



## **Pemex Project Funding Master Trust**

*€750,000,000 6.625 per cent. Guaranteed Notes due 2010*

Unconditionally and irrevocably guaranteed by

### **Petróleos Mexicanos**

*(A Decentralized Public Entity of the Federal Government of the United Mexican States)*

*Issue Price: 98.67 per cent.*

The payment of principal of and interest on the 6.625 per cent. Guaranteed Notes due 2010 (the "Notes") of the Pemex Project Funding Master Trust (the "Issuer") will be unconditionally guaranteed by Petróleos Mexicanos (the "Guarantor"), a decentralized public entity of the Federal Government of the United Mexican States ("Mexico"). The Guarantor's obligations will be unconditionally guaranteed jointly and severally by Pemex-Exploración y Producción, Pemex-Refinación and Pemex-Gas y Petroquímica Básica (together, the "Subsidiary Guarantors"), each of which is a decentralized public entity of the Federal Government of Mexico (the "Mexican Government"). The Notes are not obligations of, or guaranteed by, the Mexican Government. The Issuer will pay interest on the Notes annually in arrears on April 4 of each year, beginning on April 4, 2004.

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on April 4, 2010. The Notes are subject to redemption in whole, at par, at the option of the Issuer, at any time, in the event of certain changes affecting Mexican taxes as described under "Terms and Conditions of the Notes — Redemption and Purchase."

**Prospective investors should have regard to the considerations described under "Risk Factors" beginning on page 9 of this document.**

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or any securities laws and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the notes may be offered and sold only in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act or to qualified institutional buyers pursuant to Rule 144A ("Rule 144A") under the Securities Act. For a description of certain further restrictions on offers and sales of Notes and distribution of this document, see "Subscription and Sale and Transfer Restrictions."

All Notes will be in registered form, without coupons. Notes which are sold in transactions outside the United States in reliance on Regulation S will be represented by interests in a definitive global Note (the "Regulation S Global Note") deposited with a common depository for, and registered in the name of a common nominee of, Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"). Notes which are resold pursuant to Rule 144A under the Securities Act, as described under "Subscription and Sale and Transfer Restrictions," will be represented by interests in a definitive global Note (the "DTC Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes"), deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC") on April 4, 2003 (the "Closing Date").

*Joint Lead Managers*

**BNP PARIBAS**

**JPMorgan**

April 3, 2003

*The Issuer is a Delaware statutory trust established by the Guarantor pursuant to the terms of a trust agreement dated as of November 10, 1998 among The Bank of New York, as Managing Trustee, The Bank of New York (Delaware), as Delaware Trustee and the Guarantor, as sole beneficiary. The Issuer is a financing vehicle for the long-term productive infrastructure projects of the Guarantor, which are referred to by the Guarantor and Mexico as “PIDIREGAS.” The Delaware office of the Issuer is The Bank of New York (Delaware), White Clay Center, Newark, DE 19711; the office of the Managing Trustee of the Issuer is The Bank of New York, Global Structured Finance Unit, 101 Barclay Street, 21W, New York, NY 10286.*

*The Guarantor was established by a decree of the Mexican Congress on June 7, 1938 as a result of the nationalization of the foreign-owned oil companies then operating in Mexico. The Guarantor and its four subsidiary entities, Pemex-Exploración y Producción (Pemex-Exploration and Production), Pemex-Refinación (Pemex-Refining), Pemex-Gas y Petroquímica Básica (Pemex-Gas and Basic Petrochemicals) and Pemex-Petroquímica (Pemex-Petrochemicals) (collectively, the “Subsidiary Entities”), comprise Mexico’s state oil and gas company. Each is a decentralized public entity of the Mexican Government and is a legal entity empowered to own property and carry on business in its own name. In addition, the results of a number of subsidiary companies that are listed in Annex A “—Consolidated Structure of PEMEX” (the “Subsidiary Companies”), including the Issuer, are incorporated into the consolidated financial statements of the Guarantor. The Guarantor, the Subsidiary Entities and the consolidated Subsidiary Companies are collectively referred to as “PEMEX.” PEMEX’s executive offices are located at Avenida Marina Nacional No. 329, Colonia Huasteca, Mexico, D.F. 11311, MEXICO. PEMEX’s telephone number is (5255) 5722-2500.*

*The Issuer, the Guarantor and the Subsidiary Guarantors, having made all reasonable inquiries, confirm that (i) this Offering Circular contains all information in relation to the Issuer, the Guarantor, the Subsidiary Guarantors, PEMEX, Mexico and the Notes which is material in the context of the issue and offering of the Notes, (ii) there are no untrue statements of a material fact contained in it in relation to the Issuer, the Guarantor, the Subsidiary Guarantors, PEMEX, Mexico or the Notes, (iii) there is no omission to state a material fact which is necessary in order to make the statements made in it in relation to the Issuer, the Guarantor, the Subsidiary Guarantors, PEMEX, Mexico or the Notes, in light of the circumstances under which they were made, not misleading in any material respect, (iv) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor, the Subsidiary Guarantors, PEMEX and Mexico are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, and (v) all reasonable inquiries have been made by the Issuer, the Guarantor and the Subsidiary Guarantors to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer, the Guarantor and the Subsidiary Guarantors accept responsibility accordingly.*

*This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Subsidiary Guarantors or BNP Paribas and J.P. Morgan Europe Limited (each, a “Joint Lead Manager” and, together, the “Joint Lead Managers”) to subscribe for or purchase any of the Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Subsidiary Guarantors and the Joint Lead Managers to inform themselves about and to observe any such restrictions. This Offering Circular may only be used for the purposes for which it has been published. For a description of certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see “Subscription and Sale and Transfer Restrictions.”*

*The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S).*

*The Notes are being offered or sold outside the United States to non-U.S. persons in reliance on Regulation S, or within the United States to “qualified institutional buyers”, in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see “Subscription and Sale and Transfer Restrictions.”*

*The Guarantor will file an application to register the Notes with the Sección Especial del Registro Nacional de Valores (the Special Section of the National Registry of Securities or the “Special Section of the Registry”) maintained by the Comisión Nacional Bancaria y de Valores (the National Banking and Securities Commission) of*

*Mexico. Registration of the Notes with the Special Section of the Registry does not imply any certification as to the investment quality of the Notes, the solvency of the Issuer, the Guarantor or the Subsidiary Guarantors or the accuracy or completeness of the information contained in this Offering Circular. The Notes may not be publicly offered or sold in Mexico.*

*No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorized. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or PEMEX since the date hereof or that the information contained herein is correct as of any time subsequent to its date.*

**In connection with this issue, J.P. Morgan Europe Limited (the “Stabilizing Manager”), or any person acting for the Stabilizing Manager, may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the Stabilizing Manager or any agent of the Stabilizing Manager to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period.**

**For New Hampshire residents only: Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Revised Statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security, or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer, or client any representation inconsistent with the provisions of this paragraph.**

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## **Currency of Presentation**

References in this Offering Circular to “Euros” or “€” are to the lawful currency of the European Economic and Monetary Union. References in this Offering Circular to “U.S. dollars”, “U.S. \$”, “dollars” or “\$” are to the lawful currency of the United States of America. References in this Offering Circular to “pesos” or “Ps.” are to the lawful currency of Mexico. We use the term “billion” in this Offering Circular to mean one thousand million.

This Offering Circular contains translations of certain peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations that the peso amounts actually represent the actual U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless we indicate otherwise, the U.S. dollar amounts have been translated from pesos at an exchange rate of Ps. 9.1423 to U.S. \$1.00, which is the exchange rate that the Ministry of Finance and Public Credit gave to Petróleos Mexicanos on December 31, 2001.

On April 2, 2003, the U.S. dollar noon buying rate for cable transfers in New York reported by the Federal Reserve Bank of New York was Ps. 10.6730 = U.S. \$1.00.

## **Presentation of Financial Information**

The Issuer does not prepare separate financial statements; its results are consolidated with those of PEMEX, which maintains its financial statements and records in nominal pesos. The Issuer, the Guarantor and the Subsidiary Guarantors believe that separate financial statements of the Issuer would not be material to you because (i) the Guarantor is an SEC reporting company and controls the Issuer, (ii) the Issuer has no independent operations, and (iii) the Guarantor has fully and unconditionally guaranteed the Issuer’s obligations under the Notes and the Subsidiary Guarantors have, jointly and severally, unconditionally guaranteed the Guarantor’s obligations under the Guarantee and Subsidiary Guaranties (as defined below).

The audited consolidated financial statements of PEMEX as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001 (the “2001 Financial Statements”) are included in Item 18 of the 2001 Form 20-F of Petróleos Mexicanos, which is included in this Offering Circular at Annex A. We also include unaudited condensed consolidated financial statements of PEMEX as of June 30, 2002 and for the six-month periods ended June 30, 2001 and 2002 (the “Interim Financial Statements”), which is included in this Offering Circular at Annex B. The 2001 Financial Statements and the Interim Financial Statements were prepared in accordance with accounting principles generally accepted in Mexico, or “Mexican GAAP,” and as to the recognition of inflation, in accordance with the guidelines established in Financial Reporting Standard NIF-06 BIS “A,” section A. Notes 2 b) and 15 to the 2001 Financial Statements describe the inflation accounting rules that apply to PEMEX. Mexican GAAP differs in certain significant respects from United States generally accepted accounting principles (“U.S. GAAP”). The differences that are material to the 2001 Financial Statements and to the Interim Financial Statements are described in Note 19 to the 2001 Financial Statements and Note 12 to the Interim Financial Statements. We also include summary financial data for the eleven months ended November 30, 2002 of Petróleos Mexicanos, the Subsidiary Entities and the Pemex Project Funding Master Trust, but excluding the Subsidiary Companies, which is not audited and was prepared in accordance with Mexican GAAP, except as to the recognition of inflation, which is in accordance with the guidelines established in NIF-06 BIS “A,” section A.

## **Forward-Looking Statements**

This Offering Circular contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. We have based these statements on current plans, estimates and projections and you should therefore not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties.

For a discussion of important factors that could cause actual results to differ materially from those contained in any forward-looking statement, you should read “Risk Factors” below.

### **Selected Financial Data**

The selected financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the audited 2001 Financial Statements and the unaudited Interim Financial Statements of PEMEX, included in this Offering Circular as Annexes A and B, respectively. The selected financial data set forth below as of the five years ended December 31, 2001 and as of June 30, 2002 have been derived from the consolidated financial statements of PEMEX for the years ended December 31, 1997 and 1998 (which are not included herein), the consolidated financial statements of PEMEX for the years ended December 31, 1999, 2000 and 2001 and the Interim Financial Statements of PEMEX for the six-month periods ended June 30, 2001 and 2002. The consolidated financial statements of PEMEX for the years ended December 31, 1999 and 2000 were audited by Mancera, S.C. (A Member Practice of Ernst & Young Global), and the consolidated financial statements of PEMEX for the year ended December 31, 2001 were audited by PricewaterhouseCoopers, S.C. See Annex A “Item 5—Operating and Financial Review and Prospects—Change in Independent Auditors.” The Interim Financial Statements of PEMEX as of June 30, 2002 and for the six-month periods ended June 30, 2001 and 2002 have not been audited.

The consolidated financial statements are prepared in accordance with Mexican GAAP and, as to the recognition of inflation, in accordance with the guidelines established in Financial Reporting Standard NIF-06 BIS “A,” section A. See Notes 2 b) and 15 to the 2001 Financial Statements for a discussion of the inflation accounting rules applicable to PEMEX. Mexican GAAP differs in certain significant respects from U.S. GAAP. The most important of the material items generating a difference between operating results under U.S. GAAP and Mexican GAAP are the accounting methodologies for the treatment of exploration and drilling costs, pension premiums and post-retirement benefit obligations, financial instruments, inflation, foreign exchange losses, capitalized interest and depreciation and impairment of fixed assets, which are described in Note 19 to the 2001 Financial Statements included in Annex A and Note 12 to the Interim Financial Statements included in Annex B.

For a further discussion of the accounting principles applicable to PEMEX, see Annex A “Item 3—Key Information—Selected Financial Data,” Annex A “Item 5—Operating and Financial Review and Prospects—U.S. GAAP Reconciliation,” and Note 12 to the Interim Financial Statements included in Annex B.

## Selected Financial Data of PEMEX

	1997	Year Ended December 31, <sup>(1)</sup>			2001	Six months ended June 30, <sup>(1)</sup>		
		1998	1999	2000		2001	2002	2002 <sup>(2)</sup>
(in millions of pesos or U.S. dollars)								
<b>Income Statement Data</b>								
Amounts in accordance with Mexican GAAP:								
Net sales <sup>(3)</sup> .....	Ps. 264,030	Ps. 256,987	Ps. 334,814	Ps. 468,268	Ps. 445,330	Ps.227,054	Ps.222,645	\$22,361
Total revenues <sup>(3)</sup> .....	269,507	265,749	344,979	478,688	457,385	236,239	226,485	22,747
Total revenues net of the IEPS								
Tax .....	231,779	199,894	256,630	409,132	362,187	196,366	166,320	16,704
Operating income .....	166,619	140,299	187,669	274,057	230,703	134,082	124,396	12,494
Income (loss) for the period .....	7,133	(11,588)	(21,157)	(19,710)	(34,091)	(6,025)	(6,361)	(639)
<b>Balance Sheet Data (end of period)</b>								
Amounts in accordance with Mexican GAAP:								
Cash and cash equivalents.....	17,429	14,631	23,987	27,827	14,442	N.A.	35,264	3,542
Total assets .....	339,452	416,691	482,248	563,468	556,883	N.A.	613,046	61,571
Long-term debt.....	56,339	87,615	83,127	104,370	123,170	N.A.	159,458	16,015
Total long-term liabilities.....	132,814	206,728	236,599	317,096	362,069	N.A.	415,148	41,695
Equity .....	153,123	167,138	161,469	150,605	122,866	N.A.	121,443	12,197
Amounts in accordance with U.S. GAAP:								
Net sales <sup>(4)</sup> .....	226,302	191,132	246,465	398,711	350,131	187,182	162,481	16,319
Operating Income <sup>(4)</sup> .....	129,595	73,583	106,024	208,862	142,803	99,990	72,971	7,329
Income (loss) for the period .....	9,177	(27,364)	(15,370)	(16,697)	(25,444)	(1,524)	(4,800)	(482)
Total Assets .....	257,251	283,540	362,947	434,743	432,687	N.A.	474,462	47,652
Equity (deficit) .....	59,951	29,735	12,904	(13,567)	(42,331)	N.A.	(51,928)	(5,215)
<b>Other Financial Data</b>								
Amounts in accordance with Mexican GAAP:								
Depreciation and Amortization.....	11,482	15,697	23,941	26,061	28,453	13,963	14,262	1,432
Investments at cost <sup>(5)</sup> .....	28,109	43,936	40,497	76,233	51,672	17,698	22,029	2,212
Ratio of earnings to fixed charges:								
Mexican GAAP <sup>(6)</sup> .....	1.54	—	—	—	—	—	—	—
U.S. GAAP <sup>(6)</sup> .....	1.81	—	—	—	—	—	—	—

Note: N.A. = Not Applicable.

(1) Includes Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies. Beginning with the year ended December 31, 1998, includes the financial position and results of the Issuer. Beginning with the year ended December 31, 2000, includes the financial position and results of Mex Gas International, Ltd. For U.S. GAAP purposes, beginning with the year ended December 31, 2001, includes the financial position and results of Pemex Finance, Ltd.

Each of the financial statements for the five years ended December 31, 2001 and for the six-month periods ended June 30, 2001 and 2002 was prepared according to Mexican GAAP but recognizes the effect of inflation according to Mexican Financial Reporting Standard NIF-06 BIS "A," section A, which is different from Mexican GAAP Bulletin B-10. Mexican GAAP differs from U.S. GAAP. The most important of the material differences between U.S. GAAP and Mexican GAAP affecting PEMEX are the accounting treatment of: (1) exploration and drilling costs, (2) pensions and post-retirement obligations, (3) financial instruments, (4) inflation, (5) foreign exchange losses, (6) capitalized interest, (7) depreciation and (8) impairment of fixed assets. For a further discussion of these and other differences, see Note 19 to the 2001 Financial Statements in Annex A and Note 12 to the Interim Financial Statements in Annex B.

- (2) Conversions into U.S. dollars of amounts in pesos have been made at the established exchange rate for accounting purposes of Ps. 9.9568= U.S. \$1.00 at June 30, 2002. Such conversions should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other rate.
- (3) Includes the IEPS Tax as part of the sales price of the products sold.
- (4) Figures do not include IEPS Tax as part of the sales price of the products sold.
- (5) Includes investments in fixed assets and capitalized interest, and excludes certain expenditures charged to the oil field exploration and depletion reserve. See Annex A "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources."
- (6) Under U.S. GAAP, earnings for the years ended December 31, 1998, 1999, 2000 and 2001, and for the six-month periods ended June 30, 2001 and 2002, were insufficient to cover fixed charges. The amount by which fixed charges exceeded earnings was Ps. 21,076 million for 1998, Ps. 5,253 million for 1999, Ps. 624 million for 2000, Ps. 10,857 million for 2001, Ps. 3,833 million for the six-month period ended June 30, 2001 and Ps. 8,023 million for the six-month period ended June 30, 2002. Under Mexican GAAP, earnings for the years ended December 31, 1998, 1999, 2000 and 2001, and for the six-month periods ended June 30, 2001 and 2002, were insufficient to cover fixed charges. The amount by which fixed charges exceeded earnings was Ps. 5,020 million for 1998, Ps. 11,310 million for 1999, Ps. 4,092 million for 2000, Ps. 18,258 million for 2001, Ps. 8,473 million for the six month period ended June 30, 2001 and Ps. 9,107 million for the six month period ended June 30, 2002.

Source: PEMEX's financial statements.

PEMEX does not currently prepare comprehensive price-level adjusted financial statements in accordance with Bulletin B-10, "Recognition of the Effects of Inflation on Financial Information," under Mexican GAAP. For the years ended December 31, 1997 and 1998, Mexico was deemed to be a hyperinflationary economy. Pursuant to Rule 3-20(c) of Regulation S-X promulgated by the U.S. Securities and Exchange Commission, unaudited selected financial data prepared on the basis of price-level adjusted financial information for these years has been included reflecting the impact of U.S. GAAP adjustments and reclassifications. For the years ended December 31, 1999, 2000 and 2001, and for the six-month periods ended June 30, 2001 and 2002, Mexico was not considered a hyperinflationary economy. However, supplemental unaudited price-level adjusted financial information for these subsequent years has been provided in lieu of a comprehensive price-level adjustment that would result from PEMEX's adoption of Bulletin B-10. In the opinion of PEMEX management, all adjustments that are necessary for a fair presentation of the price-level adjusted financial information have been included herein. This unaudited price-level adjusted financial data is derived from the supplemental price-level adjusted financial information included elsewhere in this Offering Circular and should also be read in conjunction the 2001 Financial Statements and Condensed Consolidated Financial Statements for the six-month periods ended June 30, 2001 and 2002.

**Selected Financial Data of PEMEX  
(continued)**

	Years Ended December 31,					Six months ended June 30,	
	1997	1998	1999	2000	2001	2001	2002
	(in millions of constant 2001 pesos)					(in millions of constant June 30, 2002 pesos)	
<b>Unaudited Price-level Adjusted Information</b>							
<b>Income Statement Data</b>							
Amounts in accordance with U.S. GAAP:							
Net sales <sup>(1)</sup> .....	Ps. 363,422	Ps. 264,769	Ps. 292,849	Ps. 432,680	Ps. 357,215	Ps. 198,001	Ps. 164,065
Total revenues <sup>(1)</sup> .....	372,747	275,646	301,461	443,037	372,425	208,965	169,374
Net income (loss).....	23,316	(19,843)	(21,069)	(36,573)	(17,251)	7,752	(5,871)
<b>Balance Sheet Data (end of period)</b>							
Amounts in accordance with U.S. GAAP:							
Cash and cash equivalents.....	26,413	18,694	27,287	29,052	14,488	N.A.	36,056
Total assets.....	485,938	517,330	555,136	590,540	576,220	N.A.	633,529
Long-term debt.....	85,380	111,947	94,563	108,966	162,291	N.A.	200,431
Total long-term liabilities.....	202,614	267,281	291,081	357,433	388,095	N.A.	448,584
Total equity.....	190,388	180,156	167,970	132,604	110,890	N.A.	102,432

Note: N.A. = Not Applicable.

(1) Total revenues and net sales figures do not include the IEPS Tax as part of the sales price of the products sold.

Source: *Petróleos Mexicanos*.



## **Risk Factors**

### Risk Factors Related to the Operations of PEMEX

*Crude oil prices are volatile, and low oil prices negatively affect PEMEX's income.*

International crude oil prices fluctuate due to many factors, including:

- changes in global supply and demand for crude oil and refined petroleum products;
- availability and price of competing commodities;
- international economic trends;
- currency exchange fluctuations;
- expectations of inflation;
- actions of commodity markets participants;
- domestic and foreign government regulations; and
- political events in major oil producing and consuming nations.

PEMEX has no control over these factors. Historically, the weighted average price of the crude oil that PEMEX exports has fluctuated from a high of U.S. \$26.82 per barrel in 1984 to a low of U.S. \$15.55 per barrel in 1999. In 2002, the weighted average price of PEMEX's crude oil exports was U.S. \$21.58 per barrel, 16% higher than the weighted average price during 2001. On March 26, 2003, the weighted average spot price of PEMEX crude oil was U.S. \$21.17.

When international crude oil and natural gas prices are low, PEMEX earns less export sales revenue, and, therefore, lower income because its costs remain roughly constant. Conversely, when crude oil and natural gas prices are high, PEMEX earns more export sales revenue and its income increases. As a result, future fluctuations in international crude oil prices will directly affect PEMEX's results of operations and financial condition.

*Decreases in PEMEX's estimates from time to time of Mexico's hydrocarbon reserves could reduce PEMEX's potential future income.*

The reserve data set forth in Annex A and under "Recent Developments" represent only estimates. Estimating quantities of proved hydrocarbon reserves and projecting future rates of production and timing of development expenditures is an inexact process and is subject to many factors beyond PEMEX's control. The accuracy of any reserve estimate depends on the quality of available data and engineering and geological interpretation and judgment. As a result, estimates of different engineers may vary. Additionally, the results of drilling, testing and production subsequent to the date of an estimate may justify revision of an estimate. Therefore, proved reserve estimates may be materially different from the quantities of crude oil and natural gas that PEMEX can ultimately recover.

Pemex-Exploration and Production revises its estimates of Mexico's hydrocarbon reserves annually. This process may result in material revisions to PEMEX's estimates of Mexico's hydrocarbon reserves.

*PEMEX is an integrated oil and gas company and is exposed to production, equipment and transportation risks.*

PEMEX is subject to production, equipment and transportation risks that are common among oil and gas companies. For example, PEMEX encounters:

- production risk—*i.e.*, risk related to fluctuations in production that may be affected by reserve levels, accidents, mechanical difficulties, adverse natural conditions, such as bad weather and other acts of God, as well as the inability to manage unforeseen production costs;
- equipment risk—*i.e.*, risk related to adequacy and condition of the production facilities, including equipment becoming obsolete; and
- transportation risk—*i.e.*, risk related to the condition of pipelines and vulnerability of other modes of transportation.

In particular, PEMEX's business is subject to the risk of:

- pipeline explosions (oil or natural gas);
- explosions in refineries, petrochemical plants, storage and distribution terminals or buoys and monobuoys;
- hurricanes in the Gulf of Mexico;
- unexpected geological formations or pressures;
- blow outs, which are sudden, violent explosions of oil, natural gas or water from a drilling well, followed by an uncontrolled flow from the well;
- fires and cratering, which is the caving in and collapse of the earth's structure around a blow out well; and
- mechanical failures and collapsed holes, particularly in horizontal wellbores.

The occurrence of any of these events could result in:

- personal injuries or loss of life;
- environmental damage and the necessary clean-up costs and expenses; or
- other damage to PEMEX's property or the property of others.

In accordance with customary industry practice, PEMEX has purchased insurance policies covering some of these risks. However, these policies do not cover all potential liabilities that may result from these risks. In addition, insurance is not available for some of these risks. See Annex A "Item 4—Information on the Company—Business Overview—PEMEX Corporate Matters—Insurance."

*PEMEX's compliance with environmental regulations in Mexico could result in material adverse effects on PEMEX's results of operations.*

A wide range of general and industry-specific Mexican federal and state environmental laws and regulations apply to PEMEX's operations. Numerous Mexican Government agencies and departments issue rules and regulations which are often difficult and costly to comply with and which carry substantial penalties for non-compliance. This regulatory burden on PEMEX increases its cost of doing business and can:

- require PEMEX to make significant capital expenditures on measures to protect the environment, including abandoning and dismantling onshore wells and offshore platforms;
- reduce PEMEX's ability to extract hydrocarbons when extraction endangers the environment;
- reduce PEMEX's sales revenues if production is reduced to meet environmental regulations;
- increase production costs and make PEMEX's products relatively more expensive as compared to the hydrocarbon and refined products of PEMEX's competitors; and
- reduce PEMEX's profitability through a combination of the above.

At December 31, 2001, PEMEX's estimated and accrued environmental liabilities totaled Ps. 2,316 million. Annex A "Item 4—Information on the Company—Environmental Regulation—Environmental Liabilities."

*PEMEX publishes less financial information than U.S. companies are required to file with the SEC.*

PEMEX prepares its financial statements according to Mexican GAAP, except as to the recognition of inflation, which is recognized in its financial statements according to the Mexican Financial Reporting Standards applicable to Mexican public sector companies. Mexican GAAP differs in certain significant respects from U.S. GAAP. See Annex A "Item 3—Key Information—Selected Financial Data" and Note 19 to the 2001 Financial Statements. In addition, PEMEX generally only prepares U.S. GAAP information on a yearly basis. As a result, there may be less or different publicly available information about PEMEX than there is about U.S. issuers.

#### Risk Factors Related to the Relationship between PEMEX and the Mexican Government

*The Mexican Government controls PEMEX, and the Mexican Congress approves the annual budget and financing program of Petróleos Mexicanos and the Subsidiary Entities, and as a result, the Mexican Government indirectly controls the Issuer.*

Mexico is the sole owner of Petróleos Mexicanos and the Subsidiary Entities, and the Mexican Government closely regulates and supervises PEMEX's operations. Mexican Government ministers control key executive decisions at Petróleos Mexicanos. The Secretary of Energy of Mexico is the Chairman of the Board of Directors of Petróleos Mexicanos. The *Secretaría de la Contraloría y Desarrollo Administrativo* (the General Comptroller's Office of the Mexican Government, or "SECODAM"), appoints the external auditors of Petróleos Mexicanos and the Subsidiary Entities. Petróleos Mexicanos, in turn, is the sole beneficiary of the Issuer and controls all of the Issuer's activities.

The Mexican Government incorporates Petróleos Mexicanos and the Subsidiary Entities' annual budget and financing program into its consolidated annual budget, which it submits to the Mexican Congress for its approval. The Mexican Congress also designates certain of PEMEX's largest capital expenditures as PIDIREGAS projects. See Annex A "Item 4—Information on the Company—History and Development—Capital Expenditures and Investments."

The Mexican Government has the power to intervene directly or indirectly in PEMEX's commercial affairs. Such an intervention could have an adverse effect on the Issuer, the Guarantor or a Subsidiary Guarantor and thereby adversely affect the ability of the Issuer, the Guarantor or any of the Subsidiary Guarantors to make payments under the Notes or their respective guaranties. For instance, if the Mexican Government were to cause PEMEX to reduce

production or limit future capital expenditures, this could reduce PEMEX's ability to generate the necessary income to support payments on its debt, or to transfer the necessary funds to the Issuer to make payments on the Notes.

*The Mexican Government may privatize all or part of Petróleos Mexicanos and the Subsidiary Entities.*

The Mexican Government would have the power, if federal law and the *Constitución Política de los Estados Unidos Mexicanos* (the Political Constitution of the United Mexican States) were amended, to privatize all or a portion of Petróleos Mexicanos and the Subsidiary Entities or its assets. The Mexican Government could also transfer the activities of PEMEX to another Mexican Government-controlled entity if these changes were made. These types of actions could adversely affect PEMEX's operations by affecting its workforce, causing an interruption in production that could decrease output and negatively affect its income from operations. In addition, a privatization could cause PEMEX to default on its obligations under certain of its indebtedness, including all of its publicly traded debt securities, which could entitle the holders of this indebtedness to declare it immediately due and payable. In this case, investors in certain debt securities, including the Notes, would be entitled to recover their entire investment and their only loss would be that attributable to future interest income. See also “—Economic and Political Considerations Related to Mexico” below.

*The Mexican Government has entered into agreements with other nations to limit production.*

Historically, member countries of the Organization of the Petroleum Exporting Countries (“OPEC”) have entered into agreements to reduce their production of crude oil. These agreements have sometimes increased global crude oil prices by decreasing the global supply of crude oil. Although Mexico is not a member of OPEC, it has entered into agreements with OPEC and non-OPEC countries to reduce global crude oil supply.

For example, following OPEC's announcement in January 2001 that it would reduce crude oil production by 1.5 million barrels per day, Mexico announced it would decrease its crude oil exports by 75 thousand barrels per day, beginning on February 1, 2001. Following a March 2001 announcement by OPEC of an additional 1.0 million barrel per day reduction in crude oil production, Mexico announced on March 25, 2001 that it would further reduce its crude oil exports by 40 thousand barrels per day, beginning on April 1, 2001. On January 2, 2002, following an OPEC announcement that it would reduce crude oil production by 1.5 million barrels per day, Mexico announced it would reduce its crude oil exports by 100,000 barrels per day to 1.66 million barrels per day for six months, beginning on January 1, 2002. On January 13, 2003, the Ministry of Energy of Mexico announced that, beginning on February 1, 2003, Mexico would increase its oil exports by 120,000 barrels per day, to 1.88 million barrels per day. Mexico agreed to increase its oil exports in conjunction with production increases by other oil producing countries in order to stabilize oil prices, which had increased significantly in recent weeks.

PEMEX does not control Mexico's international affairs and the Mexican Government could agree with OPEC or other countries to reduce PEMEX's crude oil production or exports in the future. To the extent that such international agreements restrict PEMEX's exports of crude oil, it is possible that Mexican domestic markets will not be able to consume additional amounts of crude oil that PEMEX is not allowed to export as a result of such agreements, thus reducing PEMEX's revenues.

*PEMEX does not own the hydrocarbon reserves in Mexico.*

A guaranteed source of petroleum and other hydrocarbons is essential to an oil company's production and generation of income. As a result, many oil and gas companies own hydrocarbon reserves. The Political Constitution of the United Mexican States provides that the Mexican nation, not PEMEX, owns the petroleum and other hydrocarbon reserves located in Mexico. Although Mexican law gives Petróleos Mexicanos and the Subsidiary Entities the exclusive right to exploit Mexico's hydrocarbon reserves, it does not preclude the Mexican Congress from changing current law and assigning this right to another entity. If the Mexican Congress, by way of an amendment to the *Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (Regulatory Law to Article 27 of the Political Constitution of the United Mexican States Concerning Petroleum Affairs, or “Regulatory Law”), assigned the rights to exploit its hydrocarbon reserves to another entity, PEMEX's ability to generate income would be adversely affected.

*Petróleos Mexicanos and the Subsidiary Entities pay special taxes, duties and dividends to the Mexican Government.*

Petróleos Mexicanos and the Subsidiary Entities pay a number of special taxes and duties to the Mexican Government. These taxes and duties totaled Ps. 208,137 million in 1999, Ps. 292,960 million in 2000 and Ps. 262,778 million in 2001. For 2002 and 2003, PEMEX expects the sum of these taxes and duties to total approximately 60.8% of the revenue that PEMEX derives from sales to its subsidiary, P.M.I. Comercio Internacional, S.A. de C.V. (“PMI”), P.M.I. Trading Ltd. and their affiliates (together, the “PMI Group”) and to third parties. In addition to these duties and taxes, the Mexican Government imposes an excess gains tax equal to 39.2% of the portion of Pemex-Exploration and Production’s crude oil sales revenue in excess of a threshold price set by the Mexican Government, which in 2002 was U.S. \$15.50 per barrel and in 2003 is U.S. \$18.35 per barrel. See Annex A “Item 4—Information on the Company—Taxes and Duties” and “Item 5—Operating and Financial Review and Prospects—General—IEPS Tax, Excess Gains Duty, Hydrocarbon Duties and Other Taxes.”

The Mexican Government and PEMEX determine the rates of taxes and duties applicable to PEMEX from year to year depending on a variety of factors, including PEMEX’s:

- projected sales revenues;
- operating program;
- capital expenditures program; and
- financing needs.

Petróleos Mexicanos is also obligated to pay minimum guaranteed dividends to the Mexican Government. The minimum guaranteed dividends totaled Ps. 5,138 million in 1999, Ps. 5,564 million in 2000 and Ps. 2,153 million in 2001. For further information on how the minimum guaranteed dividend is determined, see Annex A “Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Equity Structure and the Certificates of Contribution ‘A’”, Annex A “Item 8—Financial Information—Dividends” and Note 13 to the 2001 Financial Statements.

*PEMEX must make significant capital expenditures to maintain its current production levels and increase Mexico’s hydrocarbon reserves. Mexican Government budget cuts, reductions in PEMEX’s income and inability to obtain financing may limit PEMEX’s ability to make capital investments.*

PEMEX invests funds to increase the amount of extractable hydrocarbon reserves in Mexico. PEMEX also continually invests capital to enhance its hydrocarbon recovery ratio and improve the reliability and productivity of its infrastructure. PEMEX estimates that it will need to make capital expenditures of approximately U.S. \$45.3 billion in exploration and production over the next five years and an additional U.S. \$16.1 billion to upgrade its refineries over the next ten years, in order to increase production to meet anticipated growth in domestic and international market demand.

PEMEX’s ability to make these capital expenditures is limited by the substantial taxes that it pays and cyclical decreases in its revenues primarily related to lower oil prices. In addition, budget cuts imposed by the Mexican Government and the availability of financing may also limit PEMEX’s ability to make capital investments. Because the non-PIDIREGAS portion of PEMEX’s investment budget is part of Mexico’s annual budget, when the Mexican Government reduces its annual budget, it may also reduce that portion of PEMEX’s investment budget. For example, in 1998, low crude oil prices reduced PEMEX’s income and the amount of taxes and duties that it paid to the Mexican Government. As a result, the Mexican Government imposed federal budget cuts that resulted in an 11.1% decrease in PEMEX’s capital expenditures budget (excluding PIDIREGAS) in 1998.

In 2002, the Mexican Government approved a PIDIREGAS investment budget that PEMEX believes will be sufficient to meet a large proportion of its capital expenditure needs for the next five years. However, under the PIDIREGAS program, PEMEX is required to obtain financing that can be supported by the project being funded.

The availability of this financing is subject to factors beyond PEMEX's control. Accordingly, PEMEX cannot guarantee that it will always have the funds necessary to continue capital investments at their current levels.

*PEMEX's debt obligations, including the Guarantee and the Subsidiary Guaranties, may be affected by Mexico's agreements with external creditors.*

The Guarantor and the Subsidiary Guarantors are decentralized public sector entities under the direct control of the Mexican Government; consequently, Mexico's agreements with international creditors may affect PEMEX's external debt obligations, including the Guarantee and the Subsidiary Guaranties. Since 1982, Mexico and its commercial bank creditors have concluded four debt restructurings and new money exercises. In these restructurings, Petróleos Mexicanos' external indebtedness was treated on the same terms as the debt of the Mexican Government and other public sector entities. In addition, Mexico has entered into agreements with official bilateral creditors to reschedule public sector external debt. Mexico has not requested restructuring of bonds or debt owed to multilateral agencies.

*PEMEX may claim some immunities under the Foreign Sovereign Immunities Act and Mexican law.*

The Guarantor and the Subsidiary Entities are decentralized public entities of the Mexican Government. Because the Mexican Government is a foreign sovereign, you may not be able to obtain a judgment in a U.S. court against the Guarantor or any of the Subsidiary Guarantors. In addition, Mexican law specifies that attachment prior to judgment and attachment in aid of execution may not be ordered by Mexican courts against the Guarantor, the Subsidiary Guarantors or their respective assets and, as a result, your ability to enforce judgments against them in the courts of Mexico may be limited. However, the Guarantor and the Subsidiary Guarantors have irrevocably submitted to the jurisdiction of the courts of England and, to the extent permitted by law, waived immunity from the jurisdiction of these courts in connection with any action based upon the Notes, the Guarantee and the Subsidiary Guaranties brought by any holder of Notes.

You should know, however, that the Guarantor and the Subsidiary Guarantors have reserved the right to plead immunity under the U.S. Foreign Sovereign Immunities Act of 1976 and the State Immunity Act of 1978 of the United Kingdom (the "Immunities Acts") in actions brought against them under the U.S. federal securities laws or any state securities laws.

Unless the Guarantor and the Subsidiary Guarantors waive their immunity against such actions, you could obtain a court judgment against them only if the relevant court were to determine that they are not entitled to sovereign immunity under the Immunities Acts with respect to that action. PEMEX also does not know whether Mexican courts would enforce judgments of foreign courts based on the civil liability provisions of the securities laws of other jurisdictions.

Even if you were able to obtain a judgment in a U.S. or English court against the Guarantor or one or more of the Subsidiary Guarantors under the Guarantee or the Subsidiary Guaranties, respectively, you might not be able to obtain a judgment in Mexico that is based on that foreign judgment. Moreover, you may not be able to enforce a judgment against the Guarantor's or any of the Subsidiary Guarantors' property in the United States except under the limited circumstances specified in the Immunities Acts.

*Satisfaction of any judgment in Mexico against PEMEX may be made in pesos.*

If you were to bring an action in Mexico seeking to enforce the obligations of the Guarantor or any of the Subsidiary Guarantors under the Notes, satisfaction of those obligations may be made in pesos. The *Ley Monetaria de los Estados Unidos Mexicanos* (Monetary Law of the United Mexican States) entitles the Guarantor and the Subsidiary Guarantors to discharge foreign currency denominated obligations in Mexico with a payment in pesos at the exchange rate determined by Banco de México (Mexico's Central Bank) on the date payment is made. This rate is currently announced by Banco de México each banking day and published the following day in the *Diario Oficial de la Federación* (the Official Gazette of the Federation).

*The Guarantor and the Subsidiary Guarantors are foreign companies and, as a result, holders of the Notes may not be able to effect service of process on, or enforce a judgment against, them.*

The Guarantor and the Subsidiary Guarantors are organized under the laws of Mexico and all of their directors and officers, as well as some of the experts named in this Offering Circular, reside in Mexico. Substantially all of the assets of the Guarantor and the Subsidiary Guarantors, and those of most of their directors, officers and experts, are located in Mexico. As a result, you may not be able to effect service of process on the directors or officers of the Guarantor or any of the Subsidiary Guarantors or those experts within England or the United States. You also may not be able to enforce in Mexico judgments obtained in England or the United States against the Guarantor or any of the Subsidiary Guarantors, or their directors or officers or the experts, if those judgments are not consistent with Mexican public policy and procedural rules.

#### Economic and Political Considerations Related to Mexico

*Economic conditions and government policies in Mexico may have a material impact on PEMEX's operations.*

A deterioration in Mexico's economic conditions, social instability, political unrest or other adverse social developments in Mexico could adversely affect PEMEX's business and financial condition. Those events could also lead to increased volatility in the foreign exchange and financial markets, thereby affecting PEMEX's ability to obtain and service foreign debt and its ability to transfer funds to the Issuer to service the Issuer's debt. In addition, the Mexican Government may cut spending in the future. These cuts could adversely affect PEMEX's business, financial condition and prospects.

From 1982 to 1987 Mexico experienced several periods of slow or negative economic growth, high inflation, peso devaluations and limited availability of foreign exchange. Beginning in December 1994 and continuing through 1995, Mexico experienced an economic crisis characterized by exchange rate instability, devaluation of the peso, high inflation, high domestic interest rates, negative economic growth, reduced consumer purchasing power and high unemployment. Despite signs of economic recovery following the implementation of broad economic reforms in 1995, a combination of factors led to a slowdown in Mexico's economic growth in 1998. Notably, the decline in the price of crude oil resulted in a reduction of federal revenues, approximately one-third of which derive from petroleum taxes and duties. In addition, the economic crises in Asia and Russia and the financial turmoil in Brazil, Venezuela and elsewhere produced greater volatility in the international financial markets, which further slowed Mexico's recovery. The Mexican Government estimates that real Gross Domestic Product ("GDP") grew by 3.7% in 1999 and 6.6% in 2000 but decreased 0.3% in 2001. The Mexican Government estimates that GDP grew by 0.9% in 2002.

Despite the slowdown in economic recovery and the significant devaluation of the peso in 1998 and the contraction in 2001, Mexico has managed to maintain a high level of gross international reserves, which totaled U.S. \$48,537 million at January 24, 2003. In the future, however, the Mexican economy could continue to suffer from declines in foreign direct and portfolio investment due to international financial crises, inflationary pressures, high short-term interest rates and low oil prices.

*Changes in exchange rates or in Mexico's exchange control laws may hamper the ability of the Issuer, the Guarantor and the Subsidiary Guarantors to make payments on the Notes, the Guarantee or the Subsidiary Guaranties.*

While the Mexican Government does not currently restrict the ability of Mexican companies or individuals to convert pesos into dollars or other currencies, in the future, the Mexican Government could impose a restrictive exchange control policy, as it has done in the past. Neither PEMEX nor the Issuer can assure you that the Mexican Government will maintain its current policies with regard to the peso or that the peso's value will not fluctuate significantly in the future. The peso has been subject to significant devaluations against the U.S. dollar in the past and may be subject to significant fluctuations in the future. Mexican Government policies affecting the value of the peso could prevent PEMEX from paying its foreign currency obligations, which in turn could prevent the Issuer from paying its obligations.

As of December 31, 2001, the total debt of PEMEX totaled Ps. 159.4 billion (or Ps. 156.8 billion excluding accrued interest), 84.2% of which was denominated in U.S. dollars. Of this amount, U.S. \$7.5 billion (or Ps. 68.7 billion) was attributable to the indebtedness of the Issuer denominated in U.S. dollars, euros and other currencies and guaranteed by the Guarantor and the Subsidiary Guarantors. In addition, Pemex Finance, Ltd., a Cayman Islands company with limited liability established to issue securities backed by PMI crude oil receivables to provide financing for investments in PIDIREGAS, had indebtedness totaling U.S. \$5.3 billion at December 31, 2001.

PEMEX does not guarantee Pemex Finance, Ltd.'s indebtedness. In the future, PEMEX, the Issuer and Pemex Finance, Ltd. may incur additional indebtedness denominated in U.S. dollars or other currencies. Declines in the value of the peso relative to the U.S. dollar or other currencies may increase PEMEX's interest costs in pesos and result in foreign exchange losses.

From October 1992 to December 21, 1994, Banco de México intervened in foreign exchange markets to maintain the peso-dollar exchange rate within a government-controlled range that widened daily. On December 21, 1994, the Mexican Government suspended Banco de México's foreign exchange market operations and allowed the peso to float freely against the U.S. dollar. The Mexican Government may introduce similar policies in the future that affect the exchange rate between the peso and other currencies.

For a further discussion of historical peso/U.S. dollar exchange rates, see Annex A "Item 3—Key Information—Exchange Rates."

*Political conditions in Mexico could materially and adversely affect Mexican economic policy and, in turn, PEMEX's operations.*

The national elections held on July 2, 2000 ended 71 years of rule by the Institutional Revolutionary Party ("PRI") with the election of President Vicente Fox Quesada, a member of the National Action Party ("PAN"), and resulted in the increased representation of opposition parties in the Mexican Congress and in mayoral and gubernatorial positions. Neither the PRI nor the PAN currently has a majority in the Congress or Senate. This shift in political power has transformed Mexico from a one-party state to a pluralist democracy. Although there have not yet been any material adverse repercussions resulting from this political change, multiparty rule is still relatively new in Mexico and could result in economic or political conditions that could materially and adversely affect PEMEX's operations. The lack of a majority party in the legislature and the lack of alignment between the legislature and the President could result in deadlock and prevent the timely implementation of economic reforms, which in turn could have a material adverse effect on the Mexican economy and on PEMEX's business.

#### Risks Related to the Notes

*The Notes are subject to restrictions on resales and transfers.*

The Notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes may be offered and sold only (a) to "Qualified Institutional Buyers" (as defined in Rule 144A under the Securities Act) in compliance with Rule 144A; (b) pursuant to offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act; or (c) pursuant to an exemption from registration provided by 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 or any other jurisdiction. For certain restrictions on resale and transfer, see "Subscription and Sale and Transfer Restrictions."

*There is no prior market for the Notes; if one develops, it may not be liquid.*

There is currently no market for the Notes, but application has been made to list the Notes on the Luxembourg Stock Exchange. The Issuer cannot promise that such a market will develop, or, if it does develop, that it will continue to exist. If a market for the Notes were to develop, prevailing interest rates and general market conditions could affect the price of the Notes. This could cause the Notes to trade at prices that may be lower than their principal amount or their initial offering price.

*The Notes do not include a gross-up provision for United States withholding taxes and provide a number of exceptions to the obligations to gross-up for Mexican withholding taxes.*



The Notes are the obligations of the Issuer, a Delaware statutory trust which acts as a financing vehicle for the Guarantor. Payments made by the Issuer under the Notes may be subject to withholding or deductions for current or future U.S. taxes. The Issuer and the Guarantor believe that payments on the Notes are not currently subject to any such U.S. withholding tax or similar deduction. If payments on the Notes were or became subject to U.S. withholding tax, non-U.S. holders of the Notes may be eligible under U.S. federal income tax law or under an applicable income tax treaty for elimination or reduction of the rate of withholding tax, subject to satisfying certain certification or other similar requirements. The Notes do not require the Issuer to compensate holders of the Notes for any such withholding or deduction. As a result, if you are not eligible for a zero rate of withholding tax under U.S. federal income tax law or an applicable tax treaty or if you are not able or willing to comply with applicable certification or similar requirements, you may receive an amount which is less than the amount due and payable on the Notes.

In addition, in the event payments under the Notes are made by the Guarantor or any of the Subsidiary Guarantors, such payments would be subject to withholding or deduction for Mexican taxes. The Notes currently provide that the Issuer or, as the case may be, the Guarantor or the relevant Subsidiary Guarantor, will be required to pay such additional amounts as may be necessary in order to compensate holders of the Notes for any such withholding or deduction, subject to certain conditions. These conditions include, among others, the satisfaction by the holders of certain certification or similar requirements necessary to demonstrate that they are eligible for a reduced rate of Mexican withholding tax. If you are not able or willing to comply with one or more of these requirements or if you otherwise fit into one of the exceptions set out in the Notes to the obligation of the Issuer or the relevant Guarantor to pay such additional amounts, you may receive an amount which is less than the amount due and payable on the Notes. See “Terms and Conditions–Taxation,” below.

### **Use of Proceeds**

The net proceeds from the issuance of the Notes offered hereby are €736,650,000 and will be used by the Issuer to finance PEMEX's investment program.

## Capitalization of Pemex

### Capitalization of PEMEX

The following table sets forth:

- the capitalization at December 31, 2001 of Petróleos Mexicanos, the Subsidiary Entities, the Pemex Project Funding Master Trust and the Subsidiary Companies; and
- the capitalization at November 30, 2002 of Petróleos Mexicanos, the Subsidiary Entities and the Pemex Project Funding Master Trust.

The following capitalization has been calculated in accordance with Mexican GAAP, except that (1) the effects of inflation are recognized in accordance with the guidelines applicable to public sector entities of Mexico established in Financial Reporting Standard NIF-06 BIS "A", Section A, which differs from Mexican GAAP Bulletin B-10 (see notes 2(b) and 15 to the 2001 Financial Statements), and (2) the Subsidiary Companies are excluded from capitalization at November 30, 2002 whereas Mexican GAAP would require their consolidation.

	At December 31, 2001		At November 30, 2002 <sup>(1)(2)(3)</sup>			
	(Including the Subsidiary Companies)		(Excluding the Subsidiary Companies)			
	(millions of nominal pesos or U.S. dollars)					
Long-term external debt.....	Ps.	117,256	Ps.	161,980	\$	15,964
Long-term domestic debt .....		5,914		5,998		591
Total long-term debt <sup>(4)</sup> .....	Ps.	<u>123,170</u>	Ps.	<u>167,978</u>	\$	<u>16,555</u>
Certificates of Contribution "A" <sup>(5)</sup> .....	Ps.	10,222	Ps.	10,222	\$	1,007
Reserve for oil-field exploration and depletion.....		16,279		12,646		1,246
Revaluation surplus .....		181,838		181,061		17,845
Retained earnings (prior years) .....		(51,382)		(81,043)		(7,987)
Income (loss) for the year .....		<u>(34,091)</u>		<u>(10,947)</u>		<u>(1,079)</u>
Total equity .....		<u>122,866</u>		<u>111,939</u>		<u>11,032</u>
Total capitalization.....	Ps.	<u>246,036</u>	Ps.	<u>279,917</u>	\$	<u>27,587</u>

(1) Unaudited.

(2) Includes Petróleos Mexicanos, the Subsidiary Entities and the Issuer, but does not include the Subsidiary Companies.

(3) Convenience conversions into U.S. dollars of amounts in pesos have been made at the established exchange rate for accounting purposes of Ps. 10.1465 = U.S. \$1.00 at November 30, 2002. Such conversions should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollar amounts at the foregoing or any other rate.

(4) Short-term indebtedness, including the short-term indebtedness of the Subsidiary Companies at December 31, 2001 was Ps. 36,246 million. Excluding the Subsidiary Companies, short-term indebtedness of PEMEX at November 30, 2002 was Ps. 38,790 million. See Annex A "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Financing Activities."

(5) Equity instruments held by Mexico.

Sources: PEMEX's Financial Statements. Petróleos Mexicanos for interim preliminary and unaudited information. There has been no material change in the capitalization of Pemex since November 30, 2002.

## Operating and Financial Review and Prospects

### Results of Operations of PEMEX — First Six Months of 2002 Compared to First Six Months of 2001

The following section should be read with the accompanying six month Interim Financial Statements provided in Annex B.

#### Income/(Loss)

During the first six months of 2002, PEMEX reported a loss of Ps. 6.4 billion on Ps. 166.3 billion in total revenues net of the IEPS Tax, as compared with a loss of Ps. 6.0 billion on Ps. 196.4 billion in total revenues net of the IEPS

Tax in the first six months of 2001. This 6.7% increase in losses from the first six months of 2001 to the first six months of 2002 resulted primarily from:

- a decrease in export volumes and a 1.2% reduction in the weighted average price of crude oil sold by PMI for export, from U.S. \$19.63 in the first six months of 2001 to U.S. \$19.40 in the first six months of 2002;
- an increase in the labor reserve for pension obligations, due to higher wages and benefits paid to employees;
- an increase in depreciation and amortization charges; and
- an increase in net interest expense, from Ps. 5.5 billion in the first six months of 2001 to Ps. 7.5 billion in the first six months of 2002.

PEMEX's total sales, net of the IEPS Tax, were Ps. 162.5 billion in the first six months of 2002, a decrease of 13.2% from total sales, net of the IEPS Tax, of Ps. 187.2 billion in the first six months of 2001. The decrease in total sales from the first six months of 2001 to the first six months of 2002 resulted primarily from a decrease in the prices of the principal petroleum products that PEMEX sold in the domestic market.

#### *Export Sales*

In the first six months of 2002, total consolidated export sales increased by 8.5% in peso terms (with dollar-denominated export revenues converted to pesos at the exchange rate for the date on which the export sale was made), from Ps. 71.0 billion in the first six months of 2001 to Ps. 77.0 billion in the first six months of 2002. Excluding the trading activities of the PMI Group, export sales by the subsidiary entities to the PMI Group and third parties decreased by 6.0% in peso terms, from Ps. 64.6 billion in the first six months of 2001 to Ps. 60.7 billion in the first six months of 2002, and increased as a percentage of total sales, net of the IEPS Tax, from 35.7% in the first six months of 2001 to 41.5% in the first six months of 2002. In dollar terms, excluding the trading activities of the PMI Group, export sales (which are dollar-denominated) decreased by 4.4 % in the first six months of 2002, from U.S. \$6.8 billion in the first six months of 2001 to U.S. \$6.5 billion in the first six months of 2002. The trading and export activities of the PMI Group generated additional marginal revenues of Ps. 16.3 billion in the first six months of 2002, 154.9% higher in real peso terms than in the first six months of 2001, mainly due to an increase in trading activity of petroleum products.

Crude oil sales by Pemex-Exploration and Production to PMI for export accounted for 90.7% of export sales (excluding the trading activities of the PMI Group) in the first six months of 2002, as compared to 91.3% in the first six months of 2001. These crude oil sales decreased in peso terms by 6.6% in the first six months of 2002, from Ps. 59.0 billion in the first six months of 2001 to Ps. 55.1 billion in the first six months of 2002, and decreased in dollar terms by 4.8% in the first six months of 2002, from U.S. \$6.2 billion in the first six months of 2001 to U.S. \$5.9 billion in the first six months of 2002. This decrease was due to a diminution in the volumes of crude oil sold, from 1,736 thousand barrels per day in the first six months of 2001 to 1,638 thousand barrels per day in the first six months of 2002, and a decrease of 1.2% in the weighted average price of crude oil. The weighted average price per barrel of crude oil that Pemex-Exploration and Production sold to PMI for export in the first six months of 2002 was U.S. \$19.40, 1.2% lower than the weighted average price of U.S. \$19.63 in the first six months of 2001.

Export sales of petroleum products by Pemex-Refining and Pemex-Gas and Basic Petrochemicals to the PMI Group and third parties, including natural gas liquids, increased from 7.8% of export sales (excluding the trading activities of the PMI Group) in the first six months of 2001 to 8.1% in the first six months of 2002. Export sales of petroleum products, including natural gas liquids, decreased by 2.0%, from Ps. 5.0 billion in the first six months of 2001 to Ps. 4.9 billion in the first six months of 2002, due to lower export volumes of gasoline, natural gas, liquefied petroleum gas and naphtha. In dollar terms, export sales of petroleum products, including natural gas liquids, decreased by 1.1%, from U.S. \$532.8 million in the first six months of 2001 to U.S. \$527.1 million in the first six months of 2002.

Petrochemical products accounted for the remainder of export sales in the first six months of 2001 and the first six months of 2002. Export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 13.9%, from Ps. 603.6 million in the first six months of 2001 to Ps. 687.3 million in the first six months of 2002, due to increases in exports of ammonia (a methane derivative) and polyethylenes (an ethane derivative). In dollar terms, export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 5.9% in the first six months of 2002, from U.S. \$69.9 million in the first six months of 2001 to U.S. \$74.0 million in the first six months of 2002.

#### *Domestic Sales*

Domestic sales, net of the IEPS Tax, decreased by 26.4% in the first six months of 2002, from Ps. 116.1 billion in the first six months of 2001 to Ps. 85.4 billion in the first six months of 2002. Domestic sales of petroleum products other than natural gas decreased by 26.6%, from Ps. 94.1 billion in the first six months of 2001 to Ps. 69.1 billion in the first six months of 2002, primarily due to a fall in the domestic prices of PEMEX's principal petroleum products, including gasoline, diesel and jet fuel, and a decrease in domestic demand for fuel oil. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) decreased by 29.4%, from Ps. 5.1 billion in the first six months of 2001 to Ps. 3.6 billion in the first six months of 2002, due to a decrease in prices and domestic market demand for the principal petrochemical products. Sales of natural gas decreased by 24.7%, from Ps. 17.0 billion in the first six months of 2001 to Ps. 12.8 billion in the first six months of 2002, as a result of a decrease in sales prices.

#### *Other Revenues*

Other revenues and exchange gains (losses) decreased by 58.7%, from Ps. 9.2 billion in the first six months of 2001 to Ps. 3.8 billion in the first six months of 2002, primarily due to a decrease in exchange gains. PEMEX recorded exchange losses of Ps. 1.4 billion in the first six months of 2002, as compared to exchange gains of Ps. 4.7 billion in the first six months of 2001, primarily due to the effects of fluctuations in the peso/dollar exchange rate on PEMEX's dollar-denominated indebtedness.

#### *Costs and Operating Expenses; Other Income and Expenses*

Costs and operating expenses, which include costs of sales, transportation and distribution expenses and administrative expenses, decreased by 1.5%, from Ps. 94.4 billion in the first six months of 2001 to Ps. 93.0 billion in the first six months of 2002. This decrease was due to a reduction in import purchases and in the gains resulting from the fluctuation of product inventory, which was partially offset by an increase in the labor reserve for pension obligations, depreciation and amortization and other costs and expenses. Costs related to the labor reserve for pension obligations increased by 10.1%, from Ps. 16.9 billion in the first six months of 2001 to Ps. 18.6 billion in the first six months of 2002. Other expenses decreased by 27.3%, from Ps. 2.2 billion in the first six months of 2001 to Ps. 1.6 billion in the first six months of 2002, primarily due to a decrease in natural gas hedging operations.

#### *Duties and Taxes*

Hydrocarbon extraction duties and other duties and taxes (including the IEPS Tax) decreased by 5.8%, from Ps. 138.8 billion in the first six months of 2001 to Ps. 130.8 billion in the first six months of 2002, largely because of the decrease in international crude oil prices in the first six months of 2002 and the resulting decrease in sales revenue. PEMEX paid Ps. 4.3 billion in excess gains duties in the first six months of 2002, representing 39.2% of the amount of sales revenue that PEMEX derived from the difference between actual crude oil prices at which Pemex-Exploration and Production sold to PMI, which averaged U.S. \$19.40 per barrel for the Mexican weighted crude oil mix, and the Mexican Government's crude oil price budgetary assumption of U.S. \$15.50 per barrel. PEMEX paid Ps. 1.9 billion in excess gains duties in the first six months of 2001.

#### *Interest, net*

Net interest expense increased by 36.4%, from Ps. 5.5 billion in the first six months of 2001 to Ps. 7.5 billion in the first six months of 2002. This increase was mainly due to the recognition of the current period loss resulting from the application of Bulletin C-2, the new financial instrument standard, and an increase in the financial expenses of non-capitalized interest incurred as a result of PIDIREGAS completed in 2002.

### *Cumulative Effect of Adoption of New Financial Instruments Standard*

In 2001, PEMEX adopted Bulletin C-2, which resulted in a loss of Ps. 1.3 billion, primarily attributable to the accounting for the Repsol equity swap, as described in Notes 2 o) and 10(vi) to the 2001 Financial Statements in Annex A.

### **U.S. GAAP Reconciliation**

Operating results under U.S. GAAP differ from operating results under Mexican GAAP due to several factors. The most important of these factors are differences in methods of accounting for exploration and drilling costs, pension and post-retirement obligations, financial instruments and fixed asset adjustments relating to inflation accounting, foreign exchange losses, capitalized interest, depreciation and impairment. For further information regarding these and other differences between Mexican and U.S. GAAP as they relate to PEMEX's operating results, see Annex A "Item 5—Operating and Financial Review and Prospects—U.S. GAAP Reconciliation", Note 19 to the 2001 Financial Statements in Annex A and Note 12 to the Interim Financial Statements in Annex B.

### *Income and Equity under U.S. GAAP*

For the first six months of 2002, PEMEX's loss under U.S. GAAP was approximately Ps. 4.8 billion, representing a Ps. 1.6 billion decrease from the loss recorded under Mexican GAAP. For the six months ended June 30, 2001, PEMEX's loss under U.S. GAAP was approximately Ps. 1.5 billion, representing a Ps. 4.5 billion decrease from the loss recorded under Mexican GAAP. For further information regarding the adjustments related to these amounts, see Note 19 to the 2001 Financial Statements in Annex A and Note 12 to the Interim Financial Statements in Annex B.

PEMEX's equity (deficit) under U.S. GAAP was approximately Ps. (51.9) billion at June 30, 2002 as compared to Ps. (42.3) billion at December 31, 2001. For further information regarding the adjustments related to these amounts, see Note 19 to the 2001 Financial Statements in Annex A and Note 12 to the Interim Financial Statements in Annex B.

### **Recent Developments**

*The following discussion of PEMEX's recent results should be read in conjunction with Annex A "Item 5—Operating and Financial Review and Prospects," the 2001 Financial Statements and the unaudited Interim Financial Statements in Annex B.*

## Results of Operations of Petróleos Mexicanos and the Subsidiary Entities – First Eleven Months of 2002 Compared to First Eleven Months of 2001

The interim financial information set forth below has been derived from the unaudited summary consolidated financial statements of the Guarantor, the Subsidiary Entities and the Issuer for the eleven-month periods ended November 30, 2001 and 2002. The selected financial data were prepared in accordance with Mexican GAAP, except that (1) the effects of inflation are recognized in accordance with NIF-06 BIS “A”, Section A, which differs from Mexican GAAP Bulletin B-10 (for further discussion see Notes 2(b) and 15 to the 2001 Financial Statements in Annex A), and (2) the accounts of the Subsidiary Companies are not consolidated as would be required under Mexican GAAP.

	Eleven months ended November 30,		
	2001 <sup>(1)</sup>	2002 <sup>(1)(2)</sup>	
	(millions of nominal pesos or U.S. dollars)		
Net Sales			
Domestic <sup>(3)</sup> .....	Ps. 279,291	Ps. 283,674	\$ 27,958
Export .....	112,784	125,819	12,400
Total .....	392,075	409,493	40,358
Other Revenues <sup>(4)</sup> .....	11,166	8,011	790
Total Revenues <sup>(3)</sup> .....	403,241	417,504	41,148
Costs and Operating Expenses .....	165,651	150,126	14,796
Operating Income .....	237,590	267,378	26,352
Interest, net .....	9,498	11,902	1,173
Other expenses .....	5,342	4,149	409
Income before taxes and duties .....	222,750	251,327	24,770
Taxes and Duties			
Hydrocarbon extraction duties and other .....	160,233	157,485	15,521
Special tax on production and services (IEPS Tax) .....	83,813	104,789	10,328
Total .....	244,046	262,274	25,849
Cumulative effect of adoption of new financial instruments standard <sup>(5)</sup> .....	(1,331)	—	—
Net loss for the period .....	Ps. (22,627)	Ps. (10,947)	\$ (1,079)

(1) Unaudited.

(2) Convenience conversions into U.S. dollars of amounts in pesos have been made at the established exchange rate for accounting purposes of Ps. 10.1465 = U.S. \$1.00 at November 30, 2002. Such conversions should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at the foregoing or any other rate.

(3) Includes the IEPS Tax, which is described below, as part of the sales price of products sold.

(4) Includes exchange rate gains in the amount of Ps. 3,395 million and Ps. 718 million in the first eleven months of 2001 and 2002, respectively.

(5) As described in Annex A “Item 5—Operating and Financial Review and Prospects—U.S. GAAP Reconciliation—Recently Issued Accounting Standards,” requirements of the new Mexican accounting Bulletin C-2, *Financial Instruments*, went into effect on January 1, 2001. The bulletin establishes the basic rules to be observed by the issuers of, and the investors in, financial instruments when valuing, presenting and disclosing these instruments in financial information. This bulletin also establishes the rules and conditions that must be met to offset financial assets and liabilities and requires that financial instruments and derivatives be valued at their fair value, except those classified as “held to maturity,” which are to be presented at cost.

Source: *Petróleos Mexicanos*.

### Income (Loss)

During the first eleven months of 2002, the net loss of Petróleos Mexicanos, the Subsidiary Entities and the Pemex Project Funding Master Trust amounted to Ps. 10,947 million as compared with net loss during the first eleven months of 2001 of Ps. 22,627 million. This decrease in loss was due primarily to an increase in the average price of crude oil exports, a decrease in costs and operating expenses and the cumulative effect of the adoption of Mexican Accounting Bulletin C-2, *Financial Instruments* in 2001. During this period, operating income before taxes and duties increased 12.8% from Ps. 222,750 million on total sales revenues (net of the IEPS Tax) of Ps. 308,262 million during the first eleven months of 2001, to Ps. 251,327 million on total sales revenues (net of the IEPS Tax) of

Ps. 304,704 million during the first eleven months of 2002. For the first eleven months of 2002, total sales revenues (net of the IEPS Tax) decreased by 1.2% as compared to the first eleven months of 2001, primarily as a result of a decrease in the average price of principal trading products (including natural gas, gasoline, liquefied petroleum gas, diesel and jet fuel) in the domestic market.

#### *Export Sales*

Export sales by the Subsidiary Entities to the PMI Group and third parties increased by 11.6 % in peso terms (with dollar-denominated export revenues converted to pesos at the exchange rate on the date on which the export sale was made), from Ps. 112,784 million in the first eleven months of 2001 to Ps. 125,819 million in the first eleven months of 2002. For information on peso/dollar exchange rates, see “United Mexican States—Exchange Controls and Foreign Exchange Rates” below. The increase in export sales was attributable mainly to an increase in the average price of crude oil exports. Export sales increased as a percentage of total net sales (net of the IEPS Tax) from 36.6% in the first eleven months of 2001 to 41.3% in the first eleven months of 2002. Crude oil exports accounted for 91.1% of export sales, refined products accounted for 8.1% of export sales and natural gas and petrochemical products accounted for the remainder of export sales in the first eleven months of 2002.

#### *Domestic Sales*

Domestic sales (net of the IEPS Tax) decreased by 8.5%, from Ps. 195,478 million in the first eleven months of 2001 to Ps. 178,885 million in the first eleven months of 2002. Domestic sales of refined products (other than natural gas) decreased by 9.5% from Ps. 159,768 million in the first eleven months of 2001 to Ps. 144,535 million in the first eleven months of 2002 primarily due to decreases in sales prices of refined products (including gasoline, diesel and jet fuel) and a decrease in the demand for fuel oil. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) decreased by 12.0% from Ps. 8,611 million in the first eleven months of 2001 to Ps. 7,575 million in the first eleven months of 2002, primarily as a result of a decrease in the price of and demand for petrochemical products. Sales of natural gas decreased by 1.2 %, from Ps. 27,099 million in the first eleven months of 2001 to Ps. 26,775 million in the first eleven months of 2002, due to a decrease in sales prices.

#### *Costs and Operating Expenses; Other Income and Expenses*

Costs and operating expenses decreased by 9.4%, from Ps. 165,651 million in the first eleven months of 2001 to Ps. 150,126 million in the first eleven months of 2002. Costs and operating expenses as a percentage of total sales (net of the IEPS Tax) decreased from 53.7% in the first eleven months of 2001 to 49.3% in the first eleven months of 2002. This decrease was due to a decrease in imports of products and a decrease in the value of product inventory, which was partially offset by an increase in depreciation and amortization, costs related to labor reserves for pension obligations and increases in salaries and wages. Other revenues decreased from Ps. 11,166 million in the first eleven months of 2001 to Ps. 8,011 million in the first eleven months of 2002, primarily due to a decrease in foreign exchange rates. Interest, net, increased from Ps. 9,498 million in the first eleven months of 2001 to Ps. 11,902 million in the first eleven months of 2002, primarily due to an increase in 2002 in the financial expense of non-capitalized interest incurred in relation to PIDIREGAS projects that were completed in 2002. Other expenses decreased by 22.3% from Ps. 5,342 million in the first eleven months of 2001 to Ps. 4,149 million in the same period of 2002.

#### *Cumulative Effect of Adoption of New Financial Instruments Standard*

In 2001, PEMEX adopted Bulletin C-2, “Financial Instruments,” issued by the Mexican Institute of Public Accountants, for Mexican GAAP purposes, which resulted in a loss of Ps. 1,331 million primarily attributable to the accounting for the Repsol equity swap as described in Note 2 o) to the 2001 Financial Statements included in Annex A.



## **Change in Accounting Policy**

In January 2003, the Ministry of Finance and Public Credit informed PEMEX that, for the fiscal year ended December 31, 2003, PEMEX will recognize the effects of inflation in accordance with NIF 06 BIS "A" section C, which establishes the obligation for PEMEX to adopt Bulletin B-10, "Recognition of the Effects of Inflation on Financial Information." Among other things, Bulletin B-10 requires restatement of all comparative financial statements to constant Mexican pesos of the date of the most recent balance sheet presented. PEMEX is currently evaluating the impact that the adoption of Bulletin B-10 will have on its consolidated financial statements. This adoption will not impact PEMEX's financial statements for the fiscal year ended December 31, 2002, because this NIF is effective for PEMEX beginning fiscal year 2003.

## **Liquidity and Capital Resources**

### *Recent Financing Activities*

During the period from October 1, 2002 to December 31, 2002, Petróleos Mexicanos obtained direct credits in the amount of U.S. \$250 million to finance the working capital requirements of PEMEX, and the Pemex Project Funding Master Trust obtained U.S. \$2.0 billion in commercial bank loans for use in financing PIDIREGAS. In addition, Petróleos Mexicanos and the Pemex Project Funding Master Trust participated in the following financings:

- Petróleos Mexicanos obtained loans from export credit agencies totaling U.S. \$33 million;
- Petróleos Mexicanos obtained foreign trade financing in the amount of U.S. \$100 million;
- Petróleos Mexicanos obtained U.S. \$785 million through bankers' acceptances;
- the Pemex Project Funding Master Trust obtained loans from export credit agencies totaling U.S. \$293 million;
- On December 3, 2002, the Pemex Project Funding Master Trust increased its Medium-Term Note program, Series A, from U.S. \$6,000,000,000 to U.S. \$11,000,000,000;
- On December 5, 2002, the Pemex Project Funding Master Trust issued JP¥30,000,000,000 (approximately U.S. \$241 million) of 3.50% Notes due 2023, guaranteed by Petróleos Mexicanos, under the Master Trust's Medium-Term Note program, Series A;
- On December 12, 2002, the Pemex Project Funding Master Trust issued U.S. \$1,000,000,000 of 7.375% Global Notes due 2014, guaranteed by Petróleos Mexicanos, under the Master Trust's Medium-Term Note program, Series A;
- On January 27, 2003, the Pemex Project Funding Master Trust issued £250,000,000 of 7.50% Notes due 2013, guaranteed by Petróleos Mexicanos, under the Master Trust's Medium-Term Note program, Series A;
- On February 6, 2003, the Pemex Project Funding Master Trust issued U.S. \$750,000,000 of its 6.125% Notes due 2008, guaranteed by Petróleos Mexicanos, under the Master Trust's Medium-Term Note program, Series A; and
- On March 21, 2003, the Pemex Project Funding Master Trust issued U.S. \$500,000,000 of its 8.625% Bonds due 2022, guaranteed by Petróleos Mexicanos, under the Master Trust's Medium-Term Note program, Series A.

## Business Overview

Set forth below is selected summary operating data relating to PEMEX.

	<u>Eleven months ended November 30,</u>	
	<u>2001</u>	<u>2002</u>
<b>Operating Highlights</b>		
<i>Monthly average production</i>		
Crude oil (tbpd).....	3,113	3,169
Natural gas production (mmcfpd) .....	4,513	4,422
Refined products <sup>(1)</sup> (tbpd) .....	1,305	1,285
Petrochemicals <sup>(2)</sup> (mtpy) .....	9,418	9,040
<i>Monthly average crude oil exports (tbpd)</i>		
Olmecca.....	314	251
Isthmus.....	84	47
Maya <sup>(4)</sup> .....	<u>1,314</u>	<u>1,364</u>
Total.....	1,713	1,662
<i>Monthly average crude oil exports (value in millions of U.S. dollars) .....</i>		
	10,840	11,790
<i>Monthly average PEMEX crude oil export prices per barrel<sup>(3)(5)</sup></i>		
Olmecca.....	\$24.34	\$24.56
Isthmus.....	22.61	23.22
Maya.....	17.49	20.57
Weighted average price <sup>(6)</sup> .....	\$18.95	\$21.24
<i>Monthly average West Texas Intermediate crude oil average price per barrel<sup>(7)</sup> .....</i>		
	\$26.48	\$25.86

Notes: Numbers may not total due to rounding.

tbpd = thousands of barrels per day; mmcfpd = millions of cubic feet per day; mtpy = thousands of tons per year

(1) Includes natural gas liquids.

(2) Excludes ethane and butane gases.

(3) Subject to adjustment to reflect the percentage of water in each shipment.

(4) Includes Altamira crude oil, which is recorded as a separate category for annual, but not interim, sales.

(5) Average price during period indicated.

(6) On March 26, 2003, the weighted average price of PEMEX's crude oil export mix was U.S. \$21.17 per barrel.

(7) On March 26, 2003, the WTI crude oil spot price was U.S. \$28.67 per barrel.

## Export Agreements

Although Mexico is not a member of the Organization of Petroleum Exporting Countries ("OPEC"), since 1998 it has entered into agreements with OPEC and non-OPEC members to reduce its oil exports in order to stabilize international oil prices.

On January 13, 2003, the Ministry of Energy of Mexico announced that, beginning on February 1, 2003, Mexico would increase its oil exports by 120,000 barrels per day, to 1.88 million barrels per day. Mexico agreed to increase its oil exports in conjunction with production increases by other oil producing countries in order to stabilize oil prices, which had increased significantly in recent weeks.

## Exploration and Production

### Reserves

Mexico's total proved developed and undeveloped reserves of crude oil and condensates decreased by 7.0% in 2002, from 20.1 billion barrels of oil equivalent at December 31, 2001 to 18.8 billion barrels of oil equivalent at December 31, 2002. Mexico's dry gas reserves decreased by 6.4% in 2002, from 17.4 trillion cubic feet at December 31, 1999 to 16.3 trillion cubic feet at December 31, 2002.

The following two tables of crude oil and dry gas reserves set forth our estimates of Mexico's proved reserves determined in accordance with Rule 4-10(a) of Regulation S-X of the Securities Act of 1933.

**Crude Oil and Condensate Reserves  
(including natural gas liquids)<sup>(1)</sup>**

	1999	2000	2001	2002
<b>Proved developed and undeveloped reserves</b>	<b>(in millions of barrels)</b>			
At January 1 .....	21,638	21,519	20,186	18,767
Revisions .....	775	(180)	(144)	(247)
Extensions and discoveries <sup>(2)</sup> .....	311	91	2	(36)
Production .....	(1,205)	(1,244)	(1,277)	(1,288)
At December 31 .....	21,519	20,186	18,767	17,196
<b>Proved developed reserves at December 31 .....</b>	<b>11,414</b>	<b>12,312</b>	<b>12,622</b>	<b>11,725</b>

Note: Numbers may not total due to rounding.

(1) Crude oil and condensate reserves include the fraction of liquefiable hydrocarbons recoverable in natural gas processing plants.

(2) Extensions include positive and negative changes due to new data gathered through drilling of extension wells.

Source: Pemex-Exploration and Production

**Dry Gas Reserves**

	1999	2000	2001	2002
<b>Proved developed and undeveloped reserves</b>	<b>(in billions of cubic feet)</b>			
At January 1 .....	17,054	18,471	17,365	16,256
Revisions .....	2,427	3	(78)	(442)
Extensions and discoveries <sup>(1)</sup> .....	176	58	98	313
Production <sup>(2)</sup> .....	(1,186)	(1,167)	(1,129)	(1,141)
At December 31 .....	18,471	17,365	16,256	14,986
<b>Proved developed reserves at December 31 .....</b>	<b>11,127</b>	<b>9,713</b>	<b>8,776</b>	<b>8,572</b>

Note: Numbers may not total due to rounding.

(1) Extensions include positive and negative changes due to new data gathered through drilling of extension wells.

(2) Natural gas production reported in other tables refers to wet, sour gas. There is a shrinkage in volume when natural gas liquids and impurities are extracted to obtain dry gas. Therefore, reported natural gas volumes are greater than dry gas volumes.

Source: Pemex-Exploration and Production

**Petrochemicals**

*Private Sector Participation in Petrochemicals Sector*

On August 28, 2002, the board of directors of Petróleos Mexicanos approved the merger of the seven subsidiaries of Pemex-Petrochemicals into Pemex-Petrochemicals. The merger is subject to the review of the Secretary of Energy of Mexico and the fulfillment of other legal requirements.

## Legal Proceedings

### *U.S. Anti-dumping Dispute*

On December 17, 2002, the U.S. Court of International Trade upheld the U.S. Department of Commerce's decision not to initiate antidumping and countervailing duty investigations on crude oil from Mexico, Saudi Arabia and Iraq and dismissed the complaint filed by Save Domestic Oil, Inc., a group of independent oil producers in the United States. The petitioners decided to appeal the December 17 decision affirming the Department of Commerce's decision not to initiate the AD/CVD case against imported oil. The case was docketed at the Federal Circuit on February 25, 2003. Petróleos Mexicanos has filed a notice of appearance with the Federal Circuit. Under the Federal Circuit rules the petitioner's opening brief will be due on April 24, 2003.

## Directors, Senior Management and Employees

On February 3, 2003, Juan Bueno Torio replaced Armando Leal Santa Ana as the Director General of Pemex-Refining. On March 6, 2003, Carlos de la Garza Mijares replaced Julio Camelo as Acting Corporate Director of Administration of Petróleos Mexicanos.

## Capital Expenditures and Investments

The following table sets forth PEMEX's approved capital expenditures (excluding PIDIREGAS) budget for 2003.

### Non-PIDIREGAS Capital Expenditures<sup>(1)</sup>

	<b>Budget 2003</b>	
	<b>(millions of pesos)</b>	
Pemex-Exploration and Production.....	Ps.	22,561
Pemex-Refining .....		8,319
Pemex-Gas and Basic Petrochemicals.....		2,941
Pemex-Petrochemicals .....		1,614
Petróleos Mexicanos corporate <sup>(2)</sup> .....		542
Total .....	Ps.	35,978
Amortization of PIDIREGAS included in total.....	Ps.	16,632
Net Non PIDIREGAS Capital Expenditures .....	Ps.	19,346

Note: Numbers may not total due to rounding.

(1) There are no capital expenditures at the subsidiary company level.

(2) Petróleos Mexicanos corporate consists of the operations of the central management of Petróleos Mexicanos.

Source: *Petróleos Mexicanos*.

The following table sets forth PEMEX's approved capital expenditures budget for PIDIREGAS for 2003 through 2006.

### PIDIREGAS Approved Budget Capital Expenditures

	Year ended December 31, <sup>(1) (2)</sup>			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(millions of constant 2003 pesos)			
<b>Pemex-Exploration and Production</b>				
Cantarell .....	Ps. 25,882	Ps. 19,274	Ps. 11,505	Ps. 9,837
Strategic Gas Program .....	23,369	20,626	21,722	7,156
Burgos .....	9,180	19,498	16,089	17,201
Antonio J. Bermúdez .....	3,946	4,095	4,478	4,314
Ku-Maloob-Zaap .....	3,799	9,707	13,978	13,084
Abkatún Integral .....	2,334	1,936	1,287	1,222
Chuc .....	2,332	1,551	1,843	1,557
Cactus-Sitio Grande .....	1,836	1,577	1,058	881
Pol .....	1,696	1,682	1,327	1,448
Bellota-Chinchorro .....	1,673	1,959	1,142	1,092
Jujo-Tecominoacán .....	1,652	1,649	933	568
Caan .....	1,528	1,391	931	887
El Golpe-Puerto Ceiba .....	1,285	287	240	166
Agua Fria-Coapechaca-Tajín <sup>(3)</sup> .....	1,169	1,593	503	114
Taratunich .....	904	340	288	250
Ek-Balam .....	878	615	479	405
Amatitlán-Profeta-Tzapotempa-Vinazco <sup>(3)</sup> ..	872	1,504	642	309
Carmito-Artesa .....	871	857	566	561
Delta del Grijalva .....	755	316	244	203
Arenque .....	656	800	734	695
Cárdenas .....	593	570	163	236
Och-Uech-Kax .....	520	102	72	117
Integral Batab .....	433	292	87	64
Integral Poza Rica .....	385	315	332	353
Integral Kaanab .....	231	8	6	40
Ayín-Alux .....	179	703	1,928	1,269
Integral Yaxche .....	12	447	381	254
Total .....	88,968	93,695	82,957	64,282
<b>Pemex-Refining</b>				
Madero .....	816	—	—	—
Salamanca .....	—	—	—	—
Tula .....	—	—	—	—
Minatitlán .....	1,442	5,867	6,267	2,362
Salina Cruz .....	—	2,274	9,064	3,817
Total .....	2,258	8,141	15,331	6,179
<b>Pemex-Gas and Basic Petrochemicals</b>				
Modular Cryogenic Plants in Reynosa .....	1,460	86	—	—
Total .....	1,460	86	—	—
<b>Total PIDIREGAS Budget .....</b>	<b>Ps. 92,685</b>	<b>Ps.101,922</b>	<b>Ps. 98,288</b>	<b>Ps. 70,462</b>

Note: Numbers may not total due to rounding.

(1) Amounts based on cash basis method of accounting.

(2) Includes capitalized interest.

(3) PIDIREGAS relating to the development of the Chicontepec field.

Source: *Petróleos Mexicanos*.

## **United Mexican States**

### **The Economy**

#### *Gross Domestic Product*

According to preliminary figures, during 2002, Gross Domestic Product (“GDP”) increased by 0.9% in real terms, as compared with 2001. The financial services, insurance and real estate sector grew by 4.4%, the electricity, gas and water sector grew by 3.8%, and the transportation, storage and communications sector grew by 2.2%, each in real terms. The construction sector grew by 1.7%, and the community, social and personal services sector grew by 1.3%, each in real terms. The mining, petroleum and gas sector decreased by 0.3%, the agriculture, livestock, fishing and forestry sector and the commerce, hotels and restaurants sector each decreased by 0.4%, and the manufacturing sector decreased by 0.6%, each in real terms.

#### *Prices and Wages*

Inflation during 2002 was 5.70%, as compared to 4.40% during 2001. Inflation during the first two months of 2003 was 0.68%, 0.18% lower than during the same period of 2002.

#### *Interest Rates*

During 2002, interest rates on 28-day *Cetes* averaged 7.08% and interest rates on 91-day *Cetes* averaged 7.44%, as compared with average rates on 28-day and 91-day *Cetes* of 11.30% and 12.24%, respectively, during 2001. During the first two months of 2003, interest rates on 28-day *Cetes* averaged 8.66% and interest rates on 91-day *Cetes* averaged 8.77%, as compared with average rates on 28-day and 91-day *Cetes* of 7.39% and 7.71%, respectively, during the same period of 2002. On March 18, 2003, the 28-day *Cetes* rate was 8.96% and the 91-day *Cetes* rate was 8.82%.

### **Financial System**

#### *Central Bank and Monetary Policy*

At March 14, 2003, the monetary base totaled Ps. 241.23 billion, as compared to Ps. 263.94 billion at December 31, 2002.

Banco de México utilizes the “short” mechanism as its principal monetary policy instrument. Banco de México increased the “short” on December 6, 2002, from Ps. 400 million to Ps. 475 million, and on January 10, 2003, Banco de México increased the “short” to Ps. 550 million. On February 7, 2003, Banco de México further increased the “short” to Ps. 625 million. These increases in the “short” were made in response to internal and external factors that could have threatened the achievement of the inflation target for 2003.

#### *The Securities Market*

At December 31, 2002, the Stock Market Index stood at 6,127.09 points, representing a 3.9% decrease in nominal peso terms and a 9.0% decrease in real peso terms from the level at December 31, 2001. At January 31, 2003, the Stock Market Index stood at 5,954.35 points, representing a 2.8% decrease in nominal peso terms and a 3.2% decrease in real peso terms from the level at December 31, 2002.

### **External Sector of the Economy**

#### *Foreign Trade*

During 2002, Mexico registered a trade deficit of U.S. \$7,996.8 million, as compared with a trade deficit of U.S. \$9,953.6 million for 2001. Merchandise exports increased by 1.4% during 2002, to U.S. \$160,682.0 million, as compared with U.S. \$158,442.9 million in 2001. During 2002, petroleum exports increased by 13.1% and non-petroleum exports increased by 0.4%, each as compared with 2001. Exports of manufactured goods, which represented 88.4% of total merchandise exports, increased by 0.4% during 2002 as compared with 2001.

Total imports were U.S. \$168,678.9 million during 2002, a 0.2% increase as compared to 2001. Imports of intermediate goods increased by 0.3%, imports of capital goods decreased by 6.7% and imports of consumer goods increased by 7.2% during 2002, each as compared with 2001.

During January 2003, Mexico registered a trade deficit of U.S. \$263.3 million, as compared to a trade deficit of U.S. \$667.4 million for January 2002. Merchandise exports increased by 8.6% during the first month of 2003, to U.S. \$12,482 million, as compared to U.S. \$11,491.8 million in the same period of 2002. During the first month of 2003, petroleum exports increased by 113.0% as compared with the first month of 2002, while non-petroleum exports increased by 0.6% in January 2003 as compared to January 2002. Exports of manufactured goods, which represented 82.4% of total merchandise exports, increased by 0.2% during the first month of 2003, as compared to the first month of 2002.

Total imports were U.S. \$12,745.3 million during January 2003, a 4.8% increase as compared to January 2002. Imports of intermediate goods increased by 4.2%, imports of capital goods decreased by 4.9% and imports of consumer goods increased by 20.6% during the first month of 2003, each as compared to the first month of 2002.

#### *Balance of International Payments*

According to preliminary figures, during 2002, Mexico's current account registered a deficit of 2.2% of GDP or U.S. \$14,058 million. The capital account surplus for the same period totaled U.S. \$20,377 million. During 2002, net foreign investment totaled U.S. \$12,496 million, and was comprised of direct foreign investment totaling U.S. \$13,627 million and net portfolio investment (including securities placed abroad) outflows totaling U.S. \$1,131 million.

At December 31, 2002, Mexico's international reserves totaled U.S. \$47,984 million, as compared to U.S. \$40,880 million at December 31, 2001. The net international assets of Banco de México totaled U.S. \$50,722 million at December 31, 2002, as compared to U.S. \$44,857 million at December 31, 2001. At March 14, 2003, Mexico's international reserves totaled U.S. \$50,810 million, an increase of U.S. \$2,826 million from the level at December 31, 2002. The net international assets of Banco de México totaled U.S. \$53,402 million at March 14, 2003, reflecting an increase of U.S. \$2,680 million from the level at December 31, 2002.

#### *Exchange Controls and Foreign Exchange Rates*

During 2002, the average peso/U.S. dollar exchange rate was Ps. 9.6560 = U.S. \$1.00. The peso/U.S. dollar exchange rate established by Banco de México on March 18, 2003 (to take effect on the second business day thereafter) was Ps. 10.8147 = U.S. \$1.00.

### **Public Finance**

#### *2002 Budget*

On December 12, 2002, Congress approved the dissolution and liquidation of Banco Nacional de Crédito Rural, S.N.C., a governmental development bank, which will create an estimated extraordinary expenditure of Ps. 48.9 billion. This expenditure will be offset by an estimated Ps. 11 billion to be gained from an amendment to the Retirement Systems Savings Law approved by Congress on December 15, 2002, which will allow the Government to use a portion of workers' unclaimed retirement funds for this purpose. The Government will be contingently liable to return these funds, with interest, if and when claimed by the workers entitled to them.

#### *2003 Budget and Fiscal Package*

On December 14, 2002, Congress approved the Federal Annual Revenue Law for 2003 and on December 15, 2002, Congress approved the Federal Expenditure Decree for 2003 (as approved, together with the Federal Annual Revenue Law for 2003 as approved, the "2003 Budget"). The 2003 Budget maintains fiscal discipline as the cornerstone of the economic program, and contemplates a public sector deficit of 0.50% of GDP for 2003.

The 2003 Budget is based upon an estimated weighted average price of Mexico's oil exports of U.S. \$18.35 per barrel and an estimated volume of oil exports of 1.86 million barrels per day. The budget as originally proposed to

Congress was based upon an estimated weighted average price of Mexico's oil exports of U.S. \$17.00 per barrel. Congress' upward revision resulted in Ps. 24.7 billion of additional revenues with respect to the original proposal.

The 2003 Budget includes the following tax measures, among others:

- continuation of a gradual reduction in income tax rates, introduced at the end of 2001;
- new tax deductions for individuals and immediate deduction of investment expenditures outside of the metropolitan areas of Mexico City, Guadalajara and Monterrey; and
- elimination of the luxury goods tax.

The results for 2001 and 2002, the revised budget assumptions and targets for 2002 and the budget assumptions and targets for 2003 are set forth below.

**2001 and 2002 Results;  
2002 Revised Budget Assumptions and Targets;  
2003 Budget Assumptions and Targets**

	<u>2001 Results</u>	<u>2002 Revised Budget</u>	<u>2002 Results</u>	<u>2003 Budget</u>
Real GDP growth (%) .....	(0.3) <sup>(1)</sup>	1.7	0.9 <sup>(1)</sup>	3.0
Increase in the national consumer price index (%).....	4.4	4.5	5.7 <sup>(1)</sup>	3.0
Average export price of Mexican oil mix (U.S.\$/barrel) .....	18.57	15.50	21.54	18.35
Current account deficit as % of GDP .....	2.9 <sup>(1)</sup>	3.4	2.2 <sup>(1)</sup>	2.8
Average exchange rate (Ps./\$1.00).....	9.339	10.1	9.6560	10.1
Average rate on 28-day <i>Cetes</i> (%).....	11.3	9.7	7.1	7.5
Public sector balance as % of GDP .....	(0.7)	(0.7)	N/A <sup>(2)</sup>	(0.5)
Primary balance as % of GDP .....	2.6	2.7	N/A <sup>(3)</sup>	N/A

(1) Preliminary.

(2) Was 0.3% for first nine months of 2002.

(3) Was 3.8% for first nine months of 2002.

N/A = Not available.

Source: Ministry of Finance and Public Credit.

Under the 2003 Budget, the Government estimates that it will devote Ps. 271,305 million (24.5% of total budgetary programmable expenditures) to education and Ps. 317,430 million (28.7% of total budgetary programmable expenditures) to health and social security.

The Government also expects that it will devote Ps. 93,221 million (8.4% of total budgetary programmable expenditures) to housing and community development. In addition, the 2003 Budget contemplates that Ps. 158,474 million will be used for the debt service of the Government and that Ps. 26,408 million will be used for the debt service of the public sector agencies specified in the 2003 Budget.

*Revenues and Expenditures*

In accordance with the automatic adjustment mechanism contained in Article 32 of the 2002 Budget, and in response to lower than projected revenues, the Government cut expenditures by Ps. 10.1 billion during the first quarter of 2002 in order to meet its fiscal targets for 2002. The Government did not cut expenditures during the remainder of 2002.

According to preliminary figures, the public sector registered an overall deficit of Ps. 75.6 billion in nominal pesos in 2002, and the primary balance registered a surplus of Ps. 109.0 billion in nominal pesos, 30.2% lower in real terms when compared to 2001.



## **Public Debt**

At December 31, 2002, the net internal debt of the Government was U.S. \$79.6 billion, as compared with U.S. \$75.6 billion outstanding as of December 31, 2001. At December 31, 2002, the average maturity of internal debt was 816 days, as compared with 748 days at December 31, 2001.

At December 31, 2002, the gross external debt of the Government totaled U.S. \$78.82 billion. Outstanding gross external debt decreased by approximately U.S. \$1.52 billion during 2002, from U.S. \$80.34 billion at December 31, 2001, to U.S. \$78.82 billion at December 31, 2002. Of the total external debt at December 31, 2002, U.S. \$76.03 billion represented long-term debt and U.S. \$2.80 billion represented short-term debt.

Subsequent to December 31, 2002:

- Mexico issued U.S. \$2,000,000,000 of its 6.375% Global Notes due 2013 on January 16, 2003 and U.S. \$1,000,000,000 of its 6.625% Global Notes due 2015 on March 3, 2003.

## **Pemex Project Funding Master Trust**

The Issuer was organized as a statutory trust under Delaware law on November 10, 1998. The Bank of New York acts as managing trustee and The Bank of New York (Delaware) acts as Delaware trustee of the issuer. The Issuer's purpose is to administer certain financial resources earmarked for PIDIREGAS, which are described below.

Petróleos Mexicanos is the sole beneficiary of the Pemex Project Funding Master Trust and controls the Pemex Project Funding Master Trust in all of its activities.

### *PIDIREGAS Projects*

Under Mexico's General Law of Public Debt, a PIDIREGAS must be a long-term productive infrastructure project which is:

- related to an economic activity identified as a priority by Mexico,
- expected to generate funds sufficient to repay the financing incurred for the project, and
- previously approved by the Mexican Government.

The Guarantor or a Subsidiary Guarantor negotiates and enters into turn-key and other contracts for the construction of PIDIREGAS. PEMEX subsequently delegates to the Issuer the payment obligations under the related project contracts and transfers any funds obtained through related financing transactions. Accordingly, upon receipt by PEMEX of invoices under the project contracts, the Guarantor instructs the Issuer to make payment to the appropriate contractors.

Financings for PIDIREGAS are either entered into by the Guarantor and assigned to the Issuer or arranged by the Guarantor and entered into directly by the Issuer, as is the case with the old securities and the new securities. In either case, funds obtained through these financings are transferred to The Bank of New York as managing trustee, whose decisions are, in turn, dictated by Petróleos Mexicanos. All payments under financings entered into by or assigned to the Issuer are unconditionally guaranteed by Petróleos Mexicanos. The Subsidiary Guarantors jointly and severally guarantee Petróleos Mexicanos' payment obligations under its guaranties of these financings.

The Issuer has been consolidated with PEMEX and its Subsidiary Companies in the 2001 Financial Statements included in Annex A, the Interim Financial Statements included in Annex B and in the interim financial information set forth under "Operating and Financial Review and Prospects" and "Recent Developments" in this Offering Circular.

### *Assignment and Indemnity Agreement*

Under an Assignment and Indemnity Agreement dated November 10, 1998, among Petróleos Mexicanos, The Bank of New York and the Subsidiary Guarantors, Petróleos Mexicanos and the Subsidiary Guarantors have assumed certain obligations of the Issuer with respect to the liabilities incurred or assumed by the Issuer in connection with PIDIREGAS. These obligations include:

- the obligation of Guarantor to guarantee the repayment of the debt obligations undertaken by the Issuer to finance PIDIREGAS;
- the obligation of Guarantor and the particular subsidiary guarantor that is sponsoring a PIDIREGAS to make payments to the Issuer as may be necessary for the Issuer to fulfill its payment obligations in respect of any financing that the Issuer has entered into in connection with the PIDIREGAS; and
- the joint and several obligations of the Guarantor and each of the Subsidiary Guarantors to indemnify the Issuer with respect to any liability incurred by the Issuer in connection with PIDIREGAS.

### *Liquidity and Capital Resources*

Petróleos Mexicanos makes decisions to draw-down funds under PIDIREGAS-related financings on the basis of the short-term obligations of the Issuer under PIDIREGAS construction contracts. The Issuer invests any excess liquidity in short-term investments, including interest-bearing deposits at Banco de México and Mexican commercial banks.

At December 31, 2001, cash and cash equivalents of the Issuer totaled U.S. \$578 million, its total assets were U.S. \$13,370 million; its long-term indebtedness totaled U.S. \$11,334 million, its short-term indebtedness (including interest payable of U.S. \$160 million) totaled U.S. \$952 million and its other short-term liabilities totaled U.S. \$1,083 million.

At November 30, 2002, cash and cash equivalents of the Issuer totaled U.S. \$180.9 million, its total assets were U.S. \$17,907.4 million, its long-term indebtedness totaled U.S. \$14,530.6 million, its short-term indebtedness (including interest payable of U.S. \$152.19 million) totaled U.S. \$1,496.8 million and its other liabilities totaled U.S. \$1,880 million (including short-term liabilities of U.S. \$908.5 million).

The assets of the Issuer consist primarily of the funds it receives through various PIDIREGAS financings incurred directly or indirectly by the Issuer, earnings from the short-term investment of its excess liquidity and its rights to receive payment from the Guarantor and the Subsidiary Guarantors.

On December 31, 1998, the Guarantor transferred assets and liabilities related to PIDIREGAS totaling Ps. 12,104 million (U.S. \$1,227 million) to the Issuer.

Future amortization of the issuer's outstanding indebtedness of U.S. \$15,875 million at November 30, 2002 is scheduled as follows:

#### **Pemex Project Funding Master Trust Indebtedness Amortization Schedule**

<b>Maturities</b>					
<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Over 5 years</b>
<b>(in millions of dollars)</b>					
U.S. \$22	U.S. \$1,720	U.S. \$2,048	U.S. \$2,106	U.S. \$1,146	U.S. \$8,833

## Terms and Conditions of the Notes

*The following (subject to completion and amendment and save for the statements in italics) is the text of the Terms and Conditions of the Notes which will appear on the reverse of each of the definitive Notes:*

The €750,000,000 6.625 per cent. Guaranteed Notes due 2010 (the “Notes”) are constituted by a Trust Deed (the “Trust Deed”) dated April 3, 2003 among Pemex Project Funding Master Trust (the “Issuer”), Petróleos Mexicanos (the “Guarantor”) and J.P. Morgan Corporate Trustee Services Limited (the “Trustee” which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes (the “Noteholders”). Certain provisions of these Terms and Conditions are summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes and also provisions which are not summarized herein. The issue of the Notes was authorized by the Managing Trustee of the Issuer on April 3, 2003 and by a resolution of the Board of Directors of the Guarantor dated January 9, 2003. Copies of the Trust Deed are available for inspection at the registered office of the Trustee (presently at Trinity Tower, 9 Thomas More Street, London E1W 1YT) and at the specified offices of the registrar, the principal paying agent, and the transfer agents for the time being. Such persons are referred to below respectively as the “Registrar,” the “Principal Paying Agent,” the “Additional Paying Agents” and the “Transfer Agents” and together as the “Agents.” The Principal Paying Agent and the Additional Paying Agent are together referred to as the “Paying Agents.” The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those applicable to them of the agency agreement (the “Agency Agreement”) dated April 3, 2003 relating to the Notes among the Issuer, the Guarantor, the Trustee, the Principal Paying Agent and the other Agents.

### 1. Form, Denomination and Title

#### (a) *Form and Denomination*

The Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act of 1933, as amended (the “Securities Act”) are issued in the form of a global note in fully registered form without interest coupons (the “DTC Restricted Global Note”), registered in the name of a nominee of, and deposited with JPMorgan Chase Bank as custodian for The Depository Trust Company (“DTC”) or any successor depository (the “Depository”). The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act are issued in the form of a global note in fully registered form, without interest coupons (the “Regulation S Global Note” and, together with the DTC Restricted Global Note, the “Global Notes”), registered in the name of a nominee of, and deposited with, a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”). Notes will not be issued in bearer form. Interests in the Global Notes may be (i) exchanged in the circumstances set out in the Global Notes for Notes in definitive form without interest coupons (each a “Definitive Note”, which expression shall include the Global Notes) in denominations of €10,000 or higher integral multiples of €1,000 (each an “authorized denomination”) or (ii) traded in authorized denominations in accordance with the terms of the Agency Agreement. Each Note will be numbered serially with an identifying number which will be recorded in the register (the “Register”) which the Issuer shall procure to be kept by the Registrar.

#### (b) *Title*

Title to the Notes passes by and upon registration in the Register. In these Conditions, “Noteholder” and (in relation to the Note) “holder” means the person in whose name a Note is registered. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

#### (c) *Transfer, Issue and Delivery*

A Note may be transferred in whole or in part in an authorized denomination upon the surrender of the Definitive Note issued in respect of that Note, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent. In the case of a transfer of part of a Note only, a new Definitive Note in respect of the balance not transferred will be issued to the transferor within three business days of receipt of such form of transfer, by uninsured post at the risk of the holder to the address of the holder appearing in the Register.

Each new Definitive Note to be issued upon a transfer of Notes will, within three business days of receipt of such form of transfer, be sent by uninsured post at the risk of the holder entitled to the Note in respect of which the relevant Definitive Note is issued to such address as may be specified in such form of transfer.

(d) *Formalities Free of Charge*

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to it.

(e) *Closed Periods*

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal on that Note.

(f) *Regulations Concerning Transfer and Registration*

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed by the Registrar to any Noteholder who asks for one.

## **2. Guarantee**

(a) *Guarantor*

The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all amounts payable by the Issuer under the Notes and the Trust Deed. Its obligations in that respect (the "Guarantee") are contained in the Trust Deed.

(b) *Subsidiary Guarantors*

Pursuant to a guaranty agreement dated July 29, 1996 as amended by a deed supplemental thereto dated July 29, 1996 (together, the "Subsidiary Guaranty Agreement"), between the Guarantor and the Subsidiary Guarantors (as defined below), each of the Subsidiary Guarantors will be jointly and severally liable with the Guarantor for all payment obligations incurred by the Guarantor under any international financing agreement entered into by the Guarantor and designated by the Guarantor as entitled to the benefit of the Subsidiary Guaranty Agreement in a certificate of designation in accordance with the Subsidiary Guaranty Agreement. The Guarantor has so designated, *inter alia*, the Agency Agreement, the Trust Deed, the Guarantee and the Subscription Agreement dated April 3, 2003 in relation to the Notes to benefit from the Subsidiary Guaranty Agreement in certificates of designation (the "Certificates of Designation") dated April 4, 2003. Accordingly, each of the Subsidiary Guarantors will be unconditionally liable for the Guarantor's obligations under its guarantee of all amounts payable by the Issuer in respect of the Agency Agreement, the Trust Deed and the Notes, as and when the same shall become due and payable, whether at maturity, by declaration of acceleration or otherwise.

"Subsidiary Guarantors" means Pemex-Exploración y Producción, Pemex-Refinación and Pemex-Gas y Petroquímica Básica.

## **3. Status**

The Notes constitute direct, unconditional, unsecured (subject to Condition 4) and unsubordinated Public External Indebtedness (as defined in Condition 4) of the Issuer and will at all times rank *pari passu* and without preference among themselves. The payment obligations of the Issuer under the Notes will, except as may be provided by applicable law and subject to Condition 4, at all times rank equally with all other present and future unsecured and unsubordinated Public External Indebtedness of the Issuer. The payment obligations of the Guarantor and the Subsidiary Guarantors under the Guarantee and the Subsidiary Guaranty Agreement, respectively, will constitute direct, unsecured and unsubordinated Public External Indebtedness of the Guarantor and the Subsidiary Guarantors, respectively, and will, except as may be provided by applicable law and subject to Condition 4, at all times rank

equally with each other and with all other present and future unsecured and unsubordinated Public External Indebtedness of the Guarantor and the Subsidiary Guarantors, respectively. *The Notes are not obligations of, or guaranteed by, the Federal Government of the United Mexican States ("Mexico").*

#### **4. Negative Pledge**

So long as any Note remains outstanding (as defined in the Trust Deed), the Guarantor will not create or permit to subsist, and will not permit the Issuer, the Guarantor's Subsidiaries or the Subsidiary Guarantors or any of their respective Subsidiaries to create or permit to subsist, any Security upon the whole or any part of its or their crude oil or receivables in respect of crude oil to secure (i) any of its or their Public External Indebtedness; (ii) any of its or their Guarantees in respect of Public External Indebtedness; or (iii) the Public External Indebtedness or Guarantees in respect of Public External Indebtedness of any other person; without at the same time or prior thereto securing the Notes equally and ratably therewith to the satisfaction of the Trustee or providing such other Security for the Notes as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or which shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; *provided* that the Issuer, the Guarantor and its Subsidiaries, and the Subsidiary Guarantors and their respective Subsidiaries, may create or permit to subsist Security upon its or their receivables in respect of crude oil if (i) on the date of creation of such Security the aggregate of (a) the amount of principal and interest payments secured by Oil Receivables due during such calendar year in respect of Receivables Financings entered into or before such date, (b) the total amount of revenues during such calendar year from the sale of crude oil or natural gas transferred, sold, assigned or otherwise disposed of in Forward Sales (other than Governmental Forward Sales) entered into on or before such date and (c) the total amount of payments of the purchase price of crude oil, natural gas or Petroleum Products foregone during such calendar year as a result of all Advance Payment Arrangements entered into on or before such date, shall not exceed in such calendar year U.S. \$4,000,000,000 (or its equivalent in other currencies) less the amount of Governmental Forward Sales during such calendar year, (ii) the aggregate amount outstanding in all currencies at any one time under all Receivables Financings, Forward Sales (other than Governmental Forward Sales) and Advance Payment Arrangements shall not exceed U.S. \$12,000,000,000 (or its equivalent in other currencies) and (iii) the Guarantor has given a certificate to the Trustee certifying that on the date of creation of such Security there is no default under any Financing Document (as defined in the Trust Deed) resulting from a failure to pay principal or interest, as more particularly described in the Trust Deed.

For this purpose:

*"Advance Payment Arrangement"* means any transaction involving the receipt by the Issuer, the Guarantor, the Subsidiary Guarantors or any of their respective Subsidiaries of payment of the purchase price of crude oil or gas or Petroleum Products not yet earned by performance.

*"External Indebtedness"* means Indebtedness which is payable, or at the option of its holder may be paid, (i) in a currency or by reference to a currency other than the currency of Mexico, (ii) to a person resident or having its head office or its principal place of business outside Mexico and (iii) outside the territory of Mexico.

*"Forward Sale"* means any transaction involving the transfer, sale, assignment or other disposition by the Issuer, the Guarantor, the Subsidiary Guarantors or any of their Subsidiaries of any right to payment under a contract for the sale of crude oil or gas not yet earned by performance, or any interest therein, whether in the form of an account receivable, negotiable instrument or otherwise.

*"Governmental Forward Sale"* means a Forward Sale to (i) Mexico or Banco de México or (ii) the Bank for International Settlements or another multilateral monetary authority or central bank or treasury of a sovereign state.

*"Guarantee"* means any obligation of a person to pay the Indebtedness of another person, including without limitation:

- (i) an obligation to pay or purchase such Indebtedness; or
- (ii) an obligation to lend money or to purchase or subscribe for shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness; or
- (iii) any other agreement to be responsible for such Indebtedness.

“*Indebtedness*” means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing).

“*Oil Receivables*” means amounts payable to the Issuer, the Guarantor, the Subsidiary Guarantors or any of their Subsidiaries in respect of the sale, lease or other provision of crude oil or gas, whether or not yet earned by performance.

“*person*” means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having a separate legal personality.

“*Petroleum Products*” means the derivatives and by-products of crude oil and gas (including basic petrochemicals).

“*Public External Indebtedness*” means any External Indebtedness which is in the form of, or represented by, notes, bonds or other securities which are for the time being quoted, listed or ordinarily dealt in on any stock exchange.

“*Receivables Financings*” means any transaction resulting in the creation of Security on Oil Receivables to secure new External Indebtedness incurred by, or the proceeds of which are paid to or for the benefit of, the Issuer, the Guarantor, any Subsidiary Guarantor or any of their Subsidiaries.

“*Security*” means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance, including without limitation any equivalent thereof created or arising under the laws of Mexico.

“*Subsidiary*” means, in relation to any person, any other person (whether or not now existing) which is controlled directly or indirectly by, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then held or beneficially owned by, the first person and/or any one or more of the first person’s Subsidiaries, and “control” means the power to appoint the majority of the members of the governing body or management of, or otherwise to control the affairs and policies of, that person.

*The negative pledge does not restrict the creation of Security over any assets of the Issuer, the Guarantor or the Subsidiary Guarantors or any of their respective Subsidiaries other than crude oil and receivables in respect of crude oil. Under Mexican law, all domestic reserves of crude oil belong to Mexico and not to PEMEX, but the Guarantor and the Subsidiary Guarantors have been established with the exclusive purpose of exploiting the Mexican petroleum and gas reserves, including the production of oil and gas, oil products and basic petrochemicals. In addition, the negative pledge does not restrict the creation of Security to secure obligations of the Issuer, the Guarantor, the Subsidiary Guarantors or their Subsidiaries payable in pesos. Further, the negative pledge does not restrict the creation of Security to secure any type of obligation (e.g., commercial bank borrowings) regardless of the currency in which it is denominated, other than obligations similar to the Notes (e.g., issuances of debt securities).*

## **5. Interest**

### *(a) Interest Payment Dates*

The Notes bear interest from April 4, 2003 at the rate of 6.625 per cent. payable annually in arrears on April 4 in each year (each, an “Interest Payment Date”).

### *(b) Interest Accrual*

Interest shall cease to accrue on each Note as from the due date for redemption thereof unless, upon surrender of the Definitive Note issued in respect of such Note, payment of the principal in respect thereof is improperly withheld or refused or unless default is otherwise made in respect of such payment. In such event, interest will continue to accrue in accordance with this Condition up to but excluding the date on which payment in full of the principal thereof is made or (if earlier) the seventh day after notice is duly given in accordance with Condition 17 that such payment will be made provided that such payment is in fact made. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed, divided by the actual number of days in the period from and including the immediately preceding Interest Payment Date to but excluding the next scheduled Interest Payment Date.

## **6. Redemption and Purchase**

### *(a) Redemption*

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on April 4, 2010.

### *(b) Redemption for Tax Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, together, if applicable, with interest accrued to but excluding the date fixed for redemption, at par, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), if (i) the Issuer or the Guarantor certifies to the Trustee immediately prior to the giving of such notice that it has or will become obligated to pay Additional Amounts (as defined in Condition 8) in excess of the Additional Amounts that it would be obligated to pay if payments (including payments of interest) on the Notes (or payments under the Guarantee with respect to interest on the Notes) were subject to tax at a rate of 10 per cent., as a result of any change in, or amendment to, or lapse of, the laws, rules or regulations of Mexico or any political subdivision or any taxing authority thereof or therein affecting taxation, or any change in, or amendment to, an official interpretation or application of such laws, rules or regulations, which change or amendment becomes effective on or after the date of issuance of the Notes and (ii) prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee a certificate signed by two authorized officers of the Issuer or the Guarantor stating that the obligation referred to in (i) above cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (i) above in which event it shall be conclusive and binding on the Noteholders; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obligated but for such redemption to pay such Additional Amounts were a payment in respect of the Notes or the Guarantee then due and, at the time such notice is given, such obligation to pay such Additional Amounts remains in effect.

### *(c) Purchase*

The Issuer, the Guarantor, any of its Subsidiaries (as defined in Condition 4) or any of the Subsidiary Guarantors may at any time purchase Notes in the open market or otherwise at any price. In the case of purchases by tender, such tender offer shall be made to all Noteholders. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any Subsidiary thereof or any of the Subsidiary Guarantors, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 13(a).

### *(d) Cancellation*

All Notes so redeemed or purchased will be cancelled and may not be re-issued or resold.

## **7. Payments**

### *(a) Principal in Respect of and Interest on Notes*

Except as set forth otherwise below, payments of principal in respect of Notes will be made by euro check drawn on, or by transfer to a euro account maintained by the payee with, a bank in a city in which banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto (the "TARGET System") against presentation and surrender of the relevant Definitive Note(s) at the specified office of any of the Paying Agent. Persons shown on the Register at the close of business on the fifteenth calendar day before the relevant Interest Payment Date (the "Record Date") will be entitled to receive interest on the Notes, provided that if and to the extent the Issuer, the Guarantor and the Subsidiary Guarantors shall default in the payment of interest on the due date for the payment of such interest, such defaulted interest shall be paid to the persons shown on the Register at the close of business on a subsequent record date established by the Issuer not less than 15 calendar days preceding the date of payment of such defaulted interest. Payment of interest (including Additional Amounts (as defined in Condition 8)) on each Definitive Note will be made (i) by euro check drawn on a bank in a city in which banks have access to the TARGET System and mailed to the holder (or to the first-named of



joint holders) of such Note at his address appearing in the Register or (ii) upon application by the holder of at least €1,000,000 in principal amount of Notes to the specified office of the Registrar not later than the Record Date, such payment may be made by transfer to a euro account maintained by the payee with a bank in a city in which banks have access to the TARGET System. Payments of interest (including Additional Amounts) in respect of Notes represented by the Regulation S Global Note will be made by transfer to a euro account maintained by the common depositary or its nominee with a bank in a city in which banks have access to the TARGET System. Payments of principal and interest in respect of Notes represented by the DTC Restricted Global Note will be made or caused to be made by the Principal Paying Agent in euro in accordance with the following provisions. The amounts in euro payable by the Principal Paying Agent or its agent to DTC with respect to Notes held by DTC or its nominee will be received from the Issuer by the Principal Paying Agent who will make payments in euro by wire transfer of same day funds to the designated bank account in euro of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of interest payments, on or prior to the third DTC business day after the Record Date for the relevant payment of interest and, in the case of payments of principal, at least 12 DTC business days prior to the relevant payment date, to receive that payment in euro. “DTC business day” means a day on which DTC is open for business. The Principal Paying Agent, after the Exchange Agent (as defined in the Agency Agreement) has converted amounts in euro into U.S. dollars, will deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in euro. The Agency Agreement sets out the manner in which such conversions are to be made.

