

An aerial photograph showing a series of high-voltage power transmission towers (pylons) stretching across a large body of water. The towers are arranged in a line, receding into the distance. The water is a deep blue, and the surrounding landscape includes green hills and a forested area in the foreground. The sky is clear and blue.

# CFE FIBRA E

*Credit Suisse, Mexico Investment Ideas Conference*

*Mexico City, May 10, 2018*



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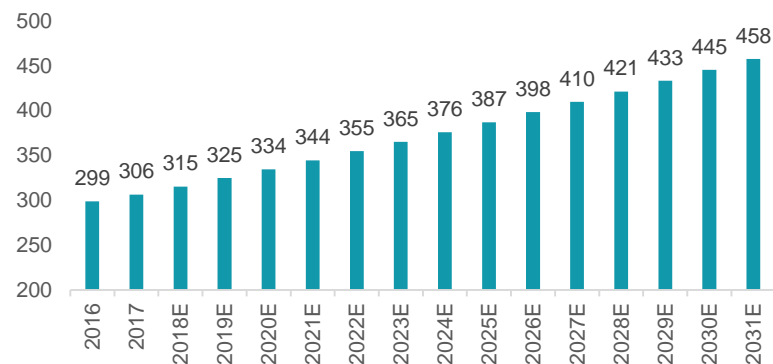
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# The energy sector in Mexico is growing and has extensive infrastructure needs.

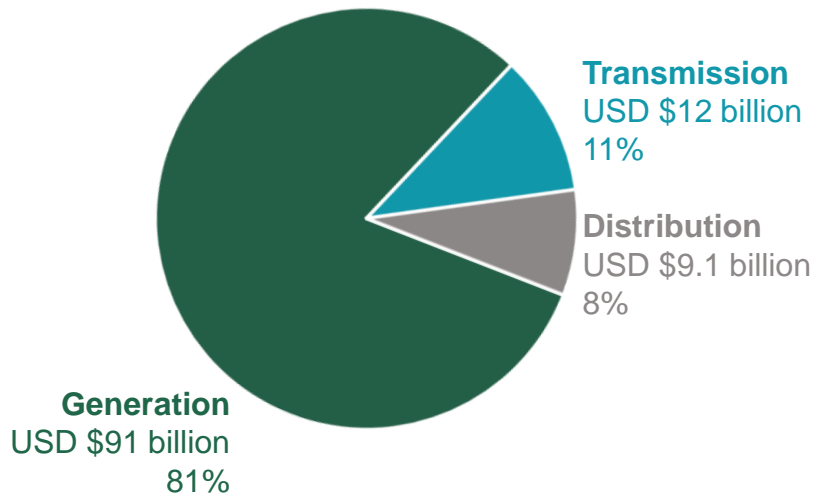
The electric power sector in Mexico grew at an average annual rate of **4.1%** from 2006 to 2016.<sup>1</sup>

Gross power consumption is expected to grow at an annual average rate of **2.9%** on a base case scenario through 2031.<sup>2</sup>

**Graph 1. Expected gross energy consumption (TWh)**



**Figure 1. Investment requirements 2017-2031 (billion USD)**



An **additional capacity of 55,840 MW<sup>2</sup>** will be required by 2031 to meet electricity demand.

Electricity infrastructure needs of over USD \$110 billion.<sup>2</sup> **Around USD \$12 billion for the transmission sector.**

# The new regulatory and institutional framework opened competition through the electric industry value chain, attracting capital and technology.

## Generation



Open to competition among private and public generators.

No legal barriers to entry.

## Transmission and distribution



Open access to the transmission network and the distribution grids.

Property and operations remain exclusive for CFE.

## Commercialization



Two different types of services:  
1) basic supply and 2) qualified supply.

