related to distributable cash. The Company estimates that such remaining balances at each month will earn interest income at an average annual rate of 5.59% for the nine month period ended September 30, 2017 and 3.31% for the year ended December 31, 2016, respectively (in accordance with its current corporate treasury investment interest rates).

4. Additional Tax Disclosures

The unaudited pro-forma statement of income was prepared based on the assumption that FIBRA E is incorporated as such in accordance with current regulations in Mexico. In Mexico, FIBRAS are not subject to any type of taxation, however, in accordance with Mexican Tax Legislation, they are required to distribute at least 95% of their annual fiscal result in order to be able to remain within this tax structure. Therefore, the pro forma unaudited statement of comprehensive income does not include an expense for income tax.

(Continued)

5. Issuance of Pro Forma Unaudited Condensed Financial Information

The issuance of pro forma unaudited condensed financial statements and the corresponding notes were authorized for issuance on February 2, 2018, by Lic. Joaquin Escamilla Orozco, Chief Executive Officer of the Trust's Trustor and Manager Director of the administrator and are subject to the approval of the Technical Committee, which may modify the financial statements.

Irrevocable Administration and Payment Source Trust No. 80758 (Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria)

Pro forma Unaudited Condensed Financial Information as of September 30, 2017 and as of December 31, 2016 and for the nine-month period and the year ended on those dates.

Irrevocable Administration and Payment Source Trust NO. 80758 (Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria)

Content:

- Pro forma unaudited condensed statement of financial position as of September 30, 2017
- Pro forma unaudited condensed statement of financial position as of December 31, 2016
- Pro forma unaudited condensed income statement for the nine months ended September 30, 2017
- Pro forma unaudited condensed income statements for the year ended December 31, 2016
- Notes to the Pro forma unaudited condensed financial information

IRREVOCABLE ADMINISTRATION AND PAYMENT SOURCE TRUST NO. 80758 (Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria)

Pro forma Unaudited Condensed Statement of Financial Position

As of September 30, 2017

(Millions of pesos)

Assets	Historical figures	Pro-Forma adjustments	Note	Pro-Forma information
Distributable cash reimbursement	$ -	1,657	3.1	1,657
Restricted cash	-	250	3.1	250
Financial instruments designated at fair value with changes in the income statement (Collection rights from CFE Transmision)	-	353,398	3.2	353,398
Accounts receivable (CENACE)	-	2,118	3.3	2,118
Creditable value added tax	-	176	3.4	176
Total assets	$ -	357,599		357,599
Liabilities and equity				
Suppliers and other trade accounts payable	-	1,431	3.5	1,431
Payable value added tax	-	339	3.4	339
Total liabilities	-	1,770		1,770
Patrimony:				
Contribution of Collection Rights	-	353,398	3.6	353,398
Initial and additional contribution	-	774	3.6	774
Retained earnings	-	1,657	3.6	1,657
Total patrimony	-	355,829		355,829
Total liabilities and patrimony	$ -	357,599		357,599

See accompanying notes to the pro forma unaudited condensed financial information.

IRREVOCABLE ADMINISTRATION AND PAYMENT SOURCE TRUST NO. 80758 (Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria)

Pro forma Unaudited Condensed Statement of Financial Position

As of December 31, 2016

(Millions of pesos)

Assets	Historical figures	ProForma adjustments	Note	ProForma information
Distributable cash reimbursement	$ -	1,882	3.1	1,882
Restricted cash	-	250	3.1	250
Financial instruments designated at fair value with changes in the income statement (Collection rights from CFE Transmisión)	-	353,398	3.2	353,398
Accounts receivable (CENACE)	-	1,871	3.3	1,871
Creditable value added tax	-	160	3.4	160
Total assets	$ -	357,561		357,561
Liabilities and patrimony				
Suppliers and other trade accounts payable	-	1,294	3.5	1,294
Payable value added tax	-	299	3.4	299
Total liabilities	$ -	1,593		1,593
Patrimony:				
Contribution of Collection Rights	-	353,398	3.6	353,398
Initial contribution	-	688	3.6	688
Retained earnings	-	1,882	3.6	1,882
Total patrimony	$ -	355,968		355,968
Total liabilities and patrimony	$ -	357,561		357,561

See accompanying notes to the pro forma unaudited condensed financial information.