*(b) Payments Subject to Fiscal Laws*

All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

*(c) Payment Initiation*

Where payment is to be made by transfer to a euro account, payment instructions (for value on the due date, or if that is not a business day, for value the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed on the due date for payment or, in the case of payments of principal, if later, on the business day on which the relevant Definitive Note is surrendered at the specified office of any Transfer Agent. For the purposes of this Condition 7, “business day” means a day (other than a Saturday or Sunday) on which the TARGET System is operating and, in the case of payments to be made through DTC, a DTC business day and in the case of a surrender of a Definitive Note, a day on which banks and foreign exchange markets are open for business in the place the Definitive Note is surrendered.

*(d) Delay in Payment*

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due as a result of the due date not being a business day, if the Noteholder is late in surrendering its Definitive Note (if required to do so) or if a cheque mailed in accordance with this Condition 7 arrives after the due date for payment.

*(e) Payment Not Made in Full*

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest, if any, in fact paid.

## **8. Taxation**

The Issuer, or in the case of a payment by the Guarantor or a Subsidiary Guarantor, such guarantor, will pay to the holder of any Note such additional amounts (“Additional Amounts”) as may be necessary in order that every net payment made by the Issuer, the Guarantor or a Subsidiary Guarantor in respect of such Note, after deduction or withholding for or on account of any present or future tax, assessment or other governmental charge imposed upon or as a result of such payment by Mexico or any political subdivision or taxing authority thereof or therein (“Mexican Withholding Taxes”) will not be less than the amount then due and payable on such Notes. The foregoing obligation to pay Additional Amounts, however, will not apply to:

(a) any Mexican Withholding Taxes that would not have been imposed or levied on a holder of Notes but for the existence of any present or former connection between the holder of such Notes and Mexico or any political subdivision or territory or possession thereof or area subject to its jurisdiction, including, without limitation, such holder of Notes (i) being or having been a citizen or resident thereof, (ii) maintaining or having maintained an office, permanent establishment or branch therein, or (iii) being or having been present or engaged in trade or business therein, except for a connection solely arising from the mere ownership of, or receipt of payment under, such Notes;

(b) except as otherwise provided, any estate, inheritance, gift, sales, transfer, or personal property or similar tax, assessment or other governmental charge;

(c) any Mexican Withholding Taxes that are imposed or levied by reason of the failure by the Noteholder to comply with any certification, identification, information, documentation, declaration or other reporting requirement that is required or imposed by a statute, treaty, regulation, general rule or administrative practice as a precondition to exemption from, or reduction in the rate of, the imposition, withholding or deduction of any Mexican Withholding Taxes; *provided* that at least 60 days prior to (i) the first payment date with respect to which the Issuer, the Guarantor or any Subsidiary Guarantor shall apply this clause (c) and, (ii) in the event of a change in such certification, identification, information, documentation, declaration or other reporting requirement, the first payment date subsequent to such change, the Issuer, the Guarantor or any Subsidiary Guarantor, as the case may be, shall have notified the Trustee in writing that the Noteholders will be required to provide such certification, identification, information or documentation, declaration or other reporting;

(d) any Mexican Withholding Taxes imposed at a rate in excess of 4.9%, in the event that such Noteholder has failed to provide on a timely basis, at the reasonable request of the Issuer, information or documentation (not described in clause (c) above) concerning such Noteholder's eligibility, if any, for benefits under an income tax treaty to which Mexico is a party that is necessary to determine the appropriate rate of deduction or withholding of Mexican taxes under any such treaty;

(e) any Mexican Withholding Taxes that would not have been so imposed but for the presentation by the Noteholder for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

(f) any payment on such Note to any Noteholder who is a fiduciary or partnership or other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note; or

(g) any withholding tax or deduction imposed on a payment to an individual pursuant to any European Union directive on the taxation of savings and implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such a directive or presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

All references herein to principal and interest in respect of Notes shall, unless the context otherwise requires, be deemed to mean and include all Additional Amounts, if any, payable in respect thereof as set forth in the first paragraph of this Condition 8 section and in paragraphs (a) through (g) above.

Notwithstanding the foregoing, the limitations on the Issuer's, the Guarantor's and the Subsidiary Guarantors' obligation to pay Additional Amounts set forth in clauses (c) and (d) above shall not apply if the provision of the certification, identification, information, documentation, declaration or other evidence described in such clauses (c) and (d) would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a Note (taking into account any relevant differences between United States and Mexican law, regulation or administrative practice) than comparable information or other applicable reporting requirements imposed or provided for under U.S. federal income tax law (including the United States-Mexico Income Tax Treaty), regulations (including proposed regulations) and administrative practice. In addition, the

limitations on the Issuer's, the Guarantor's and the Subsidiary Guarantors' obligation to pay Additional Amounts set forth in clauses (c) and (d) above shall not apply if Rule 3.25.15, published in the Official Gazette of the Federation on May 31, 2002, or a substantially similar successor of such rule, is in effect, unless (i) the provision of the certification, identification, information, documentation, declaration or other evidence described in clauses (c) and (d) is expressly required by statute, regulation, general rules or administrative practice in order to apply Rule 3.25.15 (or a substantially similar successor of such rule), the Issuer, the Guarantor or the Subsidiary Guarantors cannot obtain such certification, identification, information, documentation, declaration or evidence, or satisfy any other reporting requirements, on its own through reasonable diligence and the Issuer, the Guarantor or the Subsidiary Guarantors otherwise would meet the requirements for application of Rule 3.25.15 (or such successor of such rule) or (ii) in the case of a holder or beneficial owner of a Note that is a pension fund or other tax-exempt organization, such holder or beneficial owner would be subject to Mexican Withholding Taxes at a rate less than that provided by Rule 3.25.15 if the information, documentation or other evidence required under clause (d) above were provided. In addition, clause (c) or (d) above shall not be construed to require that a non-Mexican pension or retirement fund, a non-Mexican tax-exempt organization or a non-Mexican financial institution or any other holder or beneficial owner of a Note register with the *Secretaría de Hacienda y Crédito Público* (the "Ministry of Finance and Public Credit") for the purpose of establishing eligibility for an exemption from or reduction of Mexican Withholding Taxes.

The Issuer, the Guarantor or the applicable Subsidiary Guarantor, as the case may be, will, upon written request, provide the Trustee, the holders and the Paying Agents with a duly certified or authenticated copy of an original receipt of the payment of Mexican Withholding Taxes which the Issuer, the Guarantor or the Subsidiary Guarantor has withheld or deducted in respect of any payments made under or with respect to the Notes or the Guarantees of the Notes, as the case may be.

In the event that Additional Amounts actually paid with respect to any Notes pursuant to the preceding paragraph are based on rates of deduction or withholding of Mexican Withholding Taxes in excess of the appropriate rate applicable to the holder of such Notes, and, as a result thereof, such holder is entitled to make a claim for a refund or credit of such excess, then such holder shall, by accepting such Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to the Issuer, the Guarantor or a Subsidiary Guarantor, as the case may be. However, by making such assignment, the holder makes no representation or warranty that the Issuer, the Guarantor or such Subsidiary Guarantor will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto.

## **9. Events of Default**

If any of the following events (each an "Event of Default") occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their principal amount together with accrued interest:

### *(a) Non-Payment*

default is made in payment of principal (or any part thereof) of or any interest on any of the Notes when due and such failure continues, in the case of non-payment of principal for seven days, and of interest for fourteen days after the due date; or

### *(b) Breach of Other Obligations*

the Issuer or the Guarantor defaults in performance or observance of or compliance with any of its other obligations set out in the Notes, the Guarantee or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee, is capable of remedy, is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Issuer and the Guarantor by the Trustee; or

### *(c) Cross-Default*

default by the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries (as defined below) or the Subsidiary Guarantors or any of them or any of their respective Material Subsidiaries in the payment of the principal of, or interest on, any Public External Indebtedness (as defined in Condition 4) of, or guaranteed by, the Issuer, the

Guarantor or any of the Guarantor's Material Subsidiaries or the Subsidiary Guarantors or any of them or any of their respective Material Subsidiaries, in an aggregate principal amount exceeding U.S. \$40,000,000 or its equivalent, when and as the same shall become due and payable, if such default shall continue for more than the period of grace, if any, originally applicable thereto; or

*(d) Enforcement Proceedings*

a distress or execution or other legal process is levied or enforced or sued out upon or against any substantial part (in the opinion of the Trustee) of the property, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries or the Subsidiary Guarantors or any of them or any of their respective Material Subsidiaries and is not discharged or stayed within 60 days of having been so levied, enforced or sued out; or

*(e) Security Enforced*

an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any part of the undertaking, property, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries or the Subsidiary Guarantors or any of them or any of their respective Material Subsidiaries; or

*(f) Insolvency*

the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries or the Subsidiary Guarantors or any of them or any of their respective Material Subsidiaries becomes insolvent or is generally unable to pay its debts as they mature or applies for or consents to or suffers the appointment of an administrator, liquidator, receiver or similar officer of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries or the Subsidiary Guarantors or any of them or any of their respective Material Subsidiaries or the whole or any substantial part of the undertaking, property, assets or revenues of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries or the Subsidiary Guarantors or any of them or any of their respective Material Subsidiaries or takes any proceeding, under any law for a readjustment or deferment of its obligations or any part of them for insolvency, bankruptcy, reorganization, dissolution or liquidation or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or stops or threatens to cease to carry on its business or any substantial part of its business; or

*(g) Winding-up*

an order is made or an effective resolution passed for winding up the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries or the Subsidiary Guarantors or any of them or any of their respective Material Subsidiaries; or

*(h) Moratorium*

a general moratorium is agreed or declared in respect of any External Indebtedness (as defined in Condition 4) of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries or the Subsidiary Guarantors or any of them or any of their respective Material Subsidiaries; or

*(i) Authorization and Consents*

any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Trust Deed, (ii) to enable the Guarantor lawfully to enter into, exercise its rights and perform and comply with its obligations under the Guarantee relating to the Notes, the Trust Deed or the Subsidiary Guaranty Agreement in relation to the Notes and the Guarantee, (c) to enable any of the Subsidiary Guarantors lawfully to enter into, perform and comply with its obligations under the Subsidiary Guaranty Agreement in relation to the Notes, the Guarantee or the Trust Deed and (d) to ensure that those obligations are legally binding and enforceable, is not taken, fulfilled or done within 30 days of its being so required; or

(j) *Illegality*

it is or becomes unlawful for (i) the Issuer to perform or comply with one or more of its obligations under any of the Notes or the Trust Deed, (ii) the Guarantor to perform or comply with any of its obligations under the Trust Deed, the Guarantee or the Subsidiary Guaranty Agreement with respect to the Notes, the Guarantee or the Trust Deed, or (iii) the Subsidiary Guarantors or any of them to perform or comply with one or more of its obligations under the Subsidiary Guaranty Agreement with respect to the Notes, the Guarantee or the Trust Deed; or

(k) *Control*

the Guarantor ceases to be a decentralized public entity wholly owned by the Mexican Government or the Mexican Government shall otherwise cease to control the Guarantor or any Subsidiary Guarantor; or the Issuer, the Guarantor or any of the Subsidiary Guarantors is dissolved, disestablished or suspends its respective operations, and such dissolution, disestablishment or suspension of operations is material in relation to the business of the Issuer, the Guarantor and the Subsidiary Guarantors taken as a whole, or the Guarantor and the Subsidiary Guarantors cease to be the entities which have the exclusive right and authority to conduct on behalf of Mexico the activities of exploration, exploitation, refining, transportation, storage, distribution and first-hand sale of crude oil and exploration, exploitation, production and first-hand sale of gas, as well as the transportation and storage inextricably linked with such exploitation and production; or the Issuer ceases to be controlled by the Guarantor; or

(l) *Disposals*

- (i) the Guarantor ceases to carry on all or a substantial part (in the opinion of the Trustee) of its business, or sells, transfers or otherwise disposes (whether voluntarily or involuntarily) of all or substantially all of its assets (whether by one transaction or a series of transactions whether related or not) other than (i) solely in connection with the implementation of the *Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (the “Organic Law of Petróleos Mexicanos and Subsidiary Entities”) or (ii) to a Subsidiary Guarantor; or
- (ii) any Subsidiary Guarantor ceases to carry on all or a substantial part (in the opinion of the Trustee) of its business, or sells, transfers or otherwise disposes (whether voluntarily or involuntarily) of all or substantially all of its assets (whether by one transaction or a series of transactions whether related or not) and such cessation, sale, transfer or other disposal is material in relation to the business of the Guarantor and the Subsidiary Guarantors taken as a whole; or

(m) *Analogous Events*

any event occurs which under the laws of Mexico has an analogous effect to any of the events referred to in paragraphs (d) to (g) above; or

(n) *Guarantees*

the Guarantee or the Subsidiary Guaranty Agreement is not (or is claimed by any of the Guarantor or the Subsidiary Guarantors not to be) in full force and effect;

provided that, in the case of paragraphs (b) to (e), (i), (j) and (m) and, in relation to Material Subsidiaries only, paragraphs (f), (g) and (h), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

For the purposes of this Condition 9, “Material Subsidiary” means, at any time, (i) each of the Subsidiary Guarantors and (ii) any Subsidiary of the Guarantor or any of the Subsidiary Guarantors having, as of the end of the most recent fiscal quarter of the Guarantor, total assets greater than 12 per cent. of the consolidated total assets of the Guarantor, the Subsidiary Guarantors and their Subsidiaries. The Trustee shall be entitled to rely on a certificate signed by two authorized officers of the Guarantor listing any and all Material Subsidiaries. *As of the date of this Offering Circular, there were no Material Subsidiaries other than the Subsidiary Guarantors.*

## **10. Prescription**

All monies paid by or on behalf of the Issuer to the Principal Paying Agent for payment of the principal of or interest or Additional Amounts on any Note but not applied and remaining unclaimed for two years after the date on which such amount became due and payable will be repaid to or for the account of the Issuer by the Principal Paying Agent, and, to the extent permitted by law, the holder of such Note thereafter may look only to the Issuer and the Guarantor for payment which such holder may be entitled to collect, and all liability of such Principal Paying Agent with respect to such monies thereupon will cease.

## **11. Replacement of Definitive Notes**

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of any Transfer Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Trustee and the Registrar may require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

## **12. Agents**

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that it will maintain (i) a Principal Paying Agent, (ii) a Registrar maintaining the Register in New York City or such other city as the Trustee may approve, (iii) a Paying Agent and Transfer Agent in Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange, and in one other major European financial center approved by the Trustee, (iv) a Transfer Agent having a specified office in a Member State of the European Union, which Manager State will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council Meeting of November 26-27, 2000 or any law implementing or complying with, or introduced to order to conform to such Directive and (v) an Exchange Agent. Notice of any change in the Agents or their specified offices will promptly be given to the Noteholders.

## **13. Meetings of Noteholders, Modification, Waiver and Substitution**

### *(a) Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the modification of any of these Terms and Conditions or any of the provisions of the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to postpone the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or the interest rate applicable to the Notes, (iii) to change the currency of payment of the Notes, (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee or the Subsidiary Guaranty Agreement relating to the Notes, in which case the necessary quorum will be two or more persons holding or representing not less than three-quarters, or at any adjourned meeting not less than one-quarter, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed).

### *(b) Modification and Waiver*

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of these Terms and Conditions or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorization of any breach or proposed breach, of any of these Terms and Conditions or any of the provisions of the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any

such modification, authorization or waiver shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable.

(c) *Substitution*

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require (which may include the giving of a guarantee), but without the consent of the Noteholders, to the substitution of any other company in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders. Any such substitution shall be binding on the Noteholders and, unless the Trustee agrees otherwise, such substitution shall be notified to the Noteholders as soon as possible.

(d) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, waiver, authorization or substitution) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax or other consequence of any such exercise upon individual Noteholders.

#### **14. Enforcement**

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer, the Guarantor and/or the Subsidiary Guarantors as it may think fit to enforce the terms of the Trust Deed and/or the Subsidiary Guaranty Agreement (with respect to the Notes) and the Notes, but it need not take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in principal amount of the Notes outstanding and (ii) it shall have been indemnified to its satisfaction. No Noteholder may proceed directly against the Issuer, the Guarantor and/or the Subsidiary Guarantors or any of them unless the Trustee, having become bound to proceed, fails to do so within a reasonable time and such failure is continuing.

#### **15. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any of their subsidiary or associated companies without accounting for any profit.

#### **16. Further Issues**

The Issuer may from time to time without the consent of the Noteholders create and issue further notes, bonds or debentures either having the same terms and conditions as the Notes in all respects, or in all respects except for the first payment of interest on them, and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Notes) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

#### **17. Notices**

Notices to Noteholders will be mailed to them at their respective addresses in the Register and be deemed to have been given on the fourth day (excluding Saturdays and Sundays) after the date of mailing. In addition, all notices will be published (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require) in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the

date of such publication or, if published more than once or on different dates, on the first date on which publication in such newspaper or newspapers is made.

## **18. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## **19. Governing Law**

### *(a) Governing Law*

The Trust Deed, the Notes, and the payment obligations of the Subsidiary Guarantors under the Subsidiary Guaranty Agreement are governed by and shall be construed in accordance with English law, except that the authorization and execution of such documentation by the Guarantor and the Subsidiary Guarantors shall be governed by the laws of Mexico.

### *(b) Jurisdiction*

In relation to any legal action or proceedings arising out of or in connection with the Notes (“Proceedings”) each party to the Trust Deed has irrevocably submitted to the jurisdiction of the courts of England and waived to the fullest extent permitted by applicable law any objection to Proceedings in such courts whether on the ground of venue, on the ground of any right to jurisdiction based upon place of residence or domicile, or on the ground that the Proceedings have been brought in an inconvenient forum.

### *(c) Agent for Service of Process*

Each of the Issuer and the Guarantor appointed an agent in England to receive service of process in any Proceedings in England based on any of the Notes. If for any reason such process agent ceases to act as such or no longer has an address in England, the Issuer and the Guarantor agree to appoint a substitute process agent and to notify the Noteholders of such appointment.

### *(d) Waiver of Immunity*

The Issuer and the Guarantor irrevocably agree to the extent permitted by English or Mexican law (as the case may be), that in any Proceedings (whether for an injunction, specific performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) from those Proceedings, from attachment (whether in aid of execution, before judgment or otherwise) of their assets or from execution of final judgment shall be claimed by them or on their behalf or with respect to their assets and, to the extent permitted by English or Mexican law (as the case may be), the Issuer and the Guarantor waive any such immunity. The Issuer and the Guarantor irrevocably agree that, where permitted by English or Mexican law (as the case may be), they and their assets are, and shall be, subject to such Proceedings, attachment or execution in respect of their obligations under the Notes or the Trust Deed.

*Article 27 of the Political Constitution of the United Mexican States (the “Constitution”), Articles 1, 2, 3 and 4 (and related Articles) of the Regulatory Law to Article 27 of the Constitution (the “Regulatory Law”), Articles 15, 16 and 19 of the Regulations to the Regulatory Law, Articles 2, 16 and 60 (and other related Articles) of the General Law on National Patrimony, Articles 1, 2, 3 and 4 (and other related Articles) of the Organic Law of Petróleos Mexicanos and the Subsidiary Entities and Article 4 of the Federal Code of Civil Procedure of Mexico, set forth, inter alia, that (i) attachment prior to judgment, attachment in aid of execution and execution of a final judgment may not be ordered by Mexican courts against property of the Guarantor or any Subsidiary Guarantor, (ii) all domestic petroleum and hydrocarbon resources (whether solid, liquid, gas or intermediate form) are permanently and inalienably vested in Mexico (and, to that extent, subject to immunity), (iii) (a) the exploration, exploitation, refining, transportation, storage, distribution and first-hand sale of crude oil, (b) the exploration, exploitation, production and first-hand sale of gas, as well as the transportation and storage inextricably linked with such exploitation and production, and (c) the production, transportation, storage, distribution and first-hand sale of the derivatives of petroleum (including petroleum products) and of gas used as basic industrial raw materials and considered “Basic Petrochemicals” (the “Petroleum Industry”), are reserved exclusively to Mexico (and, to that*



*extent, assets related thereto are entitled to immunity); and (iv) the public entities created and appointed by the Federal Congress of Mexico to conduct, control, develop and operate the Petroleum Industry of Mexico are Petróleos Mexicanos and the Subsidiary Guarantors (and, therefore, they are entitled to immunity in respect of such exclusive rights and powers).*

## Form of the Notes

All Notes will be issued in registered form, without coupons. Notes which are sold in transactions outside the United States in reliance on Regulation S under the Securities Act will be represented by interests in the Regulation S Global Note, which will be deposited with a custodian for and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg, on or about the Closing Date. Notes which are resold pursuant to Rule 144A under the Securities Act will be represented by interests in the DTC Restricted Global Note, which will be deposited with a custodian for and registered in the name of a nominee for DTC, on or about the Closing Date. The DTC Restricted Global Note will bear a legend applicable to purchasers who purchase the Notes pursuant to Rule 144A, as described under “Subscription and Sale and Transfer Restrictions.” In certain circumstances, transfers of interests in the DTC Restricted Global Note to a Regulation S Global Note may be made as a result of which such legend is no longer applicable.

On or prior to the 40th day after the date of issuance of the Notes, beneficial interests in the Regulation S Global Note may be exchanged for interests in the DTC Restricted Global Note only upon receipt by the Principal Paying Agent of a written certification of the transferor in the form attached to the Agency Agreement to the effect that such transfer is being made to a person who the transferor reasonably believes is purchasing for its own account or accounts as to which it exercises sole investment discretion and that such person and each such account is a Qualified Institutional Buyer within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with all applicable state securities laws. After such 40th day, such certification requirement will no longer apply to such transfers. Beneficial interests in the DTC Restricted Global Note may be transferred to a person in the form of an interest in the Regulation S Global Note, whether before, on or after such 40th day, but only upon receipt by a Transfer Agent of a written certification of the transferor in the form attached to the Agency Agreement to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S. Any beneficial interest in a Global Note that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

The custodian with whom the DTC Restricted Global Note is deposited (the “Custodian”) and DTC will electronically record the principal amount of the DTC Restricted Global Note held for its direct and indirect participants. Investors may hold their interests in the DTC Restricted Global Note directly through DTC if they are participants in such system, or indirectly through organizations that are participants in such system. Clearstream, Luxembourg and Euroclear will hold interests in the Regulation S Global Note on behalf of their accountholders through customers’ securities accounts in Clearstream, Luxembourg’s or Euroclear’s respective names on the books of the common depositary.

Payments of the principal of, and interest on, each of the Regulation S Global Note and the DTC Restricted Global Note registered in the name of each of DTC’s, Euroclear’s and Clearstream, Luxembourg’s nominees will be to or to the order of their nominees as the registered owner of such Global Note. The Issuer expects that the nominees, upon receipt of any such payment, will immediately credit DTC, Euroclear or Clearstream, Luxembourg participants’ accounts, as the case may be, with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, or of their respective nominees. The Issuer and the Joint Lead Managers also expect that payments by DTC, Euroclear or Clearstream, Luxembourg participants, as the case may be, to owners of beneficial interests in such Global Note held through such DTC, Euroclear or Clearstream, Luxembourg participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC, Euroclear or Clearstream, Luxembourg participants, as the case may be. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such ownership interests.

Application has been made on behalf of the Issuer and the Joint Lead Managers to DTC, Clearstream, Luxembourg and Euroclear for acceptance in their respective book-entry systems in respect of the Notes.

So long as DTC's nominee, in the case of the DTC Restricted Global Note, or a common depository for Euroclear and Clearstream, Luxembourg or the common depository's nominee, in the case of the Regulation S Global Note, the common depository or such nominee or any successor depository or nominee will be considered the sole owner or holder of such Global Note. Except as set forth below, owners of beneficial interests in a Global Note will not be entitled to have the Notes represented by such Global Note registered in their names, will not receive and will not be entitled to receive physical delivery of Definitive Notes and will not be considered to be the owners or holders of the Notes for purposes of the Notes or the Trust Deed. Accordingly, each person owning a beneficial interest in a Global Note must rely on the procedures of DTC, Euroclear or Clearstream, Luxembourg and, if such person is not a direct participant in the relevant clearing system, on the procedures of the participant through which such beneficial owner holds its interest, to exercise any rights of a Noteholder under the Notes or the Trust Deed.

Registration of title to Notes in a name other than a depository or its nominee for DTC, Euroclear or Clearstream, Luxembourg will not be permitted unless:

- (i) In the case of the DTC Restricted Global Note, DTC notifies the Issuer it is no longer willing or able to discharge properly its responsibilities as depository with respect to the DTC Restricted Global Note or ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, as amended, or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or, in the case of the Regulation S Global Note, the Euroclear Operator or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of the Noteholders under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes.

In such circumstances, the Issuer will cause sufficient individual Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholder(s). A person having an interest in a Global Note must provide the Registrar with:

- (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual Definitive Registered Notes; and
- (ii) in the case of the DTC Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provision of Rule 144A. Individual Definitive Notes issued pursuant to this paragraph (ii) shall bear legends applicable to transfers pursuant to Rule 144A.

## Clearing and Settlement

### DTC

DTC has advised the Issuer as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). DTC was created to hold securities for its participating organizations (“DTC Participants”) and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, brokers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (“Indirect DTC Participants”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “Rules”), DTC is required to make book-entry transfers between DTC Participants on whose behalf it acts with respect to the Notes and is required to receive and transmit distributions of principal of and interest on the Notes. DTC Participants and Indirect DTC Participants with which investors have accounts with respect to the Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective investors.

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect DTC Participants and certain banks, the ability of a person having a beneficial interest in a Note held in DTC to transfer or pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a Note held in DTC to such persons may be limited.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account with DTC interests in the relevant Notes are credited, and only in respect of such portion of the aggregate principal amount of the Notes as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange the DTC Restricted Global Note for Definitive Notes, which it will distribute to its participants and which will be legended as set forth under “Subscription and Sale and Transfer Restrictions.”

### Euroclear

Euroclear was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including United States dollars and Japanese yen. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described below.

Euroclear is operated by Euroclear Bank S.A./N.V. (the “Euroclear Operator”), under contract with Euroclear Clearance System plc, a U.K. corporation. The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not Euroclear. The Euroclear Operator establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants (“Euroclear Participants”) include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Joint Lead Managers. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an Indirect DTC Participant.

The Euroclear Operator is a Belgian bank. The Belgian Banking Commission and the National Bank of Belgium regulate and examine the Euroclear Operator.

The Terms and Conditions Governing Use of Euroclear (the “Euroclear Terms and Conditions”) and the related Operating Procedures of Euroclear and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern:

- transfers of securities and cash within Euroclear;
- withdrawal of securities and cash from Euroclear; and
- receipts of payments with respect to securities in Euroclear.

All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding securities through Euroclear Participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Operator and by Euroclear.

### **Clearstream, Luxembourg**

Clearstream Banking, société anonyme, was incorporated as a limited liability company under Luxembourg law. Clearstream, Luxembourg is owned by Cedel International, société anonyme, and Deutsche Börse AG. The shareholders of these two entities are banks, securities dealers and financial institutions.

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thus eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities, securities lending and borrowing and collateral management. Clearstream, Luxembourg interfaces with domestic markets in a number of countries. Clearstream, Luxembourg has established an electronic bridge with the Euroclear Operator to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

As a registered bank in Luxembourg, Clearstream, Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream, Luxembourg customers (“Clearstream, Luxembourg Participants”) are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream, Luxembourg customers are limited to securities brokers and dealers and banks, and may include the Joint Lead Managers or their affiliates. Other institutions that maintain a custodial relationship with a Clearstream, Luxembourg customer may obtain indirect access to Clearstream, Luxembourg. Clearstream, Luxembourg is an Indirect DTC Participant.

Distributions with respect to the Notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg Participants in accordance with its rules and procedures, to the extent received by Clearstream, Luxembourg.

### **Secondary Market Trading in Relation to Global Notes**

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser’s and the seller’s accounts are located to ensure that settlement can be made on the desired value date. Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the following procedures in order to facilitate transfers of interests in a Regulation S Global Note and a DTC Restricted Global Note among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the Trustee, any Agent or the Registrar will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### *Trading between DTC Participants*

Secondary market trading between DTC Participants will be settled using the procedures applicable to global bond issues in same-day funds.

#### *Trading between Euroclear and/or Clearstream, Luxembourg Participants*

Secondary market trading between Euroclear Participants and/or Clearstream, Luxembourg Participants will be settled using the procedures applicable to conventional eurobonds in same-day funds.

#### *Trading between DTC Sellers and Euroclear or Clearstream, Luxembourg Purchasers*

When interests are to be transferred from the account of a DTC Participant to the account of a Euroclear Participant or a Clearstream, Luxembourg Participant, the purchaser will send instructions to Euroclear or Clearstream, Luxembourg through a Euroclear Participant or a Clearstream, Luxembourg Participant, as the case may be, at least one business day prior to settlement. The Euroclear Operator or Clearstream, Luxembourg will instruct its respective depository to receive such interest against payment. Payment will then be made by the depository to the DTC Participant's account against delivery of the interest in the relevant Global Note. After settlement has been completed, the interest will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Euroclear Participant's or Clearstream, Luxembourg Participant's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to, and the interest on the Global Note will accrue from, the value date (which would be the preceding day, when settlement occurred in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Euroclear or Clearstream, Luxembourg cash debit will be valued instead as of the actual settlement date.

Euroclear Participants and Clearstream, Luxembourg Participants will need to make available to the relevant clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement, either from cash on-hand or existing lines of credit, as such Participants would for any settlement occurring with Euroclear or Clearstream, Luxembourg. Under this approach, such Participants may take on credit exposure to the Euroclear Operator or Clearstream, Luxembourg until the interests in the relevant DTC Global Note are credited to their accounts one day later.

As an alternative, if the Euroclear Operator or Clearstream, Luxembourg has extended a line of credit to a Euroclear Participant or a Clearstream, Luxembourg Participant, as the case may be, such Participant may elect not to preposition funds and allow the credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream, Luxembourg Participants purchasing interests in a Global Note held through DTC would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in the relevant Global Note were credited to their accounts. However, interest on the relevant Global Note would accrue from the value date. Therefore, in many cases the investment income on the interest in the relevant Global Note earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

Since settlement takes place during New York business hours, DTC Participants can employ their usual procedures for transferring global bonds to the respective depositories of Euroclear or Clearstream, Luxembourg for the benefit of Euroclear Participants or Clearstream, Luxembourg Participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to DTC Participants, a cross-market sale transaction will settle no differently from a trade between two DTC Participants.

#### *Trading between Euroclear or Clearstream, Luxembourg Sellers and DTC Purchasers*

Due to time zone differences in their favor, Euroclear Participants and Clearstream, Luxembourg Participants may employ their customary procedures for transactions in which interests in a Global Note are to be transferred by the relevant clearing system, through its respective depository, to a DTC Participant at least one business day prior to settlement. In these cases, Euroclear or Clearstream, Luxembourg will instruct its respective depository to deliver the interest in the relevant Global Note to the DTC Participant's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream, Luxembourg Participant the following day, and receipt of the cash proceeds in the Euroclear Participant's or Clearstream, Luxembourg Participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York).

Should the Euroclear Participant or Clearstream, Luxembourg Participant have a line of credit in its respective clearing system and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream, Luxembourg Participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Euroclear or Clearstream, Luxembourg to purchase interests in a Global Note from DTC Participants for delivery to Euroclear Participants or Clearstream, Luxembourg Participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

- borrowing through Euroclear or Clearstream, Luxembourg for one day (until the purchase side of the day trade is reflected in their Euroclear or Clearstream, Luxembourg accounts) in accordance with the clearing system's customary procedures;
- borrowing the interests in the Global Note in the United States from a DTC Participant no later than one day prior to settlement, which would give sufficient time for the Notes to be reflected in their Euroclear or Clearstream, Luxembourg account in order to settle the sale side of the trade; or
- staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the DTC Participant is at least one day prior to the value date for the sale to the Euroclear Participant or Clearstream, Luxembourg Participant.

## Taxation

The following summary contains a description of the principal Mexican federal and U.S. federal income tax consequences of the ownership and disposition of Notes, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase or dispose of Notes. This summary is based on the federal tax laws in force on the date of this Offering Circular (which are subject to change, which change may have retroactive effect), and does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the federal laws of Mexico and the United States.

**Each prospective holder or beneficial owner of Notes should consult its tax advisor as to the Mexican, United States or other tax consequences of the ownership and disposition of the Notes, including the effect of any foreign, state or local tax laws.**

A Convention for the Avoidance of Double Taxation and a Protocol thereto (the "Tax Treaty") between the United States and Mexico was entered into and became effective on January 1, 1994. Provisions of the Tax Treaty that may affect the taxation of certain U.S. holders of Notes are summarized below. The United States and Mexico have also entered into an agreement that covers the exchange of information with respect to tax matters.

Mexico has also entered into, or is negotiating, tax treaties with various other countries that may have effects on holders of Notes. This summary does not discuss the consequences of such treaties.

### Mexican Taxation

This summary of certain Mexican federal tax considerations refers only to holders of Notes that are not residents of Mexico for Mexican tax purposes and that will not hold the Notes or a beneficial interest therein in connection with the conduct of a trade or business through a permanent establishment in Mexico (any such non-resident holder a "Foreign Holder"). For purposes of Mexican taxation, an individual is a resident of Mexico if he has established his residence in Mexico, unless he has resided in another country for more than 183 calendar days, whether consecutive or not, in any one calendar year and can demonstrate that he has become a resident of that other country for tax purposes, and a legal entity is a resident of Mexico if it has been incorporated under the laws of Mexico, maintains the principal place of its management in Mexico or has established its effective management in Mexico. If a person has a permanent establishment in Mexico, such permanent establishment shall be required to pay taxes in Mexico on income attributable to such permanent establishment in accordance with Mexican federal tax law.

*Taxation of Interest and Principal.* Under existing Mexican laws and regulations, a Foreign Holder will not be subject to any taxes or duties imposed or levied by or on behalf of Mexico in respect of payments of principal of the Notes made by the Issuer, the Guarantor or the Subsidiary Guarantors.

Under existing Mexican laws and regulations, payments of interest on the Notes made by the Issuer to a Foreign Holder will not be subject to Mexican withholding taxes. Pursuant to the Mexican Income Tax Law and to general rules issued thereunder by the Ministry of Finance and Public Credit for tax year 2003 (the "Reduced Rate Rules"), interest payments made by the Guarantor or the Subsidiary Guarantors in respect of the Notes to Foreign Holders will be subject to a Mexican withholding tax imposed at a rate of 4.9% (the "Reduced Rate") assuming that: (i) the Notes are placed outside of Mexico in a country with which Mexico has a valid tax treaty in effect through a bank or broker dealer, (ii) the Notes are registered with the Special Section of the Registry maintained by the *Comisión Nacional Bancaria y de Valores* (National Banking and Securities Commission) and evidence of such registration is filed with the Ministry of Finance and Public Credit, (iii) the Guarantor timely files with the Ministry of Finance and Public Credit (a) certain information related to the Notes and this Offering Circular and (b) information representing that no party related to the Guarantor, directly or indirectly, is the effective beneficiary of five percent (5%) or more of the aggregate amount of each such interest payment, and (iv) the Guarantor or the Subsidiary Guarantor maintains records that evidence compliance with (iii)(b) above. The Reduced Rate Rules, together with other tax regulations, are promulgated on an annual basis, and there can be no assurance that the Reduced Rate Rules described above for the application of the Reduced Rate will be extended beyond March 31, 2004.

Capital gains resulting from the sale or other disposition of the Notes by a Foreign Holder will not be subject to Mexican income or other taxes.



Apart from the Reduced Rate, other special rates of Mexican withholding tax may apply. In particular, under the Tax Treaty, the Mexican withholding tax rate is reduced to 4.9% (the “Treaty Rate”) for certain holders that are residents of the United States (within the meaning of the Tax Treaty) under certain circumstances contemplated therein.

Payments of interest made by the Guarantor or a Subsidiary Guarantor in respect of the Notes and to a non-Mexican pension or retirement fund will be exempt from Mexican withholding taxes, provided that any such fund: (i) is duly established pursuant to the laws of its country of origin and is the effective beneficiary of the interest paid, (ii) is exempt from income tax in such country, and (iii) is registered with the Ministry of Finance and Public Credit for that purpose.

*Additional Amounts.* The Issuer, the Guarantor and the Subsidiary Guarantors have agreed, subject to specified exceptions and limitations, to pay Additional Amounts to the holders of the Notes in respect of the Mexican withholding taxes mentioned above. If the Issuer, the Guarantor or a Subsidiary Guarantor pays Additional Amounts in respect of such Mexican withholding taxes, any refunds received with respect to such Additional Amounts will be for the account of the Issuer, the Guarantor or such Subsidiary Guarantor as the case may be.

Holders or beneficial owners of Notes may be requested to provide certain information or documentation necessary to enable the Issuer, the Guarantor or a Subsidiary Guarantor to establish the appropriate Mexican withholding tax rate applicable to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not provided on a timely basis, the obligation of the Issuer, the Guarantor or such Subsidiary Guarantor as the case may be, to pay Additional Amounts will be limited.

*Taxation of Dispositions.* The sale or other disposition of the Notes by a Foreign Holder will not be subject to Mexican taxation.

*Transfer and Other Taxes.* There are no Mexican stamp, registration, or similar taxes payable by a Foreign Holder in connection with the purchase, ownership or disposition of the Notes. A Foreign Holder of Notes will not be liable for Mexican estate, gift, inheritance or similar tax with respect to the Notes.

## **Taxation in the United States**

The following is a summary of certain U.S. federal income tax considerations that may be relevant to the beneficial holder of a Note that is an individual who is a citizen or resident of the United States, or a U.S. domestic corporation, or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in the Notes (a “U.S. holder”). This summary is based on laws, regulations, rulings, decisions as well as the treaty between the United States and Mexico as all currently in effect, all of which are subject to change. Any change could apply retroactively and could affect the continued validity of this summary. This summary deals only with U.S. holders that hold Notes as capital assets, and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, dealers in securities or currencies, traders in securities electing to use mark-to-market method of accounting, persons that will hold Notes as a position in a “straddle” or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction or persons that have a “functional currency” other than the U.S. dollar.

Investors should consult their own tax advisors in determining the tax consequences to them of holding Notes, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign and other tax laws and possible changes in tax law.

## **Payments of Interest and Additional Amounts**

A U.S. holder will be taxed on the gross amount of payments of interest and Additional Amounts (i.e., without reduction for Mexican withholding taxes, determined utilizing the appropriate Mexican withholding tax rate applicable to the U.S. holder) on the Notes as ordinary income at the time such payments are accrued or are received (in accordance with the U.S. holder’s method of tax accounting). Because payments of interest on the Notes will be denominated in Euros, the amount of interest income realized by a U.S. holder that uses the cash method of tax accounting will be the U.S. dollar value of such payments based on the exchange rate in effect on the day of receipt, regardless of whether the payment in fact is converted into U.S. dollars. A U.S. holder that uses the accrual method

of accounting for tax purposes will accrue interest income on the Note in Euros and translate the amount accrued into U.S. dollars based on the average exchange rate in effect during the accrual period (or portion thereof within the U.S. holder's taxable year), or, at the accrual basis U.S. holder's election, at the spot rate of exchange on the last day of the accrual period (or the last day of the U.S. holder's taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period. A U.S. holder that makes such election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service ("IRS"). A U.S. holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss, as the case may be, on the receipt of an interest payment on a Note if the exchange rate in effect on the date the payment is received differs from the rate applicable to the previous accrual of that interest income. This foreign currency gain or loss will be treated as ordinary income or loss but generally will not be treated as an adjustment to interest income received on the Note.

As discussed under "Terms and Condition of the Notes – Taxation," the Guarantor may become liable for the payment of Additional Amounts to U.S. holders so that U.S. holders receive the same amounts they would have received had no Mexican withholding taxes been imposed. For U.S. federal income tax purposes, U.S. holders would be treated as having actually received the amount of Mexican taxes withheld by the Issuer with respect to a Note, and as then having actually paid over the withheld taxes to the Mexican taxing authorities. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. holder from the Issuer with respect to the payment.

Mexican withholding taxes paid at the appropriate rate applicable to the U.S. holder will be treated as foreign income taxes eligible for credit against such U.S. holder's U.S. federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of such U.S. holder, for deduction in computing such U.S. holder's income. Interest and Additional Amounts will constitute income from sources without the United States for U.S. foreign tax credit purposes. Such income generally will constitute "passive income" or, in the case of certain U.S. holders, "financial services income" for U.S. foreign tax credit purposes unless the Mexican withholding tax applicable to the U.S. holder is imposed at a rate of at least 5%, in which case such income generally will constitute "high withholding tax interest."

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of rules that depend on a U.S. holder's particular circumstances. U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits and the treatment of Additional Amounts.

#### **Purchase, Sale and Retirement of Notes.**

A U.S. holder's tax basis in a Note generally will equal the cost of such Note to such holder. The cost of the Note to a U.S. holder will be the U.S. dollar value of the purchase price on the date of purchase or in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. holder (or an accrual basis U.S. holder that so elects), on the settlement date for the purchase. The conversion of U.S. dollars to Euros and the immediate use of the Euros to purchase a Note generally will not result in a taxable gain or loss for a U.S. holder.

Upon the sale, exchange or retirement of a Note, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued interest, which will be subject to tax in the manner described above under "Payments of Interest and Additional Amounts") and the U.S. holder's tax basis in such Note. If a U.S. holder receives Euros in respect of the sale, exchange or retirement of a Note, the amount realized will be the U.S. dollar value of the Euros received calculated at the exchange rate in effect on the date the instrument is disposed of or retired. If the Note is traded on an established securities market, a cash basis U.S. holder, and, if it so elects an accrual basis U.S. holder, will determine the U.S. dollar value of the amount realized by translating such amount at the spot rate on the settlement date of the sale. The election available to accrual basis U.S. holders in respect of the purchase and sale of Notes traded on an established securities market, discussed above, must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to foreign currency gain or loss, the gain or loss that is recognized by a U.S. holder on the sale, exchange or retirement of a Note generally will be long-term capital gain or loss if the U.S. holder has held the Note for more than one year at the time of disposition. Net long-term capital gain recognized by an individual U.S. holder is generally subject to a more favorable tax rate than ordinary income or net short-term capital gain.

Gain or loss recognized by a U.S. holder on the sale, exchange or retirement of a Note generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the holder held such Note. This foreign currency gain or loss will not be treated as an adjustment to interest income received on the Notes.

#### Information Reporting and Backup Withholding

The paying agent must file information returns with the IRS in connection with Note payments made to certain United States persons. A U.S. holder generally will not be subject to United States backup withholding tax on such payments if such U.S. holder provides its taxpayer identification number to the paying agent. A U.S. holder may also be subject to information reporting and backup withholding tax requirements with respect to the proceeds from a sale of the notes. A non-U.S. holder may have to comply with certification procedures to establish that such holder is not a United States person in order to avoid information reporting and backup withholding tax requirements.

#### **Proposed EU Directive on the Taxation of Savings Income**

The Council of the European Union has published a revised draft directive regarding the taxation of savings income. It is proposed that each Member State will be required to provide to the tax authorities of each other Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments. The proposed directive is not yet final.

## Subscription and Sale and Transfer Restrictions

BNP Paribas and J.P. Morgan Europe Limited have, pursuant to a Subscription Agreement dated April 3, 2003, jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe the aggregate principal amount of the Notes at 98.67 per cent. of their principal amount less a selling commission of 0.20 per cent. of the principal amount of the Notes and a combined management and underwriting commission of 0.25 per cent. of the principal amount of the Notes. In addition, the Joint Lead Managers have agreed to reimburse the Issuer for certain of its expenses in connection with the issue of the Notes. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

The Notes, the Guarantee and the Subsidiary Guaranties have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S. The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of a portion of the Notes in the United States to qualified institutional buyers in reliance on Rule 144A.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the latest of (A) the commencement of the offering, (B) the Closing Date and (C) the completion of the distribution of the Notes and any further notes, bonds or debentures issued by the Issuer which, together with the Notes, constitute a single identifiable tranche of notes, or such other date, as determined by the Joint Lead Managers, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Each purchaser of Notes within the United States pursuant to Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (“QIB”), (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) It understands that such Notes, the Guarantee and the Subsidiary Guaranties have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States. No representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resales of the Notes.
- (3) It understands that such Notes, unless the Issuer determines otherwise in compliance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE

MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

- (4) The Issuer, the Guarantor, the Subsidiary Guarantors, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
- (5) It understands that the Notes offered in reliance on Rule 144A will be represented by the DTC Restricted Global Note. Before any interest in the DTC Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

For as long as any Notes are outstanding, each of the Issuer and the Guarantor has agreed that any holder of Notes or prospective purchaser designated by such holder of Notes, or the Trustee, will have the right to obtain from the Guarantor during any period in which the Guarantor is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

Each person purchasing Notes from a Joint Lead Manager or through an affiliate of a Joint Lead Manager pursuant to Rule 144A acknowledges that (i) it has been afforded an opportunity to request from the Issuer and the Guarantor and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein; (ii) it has not relied on any Joint Lead Manager or any person affiliated with any Joint Lead Manager in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and (iii) no person has been authorised to give any information or to make any representation concerning the Issuer, the Guarantor or any of the Subsidiary Guarantors or the Notes, the Guarantee or any of the Subsidiary Guaranties other than those contained in this Offering Circular and, if given or made, such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, any of the Subsidiary Guarantors or any Joint Lead Manager. This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the offer and sale of the Notes outside the United States to non-U.S. persons pursuant to Regulation S, the resale of the Notes in the United States pursuant to Rule 144A and the listing of the Notes on the Luxembourg Stock Exchange. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person other than any qualified institutional buyer within the meaning of Rule 144A to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any qualified institutional buyer in the United States to any U.S. person or to any other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer, is prohibited.

Each Joint Lead Manager has represented, warranted and agreed that (i) it has not offered or sold and, prior to the expiry of a period of six months from the issue date of the Notes, will not offer or sell any Notes to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or

disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (iii) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Issuer will file an application to register the Notes in the Special Section of the Registry. Registration of the Notes with the Registry does not imply any certification as to the investment quality of the Notes, the solvency of the Issuer, the Guarantor or the Subsidiary Guarantors or the accuracy or completeness of the information contained in this Offering Circular. The Notes may not be offered publicly in Mexico.

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) pursuant to Italian securities legislation and, accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy (“Italy”) in a solicitation to the public (*sollecitazione all’investimento*), and therefore Notes in Italy shall only be offered in Italy to “professional investors”, as defined under Article 31, paragraph 2, of CONSOB Regulation No. 11,522 of July 1, 1998, as amended or pursuant to another exemption from the requirements of Articles 94 and seq. of Legislative Decree No. 58 of February 24, 1998 (“Legislative Decree No. 58”) and CONSOB Regulation No. 11,971 of May 14, 1999 (“Regulation No. 11,971”) and shall in any event be effected in accordance with all Italian securities, tax and exchange controls and other applicable laws and regulations. Accordingly, each Joint Lead Manager has represented and agreed that the Notes may not be offered, sold or delivered and neither this Offering Circular nor any other material relating to the Notes may be distributed or made available in Italy, unless such offer, sale or delivery of Notes or distribution or availability of copies of this Offering Circular or any other material relating to the Notes in Italy is (i) made by an investment firm, a bank or a financial intermediary permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of September 1, 1993 (the “Banking Law”), Legislative Decree No. 58, Regulation No. 11,971 and any other applicable laws and regulations; (ii) in compliance with Article 129 of the Banking Law and the implementing instructions of the Bank of Italy, pursuant to which the issue or offer of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending *inter alia* on the amount of the issue and the characteristics of the securities, applies; and (iii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

The Notes are not and will not be offered in The Netherlands other than to persons who trade or invest in securities in the conduct of their profession or trade (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities).

No action has been or will be taken in any jurisdiction by the Joint Lead Managers, the Issuer, the Guarantor or any Subsidiary Guarantor that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular, or any part thereof, or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed that it will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells, or delivers Notes or has in its possession or distributes this Offering Circular, or any part thereof, or any such other material, in all cases at its own expense. Each Joint Lead Manager has agreed that it will also ensure that no obligations are imposed on the Issuer, the Guarantor or any Subsidiary Guarantor in any such jurisdiction as a result of any of the foregoing actions (except to the extent that such actions are the actions of the Issuer, the Guarantor or any Subsidiary Guarantor). The Issuer, the Guarantor and each Subsidiary Guarantor will have no responsibility for, and each Joint Lead Manager has agreed that it will obtain any consent, approval or permission required by it for the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it may make any acquisition, offer, sale or delivery.

No Joint Lead Manager is authorized to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in this Offering Circular and any other information or document supplied.

## General Information

1. The DTC Restricted Global Note has been accepted for clearance and settlement in DTC's book-entry settlement system. The CUSIP number for the DTC Restricted Global Note is 706451AK7 and the ISIN number is US706451AK77. The Regulation S Global Note has been accepted for clearance through Clearstream, Luxembourg and Euroclear. The Common Code for the Regulation S Global Note is 16620505 and the ISIN number is XS0166205053. All payments of principal and interest with respect to the DTC Restricted Global Notes will be converted to U.S. dollars in accordance with the procedures set out in the terms and conditions of the Notes and the Agency Agreement unless the relevant participants elect to receive such payment of principal or interest in euros.
2. In connection with the application to list the Notes on the Luxembourg Stock Exchange, a legal notice relating to the issue of the Notes and copies of the Trust Agreement establishing the Issuer will be deposited with the Chief Registrar of the District Court in Luxembourg ("*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*") where such documents may be examined and copies obtained.
3. The issue of the Notes was authorized by the Managing Trustee of the Issuer on April 3, 2003 and by resolution of the Board of Directors of the Guarantor passed on January 9, 2003. The Guarantor has obtained the authorization of the Ministry of Finance and Public Credit of Mexico on March 26, 2003 and all necessary consents, approvals and authorizations in Mexico in connection with the issue of, and performance of its rights and obligations under, the Notes, including the registration of the Subscription Agreement, Trust Deed (including the Guarantee), Agency Agreement, Subsidiary Guaranty Agreement and the forms of the Notes attached to the Trust Deed. The Issuer is obliged and has undertaken to register the Notes with the Special Section of the Registry. The Board of Directors of each of Pemex-Refinación, Pemex-Gas y Petroquímica Básica and Pemex-Exploración y Producción authorized the signing of the Subsidiary Guaranty Agreement on June 19, 1996 and June 25, 1996.
4. Except as disclosed herein there has been no material adverse change in the financial position of the Issuer, the Guarantor or the Subsidiary Guarantors since the date of the latest audited financial statements included herein.
5. None of the Issuer, the Guarantor or any of the Subsidiary Guarantors is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes. None of the Issuer, the Guarantor or any of the Subsidiary Guarantors is aware of any such litigation or arbitration proceeding pending or threatened.
6. The Guarantor and the Subsidiary Guarantors are decentralized public entities of the Mexican Government. None of the directors and executive officers of the Guarantor and the Subsidiary Guarantors are residents of the United States, and all or a substantial portion of the assets of the Guarantor or Subsidiary Guarantors and such persons are located outside the United States. It may not be possible for investors to effect service of process within the United States upon the Guarantor and the Subsidiary Guarantors or such persons or to enforce against any of them, in United States courts, judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.
7. Copies of the latest annual report and consolidated accounts of PEMEX, including the Issuer, and each of the Subsidiary Guarantors (which are consolidated with those of PEMEX) and copies of the trust agreement pursuant to which the Issuer was established may be obtained, and copies of the Organic Law constituting the Guarantor and its Subsidiary Entities and of the Trust Deed, incorporating the form of Notes and Guarantees, the Guarantee Agreement and the Agency Agreement will be available for inspection during usual business hours on any day (except Saturday and Sunday and legal holidays) at the specified offices of each of the Agents, so long as any of the Notes are outstanding. Neither the Issuer nor the Subsidiary Guarantors publish their own accounts and none of them will publish interim financial statements. None of the Issuer, the Guarantor or the Subsidiary Guarantors publish interim consolidated financial statements on a regular basis.
8. The principal offices of PricewaterhouseCoopers, S.C., auditors of PEMEX for fiscal year ended December 31, 2001, are located at Mariano Escobedo 573, Col. Rincón del Bosque, 11580 Mexico, D.F. The principal offices of Mancera, S.C. (a Member Practice of Ernst & Young Global), auditors of PEMEX for fiscal years ended December 31, 2000 and 1999, are located at Jaime Balmes 11 "D" Piso 6, Plaza Polanco, 11510 Mexico, D.F.
9. The Mexican Government is not legally or otherwise liable for obligations incurred by the Issuer or PEMEX.

10. Under Mexican law, all domestic hydrocarbon reserves are permanently and inalienably vested in Mexico and Mexico can exploit such hydrocarbon reserves only through the Guarantor and the Subsidiary Guarantors.

11. Article 27 of the Constitution, Articles 1,2,3 and 4 (and related Articles) of the Regulatory Law, Articles 15, 16 and 19 of the Regulations to the Regulatory Law, Articles 16 and 60 (and other related Articles) of the General Law on National Patrimony, Articles 1, 2, 3 and 4 (and other related Articles) of the Organic Law and Article 4 of the Federal Code of Civil Procedure of Mexico, set forth, *inter alia*, that (i) attachment prior to judgment, attachment in aid of execution and execution of a final judgment may not be ordered by Mexican courts against property of the Issuer, the Guarantor and the Subsidiary Guarantors, (ii) all domestic petroleum and hydrocarbon resources (whether solid, liquid, gas or intermediate form) are permanently and inalienably vested in Mexico (and, to that extent, subject to immunity), (iii) (a) the exploration, exploitation, refining, transportation, storage, distribution and first-hand sale of crude oil, (b) the exploration, exploitation, production and first-hand sale of natural gas, as well as the transportation and storage inextricably linked with such exploitation and production, and (c) the production, transportation, storage, distribution and first-hand sale of the derivatives of petroleum (including petroleum products) and of natural gas used as basic industrial raw materials and considered “Basic Petrochemicals” (the “Petroleum Industry”), are reserved exclusively to Mexico (and, to that extent, assets related thereto are entitled to immunity); and (iv) the public entities created and appointed by the Federal Congress of Mexico to conduct, control, develop and operate the Petroleum Industry of Mexico are the Guarantor and the Subsidiary Guarantors (and, therefore, entitled to immunity in respect of such exclusive rights and powers). Except for the rights of immunity granted to the Guarantor and the Subsidiary Guarantors by the above mentioned provisions, neither the Guarantor nor the Subsidiary Guarantors nor their respective properties or assets has any immunity in Mexico from jurisdiction of any court or from set-off or any legal process (whether through process or notice, or otherwise).

12. In the event that proceedings are brought in Mexico seeking performance of the obligations of the Guarantor or the Subsidiary Guarantors in Mexico, pursuant to the Monetary Law of the United Mexican States, the Guarantor or any of the Subsidiary Guarantors may discharge its obligations by paying any sum due in a currency other than Mexican currency, in Mexican currency at the rate of exchange prevailing in Mexico on the date when payment is made. Such rate is currently determined by Banco de México and published in the Official Gazette of the Federation every business day in Mexico.

13. The Issuer and the Guarantor have agreed that, for so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the Guarantor will, during any period in which the Guarantor is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or prospective purchaser designated by such holder or beneficial owner, upon the request of such holder in connection with a transfer or proposed transfer of such restricted securities, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.



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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 20-F**

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**ANNUAL REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2001

Commission File Number: 0-99

**PETROLEOS MEXICANOS**

(Exact name of registrant as specified in its charter)

**Mexican Petroleum**

(Translation of registrant's name into English)

**United Mexican States**

(Jurisdiction of incorporation or organization)

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**Avenida Marina Nacional No. 329**

**Colonia Huasteca**

**Mexico, D.F. 11311**

**Mexico**

(Address of principal executive offices)

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**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

None

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

Title of Each Class

8.85% Global Guaranteed Notes due 2007

9.50% Global Guaranteed Bonds due 2027

8<sup>3</sup>/<sub>8</sub>% Global Guaranteed Notes due 2005

9<sup>1</sup>/<sub>4</sub>% Global Guaranteed Bonds due 2018

9<sup>3</sup>/<sub>8</sub>% Notes due December 2, 2008, Puttable at Par on December 2, 2001

9.50% Puttable or Mandatorily Exchangeable Securities (POMES<sup>SM</sup>) due 2027

8.50% Notes due 2008

9.125% Notes due 2010

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:**

None

**Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.**

Yes       No

**Indicate by check mark which financial statement item the registrant has elected to follow:**

Item 17       Item 18

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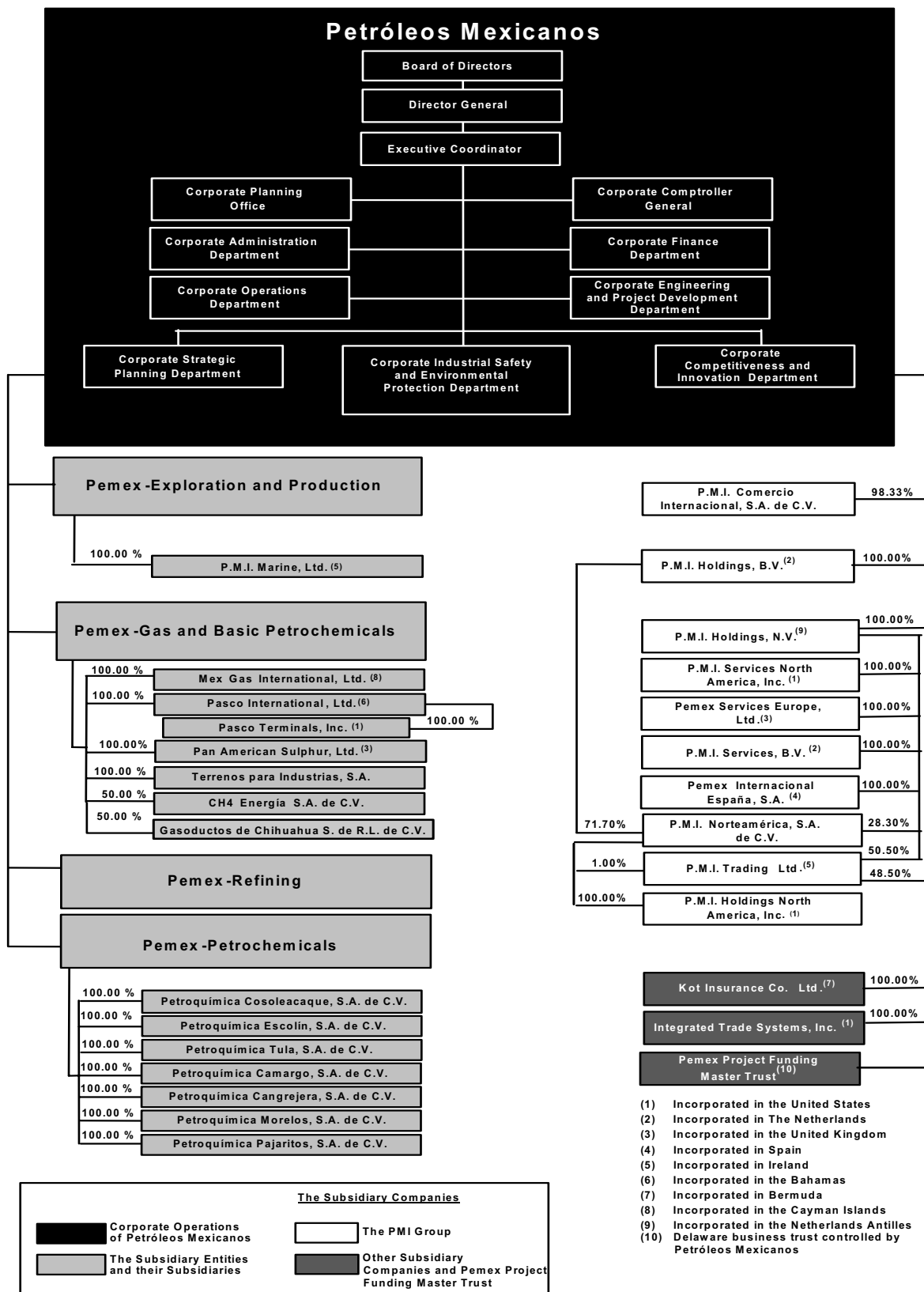
(\*) Omitted because the item is inapplicable or the answer is negative.

Petróleos Mexicanos and its four subsidiary entities, *Pemex-Exploración y Producción* (Pemex-Exploration and Production), *Pemex-Refinación* (Pemex-Refining), *Pemex-Gas y Petroquímica Básica* (Pemex-Gas and Basic Petrochemicals) and *Pemex-Petroquímica* (Pemex-Petrochemicals), comprise Mexico's state oil and gas company. Each of Petróleos Mexicanos and the subsidiary entities is a decentralized public entity of the Mexican Government and is a legal entity empowered to own property and carry on business in its own name. In addition, a number of subsidiary companies that are defined in Note 1 and listed in Note 2 c) to our financial statements included in Item 18 (the "Financial Statements"), including the Pemex Project Funding Master Trust, are incorporated into the consolidated financial statements; these subsidiary companies are also identified with the corresponding ownership percentages in "Consolidated Structure of PEMEX" on page 3. Petróleos Mexicanos, the subsidiary entities and the consolidated subsidiary companies are collectively referred to as "PEMEX" or "we."

References herein to "U.S. \$," "\$," "U.S. dollars" or "dollars" are to United States dollars. References herein to "pesos" or "Ps." are to the lawful currency of the United Mexican States ("Mexico"). The term "billion" as used herein means one thousand million. We maintain our consolidated financial statements and records in nominal or current pesos. Unless otherwise indicated, we have converted all peso amounts to U.S. dollars in this Form 20-F, including all convenience conversions of the Financial Statements, at an exchange rate of Ps. 9.1423 = \$1.00, which is the exchange rate that the Ministry of Finance and Public Credit provided us on December 31, 2001. You should not construe these conversions from pesos into dollars as actually representing such U.S. dollar amounts or meaning that you could convert such amounts into U.S. dollars at the rates indicated. The peso has depreciated substantially in relation to the U.S. dollar since the end of 1994, when the Mexican Government allowed the peso to float freely against the U.S. dollar and the Mexican Government established a broad economic reform program in response to these and other events. Due to the volatility of the peso/dollar exchange rate, the exchange rate on any date subsequent to the date hereof could be materially different from the rate indicated above. See "Item 3—Key Information—Exchange Rates" for information regarding the rates of exchange between pesos and U.S. dollars.

The Private Securities Litigation Reform Act of 1995 provides for a safe harbor for forward-looking statements. This Form 20-F contains words, such as "believe," "expect" and "anticipate" and similar expressions that identify forward-looking statements, which reflect our views about future events and financial performance. Actual results could differ materially from those projected in such forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on us from competition, changes in the limitations on our access to sources of financing on competitive terms, significant economic or political developments in Mexico, particularly developments affecting the energy sector, and changes in our regulatory environment. Accordingly, you should not place undue reliance on these forward-looking statements. In any event, these statements speak only as of their dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

# CONSOLIDATED STRUCTURE OF PEMEX



**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

### Item 3. Key Information

#### SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Financial Statements included in Item 18. The selected financial data set forth below as of the five years ended December 31, 2001 have been derived from the consolidated financial statements of PEMEX for the years ended December 31, 1997 and 1998 (which are not included herein) and the consolidated financial statements of PEMEX for the years ended December 31, 1999, 2000 and 2001. The consolidated financial statements of PEMEX for the years ended December 31, 1999 and 2000 were audited by Mancera, S.C. (a Member Practice of Ernst & Young Global), and the consolidated financial statements of PEMEX for the year ended December 31, 2001 were audited by PricewaterhouseCoopers, S.C. See “Item 5—Operating and Financial Review and Prospects—Change in Independent Auditors.”

The Financial Statements are prepared in accordance with Mexican Generally Accepted Accounting Principles (which we refer to as “Mexican GAAP”) and, as to the recognition of inflation, in accordance with the guidelines established in Financial Reporting Standard NIF-06 BIS “A,” section A. See Notes 2b) and 15 to the Financial Statements for a discussion of the inflation accounting rules applicable to us. Mexican GAAP differs in certain significant respects from United States Generally Accepted Accounting Principles (which we refer to as “U.S. GAAP”). The most important of the material items generating a difference between operating results under U.S. and Mexican GAAP are the accounting methodologies for the treatment of exploration and drilling costs, pension premiums and post-retirement benefit obligations, financial instruments, inflation, foreign exchange losses, capitalized interest, and depreciation and impairment of fixed assets, which are described in Note 19 to the Financial Statements and are summarized below.

Under Mexican GAAP, we charge exploration and drilling costs to the equity reserve for exploration and depletion of oil fields. Exploration and drilling costs related to successful oil wells are credited to the equity reserve and recorded as fixed assets. Cost of sales is recognized by recording a charge for each barrel of crude oil extracted in the statement of operations and recording a credit to the equity reserve. Under U.S. GAAP, we initially capitalize the costs of drilling exploratory wells and exploratory-type stratigraphic test wells, which are subsequently charged to expense if proved reserves are not discovered. Development costs, including the costs of drilling development wells and development-type stratigraphic test wells, are capitalized.

Seniority premiums and retirement plans generate a difference between U.S. and Mexican GAAP due to the different actuarial cost assumptions and implementation dates applied under Mexican GAAP Bulletin D-3, “Labor Obligations,” and Statement of Financial Accounting Standards (SFAS) No. 87, “Employers Accounting for Pensions.”

Under Mexican GAAP, we account for supplemental payments under our Bulletin D-3 calculations. However, we account for other health service benefits on a pay-as-you-go basis under Mexican GAAP. Under U.S. GAAP, we follow the guidelines of SFAS No. 106, “Employers’ Accounting for Post-Retirement Benefits Other than Pensions,” in accounting for health service and other supplemental payments provided to retirees.

On January 1, 2001, we adopted Bulletin C-2, “Financial Instruments,” issued by the Mexican Institute of Public Accountants (MIPA), for Mexican GAAP purposes, and SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (as amended by SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133,” and SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities”), for U.S. GAAP purposes. The principal differences between the cumulative effect adjustment and current period income effect under Mexican GAAP and U.S. GAAP relate primarily to the accounting for cross currency swaps, foreign currency embedded derivatives and the accounting for equity swaps contracts related to shares of Repsol YPF, S.A., which we refer to as “Repsol,” described in Note 10 to the Financial Statements.

We apply NIF-06 BIS “A,” section A, to our financial statements to reflect the effects of inflation. NIF-06 BIS “A,” section A, provides for the restatement of fixed assets, inventories and costs of sales by indexing and/or appraisals. Since NIF-06 BIS “A,” section A, does not represent a comprehensive basis of inflation accounting,

beginning with our 1992 fiscal year, we have reversed the effects of NIF-06 BIS “A,” section A, on our financial statements from the U.S. GAAP reconciliation of income and equity. Under NIF-06 BIS “A,” section A, a devaluation of the peso does not have a negative impact on our income because exchange losses are capitalized into fixed assets. Furthermore, a devaluation of the peso relative to the dollar results in an increase in our income to the extent that our expenses remain relatively stable because they are incurred in pesos, while our revenues, which are mostly denominated in dollars or linked to international dollar-denominated prices, increase in peso terms. In contrast, under U.S. GAAP, a devaluation of the peso has a negative impact on our income because the exchange losses are not capitalized but are charged immediately to income. This one-time charge to income will be gradually offset by lower depreciation as the asset base is reduced. In any particular accounting period, the negative impact of a devaluation is, therefore, greater when the devaluation occurs at or near the end of the accounting period, as occurred with the peso at the end of 1994.

With respect to foreign exchange losses, under Mexican GAAP, exchange losses arising from debt are capitalized as part of fixed assets, and any remaining net exchange differences are reflected in the statement of operations as either a debit to costs and operating expenses or a credit to revenues. Under U.S. GAAP, all exchange gains or losses have been recognized in results of operations.

The treatment of capitalized interest for Mexican GAAP purposes differs from the treatment of capitalized interest in the reconciliation of the financial statements to U.S. GAAP. For Mexican GAAP purposes, we capitalize interest to property, plant and equipment based on the total interest cost incurred on loans allocated to construction projects, regardless of whether or not the amounts borrowed have been spent on such projects. For purposes of the U.S. GAAP reconciliation, we capitalize interest based upon total interest incurred in proportion to additions to construction in progress.

Under Mexican GAAP, we depreciate the book value of its fixed assets, which includes amounts capitalized for foreign exchange losses and restatements for inflation. For U.S. GAAP purposes, we have reversed this depreciation expense attributable to foreign exchange losses and restatements for inflation.

Under SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of,” we are required to evaluate our long-lived assets for impairment for U.S. GAAP purposes whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable or is permanently impaired. Such impaired assets must be permanently written down to fair value or the present value of expected future cash flows on related assets. This requirement does not exist under Mexican GAAP.

For a further discussion of these and other adjustments, see “Item 5—Operating and Financial Review and Prospects—U.S. GAAP Reconciliation” and Note 19 to the Financial Statements.



## Selected Financial Data of PEMEX

	Year Ended December 31, <sup>(1)(2)</sup>					
	1997	1998	1999	2000	2001	2001 <sup>(3)</sup>
(in millions of pesos or U.S. dollars)						
<b>Income Statement Data</b>						
Amounts in accordance with Mexican GAAP:						
Net sales <sup>(4)</sup> .....	Ps. 264,030	Ps. 256,987	Ps. 334,814	Ps. 468,268	Ps. 445,330	\$ 48,711
Total revenues <sup>(4)</sup> .....	269,507	265,749	344,979	478,688	457,385	50,030
Total revenues net of the						
IEPS Tax .....	231,779	199,894	256,630	409,132	362,187	39,617
Operating income .....	166,619	140,299	187,669	274,057	230,703	25,235
Income (loss) for the period .....	7,133	(11,588)	(21,157)	(19,710)	(34,091)	(3,729)
<b>Balance Sheet Data (end of period)</b>						
Amounts in accordance with Mexican GAAP:						
Cash and cash equivalents .....	17,429	14,631	23,987	27,827	14,442	1,580
Total assets .....	339,452	416,691	482,248	563,468	556,883	60,913
Long-term debt .....	56,339	87,615	83,127	104,370	123,170	13,473
Total long-term liabilities .....	132,814	206,728	236,599	317,096	362,069	39,603
Equity .....	153,123	167,138	161,469	150,605	122,866	13,439
Amounts in accordance with U.S. GAAP:						
Net sales <sup>(5)</sup> .....	226,302	191,132	246,465	398,711	350,131	38,298
Operating income <sup>(5)</sup> .....	129,595	73,583	106,024	208,862	142,803	15,620
Income (loss) for the period .....	9,177	(27,364)	(15,370)	(16,697)	(25,444)	(2,783)
Total assets .....	257,251	283,540	362,947	434,743	432,687	47,328
Equity (deficit) .....	59,951	29,735	12,904	(13,567)	(42,331)	(4,630)
<b>Other Financial Data</b>						
Amounts in accordance with Mexican GAAP:						
Depreciation and amortization .....	11,482	15,697	23,941	26,061	28,453	3,112
Investments at cost <sup>(6)</sup> .....	28,109	43,936	40,497	76,233	51,672	5,652
Ratio of earnings to fixed charges:						
Mexican GAAP <sup>(7)</sup> .....	1.54	—	—	—	—	—
U.S. GAAP <sup>(7)</sup> .....	1.81	—	—	—	—	—

Note: N.A. = not available

- (1) Includes Petróleos Mexicanos, the subsidiary entities and the subsidiary companies. Beginning with the year ended December 31, 1998, we include the financial position and results of the Pemex Project Funding Master Trust. Beginning with the year ended December 31, 2000, we include the financial position and results of Mex Gas International, Ltd. For U.S. GAAP purposes, beginning with the year ended December 31, 2001, we include the financial position and results of Pemex Finance, Ltd.
- (2) Each of our financial statements for the five years ended December 31, 2001 was prepared according to Mexican GAAP but recognizes the effect of inflation according to Mexican Financial Reporting Standard NIF-06 BIS "A," section A, which is different from Mexican GAAP Bulletin B-10. Mexican GAAP differs from U.S. GAAP. The most important of the material differences between U.S. GAAP and Mexican GAAP affecting PEMEX are the accounting treatment of: (1) exploration and drilling costs, (2) pensions and post-retirement obligations, (3) financial instruments, (4) inflation, (5) foreign exchange losses, (6) capitalized interest, (7) depreciation and (8) impairment of fixed assets. For a further discussion of these and other differences, see Note 19 to the Financial Statements.
- (3) Conversions into U.S. dollars of amounts in pesos have been made at the established exchange rate for accounting purposes of Ps. 9.1423 = U.S. \$1.00 at December 31, 2001.
- (4) Includes the IEPS Tax as part of the sales price of the products sold.
- (5) Figures do not include IEPS Tax as part of the sales price of the products sold.
- (6) Includes investments in fixed assets and capitalized interest, and excludes certain expenditures charged to the oil field exploration and depletion reserve. See "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources."
- (7) Under U.S. GAAP, earnings for the years ended December 31, 1998, 1999, 2000 and 2001 were insufficient to cover fixed charges. The amount by which fixed charges exceeded earnings was Ps. 21,076 million for 1998, Ps. 5,253 million for 1999, Ps. 624 million for 2000 and Ps. 10,857 million for 2001. Under Mexican GAAP, earnings for the years ended December 31, 1998, 1999, 2000 and 2001 were insufficient to cover fixed charges; the amount by which fixed charges exceeded earnings was 5,020 million for 1998, Ps. 11,310 million for 1999, Ps. 4,092 million for 2000 and Ps. 18,258 million for 2001.

Source: PEMEX's financial statements

PEMEX does not prepare comprehensive price-level adjusted financial statements in accordance with Bulletin B-10, "Recognition of the Effects of Inflation on Financial Information," under Mexican GAAP. For the years ended December 31, 1997 and 1998, Mexico was deemed to be a hyperinflationary economy. Pursuant to

Rule 3-20(c) of Regulation S-X promulgated by the U.S. Securities and Exchange Commission, PEMEX has included unaudited selected financial data prepared on the basis of price-level adjusted financial information for these years reflecting the impact of U.S. GAAP adjustments and reclassifications. For the years ended December 31, 1999, 2000 and 2001, Mexico was not considered a hyperinflationary economy. However, we have continued to provide supplemental unaudited price-level adjusted financial information for these subsequent years in lieu of a comprehensive price-level adjustment that would result from our adoption of Bulletin B-10. In the opinion of PEMEX management, all adjustments that are necessary for a fair presentation of the price-level adjusted financial information have been included herein. This unaudited price-level adjusted financial data is derived from the supplemental price-level adjusted financial information included elsewhere and should also be read in conjunction with the Financial Statements included herein.

**Selected Financial Data of PEMEX  
(continued)**

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(in millions of constant 2001 pesos)				
<b>Unaudited Price-level Adjusted Information</b>					
<b>Income Statement Data</b>					
Amounts in accordance with U.S. GAAP:					
Net sales <sup>(1)</sup> .....	Ps. 363,422	Ps. 264,769	Ps. 292,849	Ps. 432,680	Ps. 357,215
Total revenues <sup>(1)</sup> .....	372,747	275,646	301,461	443,037	372,425
Net income (loss) .....	23,316	(19,843)	(21,069)	(36,573)	(17,251)
<b>Balance Sheet Data (end of period)</b>					
Amounts in accordance with U.S. GAAP:					
Cash and cash equivalents .....	26,413	18,694	27,287	29,052	14,488
Total assets .....	485,938	517,330	555,136	590,540	576,220
Long-term debt .....	85,380	111,947	94,563	108,966	162,291
Total long-term liabilities .....	202,614	267,281	291,081	357,433	388,095
Total equity .....	190,388	180,156	167,970	132,604	110,890

(1) Total revenues and net sales figures do not include the IEPS Tax as part of the sales price of the products sold.  
Source: *Petróleos Mexicanos*

## EXCHANGE RATES

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rate for the purchase of U.S. dollars, expressed in pesos per U.S. dollar.

<u>Period</u> Year Ended December 31,	<u>Exchange Rate</u>			
	<u>High</u>	<u>Low</u>	<u>Average<sup>(1)</sup></u>	<u>Period End</u>
1997 .....	8.410	7.717	7.967	8.070
1998 .....	10.630	8.040	9.243	9.901
1999 .....	10.600	9.243	9.563	9.480
2000 .....	10.087	9.183	9.472	9.618
2001 .....	9.972	8.946	9.337	9.156
<b>2002:</b>				
January.....	9.250	9.095	9.164	9.152
February.....	9.170	9.048	9.105	9.130
March.....	9.114	9.001	9.064	9.001
April.....	9.375	9.002	9.165	9.375
May.....	9.713	9.408	9.510	9.653
June.....	9.980	9.605	9.767	9.980
July.....	9.970	9.613	9.779	9.800
August.....	9.962	9.738	9.839	9.919
September.....	10.350	9.955	10.071	10.212
October.....	10.222	9.947	10.094	10.150

(1) Average of month-end rates.

Source: Noon buying rate for cable transfers in New York reported by the Federal Reserve Bank of New York

The noon buying rate for cable transfers in New York reported by the Federal Reserve Bank of New York on November 26, 2002 was Ps. 10.1590 = U.S. \$1.00.

## RISK FACTORS

### Risk Factors Related to the Operations of PEMEX

#### *Crude oil prices are volatile, and low oil prices negatively affect PEMEX's income*

International crude oil prices fluctuate due to many factors, including:

- changes in global supply and demand for crude oil and refined petroleum products;
- availability and price of competing commodities;
- international economic trends;
- currency exchange fluctuations;
- expectations of inflation;
- actions of commodity markets participants;
- domestic and foreign government regulations; and

- political events in major oil producing and consuming nations.

We have no control over these factors. Historically, the weighted average price of the crude oil that we export has fluctuated from a high of U.S. \$26.82 per barrel in 1984 to a low of U.S. \$15.55 per barrel in 1999. In 2001, the weighted average price of PEMEX crude oil was U.S. \$18.57 per barrel, 24.6% lower than the weighted average price during 2000. On November 25, 2002, the weighted average spot price of PEMEX crude oil was U.S. \$19.99.

When international crude oil and natural gas prices are low, we earn less export sales revenue, and, therefore, lower income because our costs remain roughly constant. Conversely, when crude oil and natural gas prices are high, we earn more export sales revenue and our income increases. As a result, future fluctuations in international crude oil prices will directly affect our results of operations and financial condition. We do not enter into transactions to hedge against fluctuations in crude oil prices.

***Decreases in PEMEX's estimates from time to time of Mexico's hydrocarbon reserves could reduce PEMEX's potential future income***

The reserve data set forth in this Form 20-F represent only estimates. Estimating quantities of proved hydrocarbon reserves and projecting future rates of production and timing of development expenditures is an inexact process and is subject to many factors beyond our control. The accuracy of any reserve estimate depends on the quality of available data and engineering and geological interpretation and judgment. As a result, estimates of different engineers may vary. Additionally, the results of drilling, testing and production subsequent to the date of an estimate may justify revision of an estimate. Therefore, proved reserve estimates may be materially different from the quantities of crude oil and natural gas that we can ultimately recover.

Pemex-Exploration and Production revises its estimates of Mexico's hydrocarbon reserves annually. This process may result in material revisions to our estimates of Mexico's hydrocarbon reserves.

***PEMEX is an integrated oil and gas company and is exposed to production, equipment and transportation risks***

We are subject to production, equipment and transportation risks that are common among oil and gas companies. For example, we encounter:

- production risk—*i.e.*, risk related to fluctuations in production that may be affected by reserve levels, accidents, mechanical difficulties, adverse natural conditions, such as bad weather and other acts of God, as well as the inability to manage unforeseen production costs;
- equipment risk—*i.e.*, risk related to adequacy and condition of the production facilities, including equipment becoming obsolete; and
- transportation risk—*i.e.*, risk related to the condition of pipelines and vulnerability of other modes of transportation.

In particular, our business is subject to the risk of:

- pipeline explosions (oil or natural gas);
- explosions in refineries, petrochemical plants, storage and distribution terminals or buoys and monobuoys;
- hurricanes in the Gulf of Mexico;
- unexpected geological formations or pressures;

- blow outs, which are sudden, violent explosions of oil, natural gas or water from a drilling well, followed by an uncontrolled flow from the well;
- fires and cratering, which is the caving in and collapse of the earth's structure around a blow out well; and
- mechanical failures and collapsed holes, particularly in horizontal wellbores.

The occurrence of any of these events could result in:

- personal injuries or loss of life;
- environmental damage and the necessary clean-up costs and expenses; or
- other damage to our property or the property of others.

In accordance with customary industry practice, we have purchased insurance policies covering some of these risks. However, these policies do not cover all potential liabilities that may result from these risks. In addition, insurance is not available for some of these risks. See "Item 4—Information on the Company—Business Overview—PEMEX Corporate Matters—Insurance."

***PEMEX's compliance with environmental regulations in Mexico could result in material adverse effects on its results of operations***

A wide range of general and industry-specific Mexican federal and state environmental laws and regulations apply to our operations. Numerous Mexican Government agencies and departments issue rules and regulations which are often difficult and costly to comply with and which carry substantial penalties for non-compliance. This regulatory burden on us increases our cost of doing business and can:

- require us to make significant capital expenditures on measures to protect the environment, including abandoning and dismantling onshore wells and offshore platforms;
- reduce our ability to extract hydrocarbons when extraction endangers the environment;
- reduce our sales revenues if production is reduced to meet environmental regulations;
- increase production costs and make our products relatively more expensive as compared to the hydrocarbon and refined products of our competitors; and
- reduce our profitability through a combination of the above.

At December 31, 2001, our estimated and accrued environmental liabilities totaled Ps. 2,316 million. See "Item 4—Information on the Company—Environmental Regulation—Environmental Liabilities."

***PEMEX publishes less financial information than U.S. companies are required to file with the U.S. Securities and Exchange Commission***

We prepare our financial statements according to Mexican GAAP, except as to the recognition of inflation, which is recognized in our financial statements according to the Mexican Financial Reporting Standards applicable to Mexican public sector companies. Mexican GAAP differs in certain significant respects from U.S. GAAP. See "Item 3—Key Information—Selected Financial Data" and Note 19 to the Financial Statements. In addition, we generally only prepare U.S. GAAP information on a yearly basis. As a result, there may be less or different publicly available information about us than there is about U.S. issuers.

## **Risk Factors Related to the Relationship between PEMEX and the Mexican Government**

### ***The Mexican Government controls PEMEX, and the Mexican Congress approves the annual budget and financing program of Petróleos Mexicanos and the subsidiary entities***

Mexico is the sole owner of Petróleos Mexicanos and the subsidiary entities, and the Mexican Government closely regulates and supervises our operations. Mexican Government ministers control key executive decisions at Petróleos Mexicanos. The Secretary of Energy of Mexico is the Chairman of the Board of Directors of Petróleos Mexicanos. The *Secretaría de la Contraloría y Desarrollo Administrativo* (the General Comptroller's Office of the Mexican Government, which we refer to as "SECODAM"), appoints the external auditors of Petróleos Mexicanos and the subsidiary entities.

The Mexican Government incorporates Petróleos Mexicanos and the subsidiary entities' annual budget and financing program into its consolidated annual budget, which it submits to the Mexican Congress for its approval. The Mexican Congress also designates certain of our largest capital expenditures as long-term productive infrastructure projects (which we refer to as "PIDIREGAS"). See "Item 4—Information on the Company—History and Development—Capital Expenditures and Investments."

The Mexican Government has the power to intervene directly or indirectly in our commercial affairs. Such an intervention could have an adverse effect on us and thereby adversely affect our or our subsidiaries' ability to make payments under any securities issued or guaranteed by us. For instance, if the Mexican Government were to cause us to reduce production or limit future capital expenditures, this could reduce our ability to generate the necessary income to support payments on our debt, or to transfer the necessary funds between any of our subsidiaries to make payments on their debts.

### ***The Mexican Government may privatize all or part of Petróleos Mexicanos and the subsidiary entities***

The Mexican Government would have the power, if federal law and the *Constitución Política de los Estados Unidos Mexicanos* (the Political Constitution of the United Mexican States) were amended, to privatize all or a portion of Petróleos Mexicanos and the subsidiary entities or its assets. The Mexican Government could also transfer the activities of PEMEX to another Mexican Government-controlled entity if these changes were made. These types of actions could adversely affect our operations by affecting our workforce, causing an interruption in production that could decrease output and negatively affect our income from operations. In addition, the privatization could cause us to default on our obligations under certain of our indebtedness, including all of our publicly traded debt securities, which could entitle the holders of this indebtedness to declare it immediately due and payable. In this case, investors in debt securities would be entitled to recover their entire investment and their only loss would be that attributable to future interest income. See also "—Considerations Related to Mexico" below.

### ***The Mexican Government has entered into agreements with other nations to limit production***

Historically, member countries of the Organization of the Petroleum Exporting Countries, commonly referred to as OPEC, have entered into agreements to reduce their production of crude oil. These agreements have sometimes increased global crude oil prices by decreasing the global supply of crude oil. Although Mexico is not a member of OPEC, it has entered into agreements with OPEC and non-OPEC countries to reduce global crude oil supply.

For example, following OPEC's announcement in January 2001 that it would reduce crude oil production by 1.5 million barrels per day, Mexico announced it would decrease its crude oil exports by 75 thousand barrels per day, beginning on February 1, 2001. Following a March 2001 announcement by OPEC of an additional 1.0 million barrel per day reduction in crude oil production, Mexico announced on March 25, 2001 that it would further reduce its crude oil exports by 40 thousand barrels per day, beginning on April 1, 2001. On January 2, 2002, following an OPEC announcement that it would reduce crude oil production by 1.5 million barrels per day, Mexico announced it would reduce its crude oil exports by 100 thousand barrels per day to 1.66 million barrels per day for six months, beginning on January 1, 2002. Most recently, following an OPEC announcement that it would maintain current

crude oil production levels through fourth quarter 2002, Mexico affirmed that it would maintain its crude oil exports at their present levels for the same period.

We do not control the Mexican Government's international affairs and the Mexican Government could agree with OPEC or other countries to reduce our crude oil production or exports in the future. To the extent that such international agreements restrict our exports of crude oil, it is possible that Mexican domestic markets will not be able to consume additional amounts of crude oil that we are not allowed to export as a result of such agreements, thus reducing our revenues.

***PEMEX does not own the hydrocarbon reserves in Mexico***

A guaranteed source of petroleum and other hydrocarbons is essential to an oil company's production and generation of income. As a result, many oil and gas companies own hydrocarbon reserves. The Political Constitution of the United Mexican States provides that the Mexican nation, not PEMEX, owns the petroleum and other hydrocarbon reserves located in Mexico. Although Mexican law gives *Petróleos Mexicanos* and the subsidiary entities the exclusive right to exploit Mexico's hydrocarbon reserves, it does not preclude the Mexican Government from changing current law and assigning these rights to another company. If the Mexican Government, by way of an amendment to the *Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (Regulatory Law to Article 27 of the Political Constitution of the United Mexican States Concerning Petroleum Affairs, which we refer to as the "Regulatory Law"), assigned the rights to exploit its hydrocarbon reserves to another company, our ability to generate income would be adversely affected.

***Petróleos Mexicanos and the subsidiary entities pay special taxes, duties and dividends to the Mexican Government***

*Petróleos Mexicanos* and the subsidiary entities pay a number of special taxes and duties to the Mexican Government. These taxes and duties totaled Ps. 208,137 million in 1999, Ps. 292,960 million in 2000 and Ps. 262,778 million in 2001. For 2002, we expect the sum of these taxes and duties to total approximately 60.8% of the revenue that we derive from sales to the PMI Group and third parties. In addition to these duties and taxes, the Mexican Government imposes an excess gains tax equal to 39.2% of the portion of Pemex-Exploration and Production's crude oil sales revenue in excess of a threshold price set by the Mexican Government, which in 2002 is U.S. \$15.50 per barrel. See "Item 4—Information on the Company—Taxes and Duties" and "Item 5—Operating and Financial Review and Prospects—General—IEPS Tax, Excess Gains Duty, Hydrocarbon Duties and Other Taxes."

The Mexican Government and PEMEX determine the rates of taxes and duties applicable to PEMEX from year to year depending on a variety of factors, including our:

- projected sales revenues;
- operating program;
- capital expenditures program; and
- financing needs.

*Petróleos Mexicanos* is also obligated to pay minimum guaranteed dividends to the Mexican Government. The minimum guaranteed dividends totaled Ps. 5,138 million in 1999, Ps. 5,564 million in 2000 and Ps. 2,153 million in 2001. For further information on how the minimum guaranteed dividend is determined, see "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Equity Structure and the Certificates of Contribution 'A,'" "Item 8—Financial Information—Dividends" and Note 13 to the Financial Statements.

***PEMEX must make significant capital expenditures to maintain its current production levels and increase Mexico's hydrocarbon reserves. Mexican Government budget cuts, reductions in PEMEX's income and inability to obtain financing may limit PEMEX's ability to make capital investments***

We invest funds to increase the amount of extractable hydrocarbon reserves in Mexico. We also continually invest capital to enhance our hydrocarbon recovery ratio and improve the reliability and productivity of our infrastructure. We estimate that we will need to make capital expenditures of approximately U.S. \$45.3 billion in exploration and production over the next five years and an additional U.S. \$16.1 billion to upgrade our refineries over the next ten years, in order to increase production to meet anticipated growth in domestic and international market demand.

Our ability to make these capital expenditures is limited by the substantial taxes that we pay and cyclical decreases in our revenues primarily related to lower oil prices. In addition, budget cuts imposed by the Mexican Government and the availability of financing may also limit our ability to make capital investments. Because the non-PIDIREGAS portion of our investment budget is part of the Mexican Government's annual budget, when the Mexican Government reduces its annual budget, it may also reduce that portion of our investment budget. For example, in 1998, low crude oil prices reduced our income and the amount of taxes and duties that we paid to the Mexican Government. As a result, the Mexican Government imposed federal budget cuts that resulted in an 11.1% decrease in our capital expenditures budget (excluding PIDIREGAS) in 1998.

The Mexican Government has recently approved a PIDIREGAS investment budget that we believe will be sufficient to meet a large proportion of our capital expenditure needs for the next five years. However, under the PIDIREGAS program, we are required to obtain financing that can be supported by the project being funded. The availability of this financing is subject to factors beyond our control. Accordingly, we cannot guarantee that we will always have the funds necessary to continue capital investments at their current levels.

***PEMEX's debt obligations may be affected by the Mexican Government's agreements with external creditors***

Petróleos Mexicanos and the subsidiary entities are decentralized public sector entities under the direct control of the Mexican Government; consequently, the Mexican Government's agreements with international creditors may affect our external debt obligations. Since 1982, Mexico and its commercial bank creditors have concluded four debt restructurings and new money exercises. In these restructurings, Petróleos Mexicanos' external indebtedness was treated on the same terms as the debt of the Mexican Government and other public sector entities. In addition, Mexico has entered into agreements with official bilateral creditors to reschedule public sector external debt. Mexico has not requested restructuring of bonds or debt owed to multilateral agencies.

***PEMEX may claim some immunities under the Foreign Sovereign Immunities Act***

Petróleos Mexicanos and the subsidiary entities are decentralized public entities of the Mexican Government. Because the Mexican Government is a foreign sovereign, you may not be able to obtain a judgment in a U.S. court against us. In addition, Mexican law specifies that attachment prior to judgment and attachment in aid of execution may not be ordered by Mexican courts against us or our assets and, as a result, your ability to enforce judgments against us in the courts of Mexico may be limited.

Unless we waive our immunity, you could obtain a U.S. court judgment against us only if a U.S. court were to determine that we are not entitled to sovereign immunity under the Foreign Sovereign Immunities Act of 1976 with respect to that action. We also do not know whether Mexican courts would enforce judgments of United States courts based on the civil liability provisions of the federal securities laws of the United States.

Even if you were able to obtain a U.S. judgment against us under the Foreign Sovereign Immunities Act, you might not be able to obtain a judgment in Mexico that is based on that U.S. judgment. Moreover, you may not be able to enforce a judgment against our property in the United States except under the limited circumstances specified in the Foreign Sovereign Immunities Act.



***Satisfaction of any judgment in Mexico against PEMEX may be made in pesos***

If you were to bring an action in Mexico seeking to enforce our obligations under any of our securities, satisfaction of those obligations may be made in pesos. The *Ley Monetaria de los Estados Unidos Mexicanos* (Monetary Law of the United Mexican States) entitles us to discharge foreign currency denominated obligations in Mexico with a payment in pesos at the exchange rate determined by Banco de México (Mexico's Central Bank) on the date payment is made. This rate is currently announced by Banco de México each banking day and published the following day in the *Diario Oficial de la Federación* (the Official Gazette of the Federation).

**Considerations Related to Mexico**

***Petróleos Mexicanos and the subsidiary entities are foreign companies, and as a result holders of PEMEX securities may not be able to effect service of process on, or enforce a judgment against, PEMEX***

Petróleos Mexicanos and the subsidiary entities are organized under the laws of Mexico and all of its directors and officers, as well as some of the experts named in this annual report, reside outside the United States. Substantially all of our assets and those of most of our directors, officers and experts are located outside the United States. As a result, you may not be able to effect service of process on our directors or officers or those experts within the United States. You also may not be able to enforce in Mexico judgments obtained in the United States against us, our directors or officers or the experts, if those judgments are not consistent with Mexican public policy and procedural rules.

***Economic conditions and government policies in Mexico may have a material impact on PEMEX's operations***

A deterioration in Mexico's economic conditions, social instability, political unrest or other adverse social developments in Mexico could adversely affect our business and financial condition. Those events could also lead to increased volatility in the foreign exchange and financial markets, thereby affecting our ability to obtain and service foreign debt. In addition, the Mexican Government may cut spending in the future. These cuts could adversely affect our business, financial condition and prospects.

From 1982 to 1987 Mexico experienced several periods of slow or negative economic growth, high inflation, peso devaluations and limited availability of foreign exchange. Beginning in December 1994 and continuing through 1995, Mexico experienced an economic crisis characterized by exchange rate instability, devaluation of the peso, high inflation, high domestic interest rates, negative economic growth, reduced consumer purchasing power and high unemployment. Despite signs of economic recovery following the implementation of broad economic reforms in 1995, a combination of factors led to a slowdown in Mexico's economic growth in 1998. Notably, the decline in the price of crude oil resulted in a reduction of federal revenues, approximately one-third of which derive from petroleum taxes and duties. In addition, the economic crises in Asia and Russia and the financial turmoil in Brazil, Venezuela and elsewhere produced greater volatility in the international financial markets, which further slowed Mexico's recovery. The Mexican Government estimates that real Gross Domestic Product ("GDP") grew 4.9% in 1998, 3.7% in 1999 and 6.6% in 2000 but decreased 0.3% in 2001. The Mexican Government estimates that GDP growth for 2002 will be approximately 1.7%.

Despite the slowdown in economic recovery and the significant devaluation of the peso in 1998 and the contraction in 2001, Mexico has managed to maintain a high level of gross international reserves, which totaled U.S. \$45,312 million at November 8, 2002. In the future, however, the Mexican economy could continue to suffer from declines in foreign direct and portfolio investment due to international financial crises, inflationary pressures, high short-term interest rates and low oil prices.

***Changes in exchange rates or in Mexico's exchange control laws may hamper the ability of PEMEX to service its foreign currency debt***

While the Mexican Government does not currently restrict the ability of Mexican companies or individuals to convert pesos into dollars or other currencies, in the future, the Mexican Government could impose a restrictive exchange control policy, as it has done in the past. We cannot assure you that the Mexican Government will

maintain its current policies with regard to the peso or that the peso's value will not fluctuate significantly in the future. The peso has been subject to significant devaluations against the U.S. dollar in the past and may be subject to significant fluctuations in the future. Mexican Government policies affecting the value of the peso could prevent us from paying our foreign currency obligations.

As of December 31, 2001, the total debt of PEMEX totaled Ps. 159.4 billion (or Ps. 156.8 billion excluding accrued interest), 84.2% of which was denominated in U.S. dollars. Of this amount, U.S. \$7.5 billion (or Ps. 68.7 billion) was attributable to the indebtedness of the Pemex Project Funding Master Trust denominated in U.S. dollars, Euros and other currencies and guaranteed by Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals. In addition, Pemex Finance, Ltd., a Cayman Islands company with limited liability established to issue securities backed by PMI crude oil receivables to provide financing for investments in PIDIREGAS, had indebtedness totaling U.S. \$5.3 billion at December 31, 2001. We do not guarantee Pemex Finance, Ltd.'s indebtedness. In the future, PEMEX and Pemex Finance, Ltd. may incur additional indebtedness denominated in U.S. dollars or other currencies. Declines in the value of the peso relative to the U.S. dollar or other currencies may increase our interest costs in pesos and result in foreign exchange losses.

From October 1992 to December 21, 1994, Banco de México intervened in foreign exchange markets to maintain the peso-dollar exchange rate within a government-controlled range that widened daily. On December 21, 1994, the Mexican Government suspended Banco de México's foreign exchange market operations and allowed the peso to float freely against the U.S. dollar. The Mexican Government may introduce similar policies in the future that affect the exchange rate between the peso and other currencies.

For a further discussion of historical peso/U.S. dollar exchange rates, see “—Exchange Rates” above.

***Political conditions in Mexico could materially and adversely affect Mexican economic policy and, in turn, PEMEX's operations***

The national elections held on July 2, 2000 ended 71 years of rule by the Institutional Revolutionary Party (“PRI”) with the election of President Vicente Fox Quesada, a member of the National Action Party (“PAN”) and resulted in the increased representation of opposition parties in the Mexican Congress and in mayoral and gubernatorial positions. Neither the PRI nor the PAN currently has a majority in the Congress or Senate. This shift in political power has transformed Mexico from a one-party state to a pluralist democracy. Although there have not yet been any material adverse repercussions resulting from this political change, multiparty rule is still relatively new in Mexico and could result in economic or political conditions that could materially and adversely affect our operations. The lack of a majority party in the legislature and the lack of alignment between the legislature and the President could result in deadlock and prevent the timely implementation of economic reforms, which in turn could have a material adverse effect on the Mexican economy and on our business.

#### Item 4. Information on the Company

##### HISTORY AND DEVELOPMENT

We are the largest company in Mexico, and according to *Petroleum Intelligence Weekly*, we were the sixth largest oil and gas company in the world in 2000, accounting for nearly 5% of the world's crude oil and condensates production in 2000. In 1938, the President of Mexico nationalized foreign-owned oil companies which were then operating in Mexico and the Mexican Congress established *Petróleos Mexicanos* by a decree, effective on July 20, 1938. Since 1938, Mexican federal laws and regulations have entrusted *Petróleos Mexicanos* with the central planning and management of Mexico's petroleum industry. On July 17, 1992, the Mexican Congress created the subsidiary entities out of operations that had previously been directly managed by *Petróleos Mexicanos*. *Petróleos Mexicanos* and its four subsidiary entities, Pemex-Exploration and Production, Pemex-Refining, Pemex-Gas and Basic Petrochemicals and Pemex-Petrochemicals, are decentralized public entities of the Mexican Government, and each is a legal entity empowered to own property and carry on business in its own name.

PEMEX's executive offices are located at Avenida Marina Nacional No. 329, Colonia Huasteca, Mexico, D.F. 11311, Mexico. PEMEX's telephone number is (52-55) 5722-2500.

##### Organizational Laws

The activities of *Petróleos Mexicanos* and the subsidiary entities are regulated primarily by:

- the Regulatory Law; and
- the *Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (the Organic Law of *Petróleos Mexicanos* and Subsidiary Entities, which we refer to as the "Organic Law").

The Organic Law and related regulations grant *Petróleos Mexicanos* and certain of the subsidiary entities the exclusive right to:

- explore, exploit, refine, transport, store, distribute and sell (first-hand) crude oil;
- explore, exploit, produce and sell (first-hand) natural gas and transport and store natural gas, to the extent the transportation and storage activities are inextricably linked with such exploitation and production; and
- produce, store, transport, distribute and sell (first-hand) the derivatives of petroleum (including petroleum products) and natural gas used as basic industrial raw materials that constitute basic petrochemicals, which include ethane, propane, butanes, pentanes, hexanes, heptanes, naphthas, carbon black feedstocks and methane, but in the case of methane, only if obtained from hydrocarbons used as basic raw materials by the petrochemical industry and obtained from deposits located in Mexico.

The Organic Law allocates the operating functions of *Petróleos Mexicanos* among the four subsidiary entities, each of which has the characteristics of a subsidiary of *Petróleos Mexicanos*. The principal objectives of the subsidiary entities are as follows:

- Pemex-Exploration and Production explores for and exploits crude oil and natural gas and transports, stores and markets these hydrocarbons;
- Pemex-Refining refines petroleum products and derivatives that may be used as basic industrial raw materials and stores, transports, distributes and markets these products and derivatives;
- Pemex-Gas and Basic Petrochemicals processes natural gas, natural gas liquids and derivatives that may be used as basic industrial raw materials and stores, transports, distributes and markets these products and produces, stores, transports, distributes and markets basic petrochemicals; and

- Pemex-Petrochemicals engages in industrial petrochemical processes and stores, distributes and markets petrochemicals other than basic petrochemicals.

In 1995, the Mexican Congress amended the Regulatory Law to allow private and social sector companies, which include labor-controlled organizations and industries, to participate, with the Mexican Government's approval, in the storage, distribution and transportation of natural gas. The new regulation allows these types of companies to construct, own and operate pipelines, installations and equipment. Since 1997, the Mexican Government has required PEMEX to divest its existing natural gas distribution assets but has allowed PEMEX to retain exclusive authority over the exploration, exploitation, production and first-hand sale of natural gas, as well as the transportation and storage inextricably linked with this type of exploitation and production. See “—Gas and Basic Petrochemicals—Private Sector Participation in Natural Gas Distribution” below.

### **Capital Expenditures and Investments**

PEMEX funds its annual budget (not including PIDIREGAS) through revenue generated by its operations and financing activities. Capital expenditures are undertaken by Petróleos Mexicanos and the subsidiary entities. Capital expenditures and operating expenses must be authorized in our annual budget, which is approved by the Mexican Congress. PIDIREGAS are off-balance sheet long-term productive infrastructure projects funded through financing activities of the Pemex Project Funding Master Trust or directly by a contractor and must also be authorized in a budget approved by the Mexican Congress. Thus, each year, we submit proposals to and negotiate with the Mexican Government regarding how our after-tax funds should be allocated.

*PIDIREGAS.* An important component of our capital expenditures are PIDIREGAS. Because of federal budgetary constraints, the Mexican Government has sought private sector participation in the building and financing of PIDIREGAS. The Mexican Government approves the designation of certain infrastructure projects as PIDIREGAS. This designation means that such projects are treated as off-balance sheet items for annual budgetary purposes, until delivery of the completed project to us or until our payment obligations begin under the contract.

The *Ley General de Deuda Pública* (General Law of Public Debt) and the *Ley de Presupuesto, Contabilidad y Gasto Público Federal* (Federal Law of Budget, Accounting and Public Expenditure) define the PIDIREGAS legal framework. Article 18 of the General 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. Article 30 of the Federal Law of Budget, Accounting and Public Expenditure 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.

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 PEMEX, build and deliver the project to PEMEX; and
- PEMEX, with the Mexican Government's authorization, pays all amounts owing to contractors and makes final payments to receive delivery of the completed project and then records 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), which outlines the accounting and budgetary treatment applicable to PIDIREGAS, is mandatory during the construction period and after delivery of the PIDIREGAS. The distinction between the PIDIREGAS and non-PIDIREGAS expenditures is an important one for budgetary purposes, as a project's designation as a PIDIREGAS guarantees that its financing is immune from across-the-board budget cuts.

In recent years, PIDIREGAS have represented a significant portion of our total annual capital expenditures. PIDIREGAS expenditures alone totaled Ps. 36.6 billion in 2001 (53% of our total capital expenditures), Ps. 42.4 billion in 2000 (57% of our total capital expenditures) and Ps. 27.3 billion in 1999 (52% of our total capital expenditures). For 2002, PEMEX has budgeted approximately Ps. 104.4 billion for PIDIREGAS expenditures (or approximately 70% of our total budgeted capital expenditures), including payment of 100% of the Madero, Salamanca and Tula projects. While PIDIREGAS expenditures are considered off-balance sheet items under Mexican Financial Reporting Standards applicable to Mexican public sector entities, all of these expenditures are included in our Mexican GAAP financial statements.

The following table sets forth our capital expenditures for PIDIREGAS for the five years ended December 31, 2001 and the budget for such expenditures for 2002.

**PIDIREGAS Capital Expenditures**  
Year ended December 31, <sup>(1)</sup>

	<u>1997</u>	<u>1998<sup>(2)</sup></u>	<u>1999<sup>(2)</sup></u>	<u>2000<sup>(2)</sup></u>	<u>2001<sup>(2)</sup></u>	<u>Budget 2002<sup>(2) (3)</sup></u>
	(millions of pesos)					
<b>Pemex-Exploration and Production</b>						
Cantarell .....	Ps. 3,147	Ps. 12,979	Ps. 18,337	Ps. 20,210	Ps. 25,867	Ps. 30,709
Burgos .....	1,684	4,826	7,307	5,596	7,018	12,500
Delta del Grijalva .....	—	795	982	1,431	1,466	1,469
Strategic Gas Program <sup>(4)</sup> .....	—	—	—	—	1,594	16,569
Ku-Maloob-Zaap .....	—	—	—	—	—	3,953
Antonio J. Bermúdez .....	—	—	—	—	—	1,520
Jujo-Tecominoacán .....	—	—	—	—	—	1,205
Bellota-Chinchorro .....	—	—	—	—	—	1,074
Cactus-Sitio Grande .....	—	—	—	—	—	1,219
Abkatún Integral .....	—	—	—	—	—	1,806
Ek-Balam .....	—	—	—	—	—	589
El Golpe-Puerto Ceiba .....	—	—	—	—	—	638
Taratunich .....	—	—	—	—	—	465
Och-Uech-Kax .....	—	—	—	—	—	660
Carmito-Artesa .....	—	—	—	—	—	642
Arenque .....	—	—	—	—	—	428
Cárdenas .....	—	—	—	—	—	292
Amatitlán-Profeta- Tzapotempa-Vinazco .....	—	—	—	—	—	170
Ayín-Alux .....	—	—	—	—	—	90
Pol .....	—	—	—	—	—	1,492
Chuc .....	—	—	—	—	—	1,764
Agua Fria-Coapechaca-Tajín .....	—	—	—	—	—	377
Caan .....	—	—	—	—	—	1,417
Integral Batab .....	—	—	—	—	—	572
Integral Kaanab .....	—	—	—	—	—	313
Integral Poza Rica .....	—	—	—	—	—	294
Integral Yaxche .....	—	—	—	—	—	5
Total .....	<u>4,831</u>	<u>18,599</u>	<u>26,626</u>	<u>27,236</u>	<u>35,945</u>	<u>82,234</u>
<b>Pemex-Refining<sup>(5)</sup></b>						
Cadereyta .....	—	—	—	15,198	684	—
Madero .....	—	—	—	—	—	17,225
Salamanca .....	—	—	—	—	—	2,600
Tula .....	—	—	—	—	—	1,621
Total .....	—	—	—	<u>15,198</u>	<u>684</u>	<u>21,445</u>
<b>Pemex-Gas and Basic Petrochemicals</b>						
Cryogenic Plant No. 2 .....	—	890	653	—	—	—
Modular Cryogenic Plants in Reynosa .....	—	—	—	—	—	734
Total .....	—	<u>890</u>	<u>653</u>	—	—	<u>734</u>
<b>Total PIDIREGAS Budget</b>	<b><u>Ps. 4,831</u></b>	<b><u>Ps. 19,489</u></b>	<b><u>Ps. 27,279</u></b>	<b><u>Ps. 42,435</u></b>	<b><u>Ps. 36,629</u></b>	<b><u>Ps. 104,414</u></b>

Notes: Numbers may not total due to rounding.

(1) Amounts based on cash basis method of accounting.

(2) Includes capitalized interest during construction period.

(3) Approved budget.

(4) The Strategic Gas Program includes 19 different natural gas projects.

(5) The Cadereyta project of Pemex-Refining was partially accepted at the end of 2001. As of December 31, 2001, the project was certified as 99.31% complete. The Madero project was completed on October 24, 2002, and the Tula project was completed on August 27, 2002. The Salamanca project is expected to be completed in the second half of 2002.

Source: *Petróleos Mexicanos*

For 2002, the Mexican Government has approved an additional 24 new PIDIREGAS, 23 of which will be carried out by Pemex-Exploration and Production, and one of which will be carried out by Pemex-Gas and Basic

Petrochemicals. The following table sets forth our approved capital expenditures budget for PIDIREGAS for 2002 through 2006.

### PIDIREGAS Approved Budget Capital Expenditures

Year ended December 31, <sup>(1) (2)</sup>

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(millions of constant 2002 pesos)				
<b>Pemex-Exploration and Production</b>					
Cantarell.....	Ps. 30,709	Ps. 20,778	Ps. 12,215	Ps. 7,392	Ps. 6,914
Burgos.....	12,500	17,099	14,492	14,128	10,124
Delta del Grijalva.....	1,469	184	—	—	—
Strategic Gas Program.....	16,569	17,360	18,047	20,481	5,249
Ku-Maloob-Zaap.....	3,953	9,279	8,763	5,308	4,315
Antonio J. Bermúdez.....	1,520	2,170	2,414	2,780	2,630
Jujo-Tecominoacán.....	1,205	1,197	1,621	934	614
Bellota-Chinchorro.....	1,074	1,986	1,442	1,015	582
Cactus-Sitio Grande.....	1,219	1,453	1,347	1,053	580
Abkatún Integral.....	1,806	2,134	1,459	1,148	1,024
Ek-Balam.....	589	661	578	468	302
El Golpe-Puerto Ceiba.....	638	751	640	342	187
Taratunich.....	465	736	296	265	260
Och-Uech-Kax.....	660	333	162	115	100
Carmito-Artesa.....	642	882	712	576	354
Arenque.....	428	876	678	659	444
Cárdenas.....	292	540	407	310	117
Amatitlán-Profeta-Tzapotempa					
-Vinazco <sup>(3)</sup> .....	170	476	557	638	675
Ayín-Alux.....	90	420	1,256	1,865	869
Pol.....	1,492	1,976	1,182	1,137	1,117
Chuc.....	1,764	1,942	1,159	1,241	1,401
Agua Fria-Coapechaca-Tajín <sup>(3)</sup> .....	377	777	1,060	1,071	349
Caan.....	1,417	1,145	1,049	939	927
Integral Batab.....	572	228	90	122	86
Integral Kaanab.....	313	32	2	2	2
Integral Poza Rica.....	294	370	310	355	273
Integral Yaxche.....	5	104	644	288	22
Total.....	<u>82,234</u>	<u>85,890</u>	<u>72,582</u>	<u>64,630</u>	<u>39,515</u>
<b>Pemex-Refining</b>					
Madero.....	17,225	—	—	—	—
Salamanca.....	2,600	—	—	—	—
Tula.....	1,621	—	—	—	—
Minatitlán.....	—	—	13,488	—	—
Salina Cruz.....	—	—	—	13,632	—
Total.....	<u>21,445</u>	<u>—</u>	<u>13,488</u>	<u>13,632</u>	<u>—</u>
<b>Pemex-Gas and Basic Petrochemicals</b>					
Modular Cryogenic Plants in Reynosa.....	734	882	—	—	—
Total.....	<u>734</u>	<u>882</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total PIDIREGAS Budget.....</b>	<b><u>Ps.104,414</u></b>	<b><u>Ps. 86,771</u></b>	<b><u>Ps. 86,069</u></b>	<b><u>Ps. 78,262</u></b>	<b><u>Ps. 39,515</u></b>

Note: Numbers may not total due to rounding.