### Private participation schemes

1. Sell in the wholesale electricity market.<sup>1</sup>
2. Bilateral contracts.
3. Auctions and tenders organized by CENACE.<sup>2</sup>

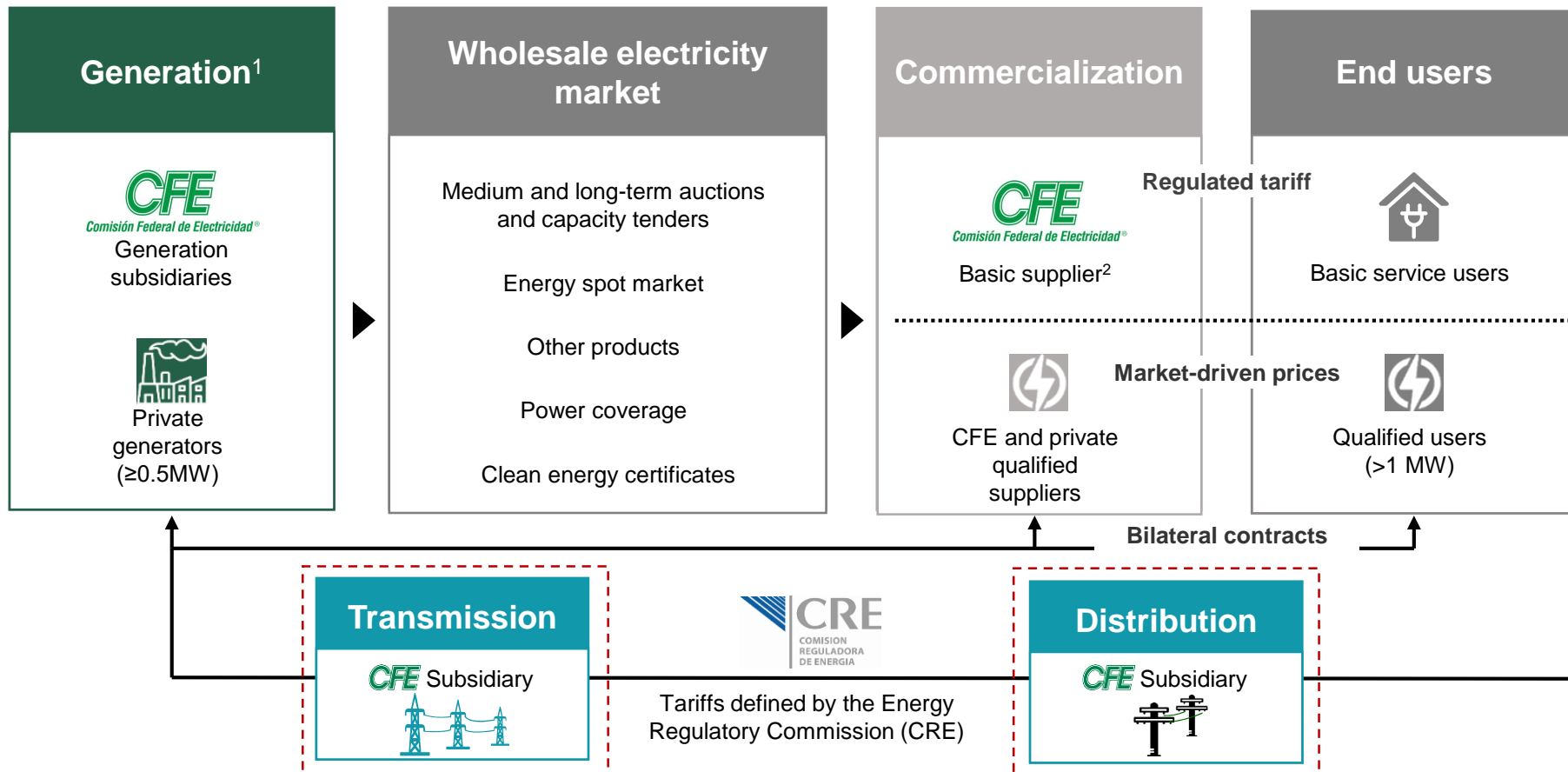
1. Partnerships, joint ventures or bilateral agreements with the State.<sup>3</sup>
2. Second carrier figure.<sup>4</sup>

1. Register as basic supplier.
2. Open to competition among private and public qualified suppliers (>1MW).

# New dynamics of the Mexican electricity market.



Independent system operator and payment collector



Source: Offering filings, CFE, and CFECapital. <sup>1</sup>Power plants under the pre-reform scheme (Public Electricity Service Law) are now encompassed in the Legacy Contract Affiliate and are allowed to sign electricity coverage contracts with basic supplier and include figures of self-supply, co-generation, among others. <sup>2</sup>Currently CFE is the only Basic Supplier, but any other party could request a permit to the CRE in order to provide such service.