IRREVOCABLE ADMINISTRATION AND PAYMENT SOURCE TRUST NO. 80758 (Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria)

Pro forma Unaudited Condensed Income Statement

For the nine month period ended September 30, 2017

(Millions of pesos)

		Historical figures	ProForma adjustments	Notes	ProForma Information
Effect for fair value of financial instruments	$	-	31,116	3.2	31,116
Trust expenses		-	(3)	3.7	(3)
Interest income, net		-	101	3.8	101
Net profit	$	-	31,214		31,214

See accompanying notes to the pro forma unaudited condensed financial information.

IRREVOCABLE ADMINISTRATION AND PAYMENT SOURCE TRUST NO. 80758 (Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria)

Pro forma Unaudited Condensed Income Statement

For the year ended December 31, 2016

		Historical figures	ProForma adjustments	Notes	ProForma information
Effect for fair value of financial instruments	$	-	36,274	3.2	36,274
Trust expenses		-	(5)	3.7	(5)
Interest income, net			68	3.8	68
Net profit	$	-	36,337		36,337

See accompanying notes to the pro forma unaudited condensed financial information.

Notes to the pro forma unaudited condensed financial statements as of September 30, 2017 and December 31, 2016, and for the nine month period ended and for the year ended on those dates, respectively.

(Amounts in millions of Mexican Pesos, unless otherwise indicated)

1. General information of the trust

The Irrevocable Trust of Administration and Source of Payment No. 80758, (hereinafter “the Trust” of "the Promoted Trust") was incorporated on January 22, 2018 in Mexico City.

The Promoted Trust was incorporated with the purpose of acquiring the Collection Rights derived from the Agreement for the Technical and Commercial Operation of Electricity Transmission dated as of March 28, 2016 (refer as the CENACE Agreement). The CENACE Agreement was initially entered into between the National Center for Energy Control (referred as “CENACE” by its acronym in Spanish) and Comision Federal de Electricidad, State Productive Enterprise (“CFE Holding”), and subsequently assigned by CFE Holding to CFE Transmision, EPS (“CFE Transmision”) through an assignment agreement dated as of October 10, 2016.

As part of the structure of the Promoted Trust, CFE Transmisión, EPS would irrevocably transfer the aforementioned collections rights related to the CENACE Agreement to the Promoted Trust for a period of 30 years. In exchange for the cession of collection rights, the Promoted Trust will grant full title (100%) of the trust rights to CFE Transmission, that then will transfer the 5.96% of such collection rights and to the Irrevocable Trust No. CIB/2919 (Cibanco, S.A., Institución de Banca Múltiple, Monex Casa de Bolsa, S.A. de C.V. Monex Grupo Financiero (“FIBRA E”) as beneficiaries of the Trust.

The main activities of the Trust are to: (i) receive, manage and hold collection rights contributed; (ii) open, manage and maintain the Trust bank accounts; (iii) make the transfers and payments established in the trust agreement; such as, payments for expenses related to CENACE, operation and maintenance expenses, intercompany expenses, provision expenses, labor expenses, financing expenses, Trust expenses, and any additional expense; (iv) evaluate the reimbursement of non-budgeted expenses requested by CFE Transmisión, EPS; (v) receive any payments arising from the collection rights and any other rights derived from the CENACE Agreement; (vi) exercise any other rights arising from the CENACE Agreement; and (vii) comply with any instructions provided by the trustor, the Technical Committee or the Beneficiaries to the extent that they are authorized to do so in accordance with the terms of the Promoted Trust.

(Continued)

The Trust parties are as follows:

Trustor	CFE Transmisión, EPS
Fiduciary (Trustee)	Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Dirección Fiduciaria.
Beneficiaries	CFE Transmisión, EPS in its capacity as beneficiary (or trustee) of this contract, and/or any other person who acquires such character by the acquisition of beneficiary rights and the signing of a Adhesion Agreement and the issuance of the beneficiary rights title in accordance with the terms provided for in this agreement (the "Beneficiaries").