(1) Amounts based on cash basis method of accounting.

(2) Includes capitalized interest.

(3) PIDIREGAS relating to the development of the Chicontepec field.

Source: *Petróleos Mexicanos*

*Non-PIDIREGAS Capital Expenditures.* In addition to the Ps. 36.6 billion spent on PIDIREGAS in 2001, we spent Ps. 32.5 billion in 2001 for other capital expenditures, which represents a 3% increase from the Ps. 31.6 billion in non-PIDIREGAS capital expenditures in 2000. Of the Ps. 32.5 billion in non-PIDIREGAS capital expenditures during 2001, we directed Ps. 21.4 billion (or 66% of total non-PIDIREGAS capital expenditures) to exploration and production programs. Of the Ps. 31.6 billion in non-PIDIREGAS capital expenditures in 2000 and the Ps. 25.5 billion in non-PIDIREGAS capital expenditures in 1999, we directed Ps. 19.4 billion (or 61% of total non-PIDIREGAS capital expenditures) in 2000 and Ps. 14.6 billion (or 57% of total non-PIDIREGAS capital expenditures) in 1999 to exploration and production programs.

Excluding PIDIREGAS expenditures, we have budgeted a total of Ps. 44.8 billion for capital expenditures in 2002. Of this amount, we expect to direct Ps. 27.5 billion (or 61% of total non-PIDIREGAS capital expenditures) to exploration and production programs in 2002.

Our capital expenditures (excluding PIDIREGAS) for the five years ended December 31, 2001 and budgeted for 2002 and 2003 were distributed and budgeted among the subsidiary entities as follows:

#### Non-PIDIREGAS Capital Expenditures<sup>(1)</sup>

	Year ended December 31,					Budget 2002 <sup>(3)</sup>	Budget 2003 <sup>(4)</sup>
	1997	1998	1999	2000	2001		
	(millions of pesos)						
<b>Pemex-Exploration and Production</b> .....	Ps. 19,385	Ps. 19,103	Ps. 14,600	Ps. 19,390	Ps. 21,357	Ps. 27,512	Ps. 35,931
<b>Pemex-Refining</b> .....	5,506	7,162	6,608	6,874	6,538	8,942	11,200
<b>Pemex-Gas and Basic Petrochemicals</b> .....	3,021	3,334	2,777	3,719	2,676	4,758	6,405
<b>Pemex-Petrochemicals</b> .....	724	1,431	1,214	1,143	1,541	2,704	4,118
<b>Petróleos Mexicanos corporate</b> <sup>(2)</sup> .....	<u>287</u>	<u>262</u>	<u>319</u>	<u>429</u>	<u>366</u>	<u>834</u>	<u>4,521</u>
<b>Total</b> .....	<u>Ps. 28,923</u>	<u>Ps. 31,293</u>	<u>Ps. 25,518</u>	<u>Ps. 31,554</u>	<u>Ps. 32,478</u>	<u>Ps. 44,750</u>	<u>Ps. 62,174</u>
Amortization of PIDIREGAS included in total .....	Ps. 0	Ps. 39	Ps. 146	Ps. 2,585	Ps. 5,003	Ps. 11,110	Ps. 15,189

Note: Numbers may not total due to rounding.

- (1) There are no capital expenditures at the subsidiary company level.
- (2) Petróleos Mexicanos corporate consists of the operations of the central management of Petróleos Mexicanos.
- (3) Approved budget.
- (4) Subject to approval by the Mexican Congress.

Source: *Petróleos Mexicanos*

Our principal objectives for upstream investment are to increase and improve the quality of Mexico's reserves, enhance Pemex-Exploration and Production's recovery ratio and improve the reliability of its production and transportation infrastructure for crude oil and natural gas operations. In 2002, Pemex-Exploration and Production plans to continue its Strategic Gas Program to increase the supply of natural gas for the domestic market in the medium to long term. The 23 new PIDIREGAS primarily focus on the production of Isthmus and Olmeca crude oil, in order to improve the quality of the Mexican mixture of crude oil processed in our refineries and available for export.

Our downstream investment program seeks to improve the quality of our product selection, to achieve a level of efficiency similar to that of our international competitors and to continue to emphasize industrial safety and environmental compliance.



## BUSINESS OVERVIEW

### Overview by Business Segment

#### *Exploration and Production*

Pemex-Exploration and Production explores for and produces crude oil and natural gas, primarily in the northeastern and southeastern regions of Mexico and offshore in the Gulf of Mexico. Measured in U.S. dollars, we increased our capital investment in exploration and production activities by 14% in 2001 by financing an array of programs to expand production capacity and efficiency. As a result of our investments in previous years, our total hydrocarbon production reached a level of approximately 4.1 million barrels of oil equivalent per day in 2001. Pemex-Exploration and Production's crude oil production increased by 3.8% from 2000 to 2001, averaging 3,127 thousand barrels per day in 2001. Pemex-Exploration and Production's natural gas production (excluding natural gas liquids) decreased by 3.6% from 2000 to 2001, averaging 4,511 million cubic feet per day in 2001.

#### *Refining*

Pemex-Refining converts crude oil into gasoline, jet fuel, diesel, fuel oil, asphalts and lubricants. It also distributes and markets most of these products throughout Mexico, where it experiences a significant demand for its refined products. Pemex-Refining's atmospheric distillation refining capacity remained constant from 2000 to 2001 at approximately 1,560 thousand barrels per day. In 2001, Pemex-Refining produced 1,267 thousand barrels per day of refined products as compared to 1,246 thousand barrels per day of refined products in 2000.

#### *Gas and Basic Petrochemicals*

Pemex-Gas and Basic Petrochemicals processes natural gas and natural gas liquids, transports, distributes and sells natural gas and liquefied petroleum gas throughout Mexico and produces and sells several basic petrochemical feedstocks. Pemex-Gas and Basic Petrochemicals' total sour natural gas processing capacity increased from 3,753 million cubic feet per day in 2000 to 3,923 million cubic feet per day in 2001. Pemex-Gas and Basic Petrochemicals processed 3,179 million cubic feet per day of sour natural gas in 2001, a 0.41% increase from the 3,166 million cubic feet per day of sour natural gas produced in 2000. It produced 443 thousand barrels per day of natural gas liquids in 2001, a 0.45% decrease from 2000 natural gas liquid production of 445 thousand barrels per day.

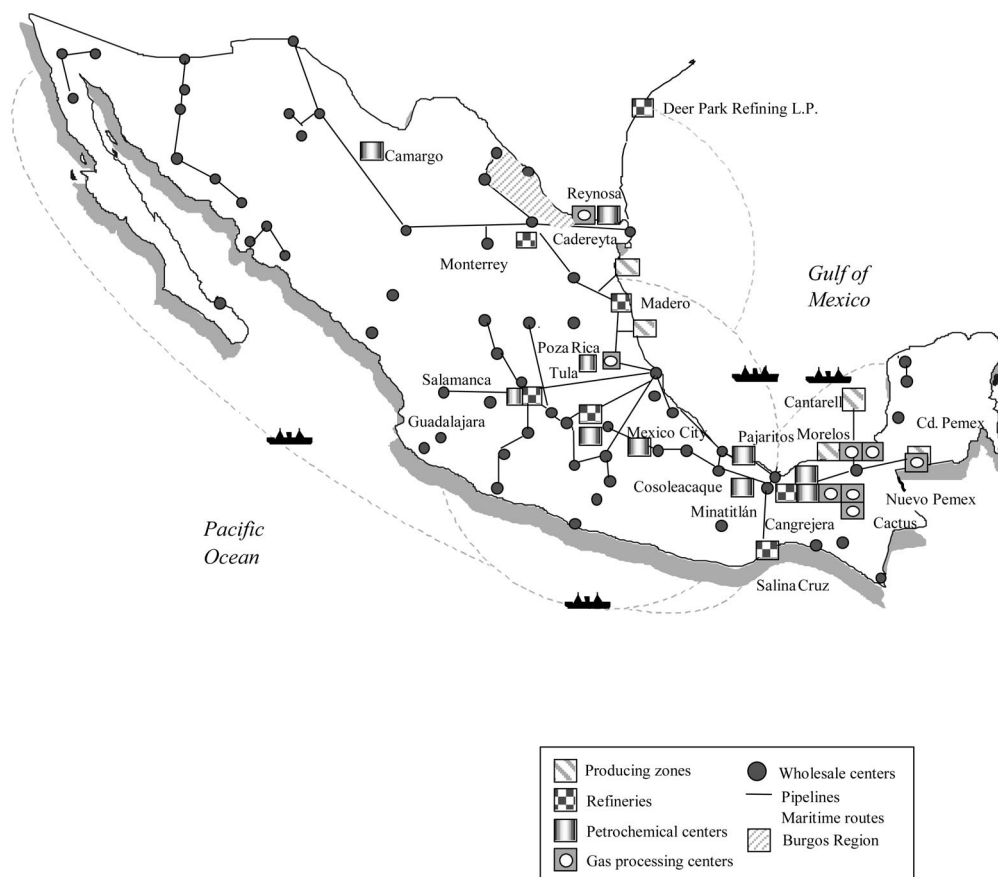
#### *Petrochemicals*

Pemex-Petrochemicals manufactures 39 different petrochemical products, including: (1) methane and its derivatives such as ammonia and methanol; (2) ethane and its derivatives, such as polyethylenes, as well as other olefins; (3) aromatics and their derivatives; (4) propylene and its derivatives; and (5) oxygen, nitrogen and other products. Pemex-Petrochemicals' total annual production (excluding ethane and butane gases) decreased by 12.3% in 2001, from 6,836 thousand tons in 2000 to 5,994 thousand tons in 2001.

#### *International Trading*

In 2001, we sold 1,755 thousand barrels per day of crude oil through our subsidiary, P.M.I. Comercio Internacional, S.A. de C.V. ("PMI"). PEMEX is a major supplier of crude oil to the United States. PMI, P.M.I. Trading Ltd. ("PMI Trading") and their affiliates (together, the "PMI Group") provide PEMEX and a number of independent customers with international trading, distribution and related services. PMI and PMI Trading sell, buy and transport crude oil, refined products and petrochemicals in world markets. The PMI Group also provides related risk management, insurance, transportation and storage services to PEMEX. The PMI Group has offices in Mexico City, Houston and London. The PMI Group's trading volume of sales and imports totaled U.S. \$17,161 million in 2001, including U.S. \$11,896 million in crude oil sales.

## Infrastructure of PEMEX



## Exploration and Production

### Reserves

Under the Political Constitution of the United Mexican States and the Regulatory Law, all oil and other hydrocarbon reserves within Mexico are owned by the Mexican nation and not by PEMEX. Under the Organic Law, *Petróleos Mexicanos* and the subsidiary entities, except for Pemex-Petrochemicals, have the exclusive right to produce, not own, these reserves, and sell the production. The exploration and development activities of *Petróleos Mexicanos* and the subsidiary entities are limited to reserves located in Mexico.

Proved oil and natural gas reserves are those estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions—*i.e.*, prices and costs at the date of estimation. Mexico's proved reserves are estimated by Pemex-Exploration and Production's technical staff.

Pemex-Exploration and Production estimates Mexico's reserves using standard geological and engineering methods generally accepted by the petroleum industry. The choice of method or combinations of methods employed in the analysis of each reservoir is determined by:

- experience in the area;

- stage of development;
- quality and completeness of basic data; and
- production and pressure histories.

The reserves data set forth herein represent only estimates. Reserves valuation is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate depends on the quality of available data, engineering and geological interpretation and judgment. As a result, estimates of different engineers may vary. In addition, the results of drilling, testing and production subsequent to the date of an estimate may justify revision of an estimate.

Mexico's total proved developed and undeveloped reserves of crude oil and condensates decreased by 6.2% in 2000, from 21.5 billion barrels of oil equivalent at December 31, 1999 to 20.2 billion barrels of oil equivalent at December 31, 2000, and decreased by 7.0% in 2001, from 20.2 billion barrels of oil equivalent at December 31, 2000 to 18.8 billion barrels of oil equivalent at December 31, 2001. Mexico's dry gas reserves decreased by 6.0% in 2000, from 18.5 trillion cubic feet at December 31, 1999 to 17.4 trillion cubic feet at December 31, 2000, and decreased by 6.4%, from 17.4 trillion cubic feet at December 31, 2000 to 16.3 trillion cubic feet at December 31, 2001.

The following two tables of crude oil and dry gas reserves set forth our estimates of Mexico's proved reserves determined in accordance with Rule 4-10(a) of Regulation S-X of the Securities Act of 1933.

**Crude Oil and Condensate Reserves  
(including natural gas liquids)<sup>(1)</sup>**

	1999	2000	2001
<b>Proved developed and undeveloped reserves</b>	<b>(in millions of barrels)</b>		
At January 1 .....	21,638	21,519	20,186
Revisions .....	775	(180)	(144)
Extensions and discoveries <sup>(2)</sup> .....	311	91	2
Production .....	(1,205)	(1,244)	(1,277)
At December 31 .....	<u>21,519</u>	<u>20,186</u>	<u>18,767</u>
<b>Proved developed reserves at December 31 .....</b>	<u>11,414</u>	<u>12,312</u>	<u>12,622</u>

Note: Numbers may not total due to rounding.

(1) Crude oil and condensate reserves include the fraction of liquefiable hydrocarbons recoverable in natural gas processing plants.

(2) Extensions include positive and negative changes due to new data gathered through drilling of extension wells.

Source: *Pemex-Exploration and Production*

**Dry Gas Reserves**

	1999	2000	2001
<b>Proved developed and undeveloped reserves</b>	<b>(in billions of cubic feet)</b>		
At January 1 .....	17,054	18,471	17,365
Revisions .....	2,427	3	(78)
Extensions and discoveries <sup>(1)</sup> .....	176	58	98
Production <sup>(2)</sup> .....	(1,186)	(1,167)	(1,129)
At December 31 .....	<u>18,471</u>	<u>17,365</u>	<u>16,256</u>
<b>Proved developed reserves at December 31 .....</b>	<u>11,127</u>	<u>9,713</u>	<u>8,776</u>

Note: Numbers may not total due to rounding.

(1) Extensions include positive and negative changes due to new data gathered through drilling of extension wells.

(2) Natural gas production reported in other tables refers to wet, sour gas. There is a shrinkage in volume when natural gas liquids and impurities are extracted to obtain dry gas. Therefore, reported natural gas volumes are greater than dry gas volumes.

Source: *Pemex-Exploration and Production*

The following table sets forth the number of proved developed and undeveloped reserves, the number of producing wells, and the number of proved undeveloped locations for the fields that contain over 85% of Mexico's proved reserves, as of December 31, 2001.

<u>Field</u>	<u>Proved Reserves</u>	<u>Developed Reserves</u> (in millions of barrels of crude oil equivalent)	<u>Undeveloped Reserves</u> (in millions of barrels of crude oil equivalent)	<u>Producing Wells</u>	<u>Undeveloped Locations</u>
Akal .....	9,160.5	7,467.6	1,692.9	178	61
Ku-Maloob-Zaap .....	1,575.2	526.8	1,048.4	40	64
Samaria .....	1,280.3	844.7	435.6	41	13
Jujo-Tecominoacán.....	1,260.2	589.1	671.1	47	22
Chicontepec .....	670.1	46.9	623.1	361	1,408
Iride .....	648.6	425.9	222.7	17	12
Cunduacán .....	497.6	301.2	196.4	15	11
Sihil .....	428.2	0.0	428.2	0	13
Caan.....	270.1	258.2	11.9	27	1
Chuc .....	269.0	239.3	29.6	16	6
Oxiacaque.....	265.0	160.4	104.5	9	4
Cárdenas .....	114.4	66.9	47.6	15	2
Sinán.....	235.8	0.0	235.8	0	22
Muspac .....	313.6	207.3	106.4	15	10
Poza Rica.....	214.3	196.4	18.0	138	20
Paredón.....	165.3	31.0	134.3	7	0
Ayín.....	188.5	0.0	188.5	0	13
Cactus.....	97.6	66.7	30.9	14	13
Abkatún .....	125.3	103.5	21.7	21	2
Culebra .....	72.3	41.2	31.1	275	33
Balam.....	117.3	117.3	0.0	7	2
Sen.....	110.5	108.6	1.9	13	3
Nohoch .....	69.1	69.1	0.0	4	0
Pol.....	65.7	65.7	0.0	17	0
Kutz .....	91.1	91.1	0.0	2	0
Caparoso-Pijije-Escuintle ...	68.3	68.3	0.0	10	0
Luna-Palapa.....	65.9	59.4	6.6	9	2
Cuicláhuac.....	55.1	33.6	21.5	153	27
Chac.....	37.6	37.6	0.0	2	0
Arcos .....	31.8	21.5	10.3	117	10
Arcabuz .....	19.9	10.9	9.0	73	7
Lum .....	41.6	0.0	41.6	0	3
Ek .....	45.6	45.6	0.0	0	0
Ixtoc.....	32.1	32.1	0.0	2	0
Bacab.....	24.9	24.9	0.0	3	0
Platanal .....	24.7	17.0	7.7	2	1
Escarbado .....	21.6	16.0	5.6	1	1
Tizón.....	7.2	1.6	5.6	2	0
Carrizo.....	4.5	4.5	0.0	2	0
<b>Total.....</b>	<b>18,786.4</b>	<b>12,397.8</b>	<b>6,388.6</b>	<b>1,655</b>	<b>1,786</b>
<b>Mexico's proved reserves .....</b>	<b><u>21,892.7</u></b>	<b><u>14,309.4</u></b>	<b><u>7,583.3</u></b>		
<b>Percentage .....</b>	<b>86%</b>	<b>87%</b>	<b>84%</b>		

Source: Pemex-Exploration and Production

### Exploration and Drilling

We seek to identify new oil reservoirs through our exploration program in order to maintain an adequate level of reserves. From 1990 through 2001, we completed 2,039 exploration and development wells. During 2001, the average success rate for exploration wells was 53%, and the average success rate for development wells was 91%. From 1997 to 2001, we discovered five new crude oil fields and 27 new natural gas fields, bringing the total number of our crude oil and natural gas fields in production to 301 at the end of 2001.

While most of our offshore production in the Gulf of Mexico occurs in waters less than 100 meters deep, the 2001 exploration program included exploration of regions located in deeper waters. Our most productive crude oil and natural gas fields in the Gulf of Mexico are in the Cantarell complex, Ku-Maloob-Zaap in the Northeast Marine region and Caan, Abkatun and Chuc in the Southwest Marine region. The Cantarell complex, for example, produced 1,673 thousand barrels per day of crude oil in 2001, or 53.5% of our total 2001 crude oil production, and 610 million cubic feet per day of natural gas in 2001, or 13.5% of our total 2001 natural gas production.

The following table summarizes our drilling activity for the five years ended December 31, 2001.

	<b>Year Ended December 31,</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Wells drilled.....	130	233	234	285	449
Wells completed.....	121	203	234	247	459
Exploratory wells.....	10	21	22	37	53
Success rate %.....	70	62	41	57	53
Development wells.....	111	182	212	210	406
Success rate %.....	96	98	91	95	91
Producing wells at end of period <sup>(1)</sup> .....	4,663	4,551	4,269	4,184	4,185
Marine Region <sup>(1)</sup> .....	354	336	302	310	312
Southern Region <sup>(1)</sup> .....	1,323	1,260	1,125	1,113	1,015
Northern Region <sup>(1)</sup> .....	2,986	2,955	2,842	2,761	2,858
Fields in production.....	339	324	313	299	301
Marine Region.....	19	19	19	18	19
Southern Region.....	106	105	106	104	96
Northern Region.....	214	200	188	177	186
Drilling Rigs.....	48	60	42	43	50
Kilometers drilled.....	527	728	706	782	1,098
Average depth by well (meters).....	3,507	3,907	3,062	2,838	2,359
Discovered Fields.....	-	6	5	6	23
Crude Oil.....	-	2	-	1	2
Natural gas.....	-	4	5	5	21
Crude oil and natural gas output by well (barrels per day).....	852	897	920	959	978

(1) Figures for the years ended 2000 and 2001 represent annual averages.

Source: Pemex-Exploration and Production

The following table sets forth our lifting costs (the average amount in U.S. dollars that it costs us to extract a barrel of oil equivalent) for each of the last three years.

### Average Lifting Costs Year Ended December 31,

<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>(U.S. dollars per barrel)</b>		
\$2.21	\$2.97	\$3.34

Source: Pemex-Exploration and Production

Lifting costs increased by 12.5% from 2000 to 2001 as a result of an increase in the price of gas for pneumatic pumping, an increase in maintenance expenses and an increase in purchases of nitrogen.

#### *New Discoveries*

During the year 2001, we discovered new sources of crude oil and natural gas reserves in the Southwestern Marine region and the Burgos fields of Northern Mexico. The new discoveries yielded a total of 20.8 million barrels of crude oil equivalent reserves.

In the Southwestern Marine region, drilling of the Kopó 1 well led to the addition of 21.2 billion cubic feet of proved natural gas reserves, and the drilling of wells in Burgos led to the addition of 69.0 billion cubic feet of proved natural gas reserves. The main discoveries in the Arabe, Krypton and Sigma fields in Burgos during 2001 account for 31.9 billion cubic feet of proved natural gas reserves. In addition, new discoveries in Veracruz led to an addition of 13.9 billion cubic feet of natural gas.

#### *Investment in Exploration and Production*

In 2001, we invested Ps. 57,302 million in exploration and production, as compared to Ps. 46,626 million in 2000, representing a 22.9% increase in investment in exploration and production. An important component of our investment budget consists of projects financed under the Mexican Government's program for PIDIREGAS. In 2001, Pemex-Exploration and Production's PIDIREGAS investments totaled approximately Ps. 35,945 million, consisting of Ps. 25,867 million in investments in the Cantarell fields, Ps. 7,018 million for development of the Burgos natural gas fields, Ps. 1,466 million in the Delta del Grijalva project and Ps. 1,594 million in the Strategic Gas Program. These PIDIREGAS are described below.

*Cantarell.* Pemex-Exploration and Production invested Ps. 18,337 million in 1999, Ps. 20,210 million in 2000, and Ps. 25,867 million in 2001 in the development of the Cantarell reservoirs in the Marine region. For 2002, we have budgeted Ps. 30,709 million for Cantarell investments. By the end of 2002, we expect our investments in the Cantarell project to total approximately U.S. \$11.6 billion.

On October 10, 1997, we awarded a build-own-operate contract for a nitrogen cryogenic plant at the Cantarell oil and natural gas field to a consortium formed by BOC Holdings, Linde, Marubeni, West Coast Energy and ICA Fluor Daniel. Under this contract, the consortium is responsible for the financing, design, construction and operation of the plant. The plant will cost an estimated Ps. 10,131 million. Pursuant to the terms of the agreement, the consortium has legal ownership of the plant, and Pemex-Exploration and Production has committed to buy from the consortium 1.2 billion cubic feet per day of nitrogen for a period of 15 years. The plant began operations in 2000, and is not yet working at full capacity. During 2001, Pemex-Exploration and Production paid approximately U.S. \$186 million under this contract for a total volume of approximately 390.8 billion cubic feet of nitrogen. As of June 2002, the amount of the nitrogen to be supplied during the remaining life of the agreement amounted to approximately 1,200 million cubic feet per day. We expect this project to increase our crude oil recovery rates by injecting nitrogen into the Cantarell reservoirs, which should help maintain pressure during crude oil extraction. By maintaining favorable crude oil recovery rates at Cantarell, we expect that the injection program will yield long-term benefits, including an increase in exploitable hydrocarbon reserves at Cantarell. In the event that the agreement is rescinded due to a cause imputed to us, we will be obligated under the agreement to purchase the nitrogen production plant, the estimated value of which is approximately Ps. 8,310 million.

*Burgos.* In 1997, Pemex-Exploration and Production initiated a 15-year, U.S. \$5.7 billion project to develop the Burgos natural gas fields in Northern Mexico, which accounted for 11% of our total natural gas production in 1997. We expect that the Burgos project will better enable us to meet increasing domestic demand for natural gas and thereby reduce our imports of natural gas in the future. Three major turn-key contracts have been awarded to Dowell-Schlumberger México (worth U.S. \$108 million), Industrial Perforadora de Campeche (worth U.S. \$96.4 million) and Halliburton International Inc. (worth U.S. \$71 million) for this project. Exploratory activities and field reentrance and maintenance activities in the Burgos region increased estimated reserves by 66.8 million barrels of oil equivalent in 1998 and decreased estimated reserves by 24.4 million barrels of oil equivalent in 1999. We invested Ps. 7,307 million in 1999, Ps. 5,596 million in 2000 and Ps. 7,018 million in 2001 in the Burgos

project. For 2002, we anticipate that our investments in this project will amount to Ps. 12,500 million and that our total accumulated investments will reach approximately U.S. \$4.1 billion.

*Delta del Grijalva.* In 1998, Pemex-Exploration and Production initiated a 15-year, U.S. \$600 million investment project named Delta del Grijalva, which represents the continuation of development and optimization of a group of fields in the state of Tabasco in southeastern Mexico. These fields produce Olmeca light crude oil, which is the highest value crude oil that PMI sells in international markets on behalf of PEMEX. We invested Ps. 982 million in 1999, Ps. 1,431 million in 2000 and Ps. 1,466 million in 2001 in the Delta del Grijalva project. In 2002, we expect to invest Ps. 1,469 million in this project, bringing our total investment in Delta del Grijalva to U.S. \$642 million.

*Strategic Gas Program.* In 2001, Pemex-Exploration and Production initiated a nine-year, U.S. \$8,105 million investment project named the Strategic Gas Program. The purpose of the program is to increase the supply of natural gas and develop a reserve that would satisfy the domestic demand for natural gas, thereby reducing future reliance on imports. Field development and optimization of production will represent 39% of investments, with the goal of increasing the production of natural gas to 883 million cubic feet per day by 2007. Exploration activities will represent 49% of investments with the goal of increasing proved reserves in the nineteen different natural gas projects by 2,412 million barrels per year of oil equivalent, from current levels. Finally, development of newly discovered fields will represent 12% of the investment amount. In 2001, total investment for the program was U.S. \$283 million and average production was 19 million cubic feet per day of natural gas.

*Non-PIDIREGAS Investments.* In addition to PIDIREGAS investments, Pemex-Exploration and Production invested Ps. 21,357 million in 2001, of which 81% was invested in general operating improvements and 19% was invested in strategic projects. Our investments in strategic projects consisted of Ps. 1,385 million in oil and gas exploration and Ps. 2,764 million in general field development and facilities.

*2002 Exploration and Production Investment Budget.* For 2002, Pemex-Exploration and Production anticipates investing Ps. 27,512 million, excluding PIDIREGAS expenditures. Approximately 9% of this amount is to be allocated to investments in projects relating to field development, pipelines and exploration activities, including the continuation of certain projects that began during the period from 1997 to 2001. The remaining 91% will be allocated to operating projects as well as to projects relating to maintenance facilities, industrial safety and environmental matters. In addition to these non-PIDIREGAS investments, the 2002 budget includes 23 new PIDIREGAS strategic exploration and production projects for a total PIDIREGAS budget for 2002 of approximately Ps. 82,234 million. This amount includes Ps. 30,709 million for Cantarell, Ps. 12,500 million for Burgos, Ps. 16,569 million for the Strategic Gas Program, Ps. 1,469 million for Delta del Grijalva and Ps. 20,987 million for the 23 new PIDIREGAS.

#### *Multiple Services Contracts*

In December 2001, we announced our Multiple Services Contracts program to provide financing for the development and exploitation of certain hydrocarbon reserves. The goal of the program is to increase the supply of natural gas in Mexico through a transparent process that permits contracts under the program to be executed quickly. Under this program, we will, in consultation with private sector companies, develop a generic model services contract and solicit bids from a variety of contractors for the performance of various high-technology services including seismic reservoir characterization, implementation of new well logging technology and other high-technology methods of enhancing well performance and analysis. We published the generic model services contract in June 2002 and expect to begin to solicit bids in the first half of 2003.

#### *Crude Oil Production*

In 2001, we produced an average of 3,127 thousand barrels per day of crude oil, 3.8% greater than our average daily production in 2000. The increase was mainly due to an increase in production of crude oil by the Cantarell project of 261 thousand barrels per day (or 18% greater than its average daily production for 2000), which was only partially offset by a decrease in production of light crude oil in other regions.

Crude oil can be classified by sulphur content. “Sour” crudes contain 3.4% or greater sulphur content by weight and “sweet” crudes contain less than 1.0% sulphur content by weight. Most of our production is classified as sour crudes.

Pemex-Exploration and Production produces four types of crude oil:

- Altamira, a heavy crude oil;
- Maya, a heavy crude oil;
- Isthmus, a light crude oil; and
- Olmeca, a very light crude oil.

Most of Pemex-Exploration and Production’s production consists of Isthmus and Maya crude oil. In 2001, 63.9% of Pemex-Exploration and Production’s total production of crude oil consisted of heavy crudes and 36.1% consisted of light and very light crudes. The Marine region yields mostly heavy crude oil (62.5% of overall production), although significant volumes of light crude oil are also produced (18.7% of overall production). The Southern region yields mainly light and very light crudes (together, 16.3% of overall production), whereas the Northern region yields mostly heavy crude oil (together, 2.5% of overall production).

The following table sets forth our annual crude oil production rates for the five years ended December 31, 2001.

	Year Ended December 31,				2001	2001 vs. 2000
	1997	1998	1999	2000		
	(in thousands of barrels per day)					(%)
<b>Marine region</b>						
Heavy crude oil .....	1,511.0	1,605.4	1,516.3	1,730.5	1,953.6	12.9
Light crude oil .....	<u>788.1</u>	<u>751.8</u>	<u>721.5</u>	<u>654.4</u>	<u>586.2</u>	(10.4)
Total .....	2,299.1	2,357.2	2,237.8	2,384.9	2,539.8	6.5
<b>Southern region</b>						
Heavy crude oil .....	0.6	0.2	—	—	—	—
Light crude oil .....	<u>626.3</u>	<u>620.6</u>	<u>587.2</u>	<u>549.6</u>	<u>508.7</u>	(7.4)
Total .....	626.9	620.8	587.2	549.6	508.7	(7.4)
<b>Northern region</b>						
Heavy crude oil .....	55.5	53.3	47.2	43.7	43.3	(0.9)
Light crude oil .....	<u>40.8</u>	<u>39.1</u>	<u>33.9</u>	<u>33.7</u>	<u>35.2</u>	4.4
Total .....	96.3	92.4	81.1	77.5	78.5	1.4
Total heavy crude oil .....	1,567.1	1,658.9	1,563.5	1,774.3	1,997.0	12.6
Total light crude oil .....	<u>1,455.2</u>	<u>1,411.5</u>	<u>1,342.6</u>	<u>1,237.7</u>	<u>1,130.1</u>	(8.7)
Total crude oil .....	<u>3,022.2</u>	<u>3,070.5</u>	<u>2,906.0</u>	<u>3,012.0</u>	<u>3,127.0</u>	3.8

Note: Numbers may not total due to rounding.  
Source: Pemex-Exploration and Production

In 2001, the Marine region’s offshore facilities, which are located in the Campeche Sound in the Gulf of Mexico, produced approximately 81% of Mexico’s crude oil. Approximately 16% of crude oil production came from onshore facilities in the Southern region. Inland facilities in the Northern region accounted for the remaining 3% of total crude oil production. Due to the high productivity of certain wells, 15 fields accounted for 85.6% of Mexico’s crude oil production in 2001.

The Marine region is an area of approximately 21,000 square kilometers in the Campeche Sound in the Gulf of Mexico. Our production area covers 9,000 square kilometers of the Marine region. We began geophysical



operations in this region in 1972, commenced drilling in 1974 and began production in June 1979. In 2001, the average production level for this region was 2,540 thousand barrels per day. The Marine region's oil fields are less than 100 meters below sea level and have an average well depth of 3,500 meters.

The Southern region covers an area of approximately 23,000 square kilometers, with our production area in this region comprising 9,000 square kilometers in the states of Chiapas and Tabasco. In 2001, production in the Southern region totaled 509 thousand barrels per day. This production area included 104 oil fields with an average well depth of 5,500 meters.

The Northern region covers an area of approximately 2 million square kilometers, with our production area in this region located in the states of Veracruz, Tamaulipas, Nuevo León, Coahuila, San Luis Potosí and the continental platform in the Gulf of Mexico. In 2001, production in the Northern region totaled 78 thousand barrels of crude oil per day and 1,238 million cubic feet of natural gas per day. This production area included 177 oil fields with an average well depth of 2,100 meters.

#### *Production by Fields*

We conduct exploration, production and development activities in fields throughout Mexico. Mexico's main fields are described below.

*Cantarell Complex.* Cantarell is located on the continental shelf of the Gulf of Mexico and is the eighth largest petroleum complex of fields in the world in terms of proved reserves. It consists of the Akal, Chac, Kutz and Nohoch fields, which extend over an area of 162 square kilometers. As of December 31, 2001, there were a total of 347 wells drilled, 186 of which were producing. During 2001, the complex produced an average of 1.7 million barrels of crude oil and 621.5 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 8.5 billion barrels of crude oil and 3.6 trillion cubic feet of natural gas. Proved hydrocarbon reserves totaled 8.3 billion barrels of crude oil and 4.1 trillion cubic feet of natural gas. Total proved reserves were 9.4 billion barrels of crude oil equivalent, of which 7.7 billion were developed.

*Burgos Project.* The Burgos fields of Northern Mexico produced an average of 1.0 billion cubic feet of natural gas per day in 2001. This complex of fields is the largest producer of non-associated gas in Mexico. The most important producers are the Arcabuz-Culebra, Arcos and Cuicláhuac fields.

- *Arcabuz-Culebra.* This field covers an area of 380 square kilometers. As of December 31, 2001, there were a total of 481 wells drilled, 348 of which were producing. During 2001, the field produced an average of 330.4 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 979.4 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 473.4 billion cubic feet of natural gas, of which 275.6 billion were developed.
- *Cuicláhuac.* This field covers an area of 190 square kilometers. As of December 31, 2001, there were a total of 210 wells drilled, 153 of which were producing. During 2001, the field produced an average of 126.5 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 279.5 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 272.2 billion cubic feet of natural gas, of which 166.2 billion were developed.
- *Arcos.* This field covers an area of 45 square kilometers. As of December 31, 2001, there were a total of 124 wells drilled, 117 of which were producing. During 2001, the field produced an average of 180.6 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 335.7 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 172.0 billion cubic feet of natural gas, of which 116.1 billion were developed.

*Delta del Grijalva Project.* In terms of production, this project is the third most important in the Southern region. It includes the fields of Caparroso-Pijije-Escuintle, Escarbado, Luna-Palapa, Sen and Tizón. During 2001, the fields produced an average of 67.8 thousand barrels of crude oil and 239.1 million cubic feet of natural gas per day. The most important producers are Caparroso-Pijije-Escuintle, Luna-Palapa and Sen.

- *Sen*. This field covers an area of 41 square kilometers. As of December 31, 2001, there were a total of 27 wells drilled, 14 of which were producing. During 2001, the field produced an average of 32.5 thousand barrels of crude oil and 92.3 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 153.5 million barrels of crude oil and 420.6 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 64.5 million barrels of crude oil and 191.1 billion cubic feet of natural gas. Total proved reserves were 110.5 million barrels of crude oil equivalent, of which 108.6 million were developed.
- *Luna-Palapa*. This field covers an area of 17 square kilometers. As of December 31, 2001, there were a total of 40 wells drilled, 10 of which were producing. During 2001, the field produced an average of 16.6 thousand barrels of crude oil and 90.0 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 104.9 million barrels of crude oil and 567.8 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 30.2 million barrels of crude oil and 149.0 billion cubic feet of natural gas. Total proved reserves were 65.9 million barrels of crude oil equivalent, of which 59.4 million were developed.
- *Caparroso-Pijje-Escuintle*. This field covers an area of 16.6 square kilometers. As of December 31, 2001, there were a total of 32 wells drilled, 12 of which were producing. During 2001, the field produced an average of 14.7 thousand barrels of crude oil and 43.7 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 87.0 million barrels of crude oil and 249.0 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 40.2 million barrels of crude oil and 116.9 billion cubic feet of natural gas. Total proved reserves were 68.3 million barrels of crude oil equivalent, all of which were developed.

*Antonio J. Bermúdez Complex*. This complex of fields is the largest crude oil producer in the Southern region and the fourth largest in Mexico. It consists of the Samaria, Cunduacan, Oxiacaque, Iride, Platanal and Carrizo fields and covers an area of 192 square kilometers. As of December 31, 2001, there were a total of 379 wells drilled, 87 of which were producing. During 2001, the complex produced an average of 158.5 thousand barrels of crude oil and 275.9 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 2.4 billion barrels of crude oil and 3.2 trillion cubic feet of natural gas, and proved hydrocarbon reserves totaled 1.9 billion barrels of crude oil and 3.5 trillion cubic feet of natural gas. Total proved reserves were 2.7 billion barrels of crude oil equivalent, of which 1.8 billion were developed.

*Jujo-Tecominoacán Field*. This field is the second largest crude oil producer in the Southern region and the eighth largest producer in Mexico and covers an area of 74 square kilometers. As of December 31, 2001, there were a total of 101 wells drilled, 48 of which were producing. During 2001, the field produced an average of 84.8 thousand barrels of crude oil and 118.5 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 910.9 million barrels of crude oil and 1.2 trillion cubic feet of natural gas, and proved hydrocarbon reserves totaled 810.3 million barrels of crude oil and 1.8 trillion cubic feet of natural gas. Total proved reserves were 1.3 billion barrels of crude oil equivalent, of which 589.1 million were developed.

*Muspac Field*. Muspac is the most important gas producer in the Southern region and the fifth most important in the country, covering an area of 17 square kilometers. As of December 31, 2001, there were a total of 24 wells drilled, 15 of which were producing. During 2001, the field produced an average of 5.8 thousand barrels of crude oil and 212.2 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 87.1 million barrels of crude oil and 1,283.6 billion cubic feet of natural gas. Total proved reserves were 313.6 million barrels of crude oil equivalent, of which 207.3 million were developed, and proved hydrocarbon reserves totaled 17.4 million barrels of crude oil and 1,213.4 trillion cubic feet of natural gas.

*Abkatún-Pol-Chuc Complex*. This area is made up of three fields in the Southwestern offshore region which extend over an area of 198 square kilometers. As of December 31, 2001, there were a total of 188 wells drilled, 35 of which were injectors. Currently, there are 54 producing wells. During 2001, the complex produced an average of 283.4 thousand barrels of crude oil and 290.8 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 3.6 billion barrels of crude oil and 3.2 billion cubic feet of natural gas, and

proved hydrocarbon reserves totaled 392.0 million barrels of crude oil and 292.2 billion cubic feet of natural gas. Total proved reserves were 460.0 million barrels of crude oil equivalent, of which 408.5 million were developed.

*Caan Field.* This field is located in the Southwestern offshore region and covers an area of 46 square kilometers. As of December 31, 2001, there were a total of 41 wells drilled, 27 of which were producing. During 2001, the field produced an average of 163.3 thousand barrels of crude oil and 258.4 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 585.1 million barrels of crude oil and 993.7 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 174.5 million barrels of crude oil and 429.3 billion cubic feet of natural gas. Total proved reserves were 270.1 million barrels of crude oil equivalent, of which 258.2 million were developed.

*Ku-Maloob-Zaap Complex.* This complex of fields is located off the coast of Campeche in Mexican territorial waters in the Gulf of Mexico. This is Mexico's fourth most important complex of fields in terms of total remaining hydrocarbon reserves. It is composed of the Ku, Maloob and Zaap fields, and extends over an area of 121 square kilometers. As of December 31, 2001, there were a total of 61 wells drilled, 40 of which were producing. During 2001, this complex produced an average of 247.0 thousand barrels of crude oil and 152.5 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 1.6 billion barrels of crude oil and 850.9 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 1.3 billion barrels of crude oil and 891.2 billion cubic feet of natural gas. Total proved reserves were 1,575.2 million barrels of crude oil equivalent, of which 526.8 million were developed.

*Ek and Balam Fields.* This complex of fields is located off the coast of Campeche in Mexican territorial waters in the Gulf of Mexico. It is made up of two fields extending over an area of 43 square kilometers. As of December 31, 2001, there were a total of 35 wells drilled, 7 of which were producing. During December 31, 2001, the fields produced an average of 21.3 thousand barrels of crude oil and 5.2 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 103.2 million barrels of crude oil and 25.4 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 152.1 million barrels of crude oil and 42.5 billion cubic feet of natural gas. Total proved reserves were 162.8 million barrels of crude oil equivalent, all of which were developed.

*Paleocanal de Chicontepec.* This complex of fields (which we refer to as "Chicontepec") is part of the northern region of our operations and is divided into 29 areas, which extend over an area of 3,731 square kilometers. As of December 31, 2001, there were a total of 1,138 wells drilled, 361 of which were producing. During 2001, Chicontepec produced an average of 7.4 thousand barrels of crude oil and 19.5 million cubic feet of natural gas per day. As of December 31, 2001, cumulative production was 110.9 million barrels of crude oil and 195.0 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 479.8 million barrels of crude oil and 1,040.5 billion cubic feet of natural gas. Total proved reserves were 670.1 million barrels of crude oil equivalent, of which 46.9 million were developed.

### *Pipelines*

The crude oil and natural gas pipeline network owned by Pemex-Exploration and Production connects crude oil and natural gas producing centers with refineries and petrochemical plants. At the end of 2001, this pipeline network consisted of approximately 28,285 kilometers of pipe, of which 2,537 kilometers were located in the Marine region, 12,085 kilometers were located in the Southern region and 13,663 kilometers were located in the Northern region. For a description of products transported by the pipeline network, see "—Transportation and Distribution" below.

### *Crude Oil Sales*

During 2001, domestic consumption of crude oil amounted to approximately 1,349 thousand barrels per day, which represented 43% of our total crude oil production. Through PMI's activities, we sold the remainder of our crude oil production abroad. See "—International Trading" below. Maya crude oil accounted for 76% of exported crude oil volume sold by PMI in 2001, but only 29% of domestic consumption.

The following table sets forth crude oil distribution.

	At December 31,					2001 vs. 2000 (%)
	1997	1998	1999	2000	2001	
	(in thousands of barrels per day)					
<b>Production</b> .....	3,022.2	3,070.5	2,906.0	3,012.0	3,127.0	3.8
<b>Distribution</b>						
Refineries .....	1,072.6	1,154.5	1,132.5	1,126.9	1,140.4	1.2
Products under processing agreements <sup>(1)</sup> .....	—	—	56.7	103.7	62.3	(39.9)
Petrochemicals .....	194.3	163.4	149.6	136.0	146.2	7.5
Exports <sup>(2)</sup> .....	1,730.5	1,738.0	1,551.2	1,619.8	1,756.6	8.4
Total .....	<u>2,997.3</u>	<u>3,055.8</u>	<u>2,890.0</u>	<u>2,986.4</u>	<u>3,105.6</u>	4.0
<b>Stock changes, statistical differences</b> .....	24.9	14.6	16.1	25.6	21.4	(16.4)

Note: Numbers may not total due to rounding.

(1) Represents exports to third-party processors for re-import into Mexico.

(2) Includes barrels of crude oil held in inventories designated for export as well as crude oil sold to the U.S. Department of Energy Strategic Petroleum Reserve (the "SPR") in the 1980s, which PEMEX recovered in August 1998 as part of an unrelated swap arrangement with the SPR. Although PEMEX obtained rights to the crude oil in August 1998, the crude oil was held in the SPR until December 1999. These exports are included in PEMEX's 1999 and 2000 export figures.

Source: Pemex-Exploration and Production

Because of its higher sulphur content, Maya crude oil requires extra processing and has lower refining yields than do more valuable sweet crudes, and thus requires extra investment by the purchaser to refine. Because of this, we receive a lower price for Maya crude oil than we do for sweeter crude oils that cost less to refine. In addition, because of this price difference, we must continue to support the export value of sour crude oil such as Maya crude oil in relation to other grades of crude oil by creating incentives for refiners to invest in high-conversion refineries capable of upgrading the relatively large proportion of residue produced from processing sour crude oil in less efficient refining complex configurations. We may do this by entering into long-term Maya crude oil supply agreements pursuant to which purchasers agree to undertake projects to expand the capacity of their respective refineries to upgrade residue from Maya crude oil.

## Refining

### *Refining Processes and Capacity*

Pemex-Refining's production processes include the following:

- *Atmospheric distillation.* This process heats crude oil in a tube furnace at atmospheric pressure to distill refined products. The primary products produced are gasoline, kerosene, jet fuel, diesel, atmospheric gas oil and atmospheric reduced crude oil.
- *Vacuum distillation.* This process heats crude oil or other feedstock in a vacuum distillation column, which is operated at low pressures. The objective of this process is to maximize production of heavy vacuum gas oil, which is produced by boiling crude oil.
- *Cracking.* This process uses either heat and pressure or a catalytic agent to increase gasoline yields from crude oil.
- *Visbreaking.* This is a thermal cracking process, which uses a horizontal-tube heater fired to a high temperature. Visbreaking reduces flasher bottom viscosity and produces some heavy gas oil.

- *Reforming processes.* These processes use heat and catalysts to transform smaller or unstable hydrocarbon molecules into larger, more useful refining or blending products. For example, Pemex-Refining uses reforming processes to convert low-octane gasoline into higher-octane stocks that are suitable for blending into finished gasoline and to convert naphthas into more volatile, higher-octane products.
- *Hydrotreatment or resid hydrocracking.* This process uses a catalyst and hydrogen at high temperature and pressure to remove sulphur, nitrogen and some aromatic compounds. Hydrotreatment also processes some lighter liquid product off-take.
- *Alkylation and isomerization.* This polymerization process unites olefins and isoparaffins. Butylenes and isobutanes are combined with sulphuric acid or hydrofluoric acid to rearrange straight-chain hydrocarbon molecules into branched-chain products. Pentanes and hexanes, which are difficult to reform, are isomerized through the use of aluminum chloride and other precious-metal catalysts. Normal butane may be isomerized to provide a portion of the isobutane feed needed for the alkylation process. The process produces a high octane, low sensitivity blending agent for gasoline.
- *Natural gas liquid fractionation.* These processing methods heat natural gas liquids in a fractionating tower, which is a tall cylindrical refining vessel. The heating first drives off light ends and gases, followed by progressively heavier molecular fractions or cuts. Cooling processes then condense those fractions or cuts. As of 1998, Pemex-Refining no longer uses this production process.

These production processes together constitute Pemex-Refining's production capacity as set forth in the table below.

### Refining Capacity by Production Process

	At December 31,				
	1997	1998	1999	2000	2001
	(in thousands of barrels per day)				
<b>Production Process</b>					
Atmospheric distillation.....	1,525.0	1,525.0	1,525.0	1,559.0	1,559.0
Vacuum distillation.....	761.7	757.1	757.1	774.8	773.8
Cracking.....	368.0	368.0	368.0	375.0	375.0
Visbreaking.....	141.0	141.0	141.0	141.0	141.0
Reforming.....	227.8	226.0	226.0	268.8	268.8
Hydrotreatment.....	698.0	748.0	748.0	808.0	848.0
Alkylation and isomerization.....	113.0	120.7	120.7	109.0	109.0
Natural gas liquid fractionation <sup>(1)</sup> .....	71.0	–	–	–	–

(1) Propane, butanes and naphthas.

Source: Base de Datos Institucional (Pemex BDI)

At the end of 2001, Pemex-Refining owned and operated six refineries, Cadereyta, Madero, Minatitlán, Salamanca, Salina Cruz and Tula, and one topping unit located in the petrochemical complex of La Cangrejera. Our refineries are comprised of atmospheric and vacuum distillation units, where the bulk of crude oil input is processed. Secondary processing facilities include desulphurization units and facilities for catalytic cracking, reforming and hydrotreating. During 2001, our refineries processed 1,252 thousand barrels per day of crude oil (200 thousand barrels at Cadereyta, 106 thousand barrels at Madero, 177 thousand barrels at Minatitlán, 186 thousand barrels at Salamanca, 293 thousand barrels at Salina Cruz and 290 thousand barrels at Tula), which consisted of 829 thousand barrels per day of Olmeca and Isthmus crude oil and 423 thousand barrels per day of Maya crude oil.

Since 1993, through our subsidiary company, P.M.I. Norteamérica, S.A. de C.V., we have participated in a limited partnership with Shell Oil Company in a refinery located in Deer Park, Texas. Under the Deer Park Limited

Partnership agreement, P.M.I. Norteamérica, S.A. de C.V. and Shell Oil Company each provides 50% of the refinery's crude oil input and owns 50% of the refinery's output. The partnership completed a substantial upgrading program in mid-1995 to enable it to process Maya crude oil. PEMEX and Shell Oil Company completed an expansion project at the Deer Park Refinery in April 2001 thereby increasing the capacity of the refinery by 60 thousand barrels per day to 340 thousand barrels per day. The expansion project includes an expansion of the refinery's existing coking unit, a new sulphur plant and upgrades to the crude distillation, distillates hydrotreating and hydrocracking units.

### Production

Pemex-Refining produces a wide range of products derived from crude oil and natural gas, including liquefied petroleum gas, gasoline, jet fuel, diesel, fuel oil, asphalts, lubricants and other refined oil and natural gas products. Pemex-Refining produced 1,267 thousand barrels per day of refined products (including dry gas by-products of the refining process) in 2001, an increase of 1.7% from 2000 levels.

The following table sets forth, by category, Pemex-Refining's production of refined products from 1997 through 2001.

	<b>Pemex-Refining Production</b>					<b>2001 vs. 2000 (%)</b>
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	
	<b>(in thousands of barrels per day)</b>					
<b>Refinery runs</b>						
Crude oil.....	1,242.3	1,283.0	1,228.0	1,227.4	1,251.9	2.0
Liquids.....	0.2	0.0	0.0	0.0	0.0	-
Total .....	<u>1,242.5</u>	<u>1,283.0</u>	<u>1,228.0</u>	<u>1,227.4</u>	<u>1,251.9</u>	2.0
<b>Refined products</b>						
Liquefied petroleum gas .....	38.3	28.8	31.0	24.9	27.8	11.6
Gasoline						
Nova (leaded)/Base <sup>(1)</sup> .....	102.8	52.5	46.5	27.9	22.4	(19.7)
Pemex Magna .....	282.5	347.9	346.6	346.0	349.4	1.0
Pemex Premium.....	1.1	9.7	11.2	17.9	17.3	(3.4)
Others .....	1.9	1.8	1.6	1.2	1.2	-
Total .....	<u>388.3</u>	<u>411.9</u>	<u>405.9</u>	<u>393.0</u>	<u>390.3</u>	(0.7)
Kerosenes						
Jet fuel .....	56.0	57.1	57.8	55.3	56.7	2.5
Other kerosenes .....	3.1	1.9	0.8	0.3	0.3	0.0
Total .....	<u>59.1</u>	<u>59.0</u>	<u>58.6</u>	<u>55.6</u>	<u>57.0</u>	2.5
Diesel						
Pemex Diesel.....	242.2	250.7	248.4	254.5	266.6	4.8
Low sulphur diesel .....	22.8	23.0	6.9	1.2	1.1	(8.3)
Others .....	10.4	16.3	16.6	9.7	13.9	43.3
Total .....	<u>275.4</u>	<u>290.0</u>	<u>271.9</u>	<u>265.4</u>	<u>281.6</u>	6.1
Fuel oil .....	426.2	445.8	427.9	422.6	435.9	3.1
Other refined products						
Industrial gas oil .....	4.6	5.7	3.8	2.4	0.0	(100.0)
Asphalts.....	25.8	29.7	30.3	31.1	28.7	(7.7)
Lubricants.....	5.6	5.4	8.3	6.0	5.2	(13.3)
Paraffins .....	1.7	1.8	1.9	1.3	1.2	(7.7)
Still gas .....	49.6	49.2	43.3	41.8	39.0	(6.7)
Other refined products <sup>(2)</sup> .....	1.1	1.7	1.5	1.9	0.6	(68.4)
Total .....	<u>88.4</u>	<u>93.5</u>	<u>89.0</u>	<u>84.5</u>	<u>74.7</u>	(11.6)
Total refined products.....	<u>1,275.7</u>	<u>1,329.0</u>	<u>1,284.4</u>	<u>1,246.0</u>	<u>1,267.3</u>	1.7

Note: Numbers may not total due to rounding.

(1) For 1997, figure refers to Nova (leaded) only. As of 1998, data refers to production of base gasoline only.

(2) Includes aeroflex 1-2, coke and furfural extract.

Source: Pemex BDI

Fuel oil, automotive gasoline and diesels represented the bulk of Pemex-Refining's production. In 2001, fuel oil represented 34%, gasoline represented 31% and diesels represented 22% of total refined product production. Jet fuel represented 4% and liquefied petroleum gas represented 2% of total production of refined products in 2001. The remainder of Pemex-Refining's production consisted of a variety of other refined products.

As a result of our strategy of investing in technology to improve the quality of our fuels, over the past few years Pemex-Refining has increased its production of unleaded gasoline (including Pemex Premium) in relation to leaded gasoline. The share of unleaded gasoline as a percentage of our total automotive gasoline production has increased from 73% in 1997 to 100% since 1998. We also introduced new environmentally sound products such as Pemex Diesel, with 0.05% sulphur content. The share of Pemex Diesel as a percentage of total diesel produced by Pemex-Refining has increased from 88% in 1997 to 95% in 2001. We have also promoted liquefied petroleum gas as an environmentally sound substitute fuel for gasoline in motor vehicles.

#### Domestic Sales

We market a full range of refined products, including gasoline, jet fuel, diesel, fuel oil and petrochemicals. We are one of a few major producers of crude oil worldwide that experiences significant domestic demand for our refined products.

Over the five years ended December 31, 2001, the value of Pemex-Refining's domestic sales of refined products was as follows:

	Year Ended December 31,					2001 vs. 2000 (%)
	1997	1998	1999	2000	2001	
<b>Oil Products</b>	(in millions of pesos)					
Gasoline						
Nova (leaded) <sup>(2)</sup> .....	Ps. 6,469.3	Ps. 0.0	Ps. 0.0	Ps. 0.0	Ps. 0.0	-
Pemex Magna .....	35,710.8	36,426.3	40,946.8	65,334.6	60,734.8	(7.0)
Pemex Premium .....	1,213.5	3,012.5	4,793.6	9,584.4	10,910.1	13.8
Aviation fuels .....	90.7	98.9	115.3	113.0	112.3	(0.6)
Others .....	161.6	132.5	124.7	152.1	138.5	(8.9)
Total .....	43,645.9	39,670.2	45,980.3	75,184.0	71,895.6	(4.4)
Kerosenes						
Jet fuel .....	3,232.7	2,856.4	3,800.2	6,681.6	5,681.6	(15.0)
Other kerosenes .....	97.9	80.8	99.7	99.3	125.0	25.9
Total .....	3,330.6	2,937.2	3,899.9	6,780.9	5,806.6	(14.4)
Diesel						
Pemex Diesel .....	17,685.7	15,018.1	18,406.1	30,386.3	27,589.3	(9.2)
Low sulphur <sup>(3)</sup> .....	74.8	-	-	-	-	-
Others .....	3,315.5	3,400.3	4,262.9	7,531.0	6,203.6	(17.6)
Total .....	21,076.0	18,418.3	22,669.0	37,917.3	33,793.0	(10.9)
Fuel oil						
Total .....	18,312.4	16,388.6	20,250.4	33,521.7	27,653.0	(17.5)
Other refined products						
Industrial gas oil .....	347.3	349.7	284.0	317.4	9.3	(97.1)
Asphalts .....	725.3	808.9	988.2	1,648.5	1,513.7	(8.2)
Lubricants .....	670.9	626.2	705.0	999.0	1,008.2	0.9
Paraffins .....	178.4	153.8	154.1	157.2	141.2	(10.2)
Others .....	2.0	1.1	1.2	2.0	0.5	(75.0)
Total .....	1,923.9	1,939.7	2,132.5	3,124.1	2,672.9	(14.4)
Total oil products .....	<u>Ps. 88,288.7</u>	<u>Ps. 79,354.0</u>	<u>Ps. 94,932.2</u>	<u>Ps. 156,527.9</u>	<u>Ps. 141,821.1</u>	(9.4)
<b>Petrochemicals<sup>(4)</sup></b> .....	Ps. 284.7	Ps. 151.9	Ps. 256.1	Ps. 545.4	Ps. 687.5	26.0

Notes: Numbers may not total due to rounding.

(1) Excludes IEPS Tax and value added tax. See "—Taxes and Duties" below.

(2) Pemex-Refining ceased selling leaded gasoline at the end of 1997.

(3) Beginning in 1998, low sulphur diesel sales are included in Pemex Diesel sales figures.

(4) Includes petrochemical products produced at refineries operated by Pemex-Refining.

Source: Pemex BDI

The largest consumers of fuels in Mexico are the Federal Electricity Commission and our subsidiary entities. The Federal Electricity Commission consumed approximately 80% of our fuel oil production during 2001 pursuant to a fuel oil supply contract entered into in November 1995 under which we agreed to supply a minimum of 270,000 barrels of fuel oil per day to the Federal Electricity Commission. The price per cubic meter of the fuel oil supplied to the Federal Electricity Commission is based on the three-month average spot price per cubic meter of Fuel Oil No. 6 (3% sulphur) at Houston, Texas, as quoted in Platt's U.S. Marketscan and adjusted for quality and transportation cost differentials. In addition, the price of the fuel oil is discounted by a commercial margin on each cubic meter of fuel oil. In 2001, this volume discount amounted to approximately 2.5% of total fuel oil sales to the Federal Electricity Commission. The contract can be terminated by either party upon six months' notice. The total amount paid to us by the Federal Electricity Commission under this contract in 2001 was Ps. 22,286 million and represented 4.9% of our total consolidated sales revenues.

The value of our domestic sales of refined oil products decreased by 9.4% (or Ps. 14,706.8 million) in 2001 from 2000 levels, primarily due to the decrease in international prices of refined products by 8% over the year. In particular, the price of automotive gasoline fell 7.3%, the price of diesel gas fell by 7.6% and the price of fuel oil fell by 14% during 2001.

The volume of our domestic gasoline sales in 2001 increased by 3.6% from 2000 levels, from 532.7 thousand barrels per day in 2000 to 551.8 thousand barrels per day in 2001. By the end of 1997, we stopped selling Nova low-octane leaded gasoline in Mexico. The volume of our domestic diesel sales decreased by 3.1%, from 284.7 thousand barrels per day in 2000 to 275.8 thousand barrels per day in 2001, due to a decrease in industrial demand as a result of a reduction in Mexico's industrial activity. In addition, the volume of our domestic sales of fuel oil decreased by 3.6%, from 492.4 thousand barrels per day to 474.9 thousand barrels per day, primarily due to a decrease in demand from the Federal Electricity Commission and a decrease in industrial demand as a result of a decrease in Mexico's industrial production.



The volume of Pemex-Refining's domestic sales of refined products for the five-year period ended December 31, 2001 was distributed as follows:

	Year Ended December 31,					2001 vs. 2000 (%)
	1997	1998	1999	2000	2001	
	(in thousands of barrels per day, except where otherwise indicated)					
<b>Oil Products</b>						
Gasoline						
Nova (leaded) <sup>(1)</sup> .....	78.4	0.0	0.0	0.0	0.0	-
Pemex Magna.....	408.2	481.2	468.0	472.3	476.5	0.9
Pemex Premium.....	11.2	30.5	43.0	59.1	74.1	25.4
Aviation fuels.....	0.6	0.5	0.5	0.4	0.4	-
Others.....	<u>1.2</u>	<u>1.1</u>	<u>1.0</u>	<u>0.8</u>	<u>0.8</u>	-
Total.....	499.6	513.4	512.6	532.7	551.8	3.6
Kerosenes						
Jet fuel.....	47.2	52.4	55.3	55.5	55.3	(0.4)
Other kerosenes.....	<u>1.2</u>	<u>0.8</u>	<u>0.8</u>	<u>0.7</u>	<u>0.8</u>	14.3
Total.....	48.4	53.2	56.1	56.2	56.1	(0.2)
Diesel						
Pemex Diesel.....	218.9	225.8	224.9	228.6	226.4	(1.0)
Low sulphur <sup>(2)</sup> .....	0.8	-	-	-	-	-
Others.....	<u>42.7</u>	<u>50.4</u>	<u>49.8</u>	<u>56.1</u>	<u>49.4</u>	(11.9)
Total.....	262.5	276.2	274.7	284.7	275.8	(3.1)
Fuel oil						
Total.....	453.9	489.1	470.8	492.4	474.9	(3.6)
Other oil products						
Industrial gas oil.....	5.5	6.5	4.3	2.3	0.0	(100.0)
Asphalts.....	16.3	17.1	19.5	20.6	20.9	1.5
Lubricants.....	5.7	5.2	5.8	6.4	5.5	(14.1)
Paraffins.....	1.6	1.3	1.3	1.3	1.2	(7.7)
Others.....	<u>1.5</u>	<u>1.0</u>	<u>1.1</u>	<u>1.8</u>	<u>0.4</u>	(77.8)
Total.....	<u>30.6</u>	<u>31.1</u>	<u>32.0</u>	<u>32.4</u>	<u>28.0</u>	(13.6)
Total oil products.....	<u>1,295.0</u>	<u>1,363.0</u>	<u>1,346.1</u>	<u>1,398.4</u>	<u>1,386.7</u>	(0.8)
<b>Petrochemicals<sup>(3)</sup></b> .....	90.6	51.0	84.5	201.1	301.6	50.0

Note: Numbers may not total due to rounding

(1) Pemex-Refining ceased selling leaded gasoline at the end of 1997.

(2) Since 1998, low sulphur diesel sales volumes are included in Pemex Diesel sales volumes.

(3) In thousands of metric tons per day. Includes petrochemical by-products of the refining process produced and sold by Pemex-Refining.

Source: Pemex BDI

At the retail level, we now offer standard and premium grades of unleaded gasoline throughout the country. Our efforts to build and enhance our brands have also progressed during 2000 and 2001. More than 99% of Mexico's independent gasoline service stations now participate in our franchise program, which provides financial assistance to upgrade equipment and facilities and technical assistance in the development of marketing and customer service programs. At the end of 2001, there were 5,139 retail service stations in Mexico, of which 5,113 were privately owned and operated as franchises.

### Investments

Over the last six years, Pemex-Refining has focused its investment program on enhancing the quality of gasoline and diesel to meet new environmental standards in Mexico, improving its ability to process heavy crudes in order to optimize the crude oil blend in the refineries and increasing the production of unleaded gasoline and diesel to supply growing demand at low cost, as opposed to increasing its overall crude oil processing capacity. In the medium-term, Pemex-Refining will continue to import unleaded gasoline to satisfy domestic demand. During 2001,

Pemex-Refining imported approximately 121 thousand barrels per day of unleaded gasoline, which represented 22% of total domestic demand for unleaded gasoline in that year.

In 2001, Pemex-Refining invested Ps. 7,222 million, as compared to Ps. 22,072 million in 2000, representing a 67% decrease in investment in combined PIDIREGAS and non-PIDIREGAS capital expenditures due to the partial recognition of the Cadereyta project as a capital expenditure in 2000, although the project had not yet been completed. Of the Ps. 7,222 million, we invested Ps. 684 million in the Cadereyta PIDIREGAS. Amounts that were originally budgeted for investment in the Madero, Salamanca and Tula PIDIREGAS in 2001 were allocated to the 2002 budget, as these projects are expected to be completed in 2002.

*Cadereyta Project.* In November 1997, Pemex-Refining awarded a U.S. \$1.6 billion contract to upgrade and revamp the Cadereyta refinery to *Consorcio Proyecto Cadereyta* (CONPROCA) a consortium formed by SK Engineering & Construction Co., Ltd., Siemens AG and Triturados Basálticos y Derivados, S.A. de C.V. We expect the project to increase clean fuel production substantially, specifically gasoline and diesel, which will enable Pemex-Refining to fulfill future demand requirements in northern Mexico and comply with future environmental regulations. As of December 2001, the project was certified as 99.31% complete. Pemex-Refining made the first amortization payment of U.S. \$121.2 million on December 15, 2000. During 2001, Pemex-Refining made the second and third amortization payments of U.S. \$121.2 million each on June 15, 2001 and December 15, 2001.

*Madero Project.* In February 1999, Pemex-Refining awarded a U.S. \$1.2 billion contract for the Madero refinery upgrading project to another consortium, PEMOPRO, S.A. de C.V., led by SK Engineering & Construction Co., Ltd., Siemens AG and Triturados Basálticos y Derivados, S.A. de C.V. The total cost of the project is an estimated U.S. \$1.6 billion and will involve the construction of 10 new plants and the upgrading of five others at the Madero complex in the state of Tamaulipas in northeastern Mexico. The project is expected to increase the Madero refinery's processing capacity for heavy crude oil (Maya) by 125,000 barrels per day, increase gasoline production by 34,000 barrels per day, increase middle distillates (diesel and jet fuel) production by 15,000 barrels per day and reduce production of high sulphur fuel oil by 13,000 barrels per day. As of December 2001, 95.11% of the total work for the Madero project had been completed. The project was completed on October 24, 2002.

*Tula and Salamanca Projects.* On November 11, 1999, Pemex-Refining awarded the Tula and Salamanca projects to Samsung Co. through an international bidding process. These projects are dedicated exclusively to increasing gasoline production, whereas the Cadereyta and Madero projects are dedicated to increasing heavy crude oil processing capacities through residual conversion. Upon the successful arrangement of a U.S. \$333.5 million credit facility on March 10, 2000, Samsung Co. began construction on both projects. The construction period for both the Tula and Salamanca projects lasted 27 months. Total costs are expected to be U.S. \$139.0 million for the Tula Project and U.S. \$194.5 million for the Salamanca project. As of December 2001, the Tula project was 97.87% complete and the Salamanca project was 95.23% complete. The Tula project was completed on August 27, 2002, and the Salamanca project is expected to be delivered in the second half of 2002.

*Minatitlán and Salina Cruz Projects.* These refining projects are intended to increase production of high quality gasoline and middle distillates and to improve the crude oil blend. The bidding packages for these projects are ready and are pending final approval. The construction period is expected to last approximately 36 months following the financial closing.

*Non-PIDIREGAS Investments.* Pemex-Refining invested Ps. 6,537.7 million in 2001, not including expenditures relating to the Cadereyta, Madero, Tula and Salamanca PIDIREGAS. Strategic projects, in addition to those described above, comprised Ps. 2,282.7 million of the total investment, operating projects represented Ps. 2,836.5 million of the total investment and the remaining Ps. 1,418.5 million was dedicated mainly to acquisitions of equipment, research and development and complementary investments.

*2002 Refining Investment Budget.* For 2002, Pemex-Refining has budgeted Ps. 21,445 million for investment in PIDIREGAS. In addition, Pemex-Refining has budgeted Ps. 8,942.2 million for investments in 2002, not including expenditures related to PIDIREGAS. This non-PIDIREGAS budget includes Ps. 1,707.6 million in amortization payments for PIDIREGAS or 19% of the total budget. Pemex-Refining will invest 23% of the total amount to expand and upgrade refineries, 13% in environmental and industrial safety projects, 2% in pipeline

systems and distribution terminals, 22% in maintenance and rehabilitation projects and 21% in other projects and acquisitions.

## Gas and Basic Petrochemicals

### *Natural Gas and Condensates*

Pemex-Exploration and Production's average natural gas production decreased by 3.6%, from 4,679 million cubic feet per day in 2000 to 4,511 million cubic feet per day in 2001, while the average natural gas production of Pemex-Gas and Basic Petrochemicals increased by 0.5%, from 2,791 million cubic feet per day in 2000 to 2,804 million cubic feet per day in 2001. Natural gas production associated with crude oil production accounted for 71.8% of production of natural gas in 2001, with the remainder of natural gas production consisting of extraction from fields holding natural gas reserves. Although natural gas production is more geographically diverse than crude oil production, 36 fields (or 12% of the 301 fields) accounted for 78% of all production in 2001. Of the total production, 34% originated in the Marine region, 39% in the Southern region and the remainder in the Northern region.

All natural gas production is directed to Pemex-Gas and Basic Petrochemical's gas processing facilities. At the end of 2001, Pemex-Gas and Basic Petrochemicals owned ten facilities.

The following facilities are located in the Southern region:

- *Cactus*: This facility contains 22 plants that together produced 728.3 million cubic feet per day of dry gas, 24.7 thousand barrels per day of ethane, 41.7 thousand barrels per day of liquid gas, 23.0 thousand barrels per day of naphtha and 312.6 thousand tons of sulphur at December 31, 2001.
- *Ciudad Pemex*: This facility contains eight plants that together produced 642.6 million cubic feet per day of dry gas and 186.3 thousand tons of sulphur at December 31, 2001.
- *La Cangrejera*: This facility contains two plants that together produced 34.4 thousand barrels per day of ethane, 38.0 thousand barrels per day of liquid gas and 9.3 thousand barrels per day of naphtha at December 31, 2001.
- *Morelos*: This facility contains one plant that produced 34.0 thousand barrels per day of ethane, 42.1 thousand barrels per day of liquid gas and 10.3 thousand barrels per day of naphtha at December 31, 2001.
- *Nuevo Pemex*: This facility contains 13 plants that together produced 861.7 million cubic feet per day of dry gas, 37.6 thousand barrels per day of ethane, 74.4 thousand barrels per day of liquid gas, 39.7 thousand barrels per day of naphtha and 163.2 thousand tons of sulphur at December 31, 2001.
- *Pajaritos*: This facility contains one plant that produced 11.8 thousand barrels per day of ethane at December 31, 2001.
- *La Venta*: This facility contains two plants that together produced 134.1 million cubic feet per day of dry gas at December 31, 2001.
- *Matapionche*: This facility contains five plants that together produced 88.7 million cubic feet per day of dry gas, 2.6 thousand barrels per day of liquid gas, 1.1 thousand barrels per day of naphtha and 12.5 thousand tons of sulphur at December 31, 2001.
- *Poza Rica*: This facility contains four plants that together produced 83.6 million cubic feet per day of dry gas, 3.6 thousand barrels per day of ethane, 2.2 thousand barrels per day of liquid gas, 0.8 thousand barrels per day of naphtha and 9.5 thousand tons of sulphur at December 31, 2001.

The following facility is located in the Northern region:

- *Reynosa*: This facility contains two plants that together produced 265.4 million cubic feet per day of dry gas, 1.1 thousand barrels per day of ethane, 4.4 thousand barrels per day of liquid gas, 4.1 thousand barrels per day of naphtha and 1.7 thousand barrels per day of other products at December 31, 2001.

The following tables set forth Pemex-Gas and Basic Petrochemicals' total natural gas processing and production, as well as processing capacity, for the five years ended December 31, 2001.

**Natural Gas and Condensates Processing and Production<sup>(1)</sup>**

	<b>Year Ended December 31,</b>					<b>2001</b>
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>vs. 2000</b>
	(in millions of cubic feet per day, except where otherwise indicated)					(%)
<b>Processing</b>						
Wet gas .....	3,338	3,568	3,527	3,637	3,629	(0.2)
Sour gas .....	3,088	3,177	3,071	3,166	3,179	0.4
Sweet gas <sup>(2)</sup> .....	250	391	456	471	450	(4.5)
Condensates <sup>(3)</sup> .....	102	98	96	101	105	4.0
Gas to natural gas liquids						
extraction .....	3,389	3,716	3,612	3,710	3,693	(0.5)
Wet gas .....	3,191	3,416	3,378	3,536	3,526	(0.3)
Reprocessing streams <sup>(4)</sup> .....	198	300	234	174	166	(4.6)
<b>Production</b>						
Dry gas <sup>(5)</sup> .....	2,799	2,816	2,709	2,791	2,804	0.5
Natural gas liquids <sup>(6)(7)</sup> .....	400	439	447	445	443	(0.4)
Liquefied petroleum gas <sup>(6)</sup> .....	177	196	201	204	206	1.0
Ethane <sup>(6)</sup> .....	125	145	160	156	147	(5.8)
Naphtha <sup>(6)(8)</sup> .....	84	88	84	85	88	3.5
Sulphur <sup>(9)</sup> .....	750	739	687	661	684	3.5

- (1) Excludes operations of Pemex-Exploration and Production. Pemex-Exploration and Production produced a total of 4,511 million cubic feet per day of natural gas in 2001.
- (2) Includes sweet vapor from condensates.
- (3) Includes internal streams.
- (4) Reprocessing of pipeline gas at various cryogenic plants.
- (5) Does not include ethane reinjected into the natural gas stream.
- (6) In thousands of barrels per day.
- (7) Includes stabilized condensates, reprocessing streams from La Cangrejera petrochemical complex and other streams for fractionating.
- (8) Includes pentanes.
- (9) In thousands of tons per day.

Source: Pemex-Gas and Basic Petrochemicals

## Processing Capacity

	Year Ended December 31,				
	1997	1998	1999	2000	2001
	(in millions of cubic feet per day, except where otherwise indicated)				
<b>Sweetening plants</b>					
Sour condensates <sup>(1)(2)</sup> .....	192	192	192	192	144
Sour natural gas <sup>(2)</sup> .....	3,553	3,753	3,753	3,753	3,923
<b>Natural gas liquids recovery plants</b>					
Cryogenics <sup>(3)</sup> .....	3,234	3,959	4,559	4,559	4,559
Absorption <sup>(4)</sup> .....	<u>750</u>	<u>750</u>	<u>475</u>	<u>475</u>	<u>475</u>
Total .....	3,984	4,709	5,034	5,034	5,034
<b>Natural gas liquids fractionating<sup>(1)(5)</sup> .....</b>	450	554	554	554	554
<b>Sulphur recovery plants<sup>(6)</sup> .....</b>	216	216	216	216	219

(1) In thousands of barrels per day.

(2) In 2001, two sour condensates sweetening plants were converted into sour natural gas sweetening plants.

(3) Includes the cryogenic plant located in La Cangrejera.

(4) Since the beginning of 1999, the absorption plant at Ciudad Pemex has been out of service.

(5) Includes liquid recovery plants.

(6) Processing of hydrosulphuric acid.

Source: Pemex BDI

Domestic consumption of dry gas, which is natural gas with a methane content of more than 90%, totaled 3,823 million cubic feet per day in 2001, a 0.3% decrease from the 2000 domestic consumption of 3,836 million cubic feet per day. The subsidiary entities consumed approximately 48% of the total domestic dry gas consumed in 2001, while the industrial sector consumed 23%, the electrical sector consumed 26% and residential consumers consumed the remaining 3%.

We import dry gas to satisfy shortfalls in our production and to meet demand in areas of northern Mexico which, due to the distance from the fields, can be supplied more efficiently by importing natural gas from the United States. We imported 292 million cubic feet per day of dry gas in 2001, a 26% increase from 231 million cubic feet per day imported in 2000.

Pemex-Gas and Basic Petrochemicals also produces liquid hydrocarbons obtained from sweet natural gas and recovered in surface separating facilities and liquid hydrocarbons condensed in natural gas pipelines. Our production of natural gas liquids, including stabilized condensates and reprocessing and other fractionating streams, decreased by 0.5%, from 445 thousand barrels per day in 2000 to 443 thousand barrels per day in 2001, as our capacity recovered due to repairs and improvements.

Pemex-Gas and Basic Petrochemicals processes sweet and sour condensates and uses sweet condensates at its Reynosa facilities to produce solvents and naphtha. It also uses sour condensates, which have a higher sulphur content, to produce stabilized sweet condensates. The volume of sour condensates we processed from Pemex-Exploration and Production and internal streams of Pemex-Gas and Basic Petrochemicals amounted to 101 thousand barrels per day in 2001 and 98 thousand barrels per day in 2000. Of these amounts, 87 thousand barrels per day (86%) resulted in stabilized condensates during 2001, and 84 thousand barrels per day (86%) resulted in stabilized condensates during 2000.

Pemex-Gas and Basic Petrochemicals began operations of its Sulphur Plant No. 1 in November 2000, its Sulphur Plant No. 2 in December 2000 and its Sulphur Plant No. 3 in January 2001, in the Cactus complex, each with a processing capacity of 24.2 million cubic feet per day of hydrosulphuric acid (291 tons per day of sulphur). In June 2001, Pemex-Gas and Basic Petrochemicals began operating its Sulphur Plant No. 4 and in May 2001, it began operating its Sulphur Plant No. 5 in the Cactus complex, each with a capacity of 17.8 million cubic feet per day of hydrosulphuric acid (320 tons per day of sulphur). In March 2001, Sour Condensate Plants No. 1 and 2 were converted to process sour gas (120 millions cubic feet per day each) in Ciudad Pemex complex. In July 2001, Sulphur Plants No. 1 and 2 in Nuevo Pemex and in October 2001 Sulphur Plant No. 2 in Ciudad Pemex, were

revamped and as a result, capacity increased to 400 tons per day of sulphur recovery in Sulphur Plant No. 1 and 407 tons per day of sulphur recovery in Sulphur Plant No. 2. In 2002 and 2003, Pemex-Gas and Basic Petrochemicals expects to begin operations in two additional plants at Matapionche, one additional plant at Poza Rica and two cryogenic plants in a new facility near Reynosa. Matapionche is expected to have a processing capacity of 40 tons per day of sulphur recovery. Poza Rica is expected to have a processing capacity of 64 tons per day of sulphur recovery. The two cryogenic plants near Reynosa are expected to produce a total of 374 million cubic feet per day of dry gas, 9.6 thousand barrels per day of liquefied petroleum gas and 6.5 thousand barrels per day of naphtha, and the facility will contain storage for 65 thousand barrels per day of liquefied petroleum gas and naphtha.

In July 1996, three accidental explosions occurred at the Cactus natural gas processing complex in Reforma, Chiapas, which destroyed one natural gas liquid recovery plant, damaged a second natural gas liquid recovery plant and damaged the system of pipelines connecting these plants with other facilities. Since the explosions, our liquids recovery capacity has been steadily recovering. We completed the repair and upgrade of the damaged plants in April 1999.

Over the five years ended December 31, 2001, the value of Pemex-Gas and Basic Petrochemicals' domestic sales were distributed as follows:

**Value of Domestic Sales of Pemex-Gas and Basic Petrochemicals<sup>(1)</sup>**

	Year Ended December 31,					2001 vs. 2000 (%)
	1997	1998	1999	2000	2001	
	(in millions of pesos)					
Natural gas.....	Ps.12,553.6	Ps.13,203.9	Ps.15,557.5	Ps.27,594.9	Ps.28,914.1	4.8
Liquefied petroleum gas .....	14,004.1	16,389.9	17,597.6	28,469.2	29,327.2	3.0
Petrochemicals						
Hexane .....	135.7	143.5	121.2	115.1	142.6	23.9
Dissolving agents.....	—	—	19.5	260.5	377.0	44.7
Sulphur .....	171.1	142.9	148.1	130.6	72.8	(44.3)
Carbon black.....	108.8	90.5	117.5	210.3	120.1	(42.9)
Pentanes.....	26.8	22.0	31.6	29.4	2.7	(90.8)
Heptane.....	22.9	24.1	23.1	22.3	24.7	(10.8)
Butane.....	9.9	11.9	20.7	35.3	39.2	11.0
Propane .....	10.0	9.2	16.0	25.3	23.3	(7.9)
Isobutane.....	6.2	3.7	4.4	7.5	6.3	(16.0)
Others .....	9.8	9.6	31.5	128.1	157.3	22.8
Total Petrochemicals.....	501.2	457.4	533.4	964.4	966.0	0.2
Total.....	<u>Ps.27,058.9</u>	<u>Ps.30,051.2</u>	<u>Ps.33,688.5</u>	<u>Ps.57,028.5</u>	<u>Ps.59,207.3</u>	3.8

Note: Numbers may not total due to rounding

(1) Excludes value added tax.

Source: Pemex BDI

*Subsidiaries of Pemex-Gas and Basic Petrochemicals*

Pemex-Gas and Basic Petrochemicals conducts certain management, real estate and distribution activities through its subsidiaries. The following table lists Pemex-Gas and Basic Petrochemicals' subsidiaries, their principal operating activities and Pemex-Gas and Basic Petrochemicals' ownership interest:

### Subsidiaries of Pemex-Gas and Basic Petrochemicals<sup>(1)</sup>

<u>Subsidiary</u>	<u>Principal Activity</u>	<u>Ownership Interest</u>
Gasoductos de Chihuahua, S. de R.L. de C.V. ....	Transport of gas .....	50.00%
Mexgas International, Ltd. ....	Holding company.....	100.00
Pasco Terminals, Inc. ....	Storage and distribution of liquid sulphur .....	100.00
Pasco International, Ltd. ....	Holding company.....	100.00
Pan American Sulphur, Ltd. ....	Storage and distribution of liquid sulphur .....	100.00
Terrenos para Industrias, S.A. ....	Real estate holding company .....	100.00
CH4 Energía, S.A. de C.V. ....	Trading of Gas.....	50.00

(1) As of December 31, 2001.

Source: Pemex-Gas and Basic Petrochemicals

#### *Private Sector Participation in Natural Gas Distribution*

The Regulatory Law, as amended effective May 12, 1995, provides that private and “social sector” companies may, with governmental authorization, store, distribute and transport natural gas, and may construct, own and operate natural gas pipelines, facilities and equipment. The regulations implementing this amendment entered into effect on November 9, 1995. The primary purpose of the change in the law is to increase the use of natural gas, which is a clean-burning fuel, among industrial users that currently burn fuel oil. Natural gas is a particularly practical substitute for fuel oil due to the low cost of converting existing equipment from fuel oil to natural gas and the existence of significant natural gas reserves in Mexico. In addition, we believe that the increased use of natural gas will promote economies of scale, which should tend to lower natural gas prices and enable the Mexican natural gas industry to comply with the stricter environmental standards that went into effect in 1998.

Notwithstanding these regulatory changes, we retain the exclusive right to explore, exploit, produce and sell to the initial purchaser natural gas, as well as to transport and store natural gas when those activities are inextricably linked with such exploitation and production. In addition, we retain exclusive right over the production of petroleum and natural gas derivatives classified as basic petrochemicals. Due to the amendment of the Regulatory Law, we are experiencing competition from the private sector in natural gas distribution. However, private sector distribution has increased use of natural gas (for which we remain the sole producer), which may offset the negative effect of the new competition.

The *Comisión Reguladora de Energía* (Energy Regulatory Commission), which is a technical agency with operational and budgetary autonomy within the Ministry of Energy:

- regulates the activities of both public and private operators in the electricity and natural gas industries;
- establishes pricing and tariff methodologies and general contractual terms; and
- resolves disputes between regulated parties and users of their services.

Under the regulatory framework, we maintain an important role in the supply of natural gas given our position as the sole domestic producer of this product. We must apply the Energy Regulatory Commission’s methodologies for establishing our initial domestic sales prices for natural gas that we produce (price regulation does not affect imported natural gas) and calculating our transportation rates. We then must submit those prices and rates to the Energy Regulatory Commission for its approval. Since 1997, the Regulatory Law has required us to provide the private sector with open access to our transportation system for distribution, ending our prior exclusive rights over the lines of distribution. We continue to market natural gas and may develop natural gas storage systems.

In 1996, the Energy Regulatory Commission approved the Gradual Access Program for 1996-1997 which allowed for subsequent private sector access to the domestic natural gas market as well as to natural gas imports of more than 5 million cubic feet per day in northern Mexico. As part of this program, PEMEX opened the Naco-

Hermosillo pipeline for private sector use in September 1996 and granted the first permit for private sector distribution pipelines in Mexicali in August 1996. The Gradual Access Program of 1996-1997 also required that we open access to certain distribution assets to the private sector. As a result, Pemex-Gas and Basic Petrochemicals' distribution assets located in Chihuahua, Cuauhtémoc-Anáhuac, Ciudad Juárez, Hermosillo, Toluca, Río Pánuco, Norte de Tamaulipas, Distrito Federal, Valle Cuautitlán-Texcoco, Saltillo, Nuevo Laredo, Querétaro and Monterrey have been privatized. As of 1999, all of our natural gas distribution pipelines were opened to private sector use and there were no further distribution assets left to divest pursuant to the program, although a portion of these assets are still held in trust (see Note 16 c) to the Financial Statements).

### *Hedging Operations*

We are an importer of natural gas and have prepared our budget for 2002 based on a natural gas import price assumption of U.S. \$2.92 per million British Thermal Units ("BTUs"). To cover our exposure to fluctuations in international natural gas prices, which may affect our budget assumptions, we have entered into and will continue to enter into contracts that hedge against such price fluctuations. As part of the Mexican Government's policy of promoting economic growth, on January 17, 2001, the Ministry of Finance and Public Credit, the Ministry of Economy, the Ministry of Energy and PEMEX announced a natural gas pricing program for certain industrial consumers of natural gas in Mexico. Under that program, Mexican industrial consumers that hold outstanding natural gas price hedging instruments may enter into a three-year agreement with us to purchase natural gas from us at a fixed reference price of U.S. \$4.00 per million BTUs. The purchase price represents approximately a 58% discount on spot prices offered in the market as of January 17, 2001 and 14% greater than spot prices offered in the market during September 2002. We entered into a number of such contracts in 2001. As part of our risk management strategy, we have also entered into a number of derivative instruments, primarily swaps and futures, for hedging purposes.

For more information on these fixed price sales, see "Item 11—Quantitative and Qualitative Disclosures About Market Risk—Commodity Instruments."

### *Investments*

Pemex-Gas and Basic Petrochemicals invested Ps. 2,676 million in 2001, as compared to Ps. 3,719 million in 2000, in projects primarily related to natural gas and condensates processing, transportation and storage. In 2002, the Mexican Government approved Ps. 734 million of capital expenditures for investment in a new PIDIREGAS for Pemex-Gas and Basic Petrochemicals at the modular cryogenic plants in Reynosa. In addition to this, Ps. 4,758 million has been budgeted for Pemex-Gas and Basic Petrochemicals' other non-PIDIREGAS-related expenditures.

## **Petrochemicals**

### *Capacity*

At the end of 2001, we operated 114 industrial plants and auxiliary units located in six petrochemical complexes and one petrochemical unit which is presently not in operation. Pemex-Gas and Basic Petrochemicals operated 63 of these plants and auxiliary units, and Pemex-Petrochemicals operated the remaining 51 plants. Pemex-Petrochemicals had total installed capacity sufficient to produce 11.2 million tons per year of petrochemical products in 2001, 3.9% less than its 2000 installed capacity of 11.6 million tons per year. Pemex-Petrochemicals' total production capacity for the last five years was distributed among its facilities as follows:



Petrochemical Facility	Pemex-Petrochemicals' Total Capacity Year ended December 31,				
	1997	1998	1999	2000	2001
	(In thousands of tons)				
Cosoleacaque .....	4,817	4,817	4,696	4,696	4,736
La Cangrejera.....	3,749	3,073	2,973	2,873	2,297
Morelos.....	2,059	2,059	2,031	2,031	2,134
Pajaritos .....	1,472	1,361	1,066	1,066	1,066
Escolín .....	333	333	333	333	337
San Martín Texmelucan .....	393	387	231	246	260
Others.....	402	402	402	402	359 <sup>(1)</sup>
Total.....	13,225	12,432	11,732	11,647	11,189

Note: Numbers may not total due to rounding.

(1) Reflects the shutting down of two plants in our Reynosa unit in 2001.

Source: Pemex BDI

### *Production*

We manufacture 39 different petrochemical products, including:

- methane and its derivatives, such as ammonia and methanol;
- ethane and its derivatives, such as polyethylenes, as well as other olefins;
- aromatics and their derivatives;
- propylene and its derivatives; and
- oxygen, nitrogen and other products.

Pemex-Gas and Basic Petrochemicals produces certain basic petrochemicals, such as sulphur and hexanes, while Pemex-Petrochemicals produces non-basic petrochemicals and Pemex-Refining produces a limited amount of non-basic petrochemicals as part of the crude oil refining process. Pemex-Petrochemicals' and Pemex-Gas and Basic Petrochemicals' combined annual total petrochemical production (excluding ethane and butane gases) decreased by 10.0%, from 10,733 thousand tons in 2000 to 9,664 thousand tons in 2001. This decrease was caused primarily by a reduction in the production of methane and its derivatives and propylene and its derivatives. Pemex-Petrochemicals alone produced 5,994 thousand tons of petrochemicals in 2001, a 12.3% decrease from the 6,836 thousand tons it produced in 2000. The remainder was produced by Pemex-Gas and Basic Petrochemicals.

Over the past five years, Pemex-Petrochemicals' petrochemical production has decreased. This is primarily due to steadily decreasing petrochemical prices in international markets, contraction in demand in Mexico for petrochemicals and increasing competition in petrochemical production. These factors, together with increasing prices in raw materials, resulted in high production costs that caused Pemex-Petrochemicals to downsize some of its operations. The following table summarizes the annual production associated with the principal petrochemical activities of Pemex-Petrochemicals for the five years ended December 31, 2001.

### Pemex-Petrochemicals Production

	Year Ended December 31,					2001 vs. 2000 (%)
	1997	1998	1999	2000	2001	
	(in thousands of tons per year)					
<b>Liquids</b>						
Pentanes .....	589	92	0	0	0	0.0
Hexanes .....	64	68	61	54	62	14.8
Heptanes .....	<u>19</u>	<u>20</u>	<u>21</u>	<u>15</u>	<u>13</u>	(13.3)
Total .....	672	180	82	69	75	8.7
<b>Other inputs</b>						
Oxygen .....	496	488	453	413	380	(8.0)
Nitrogen .....	110	108	112	105	96	(8.6)
Hydrogen .....	<u>15</u>	<u>12</u>	<u>15</u>	<u>2</u>	<u>0</u>	(100.0)
Total .....	621	608	580	520	476	(8.5)
<b>Petrochemicals</b>						
Methane derivatives .....	5,067	4,374	3,019	2,271	1,752	(22.9)
Ethane derivatives .....	3,089	2,945	2,696	2,636	2,408	(8.6)
Aromatics and derivatives .....	1,461	1,402	1,235	667	642	(3.7)
Propylene and derivatives .....	377	243	193	180	127	(29.4)
Others .....	<u>56</u>	<u>56</u>	<u>56</u>	<u>359</u>	<u>396</u>	10.3
Total .....	10,050	9,020	7,199	6,113	5,325	(12.9)
<b>Other products</b>						
Hydrochloric acid .....	131	116	105	107	87	(18.7)
Muriatic acid .....	<u>39</u>	<u>34</u>	<u>25</u>	<u>27</u>	<u>31</u>	14.8
Total .....	<u>170</u>	<u>150</u>	<u>130</u>	<u>134</u>	<u>118</u>	(11.9)
<b>Total</b> .....	<u>11,513</u>	<u>9,958</u>	<u>7,991</u>	<u>6,836</u>	<u>5,994</u>	(12.3)

Note: Numbers may not total due to rounding.  
Source: Pemex BDI

### Investments

Including the expenditures related to the Morelos petrochemical facility (which is indirectly controlled by Pemex-Petrochemicals and has its own budget), Pemex-Petrochemicals invested Ps. 1,541 million in 2001, as compared to Ps. 1,143 million in 2000, in projects primarily related to natural gas and condensates processing, transportation and storage. For 2002, Pemex-Petrochemicals expects to invest Ps. 2,704 million on these projects.

### Domestic Sales

In 2001, domestic sales of petrochemical products by Pemex-Petrochemicals by value decreased by 20.2% from Ps. 9,954 million in 2000 to Ps. 7,948 million in 2001. This decrease is primarily attributable to the overall decrease in domestic demand for petrochemicals, as described above under "—Production," and was driven mainly by a decline in value of domestic sales of ethane and its derivatives.

Over the five years ended December 31, 2001, the value of Pemex-Petrochemicals' domestic sales were distributed as set forth in the table below. The sales of petrochemical products by Pemex-Gas and Basic Petrochemicals and Pemex-Refining are included under "—Gas and Basic Petrochemicals" and "—Refining" above.

**Value of Domestic Sales<sup>(1)</sup>**

	<b>Year Ended December 31,</b>					<b>2001</b>
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>vs. 2000</b>
	<b>(in millions of pesos)</b>					<b>(%)</b>
<b>Petrochemical Product</b>						
Methane derivatives .....	Ps. 2,875	Ps. 2,093	Ps. 1,559	Ps. 1,549	Ps. 1,438	(7.2)
Ethane derivatives .....	6,035	5,309	5,495	5,906	4,775	(19.2)
Aromatics and derivatives .....	1,894	1,513	1,654	1,661	1,238	(25.5)
Propylene and derivatives .....	1,385	810	599	806	458	(43.2)
Others .....	4	19	23	32	39	21.9
Total .....	<u>Ps. 12,193</u>	<u>Ps. 9,744</u>	<u>Ps. 9,330</u>	<u>Ps. 9,954</u>	<u>Ps. 7,948</u>	(20.2)

Note: Numbers may not total due to rounding.

(1) Excludes value added tax.

Source: Pemex BDI

*Private Sector Participation in Petrochemicals Sector*

Since the end of 1993, foreign and domestic private investors have been allowed to own 100% of any petrochemical plant producing non-basic petrochemicals. However, under Mexican law, only PEMEX may produce and engage in the first-hand sale of basic petrochemicals. Before the amendment to the Regulatory Law on November 14, 1996, the Ministry of Energy was responsible for determining which petrochemical products were classified as “basic” and nearly all petrochemicals were classified as such. In that regulatory environment, we expanded our petrochemical division rapidly. The amendment to the Regulatory Law limited basic petrochemicals to nine products (down from 34 products in 1986 and 19 products in 1989) that are used in the petrochemical production process. The amendment further allowed companies that produce basic petrochemicals as by-products of non-basic petrochemical production to sell these basic petrochemicals internally within plants in the same unit or complex or to sell those basic petrochemicals to PEMEX.

In October 1992, PEMEX and the Mexican Government announced a plan to privatize the non-basic petrochemical plants owned and operated by Pemex-Petrochemicals. In 1997, the Board of Directors of Petróleos Mexicanos approved a secondary petrochemical private-sector participation plan authorizing the creation of seven new subsidiaries of Pemex-Petrochemicals, which were created in 1997. The seven subsidiaries listed below hold the assets and liabilities associated with the production of non-basic petrochemicals, as well as the real estate corresponding to each complex or plant:

- Petroquímica Cosoleacaque, S.A. de C.V.;
- Petroquímica Escolín, S.A. de C.V.;
- Petroquímica Tula, S.A. de C.V.;
- Petroquímica Camargo, S.A. de C.V.;
- Petroquímica Cangrejera, S.A. de C.V.;
- Petroquímica Morelos, S.A. de C.V.; and
- Petroquímica Pajaritos, S.A. de C.V.

Currently, Pemex-Petrochemicals is the sole shareholder of these seven subsidiaries, which own and operate our secondary petrochemical facilities at Cosoleacaque, Escolín (including the assets of Reynosa), Tula, Camargo, Cangrejera, Morelos and Pajaritos. On June 28, 2002, the board of directors of Pemex-Petrochemicals approved the merger of the seven subsidiaries into Pemex-Petrochemicals. In July 2002, the shareholders and the

boards of directors of the seven subsidiaries approved the merger. The merger is subject to the approval of the Board of Directors of Petróleos Mexicanos.

### **International Trading**

#### *The PMI Group*

The PMI Group includes PMI and the other PEMEX subsidiaries and affiliates that conduct international commercial activities for our products, except for natural gas, which is marketed directly by Pemex-Gas and Basic Petrochemicals. The PMI Group's main objective is to assist in maximizing our profitability and optimizing our operations through the use of international trade, facilitating the link between the international markets and us and pursuing new business opportunities in marketing our products. The PMI Group manages the international sales of our crude oil and petroleum products and acquires in the international markets those petroleum products that we import to satisfy domestic demand. Sales and purchases of petroleum products (refined products, petrochemical products and liquefied petroleum gas) in the international markets are carried out through PMI Trading. PMI Trading also performs third-party trading, chartering and risk-management activities.

#### *Exports and Imports*

PMI purchases crude oil from Pemex-Exploration and Production and then sells it to PMI's customers. PMI sold an average of 1,755 thousand barrels per day of crude oil in 2001, which constituted 56.1% of our total crude oil production.

The following tables set forth the composition and average prices of our crude oil exports for the periods indicated:

	Year Ended December 31,									
	1997		1998		1999		2000		2001	
	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)
<b>Crude oil exports (by volume)<sup>(1)</sup></b>										
Olmeca (API gravity of 38°-39°).....	485	28	457	27	434	28	398	25	317	18
Isthmus (API gravity of 32°-33°).....	216	13	196	11	190	12	110	7	87	5
Maya (API gravity of 21°-22°).....	1,020	59	1,053	62	920	59	1,086	68	1,331	76
Altamira (API gravity 15.0°-16.5°) <sup>(2)</sup> ...	-	-	6	-	9	1	11	1	20	1
Total.....	<u>1,721</u>	<u>100</u>	<u>1,712</u>	<u>100</u>	<u>1,554</u>	<u>100</u>	<u>1,604</u>	<u>100</u>	<u>1,755</u>	<u>100</u>

Notes: Numbers may not total due to rounding.

tbpd = thousand barrels per day.

API gravity refers to the specific gravity, or density, of liquid petroleum products measured in degrees on the American Petroleum Institute scale. On the API scale, oil with the least specific gravity has the highest API gravity. In addition, if all other things are equal, the higher the API gravity, the greater the value of the crude oil.

(1) Includes sales of crude oil of 108 thousand barrels per day to affiliated companies in 1997.

(2) PEMEX began selling Altamira crude oil in late 1998 and recorded Altamira crude oil sales separately beginning in 1999.

Sources: 1997 figures: PEMEX's 1998 Statistical Yearbook

1998, 1999, 2000 and 2001 figures: PMI operating statistics, which are based on information in bills of lading

	Year Ended December 31,				
	1997	1998	1999	2000	2001
	(U.S. dollars per barrel)				
<b>Crude Oil Prices</b>					
Olmeca.....	\$19.52	\$13.15	\$17.85	\$29.00	\$23.96
Isthmus.....	18.19	11.87	17.45	27.87	22.27
Maya.....	14.65	8.56	14.08	22.98	17.13
Altamira <sup>(1)</sup> .....	—	7.20	12.94	19.67	12.75
Weighted average realized price.....	\$16.46	\$10.16	\$15.55	\$24.78	\$18.57

(1) PEMEX began selling Altamira crude oil in 1998.

Sources: 1997 figures: PEMEX's 1998 Statistical Yearbook

1998, 1999, 2000 and 2001 figures: PMI operating statistics, which are based on information in bills of lading

#### Geographic Distribution of Export Sales

In 2001, 98% of PMI's sales of our crude oil exports were to countries in the western hemisphere. As of December 31, 2001, PMI had 45 customers in 16 countries. Among these countries, the United States, Spain, the Netherlands Antilles, Canada and Japan have consistently been our largest customers.

The following table sets forth crude oil export sales by country.

	Percentage of Exports				
	1997	1998	1999	2000	2001
United States.....	77.6%	77.0%	75.4%	75.0%	75.3%
Spain.....	7.1	7.7	7.8	8.7	8.4
Japan.....	3.6	1.8	2.7	2.2	1.0
Netherlands Antilles.....	3.4	5.0	6.6	6.7	7.6
Canada.....	1.8	1.9	1.5	1.7	1.6
Others.....	6.5	6.6	6.0	5.7	6.1
Total.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Note: Numbers may not total due to rounding.

Sources: 1997 figures: PEMEX's 1998 Statistical Yearbook

1998, 1999, 2000 and 2001 figures: PMI operating statistics, which are based on information in bills of lading

The following table sets forth the geographic distribution of PMI's sales of crude oil exports from January 1, 1997 through December 31, 2001. The table also presents the distribution of exports among PMI's crude oil types for those years.

### Composition and Geographic Distribution of Crude Oil Export Sales

	At December 31,									
	1997		1998		1999		2000		2001	
	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)
<b>PMI Crude Oil Export Sales to:</b>										
United States and Canada.....	1,365	79	1,347	79	1,196	77	1,230	77	1,349	77
Europe.....	176	10	190	11	177	11	185	12	184	10
Central and South America.....	104	6	130	8	134	9	149	9	179	10
Far East.....	63	4	32	2	42	3	40	2	37	2
Africa.....	13	1	13	1	5	0	-	-	6	1
Total.....	<u>1,721</u>	<u>100</u>	<u>1,712</u>	<u>100</u>	<u>1,554</u>	<u>100</u>	<u>1,604</u>	<u>100</u>	<u>1,755</u>	<u>100</u>
<b>Olmeca (API gravity of 38°-39°)</b>										
United States and Canada.....	465	27	452	26	432	28	378	24	292	17
Others.....	20	1	5	0	2	0	19	1	25	1
Total.....	<u>485</u>	<u>28</u>	<u>457</u>	<u>27</u>	<u>434</u>	<u>28</u>	<u>398</u>	<u>25</u>	<u>317</u>	<u>18</u>
<b>Isthmus (API gravity of 32°-33°)</b>										
United States and Canada.....	99	6	82	5	109	7	68	4	56	3
Others.....	116	7	114	7	81	5	41	3	31	2
Total.....	<u>215</u>	<u>13</u>	<u>196</u>	<u>12</u>	<u>190</u>	<u>12</u>	<u>110</u>	<u>7</u>	<u>87</u>	<u>5</u>
<b>Maya (API gravity of 21°-22°)</b>										
United States and Canada.....	802	47	807	47	646	42	773	48	981	56
Others.....	218	12	246	14	274	18	313	20	350	20
Total.....	<u>1,020</u>	<u>59</u>	<u>1,052</u>	<u>61</u>	<u>920</u>	<u>59</u>	<u>1,086</u>	<u>68</u>	<u>1,331</u>	<u>76</u>
<b>Altamira (API gravity of 15.0°-16.5°)</b>										
United States and Canada.....	-	-	6	-	9	1	11	1	20	1
Others.....	-	-	0	-	-	-	-	-	-	-
Total.....	<u>-</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>9</u>	<u>1</u>	<u>11</u>	<u>1</u>	<u>20</u>	<u>1</u>

Notes: Numbers may not total due to rounding.

tbpd = thousands barrels per day

API gravity refers to the specific gravity, or density, of liquid petroleum products measured in degrees on the American Petroleum Institute scale.

On the API scale, oil with the least specific gravity has the highest API gravity. In addition, if all other things are equal, the higher the API gravity, the greater the value of the crude oil.

Sources: 1997 figures: PEMEX's 1998 Statistical Yearbook

1998, 1999, 2000 and 2001 figures: PMI operating statistics, which are based on information in bills of lading

PMI makes a significant percentage of crude oil sales under evergreen contracts, which can be terminated by either party pursuant to a three month phase-out clause. PMI sells most of its remaining exports to the same customers that purchase under evergreen contracts, but PMI makes these sales pursuant to separate supply contracts, which apply the pricing formulas included in the evergreen contracts. PMI generally sells crude oil on a *Free On Board* basis. In practically all cases, PMI sells refined products on *Free on Board* and *Cost and Freight* bases and buys refined products on *Delivery Ex-ship* or *Delivery at Frontier* and *Cost and Freight* bases.

PMI has entered into several long-term Maya crude oil supply agreements pursuant to which the purchasers have agreed to undertake projects to expand the capacity of their respective refineries to upgrade residue from Maya crude oil. Under these agreements, PMI will provide the purchasers with certain support mechanisms that will protect, under certain adverse market conditions, the investments that the purchasers have to undertake in accordance with the agreements. These agreements include:

- an agreement with Clark Refining & Marketing, Inc., signed on March 10, 1998, to supply its Port Arthur, Texas refinery with approximately 158 thousand barrels per day of Maya crude oil for a period of seven years following project completion, which occurred in April 2001;
- an agreement with Coastal Aruba Refining Company N.V., signed on July 30, 1998, to supply its refinery in Aruba with approximately 100 thousand barrels per day of Maya crude oil for a period of five years following project completion, which occurred in April 2000;
- an agreement with Exxon Company U.S.A. and Exxon Trading Company International, signed on September 25, 1998, to supply its Baytown, Texas refinery with approximately 65 thousand barrels per day of Maya crude oil for a period of five years following project completion, which occurred in December 2001;
- an agreement with Pecten Trading Company, which is a trading subsidiary of Shell Oil Company, signed on May 1, 1999, and an agreement with P.M.I. Norteamérica, S.A. de C.V., signed on the same date, to supply the Deer Park refinery joint venture with a total of approximately 50 thousand barrels per day of Maya crude oil following project completion, which occurred in April 2001, and up to 200 thousand barrels per day thereafter;
- an agreement with Marathon Ashland Supply LLC, signed on May 1, 1999, to supply its Garyville, Louisiana refinery with approximately 100 thousand barrels per day of Maya crude oil for a period of five years following project completion, which occurred in December 2001;
- an agreement with Valero Marketing and Supply Company and Valero Refining–Texas, L.P., signed on December 17, 2001, to supply their Texas City, Texas refinery with approximately 90 thousand barrels per day of Maya crude oil for a period of five years following project completion, which is scheduled to occur on or before October 1, 2003; and
- an agreement with Chevron Products Company, a division of Chevron U.S.A. Inc., signed on March 6, 2002, to supply its Pascagoula, Mississippi refinery with approximately 130 thousand barrels per day of Maya crude oil for a period of five years following project completion, which is scheduled to occur in April 2003.

These long-term Maya crude oil supply agreements further our strategy to support the export value of Maya crude oil in relation to the value of other grades of crude oil by creating incentives for refiners to invest in new high-conversion refineries, which will be capable of upgrading the relatively large proportion of residue produced from processing Maya crude oil in less-efficient refining complex configurations.

The Ministry of Energy has entered into certain agreements to reduce and increase exports of crude oil as discussed below in “—Trade Regulations and Export Agreements.”

The following table sets forth the average volume of exports and imports of crude oil, natural gas and petroleum products for the five years ended December 31, 2001.

## Volume of Exports and Imports

	Year Ended December 31,					2001
	1997	1998	1999	2000	2001	vs. 2000
	(in thousands of barrels per day, except as noted)					(%)
<b>Exports</b>						
Crude Oil						
Olmeca.....	485.2	457.1	434.4	397.5	317.4	(20.2)
Isthmus .....	215.8	195.9	190.1	109.7	86.8	(20.9)
Maya <sup>(1)</sup> .....	<u>1,019.7</u>	<u>1,058.7</u>	<u>929.1</u>	<u>1,096.4</u>	<u>1,350.7</u>	23.2
Total crude oil.....	1,720.7	1,711.7	1,553.6	1,603.6	1,754.9	9.4
Natural gas <sup>(2)</sup> .....	6.3	5.9	20.4	3.5	3.7	5.7
Refined products.....	93.0	120.0	149.7	112.5	102.5	(8.9)
Petrochemical products <sup>(3)</sup> .....	1,062.3	1,025.4	785.0	1,123.8	794.0	(29.4)
<b>Imports</b>						
Natural gas <sup>(2)</sup> .....	16.9	22.6	22.0	34.1	43.1	26.4
Refined products.....	298.6	335.2	365.3	445.5	382.1	(14.3)
Petrochemical products <sup>(3)</sup> .....	164.7	130.8	214.9	444.4	280.3	(36.9)

Note: Numbers are subject to adjustment because the volume of crude oil exports actually sold during December 2000 may be adjusted to reflect the percentage of water in each shipment.

(1) In 1998, 1999, 2000 and 2001, numbers include six, nine, eleven and twenty thousand barrels per day, respectively, of Altamira crude oil.

(2) Fuel oil equivalent.

(3) Thousands of metric tons.

Sources: 1997 figures: PEMEX's 1998 Statistical Yearbook

1998, 1999, 2000 and 2001 figures: PMI operating statistics, which are based on information in bills of lading

Natural gas imports increased by 26.4% in 2001, from 231.4 million cubic feet per day in 2000 to 292.2 million cubic feet per day in 2001 primarily due to an increase in domestic demand for natural gas. In 2001, total exports and imports of petrochemical products by volume decreased by 31.5%, from 1,568.2 thousand metric tons in 2000 to 1,074.3 thousand metric tons in 2001. In 2001, total exports and imports of refined products by volume decreased by 13.2%, from 558.0 thousand barrels per day in 2000 to 484.5 thousands barrel per day in 2001. This decrease was mainly due to an increase in production of refined products by Pemex-Refining accompanied by a slight decrease in domestic demand for refined products. Coupled with the decrease in exports of petrochemical products, this decrease in imports helped improve the external trade balance.



The following table sets forth the value of exports and imports of crude oil, natural gas and petroleum products for the five years ended December 31, 2001.

**Value of Exports and Imports<sup>(1)</sup>**

	Year ended December 31,					2001 vs. 2000 (%)
	1997	1998	1999	2000	2001	
<b>Exports</b>	(in millions of U.S. dollars)					
Olmecca.....	\$ 3,457.0	\$ 2,194.4	\$ 2,830.7	\$ 4,219.9	\$ 2,775.7	(34.2)
Isthmus .....	1,432.0	848.9	1,211.2	1,119.5	705.9	(36.9)
Maya <sup>(2)</sup> .....	<u>5,451.0</u>	<u>3,306.7</u>	<u>4,774.3</u>	<u>9,206.8</u>	<u>8,414.1</u>	(8.6)
Total crude oil <sup>(3)</sup>	<u>\$ 10,340.0</u>	<u>\$ 6,350.0</u>	<u>\$ 8,816.2</u>	<u>\$ 14,546.2</u>	<u>\$ 11,895.7</u>	(18.2)
Natural gas.....	37.0	30.9	114.3	48.8	47.8	(2.0)
Refined products....	646.0	560.7	899.6	1,167.8	896.5	(23.2)
Petrochemical products .....	<u>186.5</u>	<u>143.3</u>	<u>133.3</u>	<u>280.3</u>	<u>145.2</u>	(48.2)
Total products ...	<u>\$ 869.5</u>	<u>\$ 734.9</u>	<u>\$ 1,147.2</u>	<u>\$ 1,496.9</u>	<u>\$ 1,089.5</u>	(27.2)
Total exports .....	<u>\$ 11,209.5</u>	<u>\$ 7,084.9</u>	<u>\$ 9,963.4</u>	<u>\$ 16,043.1</u>	<u>\$ 12,985.2</u>	(19.1)
<b>Imports</b>						
Natural gas.....	107.9	121.7	132.2	366.5	423.8	15.6
Refined products....	2,506.3	2,109.3	2,889.1	5,411.8	4,139.2	(23.5)
Petrochemical products .....	<u>51.8</u>	<u>33.8</u>	<u>55.2</u>	<u>125.2</u>	<u>83.9</u>	(33.0)
Total imports .....	<u>\$ 2,666.0</u>	<u>\$ 2,264.8</u>	<u>\$ 3,076.5</u>	<u>\$ 5,903.5</u>	<u>\$ 4,646.9</u>	(21.3)
<b>Net exports</b> .....	<u>\$ 8,543.5</u>	<u>\$ 4,820.1</u>	<u>\$ 6,886.9</u>	<u>\$ 10,139.6</u>	<u>\$ 8,338.3</u>	(17.8)

Note: Numbers may not total due to rounding.