# CFE Capital and CFE Fibra E.



Comisión Federal de Electricidad®

Controlling interest in FIBRA E

- Mexico's national power company.
- Engages in electricity generation, transmission, distribution, and commercialization across the country.
- Generates **78%**<sup>1</sup> of the electricity in Mexico and provides power to **98.65%** of the population.



CFE Capital

Direct affiliate of  
CFE Holding and  
Manager of CFE  
FIBRA E

CFE  
Fibra E

1

Our objective is to invest in activities under CFE's mandate.

2

We will take advantage of the fiscal structure of a FIBRA E<sup>2</sup> in Mexico.<sup>3</sup>

**Our strategy is to provide attractive risk-adjusted returns to investors over the long term with exposure to the growing energy sector in Mexico.**



Source: Offering filings and CFE. <sup>1</sup>Considers CFE's net generation and the gross electricity consumption reported by the National Center for Energy Control (CENACE) for 1Q 2018. <sup>2</sup>Energy and infrastructure investment trust. <sup>3</sup>We intend to qualify and to be taxed as a FIBRA E (*Fideicomiso de Inversión en Energía e Infraestructura*) under the Mexican Tax Rules for FIBRA E. Among other things, we must distribute annually at least 95% of CFE Fibra E Net Taxable Income.

**CFE Fibra E is the first vehicle of its type in Mexico and it will help to accomplish key objectives in CFE's 2018-2022 business plan.**

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**CFE's Business Plan, defines the 2017-2018 period as a consolidation stage for the transformation of the company. The next key steps for 2018 include the following:**

- Monitor the development of gas pipelines to secure their prompt start of operation.
- Utilize alternative financing schemes for key investments and to support the company's financial sustainability.

**CFE FIBRA E will provide additional transparency and oversight for its operational and financial management.**

- Coordinate with the Ministry of Energy (SENER) and the Ministry of Finance (SHCP) to match capital availability with instructed infrastructure investments.



Source: *Principales Elementos del Plan de Negocios de la CFE 2018-2022* and CFE Investor Presentation for Q12018.

Initially, our activity is focused on the electricity transmission in Mexico.

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CFE's Business Plan considers MXN \$327,000 million pesos in investments between 2018 and 2022.

**MXN \$100,000 million pesos for transmission business. 56% of it is planned to come from CFE Fibra E.**

Four key entities involved in the first transaction.





**CFE Transmisión** is a CFE Subsidiary that has proven industry experience and is currently the only provider of electricity transmission in Mexico.



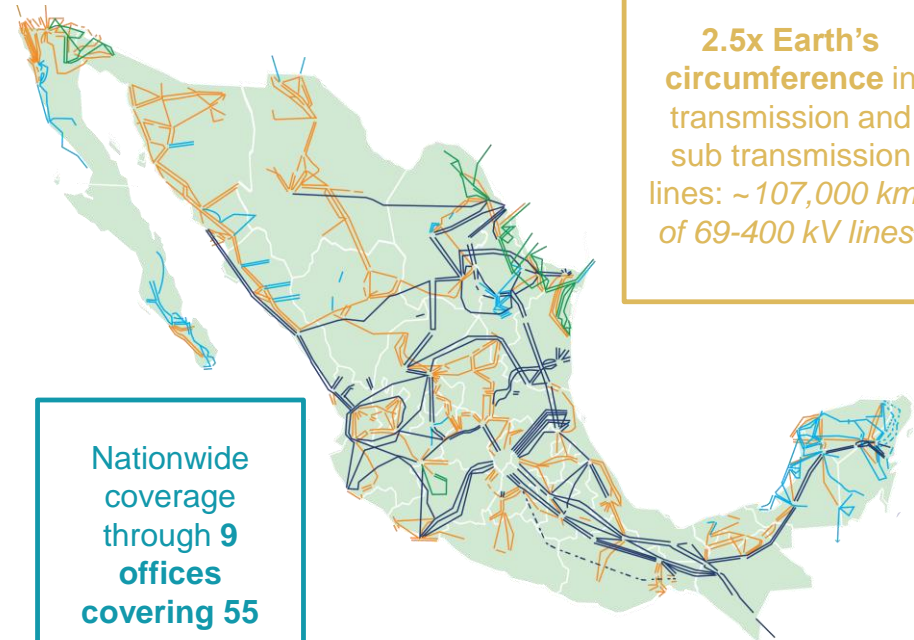
Promoted  
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*CFE Transmisión* manages the resources and infrastructure necessary for electricity transmission throughout the country.