2. **Pro forma Unaudited Condensed Financial Information presentation basis**

a) Basis of presentation

The pro forma unaudited condensed financial information present the financial position and results of the Promoted Trust as if it had been incorporated, the contribution of the collection rights from the CENACE Agreement had already been received and as if the commencement of operations had already occurred on January 1st, 2016 regarding the pro forma unaudited condensed income statement, and as of September 30, 2017 and December 31, 2016 regarding the pro forma unaudited condensed statement of financial position.

The pro forma unaudited condensed financial information and the accompanying notes consider the financial asset and rights related to the cession of collection rights from the CENACE that CFE Transmision transfers, as well as the distribution of funds to the beneficiaries derived from the distribution of the cash flows remaining after the payment / reimbursement of certain expenses to CFE Transmision in accordance with the Promoted Trust.

The pro forma unaudited financial information do not include historical information in the statement of financial position as of September 30, 2017 and December 31, 2016, nor in the income statement for the nine month and the year ended on those dates due to the fact that the Trust did not carry out any transactions during these periods, as it was incorporated on January 22, 2018. The pro forma unaudited financial information do not intend to reflect the financial position or results of the promoted trust as if transactions had been made on the specified dates. Also, this information does not intend to project the financial situation and the results of the Trust at any date. The results that the Pro forma financial statements reflect could change due to various factors, including, among others, changes in the fair value of financial instruments and changes to the capital structure.

(Continued)

All figures presented in the pro forma unaudited condensed financial information are based on the assumptions and estimates made by the Trust´s management ("Management"), and considers the provisions of the Irrevocable Administration and Payment Source Agreement. Management consider that all necessary adjustments, which are described in note 3, have been included, and those adjustments are objectively supported in relation to the preparation of the pro forma unaudited financial statements and that are necessary to reflect the Irrevocable Administration and Payment Source Trust No. 80758 pro forma financial position as of September 30, 2017 and December 31, 2016 and its operating results for the nine month ended and for the year ended on those dates, respectively. The pro forma adjustments are subject to review once the related transactions have been completed and thus, they could be modified based on additional information or events.

b) Functional and presentation currency

Pro forma unaudited condensed financial statements and their respective notes are presented in Mexican Pesos, which is also the functional currency of the Trust.

When reference is made in the notes to the pro forma unaudited condensed financial statements to "pesos" or "$" such amounts correspond to Mexican Pesos. All numbers are presented in millions and have been rounded to the nearest integer, unless otherwise stated.

c) Determination of the purchase price

The estimated purchase price per Trust Beneficiary Rights based on Management's financial model considering the discounted cash flows associated with the collecting rights. The estimated purchase price may vary from the real purchase price at the time of the issuance; consequently, that variation could produce different scenarios / outcomes in these pro forma financial statements. The Management elected to present a mid-point valuation scenario for the preparation of these pro-forma financial statements. The Management does not estimate that there could be significant deviations to this mid-point value estimation.

d) Update on pro forma financial information

Subsequent to January 22, 2018, issuance date of the pro forma unaudited condensed financial information originally issued, Management modified information previously reported and made some changes in note 3.6 b) in order to update certain references. Due to the aforementioned, the reference of Trust certificates previously used was replaced by the reference of Trust Rights. In addition, the aforementioned reference was aligned in the rest of the notes to the pro forma financial information.

(Continued)

3. Pro forma adjustments

The pro forma adjustments to the pro forma financial statements are described:

3.1. Cash and restricted cash

The cash and restricted cash accounts are defined below:

a. Restricted cash

The cash for the initial capitalization reserve was determined by considering the amount that would be required to cover CFE Transmisión's working capital needs in accordance with its estimated budget. For that purpose, the initial funding is considering a withholding of up to 20% of the distributable income received as part of the collection rights, until that amount represents $250, which will be settled as historical working capital reserve, no additional withholding will be required in excess of such amount (in accordance with the provisions in the Promoted Trust agreement). As of September 30, 2017 and December 31, 2016 the working capital reserve balance is $250 for both periods.

b. Distributable cash reimbursement

In function of the purposes for which the Promoted Trust has been established, the Promoted Trust assumes the obligation to distribute at least 95% of the operating cash flows generated from the management of such cash flows.