- (1) Does not include crude oil, refined products, petrochemicals and natural gas purchased by PMI Trading or P.M.I. Norteamérica, S.A. de C.V. from third parties outside of Mexico and resold in the international markets. The figures expressed in this table differ from the amounts contained in the financial statements under "Net Sales" because of the differences in methodology associated with the calculation of the exchange rates and other minor adjustments.
- (2) In 1998, 1999, 2000 and 2001, numbers include six, nine, eleven and twenty thousand barrels per day, respectively, of Altamira crude oil.
- (3) Crude oil exports are subject to adjustment to reflect the percentage of water in each shipment.

Sources: 1997 figures: PEMEX's 1999 Statistical Yearbook

1998, 1999, 2000 and 2001 figures: PMI operating statistics, which are based on information in bills of lading

Since 1989, increasing domestic demand has led to a deficit in the petroleum products trade balance. Nevertheless, in 2001, exports and imports of petroleum products decreased at comparable rates, primarily due to a decrease in domestic demand for petroleum products. Taking into account trading activities on behalf of third parties in 2001, PMI marketed more than 373.5 thousand barrels per day of petroleum products, including gasoline, diesel, fuel oil, jet fuel and gasoline additives, representing a 9.2% decrease as compared to 2000 volumes.

Imports of refined products decreased in value by 23.5% during 2001, while exports of refined products decreased in value by 23.2%. During 2002, import volumes of refined products are likely to continue to fluctuate significantly in the short-term as a result of expected increases in future production capacity. Due to the uncertainty regarding the successful startup and initial operation of the new refining plants, we cannot predict import trends in the short-term from current data.

Imports of natural gas increased in value by 15.6% during 2001, while exports of natural gas decreased by 2.0%, primarily because of increased domestic demand for natural gas.

The following table describes the composition of our imports and exports of selected refined products in 1999, 2000 and 2001.

### Imports and Exports of Selected Refined Products

	Year Ended December 31,					
	1999		2000		2001	
	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)
<b>Imports</b>						
Gasoline <sup>(1)</sup> .....	129.6	35.5	153.6	34.5	167.9	43.9
Fuel oil .....	92.1	25.2	117.5	26.4	85.7	22.4
Liquefied petroleum gas.....	93.8	25.7	118.1	26.5	99.8	26.1
Diesel .....	35.7	9.8	42.0	9.4	16.6	4.3
Others .....	<u>14.1</u>	<u>3.9</u>	<u>14.3</u>	<u>3.2</u>	<u>12.1</u>	<u>3.2</u>
Total .....	<u>365.3</u>	<u>100.0%</u>	<u>445.5</u>	<u>100.0%</u>	<u>382.1</u>	<u>100.0%</u>
<b>Exports</b>						
Gasoline <sup>(1)</sup> .....	70.0	46.8	69.6	61.9	74.2	72.4
Diesel .....	10.1	6.7	3.1	2.8	8.4	8.2
Liquefied petroleum gas.....	4.5	3.0	5.6	4.9	3.1	3.0
Jet fuel.....	3.2	2.1	3.6	3.2	2.5	2.4
Fuel oil .....	1.0	0.7	0.1	0.0	1.7	1.7
Others .....	<u>60.9</u>	<u>40.7</u>	<u>30.5</u>	<u>27.1</u>	<u>12.6</u>	<u>12.3</u>
Total .....	<u>149.7</u>	<u>100.0%</u>	<u>112.5</u>	<u>100.0%</u>	<u>102.5</u>	<u>100.0%</u>

Note: tbpd = thousands of barrels per day.

(1) Includes methyl terbutyl ether (MTBE) and pentanes.

Source: PMI operating statistics based on INCOTERMS (International Commercial Terms)

For the three years ended December 31, 2001, our imports and exports of selected petrochemicals were as follows:

### Imports and Exports of Selected Petrochemicals

	Year Ended December 31,					
	1999		2000		2001	
	(tmt)	(%)	(tmt)	(%)	(tmt)	(%)
<b>Imports</b>						
Xylenes .....	2.1	1.0	–	–	3.4	1.2
Propylene .....	–	–	3.1	0.7	0.0	0.0
Ammonia.....	41.8	19.4	231.7	52.1	94.1	33.6
Others .....	<u>171.0</u>	<u>79.6</u>	<u>209.6</u>	<u>47.2</u>	<u>182.7</u>	<u>65.2</u>
Total .....	<u>214.9</u>	<u>100.0%</u>	<u>444.4</u>	<u>100.0%</u>	<u>280.3</u>	<u>100.0%</u>
<b>Exports</b>						
Sulphur.....	515.1	65.6	517.1	46.0	498.4	62.8
Ammonia.....	37.9	4.8	248.0	22.1	20.1	2.5
Ethylene .....	91.9	11.7	164.3	14.6	123.6	15.6
Polyethylenes .....	26.0	3.3	35.0	3.1	45.3	5.7
Others .....	<u>114.1</u>	<u>14.5</u>	<u>159.4</u>	<u>14.2</u>	<u>106.7</u>	<u>13.4</u>
Total .....	<u>785.0</u>	<u>100.0%</u>	<u>1,123.8</u>	<u>100.0%</u>	<u>794.0</u>	<u>100.0%</u>

Note: tmt = thousands of metric tons.

(1) Includes methyl terbutyl ether (MTBE) and pentanes.

Source: PMI operating statistics based on INCOTERMS (International Commercial Terms)

### *Hedging Operations*

PMI Trading engages in hedging operations to cover the variations in the purchase and sale prices for petroleum products. Its internal policies establish a limit on the maximum capital at risk. Capital at risk is calculated daily in order to compare the actual figures with the aforementioned limit. Internal controls include a risk comptroller responsible for ensuring compliance, an internal auditing department and a risk management committee. See “Item 11—Quantitative and Qualitative Disclosure About Market Risk—Commodity Instruments.”

### **Transportation and Distribution**

Our pipelines connect crude oil and natural gas producing centers with refineries and petrochemical plants, and the refineries and petrochemical plants with Mexico’s major cities. At the end of 2001, our pipeline network measured approximately 54,477 kilometers in length. Of the total network, approximately 8,768 kilometers of pipelines transport crude oil, approximately 12,140 kilometers transport petroleum products and petrochemicals, 15,935 kilometers transport natural gas, 1,822 kilometers transport liquefied petroleum gas, 1,084 kilometers transport basic petrochemicals and the remaining kilometers are crude oil and natural gas gathering pipelines. Ownership of the pipelines is distributed among our subsidiary entities according to the products they transport.

During 2001, we transported approximately 72.9 billion tons per kilometer of crude oil to be processed in the refining system and petroleum products to satisfy domestic demand, as compared to the 71.03 billion tons per kilometer carried in 2000. Of the total amount of tons per kilometer we transported in 2001, we carried 99.6% through pipelines and 0.4% by vessels.

At the end of 2001, we owned nineteen refined product tankers and leased another four. We also owned 78 major wholesale storage centers.

### **PEMEX Corporate Matters**

In addition to the operating activities that we undertake through the activities of our subsidiary entities and subsidiary companies, we have certain centralized corporate operations that coordinate general labor, safety, insurance and legal matters.

#### *Industrial Safety*

Petróleos Mexicanos’ Corporate Division of Industrial Safety and Environmental Protection is responsible for planning, conducting and coordinating programs to:

- foster a company culture of safety and environmental protection;
- improve the safety of our workers and facilities;
- reduce risks to the residents surrounding our facilities; and
- protect the environment.

We intend to develop further the industrial safety and environmental programs for each subsidiary entity. The environmental and safety division of each subsidiary entity coordinates closely with the Corporate Division of Industrial Safety and Environmental Protection.

#### *Insurance*

We maintain general and civil liability insurance coverage for our onshore real and personal property, such as refineries, process plants, pipelines and storage facilities, and our offshore properties such as drilling platforms, rigs, gas gathering systems, floating docks and production facilities. Our insurance covers risks of sudden and accidental physical destruction or loss or damage to our properties. Our offshore general and civil liability insurance

also covers extraordinary costs related to the operation of offshore wells, such as control and repair costs, evacuation costs and costs associated with spills. We maintain additional coverage for offshore environmental liabilities. We also maintain protection and indemnity insurance, life insurance, as well as insurance for automobiles and heavy equipment, electronic equipment and cargo and hull insurance for our shipping fleet.

We contract the majority of our insurance policies through Mexican insurance carriers. These policies have limits of U.S. \$1.0 billion for onshore property, U.S. \$1.25 billion for offshore property (with an additional U.S. \$250 million for accidental losses at our Atasta Processing and Transportation Center and our terminal at Dos Bocas, Tabasco), U.S. \$300 million for extraordinary costs related to the operation of offshore wells, U.S. \$500 million for offshore environmental liability and U.S. \$400 million for civil liabilities. Since June 30, 1999, our insurance policies covering onshore and offshore properties also cover unforeseen interruptions in operations. This coverage, which is limited to U.S. \$750 million for onshore operations and U.S. \$1.25 billion for offshore operations, counts against the overall limits of the onshore and offshore property policies.

## **Property, Plants and Equipment**

### *General*

Substantially all of PEMEX's property, consisting of refineries, storage, production, manufacturing and transportation facilities and certain retail outlets, is located in Mexico, including Mexican waters in the Gulf of Mexico. The location, character, utilization, productive capacity and related environmental issues of our exploration, drilling, refining, petrochemical production, transportation and storage facilities are described above. See “—Exploration and Production,” “—Refining,” “—Gas and Basic Petrochemicals,” “—Petrochemicals,” and “—Transportation and Distribution.”

### *Reserves*

Under Mexican law, all oil and other hydrocarbon reserves within Mexico are owned by the Mexican nation and not by PEMEX. Petróleos Mexicanos and the subsidiary entities have the exclusive right to exploit those reserves under the Regulatory Law and related laws and regulations. Our estimates of Mexico's hydrocarbon reserves are described in “—Exploration and Production—Reserves.”

## **GENERAL REGULATORY FRAMEWORK**

The Mexican Government and its agencies closely regulate and supervise our operations. The Ministry of Energy monitors our activities and the Secretary of Energy acts as the chairman of the Board of Directors of Petróleos Mexicanos. The Ministry of Finance and Public Credit approves the annual budget and financing program of Petróleos Mexicanos and the subsidiary entities. The Mexican Government incorporates the annual budget and financing program of Petróleos Mexicanos and the subsidiary entities into its budget, which the Mexican Congress must approve each year. The Mexican Government is not, however, directly liable for the financial obligations that we incur. The Ministry of the Environment and Natural Resources, in conjunction with other federal and state authorities, regulates our activities that affect the environment. SECODAM appoints the external auditors of Petróleos Mexicanos and the subsidiary entities.

## **ENVIRONMENTAL REGULATION**

### **Legal Framework**

We are subject to the provisions of the *Ley General del Equilibrio Ecológico y la Protección al Ambiente* (General Law on Ecology and Environmental Protection, which we refer to as the “Environmental Law”), the regulations issued thereunder and several technical environmental norms issued by the Ministry of the Environment and Natural Resources, which is the federal ministry in charge of supervising and regulating environmental matters relating to PEMEX. The Ministry of Health, the Ministry of Communications and Transportation, the Ministry of the Navy and the Ministry of Energy assist the Ministry of the Environment and Natural Resources in its functions.

In addition, we are subject to the environmental laws and regulations issued by the governments of each of the states of Mexico where our facilities are located.

### **The Environmental Law and Regulation by the Ministry of the Environment and Natural Resources**

The Environmental Law and related regulations require that we obtain certain authorizations from the Ministry of the Environment and Natural Resources before we can carry out any activity that may have an adverse effect on the environment. In particular, these environmental regulations apply to chemical, petrochemical, crude oil refining and extraction activities, as well as the construction of crude oil and natural gas pipelines. Before authorizing a new project, the Ministry of the Environment and Natural Resources requires the submission of an environmental impact analysis and any other information that it may request. The Ministry of the Environment and Natural Resources is entitled to grant or deny its authorization of any activity.

The environmental regulations that apply generally to Mexican industry apply to us. These regulations specify, among other matters, permissible levels of emissions, water discharges and hazardous substances discharges as well as atmospheric pollution level limits. The technical regulations for oil and petrochemical industries set forth maximum permissible levels of pollution in residual water discharges and natural gas emissions. These regulations also establish procedures for measuring pollution levels. Mexico generally updates and revises its environmental regulatory framework as necessary, and we participate with the Mexican Government in developing environmental regulations that are related to our activities.

In April 1997, the Ministry of the Environment and Natural Resources issued regulations governing the procedures for obtaining an environmental license, under which new industrial facilities can comply with all applicable environmental requirements by way of a single administrative procedure. Each environmental license integrates all different permits, licenses and authorizations related to environmental matters for a particular facility. We must obtain an Environmental License for any new facility, while our existing facilities are not subject to this obligation.

Federal and state authorities in Mexico may inspect any facility to determine compliance with the Environmental Law, local environmental laws, regulations and technical environmental regulations. Violations or non-compliance with the legal provisions may result in the application of substantial fines, temporary or permanent shutdown of a facility, required capital expenditures to minimize the effect of our operations on the environment, cleanup of contaminated land and water, cancellation of a concession or revocation of authorization to carry out certain activities and, in certain cases, criminal prosecution of employees and individuals.

### **PEMEX's Internal Monitoring**

We believe that we are currently in substantial compliance with current federal and state environmental laws as those laws have been historically interpreted and enforced. We maintain an organizational structure that permits us to implement and monitor our environmental program. The subsidiary entities have specialized departments, depending on the size and geographic distribution of their respective sites, that implement their own environmental programs, internal environmental audits and inspections of their sites and their immediate surroundings based on the standards of the Ministry of the Environment and Natural Resources. When these internal audits reveal deficiencies, the subsidiary entities take the necessary remedial actions. Remediation requirements derived from these internal audits and inspections are recorded in the financial statements when they are known and estimable.

Our Corporate Division of Industrial Safety and Environmental Protection has developed an integrated safety and environmental protection management system and is currently implementing strategies within PEMEX to create a company culture focused on improving industrial safety and environmental protection. This system is an administrative tool composed of diverse, interdependent and interrelated elements, focused on diagnosis, evaluation, implementation and continuing preventive improvements related to safety and environmental protection. The diagnosis and evaluation stages have been completed; the system is now in the implementation stage.

We maintain an internal structure to identify and solve environmental problems and retain external consultants to perform operational audits at our industrial plants, including cost estimates for remedying any shortfall in compliance with Mexican environmental laws. Such remedies can include improving the operating efficiency of plants, cleaning up contaminated land and water, and capital expenditures to minimize the effect of our operations on the environment.

In addition to our internal monitoring structure for identifying affected areas, areas of noncompliance and improvement opportunities, our environmental program is subject to the review of the *Procuraduría Federal de Protección al Ambiente* (the Office of the Federal Attorney for Environmental Protection, which we refer to as “PROFEPA”). PROFEPA administers the Mexican environmental regulatory rubric and establishes acceptable standards of environmental remediation. Although PROFEPA has the authority to review and inspect remediation works performed by PEMEX and compliance with permitted contamination levels established by laws and regulations, it does not determine PEMEX’s environmental liabilities. PEMEX maintains proper records of all of the studies, estimations, performed works and any other information that PROFEPA may request from time to time.

In 1993, PEMEX entered into a voluntary environmental audit program with PROFEPA. As of December 31, 2001, with respect to *Petróleos Mexicanos* and the subsidiary entities, 450 environmental audits had been completed under the program with PROFEPA and all main facilities had been covered. As each environmental audit is completed, we send the audit report (which includes the estimated costs for remedying environmental anomalies) to PROFEPA for its review and approval. After approval by PROFEPA, we review the audits and determine which findings can be resolved by changing current plant or drilling operations and implementing the current capital expenditures plan. If the audit report is approved by PROFEPA, PEMEX and PROFEPA negotiate a corrective action plan, stipulating the time period, amounts to be expended and the steps to be taken to bring each site into compliance. As of December 31, 2001, corrective action plans for 303 audits had been completed and 275 sites had received “clean industry” certifications from PROFEPA. With respect to the remaining 147 audits, the corrective action plans have been agreed upon and are being implemented.

There are currently no material legal or administrative proceedings pending against us with respect to any environmental matters, and we do not believe that continued compliance with environmental laws will have a material adverse effect on our financial condition or results of operations.

### Environmental Liabilities

At December 31, 2001, our estimated and accrued environmental liabilities totaled Ps. 2,316 million. Of this total, Ps. 1,315.6 million was attributable to Pemex-Exploration and Production, Ps. 846.6 million was attributable to Pemex-Refining, Ps. 131.4 million was attributable to Pemex-Gas and Basic Petrochemicals and Ps. 22.5 million was attributable to Pemex-Petrochemicals. There were no environmental liabilities at the subsidiary company level. The following charts detail our environmental liabilities by operating region at December 31, 2001.

#### Pemex-Exploration and Production

	<u>Estimated Affected Area</u> (in hectares)	<u>Estimated Liability</u> (in thousands of pesos)
Northern Region .....	321.6	Ps. 643,300
Southern Region .....	34.7	47,575
Southeast Marine Region .....	<u>3.2</u>	<u>105,000</u>
Total .....	<u>359.5</u>	<u>Ps. 795,875</u>

Source: PEMEX

<b><u>Containment Reservoir Drainage</u></b>		
	<b><u>Number of Reservoirs</u></b>	<b><u>Estimated Liability</u></b> (in thousands of pesos)
Northern Region .....	601	Ps. 299,422
Southern Region .....	79	220,311
Southeast Marine Region .....	<u>0</u>	<u>0</u>
Total .....	<u>680</u>	<u>Ps. 519,733</u>
Total estimated liabilities of Pemex-Exploration and Production .....		<u>Ps. 1,315,608</u>

Source: PEMEX

### **Pemex-Refining**

	<b><u>Estimated affected area</u></b> (in hectares)	<b><u>Estimated Liability</u></b> (in thousands of pesos)
Pipelines .....	9.0	Ps. 71,108
Refineries <sup>(1)</sup> .....	985.0	245,518
Storage and Distribution Terminals <sup>(2)</sup> .....	<u>236.0</u>	<u>530,012</u>
Total .....	<u>1,230.0</u>	<u>Ps. 846,638</u>

- (1) All six of Pemex-Refining refineries have been audited. Of the five refineries which required environmental remediation, the estimated affected area of two refineries has not yet been determined; however, the estimated liability includes the cost estimate for such areas based on available information.
- (2) All Pemex-Refining storage and distribution terminals have been audited. Of the 38 terminals which required environmental remediation, the estimated affected area of 22 storage and distribution terminals has not yet been determined; however, the estimated liability includes the cost estimate for such areas based on available information.

Source: PEMEX

### **Pemex-Gas and Basic Petrochemicals**

	<b><u>Estimated affected area</u></b> (in hectares)	<b><u>Estimated Liability</u></b> (in thousands of pesos)
Complex Gas Processors <sup>(1)</sup> .....	52.67	Ps. 131,180
Pipelines .....	<u>0.06</u>	<u>203</u>
Total .....	<u>52.73</u>	<u>Ps. 131,383</u>

- (1) All eight gas processing plants have been audited and the table above reflects the six plants determined to require environmental remediation.

Source: PEMEX

### **Pemex-Petrochemicals**

	<b><u>Estimated affected area</u></b> (in hectares)	<b><u>Estimated Liability</u></b> (in thousands of pesos)
Petroquímica Cangrejera, S.A. de C.V. ....	0.30	Ps. 1,343
Petroquímica Pajaritos, S.A. de C.V. ....	<u>10.13</u>	<u>21,203</u>
Total <sup>(1)</sup> .....	<u>10.43</u>	<u>Ps. 22,546</u>

- (1) All Pemex-Petrochemicals plants have been audited and the table above reflects the only plants determined to require environmental remediation.

Source: PEMEX

Our estimates of environmental liabilities include cost estimates for general and site-specific evaluation studies and the corresponding remediation. The remediation sites consist of sites identified in the audit process described above as well as those previously identified sites in more mature petroleum operating areas that were not cleaned in the past. Our environmental liabilities also include the elimination of ponds created by abandoned petroleum wells. Additionally, our environmental liabilities include an accrual for information requested and received periodically from field managers as to probable environmental liabilities identified in their respective areas of responsibility. PEMEX accrues its environmental liabilities when sufficient basic knowledge is available to form a preliminary estimation as to remediation cost. Although the full potential scope of remediation cost may not be known with certainty, such accruals are made when the liability is probable and the amount is reasonably estimable, in accordance with SFAS No. 5. These estimated liabilities include assumptions as to initial evaluation of damage, including land acreage to be remediated, depth of contamination and type of contamination. While the initial evaluation is extensive, there is a possibility that the actual scope of remediation could vary depending upon information gained during the remediation process. For further discussion of PEMEX's environmental liabilities, see Note 19 II (d) to the Financial Statements.

Unasserted or additional claims are not reflected in our identified liabilities. We are not aware of any such claims that would be of such a magnitude as to materially affect our estimates of environmental liabilities.

At the end of 2001, we were not aware of uncertainties with respect to joint and several liabilities that could affect our assessment of environmental contingencies or otherwise result in a major environmental liability. We are responsible for all production, processing, storage and distribution of petroleum and its derivatives in Mexico. As a result, we believe we are positioned to know immediately of any claims and are therefore directly and immediately accountable for such claims that may be brought against us.

The timing of remediation or cleanup of the sites accounted for in these environmental liabilities is a function of the annual budget assigned to us by the Mexican Congress.

### **Environmental Expenditures**

In 2001, we invested approximately Ps. 3,349 million in environmental projects as compared to Ps. 2,711 million in 2000. For 2002, we have budgeted Ps. 3,928 million for environmental expenditures. The most important of these projects are directed to the modernization of installations, the implementation of systems and control mechanisms to monitor atmospheric pollution, the acquisition of equipment to address the contingencies of hydrocarbon spills, the expansion of water effluent systems, the restoration and reforestation of affected areas, studies for environmental investigation and the conducting of environmental audits. In addition, we continue to conduct extensive research and development efforts to increase our capacity to produce gasoline, diesel and fuel oil with lower sulphur content and alternative fuels, such as industrial oil and natural gas. Currently, we are developing procedures to track the costs and expenses of our industrial safety measures and environmental compliance.

We do not believe that the cost of complying with environmental laws or environmental requirements related to the North American Free Trade Agreement among the governments of Mexico, the United States and Canada, which we refer to as "NAFTA," or Mexico's membership in the Organization for Economic Cooperation and Development, has caused or will cause a significant increase in our environmental expenditures.

### **TRADE REGULATIONS AND EXPORT AGREEMENTS**

Although it is not a member of OPEC, since 1998 Mexico has entered into agreements with OPEC and non-OPEC members to reduce its oil exports in order to stabilize international oil prices. Under three agreements in 1998 and 1999, Mexico agreed to reduce our oil exports by 325 thousand barrels per day through most of 1999. These agreements were successful in raising oil prices in 1999.

During 2000, the Ministry of Energy of Mexico announced increases in crude oil exports by a total of 225 thousand barrels per day, in line with OPEC agreements to increase crude oil production that year. By contrast, in 2001, the Ministry of Energy announced reductions in crude oil export levels totaling 185 thousand barrels per day.



Mexico agreed with other oil producing countries to reduce its oil exports in conjunction with production cuts by other oil producing countries in order to stabilize oil prices, which fell sharply in December 2000.

Following OPEC's announcement that it would reduce crude oil production by 1.5 million barrels a day, on January 2, 2002, Mexico announced it would decrease its crude oil exports by 100 thousand barrels per day to 1.66 million barrels per day for six months beginning on January 1, 2002. Most recently, following an OPEC announcement that it would maintain current crude oil production levels through fourth quarter 2002, Mexico affirmed that it would maintain its crude oil exports at their present levels for the same period.

For more information on these agreements and announcements, see "Item 5—Operating and Financial Review and Prospects—Sales Volumes and Prices—Export Agreements."

NAFTA did not affect our exclusive rights to explore and produce crude oil and natural gas, to refine crude oil and to produce basic petrochemicals. By 2004, however, NAFTA will phase in lower tariffs on certain petroleum products, including petrochemicals, and certain materials and equipment that we import into Mexico as well as lower tariffs on crude oil and petroleum products that we export to the United States and Canada. Lower tariffs on exports of non-basic petrochemicals from the United States and Canada to Mexico could, over time, increase competition in the non-basic petrochemicals industry in Mexico. To the extent that domestic and international prices for our products remain constant, lower tariffs on the products, materials and equipment that we import from and export to the United States and Canada will decrease our expenses and increase our income.

## TAXES AND DUTIES

### General

We must pay a number of special hydrocarbon taxes and duties to the Mexican Government, in addition to the other taxes and duties paid by some of the subsidiary companies, as described below under "—Other Taxes." The rate at which hydrocarbon taxes and duties are assessed may vary from year to year and is set after taking into consideration our operating budget, our capital expenditure program and our financing needs.

If the indirect IEPS Tax that we collect is taken into account, we contributed approximately 34% of the Mexican Government's revenues in 2001 and 37% in 2000.

The most important taxes and duties payable by us and their applicable rates in 2002 are the following:

<i>Hydrocarbon Extraction Duty</i> .....	Only Pemex-Exploration and Production pays this duty. A rate of 52.3% is applied to the net cash flow that results from deducting all cash expenditures (including operating expenses and capital expenditures) from the cash revenues generated by Pemex-Exploration and Production's sales of goods and services.
<i>Extraordinary Hydrocarbon Extraction Duty</i> .....	Only Pemex-Exploration and Production pays this duty, which is calculated on the same basis as the Hydrocarbon Extraction Duty, using a tax rate of 25.5%.
<i>Additional Hydrocarbon Extraction Duty</i> .....	Only Pemex-Exploration and Production pays this duty, which is calculated on the same basis as the Hydrocarbon Extraction Duty, using a tax rate of 1.1%.

<i>Hydrocarbon Income Tax</i> .....	Petróleos Mexicanos pays this direct tax on behalf of itself and the subsidiary entities. This tax is equivalent to the regular income tax applied to all Mexican corporations, a tax to which Petróleos Mexicanos and subsidiary entities are not subject. A tax rate of 35% is applied to net income (determined in accordance with the Income Tax Law) of each of Petróleos Mexicanos and the subsidiary entities, which may be determined on a consolidated basis.
<i>IEPS Tax</i> .....	The Special Tax on Production and Services (which we refer to as the “IEPS Tax”) is an indirect tax on domestic sales of gasoline, diesel and natural gas for automotive use that Pemex-Refining and Pemex-Gas and Basic Petrochemicals collect on behalf of the Mexican Government. The IEPS Tax on the sale of gasoline and diesel is equivalent to the difference between the international reference price of each product (adjusted by freight costs and quality factors) and the retail price of the product to its customers (not including value added tax, the retailers’ margin and freight costs). Thus, the Mexican Government ensures that PEMEX retains an amount reflecting the international prices (adjusted as described above) of these products, while the Mexican Government collects the difference between the international prices and the prices at which these products are sold in Mexico. The IEPS Tax imposed on natural gas sales for automotive use is based on a variable percentage, taking into consideration the international reference price of this product and the reference of the retail price of unleaded gasoline.

The sum of the Hydrocarbon Extraction Duty, the Extraordinary Hydrocarbon Extraction Duty, the Additional Hydrocarbon Extraction Duty, the Hydrocarbon Income Tax and the IEPS Tax (collectively, the “Taxes and Duties”) must equal the Hydrocarbon Duty. For 2002, the Hydrocarbon Duty is calculated by applying a rate of 60.8% to the subsidiary entities’ sales revenues from the PMI Group and third parties, including the IEPS Tax generated by Pemex-Refining, but excluding the value added tax. We make advance payments to the Mexican Government in respect of our Taxes and Duties liability up to the amount of the Hydrocarbon Duty. Our advance payments are, in turn, credited against our liability under the Hydrocarbon Extraction Duty, the Extraordinary Hydrocarbon Extraction Duty, the Additional Hydrocarbon Extraction Duty, the Hydrocarbon Income Tax and the IEPS Tax.

In the event that the sum of the Taxes and Duties is not equal to the Hydrocarbon Duty, the rates of the Hydrocarbon Extraction Duty, the Extraordinary Hydrocarbon Extraction Duty and the Additional Hydrocarbon Extraction Duty will be adjusted to ensure that the sum of the Taxes and Duties equals the Hydrocarbon Duty.

**Excess Gains Revenue Duty**

This is an administrative duty payable to the Mexican Government in addition to the Hydrocarbon Duty. Each year, we must pay an Excess Gains Revenue Duty in an amount equal to 39.2% of those revenues in excess of a threshold price set for that year. In 2001, we paid an Excess Gains Revenue Duty because our crude oil export prices exceeded the U.S. \$18.00 per barrel threshold established for that year. For 2002, the Excess Gains Revenue Duty is 39.2% of those revenues from crude oil export sales in excess of a threshold crude oil price of U.S. \$15.50 per barrel. Thus, for every dollar exceeding the threshold price, we must pay to the Mexican Government 60.8 cents in Hydrocarbon Duty and 39.2 cents in Excess Gains Revenue Duty so that all revenues above the threshold amount for that year are payable to the Mexican Government. However, for the amount up to the threshold price, we pay only the Hydrocarbon Duty. See also “Item 5—Operating and Financial Review and Prospects—General— IEPS Tax, Excess Gains Duty, Hydrocarbon Duties and Other Taxes.” We paid this duty in 2001 and cannot assure you that the Mexican Government will not lower this threshold price again in the future and thereby increase the amounts that we would be required to pay to the Mexican Government.

## **Other Taxes**

Since 1994, our interest payments on our external debt have been subject to Mexican withholding taxes. In 1994, the Mexican Government credited our withholding tax payments against our tax liability, but since the end of 1994, the Mexican Government has not allowed such a credit. Nevertheless, withholding taxes do not represent a substantial portion of our total tax liability.

Beginning in 1995, we have been subject to municipal and state taxes, such as real property and payroll taxes. However, because most of our facilities are located on federal property, which is not subject to municipal taxation, real property taxes are not a significant part of our overall taxes. Similarly, payroll taxes do not represent a substantial portion of our total tax liability.

Petróleos Mexicanos and the subsidiary entities are exempt from Mexican corporate income tax; however, certain of our subsidiary companies are Mexican corporations and are subject to the tax regime applicable to other Mexican corporations. Mexican companies are generally required to pay the higher of their income tax liability (determined at a rate of 35% for 1999 through 2002, 34% for 2003, 33% for 2004 and 32% thereafter) or their asset tax liability (determined at a rate of 1.8% of the average tax value of virtually all of their assets, less the average tax value of certain liabilities (basically liabilities with Mexican residents excluding debts with financial institutions or their intermediaries)). To the extent a company is required to pay the asset tax in any year, the portion of that tax that exceeds the company's income tax liability may be credited against the company's income tax liability in subsequent years.

In addition, we have a number of non-Mexican subsidiary companies that may be subject to taxation in the jurisdiction of their incorporation or operations. The aggregate taxes paid by the subsidiary companies was Ps. 684 million in 2001, Ps. 807 million in 2000 and Ps. 689 million in 1999.

## **Future Fiscal Reform**

Over the past few years, the Mexican Government and PEMEX have been discussing various proposals for reforming the Mexican federal tax regime applicable to us. The proposals have generally sought to change applicable tax law so that our fiscal burdens are similar to those of state-owned oil companies in other countries. In particular, we have presented alternative internal revenue strategies to improve the Mexican Government's recovery of income from hydrocarbon extraction, while allowing PEMEX to finance more efficiently the development of hydrocarbon reserves and investments in property, plant and equipment.

At the present time, however, the Mexican Government has not taken a position on this issue. Because only the Mexican Congress has the power to enact a change in federal tax law, and given the highly politicized nature of the federal legislative process, we cannot predict the extent or nature of future changes, if any, to the federal tax law applicable to us.

## **UNITED MEXICAN STATES**

The information in this section with regard to Mexico has been included due to Petróleos Mexicanos and the subsidiary entities' relationship with the Mexican Government and has been reviewed by the Ministry of Finance and Public Credit.

### **Form of Government**

The President is the chief of the executive branch of the Mexican Government. The current President of Mexico is Vicente Fox Quesada, whose term expires on November 30, 2006. The Constitution limits the President to one six-year term and does not allow reelection for any additional terms.

In the Congressional election held on July 2, 2000, all of the seats in the Senate and the Chamber of Deputies were up for election. The election, together with later changes in the party affiliations of certain deputies, resulted in the following distribution of Congressional seats:

### Party Representation in Congress

	Senate		Chamber of Deputies	
	Seats	% of Total	Seats	% of Total
Institutional Revolutionary Party.....	60	46.9%	208	41.6%
National Action Party.....	46	35.9	207	41.4
Democratic Revolution Party.....	16	12.5	54	10.8
Ecological Green Party of Mexico.....	5	3.9	16	3.2
Labor Party.....	0	0.0	8	1.6
Nationalist Social Party.....	0	0.0	3	0.6
Social Alliance Party.....	0	0.0	2	0.4
Convergence for Democracy.....	1	0.8	2	0.4
Total.....	128	100.0%	500	100.0%

Note: Totals may differ due to rounding.

Source: Federal Electoral Institute

### The Economy

#### *National Development Program*

On June 11, 2002, the Mexican Government announced the *Programa Nacional de Financiamiento del Desarrollo 2002-2006* (National Development Financing Program 2002-2006, or “PRONAFIDE 2002-2006”). The goals of the PRONAFIDE 2002-2006 are to:

- generate the resources needed to finance social programs contemplated by the National Development Plan 2001-2006;
- increase the rate of economic growth;
- generate jobs consistent with population dynamics; and
- consolidate a stable macroeconomic environment.

The basic strategies that the Mexican Government expects to employ in connection with the PRONAFIDE 2002-2006 are as follows:

- implementation of structural reforms aimed at fostering a legal and economic environment favorable to the competitive participation of the private sector in productive activities;
- promotion of public sector savings in order to increase the availability of financial resources for the private sector;
- promotion of private sector domestic savings, with an emphasis on both popular and long-term savings;
- promotion of external savings only as a complement to domestic savings; and
- strengthening of the financial system and modernization of development banks in order to foster economic growth in the medium term.

Notwithstanding these initiatives, significant new investment in infrastructure, industrial and agricultural modernization, training and environmental protection will be required for continued growth and development. The Mexican economy is also likely to continue to be subject to the effects of adverse domestic and external factors such

as declines in foreign direct and portfolio investment, high interest rates and low oil prices, which may lead to volatility in the foreign exchange and financial markets and may affect Mexico's ability to service its foreign debt.

The PRONAFIDE 2002-2006 presents the medium-term strategy aimed at creating and strengthening domestic sources of financing within a stable macroeconomic environment and contemplates a medium-term fiscal stance that includes the following:

- maintaining the public sector debt within sustainable levels;
- reducing the Mexican Government's absorption of domestic financial resources, limiting the crowding-out effect of fiscal policy to private investment in the medium term; and
- strengthening the capacity of the Mexican Government to fulfill its social mandate.

#### *The Role of the Government in the Economy; Privatization*

On May 24, 2002, the Mexican Government completed its privatization of Aseguradora Hidalgo, S.A. ("AHISA"). The Comisión Intersecretarial de Desincorporación ("CID") approved the sale of AHISA shares owned by the Mexican Government and by PEMEX to MetLife Inc. for Ps. 9,200 million.

On June 19, 2002, the Mexican Government and the Bank Savings Insurance Institute, or "IPAB," jointly carried out the sale of nearly all of their shares of Grupo Financiero BBVA Bancomer, S.A. de C.V. ("BBVA Bancomer") in the national and international markets. On July 3, 2002, the Mexican Government and IPAB sold additional shares pursuant to an over-allotment option. The Mexican Government had retained a minority interest in Bancomer, S.A. at the time of its privatization in 1991. IPAB had acquired the shares in connection with the purchase by BBVA Bancomer of Banca Promex, S.A. in 2000. The proceeds to the Mexican Government as a result of the sale totaled Ps. 6.5 billion for the shares sold internationally, Ps. 574.2 million for the shares sold in Mexico and U.S. \$11.2 million for the shares sold in the United States in the form of ADSs. The proceeds to IPAB as a result of the sale totaled Ps. 1,004.6 million for the shares sold internationally, Ps. 88.1 million for the shares sold in Mexico and U.S. \$1.7 million for the ADSs sold in the United States.

#### *Gross Domestic Product*

During 2000, Gross Domestic Product ("GDP") grew by 6.6% in real terms, exceeding the target originally set in the General Economic Policy Guidelines for 2000 by 2.1 percentage points. GDP grew by 7.5% in real terms in the first quarter of 2000, 7.4% in the second quarter, 7.1% in the third quarter and 4.7% in the fourth quarter.

According to preliminary figures, GDP decreased by 0.3% in real terms in 2001 as compared with 2000. The financial services, insurance and real estate sector grew by 4.1%, the transportation, storage and communications sector grew 2.8%, the agriculture, livestock, fishing and forestry sector grew by 2.5%, the electricity, gas and water sector grew by 1.7% and the community, social and personal services sector grew by 0.5%, each in real terms. The mining, petroleum and gas sector decreased by 0.6%, the commerce, hotel and restaurant sector decreased by 1.3%, the manufacturing sector decreased by 3.9% and the construction sector decreased by 4.5%, each in real terms.

According to preliminary figures, GDP decreased by 2.0% in real terms in the first quarter of 2002 as compared with the same period of 2001. The agriculture, livestock, fishing and forestry sector grew by 4.7%, the financial services, insurance and real estate sector grew by 4.6%, the electricity, gas and water sector grew by 2.0%, and the community, social and personal services sector grew by 0.6%, each in real terms. The mining, petroleum and gas sector contracted by 1.3%, the construction sector contracted by 1.5%, the transportation, storage and communications sector contracted by 1.5%, the manufacturing sector contracted by 5.6% and the commerce, hotels and restaurants sector contracted by 6.7%, each in real terms.

According to preliminary figures, GDP increased by 2.1% in real terms during the second quarter of 2002 as compared with the same period of 2001. The agriculture, livestock, fishing and forestry sector grew by 1.1%, the financial services, insurance and real estate sector grew by 4.7%, the electricity, gas and water sector grew by 4.4%,

and the community, social and personal services sector grew by 1.8%, each in real terms. The construction sector grew by 5.0%, the transportation, storage and communications sector grew by 2.9%, the manufacturing sector grew by 2.1% and the commerce, hotels and restaurants sector grew by 0.4%, each in real terms. The mining, petroleum and gas sector contracted by 0.3% in real terms.

The following table sets forth the change in Mexico's real GDP by sector for the periods indicated.

	<b>Real GDP Growth by Sector</b>						
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001<sup>(1)</sup></b>	<b>First quarter of 2002<sup>(1)(2)</sup></b>	<b>Second quarter of 2002<sup>(1)(3)</sup></b>
GDP (constant 1993 prices) .....	6.8%	4.9%	3.7%	6.6%	(0.3)%	(2.0)%	2.1%
Agriculture, livestock, fishing and forestry .....	0.2	0.8	3.6	0.6	2.5	4.7	1.1
Mining, petroleum and gas .....	4.5	2.7	(2.1)	3.8	(0.6)	(1.3)	(0.3)
Manufacturing .....	9.9	7.3	4.2	6.9	(3.9)	(5.6)	2.1
Construction .....	9.3	4.2	5.0	5.1	(4.5)	(1.5)	5.0
Electricity, gas and water .....	5.2	1.9	7.9	1.0	1.7	2.0	4.4
Transportation, storage and communications .....	9.9	6.7	7.8	9.6	2.8	(1.5)	2.9
Commerce, hotels and restaurants .....	10.7	5.6	3.1	12.4	(1.3)	(6.7)	0.4
Financial services, insurance and real estate .....	3.7	4.6	3.6	5.2	4.1	4.6	4.7
Community, social and personal services .....	3.3	2.9	2.1	2.9	0.5	0.6	1.8

(1) Preliminary.

(2) First quarter of 2002 results as compared to the same period of 2001.

(3) Second quarter of 2002 results as compared to the same period of 2001.

Source: National Institute of Statistics, Geography and Informatics.

### *Prices and Wages*

During most of 2000, the annual inflation rate (as measured by the change in the national consumer price index) maintained an uninterrupted downward trend in accordance with the goals established by Banco de México, Mexico's central bank, and fell to 9.0% for the year. However, during the last few months of 2000, the economy experienced inflationary pressures, which led Banco de México to adopt a stricter monetary stance. Inflation during 2001 was 4.4%, 2.1 percentage points lower than the official inflation target for the year. Inflation during the first eight months of 2002 was 3.3%, 0.9 percentage points higher than during the same period of 2001.

### *Interest Rates*

The 28-day Treasury bill (*Certificados de la Tesorería de la Federación*, or "*Cetes*") rate reached 18.1%, its highest level in 2000, during the last week of November 2000. This was primarily due to the volatility in the international financial markets caused by the signs of a deceleration in economic growth in the United States and the restrictive monetary policy adopted by Banco de México. However, interest rates registered a slight decline toward the end of 2000. For 2000 as a whole, the 28-day *Cetes* rate averaged 15.2%, 6.2 percentage points lower than the average rate during 1999, and the 91-day *Cetes* rate averaged 16.2%, 6.2 percentage points lower than the average rate during 1999.

During 2001, interest rates on 28-day *Cetes* averaged 11.3% and interest rates on 91-day *Cetes* averaged 12.2%, as compared with average rates on 28-day *Cetes* and 91-day *Cetes* of 15.2% and 16.2%, respectively, during 2000.

During the first nine months of 2002, interest rates on 28-day *Cetes* averaged 7.0% and interest rates on 91-day *Cetes* averaged 7.3%, as compared with average rates on 28-day and 91-day *Cetes* of 13.0% and 13.4%,

respectively, during the same period of 2001. On November 18, 2002, the 28-day *Cetes* rate was 7.2% and the 91-day *Cetes* rate was 7.6%.

## **Financial System**

### *2001 Monetary Program*

Banco de México's monetary policy during 2001 continued to target a sustainable reduction in inflation. In this context, Banco de México maintained the "short" mechanism as its principal monetary policy instrument. Under the mechanism, the daily average of the net total balance of the current accounts of banks accumulated during a certain period is a negative number, exerting an upward influence on interest rates. This mechanism allows Banco de México to combat disorderly conditions in the money and foreign exchange markets and to help ensure that changes in the monetary base follow a path consistent with the assumed inflation rate. Banco de México increased the "short" once during 2001, from Ps. 350 million to Ps. 400 million on January 12, 2001. The increase in the "short" was in response to internal and external factors that could have threatened the achievement of the inflation target for 2001. The factors identified by Banco de México included:

- increased aggregate demand;
- increased inflationary pressures in the United States and in other principal developed economies; and
- increases in the prices of certain fruits and vegetables.

The central bank's restrictive monetary policy played an important role in reducing short-term and medium-term inflationary expectations.

Banco de México subsequently reduced the "short" on two occasions during the year, from Ps. 400 million to Ps. 350 million on May 18, 2001 and from Ps. 350 million to Ps. 300 million on July 31, 2001, in response to the slowdown in economic growth and decreased aggregate demand.

At the end of December 2001, the monetary base had grown to Ps. 225,580 million, a 3.4% increase in real terms as compared to the level at December 29, 2000. The net domestic credit of Banco de México registered a negative balance of Ps. 185,735 million at December 31, 2001, as compared to a negative balance of Ps. 133,443 million at the end of 2000. The increase in the negative balance was attributable primarily to the accumulation of net international assets by Banco de México during this period, inasmuch as the monetary base remained within the limits established in the monetary program.

During 2001, the M1a money supply increased by 16.3% in real terms, as compared with the 6.2% real growth observed in 2000. This increase was due primarily to the effects of a decrease in interest rates observed during the second half of the year and the impact of the difference between the rate of return on checking accounts and on time deposits. Checking account deposits denominated in pesos increased by 15.1% in real terms during 2001.

The growth in financial savings, defined as the difference between the monetary aggregate M4a and bills and coins held by the public, increased from 3.1% in real terms in 2000 to 11.7% in 2001. Savings generated by Mexican residents increased by 11.7% in real terms, whereas savings generated by non-residents decreased by 15.9% in real terms in 2001.

Since April 2000, Banco de México has been publishing quarterly reports on inflation.

### *2002 Monetary Program*

Mexico's monetary program for 2002 has as its principal objective the achievement of an inflation rate not exceeding 4.5% by the end of 2002. The following elements are considered necessary conditions to meet the inflation target for 2002 and to be in a better position to achieve the targeted inflation rate of approximately 3.0% for 2003:

- a monetary policy compatible with the proposed goals;
- an adjustment of prices administered by the public sector that is consistent with the Mexican Government's inflation objectives;
- salary increases that are compatible with sustained productivity increases and inflationary objectives;
- an absence of severe external disturbances – such as a significant depreciation of exchange rate or a sharp reduction in the supply of foreign capital – that could cause a considerable depreciation in the real exchange rate; and
- a sound fiscal stance.

Banco de México has published quarterly reports on inflation in 2002 which evaluate the consequences of any failure to satisfy any of the conditions stated above.

Banco de México will continue to use the “short” mechanism to induce the necessary changes in interest rates to achieve inflation objectives. The Board of Governors of Banco de México decided to increase the “short” to Ps. 360 million as of February 8, 2002 in order to avoid a deterioration of inflationary expectations and a negative effect on price levels in general.

In response to the decline in interest rates and inflationary expectations, the Board of Governors of Banco de México decided to decrease the “short” from Ps. 360 million to Ps. 300 million as of April 12, 2002. However, it increased the “short” to Ps. 400 million on September 23, 2002 in response to an increase in inflationary expectations for the last quarter of 2002. If internal or external events or a change in inflationary expectations were to threaten the achievement of the inflation target, Banco de México could again increase the “short” mechanism.

At November 15, 2002, the monetary base totaled Ps. 220,619 million, a 2.2% nominal decrease as compared to the level of Ps. 225,580 million at December 31, 2001. Banco de México estimates that the monetary base will total approximately Ps. 248,138 million at December 31, 2002.

During the first eight months of 2002, the M1a money supply increased by 15.5% in real terms as compared with the same period of 2001. This trend was due primarily to the lower interest rates observed during the first eight months of 2002 and the increase in the rate of economic growth in the second quarter of 2002. In addition, checking account deposits denominated in pesos increased by 10.6% in real terms during the first eight months of 2002 as compared with the same period of 2001.

During the first eight months of 2002, financial savings increased by 7.7% in real terms as compared with the same period of 2001. Savings generated by Mexican residents increased by 8.4% in real terms, whereas savings generated by non-residents decreased by 10.7% in real terms.

#### *Banking System*

In connection with the implementation of the North American Free Trade Agreement, amendments to several laws relating to financial services, including the Banking Law and the *Ley del Mercado de Valores* (Securities Market Law), became effective on January 1, 1994. These measures permit non-Mexican financial groups and financial intermediaries, through Mexican subsidiaries, to engage in various activities in the Mexican financial system, including banking and securities activities. On April 20, 1994, the Ministry of Finance and Public Credit issued regulations that implemented these amendments, as well as provisions of the North American Free Trade Agreement dealing with financial services and any future trade agreements incorporating similar provisions. These regulations set forth rules under which Canadian and U.S. financial institutions (and other foreign financial institutions acting through Canadian or U.S. affiliates) are permitted to establish or acquire Mexican financial institutions and financial holding companies. Pursuant to these rules, the aggregate net capital of Mexican commercial banks controlled by foreign financial institutions established pursuant to the North American Free Trade Agreement and other trade treaties, excluding Mexican banks acquired pursuant to a program approved by the Ministry of Finance and Public Credit, could not exceed 25% of the total net capitalization of all Mexican banks until January 1, 2000.



In December 1998, Congress approved legislation introducing a package of financial and banking reforms which supplemented reforms in place since 1995. The 1998 reforms did not affect the general foreign ownership restrictions under the Banking Law and the North American Free Trade Agreement regulations discussed above. Under the 1998 reforms, all remaining restrictions on foreign ownership of the largest Mexican banks were removed. Foreign ownership was previously restricted in any Mexican bank whose net capital exceeded 6% of the aggregate net capital of all Mexican banks. In addition, the aggregate foreign shareholdings of Mexican-controlled banks was limited to 49% and no foreign shareholder was authorized to own, directly or indirectly, more than 5% of the equity of any Mexican bank (or 20%, with the approval of the Ministry of Finance and Public Credit). Those limits did not, however, apply to any foreign financial institution that acquired control (*i.e.*, more than 51% of the common stock) of a smaller-sized Mexican bank (*i.e.*, one whose net capital did not exceed 6% of the Mexican banking system's aggregate net capital).

The Banking Law was amended on June 4, 2001 to:

- enhance corporate governance by (1) expanding minority shareholders' rights, (2) introducing independent board members, and (3) requiring an audit committee of the board of directors;
- improve the framework for banking operations by (1) providing adequate regulation regarding the provision of banking services using new technologies, (2) allowing banks to offer additional services, and (3) setting a new framework for related operations; and
- strengthen regulation and surveillance while reducing their cost by (1) introducing prompt corrective actions based on banks' capitalization levels, (2) defining responsibilities and activities of the various financial authorities, and (3) expanding the role of external auditors.

#### *Banking Supervision and Support*

The 1994-95 peso devaluation and ensuing financial crisis created concerns about the stability of the Mexican banking system. The devaluation, higher domestic interest rates and contraction in real GDP combined to weaken the quality of the assets of Mexican banks, caused the capitalization of several banks to fall below the minimum required levels and created funding difficulties for many banks.

The weakening of the banking system prompted the Mexican Government to enact policies aimed at increasing the capitalization of Mexican banks. New reserve requirements were introduced by Banco de México to facilitate the regulation of liquidity. Pursuant to these requirements, which took effect on March 11, 1995, a bank that overdraws its account with Banco de México must subsequently deposit funds, and maintain amounts on deposit, at least equal to the amount of the overdraft. Substantial fines may be imposed if a bank fails to make and maintain such deposits. The new reserve requirements were intended to reduce Banco de México's daily net extension of credit. In addition, effective January 1, 1997, Banking Circular 1343 issued by the National Banking and Securities Commission, or "CNBV," adopted significant changes in the accounting practices applicable to Mexican commercial banks and development banks, with the intent of making those practices more consistent with international accounting standards, including U.S. generally accepted accounting principles.

In response to the 1994-95 financial crisis, the Mexican Government took a number of other steps to support the banking system, including:

- The establishment of the Temporary Capitalization Program, or "PROCAPTE," a voluntary program to assist viable but undercapitalized banks, under which the Banking Fund for the Protection of Savings, or "FOBAPROA," advanced funds to participating banks in exchange for five-year, mandatorily convertible bonds. In March 1995, five commercial banks obtained support through PROCAPTE. By May 1995, the value of bonds issued through PROCAPTE reached Ps. 7,008 million. In February of 1997, the last bank participating in PROCAPTE liquidated its total participation, thus concluding the PROCAPTE program.
- Through FOBAPROA, the Mexican Government made foreign exchange available through a foreign exchange credit window to help banks meet dollar liquidity needs. Outstanding drawings under this

program reached their highest point of U.S. \$3.8 billion in April 1995, and were completely repaid by August 31, 1995. No such drawings were made after that date.

- Mexican law was amended to broaden the scope for investment by foreign and Mexican investors in the equity of Mexican financial institutions.
- The CNBV was, through amendment of the banking laws, granted enhanced powers of administrative and management intervention in financial holdings companies. The CNBV also increased its supervisory activities through closer and more frequent inspections and heightened reporting requirements.
- Beginning in March 1995, the Mexican Government announced a series of debtor support programs, discussed below, designed to help financial institutions and their debtors restructure the large number of past-due loans caused by the financial crisis and the ensuing increase in domestic interest rates and economic recession.
- In 1995 and 1996, the Ministry of Finance and Public Credit approved recapitalization plans for twelve of Mexico's financial institutions, many of which involved strategic investments by foreign financial institutions and the purchase by FOBAPROA of large portions of the loan portfolios of the affected banks.
- Beginning in 1994, the CNBV exercised its authority to intervene in the management of a number of Mexican financial institutions, including the Cremi/Union financial group in 1994, Grupo Financiero Asemex-Banpaís, S.A. de C.V. and its banking and insurance subsidiaries in 1995 and Banco Capital, S.A. and Banco del Sureste, S.A. in 1996.

In 1998, the Mexican Government's program to rescue troubled banks, which was first implemented in 1995, was restructured. Under the revised scheme, FOBAPROA was replaced by the Bank Savings Insurance Institute, or "IPAB," which assumed FOBAPROA's assets and liabilities, except for certain liabilities that were explicitly excluded under the financial reforms. IPAB also manages a deposit insurance program. During 1999, IPAB commenced a transition program under which deposit insurance limits are being introduced gradually. By 2005, deposit insurance will be limited to 400,000 *Unidades de Inversión* ("UDIs," units of account whose value in pesos is indexed to inflation on a daily basis, as measured by the change in the national consumer price index), per person or entity, per institution. For November 25, 2002, one UDI is set at Ps. 3.19443.

The Congress allocates funds to IPAB on an annual basis to manage and service IPAB's net liabilities, but those liabilities generally have not become public sector debt as had been originally proposed. In emergency situations, IPAB is permitted to contract additional financing in an amount not exceeding 6% of the total liabilities of banking institutions without congressional authorization. At June 30, 2002, IPAB's debt totaled Ps. 810.9 billion.

In addition to Mexico's auctions of debt securities in the domestic market, IPAB announced on January 6, 2000 that it planned to sell peso-denominated debt securities in Mexico. On March 1, 2000, IPAB conducted its first offering of peso-denominated debt securities, placing Ps. 1.0 billion of three-year Savings Protection Bonds. These Savings Protection Bonds pay interest monthly at a rate (reset monthly) equal to the higher of the 28-day *Cetes* rate or the rate applicable to one-month bank notes (*Pagarés con Rendimiento Liquidable al Vencimiento*). IPAB is using the proceeds of these sales to service its maturing obligations, to improve the maturity profile of its indebtedness and to reduce its financing costs. IPAB's securities are sold through auctions conducted by Banco de México.

In addition to its other activities, IPAB is now in the process of disposing of the loan portfolios and other assets acquired by FOBAPROA during the 1994-96 period. Significant transactions include the following:

- In October 1999, Banco Mercantil del Norte, S.A. "Banorte" won the bidding to administer, for a period of four years, part of the loan portfolio of Banca Serfin, S.A. IPAB took control of Serfin in July 1999, but the loans sold were assumed by IPAB's predecessor, FOBAPROA, between June 1995

and January 1997. Banorte bid Ps. 2,582 million for the administrative and collection rights to the portfolio, which consists of Ps. 25 billion face value of non-performing loans. The proceeds of the sale are being applied to IPAB's liabilities.

- In November 1999, a consortium of financial institutions led by Goldman, Sachs & Co. won the bidding to administer and collect, for a period of four years, part of the loan portfolio of Banco Union, S.A. The consortium bid Ps. 842.6 million for the administration and collection rights to the portfolio, which consists of Ps. 7,639 million face value of non-performing loans. In addition to the proceeds of the sale, IPAB will receive a portion of the loan repayments collected by the consortium.
- In March 2000, Firstcity Commercial Corporation won the bidding to acquire part of the loan portfolio of Banco Santander Mexicano. Firstcity Commercial Corporation submitted a bid worth Ps. 1,431.8 million for the loan portfolio, which bears a principal amount of Ps. 6,943 million.
- On March 9, 2000, IPAB announced that Deutsche Bank, in association with JE Robert, signed a contract with BanCreceer, S.A. ("BanCreceer"), to administer and collect part of the loan portfolio of BanCreceer. IPAB had taken control of BanCreceer in November 1999. Fénix Administración de Activos, a subsidiary of Deutsche Bank and JE Robert, will assume the administration of the portfolio for a period of four years. BanCreceer's portfolio is valued at Ps. 51,416 million.
- In May 2000, Grupo Financiero Santander Mexicano won the bidding to acquire 100% of the stock of Grupo Financiero Serfin, S.A. Grupo Financiero Santander Mexicano bid Ps. 14,650 million, representing 159% of Grupo Financiero Serfin, S.A.'s book value at March 31, 2000.
- In August 2000, Grupo Financiero Bancomer acquired 100% of the stock of Banca Promex for Ps. 562.2 million, representing the value of Banca Promex's capital, plus a premium payment of Ps. 1,424.3 million and 145,775,000 shares of Grupo Financiero Bancomer's Series O stock. The total purchase price represented approximately 500% of the value of Banca Promex's stock at June 30, 2000.
- Grupo Financiero Inverlat ("GFI") was recapitalized on November 30, 2000 through the acquisition by The Bank of Nova Scotia ("Scotiabank") of 55% of GFI's capital stock. In that transaction, IPAB received Ps. 1,836 million plus an additional \$40 million from Scotiabank for a 45% interest in GFI, which, in addition to a 10% interest already held by Scotiabank, resulted in Scotiabank controlling 55% of the outstanding capital stock of GFI. IPAB still retains a 36% interest in GFI, which it intends to sell by the end of 2003. The remaining 9% of the capital stock of GFI is to be distributed among the eligible original shareholders of GFI. In addition to the proceeds from the GFI transaction, from January through September 2000, IPAB received Ps. 1,460 million from GFI's loan recoveries and asset sales.
- In June 2001, IPAB announced that Firstcity Commercial was the winning bidder in the auction to acquire three bundles of commercial and industrial loans of Banco Santander Mexicano. Firstcity Commercial submitted a bid of Ps. 474 million for the loan portfolio, which has a face value of Ps. 3,075 million.
- In September 2001, IPAB transferred 100% of the shares of BanCreceer to Banco Mercantil del Norte, S.A. ("Banorte"). Banorte had bid Ps. 1,650 million for the shares. Once the shares have been transferred to Banorte, IPAB will receive proceeds from the sale of loan portfolios and assets as well as the collection rights to the administered portfolios. The net value of the assets to be transferred is expected to reach approximately Ps. 2,500 million.
- In October 2001, IPAB announced the sale of a bundle of commercial and industrial loans of BanCreceer and its trust division, for which IPAB was offered Ps. 198 million at auction. The net proceeds from this transaction represent 16% of the portfolio's face value of Ps. 1,239 million.

- In December 2001, IPAB announced the sale, directly and through its trust division, of commercial and industrial property loans of BanCreceer. GMAC Commercial Mortgage submitted a bid of just over Ps. 179 million for the portfolio. 236 loans comprised the portfolio, and the proceeds from the transaction represent 14.01% of the portfolio's face value at July 31, 2001 of Ps. 1,278 million.

The Ministry of Finance and Public Credit issued new rules governing the capitalization requirements of Mexican commercial banks effective on January 1, 2000. These rules require Mexican commercial banks to:

- gradually reduce to 20% the amount of deferred taxes arising from fiscal losses that may be included as Tier 1 capital by January 1, 2003;
- include all new issuances of subordinated convertible debt as Tier 2 capital. Outstanding subordinated mandatorily convertible debt, subject to current limitations, will remain as Tier 1 capital until its maturity or conversion;
- gradually remove investments in non-financial companies and companies whose shares are not traded on the Mexican Stock Exchange from Tier 1 capital by January 1, 2003, except where those investments result from the capitalization of restructured loans; and
- remove from Tier 2 capital certain specific assets, including credit card debt, mortgages and commercial loans, and establish general loan loss reserves for these types of assets.

The new rules also allow Mexican commercial banks, as part of a capitalization program, to issue cumulative and noncumulative subordinated debt securities through a special purpose vehicle, providing them with a new financing alternative in international markets. These new instruments will have a minimum maturity of 10 years, will be unsecured and deeply subordinated and will provide for the deferral (cumulative) or cancellation (noncumulative) of interest payments in certain circumstances and payment of the face value at the maturity date. Subject to limitations, noncumulative instruments may be included as Tier 1 capital.

During the second half of 2000, the Mexican Government continued to establish rules and criteria for the regulation of banking institutions in accordance with accepted international practices. In September 2000, the Mexican Government issued new rules for classifying the quality of loan portfolios of commercial banking institutions. At the same time, the rules governing the capitalization requirements of commercial banks were modified. In October 2000, the Mexican Government announced new rules for classifying the credit portfolios of development banks as well as new capitalization requirements for development banks.

At December 31, 2001, calculated in accordance with the accounting criteria applicable to credit institutions since the beginning of 1997, the total amount of past-due loans of commercial banks (excluding banks under Mexican Government intervention and those in special situations) was Ps. 47,150 million, as compared with Ps. 54,700 million at December 31, 2000. This decline was primarily due to write-offs and recoveries made by some banks. On the other hand, the total loan portfolio of the banking system decreased by 1.2% in real terms during the last quarter of 2001. As a consequence, the past-due loans ratio of commercial banks was 5.1% at December 31, 2001, as compared with 5.8% at December 31, 2000. Loan loss reserves created by commercial banks (excluding banks under Mexican Government intervention and those in special situations) totaled Ps. 58,377 million at December 31, 2001, as compared with Ps. 63,117 million at December 31, 2000. At this level, commercial banks had reserves covering 123.8% of their past-due loans, exceeding the minimum reserve level of 45% required by the applicable accounting criteria.

At the end of June 2002, and as reported in accordance with the accounting criteria applicable to credit institutions since the beginning of 1997, the total amount of past-due loans of commercial banks (excluding banks under Mexican Government intervention and those in special situations) was Ps. 47,925 million, as compared with Ps. 47,150 million at December 31, 2001. This increasing trend was primarily due to the raises in commercial past-due loans registered by some banks. The total loan portfolio of the banking system decreased by 1.1% in real terms during the first half of 2002. This decrease was the result of reductions observed in mortgage loans as well as loans to the Government and IPAB. The past-due loan ratio of commercial banks was 5.1 % at June 30, 2002, as

compared with 5.0% at December 31, 2001. The amount of loan loss reserves created by commercial banks (excluding banks under Mexican Government intervention and those in special situations) totaled Ps. 64,120 million at the end of June 2002, as compared with Ps. 58,377 million at December 31, 2001 and Ps. 63,117 million at December 31, 2000. At this level, commercial banks have reserves covering 133.8% of their past-due loans, exceeding the minimum reserve level of 45% required by the applicable accounting criteria.

On June 1, 2001, the Organic Law of the *Banco Nacional del Ahorro y Servicios Financieros* (National Saving and Financial Services Bank) became effective. This law seeks to improve and strengthen the institutional framework for popular savings and to incorporate more people into the formal financial system by creating a National Savings and Financial Services Bank. The purpose of the law is to:

- provide savings and lending services to people who do not have access to traditional financial institutions; and
- create a financial culture among low-income sectors.

On June 4, 2001, the Mutual and Investment Funds Law went into effect. The reform aims to develop financial intermediaries other than banks, thus allowing retail investors to participate in a more transparent and liquid securities market. The goals of the reform are to:

- introduce the concept of investment fund distributors; and
- avoid conflicts of interest between investment funds and operating companies by (1) requiring that one third of the members of the board of each investment fund be independent and (2) precluding brokerage houses and banks from acting directly as operating companies.

#### *The Securities Market*

The Mexican Stock Exchange is Mexico's only stock exchange and is located in Mexico City. The Mexican Stock Exchange is organized as a corporation with shares owned by 31 brokerage firms, each of which is authorized to trade on the exchange floor. Both debt and equity securities are traded on the Mexican Stock Exchange, including stocks and bonds of private sector corporations, equity certificates or shares issued by banks, commercial paper, bankers' acceptances, certificates of deposit, Mexican Government debt and special hedging instruments linked to the dollar. Currently, institutional investors are the most active participants in the Mexican Stock Exchange, although retail investors also play a role in the market. The Mexican equity market is one of Latin America's largest in terms of market capitalization, but it remains relatively small and illiquid compared to major world markets.

Effective June 1, 2001, the Securities Market Law was amended to promote the securities market by making it more transparent, liquid and efficient and to include stricter corporate governance rules, which are intended to strengthen the rights of minority shareholders of public companies and brokerage houses, among other things. The amendments require issuers of securities to appoint an audit committee of the board which will have full access to the issuer's information, appoint independent board members and limit the amount of non-voting and voting-restricted stock they issue. In addition, the reforms introduce provisions that are intended to regulate the duties of board members and the legal responsibility of board members when acting in violation of such duties. The amendments also broaden the scope of insider trading provisions and introduce more severe penalties for insider trading violations.

The market capitalization of the Mexican Stock Exchange was U.S. \$126.6 billion at the end of 2001, representing a 0.7% increase in dollar terms from its year-end 2000 level. The value of transactions on the Mexican Stock Exchange reached U.S. \$72.6 billion in 2001, 38.5% more than in 2000. Fixed income securities (*i.e.*, commercial paper, notes, bonds and ordinary participation certificates) accounted for 1.1% and equity securities (*i.e.*, shares and certificates of patrimonial contribution) accounted for the remaining 98.9% of transactions.

At August 30, 2002, the Stock Market Index stood at 6,216.43 points, representing a 2.4% decrease in nominal peso terms and a 5.6% decrease in real peso terms from the level at December 31, 2001.

### *Recent Commercial Legislation*

On April 27, 2000, the Mexican Congress passed into law the Commercial Reorganization and Bankruptcy Act, a new framework for business reorganizations and for bankruptcy proceedings, which is intended to result in greater legal certainty and swifter case resolution for debtors and creditors involved in the insolvency process. The new law replaces one that had been in place since 1943. Among its provisions, the new law limits the period of time in which insolvent debtors may reach a reorganization agreement with their creditors before a liquidation of the debtor is imposed. The new law also establishes a Federal Institute of Reorganization and Bankruptcy Specialists, which is intended to coordinate the provision of certain technical support in reorganization cases and to ensure that the professionals assigned to provide such support meet certain ethical and professional requirements.

On April 30, 2000, the Mexican Congress passed into law the Miscellany of Secured Lending, which amends the Commerce Code, the General Law of Negotiable Instruments and Credit Transactions and the Credit Institutions Law. The new law is intended to promote the availability of credit to small- and medium-size businesses by allowing a wider range of assets to be used as collateral for new borrowing. It recognizes two new types of security interests, a pledge while the borrower retains possession of the collateral and a collateral trust where a trustee holds the collateral for the benefit of the lender. Under the new law, if a debtor defaults on its obligation to a creditor who holds either type of security interest, the obligation may be satisfied by the transfer of the collateral to the creditor. In such a case, if the value of collateral exceeds the value of the obligation, the creditor will be obligated to compensate the debtor for the difference. The new law also provides for an expedited procedure for creditors to execute judgments against security interests.

### **External Sector of the Economy**

#### *Foreign Trade*

In 2001, Mexico registered a trade deficit of U.S. \$9,953.6 million, as compared with a trade deficit of U.S. \$8,003.0 million for 2000. Merchandise exports decreased by 4.8% in 2001, to U.S. \$158,442.9 million, as compared with U.S. \$166,454.8 million in 2000. In 2001, petroleum exports decreased by 21.9% and non-petroleum exports decreased by 3.0%, in each case as compared with 2000. Exports of manufactured goods, which represented 89.2% of total merchandise exports, decreased by 2.7% in 2001, as compared with 2000. Total imports were U.S. \$168,396.5 million in 2001, a 3.5% decrease as compared with 2000. Imports of intermediate goods decreased by 5.6%, imports of capital goods decreased by 6.8% and imports of consumer goods increased by 18.3% in 2001, each as compared with 2000.

During the first six months of 2002, Mexico registered a trade deficit of U.S. \$3,191 million, as compared with a trade deficit of U.S. \$3,968 million for the same period of 2001. Merchandise exports decreased by 2.8% during the first six months of 2002, to U.S. \$78,178 million, as compared with U.S. \$80,417 million in the first six months of 2001. During the first six months of 2002, petroleum exports decreased by 6.4%, and non-petroleum exports decreased by 2.4%, in each case as compared with the same period of 2001. Exports of manufactured goods, which represented 88.3% of total merchandise exports, decreased by 2.4% during the first six months of 2002, as compared with the same period of 2001. Total imports were U.S. \$81,369 million during the first six months of 2002, a 3.6% decrease as compared with the same period of 2001. Imports of intermediate goods decreased by 3.9%, imports of capital goods decreased by 8.0% and imports of consumer goods increased by 4.1% during the first six months of 2002, each as compared with the first six months of 2001.

#### *Balance of International Payments*

According to preliminary figures, during 2001, Mexico's current account registered a deficit of U.S. \$17,915 million, or 2.9% of GDP, U.S. \$196 million less than the current account deficit registered in 2000. The capital account registered a surplus of U.S. \$24,173 million in 2001, as compared with a surplus of U.S. \$17,786 million in 2000. The increase was principally due to an inflow of long-term external resources, such as foreign direct investment flows. In addition, there was an inflow of resources resulting from the reduction of assets held abroad by Mexican residents. At the same time, there was a modest inflow of foreign portfolio investment in equity securities and significant reductions in indebtedness of the public sector and Banco de México.

Total foreign investment in Mexico reached U.S. \$28,636 million in 2001, as a result of an inflow of U.S. \$24,731 million in direct foreign investment and an inflow of U.S. \$3,882 million of net foreign portfolio investment.

According to preliminary figures, during the first half of 2002, Mexico's current account registered a deficit of 2.1% of GDP, or U.S. \$6,804 million. The capital account surplus for the first half of 2002 totaled U.S. \$8,740 million. During the first half of 2002, direct foreign investment totaled U.S. \$6,134 million and portfolio investment (including securities placed abroad) registered an outflow of U.S. \$835 million.

In August 1996, the Foreign Exchange Commission, comprised of members of the Ministry of Finance and Banco de México, announced a plan to increase Mexico's reserves by conducting monthly auctions of options to sell U.S. dollars to Banco de México. The auctions took place among commercial banks, which could assign their rights arising therefrom.

The auctions allowed Banco de México to accumulate international assets without creating distortions in the currency markets. Through this mechanism, Banco de México has accumulated U.S. \$12,117 million in reserves since the auctions were introduced in 1996. At May 11, 2001, the net international assets of Banco de México totaled U.S. \$40,732 million, a level sufficiently high to justify the suspension of the accumulation by this mechanism. Accordingly, on May 18, 2001, the Foreign Exchange Commission decided to suspend until further notice the sale of options after the auction held June 29, 2001.

At December 31, 2001, Mexico's international reserves totaled U.S. \$40,880 million, an increase of U.S. \$7,325 million from the level at December 29, 2000. The net international assets of Banco de México totaled U.S. \$44,857 million at December 31, 2001, an increase of U.S. \$9,223 million from the level at December 29, 2000. At November 15, 2002, Mexico's international reserves totaled U.S. \$44,948 million, an increase of U.S. \$4,068 million from the level at December 31, 2001. The net international assets of Banco de México totaled U.S. \$46,122 million at November 15, 2002, an increase of U.S. \$1,265 million from the level at December 31, 2001.

#### *Direct Foreign Investment in Mexico*

During 2001, direct foreign investment in Mexico notified to the National Foreign Investment Commission totaled approximately U.S. \$24.8 billion. Total accumulated direct foreign investment in Mexico during the 1997-2001 period amounted to approximately U.S. \$72.3 billion. Of the total direct foreign investment accumulated during the 1997-2001 period, excluding that in securities, 48.6% has been channeled to industry, 50.4% to services, 0.7% to mining and 0.3% to agriculture and fishing.

During 2001, net foreign investment in Mexico, as recorded in the balance of payments, totaled U.S. \$28.6 billion, and was comprised of direct foreign investment of U.S. \$24.8 billion and portfolio investment of U.S. \$3.9 billion. During the first half of 2002, net foreign investment in Mexico, as recorded in the balance of payments, totaled U.S. \$5.3 billion and was comprised of direct foreign investment of U.S. \$6.1 billion and portfolio investment of U.S. \$(0.8) billion.

#### *Exchange Controls and Foreign Exchange Rates*

Since December 22, 1994, the Mexican Government has maintained a floating exchange rate policy, with Banco de México intervening in the foreign exchange market from time to time to minimize volatility and ensure an orderly market. The Mexican Government has also promoted market-based mechanisms for stabilizing the exchange rate, such as over-the-counter forward and options contracts between banks and their clients in Mexico, and authorization of peso futures trading on the Chicago Mercantile Exchange. In addition, since October 1996, Banco de México has permitted foreign financial institutions to open peso-denominated accounts and to borrow and lend pesos (subject to general restrictions on conducting banking activities in Mexico).

In February 1997, the Foreign Exchange Commission established a program enabling Banco de México to sell up to U.S. \$200 million of dollars to Mexican commercial banks pursuant to an auction mechanism on any day in which the peso/dollar exchange rate applicable to the payment of obligations denominated in foreign currencies

exceeds the corresponding rate on the preceding business day by more than 2%. This mechanism was adopted with the aim of moderating the volatility of the peso/dollar exchange rate, while maintaining the Mexican Government's freely floating exchange rate regime.

On August 26, 1998, the Foreign Exchange Commission decided to allow Banco de México to increase the number of currency auctions held per day from two to three, in order to increase the likelihood that Banco de México would sell the entire maximum amount of U.S. \$200 million on any day it chose to use the auction program. From October 27, 1997 through July 2, 2001, Banco de México sold U.S. \$1,900 million under this program, auctioning dollars on October 27 and 30 and November 6, 1997, January 12, May 27, August 21 and 26, September 10 and 21 and October 8, 1998, January 12 and 13 and May 25, 1999 and on June 8, 2000.

On September 10, 1998, in response to continuing steep declines in the value of the peso, Banco de México sold a total of U.S. \$478 million. U.S. \$200 million of this amount was sold under the auction program, and the remainder was sold as an extraordinary direct sale of dollars at market rates, the first extraordinary intervention by Banco de México in the foreign currency market since December 1995.

The Foreign Exchange Commission resolved on May 18, 2001 to suspend use of the auction mechanism for the contingent sale of dollars. The suspension took effect as of July 2, 2001.

During 2001, the average peso/U.S. dollar exchange rate was Ps. 9.339 = U.S. \$1.00. During the first six months of 2002, the monthly average peso/U.S. dollar exchange rate was Ps. 9,284 = U.S. \$1.00. The peso/U.S. dollar exchange rate announced by Banco de México on November 15, 2002 (to take effect on the second business day thereafter) was Ps. 10.2484 = U.S. \$1.00.

## **Public Finance**

### *Fiscal Policy*

The rationalization of public expenditure and the augmentation of revenue have been important components of the Mexican Government's economic stabilization strategy. The Mexican Government's fiscal policy has had two fundamental objectives: to establish the macroeconomic foundation for sustained growth and to focus the Mexican Government's resources on those sectors in which the Mexican Government can have the greatest impact in supporting social development and the competitiveness of the Mexican economy.

At present, the Mexican Government's principal short-term fiscal policy objectives, in addition to countering inflation, are:

- strengthening economic activity and exports;
- maintaining an adequate surplus in the Mexican Government's primary balance while incurring only a moderate public sector deficit;
- continuing to promote fiscal federalism; and
- increasing the efficiency and competitiveness of the economy and the effectiveness of the tax collection system.

The Mexican Government's principal fiscal policy objectives over the medium-term are:

- significantly reducing the inflation rate to levels approximating those of Mexico's major trading partners;
- consolidating the process of sustainable economic growth;
- promoting private sector savings;



- continuing to modernize the economy; and
- strengthening social policy through increased real spending on social development.

#### *2002 Budget*

On January 1, 2002, the Mexican Congress approved the Federal Annual Revenue Law for 2002 and the Federal Expenditure Budget for 2002 (collectively, the “2002 Budget”). The principal objectives of the 2002 Budget are to maintain sound public finances and a tight fiscal stance in order to promote a more stable economic environment, higher domestic savings and investment rates and higher employment rates. The 2002 Budget contemplates a public sector deficit of 0.65% of GDP for 2002.

In response to the decline in international oil prices at the end of 2001, the 2002 budget was based upon an estimated weighted average price of Mexico’s oil exports of U.S. \$15.50 per barrel and an estimated volume of oil exports of 1.725 million barrels per day. Because both of these estimates are lower than the estimates used to formulate the Mexican Government’s proposed budget, the 2002 Budget assumes Ps. 20 billion less in revenue than originally forecast in the Mexican Government’s proposed budget. This anticipated shortfall has been partially compensated through the utilization of Ps. 8 billion from Mexico’s oil stabilization fund. In order to raise additional revenue to compensate for the budget shortfall, the 2002 Budget also includes the following measures, among others:

- modifications to the Income Tax Law, such as the equalization of the maximum tax rates for individuals and corporations, a reduction in the number of tax brackets and the implementation of an immediate private investment deduction;
- elimination of certain government subsidies paid to private sector employees;
- new or increased excise taxes on telecommunications, soft drinks (temporarily suspended by presidential decree on March 5, 2002), cigars, cigarettes and alcohol;
- a 5% tax on certain luxury goods and services; and
- replacement of the accrued simplified system with a cash flow based system for collecting value-added taxes.

Under the 2002 Budget, the Mexican Government estimates that it will devote Ps. 258,691 million (25.2% of total budgetary programmable expenditures) to education and Ps. 284,355 million (27.7% of total budgetary programmable expenditures) to health and social security.

The Mexican Government also expects that it will devote Ps. 67,752 million (6.6% of total budgetary programmable expenditures) to regional and urban development and Ps. 16,425 million (1.6% of total budgetary programmable expenditures) to social spending and nutrition. In addition, the 2002 Budget contemplates that Ps. 176,478 million will be used for the debt service of the Mexican Government and that Ps. 29,933 million will be used for the debt service of the public sector agencies included in the 2002 Budget.

The results for 2000, the preliminary results for 2001 and the first half of 2002, and the assumptions and targets underlying the 2002 Budget are set forth below.

**2000 and 2001 Results;  
2002 Budget Assumptions and Targets**

	<b>2000 Results</b>	<b>2001 Results<sup>(1)</sup></b>	<b>First half of 2002 Results<sup>(1)</sup></b>	<b>2002 Budget</b>
Real GDP growth (%) .....	6.6 <sup>(1)</sup>	(0.3)	0.0	1.7
Increase in the national consumer price index (%) .....	9.0	4.4	2.6	4.5
Average export price of Mexican oil mix (U.S.\$/barrel).....	24.62 <sup>(1)</sup>	18.57	19.79	15.50
Current account deficit as % of GDP .....	3.1 <sup>(1)</sup>	2.9	2.1	3.4
Average exchange rate (Ps./\$1.00) .....	9.456	9.339	9.284	10.1
Average rate on 28-day <i>Cetes</i> (%).....	15.2	11.3	7.0	9.7
Public sector balance as % of GDP .....	(1.1)	(0.7)	0.8	(0.7)
Primary balance as % of GDP .....	2.6	2.6	4.1	2.7

(1) Preliminary.

Source: Ministry of Finance and Public Credit.

*Revenues and Expenditures*

In 2001, public sector budgetary revenues were less than public sector budgetary expenditures (excluding off-budget revenues and expenditures of the public sector) by approximately Ps. 39,920.2 million in nominal terms, or approximately Ps. 11,058.2 million in constant pesos with purchasing power at December 31, 1993, reflecting a decrease of 37.9% in real terms over the surplus for 2000. The public sector primary balance was approximately Ps. 150,359.2 million in nominal terms, or approximately Ps. 41,650.7 million in constant pesos with purchasing power at December 31, 1993, reflecting a decrease of 1.5% in real terms as compared to the public sector primary balance for 2000. The overall public sector balance registered a deficit of Ps. 42,050.3 million in nominal terms, or approximately Ps. 11,648.3 million in constant pesos with purchasing power at December 31, 1993, reflecting a decrease of 34.8% in real terms as compared to the surplus for the same period of 2000.

In 2001, public sector revenues were negatively affected by: (1) less dynamic economic activity; (2) the strength of the Mexican peso with respect to the U.S. dollar; and (3) the reduction in the volume of oil exports agreed with other oil producing countries to stabilize medium-term oil prices. These factors caused budgetary revenues to be Ps. 33.8 billion lower than projected in the 2001 Budget.

In accordance with the automatic adjustment mechanism contained in Article 32 of the 2001 Budget, and in response to the lower than projected revenues, the Mexican Government cut expenditures in order to meet the fiscal targets for 2001. Mexico cut expenditures by Ps. 3.4 billion during the first quarter of 2001, by Ps. 6.8 billion during the second quarter of 2001, by Ps. 3.0 billion during the third quarter of 2001, and by Ps. 3.0 billion during the fourth quarter of 2001. As a result of these adjustments, the public sector recorded an overall deficit of Ps. 42.1 billion, or 0.7% of GDP, in 2001, slightly lower than the deficit recorded in 2000.

The overall primary balance registered a surplus in 2001 of Ps. 150.4 billion in nominal pesos (approximately 2.6% of nominal GDP) and Ps. 41.7 billion in constant 1993 pesos, 0.6% lower in real terms than the primary balance registered in 2000.

The public sector registered an overall surplus of Ps. 23.9 billion in nominal pesos in the first half of 2002, and the primary balance registered a surplus of Ps. 121.0 billion in nominal pesos, 0.7% lower in real terms as compared to the same period of 2001.

In accordance with the automatic adjustment mechanism contained in Article 32 of the 2002 Budget, and in response to the lower than projected revenues, the Government cut expenditures by Ps. 10.1 billion during the first

quarter of 2002 in order to meet its fiscal targets for 2002. This expenditure reduction is not reflected in the expenditure estimates described elsewhere in this section. Due to higher than expected revenues in the second quarter of 2002, the Government did not cut expenditures in the second quarter of 2002. However, further expenditure reductions could be required if revenues were to deteriorate.

## Public Debt

### *Internal Public Debt*

Internal debt is presented herein on a “net” basis, and includes the internal debt of the Mexican Government and budget-controlled agencies, excluding Banco de México’s general account balance (which was positive at June 28, 2002, indicating monies owed to the Mexican Government) and the assets of the *Fondo del Sistema de Ahorro Para el Retiro* (the Retirement Savings System Fund). In addition, net internal debt includes *Cetes* and other securities sold to the public in primary auctions, but not such debt allocated to Banco de México for its use in regulating liquidity (“*Regulación Monetaria*”). See footnote 2 to the table “Net Internal Public Debt” below. Internal debt does not include the debt of IPAB. See “—Financial System—Banking Supervision and Support.”

In 2001, the Mexican Government continued to pursue an internal debt strategy aimed at lengthening the average maturity of its debt in order to reduce its refinancing risk. To further this goal, the Mexican Government in the past has introduced new instruments of longer maturities. In the last quarter of 1999, the Mexican Government offered for the first time 10-year UDI-denominated securities and guaranteed 30-year UDI-indexed bonds. In January 2000, the Mexican Government began offering three-year fixed rate peso-denominated bonds.

In addition to the three-year fixed rate peso-denominated debt securities that were first issued in January 2000, the Mexican Government issued five-year fixed rate peso-denominated securities in May 2000. In July 2001, the Ministry of Finance and Public Credit, through Banco de México, executed the first auction of ten-year fixed rate peso-denominated bonds. This was the first time that an instrument of this type was offered in the domestic market. With the issuance of these securities, the Mexican Government intends to establish a long-dated benchmark yield curve and to begin to develop a long-term private domestic debt market. The Mexican Government anticipates that the issuance of these instruments will also encourage:

- increased use of long-term fixed rate contracts;
- the issuance of long-term peso-denominated securities by Mexican companies;
- the development of long-term financial hedging products; and
- the potential to direct long-term savings toward the financing of long-term investment projects.

At December 31, 2001, the net internal debt of the Mexican Government totaled U.S. \$75.6 billion, an increase of U.S. \$12.3 billion (or 19.4%) from the U.S. \$63.3 billion outstanding at December 29, 2000. The increase in net internal debt was attributable to the fact that, as was the case in previous years, the Mexican Government financed its deficit primarily through borrowings in the domestic market. At the end of December 2001, the average maturity of internal debt was 748 days, as compared with 538 days at December 29, 2000.

At June 28, 2002, the net internal debt of the Government was U.S. \$73.3 billion, as compared with U.S. \$75.6 billion outstanding as of December 31, 2001. At the end of June 2002, the average maturity of internal debt was 793 days, as compared with 748 days at December 31, 2001.

The following table summarizes the net internal public debt of the Mexican Government and the budget-controlled agencies at each of the dates indicated.

	<b>Net Internal Public Debt</b>					
	<b>December 31,</b>					<b>June 28</b>
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001<sup>(1)</sup></b>	<b>2002<sup>(1)</sup></b>
	<b>(in billions of dollars)</b>					
Total net internal debt <sup>(2)</sup> .....	\$32.2	\$34.9	\$47.7	\$63.3	\$75.6	\$73.3
Mexican Government .....	32.1	34.8	47.7	63.3	75.6	73.3
Peso-denominated .....	32.1	34.8	47.7	63.3	75.6	73.3
Foreign currency-denominated (Tesobonos) <sup>(2)</sup> .....	0.0	0.0	0.0	0.0	0.0	0.0
Budget-controlled agencies .....	0.1	0.1	N.A.	N.A.	N.A.	N.A.
Peso-denominated .....	0.0	0.0	N.A.	N.A.	N.A.	N.A.
Foreign currency-denominated.....	0.1	0.1	N.A.	N.A.	N.A.	N.A.

Note: Totals may differ due to rounding.

N.A. = Not available.

(1) Preliminary.

(2) Does not include Tesobonos sold by Banco de México in open-market operations pursuant to *Regulación Monetaria*, which amounted to approximately U.S. \$12.0 billion at December 31, 1994. *Regulación Monetaria* does not increase the Mexican Government's overall level of internal debt, because Banco de México must reimburse the Mexican Government for any allocated debt that Banco de México sells into the secondary market and that is presented to the Mexican Government for payment. If Banco de México undertakes extensive sales of allocated debt in the secondary market, however, *Regulación Monetaria* can result in a situation in which the level of outstanding internal debt is higher than the Mexican Government's figure for net internal debt.

Source: Ministry of Finance and Public Credit.

### External Public Debt

At December 31, 2001, Mexico's gross public external debt totaled U.S. \$76.63 billion, 0.1% greater than the gross public external debt at December 29, 2000. Overall, total net public debt at December 31, 2001 represented approximately 23.3% of nominal GDP, 0.1 percentage points lower than at the end of 2000.

The following table sets forth a summary of the external public debt of Mexico, which includes the external debt of the Mexican Government, budget-controlled agencies and administratively controlled agencies, and a breakdown of such debt by currency. External public debt as used in this section does not include, among other things, repurchase obligations of Banco de México with the International Monetary Fund or the debt of IPAB. See "—Financial System—Banking Supervision and Support." See footnote 1 to the table "Summary of External Public Debt" below.

### Summary of External Public Debt<sup>(1)</sup> By Type

	<b>Long-Term Direct Debt of the Mexican Government</b>	<b>Long-Term Debt of Budget- Controlled Agencies</b>	<b>Other Long-Term Public Debt<sup>(2)</sup></b>	<b>Total Long-Term Debt</b>	<b>Total Short-Term Debt</b>	<b>Total Long- and Short- Term Debt</b>
	<b>(in millions of dollars)</b>					
December 31,						
1997.....	48,827	9,514	25,920	84,261	4,060	88,321
1998.....	52,043	10,557	25,297	87,897	4,398	92,295
1999.....	52,738	11,101	24,158	87,997	4,293	92,290
2000.....	46,065	10,853	23,386	80,304	3,754	84,058
2001.....	44,070	10,361	22,224	76,655	3,684	80,339
June 28, 2002.....	42,334	9,765	21,560	73,659	4,291	77,950

### By Currency<sup>(3)</sup>

	December 31,										June 28,	
	1997		1998		1999		2000		2001		2002	
	(in millions of \$)	(%)	(in millions of \$)	(%)	(in millions of \$)	(%)	(in millions of \$)	(%)	(in millions of \$)	(%)	(in millions of \$)	(%)
U.S. Dollars .....	71,750	81.3	74,551	80.8	75,853	82.2	71,065	84.0	69,933	87.0	67,903	87.1
Japanese Yen .....	6,881	7.8	6,956	7.5	7,124	7.7	5,878	7.0	4,708	5.9	4,175	5.4
Deutsche Marks...	3,940	4.4	4,132	4.5	3,201	3.5	1,270	1.5	390	0.5	0	0.0
Pounds Sterling ...	903	1.0	838	0.9	743	0.8	144	0.2	140	0.2	149	0.2
French Francs .....	1,909	2.2	1,910	2.1	1,521	1.7	627	0.7	170	0.2	38	0.0
Swiss Francs .....	268	0.3	265	0.3	214	0.2	27	0.0	135	0.2	147	0.2
Others .....	2,670	3.0	3,642	3.9	3,634	3.9	5,588	6.6	4,863	6.0	5,538	7.1
Total .....	88,321	100.0	92,295	100.0	92,290	100.0	84,600	100.0	80,339	100.0	77,950	100.0

Note: Totals may differ due to rounding.

- (1) External debt denominated in foreign currencies other than dollars has been translated into dollars at exchange rates as of each of the dates indicated. External public debt does not include (a) repurchase obligations of Banco de México with the IMF (none of these were outstanding at June 28, 2002), (b) external borrowings by the public sector after June 28, 2002, including approximately U.S. \$1.75 billion in capital market financings and (c) loans from the Commodity Credit Corporation to public sector Mexican banks. External debt is presented herein on a "gross" basis, and includes external obligations of the public sector at their full outstanding face or principal amount. For certain informational and statistical purposes, Mexico sometimes reports its external public sector debt on a "net" or "economic" basis, which is calculated as the gross debt net of certain financial assets held abroad. These financial assets include the value of principal and interest collateral on restructured debt and Mexican public sector external debt that is held by public sector entities but that has not been canceled.
- (2) Includes debt of development banks and other administratively controlled agencies whose finances are consolidated with the Mexican Government.
- (3) Adjusted to reflect the effect of currency swaps.

Source: Ministry of Finance and Public Credit.

Outstanding gross external debt decreased by approximately U.S. \$2.4 billion in the first half of 2002, from U.S. \$80.3 billion at December 31, 2001 to U.S. \$78.0 billion at June 28, 2002. Of this amount, U.S. \$73.7 billion represented long-term debt and U.S. \$4.3 billion represented short-term debt.

Since December 31, 2001, the Mexican Government and public sector entities have issued the following debt securities in the international capital markets:

- On January 7, 2002, Pemex Project Funding Master Trust (unconditionally guaranteed by Petróleos Mexicanos) issued U.S. \$500,000,000 of Floating Rate Notes due 2005.
- On January 14, 2002, the Mexican Government issued \$1.5 billion of 7.5% Global Notes due 2012.
- On February 1, 2002, Pemex Project Funding Master Trust (unconditionally guaranteed by Petróleos Mexicanos) issued U.S. \$1,000,000,000 of 7.875% Notes due 2009 and U.S. \$500,000,000 of 8.625% Bonds due 2022.
- On September 24, 2002, the Mexican Government issued \$1.75 billion of 8.00% Global Notes due 2022.

## **Item 5. Operating and Financial Review and Prospects**

### **General**

PEMEX earns income from:

- export sales, which consist primarily of sales of crude oil and refined products;
- domestic sales, which consist of sales of natural gas, refined products (such as gasoline, diesel fuel and liquefied petroleum gas) and petrochemical products; and
- other sources, including investment income and foreign exchange gains.

PEMEX's operating expenses include:

- costs of sales (which include labor expenses), costs of operating, maintaining and repairing plants and equipment, purchases of refined petroleum and other products, depreciation and amortization of fixed assets (including estimated dismantlement and abandonment costs) and costs of increasing the reserve for exploration and depletion of oil fields;
- expenses for transportation and distribution of our products;
- administrative expenses; and
- interest expense.

PEMEX's income is affected by a number of factors, including:

- changes in international prices of crude oil and refined petroleum products, which are denominated in U.S. dollars, and domestic prices of petroleum products, which are denominated in pesos;
- the type and volume of crude oil produced and exported;
- the type and volume of natural gas produced and sold;
- the results of development and exploration activities;
- the amount of taxes and duties that the Mexican Government imposes on PEMEX;
- Mexican inflation;
- fluctuations in the peso-U.S. dollar exchange rate; and
- Mexican and global economic conditions, including the levels of international interest rates.

## **Critical Accounting Policies**

Our significant accounting policies are more fully described in Notes 2 and 19 to the Financial Statements. Some of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to a degree of uncertainty and are based on our historical experience, terms of existing contracts, management's view of trends in the oil and gas industry, both macroeconomic and within Mexico, economic factors in Mexico and information from outside sources. We believe the following critical accounting policies, among others, affect management's more significant judgments and estimates used in the preparation of our consolidated financial statements and could potentially impact our financial results and future financial performance. Unless otherwise stated, the following critical accounting policies apply for both Mexican and U.S. GAAP purposes.

### *Exploration and Drilling Costs*

Under Mexican GAAP, we annually determine a budgeted exploration and drilling cost per barrel based upon internal engineering studies. To determine the cost per barrel, we take into consideration the budgeted exploration and drilling costs, the estimated annual production of oil and gas and the estimated percentage of non-successful wells. The resulting per barrel amount is charged as costs of sales in our consolidated statement of income against the equity reserve established for exploration and drilling costs. Changes in the budgeted exploration and drilling cost per barrel would impact on our recorded cost of sales expense. Under U.S. GAAP, the budgeted exploration and drilling cost recognized as part of the equity reserve is reversed.

### *Successful Efforts Method of Oil and Gas Accounting*

We apply the successful efforts method of oil and gas accounting. This accounting principle requires that capitalized costs for producing properties be amortized on the basis of crude oil and natural gas reserve quantities. Our reserve estimates are determined in accordance with earth science and petroleum engineering principles and practices in accordance with Rule 4-10 of Regulation S-X of the Securities Act of 1933 and can vary as a result of changes in such factors as forecasted oil and gas prices, reservoir performance, oil field technology and audits by independent engineers.

Downward revision in our reserve estimates can result in either: (a) higher depreciation and depletion expense per barrel in future periods, or (b) an immediate write-down of the asset's book value in accordance with accounting rules for the impairment of properties. The latter condition would result if the downward revisions were so significant that the estimated future cash flows from the remaining reserves in the field were insufficient to recover the unamortized capitalized costs. Conversely, if the oil and gas reserve quantities were revised upward, our future per-barrel depreciation and depletion expense would be lower.

The application of successful efforts accounting can also cause material fluctuations between periods in exploration expense if drilling results are different than expected or if we change our exploration and development plans. The determination that exploratory drilling was unsuccessful in finding economically producible reserves requires the immediate expensing of previously capitalized drilling costs.

### *Environmental Remediation, Asset Retirement Obligations*

We also make judgments and estimates in recording liabilities for environmental cleanup as well as asset retirement obligations. Estimated liabilities for environmental remediation and asset retirement obligations are subject to change because of matters such as changes in laws, regulations and their interpretation, the determination of additional information on the extent and nature of site contamination, the determination of additional works which need to be undertaken, improvements in technology, timing of expenditures, and the foreign currency exchange rates to the extent that some of these costs are incurred in U.S. dollars. In addition, with respect to offshore properties, our historical dismantlement and plugging experiences have been very limited, and therefore, our estimates of the expected cost or salvage value may vary from what will actually be incurred for many of these long-term properties when these activities are ultimately undertaken.

While we believe that our environmental remediation and asset retirement obligation provisions are adequate and that the interpretations applied of existing law are appropriate, the amounts estimated for the future liabilities may differ materially from the costs that will actually be incurred to remediate our properties. If we determine that an insufficient environmental remediation or asset retirement obligation provision has been created, earnings will be adjusted as appropriate in the period that the determination is made.

#### *Employee Benefit Plans*

We provide a range of benefits to our current and retired employees, including pensions, post-retirement health care benefits and post-employment benefits (primarily health services and supplemental payments). We annually record amounts relating to these plans based on calculations specified by Mexican and U.S. GAAP, respectively, which include various actuarial assumptions, such as discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. As required by Mexican and U.S. GAAP, the effect of the modifications is generally recorded or amortized over future periods. We believe that the assumptions utilized in recording its obligations under our plans, which are presented in Notes 11 and 19 II(f) to the Financial Statements, are reasonable based on our experience and advice from our independent actuaries.

#### *Financial Instruments*

On January 1, 2001, we adopted Bulletin C-2 for Mexican GAAP purposes. Bulletin C-2 provides for the definition of financial instruments, including derivative financial instruments and requires that all financial instruments, with the exception of “held to maturity” investments and certain derivative instruments that qualify as hedges, to be recorded at fair value with the fair value adjustment recognized in earnings. Held to maturity investments are recorded at amortized cost subject to an impairment review. Unlike U.S. GAAP and its interpretations, which are described below, Bulletin C-2 is not descriptive when it comes to defining “embedded” derivatives or hedge effectiveness testing or documentation. To date, no additional interpretative guidance has been issued by MIPA, and therefore, our implementation of the standard is based on what we believe is best practice but may not be similar to the interpretation of other Mexican companies or any contemplated but not yet issued guidance by the MIPA. Should additional interpretative or best practice guidance be issued in the future, this may impact how we have accounted for our financial instruments under Bulletin C-2. Our determination of fair value of financial instruments for both Mexican and U.S. GAAP employed the same methodologies, which are further discussed below.

On January 1, 2001 we also adopted SFAS No. 133 for U.S. GAAP purposes, and in accordance with the current transition provisions of SFAS No. 133, we recorded a cumulative effect transition after tax decrease in net loss of Ps. 3,791.3 million to recognize the fair value of its derivatives and embedded derivatives at the date of adoption.

As quoted market prices for certain derivatives used by us are not readily available, the fair value of these derivatives has been calculated using common market valuation methods and value-influencing market data at the relevant balance sheet date as follows:

- Short-term currency and crude oil forwards as well as crude oil, gas and oil product commodity swaps are valued at future rates or market prices as of the relevant balance sheet date. The fair values of forward contracts are based on spot prices that are calculated taking into account forward premiums or discounts quoted in the relevant markets.
- Long-term commodity forward contracts are fair valued using forward markets quotes reflecting the underlying conditions and variables associated with the relevant contractual agreements.
- Currency, crude oil and gas options and share options are fair valued using standard options pricing models. The fair value for caps, floors and collars embedded in these contracts is calculated separately,



similar to stand-alone options.

- Interest rate, interest rate cross currency and cross currency swaps are fair valued by using the expected cash flows over the remaining term of the individual contracts at the relevant balance sheet date, discounted at market interest rates. Certain interest rate options are fair valued using option pricing models.

The use of valuation models requires us to make assumptions and estimates regarding the volatility of derivative contracts at the balance sheet date, and actual results could differ significantly due to fluctuations in value-influencing market data. The valuation models for the interest rate and currency derivatives are based on calculations and valuations using a group-wide financial reporting system, which provides consistent market data and valuation algorithms throughout our organization. The algorithms used to obtain valuations are those which are commonly used in the financial markets. In certain cases, the calculated fair value of derivatives is compared with results which are produced by other market participants, including banks, as well as those available through other internally available systems. The valuations of commodity instruments are delivered utilizing common valuation techniques and models as described above.

Through internal guidelines (i.e. group-wide financial guidelines), we ensure that the derivatives used for risk management purposes are only utilized to hedge booked, contracted or planned underlying transactions. We calculate and assess market risks in accordance with the policies outlined in “Item 11—Quantitative and Qualitative Disclosures About Market Risk.”

Contracts providing for physical delivery in Mexico are currently accounted for as contracts with no derivative components, as no sufficient natural gas market mechanism or spot market exists in Mexico so as to allow us to classify gas as readily convertible to cash. In the future, it is possible that a sufficient market mechanism or spot market for natural gas could emerge resulting in a need to reassess the Mexican contracts for derivatives under SFAS No. 133. If any such reassessment resulted in contracts being accounted for as derivatives under SFAS No. 133, the impact on future operating results could be significant.

### **Impairment of Long-Lived Assets**

In addition to our oil and gas assets that could become impaired under the application of successful efforts accounting, other assets could become impaired and require write-down if circumstances warrant. Conditions that could cause our assets to become impaired include lower-than-forecasted commodity sales prices, changes in our business plans or a significant adverse change in the national or international business climate. The amount of an impairment charge would be based on estimates of an asset's fair value compared with its book value. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding project commodity sales prices, production costs and foreign currency exchange rates and inflation could materially affect the anticipated cash flows to be generated by the long-lived assets, thereby affecting the evaluations of the carrying values of the long-lived assets.

### **Sales Volumes and Prices**

The profitability of our operations in any particular accounting period is directly related to the sales volume of, and average realized prices for, the crude oil and natural gas that we sell. The average realized prices for crude oil and natural gas fluctuate from one period to another due to world market conditions and other factors.

#### *Export Volumes and Prices*

Pemex-Exploration and Production sells crude oil to PMI, which then sells it to international clients. The volume of crude oil that we export is the volume delivered to international clients as adjusted for water content according to the bill of lading and standard market practice. We base our crude oil export price formulas on a basket of international reference prices and a constant set according to specific market conditions. We determine export prices of petroleum products and natural gas by reference to market conditions and direct negotiations with our clients.

Significant changes in international crude oil prices directly affect our financial results. The impact of changes in crude oil prices on our refining activities and petrochemicals business depends on:

- the magnitude of the change in crude oil prices;
- how quickly petroleum and petrochemical product prices in international markets adjust to reflect changes in crude oil prices; and
- the extent to which prices in Mexico, where we sell most of our petroleum products and petrochemicals, reflect international prices for those products.

The following table sets forth the weighted average price per barrel of crude oil that PMI received from exports to international customers and the average price of its benchmark, West Texas Intermediate crude oil, for the years indicated. Note that the average prices of West Texas Intermediate crude oil are higher than the average prices of crude oil that we export. This is primarily due to the higher cost of refining sour crude oils, which make up a majority of our exports. See “Item 4—Information on the Company—Business Overview—Exploration and Production—Crude Oil Sales.”

	<b>Year Ended December 31,</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
West Texas Intermediate crude oil average price ....	\$20.61	\$14.41	\$19.25	\$30.97	\$25.93
PEMEX crude oil weighted average export price .....	16.46	10.16	15.55	24.78	18.57

Note: The numbers in this table are average prices for the full year. Spot prices at year end are different. On November 25, 2002 the spot price for West Texas Intermediate crude oil was U.S. \$26.24 per barrel and the spot price for the PEMEX crude oil basket was an estimated U.S. \$19.99 per barrel.

Sources: 1997 figures: PEMEX’s 1998 Statistical Yearbook and Platt’s U.S. Market Scan (McGraw-Hill Company)  
1998, 1999, 2000 and 2001 figures: PMI operating statistics, which are based on information in bills of lading, and Platt’s U.S. Market Scan (McGraw-Hill Company)

#### *Domestic Prices*

Committees composed of officials of Petróleos Mexicanos and the subsidiary entities and representatives of various governmental agencies including, among others, the Ministry of Finance and Public Credit, the Ministry of Energy, SECODAM and the Ministry of Economy set the formulas that we use to determine prices for crude oil and petroleum products sold in the domestic market. Petróleos Mexicanos and the subsidiary entities, together with the Mexican Government, pursue a policy that keeps domestic wholesale prices generally in line with international prices. We determine wholesale prices by reference to international prices, but make adjustments to reflect opportunity costs, transportation expenses and differences in the quality of our products relative to international benchmarks. The retail price is comprised of the wholesale price plus the value added tax, the retailer’s margin and freight costs. The Ministry of Finance and Public Credit determines retail prices of gasoline and diesel before the beginning of each fiscal year in conjunction with the preparation of the Mexican Government’s budget for that year. The Ministry of Finance and Public Credit also adjusts gasoline and diesel prices so that they are consistent with the Mexican Government’s macroeconomic targets.

Our retail prices for gasoline and diesel reflect the addition of the IEPS Tax as described below, as well as the value added tax. We charge the IEPS Tax only on gasoline, diesel and natural gas sales for automotive use. See “—IEPS Tax, Excess Gains Duty, Hydrocarbon Duties and Other Taxes” below, for a further discussion of the IEPS Tax. For financial statement purposes, the IEPS Tax is presented as part of Net Domestic Sales and then deducted after “Income before Hydrocarbon extraction duties, special tax on production services and other.”

Natural gas prices for domestic sale are calculated according to the Energy Regulatory Commission directives published on March 20, 1996. These prices reflect natural gas opportunity costs and competitive conditions in international markets and at the point of sale.

The following table compares the average prices of petroleum products in Mexico and in the United States for the years indicated.

	1997		1998		1999		2000		2001	
	Mexico	U.S.	Mexico	U.S.	Mexico	U.S.	Mexico	U.S.	Mexico	U.S.
<b>Oil Products</b>										
Unleaded regular gasoline <sup>(1)</sup> .....	\$ 61.99	\$ 47.61	\$ 63.11	\$ 41.53	\$ 75.57	\$ 45.58	\$ 84.89	\$ 60.83	\$ 92.91	\$ 56.69
Premium gasoline <sup>(1)</sup> .....	68.86	55.04	69.83	49.76	83.38	53.45	94.36	68.07	104.29	64.53
Jet fuel <sup>(2)</sup> .....	25.52	23.55	18.85	17.04	22.41	20.95	37.44	35.69	32.47	30.32
Kerosene <sup>(3)</sup> .....	46.32	25.82	49.71	19.04	62.59	22.61	70.34	37.64	77.05	32.44
Natural Gas <sup>(4)</sup>										
Industrial .....	2.44	3.50	2.05	3.09	2.18	3.11	3.65	4.45	3.94	5.00
Residential.....	4.06	6.91	4.56	6.97	4.65	6.91	6.27	8.44	6.48	9.26
<b>Selected Petrochemicals</b>										
Ammonia <sup>(5)</sup> .....	166.81	184.76	118.04	136.36	95.37	111.73	153.84	173.93	155.66	160.55
Polyethylene L.D. <sup>(6)</sup> .....	1,078.84	1,124.14	874.05	978.71	915.04	1,099.75	1,034.70	1,298.66	877.90	1,059.74
Polyethylene H.D. <sup>(7)</sup> .....	1,058.83	1,042.38	865.70	910.93	830.67	992.31	1,082.79	1,183.66	961.44	1,004.63
Styrene <sup>(8)</sup> .....	645.83	595.06	478.30	519.07	590.12	586.34	916.42	888.92	641.56	690.15

- (1) In U.S. dollars per barrel. Prices to final consumers including taxes. Premium price in Mexico City. U.S. prices for Houston, Texas.  
Sources: *Pemex-Refining and Lundberg Retail Price Survey (Lundberg Survey Inc.)*
- (2) In U.S. dollars per barrel. Mexican prices at the gate of the refineries. U.S. spot prices in Houston, Texas (Jet Fuel Gulf Coast Waterborne).  
Sources: *Pemex-Refining and Platt's U.S. Market Scan (McGraw-Hill Company)*
- (3) In U.S. dollars per barrel. In both countries, prices to final consumers. Mexico prices include taxes, while U.S. prices exclude them.  
Sources: *Pemex-Refining and Petroleum Marketing Monthly published by the Energy Information Administration (DOE) (Kerosene Type Jet Fuel, end users)*
- (4) In U.S. dollars per thousand cubic feet. Prices exclude taxes. For 1997 and 1998, prices are for Mexico City and surrounding areas. For 1999, prices are for all of Mexico. Industrial prices correspond to nomination of additional volumes under contract with notification to the supplier. Residential prices reflect the specific cost of transportation and distribution in that area. U.S. prices are national average industrial prices and Texas residential prices.  
Sources: *Pemex-Gas and Basic Petrochemicals and Petroleum Marketing Monthly published by the Energy Information Administration (DOE)*
- (5) In U.S. dollars per ton. Prices exclude taxes. Mexico prices to contract users at Cosoleacaque Petrochemical Plant. U.S. spot prices in Tampa, Florida.  
Sources: *Pemex-Petrochemicals, Fertecon Weekly Ammonia Fax (Fertecon Limited) and Fertilizer Market Bulletin (FMB Consultants Ltd.)*
- (6) In U.S. dollars per ton. Film quality. Prices exclude taxes. Mexico prices to spot consumers. U.S. prices are domestic contract average.  
Sources: *Pemex-Petrochemicals and ICIS-LOR (Icis-Lor Group Ltd.)*
- (7) In U.S. dollars per ton. Block molding quality. Prices exclude taxes. Mexico prices to spot consumers. U.S. prices are domestic contract average.  
Sources: *Pemex-Petrochemicals and ICIS-LOR (Icis-Lor Group Ltd.)*
- (8) In U.S. dollars per ton. Prices exclude taxes. Mexico prices to spot consumers. U.S. prices are average of contract and spot prices.  
Sources: *Pemex-Petrochemicals and ICIS-LOR (Icis-Lor Group Ltd.)*

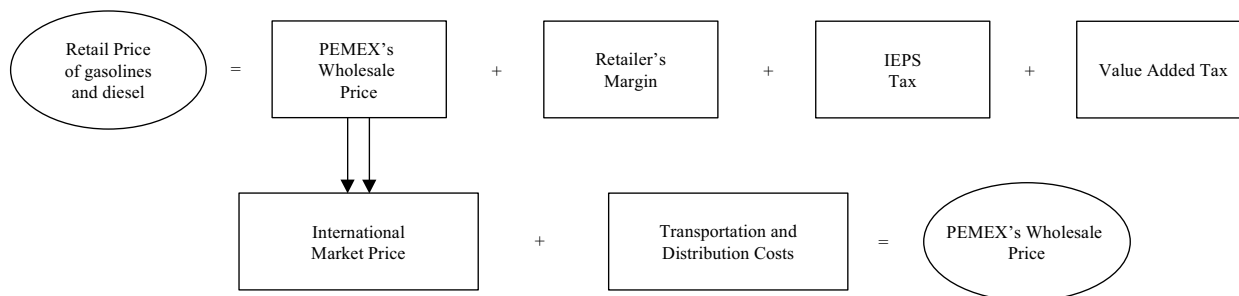
#### *IEPS Tax, Excess Gains Duty, Hydrocarbon Duties and Other Taxes*

The following table sets forth the taxes and duties that we paid each of the past three years.

	Year ended December 31,		
	1999	2000	2001
	(in millions of pesos)		
Hydrocarbon extractions duties and other taxes....	Ps. 120,477	Ps. 224,211	Ps. 168,264
IEPS Tax .....	88,349	69,557	95,199
Total.....	<u>Ps. 208,826</u>	<u>Ps. 293,768</u>	<u>Ps. 263,463</u>

Note: For a description of these taxes and duties, see "Item 4—Information on the Company—Taxes and Duties" above.  
Source: *PEMEX's financial statements*

The IEPS Tax has two effects: (1) it ensures that we retain the portion of our sales revenues that represents the adjusted international reference prices of our products, and (2) it gives the Mexican Government the difference between the domestic retail prices and adjusted international reference prices of diesel and gasoline.



When international prices decrease, our wholesale price will decrease and, as a result, the IEPS Tax that we collect from consumers and transfer to the Mexican Government will increase.