*CFE Transmisión* has a **100% market share** of electricity transmission in Mexico.<sup>1</sup>



**2.5x Earth's circumference** in transmission and sub transmission lines: ~107,000 kms of 69-400 kV lines<sup>2</sup>

Nationwide coverage through 9 offices covering 55 zones

- Line of 400 KV
- Line of 230 KV
- Line of 161, 138 KV
- Line of 115, 69 KV

Source: Offering filings and CFE. <sup>1</sup>Recent regulation provides other participants may enter the market. <sup>2</sup>Transmission lines carry a high voltage ranging from 161kV to 400kV. Sub-transmission lines carry a voltage ranging from 69kV to 160kV.



# Through the creation of a Promoted Trust, *CFE Transmisión* assigned its collection rights for a period of 30 years.

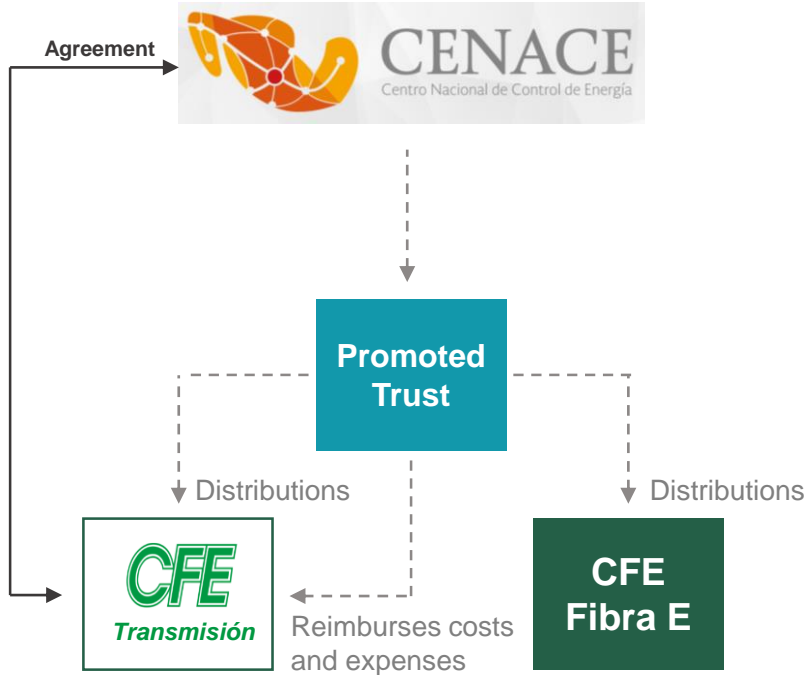


Promoted Trust

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## Collection rights



## Transmission tariffs

Transmission tariffs are determined and regulated by CRE<sup>1</sup> based on the Required Income, which guarantees the return on capital investments.

Current tariff is designed to recognize investment costs, operating costs, and encourage cost efficiency, considering inflation and exchange rate exposure.

The new tariff period and its corresponding methodology will be determined at the end of 2018, to become effective in 2019.



Source: Offering filings and CFE. <sup>1</sup>Energy Regulatory Commission (CRE). Is a regulatory body with a separate legal status and technical and administrative autonomy. Among other things, it regulates and issues applicable tariffs (transmission, distribution, basic supply service, and others).