The balances of $1,657 and $1,882 are comprised by the 5% of the operating cash flows generated from the promoted trust activity ($1,556 and $1,814) pending to be distributed, plus $101 and $68 of interest income, net as of September 30, 2017 and December 31, 2016, respectively.

3.2. Financial instruments stated at fair value and with changes reflected in the income statement (Collection rights from CFE Transmision, EPS)

As explained in 3.6 b), for purpose of this pro forma unaudited condensed financial information, the fair value of the collection rights contributed by CFE Transmision, EPS was deemed to be $353,398.

(Continued)

For purpose of this pro forma unaudited condensed financial information, distributable cash to beneficiaries (paid and unpaid) are considered as net gain associated with the financial instruments stated at fair value and with changes reflected in the income statement. For this specific case, the effectively paid distributable cash is deemed to be equivalent to the financial instrument realized gain. Consequently, this value remains static during the periods included in the pro forma unaudited condensed financial statements.

3.3. CENACE accounts receivable

Accounts receivable from the CENACE associated with the Wholesale Electricity Market ("MEM" in Spanish) represent the right due for the public service of electric power transmission for a period of 13 days (based on average daily sales), the period that CFE Transmision considers for the collection of invoices settled by the CENACE.

3.4. Creditable VAT and payable VAT

Creditable and payable VAT correspond to operating expenses and to accounts payable to suppliers, and to uncollected accounts receivable from the CENACE, respectively. Annual balances of value added tax receivable, as of September 30, 2017 and as of December 31, 2016, were $176 and $160 respectively. Payable value added tax balances as of September 30, 2017 and as of December 31, 2016 were $339 and $299, respectively,

3.5. Suppliers and other trade accounts payable

Accounts payable to suppliers and other trade accounts payable represent the balance that would be payable to such entities (including related parties). Such balances were determined based on the reported annual expense and considering a recurring payment cycle of 30 days.

3.6. Patrimony

a) Initial and additional cash contributions

Represents the initial capital contribution of $0.01 and additional contributions to fund working capital per the Promoted Trust. Management performs a periodic analysis of working capital needs and potential impact on the fair value booked in the financial statements.

The balance is comprised of $250 related to cash flow reserve in accordance with the Promoted Trust Agreement. Additionally, as of September 30, 2017 and December 31, 2016, it includes a net effect of $524 and $438 of accounts receivable from CENACE Agreement, payable balances to, suppliers and VAT, net.

(Continued)

b) Contribution of collection rights

In consideration for such transfer, CFE Transmisión will acquire 100% of the Beneficiary Rights under the Promoted Trust. Subsequently, the Fibra E Trust expects to acquire directly from CFE Transmisión up to 5.96% of the Beneficiary Rights with the resources of the initial public offering, which is expected to take place at the beginning of February 2018, which will entitle the Fibra E Trust to receive up to 5.96% of the distributions made by the Promoted Trust.

For purpose of this pro forma information, the estimated value related to the contribution was $353,398, which considers a price equivalent to the amountto be paid by the Fibra E as part of the initial public offering mentioned above for the 5.96% of such beneficiary rights. The aforementioned estimated price is based on a Management's developed financial model considering the discounted cash flows associated with the collection rights and other factors.

As of the date of these set of financial statements were issued, Management considered that trust beneficiary rights value was supported by the information available at that time. However, if by the pricing stage date, there is different information that changed the prior valuation considerations, Management will evaluate whether these financial statements should be modified.