For automotive fuels, the IEPS Tax is equal to the retail price at which Pemex-Refining sells gasoline and automotive diesel to retailers less Pemex-Refining's wholesale price, value added tax and distribution costs. For natural gas, the IEPS Tax on Pemex-Gas and Basic Petrochemicals' natural gas sales for automotive consumption is linked to the retail price of unleaded regular gasoline and the international reference price of natural gas.

In addition to the IEPS Tax, we are subject to a number of other federal taxes and duties. In 2001, the sum of these taxes and duties totaled, and in 2002 the sum of these taxes and duties is expected to total, approximately 60.8% of the sales revenues of Petr leos Mexicanos and the subsidiary entities from sales to the PMI Group and to third parties. The IEPS Tax is credited against our hydrocarbon duties in arriving at our overall rate of taxation. In addition to these taxes and duties, we are subject to an additional 39.2% excess gains duty, which applies to the portion of proceeds of our crude oil exports that are attributable to sales at prices in excess of a specific threshold price per barrel set by the Mexican Government. In 2001, this price was U.S. \$18.00 per barrel, and in 2002, this price is U.S. \$15.50 per barrel. The effect of the excess gains duty, when combined with the regular duty rate, is that the Mexican Government, not PEMEX, realizes all of the benefits of increases in crude oil prices over the threshold. See also "Item 4—Information on the Company—Taxes and Duties—Excess Gains Revenue Duty." The Mexican Government resets the rate of taxes and duties applicable to PEMEX each year.

The hydrocarbon taxes and duties affect our income because they are recorded as expenses. However, the IEPS Tax and the value added tax are indirect taxes that do not have an impact on our income because they are pass-through taxes that we collect from consumers and transfer to the Mexican Government.

#### *Relation to the Mexican Government*

Mexico is the sole owner of Petr leos Mexicanos and the subsidiary entities and the Mexican Government closely regulates and supervises our operations. Mexican Government ministers control key executive decisions at PEMEX. The Secretary of the Ministry of Energy of Mexico is the Chairman of the Board of Directors of Petr leos Mexicanos. SECODAM appoints Petr leos Mexicanos and the subsidiary entities' external auditors.

The Mexican Government incorporates the annual budget and financing program of Petr leos Mexicanos and the subsidiary entities into its consolidated annual budget, which it submits to the Mexican Congress for its approval. The Mexican Congress also designates certain of our largest capital expenditures as PIDIREGAS. See "Item 4—Information on the Company—History and Development—Capital Expenditures and Investments."

#### *Inflation*

Mexico experienced high inflation during the 1980s. The annual rate of inflation (as measured by the change in the NCPI) decreased from a high of 159.2% in 1987 to 11.9% in 1992, 8.0% in 1993 and 7.1% in 1994. However, the economic events that followed the devaluation of the peso against the U.S. dollar in late 1994 and

1995, and turbulence in international financial markets, caused inflation to increase to 52.0% in 1995, decrease to 27.7% in 1996 and 15.7% in 1997 and increase to 18.6% in 1998. The annual inflation rate decreased to 12.3% in 1999, 9.0% in 2000 and 4.4% in 2001.

Mexican inflation has affected our consolidated financial statements in the following ways:

- Comparisons of data between periods may not reflect real trends. Because the prices of certain products and services that we purchase and sell tend to increase along with general inflation, nominal price increases substantially affect sales and expense items in our income statement.
- Each year, we adjust the value of our fixed assets, materials and spare parts on our balance sheet to reflect inflation. This revaluation will increase our assets in periods of high inflation. When we revalue fixed assets and inventories to reflect the effects of inflation, our subsequent depreciation and cost of sales charges will increase, reducing our income.

We revalue our fixed assets based on a hybrid of NCPI and specific-index items as determined by independent appraisers. The specific-index method takes into account usage, obsolescence, specific costs of operation and the remaining productive life of the revalued assets. See Note 2 b) to the Financial Statements.

In 1996, an independent appraiser revalued our natural gas pipeline, distribution, transportation and storage assets using the specific-cost method. In 1997, PEMEX used the specific-cost method to revalue exploration and production assets, taking into consideration an independent appraiser's report. In 1998, PEMEX used the specific-cost method to revalue refinery assets, including distribution, transportation and storage assets, taking into consideration Mexican Petroleum Institute appraisals. For 2001, 2000 and 1999, fixed assets, excluding furniture and fixtures, vehicles and construction in progress, were restated based on appraisals performed by the Mexican Petroleum Institute and by an independent appraiser. The appraisals were performed utilizing the specific index method considering usage, a factor for obsolescence, specific costs, remaining useful lives and the relative classification of the fixed assets. Construction in progress and various immaterial assets are not restated.

#### *Consolidation*

The financial statements, which are prepared in accordance with Mexican GAAP, consolidate the results of Petróleos Mexicanos, the subsidiary entities and the subsidiary companies. Certain non-material subsidiaries, however, are not consolidated and are accounted for under the cost method. For a list of the consolidated subsidiary companies, see Note 2 c) to the Financial Statements. Since 1997, the results of P.M.I. Marine Ltd., have been consolidated; such results were previously accounted for under the cost method. In 1998, we began consolidating the assets and liabilities of the Pemex Project Funding Master Trust related to PIDIREGAS. Beginning in 2000, we began consolidating the results and financial condition of Mex Gas International Ltd. For U.S. GAAP purposes, beginning in 2001, we began consolidating the results and financial condition of Pemex Finance, Ltd.

#### *Export Agreements*

In response to continuing weak crude oil prices in international markets, on March 22, 1998, the governments of Mexico, Venezuela and Saudi Arabia agreed to reduce their crude oil output (exports in the case of Mexico). Mexico agreed to reduce exports by 100 thousand barrels per day, while Venezuela agreed to reduce its output by 200 thousand barrels per day and Saudi Arabia by 300 thousand barrels per day, beginning April 1, 1998. On June 4, 1998, the same countries announced that, beginning July 1, 1998, Saudi Arabia would reduce its output by an additional 225 thousand barrels per day, Venezuela would reduce its output by an additional 125 thousand barrels per day and Mexico would reduce its exports by an additional 100 thousand barrels per day.

On March 23, 1999, OPEC and some non-OPEC members, including Mexico, Norway, Russia and Oman, ratified an agreement reached on March 12, 1999 to cut world crude oil production by a total of 2.1 million barrels per day. Under this agreement, Mexico agreed to cut its crude oil exports by an additional 125 thousand barrels per day beginning on April 1, 1999. These crude oil agreements were set to expire on March 31, 2000.

On March 29, 2000, OPEC, excluding Iran, agreed to increase its crude oil production by 1,450 thousand barrels per day. Mexico, which is not a member of OPEC, announced on March 29, 2000 that it would increase its exports of crude oil by 150 thousand barrels per day, beginning in April 2000. On June 21, 2000, the Ministry of Energy announced an additional increase in crude oil exports of 75 thousand barrels per day, beginning in July 2000.

Following OPEC's announcement in January 2001 that it would reduce crude oil production by 1.5 million barrels per day, Mexico announced it would decrease its crude oil exports by 75 thousand barrels per day, beginning on February 1, 2001. Following a March 2001 announcement by OPEC of an additional 1.0 million barrel per day reduction in crude oil production, on March 25, 2001, Mexico announced a further reduction in crude oil exports of 40 thousand barrels per day, beginning on April 1, 2001. On July 24, 2001, Mexico announced that it would reduce its crude oil exports by an additional 70 thousand barrels per day, beginning on September 1, 2001.

Following OPEC's announcement that it would reduce crude oil production by 1.5 million barrels a day, on January 2, 2002, Mexico announced it would decrease its crude oil exports by 100 thousand barrels per day to 1.66 million barrels per day for six months beginning on January 1, 2002. Most recently, following OPEC's announcement that it would keep crude oil production at their present levels through fourth quarter 2002, Mexico affirmed that it would also maintain its crude oil exports at present levels for the same period.

#### **Results of Operations of PEMEX – For the Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000**

##### *Income/(Loss)*

In 2001, we reported a loss of Ps. 34.1 billion on Ps. 362.2 billion in total revenues net of the IEPS Tax, as compared with a loss of Ps. 19.7 billion on Ps. 409.1 billion in total revenues net of the IEPS Tax in 2000. This 73.1% increase in losses from 2000 to 2001 resulted primarily from:

- a decrease of 25.1% in the weighted average price of crude oil sold by PMI for export, from U.S. \$24.78 in 2000 to U.S. \$18.57 in 2001;
- increases in the labor reserve for pension obligations, due to higher wages and benefits paid to employees;
- increased depreciation and amortization and a loss in product inventory; and
- an increase in net interest expense from Ps. 6.7 billion in 2000 to Ps. 13.1 billion in 2001.

Our total sales, net of the IEPS Tax, were Ps. 350.1 billion in 2001, a decrease of 12.2% from 2000 total sales, net of the IEPS Tax, of Ps. 398.7 billion. The decrease in total sales from 2000 to 2001 resulted primarily from a decrease in crude oil export prices, which decreased crude oil export revenues, and a decrease in the prices of the principal petroleum products that we sold in the domestic market.

##### *Export Sales*

In 2001, total consolidated export sales decreased by 19.3% in peso terms (with dollar-denominated export revenues converted to pesos at the exchange rate for the date on which the export sale was made), from Ps. 175.4 billion in 2000 to Ps. 141.5 billion in 2001. Excluding the trading activities of the PMI Group, export sales by the subsidiary entities to the PMI Group and third parties decreased by 19.9% in peso terms, from Ps. 150.7 billion in 2000 to Ps. 120.7 billion in 2001, and decreased as a percentage of total sales, net of the IEPS Tax, from 40.3% in 2000 to 36.6% in 2001. In dollar terms, excluding the trading activities of the PMI Group, export sales (which are dollar-denominated) decreased by 18.9% in 2001, from U.S. \$15.9 billion in 2000 to U.S. \$12.9 billion in 2001. The trading and export activities of the PMI Group generated additional marginal revenues of Ps. 20.8 billion in 2001, 15.8% lower in real peso terms than in 2000, mainly due to the decrease in the prices of crude oil that PEMEX exported.

Crude oil sales by Pemex-Exploration and Production to PMI for export accounted for 92.1% of export sales (excluding the trading activities of the PMI Group) in 2001, as compared to 91.2% in 2000. These crude oil sales decreased in peso terms by 19.0% in 2001, from Ps. 137.3 billion in 2000 to Ps. 111.2 billion in 2001, and decreased in dollar terms by 17.9% in 2001, from U.S. \$14.5 billion in 2000 to U.S. \$11.9 billion in 2001. This decrease reflected the fall in international crude oil prices. The weighted average price per barrel of crude oil that Pemex-Exploration and Production sold to PMI for export in 2001 was U.S. \$18.57, 24.6% lower than the weighted average price of U.S. \$24.62 in 2000.

Export sales of petroleum products by Pemex-Refining and Pemex-Gas and Basic Petrochemicals to the PMI Group and third parties, including natural gas liquids, decreased from 7.3% of export sales (excluding the trading activities of the PMI Group) in 2000 to 7.0% in 2001. Export sales of petroleum products, including natural gas liquids, decreased by 22.7%, from Ps. 11.0 billion in 2000 to Ps. 8.5 billion in 2001, due to lower prices in international markets and lower export volumes of certain products. In dollar terms, export sales of petroleum products, including natural gas liquids, decreased by 22.0%, from U.S. \$1,164 million in 2000 to U.S. \$907 million in 2001.

Petrochemical products accounted for the remainder of export sales in 2000 and 2001. Export sales of petrochemical products (including certain by-products of the petrochemical process) decreased by 58.3%, from Ps. 2.4 billion in 2000 to Ps. 1.0 billion in 2001, due to decreases in both demand and prices of several products. In dollar terms, export sales of petrochemical products (including certain by-products of the petrochemical process) decreased by 52.6% in 2001, from U.S. \$243.5 million in 2000 to U.S. \$115.4 million in 2001.

#### *Domestic Sales*

Domestic sales, net of the IEPS Tax, decreased by 6.5% in 2001, from Ps. 223.3 billion in 2000 to Ps. 208.7 billion in 2001. Domestic sales of petroleum products other than natural gas decreased by 7.7% in 2001, from Ps. 185.2 billion in 2000 to Ps. 171.0 billion in 2001, primarily due to a fall in the domestic prices of our principal petroleum products. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) decreased 20.7%, from Ps. 11.1 billion in 2000 to Ps. 8.8 billion in 2001, due to a decrease in the domestic market demand for the principal petrochemical products. Sales of natural gas increased 7.0%, from Ps. 27.0 billion in 2000 to Ps. 28.9 billion in 2001, as a result of an increase in domestic demand in 2001.

#### *Other Revenues*

Other revenues decreased 13.7%, from Ps. 9.5 billion in 2000 to Ps. 8.2 billion in 2001, primarily due to decreased revenue from freight charges in connection with the distribution of our products. We recorded exchange gains of Ps. 3.9 billion in 2001, as compared to exchange gains of Ps. 0.9 billion in 2000, primarily due to the effects of fluctuations in the peso/dollar exchange rate on our dollar-denominated indebtedness.

#### *Costs and Operating Expenses*

Costs and operating expenses, which include costs of sales, transportation and distribution expenses and administrative expenses, increased by 7.4%, from Ps. 192.7 billion in 2000 to Ps. 207.0 billion in 2001. This increase was due to increases in the labor reserve for pension obligations, depreciation and amortization, salaries and wages and the loss resulting from the fluctuation of product inventory. Costs related to the labor reserve for pension obligations increased by 13.0%, from Ps. 29.9 billion in 2000 to Ps. 33.8 billion in 2001. Other expenses increased by 24.5%, from Ps. 5.3 billion in 2000 to Ps. 6.6 billion in 2001, primarily due to an increase in the natural gas hedging operations.

#### *Duties and Taxes*

Hydrocarbon extraction duties and other duties and taxes (including the IEPS Tax) decreased by 10.3%, from Ps. 293.8 billion in 2000 to Ps. 263.5 billion in 2001, largely because of the decrease in international crude oil prices in 2001 and the resulting decrease in sales revenue. We paid Ps. 1.3 billion in excess gains duties in 2001,

representing 39.2% of the amount of our sales revenue derived from the difference between actual crude oil prices at which Pemex-Exploration and Production sold to PMI, which averaged U.S. \$18.57 per barrel for the Mexican weighted crude oil mix, and the Mexican Government's crude oil price budgetary assumption of U.S. \$18.00 per barrel. We paid Ps. 21.2 billion in excess gains duties in 2000.

#### *Interest, net*

Net interest expense increased by 95.5%, from Ps. 6.7 billion in 2000 to Ps. 13.1 billion in 2001. This increase was mainly due to a decrease in capitalized interest incurred in respect of fixed assets and the recognition of the current period loss resulting from the application of Bulletin C-2, the new financial instrument standard.

#### *Cumulative Effect of Adoption of New Financial Instruments Standard*

In 2001, we adopted Bulletin C-2, which resulted in a loss of Ps. 1,331 million primarily attributable to the accounting for the Repsol equity swap, as described in Note 2 o) to the Financial Statements.

### **Results of Operations of PEMEX – For the Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999**

#### *Income/(Loss)*

In 2000, we reported a loss of Ps. 19.7 billion on Ps. 409.1 billion in total revenues net of the IEPS Tax, as compared with a loss of Ps. 21.2 billion on Ps. 256.6 billion in total revenues net of the IEPS Tax in 1999. This 7.1% decrease in losses from 1999 to 2000 resulted primarily from:

- an increase in domestic sales;
- an increase in product inventory; and
- the termination of certain hedging transactions.

The effects of these increases were partially offset by (1) an increase in the excess gains duties that we paid in 2000 in respect of our crude oil exports sold at prices greater than U.S. \$15.00 per barrel; and (2) increases in the labor reserve for pension obligations, due to higher wages and benefits paid to employees, increased purchases of refined petroleum and other products and increased depreciation and amortization.

Our total sales, net of the IEPS Tax, reached Ps. 398.7 billion in 2000, an increase of 61.7% over 1999 total sales, net of the IEPS Tax, of Ps. 246.5 billion. The increase in total sales from 1999 to 2000 resulted primarily from an increase in crude oil export prices, which increased crude oil export revenues, and an increase in the prices of the principal petroleum products that we sold in the domestic market.

#### *Export Sales*

In 2000, total consolidated export sales increased by 61.4% in peso terms (with dollar-denominated export revenues converted to pesos at the exchange rate for the date on which the export sale was made), from Ps. 108.7 billion in 1999 to Ps. 175.4 billion in 2000. Excluding the trading activities of the PMI Group, export sales by the subsidiary entities to the PMI Group and third parties increased by 60.8% in peso terms, from Ps. 93.7 billion in 1999 to Ps. 150.7 billion in 2000, and decreased slightly as a percentage of total sales, net of the IEPS Tax, from 40.5% in 1999 to 40.3% in 2000. In dollar terms, excluding the trading activities of the PMI Group, export sales (which are dollar-denominated) increased by 60.6% in 2000, from U.S. \$9.9 billion in 1999 to U.S. \$15.9 billion in 2000. The trading and export activities of the PMI Group generated additional marginal revenues of Ps. 24.7 billion in 2000, 64.8% higher in real peso terms than in 1999, mainly due to the increase in the prices of crude oil that PEMEX exported.



Crude oil sales by Pemex-Exploration and Production to PMI for export accounted for 91.2% of export sales (excluding the trading activities of the PMI Group) in 2000, as compared to 89.3% in 1999. These crude oil sales increased in peso terms by 64.2% in 2000, from Ps. 83.6 billion in 1999 to Ps. 137.3 billion in 2000, and increased in dollar terms by 64.8% in 2000, from U.S. \$8.8 billion in 1999 to U.S. \$14.5 billion in 2000. This increase reflected the rise in international crude oil prices. The weighted average price per barrel of crude oil that Pemex-Exploration and Production sold to PMI for export in 2000 was U.S. \$24.62, 57.6% higher than the weighted average price of U.S. \$15.62 in 1999.

Export sales of petroleum products by Pemex-Refining and Pemex-Gas and Basic Petrochemicals to the PMI Group and third parties, including natural gas liquids, decreased from 9.6% of export sales (excluding the trading activities of the PMI Group) in 1999 to 7.3% in 2000. Export sales of petroleum products, including natural gas liquids, increased by 22.2%, from Ps. 9.0 billion in 1999 to Ps. 11.0 billion in 2000, due to higher prices in international markets and higher export volumes of certain products. In dollar terms, export sales of petroleum products, including natural gas liquids, increased by 22.9%, from U.S. \$947 million in 1999 to U.S. \$1,164 million in 2000.

Petrochemical products accounted for the remainder of export sales in 1999 and 2000. Export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 140.0%, from Ps. 1.0 billion in 1999 to Ps. 2.4 billion in 2000, due to an increase in demand and in the prices of several products. In dollar terms, export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 124.8% in 2000, from U.S. \$108.3 million in 1999 to U.S. \$243.5 million in 2000.

#### *Domestic Sales*

Domestic sales, net of the IEPS Tax, increased by 62.0% in 2000, from Ps. 137.8 billion in 1999 to Ps. 223.3 billion in 2000. Domestic sales of petroleum products other than natural gas increased by 64.8% in 2000, from Ps. 112.4 billion in 1999 to Ps. 185.2 billion in 2000, primarily due to a rise in the domestic prices of our principal petroleum products. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) increased 11.0% from Ps. 10.0 billion in 1999 to Ps. 11.1 billion in 2000, due to an increase in the domestic market prices of the principal petrochemical products. Sales of natural gas increased 75.3% from Ps. 15.4 billion in 1999 to Ps. 27.0 billion in 2000, as a result of increases in domestic demand and prices in 2000.

#### *Other Revenues*

Other revenues increased 31.9% from Ps. 7.2 billion in 1999 to Ps. 9.5 billion in 2000, primarily due to increased revenue from freight charges in connection with the distribution of our products and an increase in the value of an investment in a foreign company accounted for under the equity method. We recorded exchange gains of Ps. 0.9 billion in 2000, as compared to exchange gains of Ps. 2.9 billion in 1999, primarily due to the effects of fluctuations in the peso/dollar exchange rate on our dollar-denominated indebtedness.

#### *Costs and Operating Expenses*

Costs and operating expenses, which include costs of sales, transportation and distribution expenses and administrative expenses, increased by 32.5%, from Ps. 145.4 billion in 1999 to Ps. 192.6 billion in 2000. This increase was due to increases in the labor reserve for pension obligations, depreciation and amortization, salaries and wages, purchases of petroleum products and other products and maintenance expenses. Costs related to the labor reserve for pension obligations increased by 19.6%, from Ps. 25.0 billion in 1999 to Ps. 29.9 billion in 2000. Other expenses increased by 12.8%, from Ps. 4.7 billion in 1999 to Ps. 5.3 billion in 2000, primarily due to increased freight expenses for the distribution of liquefied petroleum gas.

#### *Duties and Taxes*

Hydrocarbon extraction duties and other duties and taxes (including the IEPS Tax) increased by 40.7%, from Ps. 208.8 billion in 1999 to Ps. 293.8 billion in 2000, largely because of the increase in international crude oil

prices in 2000 and the resulting increase in sales revenue. We paid Ps. 21.2 billion in excess gains duties in 2000, representing 39.2% of the amount of our sales revenue derived from the difference between actual crude oil prices at which Pemex-Exploration and Production sold to PMI, which averaged U.S. \$24.62 per barrel for the Mexican weighted crude oil mix, and the Mexican Government's crude oil price budgetary assumption of U.S. \$15.00 per barrel. We paid Ps. 13.3 billion in excess gains duties in 1999.

*Interest, net*

Net interest expense decreased by 6.9%, from Ps. 7.2 billion in 1999 to Ps. 6.7 billion in 2000. This decrease was mainly due to the recognition of a net gain in connection with the Repsol equity swap and collar unwind (which is discussed in Note 10 vi) to the Financial Statements), which was only partially offset by an increase in uncapitalized interest incurred in connection with PIDIREGAS completed in 2000.

**Liquidity and Capital Resources**

*Equity Structure and the Certificates of Contribution "A"*

Our total equity as of December 31, 2001 was Ps. 122.9 billion, and our total capitalization (long-term debt plus equity) amounted to Ps. 246.0 billion.

In March 1990, the Mexican Government exchanged U.S. \$7.58 billion worth of external debt of Petróleos Mexicanos with international commercial banks for 30-year Collateralized Fixed Rate Bonds Due 2019 and Collateralized Floating Rate Bonds Due 2019 (also called "Brady Bonds") issued by the Mexican Government. In exchange for the cancellation of this external debt, Petróleos Mexicanos' indebtedness to the Mexican Government increased by an amount equal to U.S. \$7.58 billion. The new indebtedness was denominated in currencies other than pesos. In December 1990, the Mexican Government and Petróleos Mexicanos agreed to capitalize the indebtedness incurred in March 1990 into Petróleos Mexicanos' equity as Certificates of Contribution "A." As a condition to this capitalization, Petróleos Mexicanos agreed to pay a minimum guaranteed dividend to the Mexican Government equal to the debt service on the capitalized debt at the exchange rates in effect at the date payments are made. The total dividend on the Certificates of Contribution "A" is approved annually by the Board of Directors of Petróleos Mexicanos after the close of each fiscal year. Each month, Petróleos Mexicanos makes advance payments to the Mexican Government that total a prorated portion of the minimum guaranteed dividend.

From 1997 to 2001, Petróleos Mexicanos made annual advance payments, which were declared as dividends to the Mexican Government, as follows:

	<b>Year Ended December 31,</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
	(in millions of pesos)				
Total advance payments to the Mexican Government .....	Ps. 5,804	Ps. 3,064	Ps. 5,138	Ps. 5,564	Ps. 2,153
Dividends declared in respect of Certificates of Contribution "A" .....	5,804	3,843	5,138	5,564	2,153

*Source: PEMEX's financial statements*

In December 1997, Petróleos Mexicanos' Board of Directors and the Mexican Government agreed to an equity reduction of the Certificates of Contribution "A" in exchange for a cash payment to the Mexican Government of Ps. 12.12 billion (U.S. \$1.5 billion). Further to that agreement, the Ministry of Finance and Public Credit, acting on behalf of the Mexican Government, agreed to a reduction in the minimum guaranteed dividend that it would receive from Petróleos Mexicanos in 1998, 2001 and certain future years. Since 1999, Petróleos Mexicanos has been scheduled to make a total of U.S. \$4.9 billion in advance payments to the Mexican Government in respect of the principal amount of the Certificates of Contribution "A." In 1999 and 2000, Petróleos Mexicanos paid U.S. \$250 million under that arrangement. No advance payments were scheduled to be made in 2001. In addition, since 1999, Petróleos Mexicanos has paid minimum guaranteed dividends on the Certificates of Contribution "A" at

the rate of the three-month London Interbank Offered Rate (“LIBOR”) plus 13/16% per year on the outstanding balance of the original principal amount of the debt capitalized in March 1990.

	Year Ended December 31,				
	2002	2003	2004	2005	Thereafter
	(in millions of U.S. dollars)				
Future advance payments of minimum guaranteed dividends to the Mexican Government in respect of principal amount of the capitalized debt.....	\$874	\$874	\$874	\$874	\$874

Source: PEMEX’s financial statements

*Cash Flow from Operating, Financing and Investing Activities*

During 2001 net funds provided by operating activities were Ps. 26.2 billion, a 6.9% increase from Ps. 24.5 billion in 2000. Funds from income (which was negative in 2001) plus items that did not require cash outlays totaled Ps. 36.4 billion in 2001. New debt financings provided an additional Ps. 114.4 billion of net funds (excluding Ps. 8.4 billion of foreign exchange gains). During 2001, we applied net funds of Ps. 39.4 billion for net investments at cost in fixed assets (Ps. 51.7 billion of new investments and capitalized interest, less Ps. 12.3 billion in dispositions of fixed assets).

At December 31, 2001, our cash and cash equivalents totaled Ps. 14.4 billion, as compared to Ps. 27.8 billion at December 31, 2000. At that time, we did not have sufficient working capital, generated exclusively from operations, for our budgeted cash flow requirements for 2002. However, based on past experience, we expect to generate sufficient working capital through:

- cash flow generated from operations;
- the issuance of commercial paper;
- acceptance credit facilities;
- renewing existing and securing additional lines of credit from international commercial banks; and
- other additional financing activities.

Commercial paper is issued under our U.S. \$445 million U.S. Commercial Paper Program, which was established in December 2001 and is backed by a Letter of Credit from Barclays Bank Plc. Commercial paper is usually issued with maturities of up to 6 months. We also established a U.S. \$650 million Acceptance Credit Facility with a group of international banks and a U.S. \$135 million Acceptance Credit Facility with Japanese banks in 2001. Lines of credit are obtained from major international banks with maturities ranging from 1 month up to 18 months. See also “—Commitments for Capital Expenditures and Sources of Funding” below.

We have previously met our cash requirements for working capital, capital expenditures and investments over the past three years with a combination of funds provided by operations and financing. See “—Financing Activities” below.

*Commitments for Capital Expenditures and Sources of Funding*

Our current aggregate commitments for capital expenditures, including PIDIREGAS, total approximately Ps. 149.2 billion for 2002. For general descriptions of our current commitments for capital expenditures, see “Item 4—Information on the Company—History and Development—Capital Expenditures and Investments.”

In 2001, Pemex-Exploration and Production invested in four PIDIREGAS (including the Strategic Gas Program, which was added to our budget in 2001) and other general operating investments and strategic products for

a total of Ps. 57,302 million in capital expenditures in exploration and production in 2001. In 2002, Pemex-Exploration and Production will add 23 more PIDIREGAS to its budget, for a total of 27 PIDIREGAS, for which Ps. 82,234 million is budgeted in 2002. In addition, Pemex-Exploration and Production has budgeted Ps. 27,512 million for non-PIDIREGAS capital expenditures for 2002. For more detail on the expenditures for and purpose of these investments, see “Item 4—Information on the Company—Business Overview—Exploration and Production—Investment in Exploration and Production.”

Pemex-Refining invested in one PIDIREGAS in 2001 and invested in other general operating projects, strategic projection, acquisition of equipment, research and development and complementary investments for a total of Ps. 7,222 million in capital expenditures by Pemex-Refining in 2001. In 2002, Pemex-Refining expects to invest Ps. 30,387 million in capital expenditures. Of this amount, Pemex-Refining has budgeted Ps. 21,445 million for three PIDIREGAS (including amounts originally budgeted for projects in 2001 that are expected to be completed in 2002), and Ps. 8,942 million for other non-PIDIREGAS capital expenditures. For more detail on the expenditures for and purpose of Pemex-Refining’s investments, see “Item 4—Information on the Company—Business Overview—Refining—Investments.”

Both Pemex-Petrochemicals and Pemex-Gas and Basic Petrochemicals invest in projects primarily related to natural gas and condensates processing, transportation and storage. In 2002, the Mexican Government approved Ps. 734 million in capital expenditures for Pemex-Gas and Basic Petrochemicals’ new PIDIREGAS. The combined capital expenditures for Pemex-Gas and Basic Petrochemicals and Pemex-Petrochemicals is expected to be Ps. 7,330 million in 2002. For more detail on the expenditures for and purpose of these investments, see “Item 4—Information on the Company—Business Overview—Petrochemicals—Investments.”

Our current commitments for capital expenditures have increased compared to previous years. We plan to fund these expenditures through the financing activities in which we have engaged in the past as well as new sources. We have funded and we expect to continue to fund our commitments for PIDIREGAS capital expenditures primarily through the issuance of debt securities in capital markets transactions, commercial bank syndicated loans, bilateral loans from commercial banks and guaranteed loans from export credit agencies. To a lesser extent, we may decide to use Pemex Finance, Ltd. to fund some PIDIREGAS if we consider it convenient in light of market conditions. The securities that we or Pemex Finance, Ltd. issue vary in tenor, amount, currency and type of interest rate: we may issue debt securities in U.S. dollars, Japanese yen, euros, sterling pounds or Mexican pesos, among others; these securities may be issued with fixed or floating rates, with maturities ranging between three and thirty years, depending on market conditions and funding requirements. Commercial bank syndicated loans may be established with single or multiple tranches with maturities ranging between two and five years. Bilateral loans vary in tenor and range between two and three or more years. See also “—Financing Activities” below.

As described in “—Financing Activities” below, we have thus far issued U.S. \$2 billion in debt securities in the international capital markets in 2002 through the Pemex Project Funding Master Trust, and we expect to issue additional securities over the rest of the year. As part of our activities for funding our capital expenditures for this year, we are considering issuing Mexican Peso denominated debt securities in the domestic market. Petróleos Mexicanos has never issued debt securities in the domestic market. However, the domestic market has demonstrated significant growth over the past five years, and we believe that this market can represent an alternative source of PIDIREGAS funding, offering competitive conditions in terms of tenor, amount and type of interest rates. Additionally, we may also fund some PIDIREGAS through commercial bank loans denominated in Mexican pesos.

Non-PIDIREGAS are funded mainly through our operating revenues, and, to a lesser degree, financing activities. These financing activities consist primarily of loans from export credit agencies. These loans are usually structured with maturities ranging between five and ten years with minimum amounts of U.S. \$20 million. See also “—Cash Flow from Operating, Financing and Investing Activities,” above.

In order to be able to carry out our planned capital expenditure program, we will need to seek financing from a variety of sources, and we cannot guarantee that we will be able to obtain financing on terms that would be acceptable to us. Our inability to obtain additional financing could have an adverse effect on our planned capital expenditure program and result in our being required to limit or defer this program.

### *Financing Activities*

*2002 Financing Activities.* During the period from January 1, 2002 to September 30, 2002, Petróleos Mexicanos obtained direct credits in the amount of U.S. \$400 million for use in financing our working capital requirements, and the Pemex Project Funding Master Trust obtained U.S. \$1.1 billion in commercial bank loans for use in financing PIDIREGAS projects. In addition, we participated in the following financing activities:

- Petróleos Mexicanos obtained loans from export credit agencies totaling U.S. \$113.4 million;
- Petróleos Mexicanos obtained foreign trade financing in the amount of U.S. \$125 million;
- Petróleos Mexicanos obtained U.S. \$217.5 million through its commercial paper program;
- the Pemex Project Funding Master Trust obtained loans from export credit agencies totaling U.S. \$449.8 million;
- the Pemex Project Funding Master Trust issued U.S. \$500 million of Floating Rate Notes due 2005 on January 7, 2002; the notes were issued under the Master Trust's Medium-Term Note program, Series A and are guaranteed by Petróleos Mexicanos;
- the Pemex Project Funding Master Trust issued U.S. \$1 billion 7.875% Notes due 2008 on February 1, 2002; the notes were issued under the Master Trust's Medium-Term Note program, Series A and are guaranteed by Petróleos Mexicanos; and
- the Pemex Project Funding Master Trust issued U.S. \$500 million 8.625% Bonds due 2022 on February 1, 2002; the bonds were issued under the Master Trust's Medium-Term Note program, Series A and are guaranteed by Petróleos Mexicanos.

In the period from January 1, 2002 to September 30, 2002, Petróleos Mexicanos' net payments on external borrowings totaled U.S. \$2.3 billion and were allocated as follows:

- U.S. \$400 million in respect of direct loans;
- U.S. \$300 million in respect of bond issues;
- U.S. \$260 million in respect of foreign trade lines;
- U.S. \$785 million in respect of bankers' acceptances;
- U.S. \$103.7 million in respect of credit lines from export credit agencies;
- U.S. \$345 million in respect of commercial paper;
- U.S. \$51.6 million in respect of restructured debt; and
- U.S. \$37.7 million in respect of leases.

At September 30, 2002, PEMEX's total debt, excluding accrued interest, was approximately U.S. \$19.1 billion. Of this amount, U.S. \$16.7 billion consisted of total long-term debt, which was composed of approximately U.S. \$11.1 billion in instruments with fixed annual interest rates ranging from 1.55% to 14.5% with maturities ranging from 2003 to 2027, approximately U.S. \$5.6 billion in draws on lines of credit at variable interest rates of which U.S. \$4.8 billion was based on LIBOR with maturities ranging from 2003 to 2013, and U.S. \$0.8 billion in floating rate notes with maturities ranging from 2003 to 2008. Short-term debt totaled approximately U.S. \$2.4 billion, consisting of U.S. \$2.2 billion of variable interest rate borrowings under various lines of credit established

under committed credit facilities with various international commercial banks and U.S. \$0.2 billion of lines of credit with fixed interest rates.

The portion of PEMEX's total debt at September 30, 2002 corresponding to borrowings of the Pemex Project Funding Master Trust was U.S. \$11.0 billion. This amount consisted of U.S. \$5.6 billion in long-term debt at fixed interest rates with maturities ranging from 2002 to 2022, U.S. \$4.5 billion in long-term debt with variable interest rates with maturities ranging from 2002 to 2013, and U.S. \$0.9 billion in short-term debt of which U.S. \$0.8 billion consisted of variable interest rate borrowings under various lines of credit. The Pemex Project Funding Master Trust also has U.S. \$4.3 billion in long-term debt consisting of an obligation to Pemex-Exploration and Production in respect of funds allocated to the Pemex Project Funding Master Trust arising from the sale of accounts receivables. This amount is not reflected in PEMEX's financial statements due to the effects of the consolidation of the results of both Pemex-Exploration and Production and the Pemex Project Funding Master Trust.

*2001 Financing Activities.* During the period from January 1 to December 31, 2001, Petróleos Mexicanos obtained direct credits in the amount of U.S. \$1,800 million for use in financing its working capital requirements, and the Pemex Project Funding Master Trust obtained U.S. \$450 million in direct loans for use in financing PIDIREGAS projects. In addition, we engaged in the following financing activities:

- Petróleos Mexicanos obtained loans from export credit agencies totaling U.S. \$128.7 million;
- Petróleos Mexicanos obtained foreign trade financing in the amount of U.S. \$695 million;
- the Pemex Project Funding Master Trust obtained loans from export credit agencies of U.S. \$425.4 million and ¥60.1 billion which was subsequently swapped into U.S. dollars (for a total of U.S. \$920.2 million);
- PMI Norteamérica, S.A. de C.V. obtained U.S. \$50.3 million in a bank loan from Standard Charter Bank on October 30, 2001; the bank loan bears interest at LIBOR plus 0.75% and was due in October 2002;
- Petróleos Mexicanos utilized U.S. \$871 million in acceptance lines, of which U.S. \$86 million were borrowed against existing lines that expired in 2001;
- the Pemex Project Funding Master Trust issued U.S. \$1 billion of 8.50% Notes due 2008 on February 5, 2001; the notes were issued under the Pemex Project Funding Master Trust's Medium-Term Note program, Series A and are guaranteed by Petróleos Mexicanos;
- the Pemex Project Funding Master Trust issued U.S. \$500 million of 9.125% Notes due 2010 on June 7, 2001; the notes were issued under the Pemex Project Funding Master Trust's Medium-Term Note program, Series A and are guaranteed by Petróleos Mexicanos;
- Petróleos Mexicanos issued U.S. \$600 million of 6.50% Guaranteed Notes due 2005 on August 29, 2001; the notes were issued under Petróleos Mexicanos' Medium-Term Note program, Series B and are guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals;
- the Pemex Project Funding Master Trust increased its Medium-Term Note program from U.S. \$3 billion to U.S. \$6 billion on November 14, 2001; and
- the Pemex Project Funding Master Trust issued U.S. \$750 million of 8.0% Notes due 2011 on November 26, 2001; the notes were issued under the Pemex Project Funding Master Trust's Medium-Term Note program, Series A and are guaranteed by Petróleos Mexicanos.

In the period from January 1, 2001 to December 31, 2001, our net payments on external borrowings totaled U.S. \$5.3 billion and were allocated as follows:

- U.S. \$1.5 billion in respect of direct loans;
- U.S. \$1.0 billion in respect of bond issues;
- U.S. \$600 million in respect of foreign trade lines;
- U.S. \$966 million in respect of bankers' acceptances;
- U.S. \$326.1 million in respect of credit lines from export credit agencies;
- U.S. \$747.4 million in respect of commercial paper;
- U.S. \$58.2 million in respect of restructured debt; and
- U.S. \$118.2 million in respect of leases.

At December 31, 2001, our total debt, excluding accrued interest, was approximately U.S. \$17.2 billion. Of this amount, U.S. \$13.5 billion consisted of total long-term debt, which was composed of approximately U.S. \$8.7 billion in instruments with fixed annual interest rates ranging from 1.9% to 14.5% with maturities ranging from 2003 to 2027, approximately U.S. \$4.8 billion in draws on lines of credit at variable interest rates of which U.S. \$3.9 billion was based on LIBOR with maturities ranging from 2003 to 2011, and U.S. \$0.9 billion in floating rate notes with maturities ranging from 2003 to 2005. Short-term debt totaled approximately U.S. \$3.6 billion, consisting of U.S. \$3.3 billion of variable interest rate borrowings under various lines of credit established under committed credit facilities with various international commercial banks and U.S. \$0.3 billion of bond issues with fixed interest rates.

The portion of our total debt at December 31, 2001 corresponding to borrowings of the Pemex Project Funding Master Trust was U.S. \$7.5 billion. This amount consisted of U.S. \$3.2 billion in long-term debt at fixed interest rates with maturities ranging from 2003 to 2010, U.S. \$3.5 billion in long-term debt with variable interest rates with maturities ranging from 2003 to 2011, and U.S. \$0.8 billion in short-term debt of which U.S. \$0.8 billion consisted of variable interest rate borrowings under various lines of credit. The Pemex Project Funding Master Trust also has U.S. \$4.5 billion in long-term debt consisting of an obligation to Pemex-Exploration and Production in respect of funds allocated to the Pemex Project Funding Master Trust arising from the sale of accounts receivables; this amount is not reflected in our consolidated financial statements due to the offsetting effects of the consolidation of the results of both Pemex-Exploration and Production and the Pemex Project Funding Master Trust.

*2000 Financing Activities.* During 2000, we obtained direct credits in the amount of U.S. \$650 million in order to finance our working capital requirements. In addition, we engaged in the following financing activities:

- Petróleos Mexicanos obtained export credit agency financings in the amount of U.S. \$138.5 million;
- Petróleos Mexicanos obtained foreign trade financings totaling U.S. \$465 million;
- Petróleos Mexicanos obtained U.S. \$691 million from bankers' acceptances, U.S. \$521 million of which corresponded to a line of credit from J.P.Morgan and U.S. \$170 million of which corresponded to a line of credit from the Industrial Bank of Japan;
- the Pemex Project Funding Master Trust obtained direct loans of U.S. \$400 million;
- in August 2000, the Pemex Project Funding Master Trust issued €500 million of 7.75% Notes due 2007; the notes were issued under the Pemex Project Funding Master Trust's Medium-Term Note program, Series A and are guaranteed by Petróleos Mexicanos;

- in October 2000, the Pemex Project Funding Master Trust issued U.S. \$500 million of 9.125% Notes due 2010; the notes were issued under the Pemex Project Funding Master Trust's Medium-Term Note program, Series A and are guaranteed by Petróleos Mexicanos;
- in October 2000, the Pemex Project Funding Master Trust refinanced U.S. \$625 million of a revolving credit line into three tranches of U.S. \$200 million due in 2003, U.S. \$175 million due in 2004 and U.S. \$250 million due 2005, guaranteed by Petróleos Mexicanos;
- in November 2000, through an agreement for the internal allocation of funding with the Mexican Government, the Pemex Project Funding Master Trust agreed to service U.S. \$698.3 million of restructured debt (consisting of U.S. \$694.3 million, DM 0.7 million and BEF 173.8 million) in consideration for its net receipt of U.S. \$676,161,058 in cash from the Mexican Government;

In 2000, our net payments on external borrowings totaled approximately U.S. \$2.7 billion and were allocated as follows:

- U.S. \$707.0 million to repay two outstanding bankers' acceptance facilities;
- U.S. \$1.1 billion in respect of foreign trade lines;
- U.S. \$298.0 million in respect of outstanding commercial paper;
- U.S. \$100.0 million in respect of direct loans;
- U.S. \$257.8 million in respect of credit lines from export credit agencies;
- U.S. \$100.0 million in respect of bonds;
- U.S. \$59.1 million in respect of leases; and
- U.S. \$46.8 million in respect of restructured debt.

At December 31, 2000, our total debt, excluding accrued interest, was approximately U.S. \$14.9 billion. Of this amount, U.S. \$10.9 billion consisted of total long-term debt, which was composed of approximately U.S. \$6.3 billion in instruments with fixed annual interest rates ranging from 2.0% to 14.5% with maturities ranging from 2002 to 2027, approximately U.S. \$4.6 billion in draws on lines of credit at variable interest rates of which U.S. \$3.4 billion was based on LIBOR with maturities ranging from 2002 to 2011, and U.S. \$1.2 billion in floating rate notes with maturities ranging from 2003 to 2005. See Note 9 to the Financial Statements. Short-term debt totaled approximately U.S. \$4.0 billion, consisting of U.S. \$3.1 billion of variable interest rate borrowings under various lines of credit established under committed credit facilities with various international commercial banks and U.S. \$0.9 billion in instruments with fixed annual interest rates.

The portion of our total debt at December 31, 2000 corresponding to borrowings of the Pemex Project Funding Master Trust was U.S. \$4.5 billion. This amount consisted of U.S. \$1.4 billion in long-term debt with fixed interest rates with maturities ranging from 2002 to 2010, U.S. \$2.6 billion in long-term debt with variable interest rates with maturities ranging from 2002 to 2011, and U.S. \$0.5 billion in short-term variable interest rate borrowings under various lines of credit. See Note 9 to the Financial Statements. The Pemex Project Funding Master Trust also has U.S. \$4.7 billion in long-term debt consisting of an obligation to Pemex-Exploration and Production in respect of funds allocated to the Pemex Project Funding Master Trust arising from the sale of accounts receivables (see Note 7 to the Financial Statements); this amount is not reflected in our financial statements due to the effects of the consolidation of the results of both Pemex-Exploration and Production and the Pemex Project Funding Master Trust.



The table below sets forth our total indebtedness and sales of receivables as of December 31 for each of the five years from 1997 to 2001.

### Total Indebtedness and Sales of Receivables of PEMEX

	Year Ended December 31, <sup>(1)</sup>				
	1997	1998 <sup>(2)</sup>	1999 <sup>(3)</sup>	2000 <sup>(3)</sup>	2001 <sup>(3)</sup>
	(in millions of U.S. dollars) <sup>(4)</sup>				
<b>Domestic Debt in Various Currencies<sup>(4)</sup></b> .....	\$ 1,475	\$ 1,355	\$ 1,301	\$ 923	\$ 749
<b>External Debt<sup>(5)</sup></b>					
MYRA <sup>(6)</sup> .....	\$ 473	\$ 439	\$ 398	\$ 351	\$ 292
Other direct bank loans .....	40	50	100	1,749	2,148
Securities					
Bonds .....	4,694	5,850	5,863	6,719	8,509
Commercial paper .....	785	222	307	447	228
Total securities .....	5,479	6,072	6,170	7,166	8,737
Trade financing <sup>(7)</sup>					
Acceptance lines .....	1,107	1,107	896	880	785
Advances from commercial banks <sup>(8)</sup> .....	1,143	1,350	2,035	1,395	1,490
Total trade financing .....	2,250	2,457	2,931	2,275	2,275
Purchasing loans <sup>(9)</sup> .....	410	453	382	355	351
Financial leases .....	491	549	496	437	319
Project finance <sup>(10)</sup> .....	410	591	685	1,650	2,282
Total external debt .....	<u>\$ 9,553</u>	<u>\$ 10,611</u>	<u>\$ 11,162</u>	<u>\$ 13,983</u>	<u>\$ 16,404</u>
Sale of future accounts receivable .....	\$ 241	\$ 0	\$ 0	\$ 0	\$ 0
Debt and sale of future accounts receivable <sup>(3)(11)(12)</sup> ..	<u>\$ 11,269</u>	<u>\$ 11,966</u>	<u>\$ 12,463</u>	<u>\$ 14,906</u>	<u>\$ 17,153</u>

Note: Numbers may not total due to rounding.

- (1) Figures do not include accrued interest. Accrued interest was U.S. \$122 million, U.S. \$129 million, U.S. \$184 million, U.S. \$224 million and U.S. \$284 million at December 31, 1997, 1998, 1999, 2000 and 2001, respectively.
- (2) Includes PIDIREGAS-related debt of U.S. \$1.0 billion.
- (3) Includes U.S. \$1.2 billion, U.S. \$1.4 billion, U.S. \$4.5 billion and U.S. \$7.6 billion of indebtedness of the Pemex Project Funding Master Trust as of December 31, 1998, 1999, 2000 and 2001, respectively. Does not include indebtedness related to the Madero, Salamanca and Tula PIDIREGAS of Pemex-Refining, because these are project financings under which PEMEX's payment obligations will not be effective until delivery to Pemex-Refining of the completed project. Pemex-Refining expects to accept delivery of the U.S. \$1.6 billion Madero project, the U.S. \$195 million Salamanca project and the U.S. \$140 million Tula project in 2002. Does not include U.S. \$1.6 billion of indebtedness incurred in connection with the Cadereyta PIDIREGAS of Pemex-Refining. Such indebtedness is represented by a note that will be issued by PEMEX to the construction company for the project upon delivery of the project and upon request of the construction company. The note provides for biannual payments of principal and interest and a 10-year maturity. See Note 8 to the Financial Statements.
- (4) Indebtedness payable in currencies other than U.S. dollars was first converted into pesos for accounting purposes at the exchange rates set by Banco de México and then converted from pesos to U.S. dollars at the following exchange rates: Ps. 8.0833 = U.S. \$1.00 for 1997, Ps. 9.8650 = U.S. \$1.00 for 1998, Ps. 9.5143 = U.S. \$1.00 for 1999, Ps. 9.5722 = U.S. \$1.00 for 2000 and Ps. 9.1423 = U.S. \$1.00 for 2001. See Notes 9 and 14 to the Financial Statements.
- (5) Indebtedness payable other than in pesos and owed to persons or institutions having its head office or chief place of business outside Mexico, and payable outside the territory of Mexico.
- (6) Multi-Year Restructuring Agreement.
- (7) To finance external trade of crude oil and derivatives.
- (8) Includes indebtedness of the Pemex Project Funding Master Trust of U.S. \$1.0 billion in trade financing advances from commercial banks as of December 31, 1998, 1999, 2000 and 2001.
- (9) To finance imports of equipment and spare parts.
- (10) Includes U.S. \$227 million, U.S. \$394 million, U.S. \$1,450 million and U.S. \$2,176 million of indebtedness of the Pemex Project Funding Master Trust as of December 31, 1998, 1999, 2000 and 2001, respectively.
- (11) Excludes the outstanding debt of Pemex Finance, Ltd., which is disclosed below.
- (12) Includes U.S. \$50 million classified as an account payable in PEMEX's financial statements for the year ended December 31, 1998.

Source: *Petróleos Mexicanos*

### *Financing Activities of Pemex Finance, Ltd.*

Commencing December 1, 1998, Petróleos Mexicanos, Pemex-Exploration and Production, PMI and P.M.I. Services B.V. have entered into several agreements with Pemex Finance, Ltd., a limited liability company organized under the laws of the Cayman Islands. Under these contracts, Pemex Finance, Ltd. purchases certain existing PMI accounts receivable for crude oil as well as certain accounts receivable to be generated in the future by PMI related to crude oil. The receivables sold are those generated by the sale of Maya crude oil to designated customers in the United States, Canada and Aruba. The net proceeds obtained by Pemex-Exploration and Production from the sale of such receivables under the agreements are utilized for PIDIREGAS expenditures. Pemex Finance, Ltd. obtains resources for the acquisition of such accounts receivable through the placement of debt instruments in the international markets.

As of December 31, 2001, the outstanding long-term debt of Pemex Finance, Ltd. was composed of U.S. \$4.6 billion aggregate principal amount of notes with maturities ranging from 2003 to 2018 and interest rates ranging between 5.72% and 10.61% as well as three series of floating rate notes.

*2001 Financing Activities.* During 2001, Pemex Finance, Ltd. made payments of U.S. \$230 million in principal on its notes. Pemex Finance, Ltd. did not incur any additional indebtedness during 2001.

*2000 Financing Activities.* On February 10, 2000, Pemex Finance, Ltd. issued U.S. \$800 million of 9.03% Notes due 2011 and U.S. \$150 million of 7.80% Notes due 2013. During 2000, Pemex Finance, Ltd. made payments of U.S. \$185 million on borrowings.

*1999 Financing Activities.* On February 25, 1999, Pemex Finance, Ltd. issued U.S. \$300 million of 6.125% Notes due 2003, U.S. \$200 million of 8.45% Notes due 2007, U.S. \$300 million of 6.55% Notes due 2008, U.S. \$200 million of 8.875% Notes due 2010 and U.S. \$100 million of Floating Rate Notes due 2014. On July 27, 1999, Pemex Finance, Ltd. issued U.S. \$225 million of 9.14% Notes due 2004, U.S. \$600 million of 9.69% Notes due 2009, U.S. \$250 million of 7.33% Notes due 2012, U.S. \$200 million of 10.61% Notes due 2017, U.S. \$35 million of Floating Rate Notes, Series C, due 2004, U.S. \$50 million of 9.22% Notes due 2004 and U.S. \$90 million of Floating Rate Notes, Series B, due 2014.

### *Contractual Obligations and Other Commercial Commitments*

Information about PEMEX's long-term contractual obligations and other commercial commitments outstanding at December 31, 2001 from the notes to the Financial Statements is set forth in the table below. This information is important in understanding the financial position of PEMEX.

### Contractual Obligations and Other Commercial Commitments Outstanding<sup>(1)</sup>

	Total	Less than			After 5 years
		1 year	1-3 years	4-5 years	
(in millions of U.S. dollars)					
Long-term debt <sup>(2)</sup> .....	\$16,834.3	\$ 3,640.1	\$ 4,856.7	\$ 3,012.6	\$5,324.9
Capital lease obligations <sup>(3)</sup> .....	319.0	40.4	90.6	75.2	112.8
Operating lease obligations <sup>(3)</sup> .....	0.2	0.2	—	—	—
Notes payable to contractors <sup>(4)</sup> .....	1,627.2	134.8	484.3	403.0	605.1
Sales of future accounts receivable <sup>(5)</sup> .....	4,887.8	608.6	1,013.7	984.5	2,281.0
Minimum guaranteed dividends <sup>(6)</sup> .....	4,369.2	873.8	2,621.6	873.8	—
Repsol equity swaps total <sup>(7)</sup> .....	292.0	—	292.0	—	—
Other long-term obligations .....	22.9	—	11.2	3.7	8.0
Total contractual cash obligations...	<u>\$ 28,352.6</u>	<u>\$ 5,297.9</u>	<u>\$ 9,370.1</u>	<u>\$ 5,352.8</u>	<u>\$8,331.8</u>
<b>Other Commercial Commitments</b>					
Off balance sheet obligations:					
PIDIREGAS commitments <sup>(8)</sup> .....	5,121.2	1,461.0	3,470.3	140.7	49.2
Nitrogen supply contract <sup>(9)</sup> .....	2,408.1	255.7	747.5	434.4	970.5
Total commercial commitments .....	<u>7,529.3</u>	<u>1,716.7</u>	<u>4,217.8</u>	<u>575.1</u>	<u>1,019.7</u>
Total contractual obligations and commercial commitments .....	<u>\$ 35,881.9</u>	<u>\$ 7,014.6</u>	<u>\$ 13,587.9</u>	<u>\$ 5,927.9</u>	<u>\$9,351.5</u>

- (1) As of December 31, 2001.  
(2) See Note 9 to the Financial Statements.  
(3) See Note 19 to the Financial Statements.  
(4) See Note 8 to the Financial Statements.  
(5) See Note 7 to the Financial Statements.  
(6) See Note 13 to the Financial Statements.  
(7) See Note 10 to the Financial Statements.  
(8) See Note 16 k) to the Financial Statements.  
(9) See Note 16 h) to the Financial Statements.

The following tables set forth information regarding the fair value of PEMEX's over-the-counter (OTC) contracts in connection with gas trading activities as of December 31, 2001:

#### Fair Value of OTC Contracts

(in thousands of U.S. dollars)

Fair value of contracts outstanding at the beginning of the period.....	\$ (1,808.0)
Contracts realized or otherwise settled during the period .....	(4,077.2)
Fair value of new contracts when entered into during the period.....	1,221.2
Changes in fair values attributable to changes in valuation techniques and assumptions .....	0
Other changes in fair values .....	5,858.0
Fair value of contracts outstanding at the end of the period.....	1,194.0

#### Fair Value of OTC Contracts at Period-End by Maturity<sup>(1)</sup>

Source of Fair Value	Maturity less than	Maturity	Maturity	Maturity	Total fair value
	1 year	1-3 years	4-5 years	in excess of 5 years	
(in thousands of U.S. dollars)					
Prices actively quoted .....	(3.9)	13.7	—	—	9.9
Prices provided by other external sources.....	(4,332.6)	4,719.2	797.6	—	1,184.2

- (1) As of December 31, 2001.

## Results of Operations by Business Segment

This section presents results of our operations by business segment, including our central corporate operations and the operations of the consolidated subsidiary companies.

### *Revenue by Business Segment*

The following table sets forth our trade and intersegment net sales revenues by business segment for the five fiscal years ended December 31, 2001 as well as the percentage change in sales revenues for the years 1999 to 2001.

	Year Ended December 31,					2000	2001
	1997	1998	1999	2000	2001	vs. 1999	vs. 2000
	(in millions of pesos)					(%)	(%)
<b>Exploration and Production</b>							
Trade sales <sup>(1)</sup> .....	Ps. 81,653	Ps. 58,232	Ps. 83,635	Ps. 137,333	Ps. 111,167	64.2	(19.0)
Intersegment sales .....	<u>91,378</u>	<u>71,694</u>	<u>92,281</u>	<u>174,874</u>	<u>153,838</u>	89.5	(12.0)
Total net sales .....	<u>Ps. 173,031</u>	<u>Ps. 129,925</u>	<u>Ps. 175,916</u>	<u>Ps. 312,207</u>	<u>Ps. 265,005</u>	77.5	(15.1)
<b>Refining</b>							
Trade sales .....	Ps. 128,168	Ps. 147,078	Ps. 187,381	Ps. 230,059	Ps. 239,230	22.8	4.0
Intersegment sales .....	<u>8,670</u>	<u>6,722</u>	<u>6,700</u>	<u>9,600</u>	<u>8,788</u>	43.3	(8.5)
Total net sales .....	<u>Ps. 136,838</u>	<u>Ps. 153,799</u>	<u>Ps. 194,081</u>	<u>Ps. 239,659</u>	<u>Ps. 248,018</u>	23.5	3.5
<b>Gas and Basic Petrochemicals</b>							
Trade sales <sup>(1)</sup> .....	Ps. 31,157	Ps. 33,286	Ps. 38,685	Ps. 63,957	Ps. 65,283	65.3	2.1
Intersegment sales .....	<u>14,569</u>	<u>13,670</u>	<u>13,899</u>	<u>25,899</u>	<u>27,517</u>	86.3	6.2
Total net sales .....	<u>Ps. 45,726</u>	<u>Ps. 46,956</u>	<u>Ps. 52,584</u>	<u>Ps. 89,856</u>	<u>Ps. 92,800</u>	70.9	3.3
<b>Petrochemicals</b>							
Trade sales <sup>(1)</sup> .....	Ps. 13,397	Ps. 10,507	Ps. 10,105	Ps. 12,184	Ps. 9,014	20.6	(26.0)
Intersegment sales .....	<u>3,353</u>	<u>1,870</u>	<u>1,930</u>	<u>2,720</u>	<u>2,795</u>	40.9	2.8
Total net sales .....	<u>Ps. 16,750</u>	<u>Ps. 12,377</u>	<u>Ps. 12,036</u>	<u>Ps. 14,904</u>	<u>Ps. 11,809</u>	23.8	(20.8)
<b>Corporate, Subsidiary Companies and Other</b>							
Trade sales .....	Ps. 9,655	Ps. 7,885	Ps. 15,007	Ps. 24,735	Ps. 20,636	64.8	(16.6)
Intersegment sales and eliminations .....	<u>(117,970)</u>	<u>(93,955)</u>	<u>(114,810)</u>	<u>(213,093)</u>	<u>(192,938)</u>	(85.6)	9.5
Total net sales .....	<u>Ps.(108,315)</u>	<u>Ps. (86,069)</u>	<u>Ps. (99,803)</u>	<u>Ps.(188,358)</u>	<u>Ps.(172,302)</u>	(88.7)	8.5
Total Sales .....	<u>Ps. 264,030</u>	<u>Ps. 256,987</u>	<u>Ps. 334,814</u>	<u>Ps. 468,268</u>	<u>Ps. 445,330</u>	39.9	(4.9)

Notes: Numbers may not total due to rounding.

(1) These trade sales include sales by the subsidiary entities to the consolidated subsidiary companies, primarily to the PMI Group. Such sales are treated as eliminations in this table.

Source: PEMEX's financial statements

### *Income by Business Segment*

The following table sets forth our income (loss) by business segment for each year in the five-year period ended December 31, 2001, as well as the percentage change in income for the years 1999 to 2001.

	<b>Year Ended December 31,</b>					<b>2000</b>	<b>2001</b>
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>vs. 1999</b>	<b>vs. 2000</b>
	<i>(in millions of pesos)</i>					<i>(%)</i>	<i>(%)</i>
<b>Business Segment</b>							
Exploration and Production .....	Ps. 12,175	Ps. (9,027)	Ps. (5,202)	Ps. 7,128	Ps. 8,785	237.0	23.2
Refining .....	(6,812)	(5,729)	(8,111)	(23,139)	(29,601)	(185.3)	(27.9)
Gas and Basic Petrochemicals .....	2,080	5,121	849	(317)	627	(137.3)	297.8
Petrochemicals .....	(170)	(2,790)	(4,474)	(6,090)	(10,199)	(36.1)	(67.5)
Corporate, Subsidiary Companies and Other .....	(140)	837	(4,219)	2,708	(3,703)	142.1	(236.7)
Total Income/(loss) .....	<u>Ps. 7,133</u>	<u>Ps. (11,588)</u>	<u>Ps. (21,157)</u>	<u>Ps. (19,710)</u>	<u>Ps. (34,091)</u>	(6.8)	(73.0)

Note: Numbers may not total due to rounding.  
Source: PEMEX's financial statements

### **2001 Compared to 2000**

#### *Exploration and Production*

In 2001, Pemex-Exploration and Production's trade sales of crude oil and natural gas to the PMI Group decreased by 19.0% in peso terms and by 17.9% in U.S. dollar terms, as a result of a decrease of 24.6% in the international price of crude oil and an increase of 3.5% in the volume of crude oil exports. The weighted average price of crude oil sold by Pemex-Exploration and Production to the PMI Group for export was U.S. \$18.57 in 2001, as compared to U.S. \$24.62 in 2000. Intersegment sales decreased by 12.0%, principally as a result of a decrease in crude oil and natural gas sales, resulting from decreases in the reference prices of these commodities. Income related to exploration and production activities increased 23.2% from Ps. 7,128 million in 2000 to Ps. 8,785 million in 2001, primarily as a result of a decrease in the excess gains revenue duties, which was offset by a 14.2% increase in costs associated with the labor reserve for pension obligations from Ps. 10,351 million in 2000 to Ps. 11,821 million in 2001. The increase in labor reserve costs was due to an increase in salaries and wages, an additional year of services by the personnel and an increase in the financial cost as a result of insufficient funding of these liabilities.

#### *Refining*

In 2001, trade sales related to refining activities increased by 4.0%, from Ps. 230,059 million in 2000 to Ps. 239,230 million in 2001. Export sales related to refining activities decreased 32.0% from Ps. 3,654 million in 2000 to Ps. 2,486 million in 2001, as a result of a decrease in the volume of certain petroleum product exports. Domestic sales related to refining activities increased by 4.6% from Ps. 226,405 million in 2000 to Ps. 236,744 million in 2001, principally due to increases in the peso prices of refined products and the IEPS Tax, which increased by Ps. 25,642 million in 2001. Intersegment sales decreased by Ps. 812 million, largely due to decreases in the sales of naphthas and propylene. In 2001 the total loss related to refining activities was Ps. 29,601 million, as compared to a loss of Ps. 23,139 million in 2000. The increased loss was primarily due to a 9.7% decrease in domestic sales net of the IEPS tax from Ps. 157.0 million in 2000 to Ps. 141.7 million in 2001, and a 10.4% increase in labor reserves costs from Ps. 10,933 million in 2000 to Ps. 12,074 million in 2001. This increase in labor reserve costs was due to an increase in salaries and wages, an additional year of services by the personnel and an increase in the financial cost as a result of insufficient funding of these liabilities.

#### *Gas and Basic Petrochemicals*

In 2001, trade sales related to the natural gas and basic petrochemical business segment increased by 2.1%, from Ps. 63,957 million in 2000 to Ps. 65,283 million in 2001. Natural gas sales increased by 7.1% from Ps. 26,997 million in 2000 to Ps. 28,917 million in 2001, mainly due to a price increase of approximately 8.3%. The volume of domestic sales of basic petrochemicals increased by 10.7% in 2001, from 785 thousand tons per year in 2000 to 869 thousand tons per year in 2001. Income related to natural gas and basic petrochemicals increased by 297.8%, from a

loss of Ps. 317 million in 2000 to a gain of Ps. 627 million in 2001, mainly due to a 23.1% decrease in imports of products used in the production process and the 2.1% increase in trade sales mentioned above, partially offset by a 12.8% increase in labor reserves costs, from Ps. 2,152 million in 2000 to Ps. 2,428 million in 2001, resulting in an increase in the cost of sales and operating expenses. This increase in labor reserve costs was due to an increase in salaries and wages, an additional year of services by the personnel and an increase in the financial cost as a result of insufficient funding of these liabilities.

#### *Petrochemicals*

In 2001, trade sales related to the petrochemicals business segment decreased by 26.0%, from Ps. 12,184 million in 2000 to Ps. 9,014 million in 2001. Prices for petrochemicals sold domestically decreased for a majority of petrochemical products. In 2001, the volume of petrochemical exports decreased by 50.2% from 607 thousand tons in 2000 to 302 thousand tons in 2001. Losses related to petrochemical activities increased 67.5% from Ps. 6,090 million in 2000 to Ps. 10,199 million in 2001 due to decreases in both volumes and sale prices and to a 13.6% increase in labor reserves costs from Ps. 2,702 million in 2000 to Ps. 3,069 million in 2001. This increase in labor reserve costs was due to an increase in salaries and wages, an additional year of services by the personnel and an increase in the financial cost as a result of insufficient funding of these liabilities.

#### *Corporate, Subsidiary Companies and Other*

In 2001, additional marginal trade sales revenues relating to PMI's exports of crude oil and petroleum products to third parties and after intercompany eliminations decreased by 16.6% in peso terms, from Ps. 24,735 million in 2000 to Ps. 20,636 million in 2001, as a result of a 25.1% reduction in the international price of crude oil, which was offset by a 9.4% increase in the volume of PMI's crude oil sales. The weighted average price of crude oil sold by PMI was U.S. \$18.57 in 2001, as compared to U.S. \$24.78 in 2000. In 2001, the total income related to corporate, subsidiary companies and other, which includes the international trading activities of the PMI Group, decreased from an income of Ps. 2.7 billion in 2000 to a loss of Ps. 3.7 billion in 2001, primarily due to our adoption of the new financial instrument standard (Bulletin C-2). This compares to total income of Ps. 2.7 billion in 2000; primarily due to the recognition of a net gain in connection with the Repsol equity swap and collar unwind in that year, which is discussed below under "Item 11—Quantitative and Qualitative Disclosures About Market Risk—Risk Management and Financial Instruments—Equity Swap."

### **2000 Compared to 1999**

#### *Exploration and Production*

In 2000, Pemex-Exploration and Production's trade sales of crude oil and natural gas to the PMI Group increased by 64.2% in peso terms and by 64.8% in U.S. dollar terms, as a result of an increase of 57.6% in the international price of crude oil and an increase of 3.5% in the volume of crude oil exports. The weighted average price of crude oil sold by Pemex-Exploration and Production to the PMI Group for export was U.S. \$24.62 in 2000, as compared to U.S. \$15.62 in 1999. Intersegment sales increased by 89.5%, principally as a result of an increase in crude oil and natural gas sales, resulting from increases in the reference prices of these commodities. Income related to exploration and production activities improved 237.0% from a loss of Ps. 5,202 million in 1999 to income of Ps. 7,128 million in 2000, primarily as a result of the improvement in revenues due to the increase in the weighted average price of crude oil realized by Pemex-Exploration and Production, which was offset by a 14.9% increase in costs associated with the labor reserve for pension obligations from Ps. 9,012 million in 1999 to Ps. 10,351 million in 2000.

#### *Refining*

In 2000, trade sales related to refining activities increased by 22.8%, from Ps. 187,381 million in 1999 to Ps. 230,059 million in 2000. Export sales related to refining activities decreased 9.9% from Ps. 4,057 million in 1999 to Ps. 3,654 million in 2000, as a result of a decrease in the volume of certain petroleum product exports. Domestic sales related to refining activities increased by 23.5% from Ps. 183,384 million in 1999 to Ps. 226,405 million in 2000, principally due to increases in the peso prices of refined products. The IEPS Tax decreased by Ps. 18,793 million in 2000. Intersegment sales increased by Ps. 2,900 million, largely due to increases in the sales

of naphthas and propylene. In 2000, the total loss related to refining activities was Ps. 23,139 million, as compared to a loss of Ps. 8,111 million in 1999. The increased loss was primarily due to increased purchases of crude oil and refined products at higher reference prices and a 22.8% increase in labor reserves costs from Ps. 8,903 million in 1999 to Ps. 10,933 million in 2000.

#### *Gas and Basic Petrochemicals*

In 2000, trade sales related to the natural gas and basic petrochemical business segment increased by 65.3%, from Ps. 38,685 million in 1999 to Ps. 63,957 million in 2000. Natural gas sales increased by 75.7% from Ps. 15,364 million in 1999 to Ps. 26,997 million in 2000, mainly due to an increase in the volume of domestic sales. The volume of domestic sales of basic petrochemicals increased by 21.0% in 1999, from 649 thousand tons per year in 1999 to 785 thousand tons per year in 2000. Income related to natural gas and basic petrochemicals fell by 137.3%, from income of Ps. 849 million in 1999 to a loss of Ps. 317 million in 2000, mainly due to a 107.4% increase in imports of products used in the production process and a 25.8% increase in labor reserves costs from Ps. 1,711 million in 1999 to Ps. 2,152 million in 2000, resulting in an increase in the cost of sales and operating expenses which was only partially offset by increased sales.

#### *Petrochemicals*

In 2000, trade sales related to the petrochemicals business segment increased by 20.6%, from Ps. 10,105 million in 1999 to Ps. 12,184 million in 2000. Prices for petrochemicals sold domestically increased for a majority of petrochemical products. In 2000, the volume of petrochemical exports increased by 105.1% from 296 thousand tons in 1999 to 607 thousand tons in 2000. Losses related to petrochemicals activities increased 36.1% from Ps. 4,474 million in 1999 to Ps. 6,090 million in 2000 due to decreases in both volumes and sale prices and to a 17.1% increase in labor reserves costs from Ps. 2,308 million in 1999 to Ps. 2,702 million in 2000.

#### *Corporate, Subsidiary Companies and Other*

In 2000, additional marginal trade sales revenues relating to PMI's sales of crude oil and petroleum products to third parties and after intercompany eliminations increased by 64.8% in peso terms, from Ps. 15,007 million in 1999 to Ps. 24,735 million in 2000, as a result of an increase in the international price of crude oil and an increase in the volume of PMI's crude oil sales. The weighted average price of crude oil sold by PMI was U.S. \$24.78 in 2000, as compared to U.S. \$15.55 in 1999. In 2000, the total income related to corporate, subsidiary companies and other, which includes the international trading activities of the PMI Group, improved from a loss of Ps. 4.2 billion in 1999 to an income of Ps. 2.7 billion in 2000, in part due to a recognition of the U.S. \$113 million net gain in 2000 in connection with the Repsol equity swap and collar unwind, which is discussed below under "Item 11—Quantitative and Qualitative Disclosures about Market Risk—Risk Management and Financial Instruments."

### **U.S. GAAP Reconciliation**

Operating results under U.S. GAAP differ from operating results under Mexican GAAP due to several factors. The most important of these factors are differences in methods of accounting for exploration and drilling costs, pension and post-retirement obligations, financial instruments and fixed asset adjustments relating to inflation accounting, foreign exchange losses, capitalized interest, depreciation and impairment. For further information regarding these and other differences between Mexican and U.S. GAAP as they relate to our operating results, see Note 19 to the Financial Statements.

#### *Exploration and Drilling Costs*

Under Mexican GAAP, PEMEX charges exploration and drilling costs to the equity reserve for exploration and depletion of oil fields. Exploration and drilling costs related to successful oil wells are credited to the equity reserve and recorded as fixed assets. Cost of sales is recognized by recording a charge for each barrel of crude oil extracted in the statement of operations and recording a credit to the equity reserve. Under U.S. GAAP, PEMEX initially capitalizes the costs of drilling exploratory wells and exploratory-type stratigraphic test wells, which are

subsequently charged to expense if proved reserves are not discovered. Development costs, including the costs of drilling development wells and development-type stratigraphic test wells, are capitalized.

#### *Pensions and Post-retirement Benefits*

Seniority premiums and pension plans are treated differently under U.S. GAAP and Mexican GAAP because of the different actuarial cost assumptions and implementation dates required by Bulletin D-3 and SFAS No. 87. Under Mexican GAAP, PEMEX accounts for supplemental payments under its Bulletin D-3 calculations. However, PEMEX accounts for other health services benefits on a pay-as-you-go basis. Under U.S. GAAP, PEMEX follows the guidelines of SFAS No. 106, which uses the transitional recognition method in accounting for health service and other supplemental payments provided to retirees.

#### *Financial Instruments*

On January 1, 2001, PEMEX adopted Bulletin C-2 for Mexican GAAP purposes, which provides guidance for the definition of financial instruments and requires all financial instruments, with the exception of “held to maturity” instruments, to be recorded at fair value with the related adjustment recognized in earnings. “Held to maturity” instruments and certain derivative instruments qualifying as hedges are to be recorded at amortized cost subject to impairment evaluation. For U.S. GAAP purposes, effective January 1 2001, PEMEX adopted SFAS No. 133 (as amended by SFAS No. 137 and SFAS No. 138), which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. SFAS No. 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting.

The principal differences between the cumulative effect adjustment and current period income effect under Mexican GAAP and U.S. GAAP relate primarily to the accounting for cross currency swaps, foreign currency embedded derivatives and the accounting for the equity swap contracts related to the Repsol shares described in Note 10 to the Financial Statements.

#### *Fixed Asset Adjustments*

*Inflation accounting.* Under Mexican GAAP, PEMEX recognizes the effects of inflation pursuant to NIF-06 BIS “A,” section A, which requires the restatement of non-monetary assets, including inventories of materials and supplies, costs of sales and fixed assets to their net realizable value (in the case of inventories) or through appraisals made by independent appraisers or by using the specific price index (in the case of fixed assets), with the difference being recorded as a revaluation surplus in equity. U.S. GAAP does not require the recognition of the effects of inflation in the consolidated financial statements. Since NIF-06 BIS “A,” section A, does not represent a comprehensive basis for inflation accounting, PEMEX has reversed the effects of NIF-06 BIS “A,” section A, on its financial statements from the U.S. GAAP reconciliation of income and equity retroactively to 1992. Thus, under NIF-06 BIS “A,” section A, a devaluation of the peso does not fully impact PEMEX’s income in the year incurred because a portion of the exchange losses are capitalized into fixed assets. Furthermore, devaluation of the peso relative to the dollar results in an increase in income to the extent that expenses remain relatively stable because they are incurred in pesos, while revenues, which are mostly denominated in dollars or linked to international, dollar-denominated prices, increase in peso terms. In contrast, under U.S. GAAP, devaluation of the peso has a negative impact on PEMEX’s income because the exchange losses are not capitalized but are charged immediately to income.

*Foreign currency exchange losses.* Under Mexican GAAP, exchange losses arising from debt are capitalized as part of fixed assets, and any remaining net exchange differences are reflected in the statement of operations as either a debit to costs and operating expenses or a credit to revenues. Under U.S. GAAP, all exchange gains or losses have been recognized in results of operations.

*Capitalization of interest.* For Mexican GAAP purposes, PEMEX capitalizes interest to property, plant and equipment based on the total interest cost incurred on loans allocated to construction projects, regardless of whether



or not the amounts borrowed have been spent on such projects. For purposes of the U.S. GAAP reconciliation, PEMEX capitalizes interest based upon total interest incurred in proportion to additions to construction in progress.

*Depreciation.* Under Mexican GAAP, PEMEX depreciates the book value of its fixed assets, which includes amounts capitalized for foreign exchange losses and restatements for inflation. For U.S. GAAP purposes, PEMEX has reversed this depreciation expense attributable to foreign exchange losses and restatements for inflation.

*Impairment.* Under U.S. GAAP, SFAS No. 121 requires that PEMEX evaluate its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable or is permanently impaired. SFAS No. 121 requires PEMEX to write-down impaired assets to the fair value, if available, or the discounted present value of expected future cash flows on related assets. PEMEX measures impairment of its oil and gas producing assets based on the undiscounted estimated future cash flows associated with estimated proved reserves on a field-by-field basis.

#### *Other Differences*

In addition to these differences between Mexican and U.S. GAAP, other significant differences that affect our operating results relate to the accounting for accrued vacation, depreciation convention, profit in inventory and the sale of transport assets. See Note 19 to the Financial Statements.

#### *Income and Equity under U.S. GAAP*

For the year ended December 31, 2001, PEMEX's loss under U.S. GAAP was approximately Ps. 25.4 billion, representing a Ps. 8.6 billion decrease from the loss recorded under Mexican GAAP. For the year ended December 31, 2000, PEMEX's loss under U.S. GAAP was approximately Ps. 16.7 billion, representing a Ps. 3.0 billion decrease from the loss recorded under Mexican GAAP. For the year ended December 31, 1999, PEMEX reported a loss under U.S. GAAP of approximately Ps. 15.4 billion, representing a Ps. 5.8 billion decrease from the loss recorded under Mexican GAAP. For further detail regarding the adjustments related to these amounts, see Note 19 to the Financial Statements.

PEMEX's equity (deficit) under U.S. GAAP was approximately Ps. (42.3) billion at December 31, 2001 as compared to Ps. (13.6) billion at December 31, 2000. For further detail regarding the adjustments related to these amounts, see Note 19 to the Financial Statements.

#### *Recently Issued Accounting Standards*

In November 2001, the Mexican Institute of Public Accountants (MIPA) issued revised Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments," which supersedes existing Bulletin C-9, "Liabilities," and Bulletin C-12, "Contingencies and Commitments." The revised Bulletin C-9 establishes a methodology for the following: valuation, presentation and disclosure of liabilities and provisions; valuation and disclosure of contingent assets and liabilities; and disclosure of commitments. Among other things, Bulletin C-9 establishes guidelines for the recognition of liabilities and non-recognition of liabilities in the event of extinguishments, restructurings or conversion to equity. In addition, in the case of provisions, it introduces the concept of discounting long-term provisions. With respect to contingent liabilities, Bulletin C-9 states that all contingent liabilities that have a probable realization must be accounted for and disclosed in the financial statements; contingent liabilities that have a possible realization must be disclosed, but not accounted for, in the financial statements; and contingent liabilities that have a remote realization must not be accounted for and are not required to be disclosed in the financial statements. Bulletin C-9 requires disclosure of committed amounts when they represent significant fixed asset additions, contracted services and goods exceed immediate needs, or the commitment is considered a contracted obligation. The provisions of Bulletin C-9 become effective beginning January 1, 2003, although early adoption is recommended. We are currently evaluating the impact that the adoption of Bulletin C-9 will have on our consolidated financial statements.

In December 2001, the MIPA issued Bulletin C-8, "Intangible Assets," which defines intangible assets as costs incurred and rights or privileges acquired that will generate a future economic benefit. Bulletin C-8 provides a clear definition of research and development costs, requiring that only development costs may be deferred to a future period. Furthermore, Bulletin C-8 states that pre-operating costs should be expensed as a period cost, unless they could be classified as development costs. Bulletin C-8 requires that goodwill and intangible assets with indefinite useful lives, including previously existing goodwill and intangible assets, should not be amortized, but should be tested for impairment annually. Goodwill and intangible assets with finite useful lives should be amortized over their useful lives. The provisions of Bulletin C-8 become effective beginning January 1, 2003, although early adoption is recommended. We are currently evaluating the impact that the adoption of Bulletin C-8 will have on our consolidated financial statements.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," which supersedes Accounting Principles Board (APB) Opinion No. 16, "Business Combinations," and amends or supersedes a number of related interpretations of APB Opinion No. 16. The statement is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method that are completed after June 30, 2001. SFAS No. 141 addresses financial accounting and reporting for business combinations. It eliminates the pooling-of-interests method of accounting for business combinations, and prescribes the initial recognition and measurement of goodwill and other intangible assets, accounting for negative goodwill and the disclosure required for business combinations. The adoption of SFAS No. 141 did not have a material impact on our consolidated financial statements.

Also in July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which supersedes APB Opinion No. 17, "Intangible Assets." SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business acquisition) should be accounted for in financial statements upon their acquisition. SFAS No. 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of SFAS No. 142 become effective for fiscal years beginning after December 15, 2001. SFAS No. 142 is required to be applied at the beginning of an entity's fiscal year and to all goodwill and other intangible assets recognized in its financial statements at that date. We are currently evaluating the impact that the adoption of SFAS No. 142 will have on our consolidated financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the recognition of a liability for the legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction and/or normal operation of the asset. The liability is recognized at fair value in the period in which it is incurred if a reasonable estimate of fair value can be made. A corresponding asset retirement cost is added to the carrying value of the long-lived asset and is depreciated to expense using a systematic and rational method over its useful life. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Upon initial adoption, a liability is recognized for existing asset retirement obligations and the associated asset retirement cost is capitalized as an increase to the carrying value of the asset. The recognized liability and asset are adjusted for cumulative accretion and accumulated depreciation, respectively, from the time period when the asset retirement obligation would have originally been recognized had this statement been in effect on the date of initial adoption. The cumulative effect of initial adoption of SFAS No. 143 is recorded as a change in accounting principle. We are currently evaluating the impact that the adoption of SFAS No. 143 will have on our consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used, but resolves a number of implementation issues and establishes a single accounting model for the disposal of assets. SFAS No. 144 also retains the requirements for reporting discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of by sale, abandonment or distribution to owners, or is classified as held for sale. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and their interim

periods. The provisions of SFAS No. 144 for long-lived assets to be disposed of by sale or otherwise are effective for disposal activities initiated after the effective date of SFAS No. 144 or after its initial application. We are currently evaluating the impact that the adoption of SFAS No. 144 will have on our consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of being unusual or infrequent, as described in APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." In addition, SFAS No. 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. We are currently evaluating the impact that the adoption of SFAS No. 145 will have on the consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The issuance of SFAS No. 146 nullifies the former guidance provided by the Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires the recognition of a liability for costs associated with exit or disposal activity when the liability is incurred, rather than on the date commitment to an exit or disposal plan. SFAS No. 146 is effective for liabilities related to exit or disposal activities incurred after December 31, 2002, although earlier application is encouraged. We are currently evaluating the impact that the adoption of SFAS No. 146 will have on our consolidated financial statements.

### **Change in Independent Auditors**

SECODAM periodically assigns new independent auditors to PEMEX. Pursuant to actions by SECODAM, in 1998 PricewaterhouseCoopers, S.C. ceased to be the independent auditors of PEMEX at the end of fiscal year ended December 31, 1997, and Mancera, S.C. (a Member Practice of Ernst & Young Global) were assigned as the independent auditors for PEMEX on September 25, 1998 for the fiscal years ended December 31, 1998, 1999, and 2000. Pursuant to actions by SECODAM, on October 5, 2001, Mancera, S.C. ceased to be the independent auditors of PEMEX at the end of fiscal year ended December 31, 2000, and Ruiz, Urquiza y Cia., S.C. (formerly a member firm of Andersen Worldwide S.C.) was initially assigned as PEMEX's new auditors beginning in the fiscal year ended December 31, 2001. On May 9, 2002, due to the indictment of Arthur Andersen LLP, SECODAM decided to terminate the engagement of Ruiz, Urquiza y Cia., S.C. for the auditing of PEMEX's financial statements to be included in its annual report on Form 20-F for the fiscal year ended December 31, 2001, and instead appointed PricewaterhouseCoopers S.C. as the current independent auditors to audit those financial statements. As of that date, Ruiz, Urquiza y Cia., S.C. delivered only an audit report on PEMEX's financial statements prepared in accordance with Mexican Financial Reporting Standards applicable to Mexican public-sector entities.

The independent auditors' reports on the financial statements for the 1999, 2000 and 2001 fiscal years have no adverse opinions or disclaimer of opinions, nor do such reports modify or qualify as to uncertainty, audit scope or accounting principles. For the 1997 and 2001 fiscal years, we had no disagreements with PricewaterhouseCoopers S.C. on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure. For the 1998, 1999 and 2000 fiscal years, we had no disagreements with Mancera, S.C. on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure. Ruiz, Urquiza y Cia., S.C. did not and will not deliver an audit report on PEMEX's consolidated financial statements included in its annual report on Form 20-F for the 2001 fiscal year because its engagement was terminated before those financial statements were completed. For the 2001 fiscal year, we had no disagreements with Ruiz, Urquiza y Cia., S.C. on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure with

respect to its report on our financial statements prepared in accordance with Mexican Financial Reporting Standards applicable to Mexican public-sector entities. SECODAM made the decision to change accountants in each of the above instances.

## Item 6. Directors, Senior Management and Employees

An eleven-member board of directors governs Petróleos Mexicanos. The President of Mexico appoints six members, including the Chairman of the Board of Directors. A recent amendment to the Organic Law requires that the members of the Board of Directors of Petróleos Mexicanos include the Secretary of the Ministry of the Environment and Natural Resources. The President of Mexico also appoints the Director General of Petróleos Mexicanos. The Petroleum Workers' Union (which we refer to as the "Union") selects the remaining five directors from among our employees. Alternate directors are authorized to serve on the Board of Directors in place of directors who are unable to attend meetings or otherwise participate in the activities of the Board. The members of the Board of Directors are not appointed for a specific term. The members of the Board of Directors, except for those members selected by the Union, serve subject to the discretion of the President of Mexico.

An eight-member board of directors governs each subsidiary entity. Each of these boards consists of the Director General of Petróleos Mexicanos, the Director General of each of the other three subsidiary entities and four additional directors, who are each appointed by the President of Mexico. The Director General of Petróleos Mexicanos serves as Chairman of the board of each subsidiary entity. Neither the members of the boards of directors nor the executive officers are appointed for a specific term. The members of the boards of directors and the Directors General serve subject to the discretion of the President of Mexico.

On December 2, 2000, in conjunction with the political transition that occurred upon the inauguration of Mr. Vicente Fox Quesada as President of Mexico, we announced that Mr. Raúl Muñoz Leos, former President and Director General of DuPont México, S.A. de C.V. was appointed Director General of Petróleos Mexicanos, effective on such date.

At an extraordinary session of the Board of Directors, held on May 7, 2001, the board also approved the creation of, and confirmed the appointments for, five new executive offices: Corporate Director of Strategic Planning, Corporate Director of Operations, Corporate Director of Engineering and Project Development, Corporate Director for Competitiveness and Innovation and Executive Coordinator.

The following tables set forth certain information with respect to directors and executive officers of Petróleos Mexicanos and each of the subsidiary entities as of September 24, 2002.

### Petróleos Mexicanos—Directors and Executive Officers

<u>Name</u>	<u>Position with Petróleos Mexicanos</u>	<u>Year Appointed</u>
Mr. Ernesto Martens Rebolledo.....	Chairman of the Board of Directors of Petróleos Mexicanos and Secretary of the Ministry of Energy Born: 1933 Business experience: Chairman of the board of directors of Cintra, S.A. de C.V.; Chairman of the board of directors of Aerovías de México, S.A. de C.V.; General Representative of Compañía Mexicana de Aviación, S.A. de C.V.; and Director General of Vitro, S.A. de C.V. Other board memberships: Comisión Federal de Electricidad; Luz y Fuerza del Centro; Banco Nacional de Comercio Exterior, S.N.C.; Nacional Financiera, S.N.C.; and Member of the Technical Board of the Comisión Nacional del Agua	2001

**Petróleos Mexicanos—Directors and Executive Officers**

<b>Name</b>	<b>Position with Petróleos Mexicanos</b>	<b>Year Appointed</b>
Mr. José Luis Romero Hicks .....	Board Member of Petróleos Mexicanos and Director General of Banco Nacional de Comercio Exterior, S.N.C. Born: 1957 Business experience: Corporate Director of Finance and Planning of Desarrolladora Metropolitana, S.A. de C.V.; and Secretary of Planning and Finance of the State of Guanajuato Other board memberships: Banco Nacional de Comercio Exterior, S.N.C.; Seguros Bancomext; Ocean Garden Products, Inc.; Exportadores Mexicanos, S.A. de C.V.; Coordinadora de Asistencia Administrativa, S.A. de C.V.; Desarrollo Inmobiliario Especializado, S.A. de C.V.; and World Trade Center, Mexico City	2001
Mr. Victor Lichtinger Waisman .....	Board Member of Petróleos Mexicanos and Secretary of the Ministry of the Environment and Natural Resources Born: 1957 Business experience: Partner of Especialistas Ambientales, S.A. de C.V.; and Executive Director of the Environment Cooperation Commission of the Trilateral NAFTA Commission	2002
Mr. Luis Ernesto Derbez Bautista .....	Board Member of Petróleos Mexicanos and Secretary of the Ministry of Economy Born: 1947 Business experience: Economic Program Coordinator for President Vicente Fox's Presidential Campaign; Professor at the Instituto Tecnológico de Estudios Superiores de Monterrey; and Independent Consultant to the World Bank Other board memberships: Aeropuertos y Servicios Auxiliares; Baja Bulk Carriers; Banco Nacional de Comercio Exterior, S.N.C.; Caminos y Puentes Federales y Servicios Conexos; and Centro Nacional de Metrología	2001
Mr. Pedro Cerisola y Weber .....	Board Member of Petróleos Mexicanos and Secretary of the Ministry of Communications and Transportation Born: 1949 Business experience: General Coordinator for Vicente Fox's Presidential Campaign; and Regional Director General and Planning Director of Teléfonos de México, S.A. de C.V. Other board memberships: Aeropuertos y Servicios Auxiliares (Chairman); Caminos y Puentes Federales de Ingresos y Servicios Conexos (Chairman); Telecomunicaciones de México (Chairman); Servicio Postal Mexicano (Chairman); and Banco Nacional de Obras y Servicios Públicos, S.N.C.	2001
Mr. José Francisco Gil Díaz .....	Board Member of Petróleos Mexicanos and Secretary of the Ministry of Finance and Public Credit Born: 1943 Business experience: Director General of Avantel; Deputy Governor of Banco de México; and Undersecretary of the Ministry of Finance and Public Credit Other board memberships: Banco Nacional de Comercio Exterior, S.N.C (Chairman); Comisión Federal de Electricidad; and Luz y Fuerza del Centro	2001

**Petróleos Mexicanos—Directors and Executive Officers**

<b>Name</b>	<b>Position with Petróleos Mexicanos</b>	<b>Year Appointed</b>
Mr. Ramón Hernández Toledo .....	Board Member of Petróleos Mexicanos and Union Representative Born: 1937 Business experience: Field Supervisor and other positions in Petróleos Mexicanos	1992
Mr. Pablo Pavón Vinales.....	Board Member of Petróleos Mexicanos and Union Representative Born: 1945 Business experience: Other positions in Petróleos Mexicanos	1992
Mr. Luis Ricardo Aldana Prieto .....	Board Member of Petróleos Mexicanos; Union Representative; and Senator Born: 1954 Business experience: General Secretary of Section 40 of the Union	2001
Mr. Alejandro Sánchez Narváez.....	Board Member of Petróleos Mexicanos and Union Representative Born: 1952 Business experience: Other positions in Petróleos Mexicanos	2001
Mr. Mario Martínez Aldana .....	Board Member of Petróleos Mexicanos and Union Representative Born: 1952 Business experience: Other positions in Petróleos Mexicanos	2001
Mr. Raúl Muñoz Leos .....	Director General Born: 1939 Business experience: President and Director General of DuPont México, S.A. de C.V.	2000
Mr. Juan José Suárez Coppel.....	Corporate Director of Finance Born: 1959 Business experience: Chief of Staff of the Secretary of the Ministry of Finance; Corporate Treasury Director of Grupo Televisa; and Director of the Derivatives Trading Desk in Banco Nacional de México S.A.	2001
Ms. Martha Alicia Olvera Rodríguez ....	Deputy Director of Programming and Budget Born: 1954 Business experience: Associate Managing Director of Planning and Financial Programming of Petróleos Mexicanos; Associate Managing Director of Budget Control of Petróleos Mexicanos; and Deputy Manager of Programs Integration of Petróleos Mexicanos	2002
Mr. Emilio Marco Aguilar.....	Deputy Director of Investment Projects Born: 1952 Business experience: Deputy Director of Programming and Budget of Petróleos Mexicanos; Associate Managing Director of Budgeting of Petróleos Mexicanos; Associate Managing Director of Operation and Results Evaluation; and Deputy Manager of Analysis and Evaluation of Petróleos Mexicanos	2001

**Petróleos Mexicanos—Directors and Executive Officers**

<b>Name</b>	<b>Position with Petróleos Mexicanos</b>	<b>Year Appointed</b>
Mr. Ricardo Koller Revueltas.....	Deputy Director of Financial Information Systems Born: 1966 Business experience: Director General of Sociedad General de Asesoría en Comercio Exterior e Impuestos, S.C.; Associate Managing Director of the Legal and Fiduciary Management in Banco Nacional de Obras y Servicios Públicos, S.N.C.; Coordinator of the Auditing Group of Servicios Aduanales Integrados de Guadalajara, S.A. de C.V.; and Tax Counsel of Grupo Monterrey Consultores, S.C. Board memberships: Servicios Aéreos Especializados Mexicanos, S.A. de C.V.; Integrated Trade Systems, Inc.; Fondo Laboral de Pensiones; and Fideicomiso de Cobertura Laboral y de la Vivienda	2002
Mr. Rigoberto Ariel Yépez García .....	Deputy Director of Economic Planning Born: 1965 Business experience: Professor and Researcher in the Economics Department of the Instituto Tecnológico Autónomo de México; Director General of Prices and Tariffs Policy of the Ministry of Finance and Public Credit; and Associate Managing Director of Business Development of Pemex-Gas and Basic Petrochemicals	2001
Mr. Gerardo Vargas Ateca .....	Deputy Director of Finance and Treasury Born: 1958 Business experience: Director General of Corporate Banking and Investment of Banco Santander Mexicano, S.A.; Director General of Treasury of Banca Serfin; and Director of Operations of Fondo Bancario de Protección al Ahorro	2001
Mr. José Manuel Carrera Panizzo.....	Deputy Director of Risk Management Born: 1969 Business experience: Associate Managing Director of Metals, Currencies and Agreements of International Exchanges; and Market Researcher and Broker of Banco de México	2001
Mr. Julio Camelo Martínez.....	Corporate Director of Administration Born: 1937 Business experience: Director General of Algodonera Comercial Mexicana; Undersecretary of Educational Planning of the Ministry of Public Education; and Undersecretary of Planning and Infrastructure of the Ministry of Agrarian Reform	2001
(Vacant).....	Deputy Director of Labor Relations	
Mr. José César Nava Vázquez.....	General Counsel of Petróleos Mexicanos Born: 1974 Business experience: Advisor Coordinator of the Ministry of Social Development; Congressman of the LVIII Legislative Period; Legal Coordinator in the Transition Group of President Vicente Fox	2001
Mr. Víctor Manuel Vázquez Zárate.....	Deputy Director of Medical Services Born: 1943 Business experience: Associate Managing Director of Medical Services of Petróleos Mexicanos; Deputy Manager of Administrative Technical Support of Petróleos Mexicanos; and Medical Advisor of the Corporate Services Management of Petróleos Mexicanos	2000



**Petróleos Mexicanos—Directors and Executive Officers**

<b>Name</b>	<b>Position with Petróleos Mexicanos</b>	<b>Year Appointed</b>
Mr. Rafael Fernández de la Garza .....	Corporate Director of Industrial Safety and Environmental Protection Born: 1948 Business experience: Chief of Engineering of the Carboelectric Central Facility of Río Escondido; and Manager and Chief of Engineering of the Nucleoelectrical Central Facility of Laguna Verde	1997
Mr. José Tomás Limón Hernández.....	Deputy Director of Operations Coordination Born: 1943 Business experience: Managing Director of Cantarell Project; Director of Cantarell Project; and Administrator of Activo Cantarell	2001
Mr. Roberto Osegueda Villaseñor .....	Corporate Director for Strategic Planning Born: 1938 Business experience: Director General of OMV Ingeniería Comercial, S.A. de C.V.; Director of Chemical and Petrochemical Division of Fomento Industrial Somex, S.A. de C.V.; and Associate Managing Director of Crude Oil Exportation of Petróleos Mexicanos Board memberships: Asociación Veracruzana, S.A. de C.V. (Vice President)	2001
Mr. Eliut González Salinas.....	Deputy Director of Sector Relations Born: 1951 Business experience: Associate Managing Director of Evaluation and Information; Deputy Manager of Information; and General Superintendent of Information to the Public Sector	2002
Mr. Pedro Carlos Gómez Flores .....	Deputy Director of Organization Development Born: 1951 Business experience: Deputy Director of Sector Relations; Deputy Director of Strategic Planning; and Deputy Director of Distribution of Pemex-Refining	2001
Mr. José Antonio Ceballos Soberanis....	Corporate Director of Operations Born: 1943 Business experience: Director General of Pemex-Exploration and Production; Deputy Director of Trading of Pemex-Refining; and Executive Coordinator of Internal Trade	2001
(Vacant).....	Deputy Director of Patrimonial Management	
(Vacant).....	Deputy Director of Corporate Services	
Mr. Othón Canales Treviño .....	Corporate Director for Competitiveness and Innovation Born: 1952 Business experience: Director General of Quimi-Corp Internacional, S.A. de C.V.; Director General of Othón Canales Ingenieros, S.C.; and Deputy Director of Industrias Resistol, S.A. Board memberships: Kappler Safety Group	2001
Mr. Sergio F. Cruz Carranza .....	Deputy of Strategic Planning Born: 1942 Business experience: Director General of Corporación Industrial Portuaria, S.A. de C.V.; Associate Managing Director of Special Projects of Petróleos Mexicanos; and Associate Managing Director of Infrastructure Coordination of Petróleos Mexicanos	2001

**Petróleos Mexicanos—Directors and Executive Officers**

<u>Name</u>	<u>Position with Petróleos Mexicanos</u>	<u>Year Appointed</u>
Mr. Andrés Antonio Moreno y Fernández .....	Corporate Director of Engineering and Project Development Born: 1938 Business experience: President of Mokal Consultores, S.C.; Deputy Director of Construction of the Comisión Federal de Electricidad; and Director General of Lumberas y Túneles, S.A. de C.V.	2001
Mr. Ernesto Ríos Montero .....	Deputy Director of Engineering Born: 1936 Business experience: Director of Consultoría Empresarial Ejecutiva; Executive Vice President of Grupo Bufete Industrial; and Plant Manager of Síntesis Orgánicas, S.A.	2001
Mr. Enrique Bazúa Rueda .....	Deputy Director of Technological Development Born: 1946 Business experience: Director of the Chemistry Faculty of the Universidad Nacional Autónoma de México; Research and Planning Coordinator of the Instituto Mexicano del Petróleo; and Professor in the Chemistry Faculty of the Universidad Nacional Autónoma de México	2001
Mr. Jorge Alberto Aguilar López .....	Deputy Director of Contracting Born: 1956 Business experience: Executive Secretary of Public Works and Related Services of Petróleos Mexicanos; Project Director of Grupo México; Manager of Financial Planning of the Comisión Federal de Electricidad; and Private Consultant Board memberships: Kot Insurance Company, Ltd.	2001
Mr. Renato Valle Favela.....	Deputy Director of Industrial Plants Projects Born: 1946 Business experience: Advisor of Design, Construction, Supervision and Mounting of Electromechanical Equipment of Hydraulic Works in the Comisión Nacional del Agua; and Manager of Thermoelectrical Construction Projects of the Comisión Federal de Electricidad	2001
Mr. Javier Pérez Saavedra .....	Deputy Director of Quality Control Born: 1945 Business experience: Director General and President of Pérez Saavedra y Asociados Consultores, S.A. de C.V.; Adviser to the Comisión Nacional del Agua; Deputy Director of Administration of the Comisión Nacional del Agua; and Commissioner of Desarrollo de Negocios Prendarios, S.A. de C.V.	2001
Mr. Guillermo Ruiz Gutiérrez .....	Deputy Director of Operation Evaluation Born: 1959 Business experience: Associate Managing Director; Manager; and Superintendent of Petróleos Mexicanos	2001
Mr. Reynaldo Jáuregui Zentella .....	Deputy Director of Alliances and New Business Born: 1940 Business experience: Director of New Projects of Pargo; Associate Managing Director of Information and Public Relations of Petróleos Mexicanos; and Personal Secretary to the Director General of Petróleos Mexicanos	2001

**Petróleos Mexicanos—Directors and Executive Officers**

<b>Name</b>	<b>Position with Petróleos Mexicanos</b>	<b>Year Appointed</b>
Mr. José Gastón Paulovich Rodríguez...	Deputy Director of Cultural Transformation Born: 1968 Business experience: Liason Director of Union de Empresarios para la Tecnología en la Educación, A.C.; Professional Development Director of Universidad Anáhuac; and Entrepreneurial Promotion Director of Generación Empresarial Mexicana, S.C.	2002
Mr. Francisco Javier Casas Guzmán ....	Head of the Internal Control Body Born: 1945 Business experience: Director of Modernization and Structural Change and Director of Finance of the Comisión Federal de Electricidad; Undersecretary of Energy Operation of the Ministry of Energy; and General Administrator of Federal Fiscal Auditing of the Ministry of Finance and Public Credit	2001
Mr. Federico Domínguez Zuloaga .....	Head of Liabilities Area and Head of Complaints Area Born: 1959 Business experience: Deputy Administrator of Coercive Collection of the Ministry of Finance and Public Credit; Independent Advisor; and Chief of Loan Services for the Fondo para la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado	2001
Mr. Gustavo Roviroza Renero .....	Head of Control and Evaluation Auditing Born: 1939 Business experience: Deputy Director of Assets Streamlining; Advisor to the Director General of Aseguradora Hidalgo, S.A.; and Director of Administrative Services of Aseguradora Hidalgo, S.A.	2001
Mr. Manuel Vázquez Bustillos .....	Head of the Auditors' Area Born: 1939 Business experience: Associate Managing Director of Supervision of Entities and Affiliates of Petróleos Mexicanos; General Comptroller of the Ministry of Energy; and General Comptroller of the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado	1997
Mr. J. Salvador Gómez Ávila .....	Corporate Auditor of Environmental Protection Born: 1943 Business experience: Associate Managing Director of Strategic Planning and Deputy Director of Planning of Pemex-Petrochemicals	1998
Mr. Antonio Juan Marcos Issa .....	Advisor for Special Projects of the Director General Born: 1946 Business experience: Secretary of Finance of the Government of Coahuila; Regional Director of the Ministry of Foreign Affairs; and Representative of Petróleos Mexicanos for Europe.	2002
Mr. Melchor de los Santos Ordóñez .....	Executive Coordinator to the Director General Born: 1950 Business experience: Senator in the Mexican Congress; Director of Delegations of Banco Nacional de Obras y Servicios Públicos, S.N.C.; and President of the Universidad Autónoma de Coahuila	2001

**Petróleos Mexicanos—Directors and Executive Officers**

<b>Name</b>	<b>Position with Petróleos Mexicanos</b>	<b>Year Appointed</b>
Mr. Moisés Ithuriel Orozco García.....	Executive Advisor to the Director General Born: 1968 Business experience: Associate Managing Director of Strategic Planning; Executive Advisor Coordinator of Pemex-Petrochemicals; and General Director of Special Projects of the Ministry of Energy	2001
Mr. Raoul Capdevielle Orozco.....	Technical Secretary of the Director General Born: 1943 Business experience: Deputy Comptroller of Liabilities; Legal Coordinator of Instalaciones Inmobiliarias para Industrias, S.A.; and Legal Director of Concesiones en Triturados Basálticos y Derivados, S.A. de C.V.	2001

**Pemex-Exploration and Production—Directors and Executive Officers**

<b>Name</b>	<b>Position with Pemex-Exploration and Production</b>	<b>Year Appointed</b>
Mr. Raúl Muñoz Leos .....	Chairman of the Board of Pemex-Exploration and Production (refer to Petróleos Mexicanos)	2000
Mr. Armando Leal Santa Ana.....	Board Member of Pemex-Exploration and Production (refer to Pemex-Refining)	2001
Mr. Marcos Ramírez Silva .....	Board Member of Pemex-Exploration and Production (refer to Pemex-Gas and Basic Petrochemicals)	1996
Mr. Rafael Beverido Lomelín.....	Board Member of Pemex-Exploration and Production (refer to Pemex-Petrochemicals)	2001
Mr. Juan José Suárez Coppel.....	Board Member of Pemex-Exploration and Production (refer to Petróleos Mexicanos)	2002
Mr. Carlos Hurtado López.....	Board Member of Pemex-Exploration and Production and Undersecretary of Disbursements of the Ministry of Finance and Public Credit Born: 1955 Business experience: Coordinator of Advisors in Economic and Social Development Matters; Coordinator of Advisors of the Ministry of Finance and Public Credit; and Mexico's Representative to the Organization for Economic Cooperation and Development (OECD) Other board memberships: Aeropuertos y Servicios Auxiliares; Ferrocarriles Nacionales de México; and Luz y Fuerza del Centro	2001
Mr. Juan Antonio Bargés Mestres .....	Board Member of Pemex-Exploration and Production and Undersecretary of Hydrocarbons of the Ministry of Energy Born: 1945 Business experience: Director of Planning and Director General of Aeronáutica Civil Other board memberships: Banco Nacional de Comercio Exterior, S.N.C.; and Nacional Financiera, S.N.C.	2001

**Pemex-Exploration and Production—Directors and Executive Officers**

<u>Name</u>	<u>Position with Pemex-Exploration and Production</u>	<u>Year Appointed</u>
Mr. Salvador Rubén Ortiz Vértiz .....	Board Member of Pemex-Exploration and Production and General Coordinator of Mining of the Ministry of Economy Born: 1949 Business experience: Adjunct Director and Deputy Director of Sectorial Studies for Banco Nacional de México, S.A.; and Advisor to the Energy Sector and Basic Industries for Banco Nacional de México, S.A. Other board memberships: Consejo de Recursos Minerales (Board of Mineral Resources); Fideicomiso de Fomento Minero (The Mining Trust); Exportadora de la Sal, S.A. de C.V.; and Transportadora de Sal, S.A. de C.V.	2002
Mr. Luis Ramírez Corzo y Hernández .....	Director General Born: 1948 Business experience: Director General of Turbinas Solar, S.A. de C.V. Other board memberships: Desarrollos Inmobiliarios CUGA, S.A. de C.V. (Chairman)	2001
Mr. Federico Martínez Salas .....	Executive Director of the Project to Modernize and Improve Cantarell Field Born: 1943 Business experience: Deputy Director of Primary Production Projects; Board member of Gutsa Constructores, S.A. de C.V.; and Executive Vice President of Grupo ICA	2001
Mr. J. Javier Hinojosa Puebla.....	Deputy Internal Director (Northern Marine Region) Born: 1958 Business experience: Coordinator of the Executive Commercial Operative Coordination; Associate Managing Director of Analysis and Investment Evaluation in Exploration; Associate Managing Director of Technical Operative Coordination; and Associate Managing Director of Production (South Region) of Pemex-Exploration and Production	1999
Mr. Alfredo Eduardo Guzmán Baldizán.....	Deputy Director (North Region) Born: 1947 Business experience: Executive Coordinator of Exploration Strategies; Associate Managing Director of Planning (North Region); and Associate Managing Director of Exploration (North Region) of Pemex-Exploration and Production	2001
Mr. Maclovio Yáñez Mondragón .....	Deputy Director (South Region) Born: 1948 Business experience: Deputy Director (North Region); Associate Managing Director of Perforation and Well Maintenance (South Region); and Associate Managing Director of Perforation and Well Maintenance (Marine Region) of Pemex-Exploration and Production	2001

**Pemex-Exploration and Production—Directors and Executive Officers**

<u>Name</u>	<u>Position with Pemex-Exploration and Production</u>	<u>Year Appointed</u>
Mr. Héctor Leyva Torres.....	Deputy Director (Southern Marine Region) Born: 1948 Business experience: Associate Managing Director of Production (Marine Region); Associate Managing Director of Production (South Region) and Deputy Director (South Region) of Pemex-Exploration and Production Board memberships: Administración Portuaria de Dos Bocas	1997
Mr. Rafael J. Bracho Ransom.....	Deputy Director of Management and Finance Born: 1947 Business experience: Director of Instalaciones Inmobiliarias para Industrias, S.A. de C.V.; and Deputy Director of Finance	2002
Mr. Carlos Rasso Zamora.....	Deputy Director of Drilling and Well Maintenance Born: 1946 Business experience: Inspector of Mines and Hydrocarbons of the Ministry of National Patrimony; Superintendent and Zone Manager in Petróleos Mexicanos	1997
(Vacant).....	Executive Director of the Models' Design Project of the Multiple Services Contracts	
Mr. Carlos A. Morales Gil.....	Deputy Director of Planning Born: 1954 Business experience: Deputy Director (South Region); Associate Managing Director of Production (South Region); Associate Managing Director of Planning (South Region); and Associate Managing Director of Analysis and Investment Evaluation (South Region) of Pemex-Exploration and Production	2001
Mr. Guillermo Cruz Domínguez Vargas .....	Deputy Director of Technology and Professional Development Born: 1946 Business experience: Deputy Director of Planning of Pemex-Exploration and Production; Associate Managing Director of Planning (Marine Region); and Associate Managing Director of Production (South Region) of Pemex-Exploration and Production	1996
Mr. Pedro Silva López.....	Executive Director of the Gas Strategic Program Born: 1953 Business experience: Associate Managing Director of Strategic Planning; Associate Managing Director of the Burgos Project (Northern Region); and Associate Managing Director of Planning (North Region) of Pemex-Exploration and Production	1999
(Vacant).....	Executive Coordinator of Exploration Strategies	
Mr. Roberto Alor Terán.....	Head of the Internal Control Body Born: 1950 Business experience: General Comptroller of the Instituto de Servicios de Seguridad Social para los Trabajadores del Estado; Internal Comptroller of Aeropuertos y Servicios Auxiliares; and Deputy Director of Budget of the Sistema Nacional para el Desarrollo Integral de la Familia	2001

**Pemex-Refining—Directors and Executive Officers**

<u>Name</u>	<u>Position with Pemex-Refining</u>	<u>Year Appointed</u>
Mr. Raúl Muñoz Leos .....	Chairman of the Board of Pemex-Refining (refer to Petróleos Mexicanos)	2000
Mr. Luis Ramírez Corzo y Hernández...	Board Member of Pemex-Refining (refer to Pemex-Exploration and Production)	2001
Mr. Marcos Ramírez Silva .....	Board Member of Pemex-Refining (refer to Pemex-Gas and Basic Petrochemicals)	1996
Mr. Rafael Beverido Lomelín.....	Board Member of Pemex-Refining (refer to Pemex Petrochemicals)	2001
Mr. Carlos Hurtado López.....	Board Member of Pemex-Refining (refer to Pemex-Exploration and Production)	2001
Mr. Juan Antonio Bargés Mestres .....	Board Member of Pemex-Refining (refer to Pemex-Exploration and Production)	2001
Mr. Andrés Antonio Moreno y Fernández .....	Board Member of Pemex-Refining (refer to Petróleos Mexicanos)	2002
Mr. Juan Bueno Torio .....	Board Member of Pemex-Refining and Undersecretary for Small and Medium Enterprise of the Ministry of Economy Born: 1953 Business experience: Coordinator of the Energy Sector in the Transition Group of President Vicente Fox; Congressman of the LVII Legislative Session; and Director General of Grupo Empresarial Bueno Other board memberships: Banco Nacional de Comercio Exterior, S.N.C.; Centro de Investigación y Asesoría Tecnológica en Cuero y Calzado; Nacional Financiera, S.N.C.; Ocean Garden Products, Inc.; Banco del Ahorro Nacional y Servicios Financieros, S.N.C.; Exportadores Asociados, S.A. de C.V.; and Fideicomiso de los Laboratorios Nacionales de Fomento Industrial	2001
Mr. Armando Leal Santa Ana.....	Director General Born: 1937 Business experience: Director General of Pemex-Petrochemicals; Deputy Director of Production of Pemex-Refining; and Associate Managing Director of Production Control	2001
Mr. Alberto E. Alcaraz Granados.....	Deputy Director of Production Born: 1952 Business experience: Associate Managing Director of Production Control; Associate Managing Director of Refinería General Lazaro Cárdenas; and Associate Managing Director of Refinería Ing. Antonio M. Amor	2002
Mr. Enrique Samuel López Albarrán.....	Deputy Director of Trading Born: 1951 Business experience: Senior Vice President for Latin America of Reichhold Chemical Inc., Executive Vice President of Reichhold Chemical Inc.; and Director General of Reichhold Química de México S.A. de C.V. Board memberships: Growth Enterprise Team, S.C. (Chairman)	2001

**Pemex-Refining—Directors and Executive Officers**

<u>Name</u>	<u>Position with Pemex-Refining</u>	<u>Year Appointed</u>
Mr. Cutberto O. Azuara Pavón.....	Deputy Director of Storage and Distribution Born: 1947 Business experience: Associate Managing Director of Pipelines Transportation; Deputy Manager of Technical Evaluation of Refineries; and Commercial Representative and President of PMI Services North America, Inc.	2001
Mr. Miguel Angel Rivera Villaseñor.....	Deputy Director of Management and Finance Born: 1945 Business experience: Deputy Director of Management and Finance of Pemex-Exploration and Production; Corporate Deputy Director of Proceeds and Financial Programming of Petróleos Mexicanos; Executive Coordinator of Programming and Financial Control of Petróleos Mexicanos; and Director General of Metal Mechanical Industry and Capital Assets to the Ministry of Commerce and Industrial Development	2001
Mr. Rómulo Aguiñaga Enciso.....	Deputy Director of Projects and Capital Maintenance Born: 1939 Business experience: Managing Director of Projects and Capitalized Maintenance of Pemex-Petrochemicals; Associate Managing Director of Works and Capitalized Maintenance of Pemex-Petrochemicals; Advisor to the Director General of Pemex-Petrochemicals	2001
Mr. José Luis Jaramillo Hernández.....	Deputy Director of Planning, Coordination and Evaluation Born: 1943 Business experience: Deputy Director of Planning of Pemex-Petrochemicals; Director General of Petroquímica Morelos, S.A. de C.V.; and Deputy Director of Operation of Pemex-Petrochemicals	2001
Mr. Francisco Aparicio Varela.....	Head of the Internal Control Body Born: 1946 Business experience: Director of Trading of Servicios Aeroportuarios del Sureste; Director of Projects of Trituradores Basálticos y Derivados, S.A. de C.V.; and Coordinator of Refining and Petrochemicals of the Ministry of Energy	2001
Mr. Daniel Gómez Bilbao.....	Auditor of Industrial Safety and Environmental Protection Born: 1948 Business experience: Associate Managing Director of Evaluation of the Corporate General Comptroller of Petróleos Mexicanos; Deputy Director of Training and Technical Services; Deputy Director of Research and Industrial Transformation; and Deputy Director of Refining and Petrochemicals of the Instituto Mexicano del Petróleo	2001

**Pemex-Gas and Basic Petrochemicals—Directors and Executive Officers**

<u>Name</u>	<u>Position with Pemex-Gas and Basic Petrochemicals</u>	<u>Year Appointed</u>
Mr. Raúl Muñoz Leos.....	Chairman of the Board of Pemex-Gas and Basic Petrochemicals (refer to Petróleos Mexicanos)	2000
Mr. Luis Ramírez Corzo y Hernández..	Board Member of Pemex-Gas and Basic Petrochemicals (refer to Pemex-Exploration and Production)	2001



**Pemex-Gas and Basic Petrochemicals—Directors and Executive Officers**

<u>Name</u>	<u>Position with Pemex-Gas and Basic Petrochemicals</u>	<u>Year Appointed</u>
Mr. Armando Leal Santa Ana.....	Board Member of Pemex-Gas and Basic Petrochemicals (refer to Pemex-Refining)	2001
Mr. Rafael Beverido Lomelin.....	Board Member of Pemex-Gas and Basic Petrochemicals (refer to Pemex Petrochemicals)	2001
Mr. Carlos Hurtado López.....	Board Member of Pemex-Gas and Basic Petrochemicals (refer to Pemex-Exploration and Production)	2001
Mr. Juan Antonio Bargés Mestres.....	Board Member of Pemex-Gas and Basic Petrochemicals (refer to Pemex-Exploration and Production)	2001
Mr. Juan José Suárez Coppel.....	Board Member of Pemex-Gas and Basic Petrochemicals (refer to Petróleos Mexicanos)	2002
Ms. María de Lourdes Dieck Assad.....	Board Member of Pemex-Gas and Basic Petrochemicals and Coordinator of Advisors of the Secretary of Economy Born: 1954 Business experience: Director of the Ph.D. Administration Program of the Graduate School of Administration and Business Management; Professor in the Economics Department at the Instituto Tecnológico de Estudios Superiores de Monterrey; Professor in the Economics Department at Trinity College; and Consultant for the World Bank	2002
Mr. Marcos Ramírez Silva.....	Director General Born: 1957 Business experience: Deputy Director of Liquefied Gas and Basic Petrochemicals of Pemex-Gas and Basic Petrochemicals; Deputy Director of Planning and Operative Control of Pemex-Gas and Basic Petrochemicals; and Commercial Director of Petroleum and Petrochemical Products of P.M.I. Comercio Internacional, S.A. de C.V.	1996
Mr. Roberto Ramírez Soberón.....	Deputy Director of Planning Born: 1950 Business experience: Commercial Associate Managing Director; Associate Managing Director of Control and Measuring; and Associate Managing Director of Trading	1997
Mr. Salvador García-Luna Rodríguez...	Deputy Director of Liquefied Gas and Basic Petrochemicals Born: 1959 Business experience: Commercial Director of Crude Oil; Commercial Associate Managing Director of Petroleum Products; and Deputy Manager of Residuals of PMI Comercio Internacional, S.A. de C.V.	1996
Mr. Luis Felipe Luna Melo.....	Deputy Director of Natural Gas Born: 1956 Business experience: Commercial Representative in Tokyo and Deputy Manager of Analysis of P.M.I. Comercio Internacional, S.A. de C.V.; and President of P.M.I. Holdings North America, Inc.	1996
Mr. Claudio Trulín Espinosa.....	Deputy Director of Management and Finance Born: 1945 Business experience: Associate Managing Director of Internal Management and Corporate Support; Advisor to the Major Officer of the Ministry of Public Security; Director of Support Services of the Ministry of Public Security of the Federal District; and Technical Secretary of Industrial Safety and Environmental Protection Auditing of Petróleos Mexicanos	2001

**Pemex-Gas and Basic Petrochemicals—Directors and Executive Officers**

<u>Name</u>	<u>Position with Pemex-Gas and Basic Petrochemicals</u>	<u>Year Appointed</u>
Mr. Armando R. Arenas Briones .....	Deputy Director of Production Born: 1948 Business experience: Various positions in Petróleos Mexicanos	1996
Mr. Claudio F. Urencio Castro .....	Deputy Director of Pipelines Born: 1949 Business experience: Director General of Programming and Budget of the Federal District Department; Undertreasurer of Taxation Management of the Federal District Department; Director of Economic Research of Bancomer S.N.C.; and General Director of Economic Analysis of the Ministry of Commerce and Industrial Development	1996
Mr. Andrés Alvarez Kuri .....	Head of the Internal Control Body Born: 1962 Business experience: General Manager and Partner of Isla Caribe Rent, S.A. de C.V.; Auditing Coordinator of the Internal Comptroller Area of the Instituto Mexicano del Seguro Social; and Control Coordinator and Special Auditing of the Internal Comptroller Area of the Instituto Mexicano del Seguro Social	2001

**Pemex- Petrochemicals—Directors and Executive Officers**

<u>Name</u>	<u>Position with Pemex-Petrochemicals</u>	<u>Year Appointed</u>
Mr. Raúl Muñoz Leos .....	Chairman of the Board of Pemex-Petrochemicals (refer to Petróleos Mexicanos)	2000
Mr. Luis Ramírez Corzo y Hernández ..	Board Member of Pemex-Petrochemicals (refer to Pemex-Exploration and Production)	2001
Mr. Armando Leal Santa Ana .....	Board Member of Pemex-Petrochemicals (refer to Pemex-Refining)	2001
Mr. Marcos Ramírez Silva .....	Board Member of Pemex-Petrochemicals (refer to Pemex-Gas and Basic Petrochemicals)	1996
Mr. Carlos Hurtado López .....	Board Member of Pemex-Petrochemicals (refer to Pemex-Exploration and Production)	2001
Mr. Juan Antonio Bargés Mestres .....	Board Member of Pemex-Petrochemicals (refer to Pemex-Exploration and Production)	2001
Mr. Andrés Antonio Moreno y Fernández .....	Board Member of Pemex-Petrochemicals (refer to Petróleos Mexicanos)	2002

**Pemex- Petrochemicals—Directors and Executive Officers**

<u>Name</u>	<u>Position with Pemex-Petrochemicals</u>	<u>Year Appointed</u>
Mr. Juan Antonio García Villa.....	Board Member of Pemex-Petrochemicals and Undersecretary of Regulation and Services to Industry and Foreign Trade of the Ministry of Economy Born: 1945 Business experience: Senator and Representative in the Mexican Congress Other board memberships: Consejo Directivo del Centro Nacional de Metrología; Instituto Nacional de la Propiedad Industrial; Comisión Federal de Electricidad; Comisión Nacional para el Ahorro de Energía; Fondo de Información y Documentación para la Industria; Corporación Mexicana de Investigación en Materiales, S.A. de C.V.; Centro de Investigación en Química Aplicada; Centro de Ingeniería y Desarrollo Industrial en Electroquímica; Telecomunicaciones de México; Entidad Mexicana de Acreditación; Normalización y Certificación de Competencia Laboral; Laboratorios de Biológicos y Reactivos Mexicanos; Petroquímica Cosoleacaque, S.A. de C.V.; Petroquímica Pajaritos, S.A. de C.V.; Petroquímica Cangrejera, S.A. de C.V.; Petroquímica Tula, S.A. de C.V.; Petroquímica Morelos, S.A. de C.V.; Petroquímica Escolín, S.A. de C.V.; Petroquímica Camargo, S.A. de C.V.; and Systems and Electrical Transportation of the Federal District Government	2001
Mr. Rafael Beverido Lomelín.....	Director General Born: 1942 Business experience: Director General and other positions in Industrias Negromex S.A. de C.V.	2001
Mr. Lorenzo Aldeco Ramírez .....	Deputy Director of Planning Born: 1955 Business experience: Associate Managing Director of Operations of Servicios de Operaciones de Nitrógeno, S.A. de C.V.; Associate Managing Director of Unit of Industrias Negromex, S.A. de C.V.; and Associate Managing Director of Purchases of Industrias Negromex, S.A. de C.V.	2001
(Vacant).....	Deputy Director of Planning	
Mr. Mario Hugo González Petrikowsky .....	Deputy Director of Management and Finance Born: 1937 Business experience: Associate Managing Director of Budgeting; Advisor to the Deputy Direction of Programming and Budgeting; and Deputy Director of Planning of Pemex-Petrochemicals	2001
Mr. Carlos Pani Espinosa.....	Deputy Director of Trading Born: 1947 Business experience: Business consultant; Director General of Troy Industrias, S.A. de C.V.; and several positions in Grupo Desc.	2001
Mr. Amadeo Álvarez Corrales.....	Head of the Internal Control Body Born: 1954 Business experience: Legal Advisor of the Internal Comptroller Office in Pemex-Gas and Basic Petrochemicals; Personal Secretary of the Deputy Director of Distribution; and Personal Secretary of the Deputy Director of Natural Gas	2002

## Compensation of Directors and Officers

For the year ended December 31, 2001, the aggregate compensation of executive officers of Petróleos Mexicanos and the subsidiary entities (95 persons) paid or accrued in that year for services in all capacities was approximately Ps. 225 million. Members of the boards of directors of Petróleos Mexicanos and the subsidiary entities do not receive compensation for their services.