# The Promoted Trust was created to isolate *CFE Transmisión* revenues from its assets and liabilities.



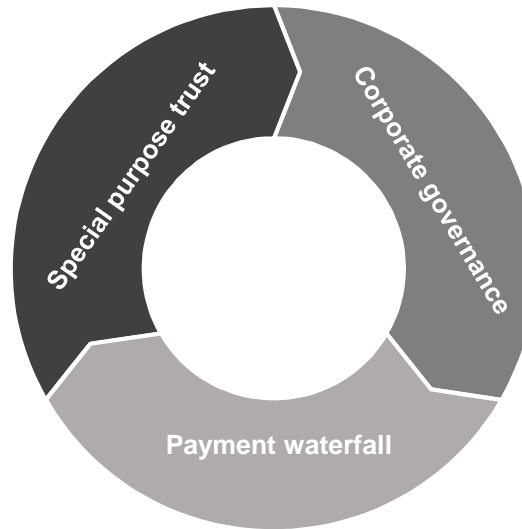
**Promoted Trust**

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## Special purpose trust

As settlor, *CFE Transmisión* shall assign its Collection Rights (the initial asset) associated with the revenues derived from the public transmission of electricity through the National Transmission Network to CENACE under the CENACE Agreement.



## Corporate Governance

Provide comfort to CFE Fibra E investors in respect to the risk of CFE's unilateral decisions that could affect the instrument.

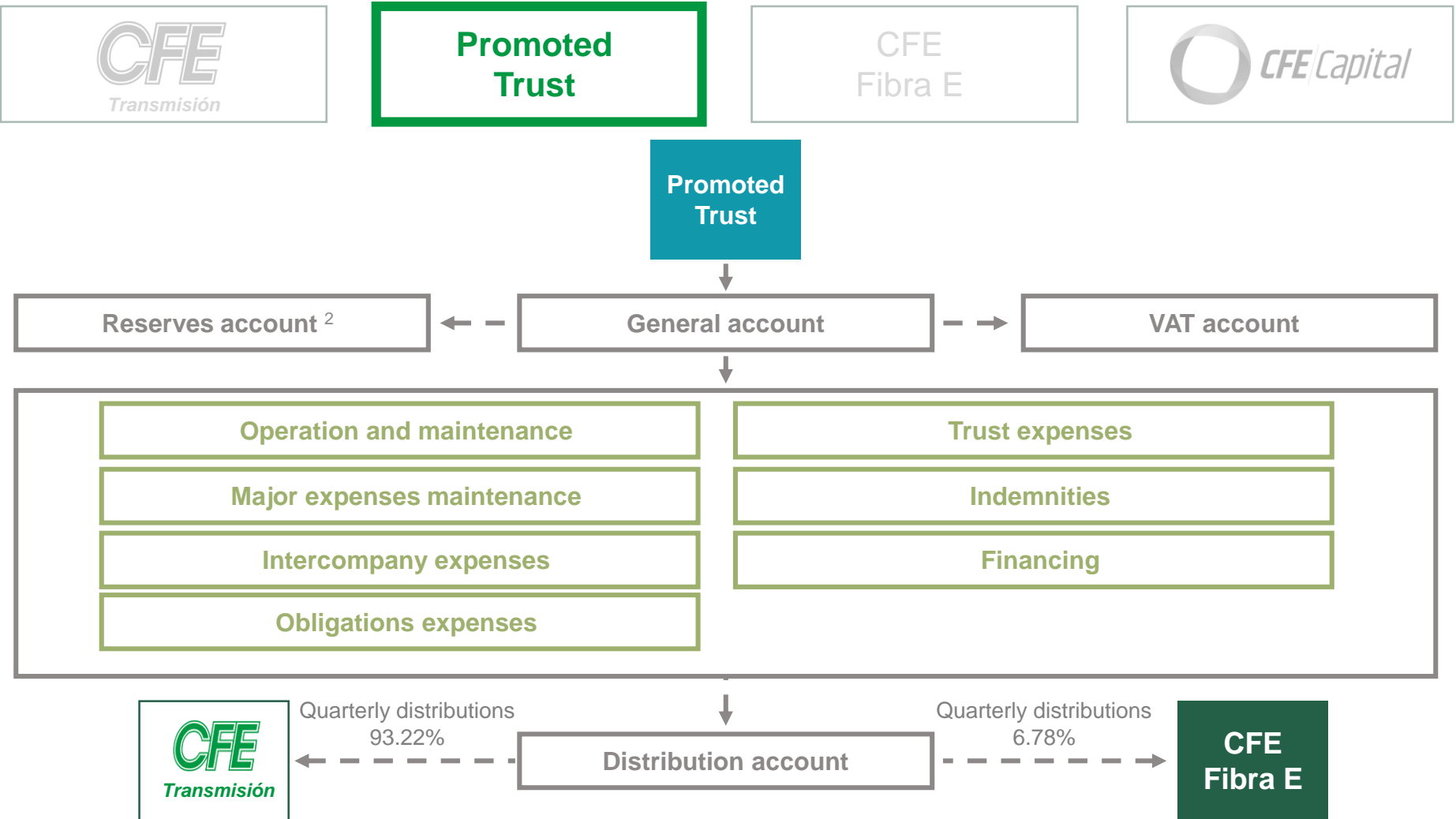
The Technical Committee is formed by 6 members, of which 3 will be independent members from the CFE Fibra E Technical Committee.