The net proceeds received from the sale of the 5.96% of the beneficiary rights will be transferred to and used by CFE Transmission for its own capital needs and to finance investment projects.

c) Retained earnings

At September 30, 2017 and December 31, 2016, the balance of retained earnings represents: (i) the remaining amount of cash flows to be distributed to holders of certificates of $31,116 and $36,274 less (ii) 95% of the aforementioned amount of $29,560 and $34,460 considered as effectively distributed, respectively. The remaining balance is comprised by the 5% of the operating cash flows generated from the promoted trust activity ($1,556 and $1,814) pending to be distributed the distributed, (iii) plus $101 and $68 of interest income, net as of September 30, 2017 and December 31, 2016, respectively.

3.7. Expenses for Trust management

Once the Promoted Trust is incorporated and it starts its operations it would incur in expenses such as those associated with collection of management services.

3.8. Interest income, net and trust expenses

Amount represents the net of interest income expected to be earned on cash and restricted cash accounts and the financial commission cost paid to the financial institutions that manage the accounts.

(Continued)

The interest income for the nine-month period and year ended September 30, 2017 and December 31, 2016 was $101 and $68, respectively on remaining cash investments related to distributable cash reimbursement and working capital restricted cash balances. The Management estimates that such remaining balances at each month will earn interest income at an average annual rate of 5.59% for the nine month period ended September 2017 and 3.31% and the year ended December 31, 2016, respectively (in accordance with its current corporate treasury investment interest rates).

4. Summary of the Promoted Trust's activities of Administration and Source of Payment

According to the trust agreement, the Promoted Trust has the obligation to distribute at least 95% of the operating cash flows generated from its management. Below we show a summary of the operating cash flows and the mechanism for distribution established in the Promoted Trust agreement. Refer to the summary of activities in the following page.

Summary of Activities
For the nine month period and for the year ended September 30, 2017 and December 31, 2016
(Millions of pesos)

	Notes	2017	2016
Cash receipts related to the CENACE agreement:			
Participation from collection rights	1)	$ 43,997	$ 51,804
		43,997	51,804
Cash reimbursements to the Trusts' accounts:			
Remunerations and personnel benefits	2)	(4,731)	(6,314)
Maintenance, materials and general services	3)	(4,684)	(4,932)
Taxes and rights	4)	(29)	(96)
Trust expenses	5)	(3)	(5)
Expenses for retirement and pensions	6)	(2,930)	(3,388)
Security of operating assets	7)	(504)	(795)
Total expenses		$ (12,881)	$ (15,530)
Remaining amount of cash flow to be distributed		**$ 31,116**	**$ 36,274**
Minimum distribution at 95%		29,560	34,460
Distributable cash reimbursement		1,556	1,814
Interest income, net		101	68
Total Distributable cash reimbursement		**$ 1,657**	**$ 1,882**

(Continued)

Notes

1.- Revenues according to reported historical figures of CFE Transmision financial statements
2.- Operating expenses determined and approved based on a payment instructions per the Agreement– The amount considers historical figures of CFE Transmision
3.- Operating expenses determined and approved based on a payment instructions per the Agreement – The amount considers historical figures of CFE Transmision
4.- Operating expenses determined and approved based on a payment instructions per the Agreement – The amount considers historical figures of CFE Transmision
5.- Operating expenses determined and approved based on a payment instructions per the Agreement – The amount considers historical figures of CFE Transmision
6.- Corresponds to the expense for payment of pensions and retirement according the actuarial study for CFE Transmision – Considering that the mechanism for distribution is based on cash flows this concept only includes the payment of real labor obligations.

5. Tax obligations

The Trust, whose function is one of management by nature, does not perform business activities for profit and it does not possess legal personhood. As a result, it is not subject to income tax ("ISR" in Spanish) according to local tax legislation. Additionally, the compliance of tax obligations that arise from the operation of the Trust will be the responsibility of each party, according to the Administrative and Payment Source Trust agreement.

6. Issuance of Pro Forma Unaudited Condensed Financial Statements

The issuance of pro forma unaudited condensed financial statements and the corresponding notes were authorized for issuance on February 2, 2018 by C.P. Gregorio Cortes Viveros, Chief Financial Officer and legal representative Trust´s Trustor and Administrator and are subject to the approval of the Technical Committee of the Trust, which may modify the financial statements.

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February 7, 2018