## Board Practices

Neither the members of the boards of directors nor the executive officers are appointed for a specific term. The members of the boards of directors, except for those selected by the Union, and the Directors General of Petróleos Mexicanos and the subsidiary entities serve subject to the discretion of the President of Mexico.

Petróleos Mexicanos has established an audit committee which cooperates with the Board of Directors of Petróleos Mexicanos and the Office of the Director General in improving the organization, operation, and achievement of financial and budgetary results. The main functions of the Audit Committee are (i) to promote the economy, efficiency, efficacy and effectiveness of PEMEX with regard to operations, modernization, and compliance with government regulations, (ii) to cooperate with the Board of Directors of Petróleos Mexicanos in assimilating, analyzing and summarizing the matters in which the Audit Committee is involved, and (iii) to provide advice to Petróleos Mexicanos and the subsidiary entities. In the performance of its duties, the Audit Committee analyzes, among other data, financial and operative information, performance indicators, reported problems and recommendations presented by the different control areas, and the independent auditors report to the financial statements. The Audit Committee is permanent and meets at least four times a year prior to the meetings of the Board of Directors of Petróleos Mexicanos.

The audit committee is composed of the following members:

<u>Name and position in audit committee</u>	<u>Position of the members of the audit committee</u>
Mr. Raúl Muñoz Leos, President .....	Director General of Petróleos Mexicanos
Mr. Francisco Javier Casas Guzmán, Executive Member .....	Head of the Internal Control Body of Petróleos Mexicanos
Mr. Felipe Ramón y Castañeda, Member .....	Commissary for Petróleos Mexicanos
Mr. César Chavira Enriquez, Member .....	Representative of General Comptroller's Office (Follow-Up and Evaluation Unit for Public Performance)
Mr. Juan José Suárez Coppel, Member .....	Representative of Financial Area of Petróleos Mexicanos
Mr. Julio Camelo Martínez, Member .....	Representative of Administrative Area of Petróleos Mexicanos
Mr. Juan Arturo Lim Medrano, Member .....	Representative of the Ministry of Finance (Office of the General Director of Programming and Sectorial Budgeting)
Mr. Francisco Torres Roldán, Member .....	Representative of the Ministry of Energy (General Director of Financial Operations of the Hydrocarbons Sector)
Mr. José Rafael Robles Díaz.....	Representative of the Ministry of Energy (Legal Affairs Director)

In addition, through late 2001, Mancera, S.C., through Mr. Luis Celhay López, and Ruiz Urquiza y Cía, in early 2002, through Mr. Arturo García Bello, attended the Audit Committee meetings and presented reports in connection with the tasks performed.

## Employees

Excluding employees of the PMI Group and including those employed by PEMEX on a temporary basis, at December 31, 2001, Petróleos Mexicanos and the subsidiary entities had 134,852 employees, as compared with 135,091 at December 31, 2000. During 2001, Petróleos Mexicanos and the subsidiary entities employed an average of 13,829 temporary employees. The following table sets forth the number of employees of Petróleos Mexicanos, the subsidiary entities and the PMI Group for the past five years.

	At December 31,					2001 % of Total
	1997	1998	1999	2000	2001	
Pemex-Refining.....	44,722	49,908	48,939	47,717	47,710	35.38
Pemex-Exploration and Production.....	34,467	36,503	43,417	46,215	43,208	32.04
Pemex-Petrochemicals.....	12,488	13,245	13,900	13,256	14,578	10.81
Pemex-Gas and Basic Petrochemicals.....	12,507	10,678	10,690	10,595	11,716	8.69
Petróleos Mexicanos.....	<u>17,036</u>	<u>16,364</u>	<u>15,550</u>	<u>17,038</u>	<u>17,640</u>	<u>13.08</u>
Total.....	<u>121,220</u>	<u>126,698</u>	<u>132,496</u>	<u>135,091</u>	<u>134,852</u>	<u>100.00</u>
PMI Group.....	285	289	289	303	324	—

Source: *Petróleos Mexicanos*

The Union represents approximately 79% of the work force of Petróleos Mexicanos and the subsidiary entities. The members of the Union are our employees and they elect their own leadership from among their ranks. Since the Union's official establishment in 1938, we have experienced no labor strikes, and although we have experienced work stoppages for short periods of time, none of these stoppages has had a significant material adverse effect on our operations. However, SECODAM, the Comptroller General's office, has recently announced an investigation into certain alleged improper diversions of federal monies by Union officials. See "Item 8—Financial Information—Legal Proceedings—Mexican Government Audits and Other Investigations."

Our relationship with our employees is regulated by the *Ley Federal del Trabajo* (Federal Labor Law) and a collective bargaining agreement between Petróleos Mexicanos and the Union. The collective bargaining agreement regulates extensively all aspects of the relationship of Petróleos Mexicanos and the subsidiary entities with their employees. The collective bargaining agreement is subject to renegotiation every two years, although salaries are reviewed annually. Wages increased by 8.5% in 2001 and 12% in 2000, in line with the Mexican Government's price and wage accords. Petróleos Mexicanos and the Union renewed the collective bargaining agreement effective August 1, 2001, pursuant to which wages were increased by 8.5%. The renewed contract was set to expire on July 31, 2003. However, recently, following an impasse in negotiations over salaries and a threat of a strike, on September 29, 2002, PEMEX and the Union reached an agreement on a total salary increase of 7.3% (consisting of a 5.5% increase in wages and a 1.8% increase in benefits). PEMEX will pay this increase in wages and benefits to its workers, including retirees in accordance with the collective bargaining agreement, retroactively to August 1, 2002.

In accordance with the collective bargaining agreement and the Federal Labor Law, Petróleos Mexicanos and the subsidiary entities are under an obligation to pay seniority premiums to retiring employees and pension and death benefits to retired employees or their survivors. Retirees are entitled to receive increases in their pensions whenever salary increases are granted to current employees. We also provide health and medical benefits to employees, retired employees and their families and, subject to our overall budgetary constraints, we provide an interest-rate subsidy on employees' mortgage loans.

On November 5, 1997 the Ministry of Finance and Public Credit and the Board of Directors of Petróleos Mexicanos authorized the formation of a new trust called the Pemex Labor Fund. This fund is a vehicle to fund labor liabilities, current pension payments and seniority premiums. We have designed a contribution plan to increase the funds held in this trust and to continue to make payments on outstanding labor and pension liabilities. Our contributions to the Pemex Labor Fund amounted to Ps. 4,100 million in 2001 and Ps. 3,442 million in 2000.

## **Item 7. Major Shareholders and Related Party Transactions**

### **Major Shareholders**

Petróleos Mexicanos and the subsidiary entities have no shareholders because they are decentralized public entities of the Mexican Government. The Mexican Government closely regulates and supervises our operations; it incorporates the annual budget and financing programs of Petróleos Mexicanos and the subsidiary entities into its consolidated annual budget, which it submits to the Mexican Congress for its approval.

The Mexican Government also directs many executive decisions at PEMEX. Mexican Government ministers hold a majority of the seats on the Board of Directors of Petróleos Mexicanos, and the Secretary of Energy of Mexico is the Chairman of the Board. The General Comptroller's Office of the Mexican Government (SECODAM) appoints PEMEX's external auditors and the Director General of Petróleos Mexicanos is a member of the President of Mexico's cabinet and the Mexican Government. See also "Item 3—Key Information—Risk Factors—Risk Factors Related to the Relationship between PEMEX and the Mexican Government" and "Item 10—Additional Information—Share Capital."

### **Related Party Transactions**

Under Article 8, Section XI of the *Ley Federal de Responsabilidades Administrativas de los Servidores Públicos* (Federal Law of Administrative Responsibilities of Public Servants), which is applicable to all of our employees, PEMEX's employees are obligated to "recuse themselves from intervening in any way in the attention to, processing or resolution of matters in which they might have personal, family or business interest, including those where some benefit can result for themselves, their spouse, blood or affinity relatives up to the fourth degree, or civil relatives, or for third parties with which they have professional, laboral, or business relations, or for partners or partnerships where the public servant or the persons referred above are or have been members of."

## **Item 8. Financial Information**

### **Legal Proceedings**

#### *Labor-related Proceedings*

In the ordinary course of our business, we are a party to various legal actions, including those involving labor claims of former and present employees. These labor disputes relate to severance payments, life insurance benefits, extensions of labor contracts, level of wages, improper termination and employee housing. We do not expect these lawsuits to have a material adverse effect on our financial condition or future results of operations.

On September 29, 2002, PEMEX and the Union reached an agreement that, among other things, settled negotiations relating to their annual salary review. For more information regarding this agreement, see “Item 6—Directors, Senior Management and Employees—Employees.”

#### *Mexican Government Audits and Other Investigations*

Following the change in presidential administrations, in 2001, the General Comptroller’s Office of the Mexican Government, which we refer to as “SECODAM,” conducted an audit of PEMEX’s operations in 2000 and previous years. In the audit, SECODAM identified a series of transactions between PEMEX and the Union during 2000 which PEMEX believes involved illicit behavior. We describe the transactions, allegations and related proceedings below.

On January 21, 2002, SECODAM announced that it had submitted a criminal complaint to the *Procuraduría General de la República* (the Office of the Federal Attorney General) for the diversion of Ps. 1,580 million in federal monies from PEMEX to the Union from March 2000 to October 2000. SECODAM has alleged that the payments were not properly made under applicable Mexican laws and government regulations.

In addition, the Federal Attorney General has filed charges against certain former officers of PEMEX charging them with exceeding the scope of their corporate powers in executing the several transactions under investigation. On March 20, 2002, *Petróleos Mexicanos* filed three criminal complaints with the Federal Attorney General requesting prosecution principally of Rogelio Montemayor Seguy (former Director General), Carlos Juaristi Septién (former Corporate Management Director) and Juan José Domene Berlanga (former Chief Financial Officer) for acting illegally, outside the scope of their corporate powers and without the consent of PEMEX’s Board of Directors, PEMEX’s general counsel or the Mexican Government to illegally divert to the Union and certain of its representatives a total of Ps. 1,660 million (which includes the Ps. 1,580 previously identified by SECODAM in its complaint). Mr. Montemayor resigned from PEMEX effective November 30, 2000 concurrent with President Fox’s appointment of Raúl Muñoz Leos as Director General. Messrs. Juaristi and Domene ended their affiliation with PEMEX in February 2001 as a result of the change in administration following the appointment of Mr. Muñoz Leos. If the former officers or any other parties are found guilty, Mexican law requires the court to order restitution to PEMEX for the improperly diverted amounts. To date, PEMEX has not sought restitution from the Union, because the Union has not been identified as a criminal defendant in its own right. PEMEX notes that it plans to pursue any legal action necessary to obtain restitution from whomever is found responsible.

In May 2002, a Mexican federal judge issued arrest warrants against certain former officers of *Petróleos Mexicanos* (including Messrs. Montemayor, Juaristi and Domene) for their embezzlement and unlawful use of their corporate powers and privileges. On July 1, 2002, Mr. Montemayor elected to surrender himself to U.S. federal authorities in Texas instead of federal authorities in Mexico. The Mexican Government has formally requested that the U.S. authorities extradite Mr. Montemayor to Mexico; the hearing on his extradition is set for December 8, 2002.

On September 10, 2002, the Federal Attorney General submitted a request to the Mexican Congress that it remove the legislative immunity from prosecution of Senator Ricardo Aldana Prieto, who is a member of the Board of Directors of *Petróleos Mexicanos* as a representative of the Union, as well as the legislative immunity of federal Congressman Carlos Romero Deschamps and of state representative Jesús Olvera Méndez. If the Mexican Congress

strips these individuals of their legislative immunity, the Federal Attorney General will be able to proceed with their criminal prosecution for their participation in the illegal diversion of PEMEX funds.

Since learning from SECODAM about the illegal diversion of funds, PEMEX has been cooperating with SECODAM and the Office of the Federal Attorney General to prosecute the responsible persons. In addition, our Director General has promoted a number of initiatives and has enacted certain rules in order to promote a culture of ethics and prevent corruption in PEMEX's daily operations. On July 31, 2002, an ethics code (Código de Ética de los Servidores Públicos de la Administración Pública Federal) was published in the Official Gazette of the Federation containing rules to promote legality, honesty, integrity, loyalty, impartiality and efficiency in the performance of public work by public officers. Prior to this, President Vicente Fox Quesada's cabinet had committed to follow a code of ethics which embodies the conduct that the people of Mexico expect of their public servants. In addition, all of PEMEX's officers are now required to attend an ethics program, and PEMEX is currently developing a corporate code of ethics that will better define the duties and scope of corporate powers of all of its officers in order to prevent abuses. Separately, SECODAM, through its audit representatives at PEMEX, is analyzing the illegal transactions involving the Union to determine how to better implement federal laws and internal regulations applicable to PEMEX and its officers in order to prevent future abuses. PEMEX expects that these efforts will result in a more effective system of internal controls.

We note that we recorded the Ps. 1,660 million, the diversion of which is the subject of the prosecution, as an administrative expense in 2000. In the event that we receive any restitution in the future with respect to this matter, it will be appropriately recorded as a gain in the period in which cash is received, in accordance with Mexican and U.S. GAAP.

#### *Civil Actions*

We prevailed in a legal claim before a Mexican federal court brought by Comercio Exterior y Materias Primas S.A. (CEMP), a service provider to Pemex-Exploration and Production, for damages in the amount of U.S. \$104.6 million and Ps. 62.4 million as compensation for services provided by CEMP but not paid by Pemex-Exploration and Production. CEMP appealed that decision to the Mexican Supreme Court, and on November 26, 2001, Pemex-Exploration and Production prevailed in the appeal and was absolved of all related claims made by CEMP.

In September 2001, Conproca, the construction company performing construction and maintenance services for Pemex-Refining's Cadereyta refinery, filed a claim for arbitration in accordance with the International Chamber of Commerce rules against Pemex-Refining related to expenses incurred by Conproca in providing such services. The claim is for U.S. \$497.4 million. We are currently participating in mediation to resolve this dispute supported by the ordinary Mexican legal defenses. Pemex-Refining believes that it has sufficient elements to support its acquittal. Accordingly, we have not created a reserve to pay for any potential judgment or settlement.

In December 2001, Odin Construcciones, S.A. de C.V. (Odin), a Mexican construction company, filed a claim for damages against Petróleos Mexicanos related to works concluded but not yet paid. The claim was for approximately U.S. \$103 million. In March 2002, a Mexican federal court entered a judgment in PEMEX's favor. However, Odin filed an appeal to reverse that decision. We do not expect that the results of this appeal will have a material adverse effect on our financial condition or future results of operations.

In October 2000, in accordance with Article 73 of the Acquisitions, Leasing and Public Sector Services Law, Pemex-Refining settled a legal dispute with Productos Ecológicos S.A. de C.V. (Proesa) relating to the early termination of a long-term MTBE supply and services contract involving an MTBE plant that was never built before the Court for International Arbitration of the International Chamber of Commerce. Proesa's initial claim against Pemex-Refining was for approximately U.S. \$650 million. However, after discussion and negotiation in private arbitration proceedings, Pemex-Refining agreed to settle the dispute for a total amount of approximately U.S. \$146.5 million (U.S. \$127 million plus taxes). The settlement was formalized by an agreement between Pemex-Refining and Proesa, dated October 16, 2000, and fully paid on the same date; the full payment was recorded as an expense in 2000. SECODAM is currently reviewing the contracts entered into by Pemex-Refining and Proesa on a confidential basis.



### *U.S. Anti-dumping Dispute*

On June 29, 1999, Save Domestic Oil, Inc., a group of independent oil producers in the United States, filed a petition before the U.S. Department of Commerce and the International Trade Commission pursuant to the United States' antidumping and countervailing duty laws against imports of crude oil from Mexico, Saudi Arabia, Venezuela and Iraq. The United States' antidumping and countervailing duty laws provide for the imposition of additional duties on imports of merchandise if certain determinations as to the existence of dumped prices or countervailing subsidies and material injury or threat thereof to the relevant U.S. industry are made. On August 9, 1999, the U.S. Department of Commerce determined that it would not initiate antidumping and countervailing duty investigations on crude oil from Mexico, Saudi Arabia and Iraq. The U.S. Department of Commerce dismissed the petition, stating that it was prohibited by law from initiating investigations because there was not the requisite U.S. industry support for the petition. The U.S. Department of Commerce has stated that its decision not to initiate investigations means that these cases are closed and that neither the U.S. Department of Commerce nor the International Trade Commission will take further action. On September 7, 1999, Save Domestic Oil, Inc. filed a complaint against the United States seeking review of the U.S. Department of Commerce's decision. This action is still pending.

### **Dividends**

In March 1990, as a result of the implementation of the 1989-92 Financing Package for Mexico, our commercial bank creditors exchanged U.S. \$7.58 billion of Petróleos Mexicanos' external indebtedness for Brady Bonds issued by the Mexican Government. At the same time, Petróleos Mexicanos' indebtedness to the Mexican Government increased by the same amount; the new indebtedness was denominated in currencies other than pesos. In December 1990, the Mexican Government and Petróleos Mexicanos agreed to capitalize this indebtedness, converting it into Certificates of Contribution "A." As a condition of this capitalization, Petróleos Mexicanos agreed to pay a minimum guaranteed dividend to the Mexican Government equal to the debt service on the capitalized debt. The Board of Directors of Petróleos Mexicanos approves the total dividend on the Certificates of Contribution "A" after the end of each fiscal year, although Petróleos Mexicanos pays an amount equal to the minimum guaranteed dividend to the Mexican Government in monthly advance payments during the year. During 1997, 1998, 1999, 2000 and 2001, Petróleos Mexicanos made advance payments to the Mexican Government in the aggregate of, Ps. 5,804 million, Ps. 3,064 million, Ps. 5,138 million, Ps. 5,564 million and Ps. 2,153 million respectively, towards the minimum guaranteed dividends for those years. See "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Equity Structure and the Certificates of Contribution 'A.'"

## **Item 9. The Offer and Listing**

Trading in the securities issued by Petróleos Mexicanos and the Pemex Project Funding Master Trust takes place primarily on the Luxembourg Stock Exchange.

## **Item 10. Additional Information**

### **Share Capital**

Petróleos Mexicanos and the subsidiary entities have no shareholders because they are decentralized public entities of the Mexican Government. For a discussion of the structure of the Mexican Government's equity in PEMEX, see "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Equity Structure and the Certificates of Contribution 'A.'"

### **Memorandum and Articles of Association**

Petróleos Mexicanos and each of the subsidiary entities is a decentralized public entity of the Mexican Government. The Mexican Congress established Petróleos Mexicanos by a decree dated June 7, 1938 effective July 20, 1938. None of Petróleos Mexicanos or the subsidiary entities has bylaws or articles of association. On July 17, 1992, the Mexican Congress created the subsidiary entities out of operations that had previously been directly managed by Petróleos Mexicanos. Petróleos Mexicanos and its four subsidiary entities, Pemex-Exploration and Production, Pemex-Refining, Pemex-Gas and Basic Petrochemicals and Pemex-Petrochemicals, are decentralized public entities of the Mexican Government, and each is a legal entity empowered to own property and carry on business in its own name. The activities of Petróleos Mexicanos and the subsidiary entities are regulated by the Political Constitution of the United Mexican States, the Regulatory Law, the Organic Law, regulations issued pursuant to the Regulatory Law and other federal laws and regulations. See "Item 4—Information on the Company—History and Development." Six members of the Board of Directors of Petróleos Mexicanos, including the Chairman, are appointed by the President of Mexico. Our Union selects the remaining five directors from among employees of Petróleos Mexicanos and the subsidiary entities. An eight-member board of directors governs each subsidiary entity. Each of these boards consists of the Director General of Petróleos Mexicanos, the Director General of each of the other three subsidiary entities and four additional directors, who are each appointed by the President of Mexico. The members of the boards of directors of Petróleos Mexicanos and each of the subsidiary entities are not appointed for a specific term, and, except for those members selected by the Union, they serve subject to the discretion of the President of Mexico.

### **Material Contracts**

On June 16, 1993, in connection with the establishment of its U.S. \$500,000,000 Medium-Term Notes, Series A, Program, Petróleos Mexicanos entered into a Fiscal Agency Agreement with Bankers Trust Company (currently Deutsche Bank Trust Company Americas, which we refer to as "Deutsche Bank"), as Fiscal Agent. On February 26, 1998, in connection with the establishment of its U.S. \$1,500,000,000 Medium-Term Notes, Series B, Program, Petróleos Mexicanos amended and restated the Fiscal Agency Agreement. Under the new program, Petróleos Mexicanos issued the following securities:

- ITL 200,000,000,000 (U.S. \$120,081,355.12) Fixed Reverse Floating Rate Notes due 2008, issued on February 26, 1998;
- U.S. \$750,000,000 Daily Adjusted Yield Securities due 2005, issued on July 9, 1998; and
- U.S. \$250,000,000 Daily Adjusted Yield Securities due 2005, issued on July 17, 1998.

On July 24, 1998, Petróleos Mexicanos increased the aggregate principal amount of debt securities issuable under its Medium-Term Notes program to U.S. \$3,500,000,000. Following this increase, Petróleos Mexicanos issued the following securities:

- U.S. \$600,000,000 9.375% Notes due December 2, 2008, Puttable at Par on December 2, 2001, issued on November 1998; and
- U.S. \$500,000,000 9.50% Puttable or Mandatorily Exchangeable Securities due 2027, issued May 5, 1999.

On October 5, 1999, Petróleos Mexicanos increased the aggregate principal amount of debt securities issuable under its Medium-Term Notes program to U.S. \$6,000,000,000. Following the increase, Petróleos Mexicanos issued the following securities:

- €175,000,000 8.00% Guaranteed Notes due October 2003, issued on October 7, 1999; and
- U.S. \$600,000,000 6.50% Guaranteed Notes due February 1, 2005, issued on August 29, 2001.

On November 10, 1998, Petróleos Mexicanos, The Bank of New York and The Bank of New York (Delaware) entered into a Trust Agreement, which created the Pemex Project Funding Master Trust and designated The Bank of New York as Managing Trustee and The Bank of New York (Delaware) as Delaware Trustee. On the same date, Petróleos Mexicanos, the subsidiary entities and the Pemex Project Funding Master Trust, acting through The Bank of New York, entered into an Assignment and Indemnity Agreement. This agreement provides for the assignment by the subsidiary entities to the Pemex Project Funding Master Trust of certain payment obligations relating to PIDIREGAS, the arrangement by Petróleos Mexicanos of financing on behalf of the Pemex Project Funding Master Trust to meet such payment obligations, the payment by Petróleos Mexicanos and the subsidiary entities to the Pemex Project Funding Master Trust of the amounts necessary to meet the Pemex Project Funding Master Trust's obligations under such financings and the indemnification of the Pemex Project Funding Master Trust by Petróleos Mexicanos and the subsidiary entities.

On December 1, 1998, a Receivables Purchase Agreement was entered into by and among Pemex Finance, Ltd., PMI, P.M.I. Services, B.V. and Pemex-Exploration and Production. Pursuant to this agreement, Pemex-Exploration and Production agrees to export at least 90% of its exports of crude oil to PMI, which in turn agrees to sell all current and expected eligible receivables to P.M.I. Services, B.V. upon the request of Pemex Finance, Ltd. P.M.I. Services, B.V. agrees to sell such eligible receivables to Pemex Finance, Ltd. contemporaneously with its purchase of them.

On July 31, 2000, in connection with the establishment of a U.S. \$3,000,000,000 Medium Term Notes, Series A, Program on behalf of the Pemex Project Funding Master Trust, Petróleos Mexicanos and the Pemex Project Funding Master Trust entered into an Indenture Agreement with Deutsche Bank, as Trustee. This agreement provides for the issuance by the Pemex Project Funding Master Trust from time to time of unsecured debt securities. These issuances are unconditionally guaranteed by Petróleos Mexicanos. Pursuant to a Guaranty Agreement, dated July 29, 1996, Petróleos Mexicanos' obligations are jointly and severally guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals. Pursuant to the Indenture Agreement, the Pemex Project Funding Master Trust has issued the following securities:

- €500,000,000 7.75% Notes due 2007, issued on July 31, 2000;
- U.S. \$500,000,000 9.125% Notes due 2010, issued on October 4, 2000;
- U.S. \$1,000,000,000 8.50% Notes due 2008, issued on February 5, 2001; and
- U.S. \$500,000,000 9.125% Notes due 2010, issued on June 7, 2001.

On November 14, 2001, the Pemex Project Funding Master Trust increased the aggregate principal amount of debt securities issuable under its Medium-Term Notes program to U.S. \$6,000,000,000. Following the increase, the Pemex Project Funding Master Trust issued the following securities:

- U.S. \$750,000,000 8.00% Notes due 2011, issued on November 26, 2001;

- U.S. \$500,000,000 Floating Rate Notes due 2005, issued on January 7, 2002;
- U.S. \$1,000,000,000 7.875% Notes due 2009, issued on February 1, 2002; and
- U.S. \$500,000,000 8.625% Bonds due 2022, issued on February 1, 2002.

On November 24, 2000, the Mexican Government, through the Ministry of Finance and Public Credit, as transferor, the Pemex Project Funding Master Trust, as transferee, and Petróleos Mexicanos, as guarantor, entered into a *Convenio de Derivación de Fondos* (Transfer of Funds Agreement) whereby the Ministry of Finance and Public Credit transferred U.S. \$676,161,058 net in cash to the Pemex Project Funding Master Trust which will assume U.S. \$698.3 million of the Mexican Government's payment obligations beginning on December 31, 2002.

As of December 31, 2001 and 2000, PEMEX has entered into contracts with various contractors for an approximate amount of Ps. 46,820 million and Ps. 68,972 million, respectively. These contracts are for the development of PIDIREGAS and are therefore subject to standards required in NIF-09 A, which is a Mexican accounting guideline that outlines specific accounting and budgetary treatment applicable to PIDIREGAS. For an explanation of NIF-09 A, see "Item 4—Information on the Company—History and Development—Capital Expenditures and Investment" and Note 2 d) to the Financial Statements.

### **Exchange Controls**

Mexico has had a free market for foreign exchange since 1991, and the government has allowed the peso to float freely against the U.S. dollar since December 1994. There can be no assurance that the government will maintain its current foreign exchange policies. See "Item 3—Key Information—Exchange Rates" and "Item 3—Key Information—Risk Factors—Considerations related to Mexico."

### **Taxation**

#### *The 1997 Securities, the 1998 Securities, the 1999 Securities and the 2001 Securities*

Pursuant to a registration statement on Form F-4 (File No. 333-7796), which was declared effective by the U.S. Securities and Exchange Commission, which we refer to as the "Commission," on October 17, 1997, Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals registered pursuant to the Securities Act of 1933 up to U.S. \$600,000,000 of 8.85% Global Guaranteed Notes due 2007 and up to U.S. \$400,000,000 of 9.50% Global Guaranteed Bonds due 2027. These securities are collectively referred to as the 1997 Securities.

Pursuant to a registration statement on Form F-4 (File No. 333-9310), which was declared effective by the Commission on August 24, 1998, Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining, and Pemex-Gas and Basic Petrochemicals registered pursuant to the Securities Act of 1933 up to U.S. \$350,000,000 of 8<sup>3</sup>/<sub>8</sub>% Global Guaranteed Notes due 2005 and up to U.S. \$350,000,000 of 9<sup>1</sup>/<sub>4</sub>% Global Guaranteed Bonds due 2018. These securities are collectively referred to as the 1998 Securities.

Pursuant to a registration statement on Form F-4 (File No. 333-10906), which was declared effective by the Commission on October 1, 1999, Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining, and Pemex-Gas and Basic Petrochemicals, registered pursuant to the Securities Act of 1933 up to U.S. \$600,000,000 of 9<sup>3</sup>/<sub>8</sub>% Notes due December 2, 2008, Puttable at Par on December 2, 2001 (the Puttable Notes). Pursuant to a registration statement on Form F-4 (File No. 333-10706), which was declared effective by the Commission on October 1, 1999, Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals registered pursuant to the Securities Act of 1933 up to U.S. \$500,000,000 of 9.50% Puttable or Mandatorily Exchangeable Securities (POMES<sup>SM</sup>) due 2027. The securities registered in 1999 under these two registration statements are collectively referred to as the 1999 Securities.

Pursuant to a registration statement on Form F-4 (File No. 333-13812), which was declared effective by the Commission on August 29, 2001, Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining, and

Pemex-Gas and Basic Petrochemicals registered pursuant to the Securities Act of 1933 up to U.S. \$1,000,000,000 of 8.50% Notes due 2008 and up to U.S. \$1,000,000,000 of 9.125% Notes due 2010. These securities are collectively referred to as the 2001 Securities.

### *Taxation Generally*

The following summary contains a description of the principal Mexican and U.S. federal income tax consequences of the ownership and disposition of the 1997 Securities, the 1998 Securities, the 1999 Securities and the 2001 Securities (all as defined above), but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in, or dispose of, the 1997 Securities, 1998 Securities, the 1999 Securities or the 2001 Securities.

This summary is based on the federal tax laws of Mexico and the United States in force on the date of this Form 20-F, including the provisions of the income tax treaty between the United States and Mexico together with related protocol (the Tax Treaty) (which are subject to change), and does not describe any tax consequences arising under the laws of any state or municipality in Mexico, the United States or any other jurisdiction, or the laws of any taxing jurisdiction other than the federal laws of Mexico and the United States.

Mexico has also entered into, or is negotiating, tax treaties with various countries that may have effects on holders of 1997 Securities, 1998 Securities, 1999 Securities or the 2001 Securities. This summary does not discuss the consequences (if any) of such treaties.

Each holder or beneficial owner of 1997 Securities, 1998 Securities, 1999 Securities or the 2001 Securities should consult its tax advisor as to the Mexican, United States or other tax consequences of the ownership and disposition of those securities, including the effect of any foreign, state or municipal tax laws, and the consequences of the application of any tax treaty to which Mexico is a party.

### *Mexican Taxation*

This summary of certain Mexican federal tax considerations refers only to holders of 1997 Securities, 1998 Securities, 1999 Securities or the 2001 Securities that are not residents of Mexico for Mexican tax purposes and that do not conduct a trade or business in Mexico through a permanent establishment (we refer to any such non-resident holder as a Foreign Holder). For purposes of Mexican taxation, an individual is a resident of Mexico if he has established his domicile in Mexico, unless he has resided in another country for more than 183 calendar days, whether consecutive or not in any calendar year and can demonstrate that he has become a resident of that other country for tax purposes.

A legal entity is a resident of Mexico if;

- it has been incorporated under the laws of Mexico;
- maintains the principal administration of its business in Mexico; or
- it has established its effective management in Mexico.

If a person has a permanent establishment in Mexico, such permanent establishment shall be required to pay taxes in Mexico on income attributable to such permanent establishment in accordance with Mexican federal tax law.

*Taxation of Interest.* Under the *Ley del Impuesto Sobre la Renta* (Income Tax Law), payments of interest (which is deemed to include any amounts paid in excess of the original issue price), made by a Mexican issuer (including Petróleos Mexicanos) in respect of notes or bonds and other debt securities to a Foreign Holder will generally be subject to a Mexican withholding tax assessed at a rate of 4.9%, if the following requirements are met:

- the relevant notes or bonds are registered with the Special Section of the National Registry of Securities and Intermediaries maintained by the National Banking and Securities Commission, and evidence of such registration is filed with the Ministry of Finance and Public Credit; and
- the notes or bonds are placed outside of Mexico through banks or brokerage houses in a country that has entered into a treaty to avoid double taxation with Mexico; and
- we duly comply with the information requirements established in the general rules issued by the Ministry of Finance and Public Credit for such purposes.

If the requirements for the 4.9% rate are not met, the rate of withholding tax on payments to a Foreign Holder will be 10%.

If the effective beneficiaries, directly or indirectly, individually or jointly with related parties, receive more than 5% of the interest paid on notes or bonds and (1) own directly or indirectly, individually or jointly, with related parties, more than 10% of the voting stock of the issuer or (2) are entities 20% or more of whose stock is owned directly or indirectly, individually or jointly, by parties related to the issuer, the Mexican withholding tax rate applicable to payment of interest on notes or bonds may be significantly higher.

Payments of interest made by Petróleos Mexicanos or Pemex-Exploration and Production, Pemex-Refining, and Pemex-Gas and Basic Petrochemicals in respect of the 1997 Securities, the 1998 Securities, the 1999 Securities and the 2001 Securities to non-Mexican pension or retirement funds will be exempt from Mexican withholding taxes, provided that any such fund:

- is duly organized pursuant to the laws of its country of origin and is the effective beneficiary of the interest payment;
- the income from such interest payment is exempt from income tax in such country of residence; and
- is registered with the Ministry of Finance and Public Credit for that purpose.

*Additional Amounts.* Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining, and Pemex-Gas and Basic Petrochemicals have agreed, subject to specified exceptions and limitations, to:

- pay Additional Amounts (as defined in the Indenture dated September 18, 1997 between Petróleos Mexicanos and Deutsche Bank (the 1997 Indenture)) to the holders of the 1997 Securities in respect of the Mexican withholding taxes mentioned above;
- pay Additional Amounts (as defined in the Indenture dated August 7, 1998 between Petróleos Mexicanos and Deutsche Bank (the 1998 Indenture)) to the holders of the 1998 Securities in respect of the Mexican withholding taxes mentioned above;
- pay Additional Amounts (as defined in the Indenture dated as of July 31, 1999 between Petróleos Mexicanos and Deutsche Bank) to the holders of the Puttable Notes;
- pay Additional Amounts (as defined in the Indenture dated as of July 15, 1999 between Petróleos Mexicanos and Deutsche Bank) to the holders of the POMES<sup>SM</sup> in respect of the Mexican withholding taxes described above; and
- pay Additional Amounts (as defined in the Indenture dated as of July 31, 2000 among the Pemex Project Funding Master Trust, Petróleos Mexicanos and Deutsche Bank) to the holders of the 2001 Securities in respect of the Mexican withholding taxes mentioned above.

If Petróleos Mexicanos pays Additional Amounts in respect of such Mexican withholding taxes, any refunds received with respect to such Additional Amounts will be for the account of Petróleos Mexicanos.

Holders or beneficial owners of the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities may be requested to provide certain information or documentation necessary to enable Petróleos Mexicanos or Pemex-Exploration and Production, Pemex-Refining, and Pemex-Gas and Basic Petrochemicals to establish the appropriate Mexican withholding tax rate applicable to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not provided on a timely basis, the obligation of Petróleos Mexicanos or Pemex-Exploration and Production, Pemex-Refining, and Pemex-Gas and Basic Petrochemicals to pay Additional Amounts may be limited.

*Taxation of Dispositions.* Capital gains resulting from the sale or other disposition of the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities by a Foreign Holder will not be subject to Mexican income or withholding taxes.

*Other Mexican Tax Considerations.* Under the Income Tax Law, any discount received by a non-resident upon purchase of the notes or bonds issued by a Mexican issuer, are deemed interest income, and therefore, subject to taxes in Mexico. Such interest income is calculated as the difference between the face value (plus accrued interest not subject to withholding) and the purchase price of such notes or bonds. If any such note or bond is sold by a Mexican resident or a non-resident with a permanent establishment in Mexico, such taxes must be paid by the seller, on behalf of the non-resident purchaser, within 15 days after the sale. However, when the sale is made by a Foreign Holder, the Income Tax law is unclear as to how such taxes, if any, would be paid by or on behalf of the purchaser.

*Transfer and Other Taxes.* There are no Mexican stamp, registration, or similar taxes payable by a Foreign Holder in connection with the purchase, ownership or disposition of the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities. A Foreign Holder of the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities will not be liable for Mexican estate, succession, gift, inheritance or similar tax with respect to such securities.

## **United States Taxation**

This summary of certain U.S. federal income tax considerations deals principally with persons that will hold the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities as capital assets and whose functional currency is the United States dollar. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules of general application or that are assumed to be known to investors. This summary generally does not address the tax treatment of holders that may be subject to special tax rules, such as banks, insurance companies, tax-exempt organizations, dealers in securities or currencies, traders in securities electing to mark to market, or persons that hold the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities as a position in a “straddle” for tax purposes or as part of a “synthetic security” or a “conversion transaction” or other integrated investment comprised of such securities and one or more other investments, nor does it address the tax treatment of holders that do not acquire the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities at their issue price as part of the initial distribution. Investors who purchase the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities at a price other than the issue price should consult their tax advisor as to the possible applicability to them of the amortizable bond premium or market discount rules. As used in this section “Taxation,” the term “United States Holder” means an individual who is a citizen or resident of the United States, a U.S. domestic corporation, or any other person that is subject to U.S. federal income taxation on a net income basis in respect of its investment in the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities.

*Taxation of Interest and Additional Amounts.* A United States Holder will treat the gross amount of interest and Additional Amounts (*i.e.*, without reduction for Mexican withholding taxes) as ordinary interest income in respect of the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities. Mexican withholding taxes paid at the appropriate rate applicable to the United States Holder will be treated as foreign income taxes eligible for credit against such United States Holder’s U.S. federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of such United States Holder, for deduction in computing

such United States Holder's taxable income. Interest and Additional Amounts will constitute income from sources without the United States for U.S. foreign tax credit purposes. Such income generally will constitute "passive income" or, in the case of certain United States Holders, "financial services income" for U.S. foreign tax credit purposes unless the Mexican withholding tax applicable to the United States Holder is imposed at a rate of at least 5%, in which case such income generally will constitute "high withholding tax interest."

The calculation of foreign tax credits and, in the case of a United States Holder that elects to deduct foreign taxes, the availability of deductions, involves the application of rules that depend on a United States Holder's particular circumstances. United States Holders should consult their own tax advisors regarding the availability of foreign tax credits and the treatment of Additional Amounts.

Foreign tax credits may not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a United States Holder's expected economic profits is insubstantial. United States Holders should consult their own advisors concerning the implications of these rules in light of their particular circumstances.

*Taxation of Dispositions.* Upon the sale, exchange or retirement of a 1997 Security, 1998 Security, 1999 Security or 2001 Security, a United States Holder will generally recognize a gain or loss equal to the difference between the amount realized (less any amounts attributable to accrued and unpaid interest not previously includible in gross income, which will be taxable as ordinary income) and the holder's tax basis in such security. Gain or loss recognized by a United States Holder on the sale, redemption or other disposition of the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities generally will be long-term capital gain or loss if, at the time of disposition, the securities have been held for more than one year. Long-term capital gain realized by an individual United States Holder is generally taxed at lower rates than short-term capital gains or ordinary income.

*Non-United States Holders.* Holders of the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities that are, with respect to the United States, non-resident aliens or foreign corporations (Non-United States Holders) will not be subject to U.S. federal income taxes, including withholding taxes, on payments of interest on the securities so long as the requirements described under "Backup Withholding and Information Reporting" are satisfied, unless such income is effectively connected with the conduct by the Non-United States Holder of a trade or business in the United States.

The gain realized on any sale or exchange of the 1997 Securities, the 1998 Securities, the 1999 Securities or the 2001 Securities by a Non-United States Holder will not be subject to U.S. federal income tax, including withholding tax, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and either (A) such gain or income is attributable to an office or other fixed place of business maintained in the United States by such holder or (B) such holder has a tax home in the United States.

A 1997 Security, 1998 Security, 1999 Security or 2001 Security held by an individual holder who at the time of death is a nonresident alien will not be subject to United States federal estate tax.

*Backup Withholding and Information Reporting.* The principal paying agent for the 1997 Securities, the 1998 Securities, 1999 Securities or the 2001 Securities will be required to file information returns with the Internal Revenue Service with respect to payments made to certain United States Holders of those securities. In addition, certain United States Holders may be subject to a backup withholding tax in respect of such payments, unless they (i) provide their accurate taxpayer identification numbers to the principal paying agent and certify that they are not subject to backup withholding or (ii) otherwise establish an exemption from the backup withholding tax. Non-United States Holders may be required to comply with applicable certification procedures to establish that they are not United States Holders in order to avoid the application of such information reporting requirements and backup withholding tax.



## **DOCUMENTS ON DISPLAY**

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports, including annual reports on Form 20-F, and other information with the Commission. These materials, including this annual report, and the exhibits thereto, may be inspected and copied at the Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. In addition, any filings we make electronically with the Commission will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

## **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

### **Risk Management and Financial Instruments**

We face significant market risks in foreign exchange, interest rates and hydrocarbon prices as part of our normal business operations. Managing risk exposure is a high priority for our senior management and risk management committee, which is composed of representatives of Petróleos Mexicanos and the subsidiary entities, Banco de México, the Ministry of Finance and Public Credit and PMI. We have developed policies aimed at managing the volatility inherent in these normal business exposures, and, in accordance with these policies, we enter into various transactions using derivative financial and commodity instruments, including conventional exchange-traded derivative instruments such as futures and options, as well as over-the-counter instruments such as swaps, options and forward contracts.

During 2001, the Board of Directors of Petróleos Mexicanos approved a restructuring of the risk management area and created the Risk Management Deputy Direction, whose objective is to develop the financial and operational risk management strategy for Petróleos Mexicanos and the subsidiary entities and to establish institutional regulations consistent with a consolidated risk management approach.

### **Commodity Price Risk**

#### *Crude Oil*

Our exports and domestic sales are related to international hydrocarbon prices, thus exposing us to fluctuations in international markets. We share this risk with the Mexican Government through our current fiscal regime. In order to mitigate this risk, since 1998, the Mexican Government, along with PEMEX, has actively participated with the major international oil producers to improve international oil prices by reducing crude oil exports volumes. See “Item 5—Operating and Financial Review and Prospects—General—Export Agreements.”

In the past few years, PMI entered into several long-term Maya crude oil supply agreements. Under these agreements, PMI provides purchasers with certain support mechanisms to protect, under certain adverse market conditions, the investments the purchasers made in accordance with the agreements. Given the conditions of crude oil markets, placing additional volumes of crude oil in more refineries that are able to process the heavy crude oil that Pemex-Exploration and Production produces supports the overall average price of crude oil exports. We perceive the risk under these agreements as manageable, without the need for hedging instruments, since in the worst case market scenario the expected additional value derived from crude oil exports should exceed the expected cost of the support mechanisms.

#### *Petroleum Products*

We balance our overall petroleum product supply and demand through PMI Trading, managing only those exposures associated with our immediate operational program. To this end, we use the full range of conventional oil price-related financial and commodity derivatives available in the oil markets. Our benchmark for petroleum product commercial activities is the prevailing market price. As of December 31, 2001, the value at risk as measured against the above-mentioned benchmark was U.S. \$16.2 million.

#### *Natural Gas*

As described above under “Item 4—Information on the Company—Business Overview—Gas and Basic Petrochemicals—Natural Gas Risk Management,” we have entered into a number of three-year agreements with Mexican industrial consumers that hold outstanding natural gas price hedging instruments to sell natural gas at a fixed reference price of U.S. \$4.00 per million BTUs. As part of our risk management strategy, we have also entered into a number of derivative instruments to hedge these fixed price sales under the three-year agreements, while locking in a profit margin; we entered into these derivative instruments for approximately 91% of the total volume of natural gas sold under these three-year fixed price agreements.

The risk management strategy used to hedge these fixed price sales left us with an exposure to basis risk arising from the difference between the index used to hedge the natural gas sales at a fixed price and the index used as reference to mark to market these contracts. This basis risk is treated as an inefficiency of the transaction and may impact our earnings in a period other than the one during which the transaction was realized.

### **Foreign Currency Exchange Rate Risk**

A significant amount of our revenues is derived from exports of crude oil and petroleum products, which are priced and payable in U.S. dollars. Moreover, our revenues net of the IEPS Tax from domestic sales of petroleum products and petrochemicals are related to the international dollar-denominated prices of these products. By contrast, most of our costs of sales and other expenses, other than hydrocarbon duties, are payable in pesos and are not linked to the U.S. dollar. As a result, the peso's depreciation against the U.S. dollar increases our income in peso terms. Appreciation of the peso relative to the U.S. dollar has the opposite effect. We perceive this risk as manageable, without the need for hedging instruments, because most of our investments and debt issuances are made in U.S. dollars and, therefore, the impact of the fluctuation in the exchange rate between the U.S. dollar and the peso on our revenues is offset by its impact on our obligations.

Most of our debt is denominated in U.S. dollars, although we borrow in other currencies as well. Also, because we generate significant U.S. dollar revenues, fluctuations in currencies other than the U.S. dollar can increase our costs of funding. Since 1991, Petróleos Mexicanos has entered into currency swaps to hedge against movements in exchange rates when it borrows in currencies other than U.S. dollars. In 2001, Petróleos Mexicanos entered into various cross-currency swaps to hedge currency risk arising from Euro- and Japanese yen-denominated debt obligations issued by the Pemex Project Funding Master Trust. As of December 31, 2001, the aggregate notional amount of the swaps entered into in 2001 was U.S. \$884 million, for a total outstanding position on currency swaps at year-end of U.S. \$1,952 million. In addition, during 2002, Petróleos Mexicanos has entered into a series of cross-currency swaps for a nominal amount of U.S. \$915.1 million.

We capitalize our debt-related foreign exchange losses on our balance sheet, but only up to the increase in the restated value of our fixed assets in the same period. In 2000, we capitalized our debt-related foreign exchange losses of Ps. 140 million resulting from foreign exchange losses of certain subsidiary entities (the remaining subsidiary entities recorded foreign exchange gains). We do not capitalize debt-related foreign exchange gains nor foreign exchange gains or losses related to our operations, which consist mainly of gains and losses on receivables for export sales and payables to foreign suppliers; we record these gains or losses in results of operations. As we had net debt-related foreign exchange gains in 1999, 2000 and 2001, we recorded total net foreign exchange gains from operations and debt of Ps. 2,950 million in 1999, Ps. 877 million in 2000 and Ps. 3,892 million in 2001.

### *Interest Rate Risk*

We are exposed to interest rate risk on short and long-term floating rate instruments. We are predominantly exposed to U.S. dollar LIBOR interest rates because our borrowings are primarily denominated in, or swapped into, U.S. dollars. We use derivative instruments as described below to achieve the required mix of fixed and floating rate exposure in our debt portfolio. As of December 31, 2001, the proportion of floating rate debt was approximately 40% of total net debt outstanding.

*Interest-rate swaps.* Under interest-rate swap agreements, we are obligated to make payments based on a fixed interest rate and are entitled to receive payments based on either the floating three-month or six-month LIBOR. As of December 31, 2001 Petróleos Mexicanos was a party to interest-rate swap agreements totaling an aggregate notional amount of U.S. \$100 million, with an average fixed interest rate of approximately 7.33% and a weighted average term of approximately 2.59 years. During 2002, we have entered into interest-rate swap agreements totaling an aggregate notional amount of U.S. \$331 million.

*Interest-rate caps.* In 1994, our hedging committee eliminated some of the protection provided by our interest-rate swaps by selling interest-rate caps. During 2001, all of Petróleos Mexicanos' outstanding caps in a total notional amount of U.S. \$100 million expired. Petróleos Mexicanos did not enter into any new interest-rate-cap transactions during this period.

The market value of Petróleos Mexicanos' aggregate foreign exchange and interest rate derivatives position was negative Ps. 2,357.7 million as of December 31, 2000 and negative Ps. 3,366.3 million as of December 31, 2001.

The effects on the consolidated statements of income of entering into "swap" transactions are recorded as incurred and when the precise settlement amounts are known. The effects on the consolidated statements of income of other derivative instruments, including premiums paid or received, are recognized at the date of receipt or payment. Such amounts are included in the consolidated statements of income within the "Interest, net" caption. See Note 10 to the Financial Statements.

When derivative results are favorable to Petróleos Mexicanos, it faces the risk that counterparties will not pay their obligations. To minimize this risk, Petróleos Mexicanos monitors counterparties' creditworthiness and exposure to derivative instruments. Petróleos Mexicanos also deals exclusively with major financial institutions and maintains a diversified portfolio.

#### *Equity Swap*

Petróleos Mexicanos currently holds three equity swaps with respect to shares of Repsol. In 1994, Petróleos Mexicanos entered into an equity swap, which was restructured in March 2000, resulting in a swap with respect to 26,427,781 Repsol shares divided in three tranches, having one-, two- and three-year maturities. Upon the maturity of the one-year tranche of the restructured swap in 2001, Petróleos Mexicanos entered into a new swap for another three months, commencing in April 2001. Since then, this swap has been renewed periodically. Upon the maturity of the two-year tranche of the restructured swap in April 2002, Petróleos Mexicanos entered into a new swap for three months.

In addition, in January 2000, Petróleos Mexicanos entered into a second equity swap with respect to 13,679,704 Repsol shares maturing in three years. As of December 31, 2001 the market value of the Repsol shares was U.S. \$14.57 per share.

#### **Instruments Entered Into For Trading Purposes**

As part of our client-based approach, we offer natural gas derivatives to our clients. As mentioned above, our benchmark is the market price; therefore, we enter into derivative transactions with the opposite position in order to offset the effect of the derivatives offered to our clients. Neither Bulletin C-2 nor SFAS No.133 allow entering into a derivatives position in order to hedge a position created by another derivative; as a result, these two operations are considered to be entered into for trading purposes. However, given that they have offsetting effects, we are only exposed to basis risk arising from the difference between the index offered to clients and the index related to the offsetting position.

The following tables set forth our portfolio of debt and derivative financial instruments that are sensitive to changes in interest rates as of December 31, 2001. It should be noted that:

- for debt obligations, this table presents principal cash flows and related weighted average interest rates for fixed and variable rate debt;
- for interest-rate swaps and other derivatives, this table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates;
- weighted average variable rates are based on implied forward rates in the yield curve at the reporting date;
- fair values are obtained from market quotes received from market sources such as Reuters, Telerate and Bloomberg;

- where quotes are not available, fair value is calculated internally, discounting from the corresponding zero coupon yield curve in the original currency;
- for all instruments, the table shows the contract terms in order to determine future cash flows categorized by expected maturity dates;
- the information is presented in equivalents of the peso, which is our reporting currency; and
- each instrument's actual cash flows are denominated in U.S. dollars or other foreign currencies as indicated in parentheses.

**Quantitative Disclosure of Market Risk (Interest Rate Sensitivity) as of December 31, 2001 <sup>(1)</sup>**

	Year of Expected Maturity Date						Total Carrying Value	Fair Value
	2002	2003	2004	2005	2006	Thereafter		
	(in thousands of pesos)							
<b>Liabilities</b>								
Outstanding debt								
Fixed rate (U.S. dollars) .....	3,392,847	586,695	513,653	9,129,794	5,034,477	50,867,542	69,525,007	(74,103,363)
Average Interest Rate (%) .....	8.65	8.67	8.68	8.68	8.92	8.86	8.83	—
Fixed rate (Japanese yen) .....	1,263,124	1,289,625	1,289,625	1,289,625	1,289,625	5,710,858	12,132,480	(13,165,903)
Average Interest Rate (%) .....	2.56	2.56	2.57	2.57	2.58	2.59	2.58	—
Fixed rate (British pounds) .....	—	1,036,257	—	—	621,243	—	1,657,500	(1,851,275)
Average Interest Rate (%) .....	10.77	10.77	14.92	14.92	14.92	—	12.32	—
Fixed rate (Euro) .....	6,110	1,710,724	428	428	428	6,888,266	8,606,385	(8,737,663)
Average Interest Rate (%) .....	8.47	8.47	8.59	8.59	8.59	8.59	8.57	—
<b>Total fixed rate debt.....</b>	<b>4,662,080</b>	<b>4,623,300</b>	<b>1,803,705</b>	<b>10,419,847</b>	<b>6,945,773</b>	<b>63,466,667</b>	<b>91,921,372</b>	<b>(97,858,205)</b>
Variable rate (U.S. dollars) .....	28,980,413	9,931,314	11,111,008	5,369,464	2,649,709	4,449,589	62,491,497	(63,052,360)
Variable rate (Swiss francs).....	1,084	1,177	1,257	628	628	38,082	42,857	(43,709)
Variable rate (Euro).....	6,482	20,839	1,938,802	9,334	7,840	381,032	2,364,328	(2,527,727)
<b>Total variable rate debt .....</b>	<b>28,987,979</b>	<b>9,953,330</b>	<b>13,051,068</b>	<b>5,379,426</b>	<b>2,658,177</b>	<b>4,868,702</b>	<b>64,898,682</b>	<b>(65,623,797)</b>
<b>Total Debt .....</b>	<b>33,650,990</b>	<b>14,576,630</b>	<b>14,854,773</b>	<b>15,799,273</b>	<b>9,603,950</b>	<b>68,335,369</b>	<b>156,820,054</b>	<b>(163,482,002)</b>

Note: Numbers may not total due to rounding.

(1) The information in this table has been calculated using an exchange rate of Ps. 9.1423 = U.S. \$1.00.

Source: *Petróleos Mexicanos*

**Quantitative Disclosure of Market Risk (Interest Rate Risk) as of December 31, 2001<sup>(1)</sup>**

**Derivative financial instruments held or issued for purposes other than trading:**

	Year of Expected Maturity Date						Total Notional Amount	Fair Value
	2002	2003	2004	2005	2006	Thereafter		
	(in thousands of pesos)							
<b>Interest Rate Derivatives</b>								
<b>Hedging Instruments</b>								
Cross-Currency Swaps.....	—	2,848,512	1,917,199	—	—	13,084,337	17,850,048	(3,281,486)
Euro to U.S. dollars.....	—	1,710,296	—	—	—	6,801,320	8,511,616	(1,533,064)
Italian lire to U.S. dollars.....	—	—	1,917,199	—	—	1,859,942	3,777,141	(1,281,899)
Japanese Yen to U.S. dollars.....	—	—	—	—	—	4,423,074	4,423,074	(292,435)
British pounds to U.S. dollars .....	—	1,138,216	—	—	—	—	1,138,216	(174,089)
<b>Non-Hedging Instruments</b>								
Interest Rate Swaps (U.S. Dollars)								
Variable to fixed .....	—	—	914,230	—	—	—	914,230	(84,848)
Average pay rate (%).....	7.33	7.33	7.33	—	—	—	7.33	—
Average receive rate (%) .....	2.29	4.23	5.60	—	—	—	4.04	—
Total .....	—	—	—	—	—	—	—	(3,366,334)

Note: Numbers may not total due to rounding.

(1) The information in this table has been calculated using exchange rate of Ps. 9.1423 = U.S. \$1.00.

**Quantitative Disclosure of Market Risk (Equity Swap) as of December 31, 2001<sup>(1)</sup>**

	Year of Expected Maturity Date						Total Notional Amount	Fair Value
	2002	2003	2004	2005	2006	Thereafter		
	(in thousands of pesos)							
Equity Swap	2,848,857	4,087,257	—	—	—	—	6,936,114	(1,701,683)

Note: Numbers may not total due to rounding.

(1) The information in this table has been calculated using exchange rate of Ps. 9.1423 = U.S. \$1.00.

**Item 12. Description of Securities Other than Equity Securities**

Not applicable.

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

**Item 15. Controls and Procedures**

Because this Form 20-F is being filed for the fiscal year ended December 31, 2001, the disclosure requirements of Item 15(a) of Form 20-F are not applicable.

There have been no changes in internal controls of PEMEX which would require disclosure under Item 15(b) of Form 20-F.

**Item 16. [Reserved]**



**Item 17. Financial Statements.**

Not applicable.

**Item 18. Financial Statements.**

Please refer to Item 19(a) for a list of all Financial Statements filed as a part of this Form 20-F.

**Item 19. Exhibits.**

**(a) List of Financial Statements:**

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**(b) List of Exhibits**

- 1.1 *Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (the Organic Law of Petróleos Mexicanos and Subsidiary Entities), as amended effective January 1, 1994 (previously filed as Exhibit 3.1 to Petróleos Mexicanos' Registration Statement on Form F-1 (File No. 33-86304) on November 14, 1994 and incorporated by reference herein).
- 1.2 *Reglamento de la Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (Regulations to the Organic Law of Petróleos Mexicanos and Subsidiary Entities), together with an English translation (previously filed as Exhibit 3.2 to Petróleos Mexicanos' Registration Statement on Form F-1 (File No. 33-86304) on November 14, 1994 and incorporated by reference herein).

- 1.3 *Reglamento de Gas Natural* (Natural Gas Regulation), effective November 9, 1995 together with an English translation (previously filed as Exhibit 1 to Petróleos Mexicanos' annual report on Form 20-F (File No. 0-99) on June 28, 1996 and incorporated by reference herein).
- 1.4 *Decreto por el que se Reforma la Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (Decree that Amends the Regulatory Law to Article 27 of the Political Constitution of the United Mexican States Concerning Petroleum Affairs), effective November 14, 1996 (previously filed as Exhibit 1 to Petróleos Mexicanos' annual report on Form 20-F (File No. 0-99) on June 30, 1997 and incorporated by reference herein).
- 1.5 *Decreto por el que se adiciona el Reglamento de la Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (Decree that adds to the Regulations to the Organic Law of Petróleos Mexicanos and Subsidiary Entities), together with an English translation, effective April 30, 2001 (previously filed as Exhibit 1.5 to Petróleos Mexicanos' annual report on Form 20-F (File No. 0-99) on June 28, 2001 and incorporated by reference herein).
- 1.6 *Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (the Organic Law of Petróleos Mexicanos and Subsidiary Entities), as amended effective January 16, 2002 (English translation) (previously filed as Exhibit 1.6 to Amendment No. 1 to Petróleos Mexicanos' annual report on Form 20-F/A (File No. 0-99) on November 15, 2002 and incorporated by reference herein).
- 2.1 Indenture, dated as of September 18, 1997, between Petróleos Mexicanos and Bankers Trust Company (previously filed as Exhibit 4.1 to Petróleos Mexicanos' Registration Statement on Form F-4 (File No. 333-7796) on October 17, 1997 and incorporated by reference herein).
- 2.2 Indenture, dated August 7, 1998, between Petróleos Mexicanos and Bankers Trust Company (previously filed as Exhibit 4.1 to Petróleos Mexicanos' Registration Statement on Form F-4 on August 11, 1998 and incorporated by reference herein).
- 2.3 Indenture, dated July 15, 1999, between Petróleos Mexicanos and Bankers Trust Company (previously filed as Exhibit 4.1 to Petróleos Mexicanos' Registration Statement on Form F-4 (File No. 333-10706) on August 23, 1999 and incorporated by reference herein).
- 2.4 Indenture, dated July 31, 1999, between Petróleos Mexicanos and Bankers Trust Company (previously filed as Exhibit 4.1 to Petróleos Mexicanos' Registration Statement on Form F-4 (File No. 333-10706) on September 29, 1999 and incorporated by reference herein).
- 2.5 Indenture, dated as of July 31, 2000, among Pemex Project Funding Master Trust, Petróleos Mexicanos and Bankers Trust (previously filed as Exhibit 2.5 to Petróleos Mexicanos' annual report on Form 20-F (File No. 0-99) on June 28, 2001 and incorporated by reference herein).
- 2.6 Fiscal Agency Agreement between Petróleos Mexicanos and Bankers Trust, dated as of June 16, 1993, and amended and restated as of February 26, 1998 (previously filed as Exhibit 3.1 to Petróleos Mexicanos' annual report on Form 20-F (File No. 0-99) on June 29, 2000 and incorporated by reference herein).
- 2.7 Trust Agreement, dated as of November 10, 1998, among The Bank of New York, The Bank of New York (Delaware) and Petróleos Mexicanos (previously filed as Exhibit 3.1 to Petróleos Mexicanos' annual report on Form 20-F (File No. 0-99) on June 30, 1999 and incorporated by reference herein).
- 2.8 Assignment and Indemnity Agreement, dated as of November 10, 1998, among Petróleos Mexicanos, Pemex-Exploración y Producción, Pemex-Refinación, Pemex-Gas y Petroquímica Básica and Pemex Project Funding Master Trust, and The Bank of New York (previously filed as Exhibit 3.2 to Petróleos Mexicanos' annual report on Form 20-F (File No. 0-99) on June 30, 1999 and incorporated by reference herein).

- 2.9 Guaranty Agreement, dated July 29, 1996, among Petróleos Mexicanos, Pemex-Exploración y Producción, Pemex-Refinación and Pemex-Gas y Petroquímica Básica (previously filed as Exhibit 4.4 to Petróleos Mexicanos' Registration Statement on Form F-4 (File No. 333-7796) on October 17, 1997 and incorporated by reference herein).
- 4.1 Agreement for the Financial Strengthening of Petróleos Mexicanos between the Federal Government of Mexico and Petróleos Mexicanos, together with a summary in English (previously filed as Exhibit 10.1 to Petróleos Mexicanos' Registration Statement on Form F-1 (File No. 33-86304) on November 14, 1994 and incorporated by reference herein).
- 4.2 Amendment to the Agreement for the Financial Strengthening of Petróleos Mexicanos between the Federal Government of Mexico and Petróleos Mexicanos, dated December 18, 1997, together with an English translation (previously filed as Exhibit 10.1 to Amendment No. 1 to Petróleos Mexicanos' annual report on Form 20-F/A (File No. 0-99) on July 20, 1998 and incorporated by reference herein).
- 4.3 Receivables Purchase Agreement, dated as of December 1, 1998, by and among Pemex Finance, Ltd., P.M.I. Comercio Internacional, S.A. de C.V., P.M.I. Services, B.V. and Pemex-Exploración y Producción. (previously filed as Exhibit 3.3 to Petróleos Mexicanos' annual report on Form 20-F (File No. 0-99) on June 30, 1999 and incorporated by reference herein).
- 4.4 Transfer of Funds Agreement, dated as of November 24, 2000, among Pemex Project Funding Master Trust, Petróleos Mexicanos and the Federal Government (English translation) (previously filed as Exhibit 4.4 to Amendment No. 1 to Petróleos Mexicanos' annual report on Form 20-F/A (File No. 0-99) on November 15, 2002 and incorporated by reference herein).
- 8.1 For a list of subsidiaries, their jurisdiction of incorporation and the names under which they do business, see "Consolidated Structure of PEMEX" on page 3.

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## **REPORT OF THE INDEPENDENT ACCOUNTANTS**

Mexico City, Mexico November 27, 2002

To the General Comptroller's Office  
and the Board of Directors of  
Petróleos Mexicanos:

We have audited the accompanying consolidated balance sheet of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies (collectively "PEMEX") as of December 31, 2001, and the related consolidated statements of operations, changes in equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Management of PEMEX. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of PEMEX as of December 31, 2000 and for the two years then ended, were audited by other independent accountants whose report dated November 27, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in Mexico and in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures made in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 o) to the consolidated financial statements, effective January 1, 2001, PEMEX adopted the guidelines of the Bulletin C-2, "Financial Instruments", issued by the Mexican Institute of Public Accountants. As a result, a cumulative effect charge totalling Ps. 1,331,247 was recognized in earnings.

The effects of inflation are recognized in conformity with Financial Reporting Standard ("NIF") 06 BIS "A" Section A (see Note 2 b) to the accompanying consolidated financial statements), which affect only the equity caption titled "Revaluation surplus". The difference between this standard and accounting principles generally accepted in Mexico, Bulletin B-10, "Recognition of the Effects of Inflation on Financial Information", is disclosed in Note 15 to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PEMEX as of December 31, 2001, and the consolidated results of their operations, changes in equity and changes in financial position for the year then ended, in conformity with accounting principles generally accepted in Mexico and as to the recognition of inflation, in accordance with NIF 06 BIS "A" Section A (see Notes 2 b) and 15 to the consolidated financial statements).

Accounting principles generally accepted in Mexico vary in certain significant respects from generally accepted accounting principles in the United States of America. The application of generally accepted accounting principles in the United States of America would have affected the determination of consolidated net loss expressed in Mexican Pesos for the year ended December 31, 2001 and the determination of consolidated deficit and consolidated financial position also expressed in Mexican Pesos at December 31, 2001 to the extent summarized in Note 19 to the consolidated financial statements.

PricewaterhouseCoopers, S.C.

/s/ FRANCISCO J. HERNÁNDEZ F.  
Francisco J. Hernández F.



## REPORT OF THE INDEPENDENT AUDITORS

To the General Comptroller Office  
and the Board of Directors of  
Petróleos Mexicanos

We have audited the accompanying consolidated balance sheet of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies as of December 31, 2000, and the related consolidated statements of operations, changes in equity and changes in financial position for each of the two years in the period ended December 31, 2000. These financial statements are the responsibility of the Management of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain Subsidiary Companies, whose statements reflect total assets constituting 1% in 2000 and total revenues constituting 8% in 2000 and 1999, of the related consolidated totals. Those financial statements were audited by other auditors whose reports have been furnished to us and are included herein, and our opinion, insofar as it relates to data included for those Subsidiary Companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts (including the reconciliation of the financial statements of Petróleos Mexicanos, the Subsidiary Entities and Subsidiary Companies to generally accepted accounting principles in the United States) and disclosures made in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

The effects of inflation are recognized in conformity with Financial Reporting Standard (NIF) 06 BIS "A" Section A (see Note 2 b) to the accompanying consolidated financial statements), which affect only the equity caption titled, "Revaluation surplus". The difference between this standard and accounting principles generally accepted in Mexico, Bulletin B-10, is disclosed in Note 15 to the consolidated financial statements.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies as of December 31, 2000, and the consolidated results of their operations, changes in equity and changes in financial position for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in Mexico and as to the recognition of inflation, in accordance with NIF 06 BIS "A" section A (see Notes 2 b) and 15 to the consolidated financial statements), which differ in certain respects from those followed in the United States (see Note 19 to the consolidated financial statements).

Mancera, S.C.  
A Member Practice of  
Ernst & Young Global

/s/ J. ALFONSO CAMPAÑA R.  
J. Alfonso Campaña R.

Mexico City, Mexico  
November 27, 2002

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2001 and 2000**

**(In thousands of pesos and thousands of U.S. dollars)**  
**(Notes 1, 2 and 14)**

	2001	2001	2000
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents.....	US\$ 1,579,675	Ps. 14,441,864	Ps. 27,826,846
Accounts, notes receivable and other, net (Note 3).....	4,907,893	44,869,427	56,701,566
Inventories, net (Note 4).....	1,883,849	17,222,714	24,864,138
Total current assets.....	<u>8,371,417</u>	<u>76,534,005</u>	<u>109,392,550</u>
Properties and equipment, net (Note 5).....	44,508,851	406,913,266	388,224,576
Intangible asset derived from the actuarial computation of labor obligations and other assets (Notes 6 and 11).....	8,032,549	73,435,977	65,850,397
Total assets.....	<u>US\$ 60,912,817</u>	<u>Ps. 556,883,248</u>	<u>Ps. 563,467,523</u>
<b>LIABILITIES:</b>			
Current liabilities:			
Current portion of long-term debt (Note 9).....	US\$ 3,964,659	Ps. 36,246,106	Ps. 40,457,071
Current portion of notes payable to contractors (Note 8).....	137,427	1,256,395	1,245,707
Suppliers.....	2,570,903	23,503,971	22,651,745
Accounts payable and accrued expenses.....	921,713	8,426,580	6,102,552
Taxes payable.....	275,135	2,515,370	25,308,881
Total current liabilities.....	<u>7,869,837</u>	<u>71,948,422</u>	<u>95,765,956</u>
Long-term debt (Note 9).....	13,472,539	123,169,995	104,370,025
Notes payable to contractors (Note 8).....	1,492,444	13,644,370	16,152,769
Sale of future accounts receivable (Note 7).....	4,887,786	44,685,602	51,976,573
Reserve for sundry creditors and others.....	824,423	7,537,122	6,094,832
Reserve for retirement payments, pensions and seniority premiums (Note 11).....	18,926,474	173,031,504	138,501,996
Total long-term liabilities.....	<u>39,603,666</u>	<u>362,068,593</u>	<u>317,096,195</u>
Total liabilities.....	<u>47,473,503</u>	<u>434,017,015</u>	<u>412,862,151</u>
Commitments and contingencies (Note 16).....			
<b>EQUITY:</b>			
Certificates of Contribution "A".....	1,118,150	10,222,463	10,222,463
Specific oil-field exploration and depletion reserve.....	1,780,601	16,278,784	12,691,475
Revaluation surplus.....	19,889,715	181,837,738	174,054,170
Accumulated losses:			
From prior years.....	(5,620,267)	(51,382,165)	(26,652,344)
Net loss for the year.....	(3,728,885)	(34,090,587)	(19,710,392)
Total equity.....	<u>(9,349,152)</u>	<u>(85,472,752)</u>	<u>(46,362,736)</u>
Total equity.....	<u>13,439,314</u>	<u>122,866,233</u>	<u>150,605,372</u>
Total liabilities and equity.....	<u>US\$ 60,912,817</u>	<u>Ps. 556,883,248</u>	<u>Ps. 563,467,523</u>

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 and 1999**

(In thousands of pesos and thousands of U.S. dollars)  
(Notes 1 and 2)

	2001		2001		2000		1999	
<b>Net sales:</b>								
Domestic.....	US\$	33,235,963	Ps.	303,853,144	Ps.	292,880,287	Ps.	226,137,090
Export.....		15,474,992		141,477,018		175,387,308		108,676,689
		<u>48,710,955</u>		<u>445,330,162</u>		468,267,595		<u>334,813,779</u>
Foreign exchange gain, net.....		425,681		3,891,701		876,736		2,949,615
Other revenues.....		892,926		8,163,397		9,543,799		7,215,362
Total revenues.....		<u>50,029,562</u>		<u>457,385,260</u>		<u>478,688,130</u>		<u>344,978,756</u>
<b>Costs and operating expenses:</b>								
Cost of sales.....		18,082,378		165,314,521		153,059,837		113,512,525
Transportation and distribution expenses.....		1,486,331		13,588,482		12,609,161		10,867,571
Administrative expenses.....		3,065,458		28,025,338		26,972,703		21,076,266
Interest, net.....		1,433,339		13,104,015		6,652,005		7,155,959
Other expenses.....		727,380		6,649,928		5,337,243		4,696,975
Total costs and operating expenses.....		<u>24,794,886</u>		<u>226,682,284</u>		<u>204,630,949</u>		<u>157,309,296</u>
Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new financial instruments standard.....		<u>25,234,676</u>		<u>230,702,976</u>		<u>274,057,181</u>		<u>187,669,460</u>
Hydrocarbon extraction duties and other.....		18,404,951		168,263,587		224,211,053		120,476,988
Special tax on production and services (IEPS Tax).....		10,412,996		95,198,729		69,556,520		88,349,243
		<u>28,817,947</u>		<u>263,462,316</u>		<u>293,767,573</u>		<u>208,826,231</u>
Cumulative effect of adoption of new financial instruments standard (Note 10).....		<u>(145,614)</u>		<u>(1,331,247)</u>		-		-
Net loss for the year .....	US\$	<u>(3,728,885)</u>	Ps.	<u>(34,090,587)</u>	Ps.	<u>(19,710,392)</u>	Ps.	<u>(21,156,771)</u>

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 and 1999**

(In thousands of pesos and thousands of U.S. dollars)  
(Notes 1 and 2)

	Certificates Of Contribution "A"	Specific oil-field exploration and depletion reserve	Revaluation surplus	Accumulated losses		Total
				From prior years	Net loss from Current year	
Balances at December 31, 1998.....	Ps. 10,222,463	Ps. 8,394,132	Ps. 145,704,773	Ps. 14,404,562	Ps. (11,587,990)	Ps. 167,137,940
Transfer to prior years' retained earnings.....	-	-	-	(11,587,990)	11,587,990	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on August 3, 1999.....	-	-	-	(3,063,747)	-	(3,063,747)
Dividends paid to the Mexican Government approved by the Board of Directors on August 3, 1999.....	-	-	-	(779,517)	-	(779,517)
Comprehensive loss for the year (Note 12).....	-	2,055,350	16,306,888	968,774	(21,156,771)	(1,825,759)
Balances at December 31, 1999.....	10,222,463	10,449,482	162,011,661	(57,918)	(21,156,771)	161,468,917
Transfer to prior years' accumulated losses.....	-	-	-	(21,156,771)	21,156,771	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 9, 2000.....	-	-	-	(5,137,889)	-	(5,137,889)
Dividends paid to the Mexican Government approved by the Board of Directors on May 9, 2000.....	-	-	-	(231,074)	-	(231,074)
Comprehensive loss for the year (Note 12).....	-	2,241,993	12,042,509	(68,692)	(19,710,392)	(5,494,582)
Balances at December 31, 2000.....	<b>10,222,463</b>			<b>(26,652,344)</b>	<b>(19,710,392)</b>	
		12,691,475	174,054,170			150,605,372
Transfer to prior years' accumulated losses	-	-	-	(19,710,392)	19,710,392	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 7, 2001.....	-	-	-	(5,563,799)	-	(5,563,799)
Comprehensive loss for the year (Note 12).....	-	3,587,309	7,783,568	544,370	(34,090,587)	(22,175,340)
Balances at December 31, 2001.....	Ps. 10,222,463			Ps. (51,382,165)	Ps. (34,090,587)	
		Ps. 16,278,784	Ps. 181,837,738			Ps. 122,866,233
	<b>US\$ 1,118,150</b>			<b>US\$ (5,620,267)</b>	<b>US\$ (3,728,885)</b>	
		US\$ 1,780,601	US\$ 19,889,715			US\$ 13,439,314

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

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**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 and 1999**

**(In thousands of pesos and thousands of U.S. dollars)**  
**(Notes 1 and 2)**

	2001	2001	2000	1999
Funds provided by (used in):				
Operating activities:				
Net loss for the year.....	US\$ (3,728,885)	Ps. (34,090,587)	Ps. (19,710,392)	Ps. (21,156,771)
Charges to operations not requiring the use of funds:				
Depreciation and amortization.....	3,112,277	28,453,367	26,060,936	23,941,026
Reserve for retirement payments, pensions and indemnities.....	3,702,478	33,849,168	29,901,504	25,022,850
Specific oil-field exploration and depletion reserve	895,277	8,184,890	8,048,328	7,857,274
Reserve for sundry creditors and others.....	5,690	52,024	719,397	1,283,821
	<u>3,986,837</u>	<u>36,448,862</u>	<u>45,019,773</u>	<u>36,948,200</u>
Variances in:				
Accounts, notes receivable and other.....	1,294,219	11,832,139	(9,417,731)	(18,710,747)
Inventories.....	835,832	7,641,424	(8,645,509)	(4,041,064)
Intangible asset derived from the actuarial computation of labor obligations and other assets...	(829,723)	(7,585,580)	(9,389,482)	(5,537,829)
Suppliers.....	93,218	852,226	5,900,009	4,347,084
Accounts payable and accrued expenses.....	254,205	2,324,028	694,744	(338,026)
Taxes payable.....	(2,493,192)	(22,793,511)	643,493	19,464,218
Reserve for sundry creditors and others.....	152,070	1,390,266	563,594	239,037
Reserve for retirement payments, pensions and indemnities.....	74,417	680,340	4,925,662	(8,788,284)
Exploration and well-drilling expenses charged to the specific oil-field exploration and depletion reserve	(502,891)	(4,597,581)	(5,806,335)	(5,801,924)
Funds provided by operating activities.....	<u>2,864,992</u>	<u>26,192,613</u>	<u>24,488,218</u>	<u>17,780,665</u>
Financing activities:				
Minimum guaranteed dividends paid to the Mexican Government.....	(608,578)	(5,563,799)	(5,137,889)	(3,063,747)
Other equity movements.....	59,544	544,370	(68,692)	968,774
Dividends paid to the Mexican Government.....	-	-	(231,074)	(779,517)
Notes payable to contractors.....	(273,204)	(2,497,711)	15,599,161	1,799,315
Debt.....	1,595,770	14,589,005	24,503,534	1,493,911
Sale of future accounts receivable.....	(797,499)	(7,290,971)	8,675,835	26,702,250
Funds (used in) provided by financing activities.....	<u>(23,967)</u>	<u>(219,106)</u>	<u>43,340,875</u>	<u>27,120,986</u>
Investing activities:				
Increase in fixed assets, net.....	(4,305,097)	(39,358,489)	(63,989,070)	(35,546,131)
Funds used in investing activities.....	<u>(4,305,097)</u>	<u>(39,358,489)</u>	<u>(63,989,070)</u>	<u>(35,546,131)</u>
Net increase (decrease) in cash and cash equivalents.....	(1,464,072)	(13,384,982)	3,840,023	9,355,520
Cash and cash equivalents at beginning of the year.....	3,043,747	27,826,846	23,986,823	14,631,303
Cash and cash equivalents at end of the year.....	<u>US\$ 1,579,675</u>	<u>Ps. 14,441,864</u>	<u>Ps. 27,826,846</u>	<u>Ps. 23,986,823</u>

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
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**1. Structure and business activities of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies**

Following the nationalization of the foreign-owned oil companies then operating in the United Mexican States (“Mexico”), Petróleos Mexicanos was established by a decree of the Mexican Congress dated June 7, 1938 and effective July 20, 1938. Petróleos Mexicanos and its four Subsidiary Entities (as defined below) are decentralized public entities of the Federal Government of Mexico (the “Mexican Government”) and together they comprise the Mexican state oil and gas company.

The activities of Petróleos Mexicanos and Subsidiary Entities are regulated by the *Constitución Política de los Estados Unidos Mexicanos* (Political Constitution of the United Mexican States), the *Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (the Regulatory Law to Article 27 of the Political Constitution of the United Mexican States concerning Petroleum affairs, or the “Regulatory Law”) effective November 30, 1958, as amended effective May 12, 1995 and November 14, 1996, and the *Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (the Organic Law of Petróleos Mexicanos and Subsidiary Entities, or the “Organic Law”), effective July 17, 1992. Under the Organic Law and related regulations, Petróleos Mexicanos is entrusted with the central planning activities and the strategic management of Mexico’s petroleum industry. For purposes of these financial statements, capitalized words carry the meaning attributed to them herein or the meaning as defined in the Political Constitution of the United Mexican States or the Organic Law.

The Organic Law establishes a structure that consists of decentralized legal entities of a technical, industrial and commercial nature, with their own corporate identity and equity and with the legal authority to own property and conduct business in their own names. The Subsidiary Entities are controlled by and have characteristics of subsidiaries of Petróleos Mexicanos. The Subsidiary Entities are:

*Pemex-Exploración y Producción* (Pemex-Exploration and Production);  
*Pemex-Refinación* (Pemex-Refining);  
*Pemex-Gas y Petroquímica Básica* (Pemex-Gas and Basic Petrochemicals); and  
*Pemex-Petroquímica* (Pemex-Petrochemicals).

The strategic activities entrusted to Petróleos Mexicanos and Subsidiary Entities by the Organic Law can be performed only by Petróleos Mexicanos and Subsidiary Entities and cannot be delegated or subcontracted. Pemex-Petrochemicals is an exception and may delegate and/or subcontract certain duties.

The principal objectives of the Subsidiary Entities are as follows:

- I. Pemex-Exploration and Production explores for and produces crude oil and natural gas; additionally, this entity transports, stores and markets such products;

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- II. Pemex-Refining refines petroleum products and derivatives thereof that may be used as basic industrial raw materials; additionally, this entity stores, transports, distributes and markets such products and derivatives;
- III. Pemex-Gas and Basic Petrochemicals processes natural gas, natural gas liquids and derivatives thereof that may be used as basic industrial raw materials, and stores, transports, distributes and markets such products; additionally, this entity stores, transports, distributes and markets Basic Petrochemicals; and
- IV. Pemex-Petrochemicals engages in industrial petrochemical processing, and stores, distributes and markets Secondary Petrochemicals.

At their formation, Petróleos Mexicanos assigned to the Subsidiary Entities all the assets and liabilities needed to carry out these activities, which assets and liabilities were incorporated into the Subsidiary Entities' initial capital contribution. Additionally, Petróleos Mexicanos assigned to the Subsidiary Entities all the personnel needed for their operations, and the Subsidiary Entities assumed all the related liabilities. There was no change in the carrying value of assets and liabilities upon their contribution by Petróleos Mexicanos to the Subsidiary Entities.

The principal distinction between Subsidiary Entities and Subsidiary Companies (as defined below) is that Subsidiary Entities are decentralized public entities created by Article 3 of the Organic Law, whereas the Subsidiary Companies are companies that have been formed in accordance with the general corporations law of each of the respective jurisdictions in which they are incorporated and are managed as other private corporations subject to the general corporations law, in their respective jurisdictions.

As used herein, "Subsidiary Companies" are defined as (a) those companies which are not Subsidiary Entities but in which Petróleos Mexicanos has greater than a 50% ownership investment, and (b) the Pemex Project Funding Master Trust (the "Master Trust"), a Delaware business trust controlled by Petróleos Mexicanos. "Non-consolidated subsidiary companies", as used herein, are defined as those companies which are (a) not Subsidiary Entities or Subsidiary Companies and (b) in which Petróleos Mexicanos has less than a 50% ownership interest. Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies are referred to as "PEMEX".

## **2. Significant accounting policies**

The principal accounting policies followed by PEMEX in the preparation of these consolidated financial statements are summarized below:

### **a) Accounting basis for the preparation of financial information**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Mexico ("Mexican GAAP") as issued by the *Instituto Mexicano de Contadores Públicos* (Mexican Institute of Public Accountants, or "MIPA") and as to the recognition of inflation, in accordance with

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Financial Reporting Standard (“NIF”) 06-BIS “A” Section A as issued by the Ministry of Finance and Public Credit (“SHCP”) and by the General Comptroller’s Office (“SECODAM”).

**b) Effects of inflation on the financial information**

Effects of inflation on the financial information are computed and recorded in accordance with the guidelines established in NIF-06 BIS “A” Section A.

In accordance with NIF-06 BIS “A” Section A, fixed assets (property and equipment), together with accumulated depreciation and amortization, are restated for balance sheet presentation at net replacement cost. Obsolete and abandoned assets, as well as assets under construction and assets held for disposal, are not restated.

The main differences between Mexican GAAP Bulletin B-10, “Recognition of the Effects of Inflation on Financial Information” (“Bulletin B-10”), and NIF-06 BIS “A” Section A are described below. A summary of the significant differences between those two standards is presented in Note 15.

(i) The restatement of the non-monetary assets referred to in NIF-06 BIS “A” Section A must be completed in accordance with the rules established therein, and restatements should be made by applying the constant-peso-value method based on the National Consumer Price Index (“NCPI”). In specific circumstances, when there is justification, a company may elect to use the specific-cost method or the specific-index method, these methods being based upon technical studies. Effective January 1, 1997, the use of independent appraisals was disallowed under Mexican GAAP, which only allows for the restatement of fixed assets utilizing the NCPI or, in the case of assets of foreign origin, applying the inflation of the country of origin to the foreign currency amount of the assets prior to translation to pesos at the period end exchange rate. Under NIF-06 BIS “A” Section A, PEMEX has elected to use a hybrid of the constant-peso-value-method with NCPI and specific index method as determined by independent appraisers.

(ii) NIF-06 BIS “A” Section A does not consider the concept of fair value as referred to in Mexican GAAP. Therefore, the balance sheet reflects restated fixed assets without consideration of fair value.

(iii) In accordance with the rules of NIF-06 BIS “A” Section A, the difference between the historical cost of assets, including interest and exchange rate fluctuations, and the restated amounts that are generated from the restatement of fixed assets, as determined above, and investments, are recorded in the equity account “Revaluation surplus.”

(iv) NIF-06 BIS “A” Section A allows capitalization of the exchange rate fluctuations and the interest derived from identifiable liabilities associated with fixed assets. Bulletin B-10 only allows capitalization of interest that can be identified with specific fixed assets in the construction or installation phase.



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(v) NIF-06 BIS "A" Section A requires that the effects of inflation in the financial statements reflect exclusively the restatement of non-monetary assets. However, in accordance with Bulletin B-10, as amended, it is necessary that the effects of inflation in the individual equity accounts be recognized, also quantified and recorded in equity. In addition, the monetary position result of each period is also reflected in earnings. Additionally, Bulletin B-10, as amended, requires that all items presented in the financial statements be expressed in constant pesos with purchasing power at the latest balance sheet date. NIF-06 BIS "A" Section A does not require this remeasurement.

**c) Consolidation**

The consolidated financial statements include the accounts of Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies. All significant intercompany transactions have been eliminated in the consolidation.

The Subsidiary Companies that are consolidated are as follows: P.M.I. Comercio Internacional, S.A. de C.V. ("PMI"); P.M.I. Trading Ltd.; P.M.I. Holdings North America, Inc.; P.M.I. Holdings N.V.; P.M.I. Holdings B.V.; P.M.I. Norteamérica, S.A. de C.V. ("PMI NASA"); Kot Insurance Co. Ltd.; Integrated Trade Systems, Inc.; P.M.I. Marine Limited; P.M.I. Services, B.V.; Pemex Internacional España, S.A.; Pemex Services Europe Ltd.; P.M.I. Services North America, Inc.; Mex Gas International, Ltd.; and the Master Trust.

Certain investments in Subsidiary Companies and other non-consolidated subsidiary companies, due to their immateriality in relation to PEMEX's total assets and revenue, are accounted for under the cost method.

**d) Long-term productive infrastructure projects (PIDIREGAS)**

The investment in long-term productive infrastructure projects ("PIDIREGAS") and related liabilities are recorded in accordance with NIF-09-A applicable to *Entidades Paraestatales de la Administración Pública Federal* (State-owned Entities of the Federal Public Administration). In addition to outlining specific accounting treatment, NIF-09-A also identifies specific budgetary and legal requirements governing PIDIREGAS.

During 1997, PEMEX began investing in certain capital expenditure projects that were financed with long-term debt obligations. Such investment expenses and related liabilities will be recognized in the accounting records in future years under NIF-09-A, which provides for only liabilities having maturities expiring in less than two years to be recorded to the accounting records for statutory purposes. For the purposes of these financial statements and in accordance with Mexican GAAP consolidation principles, all the accounts related to PIDIREGAS were incorporated into the consolidated financial statements at December 31, 2001 and 2000, *i.e.*, all effects of NIF-09-A are excluded.

On December 31, 1998, PEMEX transferred all assets and liabilities related to these PIDIREGAS, in an amount of Ps. 12,104,010, to the Master Trust. The main objective of the Master Trust is to administer financial resources related to PIDIREGAS, such financial resources having been designated by PEMEX for that purpose. The Master Trust has been consolidated in the financial statements since 1998 in accordance with the consolidation principles

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detailed in Mexican GAAP Bulletin B-8, "Consolidated and Combined Financial Statements and Valuation of Permanent Investments in Stocks."

**e) Exploration and drilling costs**

The successful efforts method of accounting is followed. Exploration and drilling costs are charged to the specific oil-field exploration and depletion reserve, as described below. Accumulated drilling costs corresponding to successful oil wells are capitalized out of this reserve.

**f) Specific oil-field exploration and depletion reserve**

The specific oil-field exploration and depletion reserve is established to cover current and future exploration and drilling costs. As oil and gas is extracted from existing wells, the equity reserve is increased based upon a calculated exploration and drilling cost per barrel, with a corresponding amount being charged to cost of sales. Exploration and drilling costs are charged against this reserve as incurred. Accumulated drilling costs related to successful wells are capitalized as fixed assets and a corresponding amount is added back to re-establish the reserve.

PEMEX determines the budgeted exploration and drilling cost per barrel based upon engineering studies. During 2001, PEMEX maintained the cost per barrel of 5.48 pesos, an amount equal to that charged for the years ended December 31, 2000 and 1999.

**g) Inventory valuation**

Inventories are valued as follows:

- I. **Crude oil and derivatives thereof for export:** At net realizable value, determined on the basis of average export prices at December 31, 2001 and 2000, less a provision for distribution expenses and shrinkage.
- II. **Crude oil and derivatives there of for domestic sales:** At cost, as calculated based on net realizable international market prices.
- III. **Materials, spare parts and supplies:** At the last purchase price.
- IV. **Materials in transit:** At acquisition cost.

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**h) Properties**

PEMEX's assets are initially recorded at acquisition or construction cost. Exchange losses arising from the impact of exchange rate fluctuations on the associated foreign currency denominated debt and interest costs are capitalized as part of the asset cost. In accordance with NIF-06 BIS "A" Section A (see Note 2 b)), the book values of these accounts are restated annually. Projects in progress are not restated.

Property, plant and equipment assets are depreciated using the straight-line method at annual rates determined from studies performed by independent appraisers. PEMEX begins to compute depreciation the year after the asset is placed into service. The depreciation rates used by PEMEX are as follows:

	%	Years
Buildings.....	3	33
Plant and drilling equipment.....	3-5	20-33
Furniture and fixtures.....	10	10
Offshore platforms.....	4	25
Transportation equipment.....	4-20	5-25
Pipelines.....	4	25
Software/computers.....	10-25	4-10

Related gains or losses from the sale or disposal of fixed assets are recognized in income.

PEMEX amortizes its well assets using the units-of-production ("UOP") method. The amount to be recognized as amortization expense is calculated based upon the number of equivalent crude oil barrels extracted from each specific field as compared to the field's total proven and probable reserves.

The *Reglamento de Trabajos Petroleros* ("Petroleum Works Law") provides that once a well turns out to be dry, invaded with salt water or abandoned due to mechanical failure or when the well's production has been depleted such that abandonment is necessary due to economic unfeasibility of production, it must be plugged to ensure the maintenance of sanitary and safe conditions and to prevent the seepage of hydrocarbons to the surface. All activities required for plugging a well are undertaken with the purpose of isolating, in a definitive and adequate manner, the cross formations in the perforation that contains oil, gas or water in order to ensure that hydrocarbons do not seep to the surface. This law also requires that PEMEX obtain approval from the Ministry of Energy for the dismantlement of hydrocarbon installations, either for the purposes of replacing them with new installations or for permanent retirement.

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Estimated dismantlement and abandonment costs are taken into account in determining amortization and depreciation rates. PEMEX recognizes the costs related to currently producing and temporarily closed wells based on the UOP method. In the case of the non-producing wells subject to abandonment and dismantlement, the full dismantlement and abandonment cost has been recognized at the end of each period. All estimates are based on the life of the field, and take into consideration current cost estimates on an undiscounted basis. No salvage value is considered when determining such rates because salvage values have traditionally been zero. The estimated dismantlement and abandonment costs are reflected within accumulated depreciation and amortization.

**i) Foreign currency balances and transactions**

Transactions denominated in foreign currency are recorded at the respective exchange rates prevailing on the day that the transactions are entered into and the related asset or liability is recorded. Assets and liabilities in foreign currencies are stated in pesos at the rates in effect at the balance sheet date and published by the SHCP. As described in Note 2h), in accordance with NIF-06 BIS "A" Section A, exchange losses arising from the impact of currency fluctuations on the value of the foreign currency denominated debt and related interest costs are capitalized as part of the cost of fixed assets. During fiscal years 2001 and 1999, no exchange losses related to these assets were capitalized, as PEMEX recorded exchange gains on its foreign currency denominated debt; during fiscal year 2000, exchange losses of Ps. 139,692 were capitalized as part of fixed asset costs. Foreign exchange losses, which are not capitalized, and all foreign exchange gains, are charged and credited, respectively, to income. This resulted in net exchange gains credited to income of Ps. 3,891,701, Ps. 876,736, and Ps. 2,949,615 in 2001, 2000 and 1999, respectively.

**j) Retirement benefits and seniority premiums**

PEMEX has established a pension plan for retirement and seniority premiums to be paid to its employees. The liability is computed by an independent actuary, based upon the projected unit-credit method. PEMEX has recorded the results of the actuarial valuation in accordance with Mexican GAAP Bulletin D-3, "Labor Obligations," except that, due to the recognition of the effects of inflation in accordance with NIF-06 BIS "A" Section A, the liabilities are computed using nominal interest rates.

Payments for indemnities to dismissed personnel are charged to income as and when the expense is incurred.

**k) Cost of sales**

Cost of sales is determined by adding to inventories at the beginning of the year the increase in the specific oil-field exploration and depletion reserve (a fixed charge per extracted barrel), the operating cost of oil fields, refineries and plants (including internally-consumed products), the purchase cost of crude oil and refined and other products, and deducting the value of inventories at the end of the year. Cost of sales also includes a portion of the depreciation

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and amortization expense associated with assets used in operations as well as the expense associated with the reserve for future dismantlement and abandonment costs.

**l) Taxes and federal duties**

Petróleos Mexicanos and the Subsidiary Entities are subject to special tax laws, which are based upon petroleum revenues and do not generate temporary differences or deferred income taxes. Petróleos Mexicanos and the Subsidiary Entities are not subject to the *Ley del Impuesto Sobre la Renta* (Income Tax Law) or the *Ley del Impuesto al Activo* (“Assets Tax Law”). Some of the Subsidiary Companies are subject to the Income Tax Law; however, such Subsidiary Companies do not generate significant deferred income taxes.

Petróleos Mexicanos and the Subsidiary Entities are subject to the following duties and taxes: Hydrocarbon Extraction Duties, Hydrocarbon Income Tax and the Special Tax on Production and Services (“IEPS Tax”). Petróleos Mexicanos and the Subsidiary Entities are also subject to the Value Added Tax (“VAT”).

Hydrocarbon extraction duties are calculated at a rate of 52.3% on the net cash flow difference between crude oil sales and extraction costs and expenses. Extraordinary and additional hydrocarbon extraction duties are calculated at a rate of 25.5% and 1.1%, respectively, on the same basis. The hydrocarbon income tax is equivalent to the regular income tax applied to all Mexican corporations, a tax to which Petróleos Mexicanos and the Subsidiary Entities are not subject; this rate was 35% for all periods presented.

The sum of the above duties and taxes must equal 60.8% of Petróleos Mexicanos and the Subsidiary Entities’ annual sales revenues to third parties (and an additional 39.2% of the portion of revenues in respect of crude oil sales at prices in excess of U.S. \$18.00, U.S. \$15.00 and U.S. \$9.25 per barrel for 2001, 2000 and 1999, respectively). Therefore, to the extent that the sum of hydrocarbon extraction duties is less than 60.8% of sales to third parties, additional taxes are paid to reach that level.

**m) Special Tax on Production and Services (“IEPS Tax”)**

The special tax on production and services charged to customers is a tax on the domestic sales of gasoline and diesel. The applicable rates depend on, among other factors, the product, producer’s price, freight costs, commissions and the region in which the respective product is sold. For financial statement purposes, the special tax on production and services is presented as part of “Net domestic sales” and then deducted after “Income before hydrocarbon extraction duties, special tax on production and services and other”.

**n) Revenue recognition**

For all export products, risk of loss and ownership title is transferred upon shipment, and thus PEMEX records sales revenue upon shipment to customers abroad. In the case of certain domestic sales in which the customer takes product delivery at a PEMEX facility, sales revenues are recorded upon product pick-up. For domestic sales in

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which PEMEX is responsible for product delivery, risk of loss and ownership is transferred at the delivery point, and PEMEX records sales revenue upon delivery.

**o) Financial instruments**

Prior to January 1, 2001, the effects on the consolidated statements of operations of entering into “swap” transactions were recorded as incurred and when the precise settlement amounts were known. The effects on the consolidated statements of operations of other derivative instruments, including premiums paid or received, were recognized at the date of receipt or payment. Such amounts were included in the consolidated statements of operations within the “Interest, net” caption (see Note 10).

During February 2000, the MIPA issued Bulletin C-2, “Financial Instruments”, which became effective as of January 1, 2001. Bulletin C-2 provides guidance for recognizing, measuring and disclosing information about financial assets and financial liabilities, including accounting for derivative financial transactions. Bulletin C-2 requires that all financial instruments, with the exception of derivative financial instruments designated as hedges and held to maturity investments, be recorded on the balance sheet at their fair values and changes in their fair value are recognized in earnings of each period. With respect to derivative financial instruments, Bulletin C-2 requires that they be accounted for in the same manner as the items being hedged; held to maturity investments are recorded at amortized cost, subject to impairment evaluation.

As a result of the adoption of Bulletin C-2 as of January 1, 2001, PEMEX recognized a charge to earnings totaling Ps. 1,331,247 which has been reflected as a cumulative effect of adopting a new accounting standard. The adjustment was primarily the result for the accounting for the equity swap related to Repsol YPF, S.A. (“Repsol”) shares (see additional discussion in Note 10). As more fully described in Note 10, PEMEX has three outstanding equity swaps involving Repsol shares. As Bulletin C-2 has no provision for hedging forecasted transactions, nor does it permit the equity swap to be treated as a hedge since the Repsol shares were considered to have been sold for Mexican GAAP purposes in prior years, the entire fair value at January 1, 2001 related to the equity swaps, which totalled Ps. 1,241,514 was recognized as part of the cumulative effect adjustment. The remainder of the cumulative effect adjustment related to interest rate and cross currency swaps entered into to hedge borrowings in currencies other than the U.S. dollar. These swaps are entered into at or near inception of the debt and carry similar terms and conditions; thus forming a “highly effective ” financial hedge.

**p) Use of estimates**

The preparation of the financial statements requires the use of estimates. Management makes estimates and assumptions that affect the amounts and the disclosures presented as of the date of the consolidated financial statements. Actual results could differ from those estimates.

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Events and occurrences, which could result in financial statement loss, are reviewed periodically, and contingencies identified are assessed as remote, possible or probable in accordance with Bulletin C-12, "Contingencies and Commitments". When a loss contingency is viewed to be possible, it is disclosed together with a range of potential loss, when determinable. When a loss contingency is viewed to be probable, it is disclosed, and an accrual as to the most likely loss scenario is recorded in the financial statements.

**q) Comprehensive income**

In August 2000, the MIPA issued Bulletin B-4, "Comprehensive Income". Bulletin B-4 defines comprehensive income as the net income for the period presented in the statement of operations plus other results for the period reflected in equity which are from non-owner sources, and requires the disclosure of the components of comprehensive income in the presentation of financial statements. Bulletin B-4 became effective January 1, 2001, and the statement of changes in equity for prior periods has been restated to conform to the current year presentation (see Note 12).

**r) Convenience translation**

United States dollar ("U.S. dollar") amounts shown in the balance sheets, the statements of operations, the statements of changes in equity and the statements of changes in financial position have been included solely for the convenience of the reader. Such amounts are translated from pesos, as a matter of arithmetic computation only, at an exchange rate of 9.1423 pesos per U.S. dollar, which is the December 31, 2001 exchange rate for the settlement of obligations in foreign currencies provided by Banco de México and the SHCP. Translations herein should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at the foregoing rate or any other rate.

**s) Reclassifications**

Certain reclassifications have been made to 2000 and 1999 amounts presented in the consolidated financial statements and related notes to conform such amounts and disclosures to the current year presentation.

**t) Recently issued accounting standards**

In November 2001, MIPA issued revised Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" ("Bulletin C-9"), which supersedes existing Bulletin C-9, "Liabilities", and Bulletin C-12, "Contingencies and Commitments". Bulletin C-9 establishes a methodology for valuation, presentation and disclosure of liabilities and provisions, as well as for valuation and disclosure of contingent assets and liabilities, and for disclosure of commitments. Among other things, Bulletin C-9 establishes guidelines for the recognition of liabilities and non-recognition of liabilities in the event of extinguishments, restructurings or conversion to equity. In addition, in the case of provisions, it introduces the concept of discounting long-term provisions. With respect to contingent liabilities, Bulletin C-9 states that all contingent liabilities that have a probable realization must be accounted for and disclosed in the financial statements; contingent

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liabilities that have a possible realization cannot be accounted for in the financial statements, but must be disclosed; and contingent liabilities that have a remote realization cannot be accounted for in the financial statements and are not required to be disclosed. Bulletin C-9 requires disclosure of committed amounts when they represent significant fixed asset additions, contracted services and goods that exceed immediate needs or if the commitment is considered a contracted obligation. The provisions of Bulletin C-9 become effective beginning January 1, 2003, although early adoption is recommended. Management is currently evaluating the impact that the adoption of Bulletin C-9 will have on its consolidated financial statements.

In December 2001, the MIPA issued Bulletin C-8, "Intangible Assets" ("Bulletin C-8"), which defines intangible assets as costs incurred and rights or privileges acquired that will generate a future economic benefit. Bulletin C-8 provides a clear definition of research and development costs, requiring that only development costs may be deferred to a future period. Furthermore, Bulletin C-8 states that preoperating costs should be expensed as a period cost, unless they could be classified as development costs. Bulletin C-8 requires that goodwill and intangible assets with indefinite useful lives, including previously existing goodwill and intangible assets, should not be amortized, but should be tested for impairment annually. Goodwill and intangible assets with finite useful lives should be amortized over their useful lives. The provisions of Bulletin C-8 become effective beginning January 1, 2003, although early adoption is recommended. Management is currently evaluating the impact that the adoption of Bulletin C-8 will have on its consolidated financial statements.