## Payment waterfall

Reimbursement of costs and expenses to *CFE Transmisión*. Such reimbursements are established in the Promoted Trust Agreement.

Source: Offering filings, CFE, and CFECapital.

# The Promoted Trust reimburses to *CFE Transmisión* costs and expenses for the operation of the National Transmission Network (NTN).<sup>1</sup>



Source: Offering filings and CFE. <sup>1</sup>The NTN is defined as the transmission and sub transmission lines. It is comprised of (i) a backbone network, (ii) a sub-transmission network integrated by sub-transmission lines, and (iii) interconnections with foreign electric systems. <sup>2</sup>Defined in the Promoted Trust Agreement as a MXN \$250 million pesos fund.

# The reimbursements will be paid based on an annual budget (MXN \$16,792 million pesos for 2018).



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% of 2018 budget ▼

▼ Description

40.4%	<b>Intercompany expenses</b>	Operations with CFE Holding and other CFE affiliates or subsidiaries.
35.7%	<b>Operation and maintenance</b>	Salaries, social security, materials, taxes, and services, among others.
18.7%	<b>Obligations expenses</b>	Retirees from <i>CFE Transmisión</i> . <sup>1</sup>
5.1%	<b>Major maintenance</b>	Conservation and maintenance of the NTN. <sup>2</sup>
0.1%	<b>Trust expenses</b>	Determined by the trustee ( <i>Nacional Financiera</i> ). <sup>3</sup>
Not included	<b>Indemnities</b>	Sanctions and compensations from CENACE.
Not included	<b>Financing</b>	Financing costs related to the investments in the NTN. <sup>4</sup>

Source: Offering filings and CFE. <sup>1</sup>Does not include reserves for current employees pensions. <sup>2</sup>Examples: tower replacements, transformers maintenance, lighting bolts change, switches installation, among others. <sup>3</sup>Payments against invoices previously authorized. <sup>4</sup>Payable once they are recognized in the tariff, excluding capital costs or equity investment returns.



Series “B” CBFEs hold by CFE are permanently subordinated to the Series “A” hold by investors with respect to distributions.



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Minimum  
Quarterly  
Distribution

100%

100%

CBFE Series “A”

CBFE Series “B”

Pro-rata distributions

Up to 100% Minimum  
Quarterly Distribution

Subordinated  
distribution

Distributions made on a pro-  
rata basis to Series “A” and  
Series “B” CBFEs holders



Source: Offering filings and CFE.



On February 8, an initial public offering was made. After the stabilization period, and partially exercising the over-allotment option, MXN \$16,210 million pesos were raised.

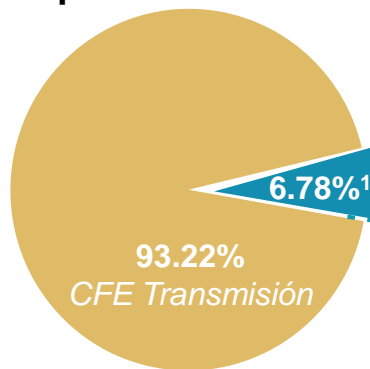


Promoted Trust

CFE Fibra E



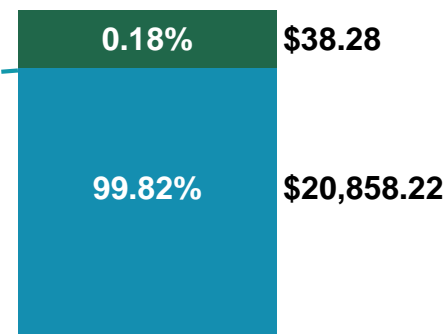
**Beneficiary rights of the promoted trust**



With the net proceeds of the offering, we acquired beneficiary rights representing economic ownership in the promoted trust

**CFE FIBRA E**

Assets as of March 31, 2018



	Total	CBFE Series "A"	CBFE Series "B"
CBFE <sup>2</sup>	1,137,593,881 (100%)	853,195,411 (75%)	284,398,470 (25%)
Amount issued (million MXN)	\$21,614.28	\$16,210.71	\$5,403.57

Series "A" CBFEs, which amount to 75% of the total CBFEs, are held by public investors while Series "B" CBFEs are held by *CFE Transmisión* and they will be permanently subordinated to Series "A" CBFEs with respect to the payment of the minimum quarterly distribution.<sup>3</sup>

Aside from the initial public offering, we did not have other revenue sources. In addition, during the Q12018 there were neither debt increase nor CBFEs repurchases.



Source: Offering filings and CFE Capital. The price for all the CBFEs was MXN \$19. <sup>1</sup> 6.776103%, approx. 6.78%. <sup>2</sup> CBFE are *Certificados Bursátiles Fiduciarios de Inversión en Energía e Infraestructura*. <sup>3</sup> We will make distributions to the extent we have cash available to make such distributions. The Minimum Quarterly Distribution is defined as MXN 0.575 per CBFE.

## During the Q12018<sup>1</sup> the Promoted Trust started its operations. Its Technical Committee had the first session.



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- The CENACE Agreement operated as established.
  - This agreement allows *CFE Transmisión* to assign the Collection Rights in favor of the Promoted Trust.
  - The Promoted Trust received from the CENACE revenues of MXN \$5,406.87 million.<sup>2</sup>
- The Technical Committee<sup>3</sup> of the Promoted Trust had its first session.
  - The reimbursements to *CFE Transmisión* were reviewed. The objective is to systematize the analysis and accelerate the payment. Reimbursements will be paid based on an annual budget and agreed limits for cost, expense and investment increases.
  - CFECapital will be participating as a permanent guest.<sup>4</sup>

The proceeds from the initial public offering will be used for expansion and modernization of the national transmission network through projects included in the PRODESEN.<sup>1</sup>



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- Investment in PRODESEN projects have a dual positive effect: 1) they enable the growth of transmission volumes, and 2) the capital expenditures for these projects are also recognized in the tariff as a return on equity. All projects must be approved by the Board of Directors of *CFE Transmisión*.
- CFE will publish on its webpage financial information with respect to *CFE Transmisión*. Financial information regarding the Promoted Trust will be published on the annual report of CFE Fibra E.



Source: Offering filings, CFE, and CFECapital. <sup>1</sup>Program for Development of the Electric National System (*Programa de Desarrollo del Sistema Eléctrico Nacional*).

# CFE Fibra E has untapped growth opportunities.



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## Additional participation in the Promoted Trust

- Potential growth driven by tariff adjustments and from higher transmission volumes.
- Expansion of the NTN by deploying additional investments.

## Organic growth

- *CFE Transmisión* and CFE have extensive infrastructure investment needs.
- Incentives to generate efficiencies to improve profitability.

## Inorganic growth

- Participation in other CFE businesses, such as distribution and generation.
- The structure is open to future asset acquisitions from third parties across the energy sector.



Source: Offering filings and CFECapital.

## During 2018, we will be tracking key value drivers for the initial asset.

### I. Transparency and oversight of the Promoted Trust expenditures

Collaborate with CFE<sup>1</sup> on following expenditures and reimburses in order to increase value for investors.

### II. Distribution policy of CFE Fibra E

Our distribution dates: June 29, September 28, and December 31.

The first one will be a prorated distribution covering the period from the completion of the offering until May.<sup>2</sup>

### III. A close follow-up on the establishment of new tariffs

Communicate to investors the tariff and parameters applicable to the next period.

### IV. A close follow-up on the investments

Collaborate with *CFE Transmisión* on following the infrastructure investments.



***CFE/Capital***