**3. Accounts, notes receivable and other**

Accounts, notes receivable and other amounts are as follows:

	<b>2001</b>	2000
Trade-domestic.....	<b>Ps. 19,757,188</b>	Ps. 26,340,778
Trade-foreign.....	<b>4,707,899</b>	10,072,988
Pemex Finance, Ltd.....	<b>6,576,272</b>	6,926,132
Mexican Government (Note 13) advance payments on minimum guaranteed dividends.....	<b>2,152,788</b>	5,563,799
Other accounts receivable.....	<b>12,933,575</b>	9,012,465
Less: allowance for doubtful accounts.....	<b>(1,258,295)</b>	(1,214,596)
	<b>Ps. 44,869,427</b>	Ps. 56,701,566



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**4. Inventories**

At December 31, 2001 and 2000, inventories are as follows:

	2001		2000
Crude oil, refined products, derivatives and petrochemical products.....	Ps. 14,018,513	Ps.	21,591,377
Materials and supplies in stock.....	4,205,193		4,823,858
Materials and products in transit.....	981,580		709,968
Less: allowance for slow-moving inventory and obsolescence reserve.....	(1,982,572)		(2,261,065)
	<b>Ps. 17,222,714</b>	Ps.	<b>24,864,138</b>

**5. Properties and equipment**

The components of this caption, net of accumulated depreciation and amortization, are as follows:

	2001		2000
Land.....	Ps. 34,637,920	Ps.	32,943,681
Buildings.....	14,863,887		14,886,795
Wells and field assets.....	65,994,431		79,362,124
Plants, furnishings and equipment.....	201,644,888		184,889,326
Offshore platforms.....	24,205,124		10,075,207
	<b>341,346,250</b>		<b>322,157,133</b>
Fixed assets pending disposition.....	287,950		555,652
Construction spares.....	223,142		331,840
Construction in progress.....	65,055,924		65,179,951
Total.....	<b>Ps. 406,913,266</b>	Ps.	<b>388,224,576</b>

a) For 2001 and 2000 fixed assets, excluding furniture and fixtures, vehicles and construction in progress, were restated based on specific indexes as determined by *Instituto Mexicano del Petróleo* (Mexican Petroleum Institute, or "IMP") and by an independent appraiser. The specific index method considers usage, a factor for obsolescence, specific costs, remaining useful lives and the relative classification of the fixed assets. Construction in progress and various immaterial assets are not restated.

b) In accordance with NIF-06 BIS "A" Section A, interest costs and foreign currency losses associated with Petróleos Mexicanos and Subsidiary Entities' debt are capitalized as part of the cost of fixed assets. Interest capitalized was Ps. 3,779,541 in 2001, interest and exchange losses capitalized totalled Ps. 4,052,872 in 2000 and interest capitalized was Ps. 5,119,428 in 1999.

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c) Depreciation and amortization expense recorded in operating expenses for the years ended December 31, 2001, 2000 and 1999 was Ps. 28,453,367, Ps. 26,060,936 and Ps. 23,941,026, respectively, which include Ps. 1,351,207, Ps. 1,200,666 and Ps. 1,321,233, respectively, related to dismantlement and abandonment costs. Accumulated depreciation and amortization at December 31, 2001 and 2000 was Ps. 378,586,975 and Ps. 345,830,925, respectively.

d) The total estimated future costs related to dismantlement and abandonment activities (on an undiscounted current cost basis) at December 31, 2001 and 2000 was estimated at approximately Ps. 15,316,164 and Ps. 13,953,806, respectively, of which PEMEX has accrued Ps. 10,350,204 and Ps. 8,998,997, respectively. The accrued amounts have been included in accumulated depreciation and amortization.

**6. Intangible asset derived from the actuarial computation of labor obligations and other assets**

As of December 31, 2001 and 2000, the intangible and other assets amount consists of:

	<b>2001</b>	2000
Intangible asset derived from the actuarial computation of labor obligations (Note 11).....	<b>Ps. 59,060,585</b>	Ps. 54,133,613
Long-term investments and other assets.....	<b>14,375,392</b>	11,716,784
	<b>Ps. 73,435,977</b>	Ps. 65,850,397

PMI NASA has a joint venture with Shell Oil Company, in which it owns a 50% interest in a petroleum refinery located in Deer Park, Texas. The investment is accounted for under the equity method and amounts to Ps. 2,478,969 and Ps. 2,229,238, respectively, at December 31, 2001 and 2000. During 2001, 2000 and 1999, PEMEX recorded Ps. 530,949, Ps. 498,983 and Ps. (687,301) respectively, of earnings (losses) relative to its interest in the joint venture which has been reflected in the line item "Other revenues" in the statements of operations. During 2001, 2000 and 1999, PEMEX paid the joint venture Ps. 3,717,666, Ps. 3,217,047 and Ps. 1,627,591 respectively, for the processing of petroleum. During 2000 and 1999, PEMEX, through its subsidiary company, PMI NASA, paid Ps. 15,768 and Ps. 29,259 respectively, to the joint venture under the terms of the contract which calls for contributions from PMI NASA based upon the refinery's operating margin. In July 2000, the above noted contract was modified retroactively respective to the contribution on the refining operating margin; the amounts presented are as revised per the modified contract.

Long-term investments also include PEMEX's 46.85% investment in Mexicana de Lubricantes, S.A. de C.V. ("MexLub") an associated company which is accounted for under the equity method. PEMEX's investment in MexLub amounted to Ps. 642,619 and Ps. 686,937, at December 31, 2001 and 2000, respectively.

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**7. Sale of future accounts receivable**

On December 1, 1998, Petróleos Mexicanos, Pemex-Exploration and Production, PMI and P.M.I. Services B.V. entered into several agreements with Pemex Finance, Ltd. (“Pemex Finance”), a limited liability company which was organized under the laws of the Cayman Islands. Under these agreements, Pemex Finance purchases certain existing accounts receivable for crude oil, as well as certain accounts receivable to be generated in the future by Pemex-Exploration and Production and PMI related to crude oil. The receivables sold are those generated by the sale of Maya crude oil to designated customers in the United States, Canada, and Aruba. The net resources obtained by Pemex-Exploration and Production from the sale of such receivables under the agreements are utilized for PIDIREGAS (see Note 2 d)). At December 31, 2001 and 2000, the sales under these agreements were Ps. 44,685,602 and Ps. 51,976,573, respectively.

“Sale of future accounts receivable” has been classified as a long-term liability as of December 31, 2001 and 2000. The agreements between Petróleos Mexicanos, Pemex-Exploration and Production, PMI, P.M.I. Services B.V. and Pemex Finance establish short-term repayments; however, such agreements are evergreen and it is not expected that current resources will be used in repayments as the agreements do not bear a re-financing risk. Pemex Finance has a proven continuous ability to contract debt in the international market sufficient to sustain the acquisition of accounts receivable from PEMEX.

**8. Notes payable to contractors**

At December 31, 2001 and 2000, the notes payable to contractors consisted of:

	<b>2001</b>	2000
Total notes payable to contractors (a), (b).....	<b>Ps. 14,900,765</b>	Ps. 17,398,476
Less: Current portion of notes payable to contractors.	<b>1,256,395</b>	1,245,707
Notes payable to contractors (long-term).....	<b>Ps. 13,644,370</b>	Ps. 16,152,769

(a) On November 26, 1997, Petróleos Mexicanos and Pemex-Refining entered into a financed public works contract and a unit-price public works contract with Consorcio Proyecto Cadereyta Conproca, S.A. de C.V. The related contracts are for the reconfiguration and modernization of the “Ing. Hector R. Lara Sosa” refinery in Cadereyta, N.L.

The original amount of the financed public works contract was U.S. \$1,618,352, plus a financing cost of U.S. \$805,648, due in twenty semi-annual payments of U.S. \$121,200. The original amount of the unit-price public works contract was U.S. \$80,000, including a financing cost of U.S. \$47,600 payable monthly based on the

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advancement of the project. At December 31, 2001 and 2000, the outstanding balance was Ps. 13,717,107 and Ps. 15,748,200 respectively.

- (b) On June 25, 1997, PEMEX entered into a 10-year service agreement, with a different contractor, for a daily fee of U.S. \$82,500 for the storage and loading of stabilized petroleum by means of a floating system ("FSO"). At December 31, 2001 and 2000, the outstanding balance was Ps. 1,160,283 and Ps. 1,650,280, respectively.

## **9. Debt**

As of December 31, 2001, PEMEX had Ps. 42,268,970 in lines of credit bearing interest rates of LIBOR plus 0.15% to 0.95%. As of December 31, 2001, the unused portion of the lines of credit was Ps. 1,347,903.

During 2001, significant financing operations were as follows:

- a. At various dates during 2001, Petróleos Mexicanos obtained trade loans for an aggregate amount of U.S. \$695,000 (Ps. 6,353,899) from various financial institutions. As of December 31, 2001, U.S. \$490,000 (Ps. 4,479,727) of the trade loans drawn down during 2001 were outstanding. The applicable interest rate on the trade loans is LIBOR plus 0.66% or 0.72%. All the trade loans are repayable during 2002.
- b. At various dates during 2001, Petróleos Mexicanos obtained loans from export credit agencies totaling U.S. \$121,072 (Ps. 1,106,877) granted by various export credit agencies. The loans are repayable from 2002 through 2009 and bear interest at LIBOR plus 0.625% to 1.25%.
- c. At various dates during 2001, Petróleos Mexicanos obtained unsecured loans of U.S. \$1,800,000 (Ps. 16,456,140) from Banco Nacional de Comercio Exterior, S.N.C. for U.S. \$800,000 (Ps. 7,313,840), Banco Santander Mexicano, S.A. for U.S. \$450,000 (Ps. 4,114,035), BBVA Bancomer, S.A. for U.S. \$450,000 (Ps. 4,114,035) and Nacional Financiera, S.N.C. for U.S. \$100,000 (Ps. 914,230), which was utilized to finance working capital requirements. As of December 31, 2001, U.S. \$950,000 (Ps. 8,865,185) of the unsecured loans were outstanding. The unsecured loans bear interest at LIBOR plus 0.55% to 0.90% and are repayable during 2002.
- d. On August 29, 2001, Petróleos Mexicanos issued U.S. \$600,000 (Ps. 5,485,380) of 6.50% Guaranteed Notes due 2005. The notes were issued under Petróleos Mexicanos's Medium Term Note program, Series B, and are guaranteed by Pemex-Exploration and Production, Pemex- Refining and Pemex-Gas and Basic Petrochemicals.
- e. On October 30, 2001, PMI NASA obtained U.S. \$50,270 (Ps. 459,587) in a bank loan from Standard Charter Bank. The bank loan bears interest at LIBOR plus 0.75% and is due in October 2002.

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- f. During 2001, U.S. \$527,900 (Ps. 4,826,220) was received from the commercial paper programs; comprised of U.S. \$83,000 (Ps. 758,811) from the old program that matured in 2001 and U.S. \$444,900 (Ps. 4,067,409) from the new program maturing in 2004. The commercial paper bears interest at the discount rate prevailing in the market at the date of issuance.
- g. During 2001, Petróleos Mexicanos utilized U.S. \$871,000 (Ps. 7,962,943) in acceptance lines of which U.S. \$ 86,000 (Ps. 786,238) were borrowed against existing lines, which expired in 2001. As of December 31, 2001, U.S. \$785,000 (Ps. 7,176,705) of new acceptance lines were outstanding. The acceptance lines bear interest at U.S. discount rate and LIBOR plus 0.7%, expiring in 2004.
- h. During 2001, Petróleos Mexicanos obtained U.S. \$7,600 (Ps. 69,481) for purchasing loans and project financing. The project financing credits bear interest at LIBOR plus 0.62% to 2%. The amounts obtained during 2001 are repayable semi-annually through 2011.

During 2001, the Master Trust undertook the following financing activities:

- a. In September and October 2001, the Master Trust obtained commercial bank loans totaling U.S. \$450,000 (Ps. 4,114,035) from Banco Nacional de Comercio Exterior, S.N.C. for U.S. \$200,000 (Ps. 1,828,460) and Banco Santander Central Hispano for U.S. \$250,000 (Ps. 2,285,575), which were utilized for PIDIREGAS projects. These loans bear interest at LIBOR plus 0.9% and are repayable in 2004.
- b. On February 5, 2001, the Master Trust issued U.S. \$1,000,000 (Ps. 9,142,300) of 8.50% Notes due 2008. The Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.
- c. On June 7, 2001, the Master Trust issued U.S. \$500,000 (Ps. 4,571,150) of 9.125% Notes due 2010. The Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.
- d. On November 14, 2001, the Master Trust increased its Medium-Term Note program from U.S. \$3,000,000 (Ps. 27,426,900) to U.S. \$6,000,000 (Ps. 54,853,800).
- e. On November 26, 2001, the Master Trust issued U.S. \$750,000 (Ps. 6,856,725) of 8.0% Notes due 2011. The Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.
- f. During 2001, the Master Trust obtained U.S. \$425,401 (Ps. 3,889,143) and ¥ 60,084 million (Ps. 4,187,860) in project financing from several financial institutions. The project financing bears fixed interest at rates between 5.04% and 5.66% and variable rates of LIBOR plus 0.08% and 0.25% and the Yen Prime rate. The project financing is repayable between 2001 and 2011.

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During 2000, the following debts were contracted by PEMEX:

- a. Foreign trade lines of credit in the amount of U.S. \$465,000 extended by various banks. These lines of credit are to finance crude oil and petrochemical imports and exports, as well as crude oil pre-exports. The full amount of these lines of credit was committed at December 31, 2000.
- b. Petróleos Mexicanos used U.S. \$107,000 in lines of credit extended by Société Générale, HSBC Investment Bank, plc Banco Santander Central Hispano, Kreditanstalt Für Wiederaufbau and Export Development Corporation. At December 31, 2000, U.S. \$127,300 of these lines of credit was not committed.
- c. Petróleos Mexicanos obtained direct loans for U.S. \$650,000: U.S. \$350,000 from Banco Santander, S.A. and U.S. \$300,000 from Nacional Financiera, S.N.C.
- d. Petróleos Mexicanos obtained U.S. \$173,000 through the Pemex Capital, Inc. commercial paper program and it reused U.S. \$265,000.
- e. Petróleos Mexicanos reused U.S. \$691,000 of banker's acceptances, U.S. \$521,000 of which corresponded to the J.P. Morgan line of credit and U.S. \$170,000 to the Industrial Bank of Japan line of credit.
- f. To finance projects, Petróleos Mexicanos used U.S. \$32,000. At December 31, 2000, U.S. \$14,900 and ¥ 335,600 million were not committed.

The Master Trust contracted the following debt during 2000:

- a. Export Credit Agencies guaranteed loans in the amount of U.S. \$1,098,900, of which U.S. \$351,500 correspond to ABN AMRO Bank, U.S. \$113,400 to Barclays Bank, U.S. \$399,900 to JBIC, U.S. \$34,200 to HSBC and U.S. \$200,000 to Export Development Corporation.
- b. Two notes issuances for an aggregate amount of U.S. \$963,300. The first issuance was for € 500 million of 7.75% Notes due 2007. The second issuance was for U.S. \$500,000 of 9.125% Notes due 2010.
- c. Direct bank loans for an aggregate amount of U.S. \$400,000 of which U.S. \$300,000 correspond to Banco Nacional de Comercio Exterior, S.N.C. and U.S. \$100,000 to Royal Bank of Canada.
- d. U.S. \$698,300 as financing from the Mexican Government.

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In 1983, 1985, 1987, and 1990, Petróleos Mexicanos, together with the Mexican Government, entered into various covenants with the international banking community for restructuring its debt. As a result of the final agreement, the remaining balance of the restructured Mexican Government debt retained, principally, the same interest rate conditions as had been negotiated in 1987. The agreed-upon periods of amortization including a provision for division of the debt into two main portions with amortization over 52 and 48 quarters, respectively. The first amortization period began in 1994 and the second began in 1995, with both scheduled to end in December 2006.

Each year, SHCP approves Petróleos Mexicanos and Subsidiary Entities' annual budget and its annual financing program. The Mexican Government incorporates Petróleos Mexicanos and Subsidiary Entities' annual budget and annual financing program into the budget of the Mexican Government, which the Federal Congress of Mexico must approve each year. PEMEX's debt is not an obligation of, or guaranteed by, the Mexican Government. However, under the *Ley General de Deuda Pública* (the General Law of Public Debt), Petróleos Mexicanos and Subsidiary Entities' foreign debt obligations must be approved by and registered with the SHCP and are considered Mexican external public debt. Although Petróleos Mexicanos' debt is not guaranteed by the Mexican Government, Petróleos Mexicanos' external debt has received pari passu treatment in previous debt restructurings. Petróleos Mexicanos has repayments in 2002 related to current portion of long-term debt. A portion of this debt, primarily bankers' acceptances and commercial paper, is contractually committed until the year 2004, and thus does not bear a refinancing risk.

Various credit facilities require compliance with various operating covenants which, among other things, place restrictions on the following types of transactions:

- sale of substantial assets essential for the continued operations of the business;
- liens against its assets; and
- transfers, sales or assignments of rights to payment under contracts for the sale of crude oil or gas not yet earned, accounts receivable or other negotiable instruments.

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As of December 31, 2001 and 2000, long-term debt was as follows:

	Rate of interest (4)	Maturity	December 31, 2001		December 31, 2000	
			Pesos (thousands)	Foreign currency (thousands)	Pesos (thousands)	Foreign currency (thousands)
<b>U.S. dollars:</b>						
Unsecured loans (1)...	Domestic and LIBOR plus 0.8125	Various to 2006		547,139		659,555
			<i>Ps.</i> 5,002,105		<i>Ps.</i> 6,313,392	
Unsecured loans.....	LIBOR plus 0.55 to 0.95	2006	8,685,185	950,000	6,221,930	650,000
Acceptance lines.....	Acceptance rate and LIBOR plus 0.7% and 2%	2002	7,176,706	785,000	8,423,536	880,000
Bonds.....	Various from 6.0163% to 10.1% and LIBOR plus 3.4125%	Various to 2027	63,522,890	6,948,239	44,032,130	4,600,001
Bonds (financing assigned to PIDIREGAS).....	8.85% to 9.50%	Various to 2027	32,288,099	3,531,726	35,093,125	3,666,150
Purchasing loans and project financing.....	Various from 1.93175% to 7.77% and LIBOR plus 0.0625% to 2.00%	Various to 2011	3,729,497	407,939	4,169,890	435,625
Leasing contracts.....	Various from 9.49% to 10.34% and LIBOR plus fixed rate 1.25%	Various to 2002	2,916,661	319,029	4,184,966	437,200
Commercial paper.....	Discount rate prevailing in the market	From 59 to 90 days	2,079,873	227,500	4,278,773	447,000
External trade loans....	LIBOR plus 0.625% to 0.725%	Various to 2002	4,479,727	490,000	3,781,019	395,000
Others.....	Various from 8.2725% to 10.10%	Various to 2008	1,676,174	183,342	-	-
Bank loans.....	LIBOR plus 0.75%	2002	459,587	50,270	-	-
Total financing denominated in U.S. dollars.....			<b>Ps. 132,016,504</b>	<b>14,440,184</b>	<b>Ps. 116,498,761</b>	<b>12,170,531</b>
<b>Euros:</b>						
Unsecured loans and Euro bonds.....	LIBOR plus 0.8125% and from 2.00% to 10.00%	Various to 2007	10,970,713	1,355,932	6,242,749	675,000
<b>Italian lira:</b>						
Bonds.....	Various from 7.375% to 11.25% and LIBOR plus 165 basis points	Various to 2008	<b>Ps.</b> -	-	<b>Ps.</b> 7,134,376	1,300,000,000



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	Rate of interest (4)	Maturity	December 31, 2001		December 31, 2000		
			Pesos	Foreign currency (thousands)	Pesos	Foreign currency (thousands)	
<b>Japanese yen:</b>							
Project financing.....	From 1.6% to 6.6% and Prime in yen	Various to 2015	Ps. 12,132,480	174,067,145	Ps. 10,583,011	126,908,224	
<b>Other currencies (2)</b>		Various to 2016				2,226,998	
Total principal in pesos (3).....			156,820,054			142,685,895	
Plus: Accrued interest			2,596,047			2,141,201	
Total principal and interest.....			159,416,101			144,827,096	
Less: Short-term maturities.....			36,246,106			40,457,071	
Long-term debt.....			Ps. 123,169,995			Ps. 104,370,025	
	2002	2003	2004	2005	2006	2007 and thereafter	Total
Maturities (in thousands of pesos)	Ps. 33,650,059	Ps. 14,576,630	Ps. 14,854,773	Ps. 15,799,273	Ps. 9,603,950	Ps. 68,335,369	Ps. 156,820,054

**Notes to table:**

- (1) Unsecured loans remain from a debt restructuring in 1987. This restructuring extended maturities to new periods through 2006.
- (2) Balance includes market operations, unsecured loans, purchasing loans and project financing denominated in Pounds sterling, Deutsche marks, Swiss francs, Austrian schillings, French francs and Belgian francs, all carrying different interest rates.
- (3) Includes financing from foreign banks for Ps. 149,517,308 and Ps. 133,850,060 as of December 31, 2001 and 2000, respectively.
- (4) As of December 31, 2001 the LIBOR rate was 1.98125% (6.204% in 2000), the Eurodollar rate was 1.81% (6.140% in 2000) the U.S. Discount rate was 1.25% (6.000% in 2000), the Prime rate in Japanese yen was 1.85% (2.100% in 2000) and the Acceptance rates ranged from 6.480 % to 6.667% in 2000.

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**10. Financial instruments**

During the normal course of business, PEMEX is exposed to foreign currency risk, interest rate risk, commodity price risk, counterparty risk and investment portfolio risk. These risks create volatility in earnings, equity, and cash flows from period to period. PEMEX makes use of derivative instruments in various strategies to eliminate or limit many of these risks.

PEMEX has enacted general risk management guidelines for the use of derivative instruments, which form a comprehensive framework for PEMEX. Each subsidiary entity using derivatives has also adopted industry-specific risk management guidelines to manage the appropriate risks arising from their respective activities. The subsidiary entities' guidelines operate within the general risk management framework of PEMEX.

The Risk Management Committee of PEMEX, comprised of representatives of PEMEX, the Central Bank of Mexico, SHCP, and PMI, authorizes PEMEX's hedging strategies and submits the risk management policies for the approval of the Board of Directors of Petróleos Mexicanos (the Board of Directors).

During 2001, the Board of Directors approved a restructuring of the risk management area and created the Risk Management Deputy Direction, whose objective is to develop the financial and operational risk management strategy for PEMEX and to establish institutional regulations consistent with a consolidated risk management approach.

*(i) Credit risk*

PEMEX is subject to credit risk through trade receivables, short-term cash investments and derivative financial instruments. A significant portion of PEMEX's sales are to customers whose activities are related to the oil and gas industry, including some who are located in foreign countries (primarily the United States). To monitor this risk, PEMEX has established an internal credit committee to monitor credit policies and procedures. PEMEX extends credit to these customers which are generally covered by credit mitigation instruments such as bonds or letters of credit. Nevertheless, collection of receivables is affected by the economy of the oil and gas industry and of Mexico itself (since products are also sold in the domestic market). Also, with respect to foreign sales, collection may be more difficult in the event of a default. However, PEMEX closely monitors extensions of credit and has never experienced significant credit losses. Also, most foreign sales are made to large, well-established companies.

PEMEX invests excess cash in low-risk, liquid instruments, which are placed with a wide array of institutions.

*(ii) Counterparty risk from the use of derivative financial instruments*

PEMEX is exposed to credit (or repayment) risk and market risk through the use of derivative instruments. If the counterparty fails to fulfill its performance obligations under a derivative contract, PEMEX's credit risk will equal the positive market value in a derivative. Currently, when the fair value of a derivative contract is positive, this

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indicates that the counterparty owes PEMEX, thus creating a repayment risk for PEMEX. When the fair value of a derivative contract is negative, PEMEX owes the counterparty and, therefore, assumes no repayment risk.

In order to minimize the credit risk in derivative instruments, PEMEX enters into transactions with high quality counterparties which include financial institutions and commodities exchanges that satisfy PEMEX's established credit approval criteria. Normally, these counterparties have higher credit standing than that of PEMEX.

Derivative transactions are generally executed on the basis of standard agreements. In general, collateral for financial derivative transactions are neither provided nor received. However in energy derivatives transactions, counterparties require collateral when the negative fair value of the position exceeds the credit threshold.

*(iii) Interest rate risk management*

PEMEX's interest rate risk hedging strategy allows the volatility of the financial risk to be reduced in the operating cash flows of PEMEX for the long-term debt commitments and guaranteed minimum dividends. Interest rate derivatives allow PEMEX to contract long-term loans to be contracted at fixed or variable rates and to select the appropriate mix of the debt at variable versus fixed rates.

Interest rate hedging strategies have permitted PEMEX to effectively change the characteristics of its liabilities. At December 31, 2001, the effective interest rate on approximately 60% (51% in 2000) of PEMEX's debt is at a fixed rate, contracted directly or by using derivatives instruments.

Derivative financial instruments used in PEMEX's hedging transactions primarily consist of (i) fixed interest rate swaps, under which PEMEX is eligible to receive payments generally based on the three month and six month LIBOR interest rate, and to a lesser degree, (ii) options on interest rate caps to establish an interest rate ceiling.

*(iv) Exchange rate risk management*

As a currency exchange rate risk hedging policy, PEMEX contracts cross-currency swaps in order to hedge against adverse changes in currency exchange rates.

Since a significant amount of PEMEX's revenues is denominated in U.S. dollars, PEMEX generally contracts loans in U.S. dollars. However, PEMEX also contracts debt in currencies other than the U.S. dollar to take advantage of the financing terms available in these foreign currencies. PEMEX has historically contracted cross-currency swaps as a hedging strategy against market exposure due to the depreciation of the U.S. dollar. These foreign currency financial derivatives have been established to translate the amounts relative to various bonds issued in other currencies into U.S. dollars.

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*(v) Commodity price risk management*

Crude oil:

PEMEX's exports and domestic sales are related to international hydrocarbon prices, thus exposing PEMEX to fluctuations in international markets. PEMEX shares this risk with the Mexican Government through its current fiscal regime. Currently, PEMEX does not hedge against fluctuations in crude oil prices. However, in order to lessen the effect of a decline in hydrocarbon prices, since 1998, the Mexican Government, along with PEMEX, agreed to reduce the volume of crude oil exports in conjunction with the major international oil producers to improve international oil prices.

Petroleum products:

PEMEX balances its overall petroleum product supply and demand through PMI Trading Ltd., managing only those exposures associated with the immediate operational program. To this end, PEMEX uses the full range of conventional oil price-related financial and commodity derivatives available in the oil markets. PEMEX's benchmark for petroleum product commercial activities is the prevailing market price.

Natural gas:

As part of the Mexican Government's policy of promoting economic growth, SHCP, the Ministry of Economy, the Ministry of Energy and PEMEX announced a natural gas pricing program on January 2001 for certain industrial consumers of natural gas in Mexico. Under this program, Mexican industrial consumers that hold outstanding natural gas price hedging instruments may enter into a three-year agreement with PEMEX to purchase natural gas from PEMEX at a fixed reference price of 4.00 U.S. dollars per million BTUs. PEMEX entered into a number of such contracts in 2001. Participation by the industrial consumers in the program is optional.

As part of PEMEX's risk management strategy, PEMEX has entered into a number of derivative instruments, primarily swaps and futures, for hedging purposes. These instruments are designed to unlock the fixed price sales under the three-year agreements, while locking in a profit margin, and were entered into for approximately 91% of the total volume of natural gas sold under these three-year fixed price agreements. The risk management strategy used to hedge these fixed price sales leaves PEMEX with an exposure to basis risk arising from the difference between the index used to hedge the natural gas sales at a fixed price and the index used as reference to mark to market these contracts. This basis risk is treated as an inefficiency of the transaction and may impact PEMEX's earnings in a period other than the one during which the transaction may be realized.

*(vi) Investment portfolio risk management*

PEMEX currently holds three equity swaps with respect to shares of Repsol with two counterparties. In 1994, PEMEX entered into an equity swap for substantially all of its ownership interest in Repsol (44,985,000 shares). The equity swap was restructured in March 2000, with respect to 26,427,781 Repsol shares (with the remaining 18,557,219 shares in the original swap being returned to PEMEX). The restructured swap was divided in three tranches, having one-, two- and three-year maturities. Upon the maturity of the one-year tranche in 2001, PEMEX entered into a new swap for another three months, commencing in April 2001 and since then, this swap has been

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renewed periodically. Upon the maturity of the two-year tranche of the restructured swap in April 2002, PEMEX entered into a new swap for three months. In addition, in January 2000, PEMEX entered into a second equity swap with respect to 13,679,704 Repsol shares maturing in three years. These shares had been purchased in 1999. As of December 31, 2001, the market value of the Repsol shares was 14.57 U.S. dollars per share.

The above equity swaps, which are uncollateralized, involve the option to be cash or physically settled.

In December 1999, PEMEX unwound a collar component of a call spread swap with a financial institution. This enabled PEMEX not to limit potential gains. The resulting structure is that of an asset swap. The realized cost of termination of the collar component was Ps. 2,666,173, with Ps. 1,058,504 being paid in 1999 and Ps. 1,607,669 being paid in early 2000; the full expense related to the collar termination cost was recorded in 1999.

*(vii) Fair value of derivative financial instruments*

The fair value of derivative instruments is sensitive to movements in the underlying market rates and variables. PEMEX monitors the fair value of derivatives instruments on a periodic basis. The fair value of foreign currency, commodity and interest rate derivatives is monitored on a periodic basis ranging from daily to at least quarterly. Fair values are calculated for each derivative financial instrument, which is the price at which one party would assume the rights and duties of another party. Fair values of financial derivatives have been calculated using common market valuation methods with reference to available market data as of the balance sheet date.

The following is a summary of the methods and assumptions for the valuation of utilized derivative financial instruments.

- Currency, crude oil forwards, crude oil, gas and product swaps are valued separately at future rates or market prices as of the balance sheet date. The fair values of spot and forward contracts are based on spot prices that consider forward premiums or discounts from quoted prices in the relevant markets when possible.
- Market prices for currency, crude oil and gas options are valued using standard option-pricing models commonly used in the market. Embedded caps, floor and collars are considered in the valuation by calculating the fair value separately for such features similar to stand-alone options.
- The fair values of existing instruments to hedge interest rate risk were determined by discounting future cash flows using market interest rates over the remaining term of the instrument. Discounted cash values are determined for interest rate and cross currency swaps for each individual transaction as of the balance sheet date. Interest exchange amounts are considered with an effect on current results at the date of payment or accrual. Market values for interest rate options are determined on the basis of quoted market prices or on calculations based on option pricing models.
- Exchange-traded oil and energy future contracts are valued individually at daily settlement prices determined on the futures markets that are published by their respective clearing houses. Paid initial

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margins are disclosed under other assets. Variation margins received or paid during the term are stated under other liabilities or other assets, respectively. They are accounted for with an impact on earnings at settlement or realization, respectively.

The following table indicates the types of swaps contracted, their duration, and their respective interest rates at December 31, 2001 and 2000.

	2001		2000	
	<u>Notional amount</u>	<u>Fair value</u>	<u>Notional amount</u>	<u>Fair value</u>
	914,230	(84,848)	3,350,270	(56,478)
<b>Received variable swaps</b>				
Weighted average (maturity years).....	2.59	-	1.25	-
Average receive rate.....	4.04	-	7.32	-
Average pay rate.....	7.33	-	5.84	-

The following table indicates interest rate options, fair value, and their respective interest rate.

	2001		2000	
	<u>Notional amount</u>	<u>Fair value</u>	<u>Notional amount</u>	<u>Fair value</u>
	-	-	957,220.00	-
<b>Caps written.....</b>				
.....				
Weighted average (maturity years).....	-	-	0.37	-
Average receive rate.....	-	-	9.84	-
Average pay rate.....	-	-	5.79	-

The following table indicates the type of cross-currency swaps and their respective fair values at December 31, 2001 and 2000.

	2001		2000	
	<u>Notional amount</u>	<u>Fair value</u>	<u>Notional amount</u>	<u>Fair value</u>
	3,777,142	(1,281,899)	3,954,755	(1,033,136)
<b>Italian lire to U.S. dollars.....</b>				
British pounds to U.S. dollars.....	1,138,216	(174,089)	1,191,739	(106,695)
Japanese yens to U.S. dollars.....	4,423,074	(292,435)	-	-
Euro to U.S. dollars.....	8,511,616	(1,533,064)	5,082,754	(1,161,406)
	<b>17,850,048</b>	<b>(3,281,487)</b>	<b>10,229,248</b>	<b>(2,301,237)</b>

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*Fair value of financial instruments other than derivatives*

The estimated fair value of financial instruments other than derivatives, for which it is practicable to estimate that value, as of December 31, 2001 and 2000 are as follows:

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Cash and cash equivalents.....	Ps. 14,441,864	Ps. 14,441,864	Ps. 27,826,846	Ps. 27,826,846
Accounts receivable, notes and other.....	44,869,427	44,869,427	56,701,566	56,701,566
<b>Liabilities:</b>				
Suppliers.....	Ps. 23,503,971	Ps. 23,503,971	Ps. 22,651,745	Ps. 22,651,745
Accounts payable.....	8,426,580	8,426,580	6,102,552	6,102,552
Sale of future accounts receivable...	44,685,602	44,685,602	51,976,573	51,976,573
Taxes payable.....	2,515,370	2,515,370	25,308,881	25,308,881
Short-term debt.....	36,246,106	36,246,106	40,457,071	40,457,071
Notes payable to contractors-short term.....	1,256,395	1,256,395	1,245,707	1,245,707
Notes payable to contractors-long term.....	13,644,370	14,827,874	16,152,769	17,913,133
Long-term debt.....	123,169,995	127,235,896	104,370,025	106,230,257

The reported amounts of financial instruments such as cash equivalents, accounts receivable and payable, taxes payable and short-term debt approximate fair value because of their short maturities.

The fair value of long-term debt is determined by reference to market quotes, and, where quotes are not available, is based on discounted cash flow analyses. Because assumptions significantly affect the derived fair value and they are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values would not necessarily be realized in an immediate sale or settlement of the instrument.

**11. Reserve for retirement payments, pensions and seniority premiums**

PEMEX has labor obligations for seniority premiums and pensions, according to regulations established by the *Ley Federal del Trabajo* (the "Federal Labor Law"), and provisions in the individual and collective labor contracts. This compensation is only payable after the worker or employee has worked a certain number of years. Benefits are based on the employee's compensation as of his retirement date, as well as the number of years of service. PEMEX has established a reserve for retirement and seniority premium benefits, determined by independent actuaries. The reserve is calculated by independent third party actuaries using the projected unit-credit method. The net cost of the plan recorded in the consolidated statements of operations amounted to Ps. 33,849,168, Ps. 29,901,504 and Ps. 25,022,850 in 2001, 2000 and 1999, respectively.

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The amount of benefits projected for pensions and seniority premiums, determined by independent actuaries, is as follows:

	2001	2000
Obligation for current benefits.....	<b>Ps. 178,379,613</b>	Ps. 147,537,355
Additional amount for projected benefits.....	<b>46,155,618</b>	44,146,568
Projected benefits obligation.....	<b>224,535,231</b>	191,683,923
Less:		
Plan assets (trust funds).....	<b>5,803,396</b>	9,330,702
	<b>218,731,835</b>	182,353,221
Transition liability to be amortized over 7 years, actuarial gains or losses, prior service costs and plan amendments.....	<b>104,760,916</b>	97,984,838
Net projected liability.....	<b>113,970,919</b>	84,368,383
Additional minimum liability .....	<b>59,060,585</b>	54,133,613
Accumulated obligation.....	<b>Ps. 173,031,504</b>	Ps. 138,501,996

**12. Comprehensive loss**

Comprehensive loss for the years ended December 31, 2001, 2000 and 1999 is analyzed as follows:

	2001	2000	1999
Net loss for the year.....	<b>Ps. (34,090,587)</b>	Ps. (19,710,392)	Ps. (21,156,771)
Effect of restatement in the year, net...	<b>7,783,568</b>	12,042,509	16,306,888
Net increase in specific oil-field exploration and depletion reserve...	<b>3,587,309</b>	2,241,993	2,055,350
Other equity movements (1).....	<b>544,370</b>	(68,692)	968,774
Comprehensive loss for the year.....	<b>Ps. (22,175,340)</b>	Ps. (5,494,582)	Ps. (1,825,759)

(1) Represents primarily translation adjustments from non-Mexican subsidiaries.



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**13. Equity**

On December 31, 1990, certain debt owed by Petróleos Mexicanos to the Mexican Government was capitalized as equity. This capitalization amounted to Ps. 22,334,195 (U.S. \$7,577,000) and was authorized by the Board of Directors. The capitalization agreement between Petróleos Mexicanos and the Mexican Government stipulates that the Certificates of Contribution "A" constitute permanent capital.

As a condition of this capitalization, Petróleos Mexicanos agreed to pay a minimum guaranteed dividend to the Mexican Government equal to the debt service for the capitalized debt. The minimum guaranteed dividend consists of the payment of principal and interest in the same terms and conditions as those originally agreed upon with international creditors until the year 2006, at the exchange rates in effect as of the date payments are made. Such payments must be approved annually by the Board of Directors.

In December 1997, the Board of Directors and the Mexican Government agreed to an equity reduction of the Certificates of Contribution "A" in exchange for a cash payment to the Mexican Government of Ps. 12,118,050 (U.S. \$1,500,000). Petróleos Mexicanos and SHCP agreed upon a corresponding reduction in the future payments of the minimum guaranteed dividend.

During 2001, Petróleos Mexicanos paid Ps. 2,152,788 (Ps. 5,563,799 during 2000) to the Mexican Government in advance payments on account of the minimum guaranteed dividend. These payments will be applied to the final amount that the Board of Directors approves as the total annual dividend, which is usually in the following fiscal year.

On October 31, 1998, PEMEX liquidated its investment in the shares of Distribuidora de Gas Natural del Estado de México, S.A. de C.V. and recorded a gain in other revenues of Ps. 406,677. PEMEX also recorded in the 1998 operating results, dividends of Ps. 372,840 received during the year from that company. All proceeds obtained from these operations were deposited in the Federal Treasury, through a dividend in the favor of the Mexican Government, approved by the Board of Directors on August 3, 1999.

On January 31, 1999, PEMEX liquidated its investment in the shares of Distribuidora de Gas de Querétaro, S.A. de C.V., and recorded a gain of Ps. 231,074 in the 1999 operating results. The proceeds obtained from that operation were deposited in the Federal Treasury, through a dividend in the favor of the Mexican Government, approved by the Board of Directors on May 9, 2000.

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**14. Foreign currency position**

PEMEX has the following assets and liabilities denominated in foreign currencies, which are stated in pesos at the exchange rate prevailing at December 31, 2001 and 2000:

	Amount in foreign currency (Thousands)			Exchange rate	Amounts in pesos
	Assets	Liabilities	Long (short) position		
<u>2001:</u>					
U.S. dollars	2,693,204	13,967,347	(11,274,143)	9.1423	Ps. (103,071,598)
Japanese yen	-	71,758,328	(71,758,328)	0.0697	(5,001,555)
Pounds sterling	-	165,377	(165,377)	13.2600	(2,192,899)
Austrian schillings	-	212	(212)	0.5880	(125)
Dutch guilders	40	-	40	3.6715	147
	<b>467</b>	<b>1,383,966</b>	<b>(1,383,499)</b>	<b>8.0909</b>	<b>(11,193,752)</b>
<b>Euros</b>					
Other currencies	various	various	various	various	(4,686)
Net-short position, before foreign-currency hedging (Note 10)					<b>Ps. (121,464,468)</b>
<u>2000:</u>					
U.S. dollars	4,297,065	14,044,116	(9,747,051)	9.5722	Ps. (93,300,722)
Japanese yen	12	127,244,317	(127,244,305)	0.0834	(10,612,175)
Deutsche marks	-	10,924	(10,924)	4.5525	(49,732)
Italian lira	22,101	1,300,000,184	(1,299,978,083)	0.0046	(5,979,899)
Pounds sterling	-	127,075	(127,075)	14.2836	(1,815,088)
Austrian schillings	1	506,089	(506,088)	0.6471	(327,490)
Swiss francs	-	1,056	(1,056)	5.9037	(6,234)
French francs	-	4,943	(4,943)	1.3574	(6,710)
	-	675,000	(675,000)	8.9041	(6,010,268)
<b>Euros</b>					
Belgium francs	-	173,814	(173,814)	0.2207	(38,361)
Other currencies	various	various	various	various	18,078
Net-short position, before foreign-currency hedging (Note 10)					<b>Ps. (118,128,601)</b>

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**15. Effects of inflation on the financial information**

The following table reflects the approximate effects of inflation on PEMEX's financial information in accordance with Bulletin B-10 (Restated amounts columns), except that the concept of fair value has not been included, see subsequent discussion in this note. The Basic Financial Statements column is prepared in accordance with NIF-06 BIS "A" Section A.

	<b>Effect on Balance sheets</b>		
	<b>2001</b>		<b>2000</b>
	<b>NIF-06 BIS "A"</b> <b>Basic</b> <b>Financial</b> <b>Statements</b>	<b>Bulletin B-10</b> <b>Restated amounts</b>	
Equity:			
Certificates of Contribution "A"...	Ps. 10,222,463	Ps. 10,222,463	Ps. 10,222,463
Specific oil-field exploration and depletion reserve.....	16,278,784	16,278,784	12,691,475
Revaluation surplus.....	181,837,738	-	-
Retained earnings (losses):			
Prior years.....	(51,382,165)	(45,267,802)	(24,483,734)
Current year.....	(34,090,587)	(26,022,769)	(15,220,269)
Restatement of equity.....	-	653,837,966	627,462,574
Deficit from the restatement of equity :			
Loss on accumulated monetary position.....	-	(77,577,999)	(74,305,937)
Equity monetary result.....	-	8,796,254	8,425,248
Accumulated deficit from holding non-monetary assets...	-	(417,400,664)	(394,186,448)
	<b>Ps. 122,866,233</b>	<b>Ps. 122,866,233</b>	<b>Ps. 150,605,372</b>
	<b>Effect on statements of income</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
Comprehensive cost of financing:			
Interest expense and exchange loss capitalized in fixed assets.....	Ps. (3,779,541)	Ps. (4,052,872)	Ps. (5,119,428)
Monetary position gain, Net.....	11,847,359	8,542,995	12,545,971
	<b>Ps. 8,067,818</b>	<b>Ps. 4,490,123</b>	<b>Ps. 7,426,543</b>

The above table was prepared using the following procedures and assumptions:

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Balance sheets:

- 1) Currency exchange losses arising from the impact of foreign currency fluctuations on the foreign currency denominated debt and interest capitalized as part of fixed assets under NIF-06 BIS "A" Section A are, because of the restatement, charged to income for the year under Bulletin B-10, and would be reflected as part of the "Comprehensive cost of financing".
- 2) The Certificates of Contribution "A" have been restated by applying the factor derived from the NCPI Index to the contributions based on the year in which they were made, in order to present them in terms of the same purchasing power. The same procedure was applied to the equity reserves and retained earnings. The figure for these items is presented under the caption "Restatement of equity".
- 3) The deficit or surplus from holding non-monetary assets represents the difference achieved by comparing these asset balances, restated as discussed in Note 2 b), to the result from applying NCPI indexes to such non-monetary assets.

There is evidence that the restated amounts of some of the assets might exceed their "fair value," which is defined as the amount of the net cash flows that are reasonably expected to be received from the use of such assets. The approximate amounts of that overstatement at December 31, 2001 and 2000, are estimated at Ps. 35,199,400 and Ps. 30,407,300, respectively; these amounts have not been deducted from the restated amount of the assets, as required by Bulletin B-10. As stated in Note 2 b), NIF-06 BIS "A" Section A does not consider the concept of fair value.

Statements of operations:

- 4) The gain from monetary position represents the effect that inflation has produced on monetary assets and liabilities. Holding these assets produces a loss; holding such liabilities produces a gain.

The initial accumulated result upon implementation of Bulletin B-10 arising from the restatement is presented in equity. The result for the year is applied to the "Comprehensive cost of financing", which includes interest expense and exchange losses.

Other:

- 5) The consolidated balance sheets as of December 31, 2001 and 2000 would be stated in pesos with purchasing power restated as of those dates and the related consolidated statements of operations are stated in pesos reflecting average purchasing power for those years. The consolidated balance sheets are prepared under a NIF-06 BIS "A" Section A basis (see Note 2 b)).

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**16. Commitments and contingencies**

- a. PEMEX is involved in various lawsuits filed against it by dismissed personnel, which in the event of being resolved in favor of the dismissed personnel, would result in a charge to operations in the year in which the payment is made. Management does not believe that the ultimate outcome of these events will have a material effect on its financial position or results of operations.
  
- b. PEMEX is subject to the *Ley General de Equilibrio Ecológico y Protección al Ambiente* (the General Law on Ecology and Protection of the Environment, or the “Environmental Law”). To comply with this law, PEMEX has contracted environmental audits for its larger operating, storage and transportation facilities. To date, audits of refineries, secondary petrochemical plants and certain other facilities have been concluded. Following the completion of such audits, PEMEX signed various agreements with the *Procuraduría Federal de Protección al Ambiente* (the Federal Attorney of Environmental Protection, or “PROFEPA”) to implement environmental remedy and improvement plans. Such plans consider remedy for environmental damages previously caused, as well as related investments for the improvement of equipment, maintenance, labor and materials.

PEMEX has recorded obligations for environmental remediation as of December 31, 2001 and 2000 of Ps. 2,316,175 and Ps. 2,837,758, respectively. These liabilities are included in the “Reserve for sundry creditors and others”.

- c. A trust agreement has been formed between Pemex-Gas and Basic Petrochemicals as beneficiary, Distribuidora de Gas de Querétaro, S.A. de C.V.; DGN de la Laguna Durango, S. de R.L. de C.V.; DGN de Chihuahua, S. de R.L. de C.V.; Repsol México, S.A. de C.V. (now Gas Natural de México, S.A. de C.V.); Gas Natural del Río Pánuco, S. de R.L. de C.V.; Tamauligas, S.A. de C.V.; NATGASMEX, S.A. de C.V.; Consorcio Mexigas, S.A. de C.V.; Comercializadora Metrogas, S.A. de C.V. (formerly DIGANAMEX, S.A. de C.V.) and Distribuidora de Gas Natural de Jalisco, S.A. de C.V., as trustees, and the Banco Nacional de Obras y Servicios Públicos, S.N.C. (National Bank of Public Works and Services, S.N.C.) as trust administrator. Pursuant to this agreement, Pemex-Gas and Basic Petrochemicals is obligated to transfer the right to the use of assets associated with natural gas distribution from Pemex-Gas and Basic Petrochemicals to the trustees and, in return, the trustees are obligated to deposit in the trust a payment for the right of use of the transferred assets. This payment was approximately Ps. 332,799, Ps. 332,799 and Ps. 250,179 at December 31, 2001, 2000 and 1999, respectively. The trust administrator is obligated to transfer the ownership of the assets to the trustees once the title and control of the assets has been formalized and properly accredited into the name of the trustees.
  
- d. PEMEX, through its subsidiaries PMI and PMI-NASA, has executed several long-term purchase and sale contracts for Maya crude oil with various refineries. These contracts oblige the buyers to construct conversion units (coking/catalyst conversion units) that permit the optimization of yields from the refining process of Maya

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crude. PMI, in its role, principally has the obligation to assign Maya crude oil once the new investments have been completed.

The contracts which have been signed to date include:

- (i) An agreement with Clark Refining and Marketing Inc. (now Port Arthur Coker Company), signed in March 1998 for delivery of crude oil to its refinery in Port Arthur, Texas, U.S.A. The contract is for approximately 158,000 barrels per day of Maya crude oil to be delivered for a period of seven years following project completion, which occurred in April 2001.
- (ii) An agreement with Coastal Aruba Refining Company N.V., signed in July 1998, for delivery of crude oil to its refinery in Lagoweg, Aruba. The contract is for approximately 100,000 barrels per day of Maya crude oil to be delivered for a period of five years following project completion, which occurred in April 2000.
- (iii) An agreement with Exxon Company U.S.A. and Exxon Trading Company International, signed in September 1998 for delivery of crude oil to its refinery in Baytown, Texas, U.S.A. The contract is for approximately 65,000 barrels per day of Maya crude oil to be delivered for a period of five years following project completion, which occurred in December 2001.
- (iv) In May 1999, an agreement, signed with Pecten Trading Company, which is a trading subsidiary of Shell Oil Company and PMI-NASA to expand the refinery at Deer Park Refining Limited Partnership by increasing its total processing capacity from 280,000 barrels per day to 340,000 barrels per day; the project was completed in April 2001. The increased requirements for heavy crude are satisfied through an increase in the supply of Maya crude oil from PMI, which increased its existing agreements with Pecten and PMI-NASA from 140,000 barrels per day to 200,000 barrels per day, 50,000 barrels per day of the additional contractual quantity are contracted under terms similar to the other agreements mentioned in this section.
- (v) An agreement with Marathon Ashland Supply LLC, signed in May 1999 to supply its Garyville, Louisiana, U.S.A. refinery with approximately 90,000 barrels per day, which by today has been increased to up to 100,000 barrels per day, of Maya crude oil for a period of five years following project completion, which occurred in December 2001.
- (vi) An agreement with Valero Marketing & Supply Company and Valero Refining-Texas, L.P., signed in December 2001 to supply its Texas City, Texas, U.S.A. refinery with approximately 90,000 barrels per day of Maya crude oil for a period of five years following project completion, which is scheduled to occur on or before October 1, 2003.

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- (vii) An agreement with Chevron Products Company, signed in March 2002 to supply its Pascagoula, Mississippi, U.S.A. refinery with approximately 130,000 barrels per day of Maya crude oil for a period of five years following project completion, which is scheduled to occur in April 2003.
- e. At December 31, 2001, PEMEX is involved in various civil, tax and administrative lawsuits with a total claim amount of Ps. 11,888,473. At December 31, 2001 and 2000, PEMEX has accrued Ps. 1,026,561 and Ps. 368,873, respectively, related to those contingencies for which management believes that the outcome will be unfavorable.
- f. PEMEX presently faces claims in courts, filed by service providers for damages amounting to U.S. \$497,300 (Ps. 4,546,466). Those legal proceedings have recently begun and PEMEX believes that to date it is not necessary to create any provision.
- g. PEMEX has been sued by a supplier for late and non-payment of billings and other items for a total of U.S. \$79,276 (Ps. 724,765). Based on an analysis of the documentation presented by the supplier, PEMEX recognized a liability of U.S. \$4,576 (Ps. 41,835). In addition, PEMEX will file suit against the supplier for U.S. \$4,949 (Ps. 45,245) for unsatisfactory work. At the present time, documentary evidence is now in the process of being presented to the court.
- h. PEMEX has a nitrogen supply contract for the pressure maintenance program for the Cantarell field that expires in 2015. At December 31, 2001 and 2000, the value of the nitrogen to be supplied during the term of the contract is approximately Ps. 22,015,737 and Ps. 25,525,000, respectively. In the event of the annulment of the contract for causes attributable to PEMEX, PEMEX would be required to purchase the nitrogen production plant from the supplier for Ps. 8,310,456.
- i. As discussed in Note 10, PEMEX sold 13,679,704 shares of Repsol and simultaneously contracted an equity swap on such shares with an international financial institution. The agreement contains a mandatory re-purchase clause for the shares. The repurchase commitment is for U.S. \$292,000.
- j. The *Comisión Federal de Competencia* ("Federal Competition Commission") handed down a resolution against PEMEX for presumed monopolistic policies relative to exclusivity clauses for the sale of lubricants, grease, and oil. The resolution established the following measures:
- The payment of a fine in the amount of Ps. 17,055;
  - Amendment of the joint venture agreements, use of trademark license contract, franchise supply contract, as well as documents containing the exclusivity clause;
  - Amendment of contracts with franchise service stations to adjust franchise and supply contracts; and
  - Report the resolution handed down by the Federal Competition Commission to the legal representatives of service stations.

To date, PEMEX has filed two appeals for constitutional relief from this resolution. One appeal was resolved favorably in the first instance, because it was challenged through an appeal for review. A ruling thereon has not been handed down yet. A ruling by the appeals court has not been handed down on the other appeal.

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- k. At December 31, 2001, PEMEX has entered into contracts with various contractors for an approximate amount of Ps. 46,819,776. These contracts are for the development of PIDIREGAS and, therefore, subject to standards required in NIF-09-A (see Note 2 d)).
- l. In the normal course of business, PEMEX is named in a number of lawsuits of various natures. PEMEX evaluates the merit of each claim and assesses the likely outcome, accruing a contingent liability when an unfavorable decision is probable and the amount is reasonable estimable. PEMEX does not believe a materially unfavorable outcome is probable for any known or pending lawsuits or threatened litigation for which PEMEX has not made accruals.

**17. Marketing of gas**

During 2000 and through February 2001, the market selling price of liquid gas was determined by reference to the average price for the last three months with a maximum increase of up to 2%. Effective March 2001, by decree of the Economic Committee headed by the Ministry of Economy, the selling price was set at 3.461 pesos per ton for a four month period. On July 27, 2001, the *Comisión Reguladora de Energía* (“CRE”) published a release for the selling price of liquid gas in the Official Daily Gazette, effective August 1, 2001. This price release consists of applying the reference market selling price of liquid gas which is based upon the Mount Bellevue price.

**18. Hydrocarbon reserves (unaudited)**

In accordance with the Political Constitution of the United Mexican States and the Organic Law, all reserves of petroleum and other hydrocarbons in Mexico are the property of the nation. Furthermore, as mandated by the Organic Law, PEMEX has the exclusive right to extract and exploit the resources. Mexico’s proved reserves of hydrocarbons were 21,893 million barrels of oil equivalent at December 31, 2001 and 23,525 million barrels of oil equivalent at December 31, 2000. Reserves have been adjusted by revisions, increases and developments and have been decreased by the production for the year.

**19. Differences between Mexican GAAP and U. S. GAAP**

A summary of the significant differences between the accounting principles followed by PEMEX and generally accepted accounting principles in the United States (“U.S. GAAP”) is presented below.

The accompanying consolidated financial statements have been prepared in accordance with Mexican GAAP and, as to the recognition of inflation, in accordance with NIF-06-BIS “A” section A applicable to public-sector entities, which differs in certain significant respects from U.S. GAAP. Such differences involve methods for measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP.



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**I. Differences in measurement methods:**

The principal differences between Mexican GAAP and U.S. GAAP are disclosed below. Loss represents pre-tax loss, because PEMEX is not subject to Mexican income taxes, and is reconciled as follows:

	<b>2001</b>	<b>2000</b>	<b>1999</b>
Net loss for the year under Mexican GAAP.....	<b>Ps. (34,090,587)</b>	Ps. (19,710,392)	Ps. (21,156,771)
U.S. GAAP adjustments:			
Exploration and drilling costs (a).....	<b>2,034,465</b>	3,710,002	4,692,946
Pensions and seniority premiums (b).....	<b>(263,476)</b>	(203,877)	(10,742)
Post-retirement benefits (c).....	<b>(6,066,029)</b>	(5,777,295)	(5,067,595)
Accrued vacation (d).....	<b>(62,405)</b>	(83,096)	(171,957)
Fixed asset adjustments:			
· Depreciation expense (f)	<b>10,611,702</b>	10,364,367	9,501,544
· Foreign currency exchange losses (g).....	-	(139,692)	-
· Capitalization of interest, net (h).....	<b>1,431,466</b>	471,555	748,164
· Fixed asset impairment, net (i).....	<b>(5,571,939)</b>	(3,236,480)	(3,928,205)
· Depreciation convention (j).....	<b>(1,020,650)</b>	(1,443,270)	-
Accounting for financial instruments:			
· Difference in cumulative effect of adoption of new financial instruments standards (k).....	<b>5,122,515</b>	-	-
· Difference in current period effect (k)....	<b>2,482,947</b>	(11,005)	(11,776)
Sale of shares of Repsol (l).....	-	(118,742)	-
Sale of air transport assets (m).....	-	-	34,097
Profit in inventory (n).....	<b>(52,120)</b>	(518,791)	-
Total U.S. GAAP adjustments, net	<b>8,646,476</b>	3,013,676	5,786,476
Net loss for the year under U.S. GAAP.....	<b>Ps. (25,444,111)</b>	Ps. (16,696,716)	Ps. (15,370,295)
Components of U.S. GAAP net loss:			
Loss from continuing operations.....	<b>Ps. (29,235,380)</b>	Ps. (16,696,716)	Ps. (15,370,295)
Cumulative effect of accounting change (k)..	<b>3,791,269</b>	-	-
Net loss for the year.....	<b>Ps. (25,444,111)</b>	Ps. (16,696,716)	Ps. (15,370,295)
Comprehensive income (loss) under U.S. GAAP:			
Net loss for the year under U.S. GAAP.....	<b>Ps. (25,444,111)</b>	Ps. (16,696,716)	Ps. (15,370,295)
Other comprehensive (loss) income:			
Derivative financial instruments(k).....	<b>(470,653)</b>	-	-
Unrealized (losses) gains on securities (p)..	<b>(1,240,660)</b>	(3,922,094)	3,487,966
Other equity movements .....	<b>544,370</b>	-	-
	<b>(1,166,943)</b>	(3,922,094)	3,487,966
Comprehensive loss.....	<b>Ps. (26,611,054)</b>	Ps. (20,618,810)	Ps. (11,882,329)

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Components of accumulated other comprehensive (loss) income at December 31,:		<u>2001</u>		<u>2000</u>
Derivative financial instruments (k).....	Ps.	(470,652)	Ps.	-
Unrealized (losses) gains on securities (p).....		3,845,614		5,086,274
Other equity movements (translation adjustment).....		544,370		-
Accumulated other comprehensive income.....	Ps.	<u>3,919,332</u>	Ps.	<u>5,086,274</u>

		<u>2001</u>		<u>2000</u>
Equity (deficit) is reconciled as follows:				
Equity under Mexican GAAP.....	Ps.	122,866,233	Ps.	150,605,372
U. S. GAAP adjustments:				
Exploration and drilling costs (a).....		15,881,285		17,434,129
Pensions and seniority premiums (b).....		(3,508,677)		(3,245,201)
Post retirement benefits (c).....		(25,621,145)		(19,555,116)
Accrued vacation (d).....		(463,756)		(401,351)
Fixed asset adjustments:				
· Inflation accounting - fixed assets valuation (e).....		(112,381,035)		(104,597,467)
· Accumulated depreciation (f).....		44,345,488		33,733,786
· Foreign currency exchange losses (g).....		(64,507,568)		(64,507,568)
· Capitalization of interest, net (h).....		(2,298,612)		(3,730,078)
· Impairment, net (i).....		(22,074,405)		(16,502,466)
· Depreciation convention (j).....		(2,463,920)		(1,443,270)
Accounting for financial instruments (k).....		7,134,809		-
Sale of shares of Repsol (l).....		(361,150)		(361,150)
Profit in inventory (n).....		(570,911)		(518,791)
Advanced payments on minimum guaranteed dividend (o)...		(2,152,788)		(5,563,799)
Available-for-sale investment securities (p).....		<u>3,845,614</u>		<u>5,086,274</u>
Total U. S. GAAP adjustments, net.....		<u>(165,196,771)</u>		<u>(164,172,068)</u>
Deficit under U. S. GAAP.....	Ps.	<u>(42,330,538)</u>	Ps.	<u>(13,566,696)</u>

Changes in U.S. GAAP equity for the year ended December 31, 2001:		
Deficit at December 31, 2000.....	Ps.	(13,566,696)
Net loss for the period .....		(25,444,111)
Minimum guaranteed dividends.....		(2,152,788)
Other comprehensive income:		
Derivative financial instruments.....		(470,653)
Unrealized gains (losses) on available-for-sale investment securities.....		(1,240,660)
Other equity movements (translation adjustments).....		544,370
Deficit at December 31, 2001.....	Ps.	<u>(42,330,538)</u>

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Explanation of reconciling items:

(a) Exploration and drilling costs

As discussed in Notes 2 e) and 2 f), under Mexican GAAP, PEMEX charges exploration and drilling costs to the equity reserve for exploration and depletion of oil fields. Exploration and drilling costs related to successful oil wells are credited to the equity reserve and recorded as fixed assets. Cost of sales is recognized by recording a per-crude oil barrel quota charge in the statement of operations and recording a credit to the equity reserve.

Under U.S. GAAP, costs of drilling exploratory wells and exploratory-type stratigraphic test wells are initially capitalized and are charged to expense if proved reserves are not discovered. Development costs, including the costs of drilling development wells and development-type stratigraphic test wells are capitalized. The capitalized costs of wells and related equipment are amortized on a UOP basis, as the related oil and gas reserves are extracted. Costs of unproved properties are assessed periodically and a loss is recognized if the properties are determined to be impaired (See also Note 19 I (i)). PEMEX has accordingly adjusted the results of operations and equity to reflect the impact of U.S. GAAP on exploration and drilling costs; *i.e.*, the Mexican GAAP operations charge related to the cost per barrel has been reversed, the equity account related to the specific oil field exploration and drilling reserve has been reversed to zero, and costs related to properties in the exploration and development phase have been capitalized in accordance with U.S. GAAP. The adjustment is net of the difference in amortization for capitalized amounts.

(b) Pensions and seniority premiums

Under Mexican GAAP, PEMEX follows the guidance in Bulletin D-3, which establishes the procedures for measuring the expenses and liabilities for pension plans and seniority premiums. The primary differences between PEMEX's application of Bulletin D-3 and the U.S. GAAP guidance provided in SFAS No. 87, "Employers Accounting for Pensions", relate to actuarial assumptions and implementation dates. PEMEX adopted SFAS No. 87 effective January 1, 1989 and recorded a transition obligation on adoption which is being amortized over 15 years.

(c) Post-retirement benefits

Under Mexican GAAP, PEMEX accounts for supplemental payments under its Bulletin D-3 calculations. PEMEX, however, accounts for other health service benefits on a pay-as-you-go basis. Under U.S. GAAP, PEMEX follows the guidelines of SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions," in accounting for health service and other supplemental payments provided to retirees. SFAS No. 106 requires the accrual of the expected cost of providing such benefits to employees during the years that the employees render service.

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(d) Accrued vacation

Under Mexican GAAP, vacation expense is recognized when the vacation is utilized by the employee. Under U.S. GAAP, vacation expense is accrued for when earned by the employee.

(e) Inflation accounting

As mentioned in Note 2 b), PEMEX's consolidated financial statements recognize the effects of inflation pursuant to NIF-06-BIS "A" Section A, which requires that non-monetary assets, including inventories of materials and supplies and fixed assets be restated to their net realizable value (in the case of inventories) or in the case of fixed assets, through appraisals made by independent appraisers or by using the specific price index, with the difference being recorded as a revaluation surplus in equity.

U.S. GAAP does not require the recognition of the effects of inflation on the consolidated financial statements. Since NIF-06-BIS "A" Section A is not deemed to be a comprehensive method of accounting for inflation (as discussed in Note 15), PEMEX has eliminated retroactively to 1992 the effect of revaluation of fixed assets, inventories and costs of sales from the reconciliation of income and equity. PEMEX has not adjusted the depreciation effect of fixed asset revaluations prior to 1992 under NIF-06-BIS "A" section A for the reconciliation of income and equity. For U.S. GAAP purposes, the 1992 balances became the historical basis of the fixed assets.

(f) Fixed assets-depreciation

Under Mexican GAAP, PEMEX depreciates the book value of its fixed assets, which includes amounts capitalized for foreign exchange losses and restatements for inflation. For U.S. GAAP purposes, PEMEX has reversed the depreciation expense attributable to restatements for inflation (adjustment (e)) and foreign currency exchange losses (adjustment (g)) which are included in the Mexican GAAP basis of the fixed assets.

(g) Fixed assets-foreign currency exchange losses

Under Mexican GAAP, exchange losses arising from debt are capitalized as part of fixed assets any remaining net exchange differences is reflected in the statement of operations as either a debit to costs and operating expenses or a credit to revenues.

Under U.S. GAAP, all exchange gains or losses have been recognized in results of operations for 2001, 2000 and 1999 in the reconciliation of income and equity. In addition, under U.S. GAAP, foreign currency transaction gains or losses would be reported as non-operating income or expenses. As further explained in Note 5 b), there were no foreign currency exchange losses capitalized in 2001 and 1999, primarily as a result of the appreciation of the peso against the U.S. dollar, and therefore, no adjustment has been recognized in the reconciliation for 2001 and 1999.

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(h) Fixed assets-capitalization of interest

Under Mexican GAAP, interest is capitalized to property, plant and equipment based upon total interest cost incurred on loans allocated to construction projects, regardless of whether or not the amounts borrowed have been spent on such projects.

Under U.S. GAAP, interest is capitalized based upon total interest incurred in proportion to additions to construction in progress. PEMEX has accordingly adjusted its results of operations and equity to reflect the U.S. GAAP requirements for capitalizing interest. The adjustment for capitalized interest is presented net of the effects of depreciation related to amounts previously capitalized for such assets.

Interest costs for the years ended December 31, 2001, 2000, and 1999, for Mexican GAAP and U.S. GAAP purposes were allocated as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Under Mexican GAAP:			
Interest capitalized in fixed assets.....	<b>Ps. 3,779,541</b>	Ps. 3,913,180	Ps. 5,119,428
Interest in the specific oil-field exploration and depletion reserve	<b>86,553</b>	814,739	864,553
Interest expense.....	<b>15,832,884</b>	15,618,066	9,846,918
Total interest cost.....	<b><u>Ps. 19,698,978</u></b>	<u>Ps. 20,345,985</u>	<u>Ps. 15,830,899</u>
Under U.S. GAAP:			
Interest capitalized in fixed assets.....	<b>Ps. 5,112,410</b>	Ps. 4,273,611	Ps. 5,713,187
Interest expense.....	<b>14,586,568</b>	16,072,374	10,117,712
Total interest cost.....	<b><u>Ps. 19,698,978</u></b>	<u>Ps. 20,345,985</u>	<u>Ps. 15,830,899</u>

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(i) Fixed asset impairment

For U.S. GAAP purposes, PEMEX follows SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 121 provides criteria for when and in what circumstances an impairment loss (write-down) should be recorded and the manner in which the write-down should be measured. An evaluation of impairment is undertaken whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Under SFAS No. 121, the impairment criteria is met when the carrying value of assets exceeds the sum of expected future cash flows (undiscounted and without interest charges) of the related assets. The asset is written down to fair value, if available, or the present value of expected future cash flows. PEMEX measures impairment of its oil and gas producing assets based on the undiscounted estimated future cash flows associated with estimated proved reserves on a field by field basis.

In determining the estimated future cash flows for impairment purposes for all periods presented, hydrocarbon duties based on sales to third parties have not been included in the net cash flow calculation. In accordance with the requirements of SFAS No. 121, management believes that the hydrocarbon duties paid are similar in nature to income taxes or dividend distributions payable to its parent, and therefore are properly excluded from the net cash flow calculation.

In 2001, 2000 and 1999, PEMEX recorded impairment charges which reduced long-term assets with a corresponding charge to operations of Ps. 5,571,939, Ps. 3,236,480 and Ps. 3,928,205, respectively. The amounts appearing in the income reconciliation are net of the reversal of the depreciation expense which is being recorded under Mexican GAAP for the basis difference. In 2001, the expense relates primarily to oil and gas producing properties and petrochemical plants. In 2000, the expense relates primarily to refining assets and petrochemical plants. In 1999, the expense relates primarily to exploration and production assets and secondary petrochemical plants, with an immaterial amount of impairment being related to gas and basic petrochemical assets. Expected cash flows and fair values were estimated internally using PEMEX methodology and practices for valuing similar properties to be acquired or sold.

(j) Depreciation convention

Under Mexican GAAP, PEMEX begins to depreciate assets the year after which they are placed in service. In accordance with U.S. GAAP, assets should be depreciated from the date placed in service or using a mid-year convention. For the years ended December 31, 2001 and 2000, due to significant new PIDIREGAS financed through the Master Trust, an adjustment for depreciation has been recognized in the U.S. GAAP reconciliation. Additional U.S. GAAP depreciation for the year ended December 31, 1999 related to PIDIREGAS was immaterial and thus not considered as an adjustment to the reconciliation as of that date.

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(k) Accounting for derivatives

Through December 31, 2000:

*Written instruments:* Under Mexican GAAP, PEMEX records income on its written options as the premiums are collected. Gains and losses on written options are recognized on a cash basis on each contractual payment date. Under U.S. GAAP, PEMEX records option premiums as deferred income when received and amortizes the deferred income in relation to the market value of the option with gains and losses recorded in current operations.

*Purchased instruments:* Under Mexican GAAP, the cost of premiums on purchased options are expensed when paid. Gains and losses on purchased options are recognized on a cash basis on each contractual payment date. Under U.S. GAAP, the premiums paid for interest rate options and cap agreements purchased are amortized to interest expense over the terms of the agreements. In addition, purchased options which are non-hedging instruments are marked to market with gains and losses recorded in current operations. Amounts receivable or payable under purchased instruments are recognized as an adjustment to interest expense.

Policy:

Effective January 1, 2001, for U.S. GAAP purposes, PEMEX adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended by SFAS No. 137 and SFAS No. 138 and as interpreted by the Derivative Implementation Group (DIG). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. SFAS No. 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting.

Hedge effectiveness is assessed consistently with the method and risk management strategy documented for each hedging relationship. On at least a quarterly basis, PEMEX assesses the effectiveness of each hedging relationship retrospectively and prospectively to ensure that hedge accounting was appropriate for the prior period and continues to be appropriate for future periods. PEMEX considers hedge accounting to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is highly effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

If a derivative instrument qualifies as a fair value hedge under the applicable guidance and is documented as such, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risk(s) is recorded in earnings based on the income classification of the item being hedged. These hedges also adjust the book values of the derivatives and hedged item. If a derivative instrument qualifies as a cash flow hedge under the applicable guidance and is documented as such, the effective portion of the hedging instrument's

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gain or loss is reported in stockholders' equity (as a component of accumulated other comprehensive income) and is reclassified into earnings in the period during which the transaction being hedged affects earnings. Gains or losses reclassified from stockholders' equity to earnings are classified in accordance with earnings treatment of the hedged transaction. The ineffective portion of a hedging derivative's fair value change, where that derivative is used in a cash flow hedge, is recorded in current earnings. Classification in the statement of operations of the ineffective portion of the hedging instrument's gain or loss is based on the income statement classification of the transaction being hedged. If a derivative instrument does not qualify as a cash flow hedge under the applicable guidance, the change in the fair value of the derivative is immediately recognized in the statements of operations.

PEMEX has entered into contracts for the purchase and/or sale of oil and gas. While some of these contracts meet the definition of a derivative under SFAS No. 133, PEMEX has determined that the normal purchase or normal sale exception applies to such contracts. Accordingly, such contracts are not accounted for as derivatives pursuant to SFAS No. 133.

PEMEX also evaluates contracts for "embedded" derivatives, and considers whether any embedded derivatives have to be bifurcated, or separated, from the host contracts in accordance with SFAS No. 133 requirements. Embedded derivatives may have terms that are not clearly and closely related to the terms of the host contract in which they are included. If embedded derivatives exist and are not clearly and closely related to the host contract, they are accounted for separately from the host contract as derivatives, with changes in their fair value recorded in current earnings, to the extent that the hybrid instrument is not already accounted at fair value.

When hedge accounting is discontinued due to PEMEX's determination that the derivative no longer qualifies as an effective fair value hedge, PEMEX will continue to carry the derivative on the balance sheet at its fair value. The related hedged asset or liability will cease to be adjusted for changes in fair value that are due to the previously hedged risk. When PEMEX discontinues hedge accounting in a cash flow hedge because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized in current earnings. If a derivative instrument ceases to meet the criteria for hedge accounting, any subsequent gains and losses are recognized in current earnings.

An adjustment of the carrying amount of a hedged asset held for sale would remain part of the carrying amount of that asset until the asset is sold, at which point the entire carrying amount of the hedged asset would be recognized as the cost of the item sold in determining earnings. An adjustment of the carrying amount of a hedged interest-bearing financial instrument shall be amortized to earnings; amortization shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. As of December 31, 2001, PEMEX had not discontinued any hedge accounting.



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Impact of adoption:

In accordance with the transition provisions of SFAS No. 133, PEMEX recorded a cumulative effect adjustment totaling Ps. 3,791,269 (benefit to earnings) as of January 1, 2001. There was no cumulative effect adjustment in other comprehensive income as of this date since PEMEX did not have any cash flow hedges upon adoption.

The principal differences between the cumulative effect adjustment under Mexican GAAP and U.S. GAAP relate to the following:

- As disclosed in Note 10, PEMEX has entered into cross currency swaps under which it swaps principal and interest payments on non-U.S. dollar-denominated obligations for U.S. dollar amounts. This limits PEMEX's exposure to fluctuations in these currencies as they relate to the U.S. dollar. Under U.S. GAAP, foreign currency hedges can only be designated as such when hedging the risk to the entity's functional currency, and therefore, these contracts do not qualify for hedge accounting under U.S. GAAP although they do under Mexican GAAP Bulletin C-2, which has no similar requirement that foreign currency hedge transactions be carried out in their functional currency.
- Given the need for specialized technology, PEMEX enters into infrastructure and supply contracts whose settlement terms are denominated in or linked to the U.S. dollar. Such contracts are generally entered into with companies whose functional currency is not the U.S. dollar, thus creating a foreign currency embedded derivative which is bifurcated and evaluated separately under U.S. GAAP. Such embedded derivatives are not required to be bifurcated under Mexican GAAP Bulletin C-2 since they are considered normal provisions of contracts in Mexico.
- Lastly, under Mexican GAAP Bulletin C-2, PEMEX recognized a loss on the fair value of the equity swap contracts related to the Repsol shares (see Note 10). As more fully described in Note 19 I (I), under U.S. GAAP, the Repsol shares did not meet the definition of a true sale therefore the swap would not have been fair valued under SFAS No. 133.

Other required disclosures:

Fair value hedges

For the year December 31, 2001, PEMEX recognized a net gain of Ps. 381,465 reported as "interest net" in the consolidated Statements of Operation, which represented the ineffective portion of all fair-value hedges. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness, except for the time value of option contracts.

Cash flow hedges

For the year December 31, 2001, PEMEX recognized a net gain (loss) of Ps. 470,652 reported as "interest net" in the consolidated Statements of Operations, which represented the ineffective portion of all cash flow hedges. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness, except for the time value of option contracts.

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For cash flow hedges, gains and losses on derivative contracts that are reclassified from accumulated other comprehensive income to current-period earnings are included in the line item in which the hedged item is recorded in the same period the forecasted transaction affects earnings. None were reclassified in 2001.

(l) Sale of shares of Repsol

As discussed in Note 10, under Mexican GAAP, PEMEX recorded a Ps. 118,742 gain in 2000 and a Ps. 242,408 gain in 1994 on the transfer of its Repsol shares. For U.S. GAAP purposes, the transfer of the shares does not meet the criteria for sale recognition and, accordingly, the gain was reversed and the transfer of the shares treated as a financing transaction. Therefore, under U.S. GAAP, the Repsol shares would be evaluated pursuant to SFAS No. 115 (see Note 19 (p)), and the liability equal to the notional amount resulting from these transactions would also be reflected on the balance sheet.

(m) Sale of air transport assets

Under Mexican GAAP, during 1994, PEMEX recorded a gain of Ps. 340,969 on the sale of its air transport division to a newly created company, Servicios Aéreos Especializados Mexicanos, S.A. ("SAEMSA"), in exchange for a 49% ownership interest in that company plus other consideration of Ps. 291,103. Under Mexican GAAP, the gain was calculated by including the imputed fair value of the 49% interest in SAEMSA which was received by PEMEX as part of the sale proceeds. Under the sale agreement, PEMEX will continue to have more than a minor use of the property through a leaseback. For U.S. GAAP purposes, this transaction is treated as a sale-leaseback; accordingly, the realized gain was deferred and will be amortized into income over the term of the lease. The amortization of the deferred gain during 1999 amounted to Ps. 34,097. At December 31, 1999, the deferred gain related to this transaction was fully amortized to income.

(n) Profit in inventory

Under Mexican GAAP, PEMEX values crude oil and derivatives for export at net realizable value with the difference between the net realizable value and cost recorded in earnings. In contrast, U.S. GAAP requires that inventories be recorded at net realizable cost, but not to exceed cost. For U.S. GAAP purposes, PEMEX has eliminated the effect of profit in inventory and has increased such amount to U.S. GAAP loss presented. For the year ending December 31, 1999, this adjustment was immaterial to the U.S. GAAP reconciliation primarily due to reduced volumes of crude inventory at year-end 1999.

(o) Advance payments on minimum guaranteed dividend

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Under Mexican GAAP, advance payments on the minimum guaranteed dividend owed to the Mexican Government derived from the capitalization of debt as described in Note 13 are recorded as an account receivable prior to formalization of the amount by the Board of Directors.

Under U.S. GAAP, such receivable balances are considered as a reduction in equity. PEMEX has accordingly adjusted equity to reflect the minimum guaranteed dividend payment as a reduction in equity.

The effective rate used to calculate the minimum guaranteed dividend is LIBOR plus 0.8125% (which was in a range from 3.4475% to 7.4626% and from 7.1820% to 7.8055% for 2001 and 2000, respectively).

The scheduled maturities on the original principal amount of the capitalized debt over the next five years, and thereafter, is as follows:

<i>Year</i>			
2002.....	U.S. \$	873,848	
2003.....		873,848	
2004.....		873,848	
2005.....		873,848	
2006.....		873,848	
Total.....	U.S. \$	<u>4,369,240</u>	

(p) Accounting for investment securities

PEMEX follows SFAS No.115, "Accounting for Certain Investments in Debt and Equity Securities" for U.S. GAAP purposes. PEMEX has classified its investment securities as "Available-for-Sale" and, accordingly, they are recorded at fair value with unrealized gains and losses excluded from the statement of operations and reported in other comprehensive income (loss). The fair value of the securities is determined by quoted market prices at December 31, 2001, 2000 and 1999. The cost and fair value of PEMEX's investments at December 31, 2001, 2000 and 1999 is as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
<b>2001</b>	Ps. 3,968,724	Ps. 7,814,338	Ps. 3,845,614
2000	Ps. 3,968,724	Ps. 9,054,998	Ps. 5,086,724
1999	Ps. 3,968,724	Ps. 12,977,092	Ps. 9,008,368

Under Mexican GAAP, investment securities are carried at cost. The unrealized gain for U.S. GAAP purposes is largely explained by the appreciation of the underlying security price.

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**II. Additional disclosure requirements:**

(a) Consolidation of Pemex Finance

As more fully disclosed in Note 7, PEMEX and certain subsidiaries entered into several agreements with Pemex Finance. Under these contracts, Pemex Finance purchases certain accounts receivable and rights to future receivables. Pemex Finance obtains resources for such purchases through the placement of debt instruments in the international markets.

In conjunction with the adoption of SFAS No. 140, "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", a replacement of SFAS No. 125, PEMEX has evaluated the Pemex Finance structure in light of the permitted and non-permitted activities as well as the transition provisions of a Qualified Special Purpose Entity ("QSPE") and determined that Pemex Finance does not qualify as a QSPE under the new standard. Consequently, as of December 31, 2001, the U.S. GAAP consolidated total assets would have decreased by Ps. 838,337 and total liabilities would have decreased by Ps. 2,299,674. Had Pemex Finance been consolidated, there would not have been any effect on equity or net income.

(b) Special Tax on Production and Services ("IEPS Tax")

Under Mexican GAAP, the IEPS Tax is reflected as part of "Net domestic sales" when charged to customers and then deducted from "Income before hydrocarbon extraction duties, special tax on production and services and other."

Under U.S. GAAP, this tax would have no net effect on revenues nor would it be deducted after "Income before hydrocarbon extraction duties, special tax on production and services and other", as both the amount charged to customers and the amount accrued as payable to the tax authorities would be reflected in revenues.

As a result, under U.S. GAAP, revenues would have been less than those reflected under Mexican GAAP by Ps. 95,198,729, Ps. 69,556,520 and Ps. 88,349,243, for the years ended December 31, 2001, 2000 and 1999, respectively. In addition, those amounts would not have been deducted after "Income before hydrocarbon extraction duties, special tax on production and services and other."

(c) Cash flow information

Under Mexican GAAP, PEMEX presents statements of changes in financial position. In contrast with the statements of cash flows required by U.S. GAAP, PEMEX's statements of changes in financial position do not include certain information relating to the three major categories of sources and uses of funds: operating, financing and investing activities.

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Under U.S. GAAP, the following information would be disclosed separately in reconciling loss for the year to funds provided by operations: changes in hydrocarbon extraction duties, changes in allowances for doubtful accounts and slow-moving inventories, net exchange gains or losses and accrued interest income from affiliates. Additionally, under U.S. GAAP, borrowings and repayments of debt would be presented separately in arriving at funds from financing activities, and investments in and the proceeds from the sale of property, wells, plants and transportation equipment would be presented separately in arriving at funds from investment activities. In the statements of changes in financial position, PEMEX has disclosed information within the financing and investment categories on a net basis.

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The following table details the effects discussed above using Mexican GAAP measurement methods and U.S. GAAP presentation:

	<b>2001</b>	2000	1999
Cash flows from operating activities:			
Net loss for the year plus or less charges or credits not requiring the use of cash:			
Following U.S. GAAP presentation.....	<b>Ps. 37,096,160</b>	Ps. 44,966,205	Ps. 38,151,056
Difference <sup>(1)</sup> .....	<b>(647,298)</b>	53,568	(1,202,856)
Under Mexican GAAP.....	<b>36,448,862</b>	45,019,773	36,948,200
Increase (decrease) in assets and liabilities:			
Following U.S. GAAP presentation.....	<b>(8,023,485)</b>	(21,402,881)	(21,757,232)
Differences			
Accounts receivable <sup>(2)</sup> .....	<b>(3,344,538)</b>	467,523	2,211,163
Inventory <sup>(1)</sup> .....	<b>(278,493)</b>	(159,791)	139,497
Sundry credits reserve <sup>(1)</sup> .....	<b>1,390,267</b>	563,594	239,037
Under Mexican GAAP.....	<b>(10,256,249)</b>	(20,531,555)	(19,167,535)
Following U.S. GAAP presentation.....	<b>29,072,674</b>		16,393,824
		<b>23,563,324</b>	
Differences.....	<b>(2,880,061)</b>	924,894	1,386,841
Under Mexican GAAP.....	<b>Ps. 26,192,613</b>	Ps. 24,488,218	Ps. 17,780,665
Cash flows from financing activities:			
New long-term debt.....	<b>Ps. 114,440,035</b>	Ps. 77,407,465	Ps. 68,091,176
Financing payments.....	<b>(91,904,916)</b>	(52,835,673)	(64,101,015)
Dividends paid to the Mexican Government...	<b>(2,152,788)</b>	(5,563,799)	(5,137,889)
Advance payment on minimum guaranteed dividends.....	-	(231,074)	(779,517)
Retained earnings adjustments.....	<b>544,370</b>	(68,692)	968,774
Sale of future accounts receivable.....	<b>(7,290,971)</b>	8,675,835	26,702,250
Net increase in financing following U.S. GAAP presentation.....	<b>13,635,730</b>	27,384,062	25,743,779
Difference:			
Foreign currency exchange loss.....	<b>(8,400,963)</b>	(461,029)	(3,652,678)
Interest accrued, not paid.....	<b>454,849</b>	392,771	1,156,428
Dividends paid to the Mexican Government <sup>(3)</sup>	<b>(3,411,011)</b>	425,910	2,074,142
Notes payable to contractors.....	<b>(2,497,711)</b>	15,599,161	1,799,315
Net (decrease) increase in financing under Mexican GAAP.....	<b>Ps. (219,106)</b>	Ps. 43,340,875	Ps. 27,120,986

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	2001	2000	1999
Cash flows from investing activities:			
Acquisition of fixed assets.....	Ps. (52,167,537)	Ps. (60,633,593)	Ps. (38,697,694)
Disposal of fixed assets <sup>(4)</sup> .....	12,809,048	12,383,376	4,950,878
Net investment at cost in property, wells, plants and transportation equipment under U.S. GAAP .....	(39,358,489)	(48,250,217)	(33,746,816)
Capitalized exchange loss.....	-	(139,692)	-
Acquisitions not requiring cash.....	-	(15,599,161)	(1,799,315)
Net investment at cost in property, wells, plants and transportation equipment under Mexican GAAP (including capitalized exchange loss and interest).....	Ps. (39,358,489)	Ps. (63,989,070)	Ps. (35,546,131)
<b>Supplemental cash flow information:</b>			
Cash payments for taxes.....	Ps. 288,676,019	Ps. 288,474,111	Ps. 194,162,822
Cash payments for interest, net of amount capitalized.....	18,687,520	19,953,214	14,405,871

(1) The items that are excluded from the determination of cash flows under SFAS No. 95 are the provision for both doubtful accounts and obsolete inventories.

(2) The difference is due to the effects of the advanced payments on minimum guaranteed dividend and the foreign currency translation gain on accounts receivable.

(3) The difference is because for Mexican GAAP purposes, the dividends to the Mexican Government are those approved by the Board of Directors of Petróleos Mexicanos in a given year whereas for U.S. GAAP purposes, such dividends are the amount paid in that year.

(4) Disposal of fixed assets did not generate material cash flow.

Cash and cash equivalents include all cash balances and highly liquid instruments purchased with an original maturity of three months or less.

(d) Environmental, dismantlement and abandonment

Environmental:

PEMEX estimates its environmental liabilities on a site-by-site basis based on the best available information. After an affected area is identified, PEMEX establishes accruals for its environmental liabilities using costs of prior or current remediation works with similar characteristics. PEMEX establishes accruals using estimates based on costs of similar remediation works most recently contracted and in progress at that time.

In 1999, PEMEX implemented new internal guidelines for estimating and recording environmental liabilities. The guidelines, *Pasivos Ambientales: Definición y Lineamientos para su Cuantificación y Registro Contable* (Environmental Liabilities: Definition and Guidelines for their Quantification and Accounting Treatment), sought to standardize and improve upon PEMEX's internal procedures for identifying necessary remediation works and estimating and monitoring environmental liabilities. These guidelines codified existing policy with respect to estimating environmental liabilities, and establish that an environmental liability exists when:

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- as a result of the activities of PEMEX, an affected area is identified in a particular site, and PEMEX undertakes a formal commitment to correct the environmental deficiency, in accordance with the criteria, guidelines, standards and legal framework in force; and
- a reasonable estimate of the costs of remediation or clean-up of the identified affected area has been made, including the costs of the assessment studies.

As stated above, in accordance with past and present internal guidelines, PEMEX conducts site-by-site studies to identify environmental liabilities and develop a reasonable estimate of such liabilities. These guidelines consider many factors but are tailored to specific Mexican requirements. Each contaminated site must be characterized, quantified and assessed through a specific study. The contamination of the affected sites may extend to the soil, subsoil and bodies of water, including water deposits, lagoons, swamps and others. These sites may be located inside PEMEX's facilities, in surrounding areas, in abandoned areas where PEMEX had activity in the past or along the pipelines.

Once the corresponding contaminated site has been identified and evaluated, expenses for the cleanup of (i) hydrocarbon seepage and other spills that may cause pollution and that cannot be corrected in a short timeframe, (ii) water deposits and (iii) the concentration of hazardous residuals, will be included in the remediation or restoration of affected areas. Estimates are kept current based on best available information.

Based on reports from field managers and other available information, management prepares reports for identified affected areas on a periodic basis. When the contamination relates to a new incident, PEMEX informs PROFEPA and responds immediately to eliminate the cause of the incident or to minimize its effects. Subsequently, PEMEX and PROFEPA jointly determine whether the contamination has been eliminated or if additional actions are necessary for the remediation of the site.

PEMEX believes its environmental liabilities are probable when its initial studies reveal the existence of contamination in the inspected areas at levels above those permitted by Mexican law, indicating that PEMEX will have to perform remediation works necessary to bring the site into compliance. PEMEX believes the liability is reasonably estimable when (i) an assessment of the size of the affected area has been made, (ii) it has compared the affected area to other affected areas identified and addressed in the past, and (iii) based on PEMEX's experience with current or recent works on similar sites, PEMEX can assess the estimated remediation costs in order to be able to calculate the corresponding environmental liability. Thus, PEMEX accrues for these environmental liabilities when it identifies affected areas with contamination levels above those permitted by Mexican law and PEMEX is able to make a reasonable estimate of the size of the affected area and the remediation cost. In addition, PEMEX periodically revises its estimates of environmental liabilities as it obtains new information during the course of the remediation works in order to ensure its estimates are based on the most accurate and updated information.

PROFEPA administers the Mexican environmental regulatory rubric and establishes acceptable standards of environmental remediation. Although PROFEPA has the authority to review and inspect remediation works performed by PEMEX and compliance with permitted contamination levels established by laws and regulations, it does not determine PEMEX's environmental liabilities. PEMEX maintains proper records of all of the studies, estimations, performed works and any other information that PROFEPA may request from time to time.

During 2001 and 2000, PEMEX invested Ps. 3,349,000 and Ps. 2,711,000, respectively, in various environmental projects. The most important of these projects have been directed to the modernization of installations, the implementation of systems and control mechanisms to monitor atmospheric pollution, the acquisition of equipment to clean hydrocarbon spills, the expansion of aquatic effluent systems, the restoration and reforestation of affected



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areas, studies for environmental investigation and the conducting of environmental audits. In addition, PEMEX has engaged in extensive research and development efforts to develop capacity for increased production of unleaded gasoline, diesel and fuel oil with lower sulfur content and alternative fuels, such as industrial oil gas and natural gas. Currently, PEMEX is developing a procedure (*Procedimiento para la Determinación de Gastos Asociados a las Actividades de Seguridad Industrial y Protección Ambiental*) to determine the costs and expenses related to the activities associated with integral safety and environmental management.

Management of PEMEX believes that its operations are in substantial compliance with the Environmental Law as such law has been historically interpreted and enforced.

Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed. Liabilities for expenditures of a non-capital nature are recorded on an undiscounted basis when environmental assessment and/or remediation is probable and the costs can be reasonably estimated.

As PEMEX has exclusive rights to production and processing of crude oil, natural gas, and refined products within Mexico, there are no instances of joint liability; PEMEX is the sole responsible party in the event of environmental damage.

PEMEX has contracted insurance policies to cover the cost of certain environmental contingencies. The liability accruals are not reflected net of any amounts forthcoming under such policies.

Environmental liabilities accrued in the consolidated financial statements, for both Mexican GAAP and U.S. GAAP purposes, as of December 31, 2001 and 2000 are divided among the operating units as follows:

	<u>2001</u>	<u>2000</u>
Pemex-Exploration and Production.....	<b>Ps. 1,315,608</b>	Ps.1,787,169
Pemex-Refining.....	<b>846,638</b>	918,646
Pemex-Gas and Basic Petrochemicals.....	<b>131,383</b>	109,581
Pemex- Petrochemicals.....	<b><u>22,546</u></b>	<u>22,362</u>
Total Environmental Liability Accrual.....	<b><u>Ps. 2,316,175</u></b>	<u>Ps. 2,837,758</u>

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Dismantlement and abandonment costs:

Under current Mexican law, PEMEX's legal obligation related to dismantlement and abandonment activities is governed by the following two federal laws: the Petroleum Works Law and the Environmental Law described above. Although PEMEX is subject to other laws and regulations established at a local level in areas where PEMEX undertakes petroleum extractive activities, these local laws and regulations do not contain any specific guidance on abandonment, restoration and removal of oil and gas facilities or otherwise impose a higher standard on PEMEX in this regard. The United Mexican States is not a party to any international treaty or convention that would affect PEMEX's understanding of its obligation with regard to dismantlement and abandonment activities. Thus, the only relevant law for PEMEX as to abandonment, and removal of facilities related to oil- and gas-producing activities is Mexican federal law.

The Petroleum Works Law provides that wells must be plugged, or in certain special cases capped, to ensure the maintenance of sanitary and safe conditions and to prevent the seepage of hydrocarbons to the surface. The Petroleum Works Law requires that PEMEX plug a well when it turns out to be dry, invaded with salt water or abandoned due to a mechanical accident, or once a well's production has been depleted such that abandonment is necessary due to economic unfeasibility of production. All activities required for plugging a well are undertaken with the purpose of isolating, in a definitive and convenient manner, the cross formations in the perforation that contains oil, gas or water in order to ensure that hydrocarbons do not seep to the surface.

PEMEX must obtain authorization from the Ministry of Energy before performing any plugging activities. The Petroleum Works Law also states that the Ministry of Energy may also authorize temporary plugging of exploratory wells where production of hydrocarbons is commercially feasible but for which there are no adequate means for its exploitation.

PEMEX monitors and reviews its own internal estimates of costs to undertake dismantlement and abandonment at levels consistent with Mexican legal requirements and guidelines for oil and gas industry extractive activities. Estimates as to aggregate costs consider PEMEX's operational specifics such as its number of onshore and offshore wells, depth of wells, varying nature of offshore platforms, expected production lives, current expectations as to when the costs will be incurred based on present production rates and other operational specifics. The actual costs incurred in the dismantlement and retirement of wells are considered where practicable, as described above. The average cost for plugging and dismantlement varies from producing region to producing region and from platform to platform. For the offshore regions, to the extent that actual costs are not available due to limited plugging and dismantlement activity historically, PEMEX uses estimates based on services costs. The estimated costs are both peso- and U.S. dollar-denominated.

(e) Pensions and seniority premiums

PEMEX follows SFAS No. 87 for the calculation of seniority premiums and pension expense under U.S. GAAP.

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The calculation of pension cost and benefit obligations under SFAS No. 87 requires considerable judgment with respect to choosing actuarial assumptions. Each significant assumption should reflect the best estimate of the plan's future experience solely with respect to that assumption. Assumed discount rates and compensation levels often have the greatest effect on pension cost and benefit obligations and are related because both are affected by some of the same economic factors. The discount rate should be based upon the current prices for settling the pension obligation, referred to as the "settlement rate." Assumed compensation levels should reflect the best estimate of actual future compensation levels for the individuals involved and be consistent with assumed discount rates to the extent that both incorporate expectations of the same future economic conditions, such as inflation.

Applying these provisions of SFAS No. 87 in a historically inflationary environment such as Mexico creates unique problems which are complicated by economic events since December 1994. The opportunity for a company to settle a pension obligation at any particular point in time may not exist; long term financial instruments may not exist in Mexico as they do in the United States and volatile inflation rates may make it difficult to predict compensation progression.

SFAS No. 87 does not include specific guidance under these conditions. PEMEX believes it is appropriate to use actuarial assumptions which include an estimate of long-term inflation (nominal rates). PEMEX has determined its discount rate and salary progression rate for SFAS No. 87 including a long-term inflation rate.

An alternative approach to actuarial assumptions where benefits are indexed to inflation (which is not generally the case in Mexico) would be to eliminate the effect of inflation in the assumptions (*i.e.*, use real rates). PEMEX believes that the effect on the U.S. GAAP reconciliation of net loss would not be materially different under this approach. However, the "accumulated benefit obligation" and the related minimum liability for pensions can be affected by the discount rate used. Under SFAS No. 87, the accumulated benefit obligation is the present value of expected future benefit payments based upon an employee's service to date without assuming any increase in the employee's compensation. If the accumulated benefit obligation were calculated using an assumed real discount rate of 4.6%, the accumulated benefit obligation calculated under SFAS No. 87 would be Ps. 162,412,847.

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The components of net seniority premium and pension plan cost, calculated in accordance with SFAS No. 87, consist of the following:

	<b>2001</b>	2000	1999
Service cost: benefits earned during the year.	<b>Ps. 4,311,446</b>	Ps. 3,382,551	Ps. 2,931,948
Interest cost on projected benefit obligation...	<b>16,490,339</b>	15,427,141	12,180,626
Expected return on plan assets.....	<b>(996,151)</b>	(1,196,607)	(599,638)
Net amortization and deferral.....	<b>3,840,020</b>	2,989,946	2,409,896
Amortization of net transition obligation.....	<b>1,122,160</b>	1,122,160	1,122,160
Net cost under U.S. GAAP.....	<b>24,767,814</b>	21,725,191	18,044,992
Net cost under Mexican GAAP.....	<b>24,504,338</b>	21,521,314	18,034,250
Additional expense that would be recognized under U.S. GAAP.....	<b>Ps. 263,476</b>	Ps. 203,877	Ps. 10,742

Actuarial assumptions used in the calculation of net seniority premium and pension plan cost under U.S. GAAP as of December 31 are:

	<b>2001</b>	2000	1999
Discount rate.....	<b>11.00%</b>	12.00%	14.00%
Rates of increase in compensation levels.....	<b>7.00%</b>	8.00%	10.00%
Expected long-term rate of return on assets.....	<b>12.00%</b>	13.00%	15.00%

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The combined seniority premium and pension plan liability as of December 31, under SFAS No. 87 is as follows:

	<b>2001</b>	2000
Accumulated benefit obligation.....	<b>Ps. 132,233,686</b>	Ps. 107,038,918
Projected benefit obligation.....	<b>Ps. 168,703,289</b>	Ps. 140,678,169
Plan assets at fair value.....	<b>5,803,396</b>	9,330,702
Projected benefit obligation in excess of plan assets	<b>162,899,893</b>	131,347,467
Unrecognized net loss.....	<b>(32,376,030)</b>	(29,206,268)
Unrecognized transition obligation.....	<b>(3,366,491)</b>	(4,488,651)
Prior service cost.....	<b>(36,582,030)</b>	(29,949,677)
Accrued liability under U.S. GAAP.....	<b>90,575,342</b>	67,702,871
Accrued costs recognized in the consolidated balance sheet under Mexican GAAP.....	<b>87,066,665</b>	64,457,616
Net U.S. GAAP adjustment to seniority premium and pension plan liability.....	<b>Ps. 3,508,677</b>	Ps. 3,245,255
Additional minimum liability.....	<b>Ps. 35,854,948</b>	Ps. 30,005,345

The plan's assets consist primarily of cash, investments and an interest in a real estate joint venture.

In accordance with the provisions of SFAS No. 87, PEMEX has reflected, for U.S. GAAP purposes, an additional minimum liability at the end of each year representing the excess of the accumulated benefit obligations over the fair value of plan assets and accrued pension liabilities. The additional minimum liability is offset by recording an intangible asset and, accordingly, has no impact on operations or equity.

(f) Post retirement benefits

PEMEX has implemented SFAS No. 106 effective January 1, 1995, using the transitional recognition method.

PEMEX makes supplemental payments and provides health care benefits to retired employees. PEMEX regularly determines the level of its supplemental payments considering inflationary conditions. Health care is provided through a regional network of PEMEX hospitals and medical centers, which also provide care to active PEMEX employees. No commitments have been made regarding the level of such contributions in the future.

For Mexican GAAP purposes, PEMEX has included the projected costs associated with the supplemental payments in its determination of pension obligation under Bulletin D-3, but has excluded the costs associated with medical care, which is accounted for on a pay-as-you-go basis. There are no plan assets for post-retirement benefits.

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The components of other post-retirement benefits expense consist of the following for the years ended December 31, 2001, 2000 and 1999:

	2001		2000		1999		
	Supplemental Payments	Health Services	Supplemental Payments	Health Services	Supplemental Payments	Health Services	
	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>	
Service cost.....	Ps. 1,415,698	Ps. 1,053,039	Ps. 2,468,737	Ps. 867,337	Ps. 914,594	Ps. 705,447	Ps. 1,620,041
Interest cost.....	5,943,506	5,476,212	11,419,718	5,198,901	4,686,841	4,311,381	8,998,222
Amortization of actuarial gains and losses.....	<u>55,193</u>	<u>856,695</u>	<u>911,888</u>	<u>671,637</u>	<u>369,983</u>	<u>588,400</u>	<u>958,383</u>
Amortization of prior service cost and plan amendments.....	1,617,442	151,319	1,768,761	151,319	699,196	151,319	850,515
Amortization of transition obligation.....	<u>418,020</u>	<u>518,346</u>	<u>936,366</u>	<u>518,346</u>	<u>418,020</u>	<u>518,346</u>	<u>936,366</u>
Net expense under U.S. GAAP.....	9,449,859	8,055,611	17,505,470	7,407,540	7,088,634	6,274,893	13,363,527
Expense under Mexican GAAP..	<u>9,344,079</u>	<u>2,095,362</u>	<u>11,439,441</u>	<u>1,774,465</u>	<u>6,988,788</u>	<u>1,307,144</u>	<u>8,295,932</u>
Additional expense under U.S. GAAP	<u>Ps. 105,780</u>	<u>Ps. 5,960,249</u>	<u>Ps. 6,066,029</u>	<u>Ps. 5,633,075</u>	<u>Ps. 99,846</u>	<u>Ps. 4,967,749</u>	<u>Ps. 5,067,595</u>

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Actuarial assumptions used in the calculation of other post-retirement benefits under U.S. GAAP as of December 31 were:

	<b>2001</b>	2000	1999
Discount rate.....	<b>11.00%</b>	12.00%	14.00%
Health care cost trend rate.....	<b>7.00%</b>	8.00%	10.00%

Since the other post-retirement benefits are not based on levels of compensation, it is not necessary to use salary increase assumptions to determine expenses. The effect of a 1% increase in the health care cost trend rate is to increase net expense for post-retirement benefits by Ps. 1,397,913 (Ps. 1,292,063 for 2000) and increase the accumulated post-retirement benefit obligation by Ps. 9,479,221 (Ps. 8,249,215 for 2000). The effect of a 1% decrease in the health care cost trend rate is to decrease net expense for post-retirement benefits by Ps. 1,220,234 (Ps. 1,072,910 for 2000) and decrease the accumulated post-retirement benefit obligation by Ps. 8,565,254 (Ps. 6,983,839 for 2000).

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	2001		2000	
	Supplemental Payments	Health Services	Supplemental Payments	Health Services
	Total	Total	Total	Total
Accumulated unfunded post retirement benefit obligation:				
Retirees.....	Ps. 31,387,428	Ps. 35,383,590	Ps. 27,979,125	Ps. 29,917,005
	<b>Ps. 31,387,428</b>	<b>Ps. 35,383,590</b>	<b>Ps. 27,979,125</b>	<b>Ps. 29,917,005</b>
Fully eligible active participants.....	1,463,475	1,125,781	1,410,301	755,789
Other active plan participants.....	22,980,180	19,278,672	21,615,697	16,000,372
Total.....	55,831,083	55,788,043	51,005,123	46,673,166
Unrecognized actuarial (gains) losses	7,752,616	(22,519,106)	(2,837,908)	(18,694,813)
Prior service cost and plan amendments.....	(32,416,108)	(1,803,422)	(23,680,190)	(1,954,741)
Unamortized transition obligation.....	(4,506,567)	(5,601,138)	(4,924,587)	(6,119,484)
Net post-retirement benefit liability:				
U.S. GAAP.....	26,661,024	25,864,377	19,562,438	19,904,128
Mexican GAAP.....	26,904,256	-	19,911,397	-
Net U.S. GAAP adjustment.....	Ps. (243,232)	Ps. 25,864,377	Ps. (348,959)	Ps. 19,904,128
	<b>Ps. 57,896,130</b>			<b>Ps. 19,555,169</b>

The other post-retirement benefit liability as of December 31, 2001 and 2000 is as follows:



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Pursuant to the requirements of SFAS No. 132, the following tables present a reconciliation of the beginning and ending balances of plan assets' fair value and the accumulated benefit obligation.

	Seniority Premiums and Pension Benefits			Supplemental Payments			Health Services		
	2001	2000	2001	2000	2001	2000	2001	2000	
<b>Change in benefit obligation</b>									
Benefits obligation at beginning of year.....	Ps. 140,678,169	Ps. 112,840,555	Ps. 51,005,123	Ps. 41,368,545	Ps. 46,673,166	Ps. 37,920,929			
Service cost.....	4,311,446	3,382,551	1,415,698	1,117,257	1,053,039	867,337			
Interest cost.....	16,490,339	15,427,141	5,943,506	5,608,284	5,476,212	5,198,901			
Plan participant's contributions.....	-	-	-	-	-	-			
Amendments.....	8,784,055	9,970,450	10,353,360	9,459,478	-	-			
Actuarial (gains)/losses.....	4,847,291	4,543,317	(10,535,331)	(4,406,885)	4,680,988	4,460,464			
Benefits paid.....	(6,408,011)	(5,485,845)	(2,351,273)	(2,141,556)	(2,095,362)	(1,774,465)			
Benefits obligation at end of year.....	<u>Ps. 168,703,289</u>	<u>Ps. 140,678,169</u>	<u>Ps. 55,831,083</u>	<u>Ps. 51,005,123</u>	<u>Ps. 55,788,043</u>	<u>Ps. 46,673,166</u>			
<b>Change in plan assets</b>									
Fair value of plan assets at beginning of year...	Ps. 9,330,702	Ps. 11,933,446	Ps. -	Ps. -	Ps. -	Ps. -			
Actual return on plan assets.....	985,362	1,520,837	-	-	-	-			
Company contributions.....	1,763,403	1,309,284	2,336,455	2,132,916	-	-			
Plan participant's contributions.....	-	-	-	-	-	-			
Benefits paid.....	(6,276,071)	(5,432,865)	(2,336,455)	(2,132,916)	-	-			
Fair value of plan assets at end of year.....	<u>Ps. 5,803,396</u>	<u>Ps. 9,330,702</u>	<u>Ps. -</u>	<u>Ps. -</u>	<u>Ps. -</u>	<u>Ps. -</u>			

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(g) Leases

During 2001, 2000 and 1999, PEMEX's rent expense under operating leases amounted to Ps. 13,289, Ps. 49,379 and Ps. 69,762, respectively.

PEMEX enters into non-cancelable lease arrangements for equipment used in the ordinary course of business. The following table shows the future minimum obligations under lease commitments in effect at December 31, 2001:

	<b>Capital Leases <sup>(1)</sup></b>	<b>Operating Leases</b>
2002.....	Ps. 691,462	Ps. 1,627
2003.....	543,402	-
2004.....	757,983	-
2005.....	633,323	-
2006.....	516,958	-
2007 and thereafter	1,881,591	-
	<b>Ps. 5,024,719</b>	<b>Ps. 1,627</b>

(1) includes a total of Ps. 2,108,057 of imputed interest and commissions.

Assets acquired under capital leases, together with their related depreciation, are included in "Properties, net".

(h) Interest, net

For Mexican GAAP purposes, "Interest, net" is presented as an operating cost in the statement of operations. For U.S. GAAP purposes, "Interest, net" would be presented as a non-operating item in the statement of operations.

(i) Business segment information

PEMEX's primary business is the exploration for and production of crude oil and natural gas and the refining and marketing of petroleum products conducted through four business segments: Pemex-Exploration and Production, Pemex-Refining, Pemex-Gas and Basic Petrochemicals and Pemex-Petrochemicals. Management makes decisions related to the operations of the consolidated business along these four strategic lines.

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The primary sources of revenue for the segments are as described below:

- Pemex-Exploration and Production earns revenues from domestic crude oil sales, as well as, from the export of crude oil, through PMI, to international markets. Export sales are made through PMI to approximately 25 major customers in various foreign markets. Less than half (approximately 43%) of PEMEX crude is sold domestically; however, these amounts are in large part sufficient to satisfy Mexican domestic demand.
- Pemex-Refining earns revenues from sales of refined petroleum products and derivatives. Most of Refining's sales are to third parties and occur within the domestic market. The entity supplies the CFE with approximately 80% of its fuel oil production. Pemex-Refining's most profitable products are gasolines.
- Pemex-Gas and Basic Petrochemicals earns revenues primarily from domestic sources. Pemex-Gas and Basic Petrochemicals also consumes high levels of its own natural gas production. Most revenues for the entity are obtained through the sale of ethane and butane gases.
- Pemex-Petrochemicals engages in the sale of petrochemical products to the domestic market. Pemex-Petrochemicals offers a wide range of products, with the higher revenue generating products being methane derivatives, ethane derivatives and aromatics and derivatives.

In making performance analyses for the entities, PEMEX management focuses on sales volumes and gross revenues as the primary indicators.

Income (loss) and identifiable assets for each segment have been determined after intersegment adjustments. Sales between segments are made at internal transfer prices established by PEMEX which reflect international market prices. All information presented herein is on a Mexican GAAP basis.

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	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Subsidiary Companies	Intersegment Eliminations	Total
<b>Year ended December 31, 2001:</b>							
Sales:							
Trade.....	Ps. 111,166,914	Ps. 239,230,195	Ps. 65,282,808	Ps. 9,013,903	Ps. 20,636,342	Ps. -	Ps. 445,330,162
Intersegment.....	153,838,141	8,788,293	27,516,653	2,794,650	179,869,540	(372,807,277)	-
Total net sales.....	265,005,055	248,018,488	92,799,461	11,808,553	200,505,882	(372,807,277)	445,330,162
Interest revenue.....	3,779,410	196,043	364,343	126,053	8,139,494	(9,876,474)	2,728,869
Interest expense.....	7,854,598	7,098,405	817,696	1,094,847	14,925,202	(15,957,864)	15,832,884
Net income (loss) for the year.....	8,785,168	(29,601,028)	626,726	(10,198,863)	(1,569,220)	(2,133,370)	(34,090,587)
Depreciation and amortization.....	17,070,157	6,688,398	3,041,165	861,701	791,946	-	28,453,367
Acquisition of fixed assets (3).....	39,716,330	6,996,977	2,253,130	1,131,194	1,574,369	-	51,672,000
Total assets.....	330,326,527	159,168,158	50,579,783	24,910,332	404,144,993	(412,246,545)	556,883,248
<b>Year ended December 31, 2000:</b>							
Sales:							
Trade.....	Ps. 137,332,942	Ps. 230,059,161	Ps. 63,956,948	Ps. 12,183,505	Ps. 24,735,039	Ps. -	Ps. 468,267,595
Intersegment.....	174,874,390	9,600,123	25,899,156	2,720,032	221,976,834	(435,070,535)	-
Total net sales.....	312,207,332	239,659,284	89,856,104	14,903,537	246,711,873	(435,070,535)	468,267,595
Interest revenue.....	1,440,422	168,612	146,969	140,352	12,795,601	(7,333,564)	7,358,392
Interest expense.....	7,791,613	5,095,985	637,231	464,829	15,887,019	(15,866,280)	14,010,397
Net income (loss) for the year.....	7,128,264	(23,138,923)	(317,025)	(6,089,717)	5,512,591	(2,805,582)	(19,710,392)
Depreciation and amortization.....	16,132,052	5,536,985	2,885,617	934,314	571,968	-	26,060,936
Acquisition of fixed assets(2).....	47,248,730	30,198,372	4,986,457	1,262,954	(7,463,759)	-	76,232,754
Total assets.....	311,900,547	162,392,658	53,749,219	26,739,557	381,915,179	(373,229,637)	563,467,523
<b>Year ended December 31, 1999:</b>							
Sales:							
Trade.....	Ps. 83,634,745	Ps. 187,381,338	Ps. 38,685,177	Ps. 10,105,410	Ps. 15,007,109	Ps. -	Ps. 334,813,779
Intersegment.....	92,281,333	6,699,593	13,898,662	1,930,196	138,504,622	(253,314,406)	-
Total net sales.....	175,916,078	194,080,931	52,583,839	12,035,606	153,511,731	(253,314,406)	334,813,779
Interest revenue.....	407,784	821,806	672,806	301,344	12,847,768	(10,752,880)	4,298,628
Interest expense.....	4,276,874	2,068,967	206,528	65,149	15,734,671	(10,897,602)	11,454,587
Net income (loss) for the year.....	(5,202,009)	(8,111,242)	848,958	(4,473,763)	(3,028,467)	(1,190,248)	(21,156,771)
Depreciation and amortization.....	14,079,496	5,057,886	3,087,577	1,106,596	609,471	-	23,941,026
Acquisition of fixed assets(1).....	4,323,398	7,513,197	2,466,565	669,826	25,524,023	-	40,497,009
Total assets.....	231,824,328	141,822,632	42,182,869	26,553,108	387,924,754	(348,059,847)	482,247,844

(1) In 1999, the Corporate, Subsidiary Companies and Other segment acquired fixed assets in the amount of Ps. 25,524,023, of which Ps. 25,202,280 are related to the Master Trust.

(2) In 2000, the Corporate, Subsidiary Companies and Other segment acquired fixed assets in the amount of Ps. 31,003,126, of which Ps. 30,600,179 are related to the Master Trust and Ps. 38,466,885 of completed assets were transferred from the Master Trust to Subsidiary Entities who will maintain and operate the fixed assets.

(3) In 2001, the Corporate, Subsidiary Companies and Other segment acquired fixed assets in the amount of Ps. 34,402,742, of which Ps. 33,994,644 are related to the Master Trust and Ps. 32,828,373 of completed assets were transferred from the Master Trust to Subsidiary Entities who will maintain and operate the fixed assets.

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Geographical segment information:

The majority of PEMEX's operations are in Mexico. The following shows PEMEX's domestic and export sales for the years ended December 31:

	2001		2000		1999
Domestic sales.....	<b>Ps. 303,853,144</b>	Ps.	292,880,287	Ps.	226,137,090
Export sales:					
United States.....	<b>123,624,322</b>		137,065,181		84,278,772
Canada, Central and South America.....	<b>1,161,540</b>		19,573,224		10,900,272
Europe.....	<b>13,895,101</b>		15,591,932		11,052,419
Far East.....	<b>2,796,055</b>		3,156,971		2,445,226
Total export sales.....	<b>141,477,018</b>		175,387,308		108,676,689
Total sales.....	<b>Ps. 445,330,162</b>	Ps.	468,267,595	Ps.	334,813,779

PEMEX does not have significant long-lived assets outside of Mexico.

(j) Valuation and qualifying accounts

The valuation and qualifying accounts for PEMEX are as follows:

Description	Balance at beginning of period	Additions charged to costs and expenses	Deductions	Balance at end of period
For the year ended December 31, 1999:				
Reserves deducted in the balance sheet from the assets to which they apply:				
Allowance for uncollectible trade accounts.....	Ps. 670,751	Ps. 306,427	Ps. 460	Ps. 976,718
Allowance for slow-moving inventory and obsolescence.....	Ps. 2,281,359	Ps. 489,031	Ps. 349,534	Ps. 2,420,856
For the year ended December 31, 2000:				
Reserves deducted in the balance sheet from the assets to which they apply:				
Allowance for uncollectible trade accounts.....	Ps. 976,718	Ps. 331,470	Ps. 93,592	Ps. 1,214,596
Allowance for slow-moving inventory and obsolescence.....	Ps. 2,420,856	Ps. 194,422	Ps. 354,213	Ps. 2,261,065
For the year ended December 31, 2001:				
Reserves deducted in the balance sheet from the assets to which they apply:				
Allowance for uncollectible trade accounts.....	Ps. 1,214,596	Ps. 147,847	Ps. 104,148	Ps. 1,258,295
Allowance for slow-moving inventory and obsolescence.....	Ps. 2,261,065	Ps. 195,616	Ps. 474,109	Ps. 1,982,572

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*Note:* The above valuation and qualifying accounts are presented in accordance with U.S. GAAP. The Mexican GAAP accounts titled “reserve for sundry creditors and others,” “reserve for retirement payments, pensions, and indemnities,” and “specific oil field exploration and depletion reserve” are accrued liability accounts and not valuation and qualifying accounts and have not been included in the table above.

(k) Significant risks and uncertainties

***Environmental***

The ultimate costs to be incurred in relation to PEMEX’s environmental contingencies may exceed the total amounts reserved. Additional liabilities may be accrued as the assessment work is completed and formal remedial plans are formulated. Numerous factors affect the reliability and precision of clean-up cost estimates, including the individual characteristics of the site, the lack of specific guidance in levels of permissible pollution and type of technology available for the remediation as well as general economic factors such as inflation.

As discussed previously, PEMEX accrues an environmental liability when a reasonable estimate of the costs for remediation or clean-up of the identified affected area has been made. In cases, investigations are not yet at a stage where PEMEX is able to quantify the liability or estimate a range of possible exposure. In such cases, the amounts of PEMEX’s liabilities are indeterminate due to the unknown magnitude of possible contamination, the imprecise and conflicting engineering evaluations and estimates of proper cleanup methods and costs, the unknown timing and extent of the corrective actions that may be required, and the ambiguities in Mexican environmental laws and regulations.

PEMEX is not aware of any unasserted claims or assessments, which may give rise to an environmental liability, and therefore, no amounts related to such items have been reflected in the environmental accrual.

***Government***

The operations and earnings of PEMEX have been, and may in the future be, affected from time to time in varying degree by political developments and laws and regulations, such as forced divestiture of assets, restrictions on production, price controls, tax increases, cancellation of contract rights, refined product specifications, environmental, health and safety regulations. Both the likelihood of such occurrences and their overall effect upon PEMEX are not predictable.

***Labor***

PEMEX employees belonging to the Petroleum Workers’ Union of the Mexican Republic represent approximately 79% of the workforce. They have a collective bargaining agreement which is renegotiated every two years and has no firm expiration date.

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*Product prices*

Because PEMEX's major products are commodities, significant changes in the prices of crude oil, natural gas and chemical products could have a significant impact on PEMEX's results of operations in any particular year. Crude oil represents approximately 34% of PEMEX's sales revenues net of IEPS Tax which makes it reasonably possible that PEMEX is vulnerable to near-term severe impacts from fluctuations in prices.

*General*

PEMEX has certain other contingent liabilities with respect to litigation, claims and contractual agreements arising in the ordinary course of business. Although these contingencies could result in expenses or judgments that could be material to PEMEX's results of operations for a given reporting period, on the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgments are not expected to have a material adverse effect on PEMEX's operations, financial position, condition or liquidity.

(l) Capitalized software costs

Direct internal and external costs related to the development of internal use software are deferred and included in other assets. Capitalized software costs as of December 31, 2001 and 2000 amounted to Ps. 706,665 and Ps. 643,800, respectively. Amortization expense for the years ended December 31, 2001, 2000 and 1999 amounted to Ps. 201,150, Ps. 167,128, and Ps. 89,321, respectively.

(m) Recently issued accounting standards

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" which supersedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations" and amends or supersedes a number of related interpretations of APB Opinion No. 16. The statement is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method that are completed after June 30, 2001. SFAS No. 141 addresses financial accounting and reporting for business combinations, eliminates the pooling-of-interests method of accounting for business combinations, and prescribes the initial recognition and measurement of goodwill and other intangible assets, accounting for negative goodwill and the required disclosures in respect of business combinations. The adoption of SFAS No. 141 did not have a material impact on the consolidated financial statements.

Also in July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", which supersedes APB Opinion No. 17, "Intangible Assets". SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business acquisition) should be accounted for in financial statements upon their acquisition. SFAS No. 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of SFAS No. 142 became effective for fiscal years beginning after December 15, 2001. SFAS No. 142 is required to be applied at the

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beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Management is currently evaluating the impact that the adoption of SFAS No. 142 will have on its consolidated financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the recognition of a liability for the legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction and/or normal operation of the asset. The liability is recognized at fair value in the period in which it is incurred if a reasonable estimate of fair value can be made. A corresponding asset retirement cost is added to the carrying value of the long-lived asset and is depreciated to expense using a systematic and rational method over its useful life. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Upon initial adoption, a liability is recognized for existing asset retirement obligations and the associated asset retirement cost is capitalized as an increase to the carrying value of the asset. The recognized liability and asset are adjusted for cumulative accretion and accumulated depreciation, respectively, from the time period when the asset retirement obligation would have originally been recognized had this statement been in effect to the date of initial adoption. The cumulative effect of initial adoption of SFAS No. 143 is recorded as a change in accounting principle. Management is currently evaluating the impact that the adoption of SFAS No. 143 may have on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used, but resolves a number of implementation issues and establishes a single accounting model for assets to be disposed of. SFAS No. 144 also retains the requirements to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of by sale, abandonment or distribution to owners or is classified as held for sale. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and their interim periods. The provisions of SFAS No. 144 for long-lived assets to be disposed of by sale or otherwise are effective for disposal activities initiated after the effective date of SFAS No. 144 or after its initial application. Management is currently evaluating the impact that the adoption of SFAS No. 144 will have on the consolidated financial statements.



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In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002". SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in APB Opinion No. 30, "Reporting the Results of Operations –Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". In addition, SFAS No. 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. Management is currently evaluating the impact that the adoption of SFAS No. 145 will have on the consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The issuance of SFAS No. 146 nullifies the former guidance provided by the Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). SFAS No. 146 requires the recognition of a liability for costs associated with exit or disposal activity when the liability is incurred, rather than on the date commitment to an exit or disposal plan. SFAS No. 146 is effective for liabilities, related to exit or disposal activities, which are incurred after December 31, 2002, while earlier application is encouraged. Management is currently evaluating the impact that the adoption of SFAS No. 146 will have on the consolidated financial statements.

## **20. Subsidiary guarantor information**

The following consolidating information presents condensed balance sheets at December 31, 2001 and 2000 and condensed statements of operations and changes in financial position for the years ended December 31, 2001, 2000 and 1999 of Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining, Pemex-Gas and Basic Petrochemicals, and Pemex-Petrochemicals and the consolidated Subsidiary Companies.

These statements are prepared in conformity with accounting principles generally accepted in Mexico and, as to the recognition of inflation, in accordance with NIF-06-BIS "A" section A (see Notes 2 b) and 15 to the consolidated financial statements), with one exception: for the purposes of the presentation of the subsidiary guarantor information, the Subsidiary Entities and Subsidiary Companies have been accounted for as investments under the equity method by Petróleos Mexicanos. Earnings of subsidiaries are therefore reflected in Petróleos Mexicanos' investment account and earnings. The principal elimination entries eliminate Petróleos Mexicanos' investment in subsidiaries and intercompany balances and transactions. Pemex-Exploration and Production, Pemex-Refining and

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Pemex-Gas and Basic Petrochemicals (collectively, the “Subsidiary Guarantors”) and Pemex-Petrochemicals are controlled by and have the characteristic of subsidiaries of Petróleos Mexicanos. Pemex-Petrochemicals and the Subsidiary Companies collectively comprise the non-guarantor subsidiaries (“Non-Guarantor Subsidiaries”). Petróleos Mexicanos and the Master Trust are the only entities authorized to contract debt, and thus all guaranteed debt is held by these entities. The guarantees of the Subsidiary Guarantors are full and unconditional and joint and several. Management has not presented separate financial statements for the Subsidiary Guarantors because it has determined that such information is not material to investors.

The significant differences between Mexican and U.S. GAAP as they affect PEMEX are established in Note 19. The U.S. GAAP adjustment related to exploration and drilling costs is exclusive to Pemex-Exploration and Production. The U.S. GAAP adjustment related to fixed asset impairment relates to Pemex-Exploration and Production, Pemex-Refining and Pemex-Petrochemicals. U.S. GAAP adjustments pertaining to advance payment on minimum guaranteed dividends, investment securities, pensions and seniority premiums, post-retirement benefits, profit in inventory, and the sale of Repsol shares relate exclusively to Petróleos Mexicanos. The U.S. GAAP adjustment to account for derivatives relates primarily to Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Petrochemicals, Pemex-Gas and Basic Petrochemicals, Pemex-Refining and the Master Trust. The U.S. GAAP adjustments related to depreciation and capitalization of interest relate to Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Petrochemicals, Pemex-Gas and Basic Petrochemicals and Pemex-Refining. The U.S. GAAP adjustment related to depreciation convention relates to Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Petrochemicals, Pemex-Gas and Basic Petrochemicals, Pemex-Refining and the Master Trust, as well as another subsidiary. All other U.S. GAAP adjustments relate collectively to Petróleos Mexicanos, Pemex-Refining, Pemex-Exploration and Production and Pemex-Gas and Basic Petrochemicals.

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**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**BALANCE SHEET**  
As of December 31, 2001

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents.....	Ps. 5,522,511	Ps. 722,477	Ps. 8,196,876	-	Ps. 14,441,864
Accounts, notes receivable and other, net.....	2,699,390	94,357,062	23,416,641	(75,603,666)	44,869,427
Inventories, net.....	165,166	14,222,954	2,834,594	-	17,222,714
Total current assets.....	8,387,067	109,302,493	34,448,111	(75,603,666)	76,534,005
Long term debt receivable – intercompany.....	50,509,012	-	63,413,676	(113,922,688)	-
Investments in subsidiaries.....	178,487,519	-	4,924,513	(174,969,287)	8,442,745
Properties, net.....	8,826,710	335,022,388	63,064,168	-	406,913,266
Intangible asset derived from the actuarial computation of labor obligations and other assets.	12,468,275	95,749,586	4,526,275	(47,750,904)	64,993,232
Total assets.....	<u>Ps. 258,678,583</u>	<u>Ps. 540,074,467</u>	<u>Ps. 170,376,743</u>	<u>Ps. (412,246,545)</u>	<u>Ps. 556,883,248</u>
<b>LIABILITIES</b>					
Current liabilities:					
Current portion of long-term debt.....	Ps. 28,328,581	Ps. 12,724,756	Ps. 14,654,660	(19,461,891)	Ps. 36,246,106
Accounts payable – intercompany.....	16,290,049	12,017,704	13,163,044	(41,470,797)	-
Other current liabilities.....	4,324,874	23,938,251	19,580,324	(12,141,133)	35,702,316
Total current liabilities.....	48,943,504	48,680,711	47,398,028	(73,073,821)	71,948,422
Long-term debt.....	67,730,850	113,673,593	61,290,605	(119,525,053)	123,169,995
Sale of future accounts receivable.....	-	48,923,317	-	(4,237,715)	44,685,602
Reserve for retirement payments, pensions, indemnities, sundry creditors, others.....	21,233,452	157,797,694	59,179,262	(43,997,412)	194,212,996
Total liabilities.....	<u>Ps. 137,907,806</u>	<u>Ps. 369,075,315</u>	<u>Ps. 167,867,895</u>	<u>Ps. (240,834,001)</u>	<u>Ps. 434,017,015</u>
<b>EQUITY</b>					
Equity accounts.....	(60,610,938)	65,873,943	(9,671,154)	(54,563,356)	(58,971,505)
Revaluation surplus.....	181,381,715	105,125,209	12,180,002	(116,849,188)	181,837,738
	120,770,777	170,999,152	2,508,848	(171,412,544)	122,866,233
Total liabilities and equity.....	<u>Ps. 258,678,583</u>	<u>Ps. 540,074,467</u>	<u>Ps. 170,376,743</u>	<u>Ps. (412,246,545)</u>	<u>Ps. 556,883,248</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**BALANCE SHEET**  
As of December 31, 2000

<b>ASSETS</b>	<b>Corporate</b>	<b>Subsidiary Guarantors</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>PEMEX Consolidated</b>
Current assets:					
Cash and cash equivalents.....	Ps. 14,428,209	Ps. 1,452,602	Ps. 11,946,035	Ps. -	Ps. 27,826,846
Accounts, notes receivable and other, net.....	80,976,771	94,668,605	103,931,208	(222,875,018)	56,701,566
Inventories, net.....	188,647	21,364,219	3,307,105	4,167	24,864,138
Total current assets.....	<u>95,593,627</u>	<u>117,485,426</u>	<u>119,184,348</u>	<u>(222,870,851)</u>	<u>109,392,550</u>
Long term debt receivable – intercompany.....	57,154,732	-	-	(57,154,732)	-
Investments in subsidiaries.....	182,890,968	-	5,514,460	(188,405,428)	-
Properties, net.....	9,214,929	316,477,604	18,530,892	44,001,151	388,224,576
Intangible asset derived from the actuarial computation of labor obligations and other assets.	12,776,048	94,079,394	2,559,701	(43,564,746)	65,850,397
Total assets.....	<u>Ps. 357,630,304</u>	<u>Ps. 528,042,424</u>	<u>Ps. 145,789,401</u>	<u>Ps. (467,994,606)</u>	<u>Ps. 563,467,523</u>
<b>LIABILITIES</b>					
Current liabilities:					
Current portion of long-term debt.....	Ps. 114,135,746	Ps. 52,139,993	Ps. 14,507,684	Ps. (140,326,352)	Ps. 40,457,071
Accounts payable – intercompany.....	-	33,904,305	6,551,679	(40,455,984)	-
Other current liabilities.....	1,910,274	39,930,032	14,497,538	(1,028,959)	55,308,885
Total current liabilities.....	<u>116,046,020</u>	<u>125,974,330</u>	<u>35,556,901</u>	<u>(181,811,295)</u>	<u>95,765,956</u>
Long-term debt.....	70,126,090	52,799,597	83,557,996	(102,113,658)	104,370,025
Sale of future accounts receivable.....	-	51,976,573	-	-	51,976,573
Reserve for retirement payments, pensions, indemnities, sundry creditors, and others.....	16,319,176	129,436,724	11,837,927	3,155,770	160,749,597
Total liabilities.....	<u>202,491,286</u>	<u>360,187,224</u>	<u>130,952,824</u>	<u>(280,769,183)</u>	<u>412,862,151</u>
<b>EQUITY</b>					
Equity accounts.....	(16,105,298)	70,071,754	3,171,404	(80,586,658)	(23,448,798)
Revaluation surplus.....	171,244,316	97,783,446	11,665,173	(106,638,765)	174,054,170
Total liabilities and equity.....	<u>155,139,018</u>	<u>167,855,200</u>	<u>14,836,577</u>	<u>(187,225,423)</u>	<u>150,605,372</u>
	<u>Ps. 357,630,304</u>	<u>Ps. 528,042,424</u>	<u>Ps. 145,789,401</u>	<u>Ps. (467,994,606)</u>	<u>Ps. 563,467,523</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
(In thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**For the year ended December 31, 2001**

	<b>Corporate</b>	<b>Subsidiary Guarantors</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>PEMEX Consolidated</b>
	Ps.	Ps.	Ps.	Ps.	Ps.
Net sales.....	12,339,892	605,823,004	199,974,543	(372,807,277)	445,330,162
Other revenues.....	<u>2,826,908</u>	<u>9,759,540</u>	<u>12,718,685</u>	<u>(13,250,035)</u>	<u>12,055,098</u>
Total revenues.....	15,166,800	615,582,544	212,693,228	(386,057,312)	457,385,260
Costs and operating expenses:					
Cost of sales.....	-	320,770,253	208,519,631	(363,975,363)	165,314,521
Transportation and distribution expenses.....	-	13,208,914	533,777	(154,209)	13,588,482
Administrative expenses.....	15,465,295	21,392,241	4,118,801	(12,950,999)	28,025,338
Other expenses.....	1,544,954	17,669,179	5,550,054	(5,010,244)	19,753,943
Total costs and operating expenses.....	<u>17,010,249</u>	<u>373,040,587</u>	<u>218,722,265</u>	<u>(382,090,815)</u>	<u>226,682,284</u>
Equity participation in subsidiaries.....	(29,034,047)	-	-	29,034,047	-
Capitalization of Master Trust operations and others..	-	-	(1,833,128)	1,833,128	-
Cumulative effect of adoption of new financial instruments standard.....	<u>(1,301,451)</u>	<u>(29,796)</u>	<u>-</u>	<u>-</u>	<u>(1,331,247)</u>
(Loss) income before hydrocarbon extraction duties, and other special tax on production and services....	(32,178,947)	242,512,161	(7,862,163)	26,900,678	229,371,729
Hydrocarbon extraction duties and other.....	-	167,502,566	761,021	-	168,263,587
Special tax on production and services (IEPS Tax).....	-	<u>95,198,729</u>	<u>-</u>	<u>-</u>	<u>95,198,729</u>
	-	<u>262,701,295</u>	<u>761,021</u>	<u>-</u>	<u>263,462,316</u>
Net (loss) income for the year.....	<u>Ps. (32,178,947)</u>	<u>Ps. (20,189,134)</u>	<u>Ps. (8,623,184)</u>	<u>Ps. 26,900,678</u>	<u>Ps. (34,090,587)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
(In thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**For the year ended December 31, 2000**

	<u>Corporate</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
Net sales.....	Ps. 22,129,563	Ps. 641,722,720	Ps. 239,485,847	Ps. (435,070,535)	Ps. 468,267,595
Other revenues.....	<u>574,735</u>	<u>9,367,075</u>	<u>10,816,326</u>	<u>(10,337,601)</u>	<u>10,420,535</u>
Total revenues.....	22,704,298	651,089,795	250,302,173	(445,408,136)	478,688,130
Costs and operating expenses:					
Cost of sales.....	-	325,946,683	241,568,215	(414,455,061)	153,059,837
Transportation and distribution expenses.....	-	12,058,906	649,516	(99,261)	12,609,161
Administration expenses.....	14,996,555	19,275,246	3,111,839	(10,410,937)	26,972,703
Other expenses.....	<u>7,038,378</u>	<u>17,535,771</u>	<u>7,211,332</u>	<u>(19,796,233)</u>	<u>11,989,248</u>
Total costs and operating expenses.....	22,034,933	374,816,606	252,540,902	(444,761,492)	204,630,949
Equity participation in subsidiaries.....	(21,216,737)	-	-	21,216,737	-
Capitalization of Master Trust operations.....	-	-	<u>2,034,574</u>	<u>(2,034,574)</u>	-
(Loss) income before hydrocarbon extraction duties, and other special tax on production and services.....	(20,547,372)	276,273,189	(204,155)	18,535,519	274,057,181
Hydrocarbon extraction duties and other.....	-	223,044,353	1,042,336	124,364	224,211,053
Special tax on production and services (IEPS Tax).....	-	<u>69,556,520</u>	-	-	<u>69,556,520</u>
	-	<u>292,600,873</u>	<u>1,042,336</u>	<u>124,364</u>	<u>293,767,573</u>
Net (loss) income for the year.....	<u>Ps. (20,547,372)</u>	<u>Ps. (16,327,684)</u>	<u>Ps. (1,246,491)</u>	<u>Ps. 18,411,155</u>	<u>Ps. (19,710,392)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
(In thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**For the year ended December 31, 1999**

	<u>Corporate</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
Net sales.....	Ps. 16,774,887	Ps. 422,580,848	Ps. 148,772,450	Ps. (253,314,406)	Ps. 334,813,779
Other revenues.....	<u>2,818,391</u>	<u>8,830,443</u>	<u>2,882,073</u>	<u>(4,365,930)</u>	<u>10,164,977</u>
Total revenues.....	19,593,278	431,411,291	151,654,523	(257,680,336)	344,978,756
Costs and operating expenses:					
Cost of sales.....	-	201,972,991	147,802,262	(236,262,728)	113,512,525
Transportation and distribution expenses.....	-	10,570,323	434,286	(137,038)	10,867,571
Administration expenses.....	11,280,125	15,447,974	2,980,546	(8,632,379)	21,076,266
Other expenses.....	<u>11,543,220</u>	<u>8,297,322</u>	<u>444,033</u>	<u>(8,431,641)</u>	<u>11,852,934</u>
Total costs and operating expenses.....	<u>22,823,345</u>	<u>236,288,610</u>	<u>151,661,127</u>	<u>(253,463,786)</u>	<u>157,309,296</u>
Equity participation in subsidiaries.....	<u>(15,616,823)</u>	-	-	<u>15,616,823</u>	-
(Loss) income before hydrocarbon extraction duties, and other special tax on production and services.....	(18,846,890)	195,122,681	(6,604)	11,400,273	187,669,460
Hydrocarbon extraction duties and other.....	-	119,237,731	1,239,257	-	120,476,988
Special tax on production and services (IEPS Tax).....	-	<u>88,349,243</u>	-	-	<u>88,349,243</u>
Net (loss) income for the year.....	<u>Ps. (18,846,890)</u>	<u>Ps. (12,464,293)</u>	<u>Ps. (1,245,861)</u>	<u>Ps. 11,400,273</u>	<u>Ps. (21,156,771)</u>
		<u>207,586,974</u>	<u>1,239,257</u>	-	<u>208,826,231</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
(In thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the year ended December 31, 2001**

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
<b>Funds provided by (used in) operating activities</b>	Ps. 93,512,424	Ps. 9,070,449	Ps. 114,718,332	Ps. (191,108,592)	Ps. 26,192,613
<b>Financing activities:</b>					
Sale of future accounts receivable.....	-	(3,053,256)	-	(4,237,715)	(7,290,971)
Long-term debt.....	(79,144,359)	(2,925,553)	(15,509,050)	109,670,256	12,091,294
Net income (loss) passed to Petróleos Mexicanos.....	(27,461,110)	18,837,927	8,623,183	-	-
Other changes in equity and retained earnings...	(5,563,799)	15,127,018	(3,306,297)	(11,276,351)	(5,019,429)
Funds provided by (used in) financing activities...	(112,169,268)	27,986,136	(10,192,164)	94,156,190	(219,106)
<b>Investing activities:</b>					
Increase in fixed assets, net.....	9,751,146	(37,786,710)	(108,275,327)	96,952,402	(39,358,489)
Investments in subsidiaries.....	-	-	-	-	-
Funds provided by (used in) investing activities...	9,751,146	(37,786,710)	(108,275,327)	96,952,402	(39,358,489)
(Decrease) increase in cash and cash equivalents..	(8,905,698)	(730,125)	(3,749,159)	-	(13,384,982)
Cash and cash equivalents at beginning of the year.....	14,428,209	1,452,602	11,946,035	-	27,826,846
Cash and cash equivalents at the end of the year...	Ps. 5,522,511	Ps. 722,477	Ps. 8,196,876	Ps. -	Ps. 14,441,864



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
(In thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the year ended December 31, 2000**

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Elimination	PEMEX Consolidated
<b>Funds (used in) provided by operating activities</b>	P.s. (62,080,063)	P.s. (10,216,646)	P.s. (34,901,498)	P.s. 131,686,425	P.s. 24,488,218
<b>Financing activities:</b>					
Sale of future accounts receivable.....	-	8,675,835	-	-	8,675,835
Long-term debt.....	63,717,256	35,413,510	45,299,798	(119,927,030)	24,503,534
Net income distributions to Petróleos Mexicanos..	(11,894,564)	11,143,060	751,504	-	-
Other changes in equity and retained earnings.....	(5,623,568)	26,433,760	(1,341,824)	(9,306,862)	10,161,506
Funds provided by (used in) financing activities.....	46,199,124	81,666,165	44,709,478	(129,233,892)	43,340,875
<b>Investing activities:</b>					
Increase in fixed assets, net.....	9,050,823	(71,180,882)	(2,018,105)	159,094	(63,989,070)
Investments in subsidiaries.....	2,611,627	-	-	(2,611,627)	-
Funds provided by (used in) investing activities.....	11,662,450	(71,180,882)	(2,018,105)	(2,452,533)	(63,989,070)
(Decrease) increase in cash and cash equivalents....	(4,218,489)	268,637	7,789,875	-	3,840,023
Cash and cash equivalents at beginning of the year...	18,646,698	1,183,963	4,156,162	-	23,986,823
Cash and cash equivalents at the end of the year.....	P.s. 14,428,209	P.s. 1,452,600	P.s. 11,946,037	P.s. -	P.s. 27,826,846

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
(In thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the year ended December 31, 1999**

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
<b>Funds provided by (used in) operating activities</b>	Ps. 21,139,652	Ps. (16,904,904)	Ps. (20,120,629)	Ps. 33,666,546	Ps. 17,780,665
<b>Financing activities:</b>					
Sale of future accounts receivable.....	-	26,702,250	-	-	26,702,250
Long-term debt.....	(224,763)	(9,700,795)	23,199,712	(11,780,243)	1,493,911
Net income (loss) distributions to Petróleos Mexicanos.....	(10,766,871)	8,185,826	854,362	1,726,683	-
Other changes in equity and retained earnings...	(3,843,264)	1,780,238	(3,309,823)	4,297,674	(1,075,175)
Funds (used in) provided by financing activities...	(14,834,898)	26,967,519	20,744,251	(5,755,886)	27,120,986
<b>Investing activities:</b>					
Increase in fixed assets, net.....	(773,080)	(9,544,561)	(235,848)	(24,992,642)	(35,546,131)
Investments in subsidiaries.....	2,534,631	-	-	(2,534,631)	-
Funds provided by (used in) investing activities...	1,761,551	(9,544,561)	(235,848)	(27,527,273)	(35,546,131)
Increase in cash and cash equivalents.....	8,066,305	518,054	387,774	383,387	9,355,520
Cash and cash equivalents at beginning of the year.....	10,580,393	665,909	3,768,388	(383,387)	14,631,303
Cash and cash equivalents at the end of the year...	Ps. 18,646,698	Ps. 1,183,963	Ps. 4,156,162	Ps. -	Ps. 23,986,823

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
**(In thousands of pesos and thousands of U.S. dollars)**

**21. PIDIREGAS liabilities and the Pemex Project Funding Master Trust (“Master Trust”)**

The Master Trust, a consolidated entity which is a business trust, was organized under the laws of Delaware on November 10, 1998. The main objective of the Master Trust is to administer financial resources related to PIDIREGAS, such financial resources being designated by PEMEX for that purpose, by assuming payment obligations under contracts relating to PIDIREGAS and acting as the borrower under financing arrangements for PIDIREGAS.

Under an Assignment and Indemnity Agreement dated November 10, 1998, among Petróleos Mexicanos, the Master Trust and the Subsidiary Guarantors, Petróleos Mexicanos and the Subsidiary Guarantors have certain obligations to the Master Trust with respect to the liabilities incurred by the Master Trust in connection with PIDIREGAS. These obligations include:

- (i) the obligation of Petróleos Mexicanos to guarantee the repayment of the debt obligations undertaken by the Master Trust to finance PIDIREGAS;
- (ii) the obligation of Petróleos Mexicanos and the Subsidiary Guarantor which is sponsoring the relevant PIDIREGAS to make such payments to the Master Trust as may be necessary for the Master Trust to fulfill its payment obligations in respect of any financing the Master Trust has entered into in connection with such project; and
- (iii) the joint and several obligation of Petróleos Mexicanos and each of the aforementioned Subsidiary Guarantors to indemnify the Master Trust with respect to any liability incurred by the Master Trust in connection with PIDIREGAS.

On December 31, 1998, PEMEX transferred all assets and liabilities related to PIDIREGAS for an amount equaling Ps. 12,104,010 to the Master Trust. The Master Trust has been consolidated in the financial statements of PEMEX at December 31, 2001, 2000 and 1999 in accordance with consolidation principles detailed in Mexican GAAP Bulletin B-8 “Consolidated and Combined Financial Statements and Valuation of Permanent Investments in Stocks.” In accordance with U.S. accounting principles, the Master Trust is a special purpose entity requiring consolidation to the financial statements as it does not meet non-consolidation criteria as specified in U.S. accounting literature.

The following consolidating information presents condensed consolidating balance sheets at December 31, 2001 and 2000 and condensed consolidating statements of operations and statements of changes in financial position for the years ended December 31, 2001, 2000 and 1999 of Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining, Pemex-Gas and Basic Petrochemicals, Pemex-Petrochemicals and the consolidated Subsidiary Companies. These financial statements are prepared in conformity with Mexican GAAP and as to the recognition of inflation, in accordance with NIF-06-BIS “A” section A (see Notes 2 b)) and 15 to the consolidated financial statements), except that in the following condensed financial information, the Master Trust and the Subsidiary

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
**(In thousands of pesos and thousands of U.S. dollars)**

Entities are accounted for as investments under the equity method rather than being consolidated. Pemex-Petrochemicals and the Subsidiary Guarantors are controlled by and have the characteristics of subsidiaries of Petróleos Mexicanos. Petróleos Mexicanos' guaranty of the indebtedness of the Master Trust is full and unconditional. The guaranties by the Subsidiary Guarantors of Petróleos Mexicanos' guaranty of the Master Trust's payment obligations are full and unconditional and joint and several.

Petróleos Mexicanos and the Master Trust are the only entities authorized to contract debt, and thus all guaranteed debt is held by these entities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
**(In thousands of pesos and thousands of U.S. dollars)**

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

**BALANCE SHEET**  
**As of December 31, 2001**

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents.....	Ps. 5,522,511	Ps. 5,288,454	Ps. 722,477	Ps. 2,908,422	Ps. -	Ps. 14,441,864
Accounts, notes receivable and other, net....	2,699,390	7,804,623	94,357,062	15,612,018	(75,603,666)	44,869,427
Inventories, net.....	165,166	-	14,222,954	2,834,594	-	17,222,714
Total current assets.....	<u>8,387,067</u>	<u>13,093,077</u>	<u>109,302,493</u>	<u>21,355,034</u>	<u>(75,603,666)</u>	<u>76,534,005</u>
Long-term debt receivable-intercompany....	50,509,012	63,413,676	-	-	(113,922,688)	-
Investments in subsidiaries.....	178,487,519	-	-	4,924,513	(174,969,287)	8,442,745
Properties, net.....	8,826,710	44,326,188	335,022,388	18,737,980	-	406,913,266
Intangible asset derived from the actuarial computation of labor obligations and other assets.....	<u>12,468,275</u>	<u>1,395,274</u>	<u>95,749,586</u>	<u>3,131,001</u>	<u>(47,750,904)</u>	<u>64,993,232</u>
Total assets.....	<u>Ps. 258,678,583</u>	<u>Ps. 122,228,215</u>	<u>Ps. 540,074,467</u>	<u>Ps. 48,148,528</u>	<u>Ps. (412,246,545)</u>	<u>Ps. 556,883,248</u>
<b>LIABILITIES</b>						
Current liabilities:						
Current portion of long-term debt.....	Ps. 28,328,581	Ps. 8,707,639	Ps. 12,724,756	Ps. 5,947,021	Ps. (19,461,891)	Ps. 36,246,106
Accounts payable-intercompany.....	16,290,049	436,459	12,017,704	12,726,585	(41,470,797)	-
Other current liabilities.....	4,324,874	9,468,451	23,938,251	10,111,873	(12,141,133)	35,702,316
Total current liabilities.....	<u>48,943,504</u>	<u>18,612,549</u>	<u>48,680,711</u>	<u>28,785,479</u>	<u>(73,073,821)</u>	<u>71,948,422</u>
Long-term debt.....	67,730,850	61,041,007	113,673,593	249,598	(119,525,053)	123,169,995
Sale of future accounts receivable.....	-	-	48,923,317	-	(4,237,715)	44,685,602
Reserve for retirement payments, pensions, indemnities sundry creditors, and others....	<u>21,233,452</u>	<u>42,574,659</u>	<u>157,797,694</u>	<u>16,604,603</u>	<u>(43,997,412)</u>	<u>194,212,996</u>
Total liabilities.....	<u>Ps. 137,907,806</u>	<u>Ps. 122,228,215</u>	<u>Ps. 369,075,315</u>	<u>Ps. 45,639,680</u>	<u>Ps. (240,834,001)</u>	<u>Ps. 434,017,015</u>
<b>EQUITY</b>						
Equity accounts.....	(60,610,938)	-	65,873,943	(9,671,154)	(54,563,356)	(58,971,505)
Revaluation surplus.....	<u>181,381,715</u>	<u>-</u>	<u>105,125,209</u>	<u>12,180,002</u>	<u>(116,849,188)</u>	<u>181,837,738</u>
	120,770,777	-	170,999,152	2,508,848	(171,412,544)	122,866,233
Total liabilities and equity.....	<u>Ps. 258,678,583</u>	<u>Ps. 122,228,215</u>	<u>Ps. 540,074,467</u>	<u>Ps. 48,148,528</u>	<u>Ps. (412,246,545)</u>	<u>Ps. 556,883,248</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
**(In thousands of pesos and thousands of U.S. dollars)**

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

**BALANCE SHEET**  
**As of December 31, 2000**

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents.....	Ps. 14,428,209	Ps. 8,057,964	Ps. 1,452,602	Ps. 3,888,071	Ps. -	Ps. 27,826,846
Accounts, notes receivable and other, net..	80,976,771	88,026,014	94,668,605	15,905,194	(222,875,018)	56,701,566
Inventories, net.....	188,647	-	21,364,219	3,307,105	4,167	24,864,138
Total current assets.....	<u>95,593,627</u>	<u>96,083,978</u>	<u>117,485,426</u>	<u>23,100,370</u>	<u>(222,870,851)</u>	<u>109,392,550</u>
Long-term debt receivable-intercompany.....	57,154,732	-	-	-	(57,154,732)	-
Investments in subsidiaries.....	182,890,968	-	-	5,514,460	(188,405,428)	-
Properties, net.....	9,214,929	-	316,477,604	18,530,892	44,001,151	388,224,576
Intangible asset derived from the actuarial computation of labor obligations and other assets.....	12,776,048	-	94,079,394	2,559,701	(43,564,746)	65,850,397
Total assets.....	<u>Ps. 357,630,304</u>	<u>Ps. 96,083,978</u>	<u>Ps. 528,042,424</u>	<u>Ps. 49,705,423</u>	<u>Ps. (467,994,606)</u>	<u>Ps. 563,467,523</u>
<b>LIABILITIES</b>						
Current liabilities:						
Current portion of long-term debt.....	Ps. 114,135,746	Ps. 5,885,494	Ps. 52,139,993	Ps. 8,622,190	Ps. (140,326,352)	Ps. 40,457,071
Accounts payable-intercompany.....	-	-	33,904,305	6,551,679	(40,455,984)	-
Other current liabilities.....	1,910,274	6,848,735	39,930,032	7,648,803	(1,028,959)	55,308,885
Total current liabilities.....	<u>116,046,020</u>	<u>12,734,229</u>	<u>125,974,330</u>	<u>22,822,672</u>	<u>(181,811,295)</u>	<u>95,765,956</u>
Long-term debt.....	70,126,090	83,349,749	52,799,597	208,247	(102,113,658)	104,370,025
Sale of future accounts receivable.....	-	-	51,976,573	-	-	51,976,573
Reserve for retirement payments, pensions, indemnities sundry creditors, and others.....	16,319,176	-	129,436,724	11,837,927	3,155,770	160,749,597
Total liabilities.....	<u>202,491,286</u>	<u>96,083,978</u>	<u>360,187,224</u>	<u>34,868,846</u>	<u>(280,769,183)</u>	<u>412,862,151</u>
<b>EQUITY</b>						
Equity accounts.....	(16,105,298)	-	70,071,754	3,171,404	(80,586,658)	(23,448,798)
Revaluation surplus.....	171,244,316	-	97,783,446	11,665,173	(106,638,765)	174,054,170
	155,139,018	-	167,855,200	14,836,577	(187,225,423)	150,605,372
Total liabilities and equity.....	<u>Ps. 357,630,304</u>	<u>Ps. 96,083,978</u>	<u>Ps. 528,042,424</u>	<u>Ps. 49,705,423</u>	<u>Ps. (467,994,606)</u>	<u>Ps. 563,467,523</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2001, 2000 and 1999**  
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**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**

**For the year ended December 31, 2001**

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
Net sales.....	Ps. 12,339,892	Ps. -	Ps. 605,823,004	Ps. 199,974,543	Ps. (372,807,277)	Ps. 445,330,162
Other revenues.....	<u>2,826,908</u>	<u>5,432,891</u>	<u>9,759,540</u>	<u>7,285,794</u>	<u>(13,250,035)</u>	<u>12,055,098</u>
Total revenues.....	<u>15,166,800</u>	<u>5,432,891</u>	<u>615,582,544</u>	<u>207,260,337</u>	<u>(386,057,312)</u>	<u>457,385,260</u>
Costs and operating expenses:						
Cost of sales.....	-	-	320,770,253	208,519,631	(363,975,363)	165,314,521
Transportation and distribution expenses.....	-	-	13,208,914	533,777	(154,209)	13,588,482
Administrative expenses.....	15,465,295	16,169	21,392,241	4,102,632	(12,950,999)	28,025,338
Other expenses.....	<u>1,544,954</u>	<u>3,583,594</u>	<u>17,669,179</u>	<u>1,966,460</u>	<u>(5,010,244)</u>	<u>19,753,943</u>
Total costs and operating expenses.....	<u>17,010,249</u>	<u>3,599,763</u>	<u>373,040,587</u>	<u>215,122,500</u>	<u>(382,090,815)</u>	<u>226,682,284</u>
Equity participation in subsidiaries.....	(29,034,047)	-	-	-	29,034,047	-
Capitalization of Master Trust operations.....	-	(1,833,128)	-	-	1,833,128	-
Cumulative effect of adoption of new financial instruments standard.....	<u>(1,301,451)</u>	-	<u>(29,796)</u>	-	-	<u>(1,331,247)</u>
(Loss) income before hydrocarbon extraction duties and other and special tax on production and services.....	<u>(32,178,947)</u>	-	242,512,161	(7,862,163)	26,900,678	229,371,729
Hydrocarbon extraction duties and other.....	-	-	167,502,566	761,021	-	168,263,587
Special tax on production and services (IEPS Tax).....	-	-	95,198,729	-	-	95,198,729
	<u>-</u>	<u>-</u>	<u>262,701,295</u>	<u>761,021</u>	<u>-</u>	<u>263,462,316</u>
Net (loss) income for the year.....	<u>Ps. (32,178,947)</u>	<u>Ps. -</u>	<u>Ps. (20,189,134)</u>	<u>Ps. (8,623,184)</u>	<u>Ps. 26,900,678</u>	<u>Ps. (34,090,587)</u>

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**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**For the year ended December 31, 2000**

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
Net sales.....	Ps. 22,129,563	-	Ps. 641,722,720	Ps. 239,485,847	Ps. (435,070,535)	Ps. 468,267,595
Other revenues.....	<u>574,735</u>	<u>4,118,225</u>	<u>9,367,075</u>	<u>6,698,101</u>	<u>(10,337,601)</u>	<u>10,420,535</u>
Total revenues.....	<u>22,704,298</u>	<u>4,118,225</u>	<u>651,089,795</u>	<u>246,183,948</u>	<u>(445,408,136)</u>	<u>478,688,130</u>
Costs and operating expenses:						
Cost of sales.....	-	-	325,946,683	241,568,215	(414,455,061)	153,059,837
Transportation and distribution expenses.....	-	-	12,058,906	649,516	(99,261)	12,609,161
Administrative expenses.....	14,996,555	14,355	19,275,246	3,097,484	(10,410,937)	26,972,703
Other expenses.....	<u>7,038,378</u>	<u>6,138,444</u>	<u>17,535,771</u>	<u>1,072,888</u>	<u>(19,796,233)</u>	<u>11,989,248</u>
Total costs and operating expenses.....	<u>22,034,933</u>	<u>6,152,799</u>	<u>374,816,606</u>	<u>246,388,103</u>	<u>(444,761,492)</u>	<u>204,630,949</u>
Equity participation in subsidiaries.....	(21,216,737)	-	-	-	21,216,737	-
Capitalization of Master Trust operations.....	-	2,034,574	-	-	(2,034,574)	-
(Loss) income before hydrocarbon extraction duties and other and special tax on production and services.....	<u>(20,547,372)</u>	<u>-</u>	<u>276,273,189</u>	<u>(204,155)</u>	<u>18,535,519</u>	<u>274,057,181</u>
Hydrocarbon extraction duties and other.....	-	-	223,044,353	1,042,336	124,364	224,211,053
Special tax on production and services (IEPS Tax).....	-	-	<u>69,556,520</u>	<u>-</u>	<u>-</u>	<u>69,556,520</u>
	-	-	<u>292,600,873</u>	<u>1,042,336</u>	<u>124,364</u>	<u>293,767,573</u>
Net (loss) income for the year.....	<u>Ps. (20,547,372)</u>	<u>-</u>	<u>Ps. (16,327,684)</u>	<u>Ps. (1,246,491)</u>	<u>Ps. 18,411,155</u>	<u>Ps. (19,710,392)</u>



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**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**  
**For the year ended December 31, 1999**

	<u>Corporate</u>	<u>Master Trust</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
Net sales.....	Ps. 16,774,887	Ps. -	Ps. 422,580,848	Ps. 148,772,450	Ps. (253,314,406)	Ps. 334,813,779
Other revenues.....	<u>2,818,391</u>	<u>169,403</u>	<u>8,830,443</u>	<u>2,882,073</u>	<u>(4,535,333)</u>	<u>10,164,977</u>
Total revenues.....	<u>19,593,278</u>	<u>169,403</u>	<u>431,411,291</u>	<u>151,654,523</u>	<u>(257,849,739)</u>	<u>344,978,756</u>
Costs and operating expenses:						
Cost of sales.....	-	-	201,972,991	147,802,262	(236,262,728)	113,512,525
Transportation and distribution expenses.....	-	-	10,570,323	434,286	(137,038)	10,867,571
Administrative expenses.....	11,280,125	1,795	15,447,974	2,980,546	(8,634,174)	21,076,266
Other expenses.....	<u>11,543,220</u>	<u>3,733,938</u>	<u>8,297,322</u>	<u>444,033</u>	<u>(12,165,579)</u>	<u>11,852,934</u>
Total costs and operating expenses.....	<u>22,823,345</u>	<u>3,735,733</u>	<u>236,288,610</u>	<u>151,661,127</u>	<u>(257,199,519)</u>	<u>157,309,296</u>
Equity participation in subsidiaries.....	(15,616,823)	-	-	-	15,616,823	-
Capitalization of Master Trust operations.....	-	<u>3,566,330</u>	-	-	<u>(3,566,330)</u>	-
(Loss) income before hydrocarbon extraction duties and other and special tax on production and services.....	<u>(18,846,890)</u>	-	195,122,681	(6,604)	11,400,273	187,669,460
Hydrocarbon extraction duties and other.....	-	-	119,237,731	1,239,257	-	120,476,988
Special tax on production and services (IEPS Tax).....	-	-	<u>88,349,243</u>	-	-	<u>88,349,243</u>
	-	-	<u>207,586,974</u>	<u>1,239,257</u>	-	<u>208,826,231</u>
Net (loss) income for the year.....	<u>Ps. (18,846,890)</u>	<u>Ps. -</u>	<u>Ps. (12,464,293)</u>	<u>Ps. (1,245,861)</u>	<u>Ps. 11,400,273</u>	<u>Ps. (21,156,771)</u>

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**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the year ended December 31, 2001**

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
	Ps. 93,512,424	Ps. 124,020,493	Ps. 9,070,449	Ps. (9,302,161)	Ps. (191,108,592)	Ps. 26,192,613
Funds (used in) provided by operating activities						
Financing activities:						
Sale of future accounts receivable.....	-	-	(3,053,256)	-	(4,237,715)	(7,290,971)
Long-term debt.....	(79,144,359)	(19,050,139)	(2,925,553)	3,541,089	109,670,256	12,091,294
Long-term debt receivable – intercompany.....	-	-	-	-	-	-
Net income distributions to Petróleos Mexicanos..	(27,461,110)	-	18,837,927	8,623,183	-	-
Other changes in equity and retained earnings.....	(5,563,799)	-	15,127,018	(3,306,297)	(11,276,351)	(5,019,429)
Funds provided by (used in) financing activities.....	(112,169,268)	(19,050,139)	27,986,136	8,857,975	94,156,190	(219,106)
Investing activities:						
Increase in fixed assets, net.....	9,751,146	(107,739,864)	(37,786,710)	(535,463)	96,952,402	(39,358,489)
Investments in subsidiaries.....	-	-	-	-	-	-
Funds provided by (used in) investing activities.....	9,751,146	(107,739,864)	(37,786,710)	(535,463)	96,952,402	(39,358,489)
(Decrease) increase in cash and cash equivalents.....	(8,905,698)	(2,769,510)	(730,125)	(979,649)	-	(13,384,982)
Cash and cash equivalents at beginning of the year...	14,428,209	8,057,964	1,452,602	3,888,071	-	27,826,846
Cash and cash equivalents at the end of the year.....	Ps. 5,522,511	Ps. 5,288,454	Ps. 722,477	Ps. 2,908,422	Ps. -	Ps. 14,441,864

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**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the year ended December 31, 2000**

	<u>Corporate</u>	<u>Master Trust</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
	Ps. (62,080,063)	Ps. (30,581,553)	Ps. (10,216,646)	Ps. (4,319,945)	Ps. 131,686,425	Ps. 24,488,218
Funds (used in) provided by operating activities						
Financing activities:						
Sale of future accounts receivable.....	-	-	8,675,835	-	-	8,675,835
Long-term debt.....	63,717,256	38,050,136	35,413,510	7,249,662	(119,927,030)	24,503,534
Net income distributions to Petróleos Mexicanos..	(11,894,564)	-	11,143,060	751,504	-	-
Other changes in equity and retained earnings.....	(5,623,568)	-	26,433,760	(1,341,824)	(9,306,862)	10,161,506
Funds provided by (used in) financing activities.....	46,199,124	38,050,136	81,666,165	6,659,342	(129,233,892)	43,340,875
Investing activities:						
Increase in fixed assets, net.....	9,050,823	-	(71,180,882)	(2,018,105)	159,094	(63,989,070)
Investments in subsidiaries.....	2,611,627	-	-	-	(2,611,627)	-
Funds provided by (used in) investing activities.....	11,662,450	-	(71,180,882)	(2,018,105)	(2,452,533)	(63,989,070)
(Decrease) increase in cash and cash equivalents.....	(4,218,489)	7,468,583	268,637	321,292	-	3,840,023
Cash and cash equivalents at beginning of the year...	18,646,698	589,382	1,183,963	3,566,780	-	23,986,823
Cash and cash equivalents at the end of the year.....	<u>Ps. 14,428,209</u>	<u>Ps. 8,057,965</u>	<u>Ps. 1,452,600</u>	<u>Ps. 3,888,072</u>	<u>Ps. -</u>	<u>Ps. 27,826,846</u>

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**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the year ended December 31, 1999**

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.
Funds provided by (used in) operating activities	21,139,652	(24,021,915)	(16,904,904)	3,901,286	33,666,546	17,780,665
Financing activities:						
Sale of future accounts receivable.....	-	-	26,702,250	-	-	26,702,250
Long-term debt	(224,763)	24,611,297	(9,700,795)	(1,411,585)	(11,780,243)	1,493,911
Net income (loss) distributions to Petróleos Mexicanos	(10,766,871)	-	8,185,826	854,362	1,726,683	-
Other changes in equity and retained earnings.....	(3,843,264)	-	1,780,238	(3,309,823)	4,297,674	(1,075,175)
Funds (used in) provided by financing activities.....	(14,834,898)	24,611,297	26,967,519	(3,867,046)	(5,755,886)	27,120,986
Investing activities:						
Increase in fixed assets, net.....	(773,080)	-	(9,544,561)	(235,848)	(24,992,642)	(35,546,131)
Investments in subsidiaries.....	2,534,631	-	-	-	(2,534,631)	-
Funds provided by (used in) investing activities.....	1,761,551	-	(9,544,561)	(235,848)	(27,527,273)	(35,546,131)
Increase (decrease) in cash and cash equivalents.....	8,066,305	589,382	518,054	(201,608)	383,387	9,355,520
Cash and cash equivalents at beginning of the year...	10,580,393	-	665,909	3,768,388	(383,387)	14,631,303
Cash and cash equivalents at the end of the year.....	18,646,698	589,382	1,183,963	3,566,780	-	23,986,823

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED  
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**21. PIDIREGAS liabilities and the Pemex Project Funding Master Trust (continued)**

The significant differences between Mexican and U.S. GAAP as they affect PEMEX are described in Note 19. The U.S. GAAP adjustments related to exploration and drilling costs and units of production amortization are exclusive to Pemex - Exploration and Production. The U.S. GAAP adjustment related to fixed asset impairment relates to the Subsidiary Entities. U.S. GAAP adjustments pertaining to advance payment on minimum guaranteed dividends, investment securities, and the sale of Repsol shares relate exclusively to Petróleos Mexicanos. The U.S. GAAP adjustment to account for derivatives relates primarily to Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Petrochemicals, Pemex-Gas and Basic Petrochemicals, Pemex-Refining and the Master Trust. All other U.S. GAAP adjustments relate collectively to Petróleos Mexicanos and the Subsidiary Entities.

**22. Supplementary information on oil and gas exploration and production activities (Unaudited)**

The following tables provide supplementary information on the oil and gas exploration, development and producing activities of Pemex-Exploration and Production in compliance with SFAS No. 69 ("Disclosures about Oil and Gas Producing Activities") published by the Financial Accounting Standards Board of the United States of America. All exploration and production activities of Pemex-Exploration and Production are located in Mexico.

The supplemental data presented herein reflects information for all of Pemex-Exploration and Production's oil and gas producing activities. Capitalized costs and results of operations presented herein have been prepared in accordance with U.S. GAAP.

*Capitalized costs for oil and gas producing activities:*

	<b>As of December 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
Proved properties.....	<b>Ps. 228,672,654</b>	Ps. 202,137,360	Ps. 160,291,686
Construction in progress.....	<b>8,622,883</b>	9,654,352	11,079,971
Accumulated depreciation and amortization.....	<b>(113,834,067)</b>	(97,073,538)	(84,905,319)
Net capitalized costs.....	<b>Ps. 123,461,470</b>	Ps. 114,718,174	Ps. 86,466,338

*Costs incurred for oil and gas property exploration and development activities:*

	<b>Year ended December 31,</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
Exploration.....	<b>Ps. 1,224,042</b>	Ps. 331,685	Ps. -
Development.....	<b>5,888,168</b>	6,353,194	4,262,495
Total costs incurred.....	<b>Ps. 7,112,210</b>	Ps. 6,684,879	Ps. 4,262,495

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There are no property acquisition costs because PEMEX exploits oil reserves owned by the Mexican nation.

Development costs include costs of geological and geophysical studies of field development amounting to Ps. 1,043,572, Ps. 1,710,998 and Ps. 920,379 for 2001, 2000 and 1999, respectively, that are expensed, under successful efforts, as geological and geophysical exploration expenses. Development costs also include Ps. 4,163,503, Ps. 5,494,939, and Ps. 4,345,266 for 2001, 2000 and 1999 related to construction in progress. Upon project completion, construction in progress amounts will be re-classified either to expenses or capitalized as appropriate.

*Results of operations for oil and gas producing activities:*

	Year Ended December 31,		
	2001	2000	1999
Revenues from affiliates.....	<b>Ps. 265,005,055</b>	Ps. 312,207,332	Ps. 175,916,078
Hydrocarbon duties.....	<b>163,906,684</b>	200,099,233	104,716,228
Excess-gains taxes.....	<b>1,314,957</b>	21,196,536	13,259,914
Production costs (excluding taxes).....	<b>55,101,847</b>	44,753,856	33,804,055
Exploration expenses.....	<b>1,043,572</b>	1,710,998	920,379
Depreciation, depletion and amortization...	<b>12,249,799</b>	11,513,616	9,715,698
	<b>233,616,859</b>	279,274,239	162,416,274
Results of operations for oil and gas producing activities.....	<b>Ps. 31,388,196</b>	Ps. 32,933,093	Ps. 13,499,804

*Crude oil and natural gas reserves:*

**Sales prices and production costs (unaudited)**

The following table summarizes average sales prices (excluding production taxes) in U.S. dollars:

	2001	2000	1999
December average sales price.....	<b>\$ 13.62</b>	\$ 23.03	\$ 18.24
Crude oil, per barrel.....	<b>\$ 15.21</b>	\$ 22.78	\$ 20.70
Natural gas, per thousand cubic feet..	<b>\$ 1.85</b>	\$ 5.13	\$ 1.91

**Crude oil and natural gas reserves (unaudited)**

Under the Political Constitution of the United Mexican States and Mexican statutory law, all oil and other hydrocarbon reserves within Mexico are owned by the Mexican nation and not by PEMEX. Under the Organic Law, PEMEX has the exclusive right to produce, not own, these reserves and sells the production subject to a

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federal production tax currently assessed at the rate of 60.8% of revenue from production sales. Crude oil exports are subject to an additional "excess gains" tax. PEMEX's exploration and development activities are limited to reserves located in Mexico.

Proved oil and gas reserves are those estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, *i.e.*, prices and costs at the date the estimate is made. Mexico's proved reserves are estimated by PEMEX's petroleum engineers.

PEMEX estimates Mexico's reserves using standard geological and engineering methods generally accepted by the petroleum industry. The choice of method or combinations of methods employed in the analysis of each reservoir is determined by experience in the area, the stage of development, quality and completeness of basic data and production and pressure history. The reserves data set forth herein represent only estimates. Reserves valuation is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate depends on the quality of available data, the engineering and geological interpretation and judgment. As a result, estimates of different engineers may vary. In addition, results of drilling, testing and production subsequent to the date of an estimate are among the criteria which may be used to justify revision of such estimate.

The following two tables of oil and gas reserves set forth PEMEX's estimates of Mexico's proved reserves at December 31, 2001, 2000 and 1999 in accordance with the definition of proved reserves under Rule 4-10(a) Regulation S-X of the Securities Act of 1933.

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**Crude oil and condensate reserves (including natural gas liquids)<sup>a</sup>**

	(Millions of barrels)		
	2001	2000	1999
Proved developed and undeveloped reserves			
At January 1.....	20,186	21,519	21,638
Revisions.....	(144)	(180)	775
Extensions and discoveries <sup>b</sup> .....	2	91	311
Production.....	(1,277)	(1,244)	(1,205)
At December 31.....	18,767	20,186	21,519
Proved developed reserves at December 31.....	12,622	12,312	11,414

Note: Table amounts may not total due to rounding.

- a. Crude oil and condensate reserves include the fraction of liquefiable hydrocarbons recoverable in gas processing plants.
- b. Extensions include positive and negative changes due to new data gathered through drilling of extension wells.

**Dry gas reserves**

	(Billions of cubic feet)		
	2001	2000	1999
Proved developed and undeveloped reserves			
At January 1.....	17,365	18,471	17,054
Revisions.....	(78)	3	2,427
Extensions and discoveries <sup>a</sup> .....	98	58	176
Production.....	(1,129)	(1,167)	(1,186)
At December 31.....	16,256	17,365	18,471
Proved developed reserves at December 31.....	8,776	9,713	11,127

Note: Table amounts may not total due to rounding.

- a. Extensions include positive and negative changes due to new data gathered through drilling of extension wells. Negative changes are reported as revisions.



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Based on the reservoir performance, new information, and discoveries, proved reserves in accordance with the definition of proved reserves under Rule 4-10(a) of Regulation S-X for all regions as of December 31, 2001 are estimated to be 21,893 million barrels of oil equivalent (23,525 million barrels of oil equivalent at December 31, 2000).

**Standardized measure of discounted future net cash flows related to proved oil and gas reserves (unaudited)**

The standardized measure tables presented below relate to proved oil and gas reserves (i) after adjusting for the reserve revisions in the Marine, Southern and Northern Regions, and (ii) excluding proved reserves scheduled to be produced after the year 2025.

Estimated future cash inflows from production are computed by applying average December prices of oil and gas to the year-end quantities. Future development and production costs are those estimated future expenditures needed to develop and produce the year-end estimated proved reserves, assuming constant year-end economic conditions.

Future tax expenses are computed by applying the appropriate year-end statutory tax rates—with consideration of the tax rates already legislated for 2001—to the future pre-tax net cash flows related to Mexico's proved oil and gas reserves.

In addition to being subject to the payment of all taxes and contributions set forth by the SHCP (except as indicated below), PEMEX is presently subject to the following special duties: a hydrocarbon extraction duty, an extraordinary hydrocarbon extraction duty, an additional hydrocarbon extraction duty, a tax on hydrocarbon income and the IEPS Tax. These taxes and duties are to be credited against the *Derecho Sobre Hidrocarburos* ("hydrocarbon duty"), which is calculated by applying a rate of 60.8 % to the sales revenue of Petróleos Mexicanos and Subsidiary Entities to third parties (sales revenues are taken to include the IEPS Tax generated by the sale of refined products, but not to include VAT). In addition to the payment of the hydrocarbon duty, Petróleos Mexicanos and Subsidiary Entities must pay to the Mexican Government an excess gains tax, which for 2000 was equal to 39.2 % on the portion of Petróleos Mexicanos and Subsidiary Entities' crude oil export sales revenues in excess of a threshold price of 15.00 U.S. dollars per barrel. Since the 2000 prices were higher than 15.00 U.S. dollars per barrel, Petróleos Mexicanos and Subsidiary Entities paid excess gains tax. For 2001, the excess gains tax applies to prices in excess of 18.00 U.S. dollars per barrel. Petróleos Mexicanos and Subsidiary Entities are not subject to Income Tax Law (*Ley del Impuesto Sobre la Renta*) or Asset Tax Law (*Ley del Impuesto al Activo*).

The standardized measure provided below represents a comparative benchmark value rather than an estimate of expected future cash flows or fair market value of PEMEX's production rights. There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the producer. Accordingly, reserve estimates may be materially different from the quantities of crude oil and natural gas that are ultimately recovered.

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(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

Standardized measure of discounted net cash flows

	<b>As of December 31</b>		
	<b>2001</b>	2000	1999
Future cash inflows.....	<b>U.S. \$ 253,752,000</b>	U.S. \$ 452,876,000	U.S. \$ 363,032,000
Future production costs (excluding taxes)..	<b>(42,101,000)</b>	(59,779,000)	(51,613,000)
Future development costs.....	<b>(38,993,000)</b>	(47,456,000)	(34,248,000)
Future cash flows before tax.....	<b>172,658,000</b>	345,641,000	277,171,000
Future production-and-excess-gains taxes..	<b>(132,778,000)</b>	(293,732,000)	(230,745,000)
Future income taxes.....	-	-	-
Future net cash flows.....	<b>39,880,000</b>	51,909,000	46,426,000
Effect of discounting net cash flows at 10%.....	<b>(19,496,000)</b>	(29,216,000)	(28,011,000)
Standardized measure of discounted future net cash flows.....	<b>U.S. \$ 20,384,000</b>	U.S. \$ 22,693,000	U.S. \$ 18,415,000

Note: Table amounts may not total due to rounding.

Crude oil and natural gas prices have decreased approximately 54.9% and 33.0%, respectively, from December 2001 to August 2002. If the standardized measure at December 31, 2001 had been calculated using crude oil and natural gas prices at August 2002, the standardized measure would have approximated U.S. \$45.6 billion.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED  
DECEMBER 31, 2001, 2000 AND 1999**

(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

To comply with SFAS No. 69, the next table presents the aggregate standardized measure change for each year and significant sources of variance:

**Changes in standardized measure of discounted net cash flows**

	2001	2000	1999
Sales of oil and gas produced, net of production costs.....	U.S. \$ (24,672,000)	U.S. \$ (29,919,000)	U.S. \$ (15,603,000)
Net changes in prices and production costs.....	(83,212,000)	42,006,000	103,191,000
Extensions and discoveries.....	130,000	1,060,000	2,876,000
Development cost incurred during the year.....	5,946,000	5,985,000	4,535,000
Changes in estimated development costs.....	(2,353,000)	(11,645,000)	(6,378,000)
Reserves revisions, extensions, discoveries and timing changes.....	4,519,000	11,512,000	10,638,000
Accretion of discount of pre-tax net cash flows.....	16,437,000	13,476,000	3,921,000
Net changes in production-and excess-gains taxes.....	80,894,000	(28,196,000)	(92,602,000)
Other.....	-	-	-
Aggregate change in standardized measure.....	<b>U.S. \$ (2,310,000)</b>	<b>U.S. \$ 4,278,000</b>	<b>U.S. \$ 10,579,000</b>
Standardized measure			
As of January 1.....	22,693,000	18,415,000	7,836,000
As of December 31.....	20,383,000	22,693,000	18,415,000
Change.....	<b>U.S. \$ (2,310,000)</b>	<b>U.S. \$ 4,278,000</b>	<b>U.S. \$ 10,579,000</b>

Note: Table amounts may not total due to rounding.

In computing the amounts under each factor of change, the effects of variances in prices and costs are computed before the effects of changes in quantities. Consequently, changes in reserves are calculated at December prices and costs. The change in computed taxes includes taxes effectively incurred during the year and the change in future tax expense.

## **PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**

### **UNAUDITED SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION PREPARED ON A PRICE-LEVEL ADJUSTED BASIS**

**For the Years Ended December 31, 2001, 2000 and 1999**

#### **General**

The unaudited supplementary consolidated price-level adjusted financial information included in the following pages has been prepared pursuant to Rule 3-20 (c) of Regulation S-X promulgated by the United States Securities and Exchange Commission. For the years ended December 31, 2001, 2000 and 1999, Mexico was not considered a hyperinflationary economy. However, PEMEX has continued to provide supplemental price-level adjusted financial information for these subsequent years in lieu of adoption of Mexican GAAP Bulletin B-10.

The supplemental financial information reflects all appropriate U.S. GAAP adjustments and, in the opinion of PEMEX management, all adjustments which are necessary for a fair presentation of the supplemental price-level adjusted financial information have been included herein. Unless otherwise noted, this financial information has been prepared in a manner consistent with the historical financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto presented herein, as of December 31, 2001 and 2000, and for the three years then ended.

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**

**UNAUDITED CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2001 AND 2000  
(in thousands of constant pesos as of December 31, 2001)**

	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	Ps. 14,488,435	Ps. 29,052,202
Accounts, notes receivable and other, net.....	47,274,987	52,936,920
Inventories, net.....	<u>16,651,803</u>	<u>25,417,393</u>
Total current assets.....	78,415,225	107,406,515
Properties, net.....	419,107,363	408,908,289
Intangible asset derived from the actuarial computation of labor obligations and other assets..	<u>78,697,162</u>	<u>74,224,931</u>
Total assets.....	<u>Ps. 576,219,750</u>	<u>Ps. 590,539,735</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt.....	Ps. 36,246,106	Ps. 42,238,598
Other current liabilities.....	<u>39,527,241</u>	<u>58,264,363</u>
Total current liabilities.....	75,773,347	100,502,961
Long-term debt.....	162,291,424	108,965,959
Sale of future accounts receivable.....	-	54,265,361
Reserve for retirement payments, pensions and indemnities, sundry creditors, and others.....	<u>225,803,683</u>	<u>194,201,764</u>
Total liabilities.....	<u>463,868,454</u>	<u>457,936,045</u>
Minority interest.....	1,461,337	-
<b>TOTAL EQUITY</b>	<u>110,889,959</u>	<u>132,603,690</u>
Total liabilities and equity.....	<u>Ps. 576,219,750</u>	<u>Ps. 590,539,735</u>

*The accompanying notes are an integral part of this unaudited supplemental consolidated financial information.*

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999**

**(In thousands of constant pesos as of December 31, 2001)**

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net sales (1).....	Ps. 357,214,592	Ps. 432,679,617	Ps. 292,848,996
Other revenues.....	<u>15,210,500</u>	<u>10,356,891</u>	<u>8,612,076</u>
Total revenues.....	<u>372,425,092</u>	<u>443,036,508</u>	<u>301,461,072</u>
Cost and operating expenses:			
Cost of sales.....	172,695,129	183,367,278	137,186,348
Transportation and distribution expenses.....	14,584,643	14,425,103	13,548,829
Administrative expenses.....	30,304,596	30,809,901	26,699,659
Financial integral cost (income), net.....	(3,278,699)	1,902,312	(3,636,675)
Other expenses.....	<u>6,784,456</u>	<u>5,791,955</u>	<u>5,580,943</u>
Total costs and operating expenses.....	221,090,125	236,296,549	179,379,104
Income before hydrocarbon extraction duties and other.....	151,334,967	206,739,959	122,081,968
Hydrocarbon extraction duties and other.....	171,667,559	243,312,912	143,150,677
Cumulative effect of adoption of new financial instruments standard.....	3,791,269	-	-
Minority interest.....	<u>(709,270)</u>	<u>-</u>	<u>-</u>
	Ps. <u>(17,250,593)</u>	Ps. <u>(36,572,953)</u>	Ps. <u>(21,068,709)</u>

- (1) As discussed in Note 19 II (a), under Mexican GAAP, the IEPS Tax is reflected in revenue when charged to customers and, at the same time, deducted from "Income before hydrocarbon extraction duties and other". Under U.S. GAAP, the IEPS Tax would have no effect on revenues nor would it be deducted from "Income before hydrocarbon extraction duties and other".

*The accompanying notes are an integral part of this unaudited supplemental consolidated financial information.*

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED  
DECEMBER 31, 2001, 2000 AND 1999**

**(In thousands of constant pesos as of December 31, 2001)**

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Operating Activities			
Net loss.....	<b>Ps. (17,250,593)</b>	Ps. (36,572,953)	Ps. (21,068,709)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:			
Depreciation and amortization....	<b>31,519,357</b>	31,455,461	29,378,126
Reserve for retirement payments, pensions and indemnization....	<b>40,991,295</b>	38,938,803	35,766,087
Impairment of fixed assets.....	<b>(6,675,464)</b>	14,098,772	4,218,380
Loss on disposal of fixed assets...	<b>8,704,192</b>	14,437,041	6,368,144
Allowance for uncollectible trade accounts.....	<b>51,911</b>	258,138	363,548
Allowance for slow-moving inventory and obsolescence....	<b>(284,127)</b>	(173,400)	165,750
Minority interest.....	<b>622,605</b>	-	-
Foreign exchange loss.....	<b>(8,570,914)</b>	(500,295)	(4,318,902)
Accounting for financial instruments.....	<b>(7,759,320)</b>	-	-
Gain from monetary position.....	<b>(11,847,359)</b>	(8,919,186)	(14,271,958)
Changes in operating assets and liabilities:			
Accounts and notes receivable...	<b>7,415,151</b>	(10,144,323)	(24,768,975)
Inventories.....	<b>7,972,037</b>	(8,317,751)	(4,755,693)
Other assets.....	<b>(2,726,497)</b>	(2,293,709)	(3,106,346)
Accounts payable and accrued liabilities.....	<b>(29,313,112)</b>	11,768,546	24,778,762
Sales of future accounts receivable.....	<b>750,777</b>	11,587,521	42,507,793
Cash flows provided by operating activities.....	<b>Ps. <u>13,599,939</u></b>	Ps. <u>55,622,665</u>	Ps. <u>71,256,007</u>

*The accompanying notes are an integral part of this unaudited supplemental consolidated financial information.*

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED  
DECEMBER 31, 2001, 2000 AND 1999**

**(In thousands of constant pesos as of December 31, 2001)**

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Investing Activities			
Loans granted to Pemex Finance....	Ps. -	Ps. (7,231,124)	Ps. (6,339,698)
Acquisition of fixed assets.....	<u>(47,530,126)</u>	<u>(63,766,718)</u>	<u>(46,628,132)</u>
<b>Cash flows used in investing activities</b>	<b><u>(47,530,126)</u></b>	<b><u>(70,997,842)</u></b>	<b><u>(52,967,830)</u></b>
Financing Activities			
New long term financing.....	126,025,184	103,020,969	108,395,570
Financing payments.....	(91,758,836)	(70,221,469)	(100,512,746)
Effect of consolidating Pemex Finance.....	849,627	-	-
Dividends paid to the Mexican Government.....	<u>(2,297,701)</u>	<u>(6,303,155)</u>	<u>(6,350,917)</u>
<b>Cash flows provided by financing activities</b>	<b><u>32,818,274</u></b>	<b><u>26,496,345</u></b>	<b><u>1,531,907</u></b>
Effects of inflation on cash and cash equivalents.....	(13,451,854)	(9,355,733)	(11,227,844)
(Decrease) increase in cash and equivalents.....	(14,563,767)	1,765,435	8,592,240
Cash and cash equivalents, beginning of period.....	<u>29,052,202</u>	<u>27,286,767</u>	<u>18,694,527</u>
Cash and cash equivalents, end of period.....	Ps. <u>14,488,435</u>	Ps. <u>29,052,202</u>	Ps. <u>27,286,767</u>

*The accompanying notes are an integral part of this unaudited supplemental consolidated financial information.*



**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**

**NOTES TO THE UNAUDITED SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION  
PREPARED ON A PRICE-LEVEL ADJUSTED BASIS**

**For the Years Ended December 31, 2001, 2000 and 1999  
(In thousands of constant pesos as of December 31, 2001)**

**1. Effects of inflation on the financial information**

The following is the methodology utilized in preparing the price-level adjusted financial information.

a) Effects of inflation on the financial information

The consolidated supplemental financial information of PEMEX has been restated to recognize the effects of inflation and is expressed in thousands of pesos of constant purchasing power as of December 31, 2001, determined as follows:

- The consolidated statement of operations (excluding depreciation and cost of sales which is described below) for the years ended December 31, 1999 and 2000 were restated applying the Mexican National Consumer Price Index (“NCPI”) from the periods in which the transactions occurred to December 31, 2001. In accordance with U.S. GAAP, the “Net Sales” line item as presented excludes IEPS Tax, an amount which equaled Ps. 97,124,599, Ps. 75,482,448 and Ps. 104,976,512, for the years ended December 31, 2001, 2000 and 1999, respectively.
- For comparability purposes, balance sheet information as of December 31, 2000 has been restated to pesos as of December 31, 2001 by utilizing the change in the NCPI from December 31, 2000 to December 31, 2001.
- The NCPI factor used to recognize the effects of inflation were:

<u>Year</u>	<u>Change in National Consumer Price Index</u>
1999 .....	12.3187%
2000 .....	8.9593%
<b>2001 .....</b>	<b>4.4035%</b>

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**

**NOTES TO THE UNAUDITED SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION  
PREPARED ON A PRICE-LEVEL ADJUSTED BASIS**

**For the Years Ended December 31, 2001, 2000 and 1999  
(In thousands of constant pesos as of December 31, 2001)**

- b) The methodology used to restate financial statement items is as follows:

*Restatement of non-monetary assets*

*Inventory and fixed assets*

Inventory and fixed assets are restated to replacement cost as set forth in Note 2 to the financial statements. Fixed assets were evaluated for impairment on this basis. Cost of sales is determined based on the replacement costs calculated from when inventories were sold. Depreciation is based upon the restated carrying value of the respective assets.

*Equity*

Equity represents the combined historical movements in the amounts of the Certificates of Contribution "A", dividends and accumulated earnings, restated from their date of origin to December 31, 2001 using the change in the NCPI during such period.

Accumulated deficit from holding non-monetary assets represents the excess or deficit resulting from restating non-monetary assets via the methods described in Note 2 to the financial statements and the NCPI.

*Comprehensive cost of financing*

Monetary position gain represents the inflationary effect, as measured by the NCPI, on net balance of monetary assets and liabilities as expressed in constant pesos. The monetary gain related to the pension and other post retirement obligations that is attributable to the excess of the actual rate of inflation over the assumed rate of inflation included in the actuarial calculations has been deferred as part of the actuarial gain or loss.

Foreign exchange gains or losses are recognized as incurred.

- *Cash flow information*

The price level adjusted cash flow has been prepared reflecting the impact of the U.S. GAAP adjustments. In accordance with the recommendation of the AICPA SEC Regulations Committee International Practices Task Force the effects of inflation on cash flows are presented separately.

For the purposes of the cash flow, PEMEX considers all highly liquid temporary investments with original maturities of three months or less, to be cash equivalents.

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**

**NOTES TO THE UNAUDITED SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION  
PREPARED ON A PRICE-LEVEL ADJUSTED BASIS**

**For the Years Ended December 31, 2001, 2000 and 1999  
(In thousands of constant pesos as of December 31, 2001)**

Supplemental disclosures of interest and taxes paid are as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Interest paid (net of amounts capitalized).....	<b>Ps. 18,687,520</b>	Ps. 20,831,854	Ps. 16,387,688
Taxes paid.....	<b>288,679,019</b>	301,177,068	220,873,820

Supplemental disclosures of non-cash transactions are as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Acquisition of fixed assets via contractor financing.....	<b>Ps. -</b>	Ps. 16,864,056	Ps. -
Unrealized gains (losses) on available for sale securities.....	<b>(1,240,660)</b>	(7,767,695)	3,500,751
Additional minimum pension liability.....	<b>7,267,261</b>	12,693,304	8,389,688
Accounting for financial instruments.....	<b>7,605,462</b>	-	-

**2. Segment information**

The following segment information is prepared on a price level adjusted basis.

<b>Year ended December 31:</b>	<b>Exploration and Production</b>	<b>Refining <sup>(1)</sup></b>	<b>Gas and Basic Petrochemicals</b>	<b>Petrochemicals</b>	<b>Corporate and other</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
<b>2001</b>							
Sales:							
Trade.....	Ps.113,415,821	Ps.244,069,822	Ps. 66,603,479	Ps. 9,196,254	Ps. 21,053,815	Ps. -	Ps. 454,339,191
Intersegment	<u>156,950,286</u>	<u>8,966,080</u>	<u>28,073,315</u>	<u>2,851,186</u>	<u>183,508,301</u>	<u>(380,349,168)</u>	-
Total net sales	<u>Ps. 270,366,107</u>	<u>Ps.253,035,902</u>	<u>Ps. 94,676,794</u>	<u>Ps. 12,047,440</u>	<u>Ps. 204,562,116</u>	<u>Ps. (380,349,168)</u>	<u>Ps. 454,339,191</u>
<b>2000</b>							
Sales:							
Trade.....	Ps. 149,029,586	Ps. 249,665,424	Ps. 69,404,160	Ps. 13,221,174	Ps. 26,841,722	Ps. -	Ps. 508,162,066
Intersegment	<u>189,768,438</u>	<u>10,417,765</u>	<u>28,104,987</u>	<u>2,948,565</u>	<u>240,882,596</u>	<u>(472,122,351)</u>	-
Total net sales	<u>Ps. 338,798,024</u>	<u>Ps. 260,083,189</u>	<u>Ps. 97,509,147</u>	<u>Ps. 16,169,739</u>	<u>Ps. 267,724,318</u>	<u>Ps. (472,122,351)</u>	<u>Ps. 508,162,066</u>
<b>1999</b>							
Sales:							
Trade.....	Ps. 99,374,405	Ps. 222,647,064	Ps. 45,965,543	Ps. 12,007,200	Ps. 17,831,375	Ps. -	Ps. 397,825,587
Intersegment	<u>109,648,239</u>	<u>7,960,424</u>	<u>16,514,324</u>	<u>2,293,449</u>	<u>164,570,532</u>	<u>(300,986,968)</u>	-
Total net sales	<u>Ps. 209,022,644</u>	<u>Ps. 230,607,488</u>	<u>Ps. 62,479,867</u>	<u>Ps. 14,300,649</u>	<u>Ps. 182,401,907</u>	<u>Ps. (300,986,968)</u>	<u>Ps. 397,825,587</u>

(1) Net sales include IEPS Tax amounting to Ps. 97,124,599, Ps. 75,482,449 and Ps. 104,976,512 in 2001, 2000 and 1999, respectively.

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**

**3. Financial integral result**

Financial integral result is analyzed as follows:

	<b>2001</b>		2000		1999
Exchange loss.....	<b>Ps. (8,570,874)</b>	Ps.	(500,295)	Ps.	(3,642,818)
Monetary position result.....	<b>(11,847,359)</b>		(8,919,186)		(14,271,961)
Interest cost and other.....	<b>17,139,534</b>		11,321,793		14,278,104
Total.....	<b>Ps. (3,278,699)</b>	Ps.	1,902,312	Ps.	(3,636,675)

## **APPENDIX**

### **Reports of Other Independent Accountants**

# ***PRICEWATERHOUSECOOPERS***

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PricewaterhouseCoopers LLP  
1201 Louisiana, Suite 2900  
Houston TX 77002-5678  
Telephone (713) 356 4000  
Facsimile (713) 356 4717

## **Report of Independent Accountants**

To the Board of Directors of  
Integrated Trade Systems, Inc.:

In our opinion, the accompanying balance sheet and the related statements of operations, stockholder's equity and cash flows present fairly, in all material respects, the financial position of Integrated Trade Systems, Inc. (the "Company") as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS LLP  
PricewaterhouseCoopers LLP

March 23, 2001

# ***PRICEWATERHOUSECOOPERS***

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**PricewaterhouseCoopers, S.C.**  
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## **REPORT OF THE INDEPENDENT ACCOUNTANT**

(Translated from the original issued in Spanish)

Mexico City, March 30, 2001

To the Stockholders' Meeting of  
P.M.I. Trading Limited Mexican Branch:

We have audited the accompanying balance sheets of P.M.I. Trading Limited Mexican Branch, as of December 31, 2000 and 1999, and the related statements of income and expenses, changes in equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Branch's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Mexican Branch carries out its transactions in foreign currencies and its Parent Company is also located abroad. The accounting policies applied are described in Note 2 to the financial statements. In view of the foregoing, it is not required to recognize the impact of inflation in Mexico on these financial statements.

As mentioned in Notes 2.1 and 8 to the financial statements, starting January 1, 2000, the Branch adopted the guidelines of the new Bulletin D-4 "Accounting Treatment of Income Tax, Assets Tax and Employee Statutory Profit-Sharing".

## ***PRICEWATERHOUSECOOPERS***

In our opinion, the aforementioned financial statements, stated in Mexican pesos, present fairly, in all material respects, the assets, liabilities and equity accounts assigned (Note 1 to the financial statements) to P.M.I. Trading Limited Mexican Branch, as of December 31, 2000 and 1999, and the income and expenses, changes in equity and changes in financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

PricewaterhouseCoopers

/s/ MANUEL GARCIA BRAÑA

Manuel Garcia Braña  
Public Accountant



# ***PRICEWATERHOUSECOOPERS***

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## **Report of Independent Accountants**

To the Board of Directors of  
P.M.I. Holdings North America, Inc.

In our opinion, the accompanying balance sheet and the related statements of income, stockholder's equity and cash flows present fairly, in all material respects, the financial position of P.M.I. Holdings North America, Inc. as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of operating and general expenses for the years ended December 31, 2000 and 1999 on page 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplemental information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PRICEWATERHOUSECOOPERS LLP  
PricewaterhouseCoopers LLP

February 2, 2001

# ***PRICEWATERHOUSECOOPERS***

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To the Management and the  
Shareholder of  
P.M.I. Holdings N.V.  
Curaçao

## **Auditor's report**

We have audited the accompanying balance sheet of P.M.I. Holdings N.V., Curaçao, as at December 31, 2000 and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Curaçao, March 22, 2001

/s/ PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

# ***PRICEWATERHOUSECOOPERS***

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Assurance & Business Advisory  
Services  
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Willemstad – Curaçao  
Netherlands Antilles  
Telephone +599 (9) 430 0000  
Facsimile +599 (9) 461 1118

To the Management and the  
Shareholder of  
P.M.I. Holdings N.V.  
Curaçao

## **Auditor's report**

We have audited the accompanying balance sheet of P.M.I. Holdings N.V., Curaçao, as at December 31, 1999 and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Curaçao, March 17, 2000

/s/ PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

# **PRICEWATERHOUSECOOPERS**

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PricewaterhouseCoopers N.V.  
Accountants  
Prins Bernhardplein 200  
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Telnr. (020) 568 66 66  
Faxnr. (020) 568 68 88  
www.pwcglobal.com/nl

To the Board of Directors and the Shareholder of  
P.M.I. Holdings B.V., Amsterdam

## **Auditors' report**

### *Introduction*

In accordance with your instructions we have audited the financial statements of P.M.I. Holdings B.V., Amsterdam, for the year ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### *Scope*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2000 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in part 2, Book 2 of the Netherlands Civil Code.

Amsterdam, April 17, 2001

/s/ PRICEWATERHOUSECOOPERS N.V.  
PricewaterhouseCoopers N.V.

# **PRICEWATERHOUSECOOPERS**

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www.pwcglobal.com/nl

To the Board of Directors and the Shareholder of  
P.M.I. Holdings B.V., Amsterdam

## **Auditors' report**

### *Introduction*

In accordance with your instructions we have audited the financial statements of P.M.I. Holdings B.V., Amsterdam, for the year ended December 31, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### *Scope*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 1999 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in part 2, Book 2 of the Netherlands Civil Code.

Amsterdam, May 10, 2000

/s/ PRICEWATERHOUSECOOPERS N.V.  
PricewaterhouseCoopers N.V.

# ***PRICEWATERHOUSECOOPERS***

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PricewaterhouseCoopers, S.C.  
Mariano Escobedo 573  
Col. Rincón del Bosque  
11580 México, D.F.  
Teléfono 5 263 6000  
Fax 5 263 6010

## **REPORT OF THE INDEPENDENT ACCOUNTANT**

(Translated from the original issued in Spanish)

Mexico City, March 23, 2001

To the Stockholders' Meeting of  
P.M.I. Norteamérica, S.A. de C.V.:

We have audited the accompanying balance sheets of P.M.I. Norteamérica, S.A. de C.V., as of December 31, 2000 and 1999, and the related statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company carries out its transactions in foreign currencies and its activity is in the United States of America. The accounting policies applied are described in Note 2 to the financial statements. In view of the foregoing, it is not required to recognize the impact of inflation in Mexico on these financial statements.

As mentioned in Note 2g to the financial statements, starting January 1, 2000, the Company adopted the guidelines of the new Bulletin D-4 "Accounting Treatment of Income Tax, Assets Tax and Employee Statutory Profit-Sharing".

## ***PRICEWATERHOUSECOOPERS***

In our opinion, the aforementioned financial statements, stated in Mexican pesos, present fairly, in all material respects, the financial position of P.M.I. Norteamérica, S. A. de C. V., as of December 31, 2000 and 1999, and the results of its operations, changes in stockholders' equity and changes in financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

PricewaterhouseCoopers

/s/ MANUEL GARCIA BRAÑA

Manuel Garcia Braña  
Public Accountant

# ***PRICEWATERHOUSECOOPERS***

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**PricewaterhouseCoopers, S.C.**  
Mariano Escobedo 573  
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11580 México, D.F.  
Teléfono 5 263 6000  
Fax 5 263 6010

## **REPORT OF THE INDEPENDENT ACCOUNTANT**

(Translated from the original issued in Spanish)

Mexico City, March 5, 2001

To the Stockholders' Meeting of  
P.M.I. Marine Limited Mexican Branch:

We have audited the accompanying balance sheets of P.M.I. Marine Limited Mexican Branch, as of December 31, 2000 and 1999, and the related statements of income and expenses, changes in equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Branch's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Mexican Branch carries out its transactions in foreign currencies and its Parent Company is also located abroad. The accounting policies applied are described in Note 2 to the financial statements. In view of the foregoing, it is not required to recognize the impact of inflation in Mexico on these financial statements.

As mentioned in Notes 2g and 7 to the financial statements, starting January 1, 2000, the Branch adopted the guidelines of the new Bulletin D-4 "Accounting Treatment of Income Tax, Assets Tax and Employee Statutory Profit-Sharing".



## ***PRICEWATERHOUSECOOPERS***

In our opinion, the aforementioned financial statements, stated in Mexican pesos, present fairly, in all material respects, the assets, liabilities and equity accounts assigned (Note 1 to the financial statements) to P.M.I. Marine Limited Mexican Branch, as of December 31, 2000 and 1999, and the income and expenses, changes in equity and changes in financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

PricewaterhouseCoopers

/s/ MANUEL GARCIA BRAÑA

Manuel Garcia Braña

Public Accountant

# **PRICEWATERHOUSECOOPERS**

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Pricewaterhouse Coopers N.V.  
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To the Board of Directors and the Shareholder of  
P.M.I. Services B.V., Amsterdam

## **Auditors' report**

### *Introduction*

In accordance with your instructions we have audited the financial statements of P.M.I. Services B.V., Amsterdam, for the year ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### *Scope*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2000 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in part 2, Book 2 of the Netherlands Civil Code.

Amsterdam, March 21, 2001

/s/ PRICEWATERHOUSECOOPERS N.V.

PricewaterhouseCoopers N.V.

# ***PRICEWATERHOUSECOOPERS***

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To the Board of Directors and the Shareholder of  
P.M.I. Services B.V., Amsterdam

## **Auditors' report**

### *Introduction*

In accordance with your instructions we have audited the financial statements of P.M.I. Services B.V., Amsterdam, for the year ended December 31, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### *Scope*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 1999 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in part 2, Book 2 of the Netherlands Civil Code.

Amsterdam, March 28, 2000

/s/ PRICEWATERHOUSECOOPERS N.V.

PricewaterhouseCoopers N.V.

# ***PRICEWATERHOUSECOOPERS***

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PricewaterhouseCoopers LLP  
1201 Louisiana, Suite 2900  
Houston TX 77002-5678  
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Facsimile (713) 356 4717

## **Report of Independent Accountants**

To the Board of Directors of  
P.M.I. Services North America, Inc.

In our opinion, the accompanying balance sheet and the related statements of income, stockholder's equity and cash flows present fairly, in all material respects, the financial position of P.M.I. Services North America, Inc. as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of operating and general expenses for the years ended December 31, 2000 and 1999 on page 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

/s/ PRICEWATERHOUSECOOPERS LLP  
PricewaterhouseCoopers LLP

February 2, 2001

# **PRICEWATERHOUSECOOPERS**

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**PricewaterhouseCoopers**  
Chartered Accountants  
Dorchester House  
7 Church Street  
Hamilton  
Bermuda HM 11  
Telephone +1(441) 295 2000  
Facsimile +1(441) 295 1242

February 25, 2000

## **Auditors' Report**

### **To the Shareholder of Kot Insurance Company Ltd.**

We have audited the balance sheet of **Kot Insurance Company Ltd.** as at December 31, 1999 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada, which are substantially similar to auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

/s/ PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

Chartered Accountants

MAILING ADDRESS: PO BOX HM 1171, Hamilton, Bermuda HM EX.

A list of partners can be obtained from the above address

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**SIGNATURE**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

PETRÓLEOS MEXICANOS

By: /s/ JUAN JOSÉ SUÁREZ COPPEL  
Name: Juan José Suárez Coppel  
Title: Chief Financial Officer

Date: December 2, 2002

## CERTIFICATIONS

I, Raúl Muñoz Leos, certify that:

1. I have reviewed this annual report on Form 20-F of Petróleos Mexicanos;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: December 2, 2002

/s/ RAÚL MUÑOZ LEOS

Name: Raúl Muñoz Leos

Title: Director General/Chief Executive  
Officer



## CERTIFICATIONS

I, Juan José Suárez Coppel, certify that:

1. I have reviewed this annual report on Form 20-F of Petróleos Mexicanos;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: December 2, 2002

/s/ JUAN JOSÉ SUÁREZ COPPEL

Name: Juan José Suárez Coppel

Title: Chief Financial Officer

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PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES  
AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND FOR THE SIX-MONTH PERIODS

ENDED JUNE 30, 2002 AND 2001

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**AS OF JUNE 30, 2002 (unaudited) AND DECEMBER 31, 2001 (audited)**  
**(In thousands of pesos and thousands of U.S. dollars)**  
**(Notes 1 and 2)**

	<b>As of June 30,</b>		<b>As of December 31,</b>	
	<b>2002</b>	<b>2002</b>	<b>2001</b>	
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	US\$ 3,541,733	Ps. 35,264,330	Ps.	14,441,864
Accounts, notes receivable and other, net (Note 3)	5,112,692	50,906,055		44,869,427
Inventories, net (Note 4)	2,191,773	21,823,043		17,222,714
Total current assets	<u>10,846,198</u>	<u>107,993,428</u>		76,534,005
Properties and equipment, net (Note 5)	43,309,886	431,227,875		406,913,266
Intangible asset derived from the actuarial computation of labor obligations and other assets	7,414,502	73,824,717		73,435,977
Total assets	<u>US\$ 61,570,586</u>	<u>Ps. 613,046,020</u>	Ps.	<u>556,883,248</u>
<b>LIABILITIES:</b>				
Current liabilities:				
Current portion of long-term debt	US\$ 3,018,093	Ps. 30,050,544	Ps.	36,246,106
Current portion of notes payable to contractors	146,517	1,458,839		1,256,395
Suppliers	1,522,471	15,158,947		23,503,971
Accounts payable and accrued expenses	982,188	9,779,453		8,426,580
Taxes payable	2,009,426	20,007,456		2,515,370
Total current liabilities	<u>7,678,695</u>	<u>76,455,239</u>		71,948,422
Long-term debt	16,015,029	159,458,440		123,169,995
Notes payable to contractors	1,359,268	13,533,960		13,644,370
Sale of future accounts receivable	4,443,579	44,243,828		44,685,602
Reserve for sundry creditors and others	802,766	7,992,980		7,537,122
Reserve for retirement payments, pensions and seniority premiums	19,074,308	189,919,067		173,031,504
Total long-term liabilities	<u>41,694,950</u>	<u>415,148,275</u>		362,068,593
Total liabilities	<u>49,373,645</u>	<u>491,603,514</u>		434,017,015
Commitments and contingencies (Note 10)				
<b>EQUITY:</b>				
Certificates of Contribution "A"	1,026,682	10,222,463		10,222,463
Specific oil-field exploration and depletion reserve	1,224,138	12,188,498		16,278,784
Revaluation surplus	18,549,661	184,695,269		181,837,738
Accumulated losses	(8,603,540)	(85,663,724)		(85,472,752)
Total equity	<u>12,196,941</u>	<u>121,442,506</u>		122,866,233
Total liabilities and equity	<u>US\$ 61,570,586</u>	<u>Ps. 613,046,020</u>	Ps.	<u>556,883,248</u>

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2002 AND 2001 (unaudited)**  
**(In thousands of pesos and thousands of U.S. dollars)**  
**(Notes 1 and 2)**

	<b>For the six-month periods ended,</b>					
	<b>2002</b>		<b>2002</b>		<b>2001</b>	
<b>Net sales:</b>						
Domestic	US\$	14,623,633	Ps.	145,604,588	Ps.	156,014,442
Export		7,737,468		77,040,425		71,039,865
		<u>22,361,101</u>		<u>222,645,013</u>		<u>227,054,307</u>
Foreign exchange (loss) gain, net		(140,914)		(1,403,056)		4,740,159
Other revenues		526,539		5,242,648		4,444,438
Total revenues		<u>22,746,726</u>		<u>226,484,605</u>		<u>236,238,904</u>
<b>Costs and operating expenses:</b>						
Cost of sales		7,256,643		72,252,943		75,898,593
Transportation and distribution expenses		681,445		6,785,007		6,296,841
Administrative expenses		1,397,853		13,918,144		12,251,288
Interest, net		751,576		7,483,293		5,470,488
Other expenses		165,687		1,649,717		2,239,466
Total costs and operating expenses		<u>10,253,204</u>		<u>102,089,104</u>		<u>102,156,676</u>
Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new financial instruments standard		<u>12,493,522</u>		<u>124,395,501</u>		<u>134,082,228</u>
Hydrocarbon extraction duties and other		7,089,897		70,592,685		98,903,335
Special tax on production and services (IEPS Tax)		6,042,520		60,164,165		39,872,564
		<u>13,132,417</u>		<u>130,756,850</u>		<u>138,775,899</u>
Cumulative effect of adoption of new financial instruments standard (Note 2)		-		-		1,331,247
Net loss for the period	US\$	<u>(638,895)</u>	Ps.	<u>(6,361,349)</u>	Ps.	<u>(6,024,918)</u>

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (audited) and SIX-MONTH**  
**PERIOD ENDED JUNE 30, 2002 (unaudited)**  
**(In thousands of pesos and thousands of U.S. dollars)**  
**(Notes 1 and 2)**

	Certificates of Contribution "A"	Specific oil-field exploration and depletion reserve	Revaluation Surplus	Accumulated losses		Total
				From prior years	Net loss from Current period	
Balances at December 31, 1998	Ps. 10,222,463	Ps. 8,394,132	Ps. 145,704,773	Ps. 14,404,562	Ps. (11,587,990)	Ps. 167,137,940
Transfer to prior years' retained earnings	-	-	-	(11,587,990)	11,587,990	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on August 3, 1999	-	-	-	(3,063,747)	-	(3,063,747)
Dividends paid to the Mexican Government approved by the Board of Directors on August 3, 1999	-	-	-	(779,517)	-	(779,517)
Comprehensive loss for the year	-	2,055,350	16,306,888	968,774	(21,156,771)	(1,825,759)
Balances at December 31, 1999	10,222,463	10,449,482	162,011,661	(57,918)	(21,156,771)	161,468,917
Transfer to prior years' accumulated losses	-	-	-	(21,156,771)	21,156,771	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 9, 2000	-	-	-	(5,137,889)	-	(5,137,889)
Dividends paid to the Mexican Government approved by the Board of Directors on May 9, 2000	-	-	-	(231,074)	-	(231,074)
Comprehensive loss for the year	-	2,241,993	12,042,509	(68,692)	(19,710,392)	(5,494,582)
Balances at December 31, 2000	10,222,463	12,691,475	174,054,170	(26,652,344)	(19,710,392)	150,605,372
Transfer to prior years' accumulated losses	-	-	-	(19,710,392)	19,710,392	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 7, 2001	-	-	-	(5,563,799)	-	(5,563,799)
Comprehensive loss for the year	-	3,587,309	7,783,568	544,370	(34,090,587)	(22,175,340)
Balances at December 31, 2001	10,222,463	16,278,784	181,837,738	(51,382,165)	(34,090,587)	122,866,233
Transfer to prior years' accumulated losses	-	-	-	(34,090,587)	34,090,587	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on April 24, 2002	-	-	-	(2,152,788)	-	(2,152,788)
Transfer to prior years' accumulated losses from specific oil field exploration and depletion reserve, approved by the Board of Directors on April 24, 2002 (Note 11)	-	(8,222,385)	-	8,222,385	-	-
Comprehensive income for the period (Note 7)	-	4,132,099	2,857,531	100,780	(6,361,349)	729,061
Balances at June 30, 2002	Ps. 10,222,463	Ps. 12,188,498	Ps. 184,695,269	Ps. (79,302,375)	Ps. (6,361,349)	Ps. 121,442,506
	US\$ 1,026,682	1,224,138	18,549,661	(7,964,645)	(638,895)	12,196,941

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN**  
**FINANCIAL POSITION**  
**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2002 AND 2001 (unaudited)**  
**(In thousands of pesos and thousands of U.S. dollars)**  
**(Notes 1 and 2)**

	<b>For the six-month periods ended,</b>		
	2002	2002	2001
Funds provided by (used in):			
Operating activities:			
Net loss for the period	US\$ (638,895)	Ps. (6,361,349)	Ps. (6,024,918)
Charges to operations not requiring the use of funds:			
Depreciation and amortization	1,432,348	14,261,602	13,962,924
Reserve for retirement payments, pensions and seniority premiums	1,864,787	18,567,309	16,925,013
Specific oil-field exploration and depletion reserve	410,296	4,085,236	4,027,670
	3,068,536	30,552,798	28,890,689
Variations in:			
Accounts, notes receivable and other	(776,182)	(7,728,285)	7,980,227
Inventories	(462,029)	(4,600,329)	6,143,216
Intangible asset derived from the actuarial computation of labor obligations and other assets	130,857	1,302,917	434,426
Suppliers	(838,123)	(8,345,024)	(15,218,952)
Accounts payable and accrued expenses	135,874	1,352,873	2,084,406
Taxes payable	1,756,798	17,492,086	(11,648,111)
Reserve for sundry creditors and others	45,783	455,858	(282,239)
Reserve for retirement payments, pensions and seniority premiums	(168,703)	(1,679,746)	(345,003)
Exploration and well-drilling expenses charged to the specific oil-field exploration and depletion reserve	4,707	46,863	(2,978,626)
Funds provided by operating activities	2,897,518	28,850,011	15,060,033
Financing activities:			
Minimum guaranteed dividends paid to the Mexican Government	(216,213)	(2,152,788)	(5,563,799)
Other equity movements	10,122	100,780	123,629
Notes payable to contractors	9,243	92,034	(847,059)
Debt	3,022,345	30,092,883	7,298,049
Sale of future accounts receivable	(44,369)	(441,774)	(2,783,470)
Funds provided by (used in) financing activities	2,781,128	27,691,135	(1,772,650)
Investing activities:			
Increase in fixed assets, net	(3,587,365)	(35,718,680)	(11,150,064)
Funds used in investing activities	(3,587,365)	(35,718,680)	(11,150,064)
Net increase in cash and cash equivalents	2,091,281	20,822,466	2,137,319
Cash and cash equivalents at beginning of the period	1,450,452	14,441,864	27,826,846
Cash and cash equivalents at end of the period	US\$ 3,541,733	Ps. 35,264,330	Ps. 29,964,165

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF**  
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**PERIODS ENDED JUNE 30, 2002 AND 2001 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**1. Basis of presentation**

The interim condensed consolidated financial statements of Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies (collectively, "PEMEX"), as of June 30, 2002, and for the six-month periods ended June 30, 2002 and 2001, are unaudited. In the opinion of management, all adjustments (consisting principally of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements have been included herein. The results of interim periods are not necessarily indicative of results for the entire year.

For the purposes of these interim unaudited condensed consolidated financial statements, certain information and disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted. These unaudited condensed consolidated statements should be read in conjunction with PEMEX's consolidated audited financial statements and notes thereto for the years ended December 31, 2001, 2000 and 1999.

**2. Significant accounting policies**

The principal accounting policies followed by PEMEX in the preparation of these consolidated financial statements are summarized below:

**a) Accounting basis for the preparation of financial information**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Mexico ("Mexican GAAP") as issued by the Mexican Institute of Public Accountants ("MIPA"), and as to the recognition of inflation, in accordance with Financial Reporting Standard ("NIF") 06-BIS "A", Section A as issued by the Ministry of Finance and Public Credit ("SHCP") and by the General Comptroller's Office ("SECODAM").

**b) Change in accounting principle**

In February 2000, the MIPA issued Bulletin C-2, "Financial Instruments", which became effective on January 1, 2001. Bulletin C-2 provides guidance for recognizing, measuring and disclosing information about financial assets and financial liabilities, including accounting for derivative financial transactions. Bulletin C-2 requires that all financial instruments, with the exception of derivative financial instruments designated as hedges and held to maturity investments, be recorded on the balance sheet at their fair values and changes in their fair value be recognized in earnings of each period. With respect to derivative financial instruments accounted for as hedges, Bulletin C-2 requires that they be accounted for in the same manner as the items being hedged; held to maturity investments are recorded at amortized cost, subject to impairment evaluation. As a result of the adoption of this new accounting standard, as of January 1, 2001, PEMEX recognized a charge to earnings totaling Ps. 1,331,247.



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**c) Convenience translation**

United States dollar (“U.S. dollar”) amounts shown in the balance sheets, the statements of operations, the statements of changes in equity and the statements of changes in financial position have been included solely for the convenience of the reader. Such amounts are translated from pesos, as a matter of arithmetic computation only, at an exchange rate of 9.9568 pesos per U.S. dollar, which is the June 30, 2002 exchange rate for the settlement of obligations in foreign currencies provided by Banco de México and the SHCP. These translations should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at the foregoing rate or any other rate.

**3. Accounts, notes receivable and other**

Accounts, notes receivable and other amounts are as follows:

	<b>As of June 30,</b>	<b>As of December 31,</b>
	<b>2002</b>	<b>2001</b>
Trade – domestic	<b>Ps. 22,812,890</b>	Ps. 19,757,188
Trade – foreign	<b>5,994,495</b>	4,707,899
Pemex Finance, Ltd.	<b>7,223,750</b>	6,576,272
Mexican Government advance payments on minimum guaranteed dividends	<b>4,728,526</b>	2,152,788
Other accounts receivable	<b>11,197,990</b>	12,933,575
Less: allowance for doubtful accounts	<b>(1,051,596)</b>	(1,258,295)
	<b>Ps. 50,906,055</b>	Ps. 44,869,427

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
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#### 4. Inventories

Inventories are as follows:

	As of June 30, 2002	As of December 31, 2001
Crude oil, refined products, derivatives and petrochemical products	Ps. 19,501,238	Ps. 14,018,513
Materials and supplies in stock	3,635,736	4,205,193
Materials and products in transit	483,903	981,580
Less: allowance for slow-moving inventory and obsolescence reserve	(1,797,834)	(1,982,572)
	<b>Ps. 21,823,043</b>	<b>Ps. 17,222,714</b>

#### 5. Property and equipment

Property and equipment, net of accumulated depreciation and amortization, are as follows:

	As of June 30, 2002	As of December 31, 2001
Land	Ps. 35,497,880	Ps. 34,637,920
Buildings	14,772,633	14,863,887
Wells and field assets	64,614,160	65,994,431
Plants, furnishings and equipment	203,170,205	201,644,888
Offshore platforms	25,205,914	24,205,124
	343,260,792	341,346,250
Fixed assets pending disposition	286,419	287,950
Construction spares	190,628	223,142
Construction in progress	87,490,036	65,055,924
Total	<b>Ps. 431,227,875</b>	<b>Ps. 406,913,266</b>

Depreciation and amortization expense recorded in operating expenses for the six-month periods ended June 30, 2002 and 2001 was Ps. 14,261,602 and Ps. 13,962,924, respectively, which includes Ps. 532,895 and Ps. 772,703, respectively, related to dismantlement and abandonment costs. Accumulated depreciation and amortization at June 30, 2002 and December 31, 2001 was Ps. 402,534,657 and Ps. 378,586,975, respectively.

#### 6. Debt

As of June 30, 2002, PEMEX had Ps. 15,013,670 in lines of credit bearing various interest rates. As of June 30, 2002, the unused portion of the lines of credit was Ps. 5,066,978.

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
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During the six-month period ended June 30, 2002, PEMEX undertook the following financing activities:

- a. PEMEX obtained U.S. \$95,672 (Ps. 952,587) of purchasing loans and project financing. The purchasing loans and project financing bear fixed interest rates of between 4.14% to 5.51% and LIBOR plus 0.065% to 0.50%. The amounts are repayable between 2003 and 2010.
- b. PEMEX obtained unsecured loans of U.S. \$200,000 (Ps. 1,991,360) from Banco Santander Mexicano for U.S. \$100,000 (Ps. 995,680) and Banco Nacional de Comercio Exterior, S.N.C. for U.S. \$100,000 (Ps. 995,680). These loans bear interest at LIBOR plus 0.625% and 0.76% and are repayable between 2002 and 2003.
- c. PEMEX obtained trade loans for U.S. \$125,000 (Ps. 1,244,600) granted by various export credit agencies. The applicable interest rate on the trade loans is LIBOR plus 0.625% to 0.65%. All the trade loans are repayable during 2003.
- d. U.S. \$500,000 (Ps. 4,978,440) was received from the commercial paper program established by Pemex Capital, Inc. This program is repayable during 2003. During the six-month periods ended June 30, 2002, PEMEX repaid U.S. \$525,000 (Ps. 5,227,320) of commercial paper. The commercial paper bears interest at the discount rate prevailing in the market.

During the six-month period ended June 30, 2002, the Master Trust undertook the following financing activities:

- a. On January 7, 2002, the Master Trust issued U.S. \$500,000 (Ps. 4,978,400) of Floating Rate Notes due 2005. The Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.
- b. On February 1, 2002, the Master Trust issued U.S. \$1,000,000 (Ps. 9,956,800) of 7.875% Notes due 2009. The Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.
- c. On February 1, 2002, the Master Trust issued U.S. \$500,000 (Ps. 4,978,400) of 8.625% Bonds due 2022. The bonds were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

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- d. At various dates during the six-month period ended June 30, 2002, the Master Trust obtained U.S. \$524,192 (Ps. 5,219,274) and ¥13,962 (Ps. 1,173 million) in project financing from several financial institutions. The project financing bears fixed interest at rates between 4.14% and 5.04% and Yen Prime rate from 1.95% to 2.20% and at variable rates of LIBOR plus 0.08% and 0.90%. The project financing is payable between 2007 and 2013.

### 7. Comprehensive income

Comprehensive income is as follows:

	<b>For the six-month periods ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
Net loss for the period	<b>Ps. (6,361,349)</b>	Ps. (6,024,918)
Net effect of restatement in the period	<b>2,857,531</b>	4,910,360
Net increase in specific oil-field exploration and depletion reserve	<b>4,132,099</b>	2,498,828
Other equity movements <sup>(1)</sup>	<b>100,780</b>	123,629
Comprehensive income for the period	<b>Ps. 729,061</b>	Ps. 1,507,899

<sup>(1)</sup> Represents primarily translation adjustments from non-Mexican subsidiaries.

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**8. Foreign currency position**

PEMEX had the following assets and liabilities denominated in foreign currencies, which are stated in Pesos at the exchange rate prevailing at June 30, 2002 and December 31, 2001, respectively:

	Amount in foreign currency (Thousands)			Exchange rate	Amounts in pesos
	Assets	Liabilities	Long (short) position		
<u>June 30, 2002:</u>					
U.S. dollars	3,802,147	20,592,124	(16,789,977)	9.9568	(167,174,443)
Japanese yen	-	187,009,270	(187,009,270)	0.08404	(15,716,259)
Pounds sterling	-	51,921	(51,921)	15.3036	(794,578)
Euros	2,619	508,810	(506,191)	9.9329	(5,027,945)
Net-short position, before foreign-currency hedging					<u>Ps. (188,713,225)</u>
<u>December 31, 2001:</u>					
U.S. dollars	2,693,204	13,967,347	(11,274,143)	9.1423	Ps. (103,071,598)
Japanese yen	-	71,758,328	(71,758,328)	0.0697	(5,001,555)
Pounds sterling	-	165,377	(165,377)	13.2600	(2,192,899)
Austrian schillings	-	212	(212)	0.5880	(125)
Dutch guilders	40	-	40	3.6715	147
Euros	467	1,383,966	(1,383,499)	8.0909	(11,193,752)
Other currencies	various	various	Various	various	(4,686)
Net-short position, before foreign-currency hedging					<u>Ps. (121,464,468)</u>

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**9. Effects of inflation on the financial information**

The following table reflects the approximate effects of inflation on PEMEX's financial information in accordance with Bulletin B-10 (Restated amounts columns). The Basic Financial Statements column is prepared in accordance with NIF-06 BIS "A", Section A.

	<b>Effect on balance sheets</b>		
	<b>As of June 30,</b>		<b>As of December 31,</b>
	<b>2002</b>		<b>2001</b>
	<b>NIF-06 BIS "A"</b>		
	<b>Basic</b>	<b>Bulletin B-10</b>	
	<b>financial</b>	<b>Restated amounts</b>	
	<b>statements</b>		
Equity:			
Certificates of Contribution "A"	10,222,463	10,222,463	10,222,463
Specific oil-field exploration and depletion reserve	12,188,498	12,188,498	16,278,784
Revaluation surplus	184,695,269		
Retained earnings (losses)	(85,663,724)	(78,144,570)	(71,290,571)
Restatement of equity		669,935,258	653,837,966
Deficiency from the restatement of equity :			
Loss on accumulated monetary position	-	(79,620,395)	(77,577,999)
Equity monetary result	-	9,027,833	8,796,254
Accumulated deficit from holding non-monetary assets	-	(422,166,581)	(417,400,664)
	<u>121,442,506</u>	<u>121,442,506</u>	<u>122,866,233</u>

	<b>Effect on statements of income</b>	
	<b>For the six-month periods ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
Comprehensive cost of financing:		
Interest expense and exchange loss capitalized in fixed assets	Ps. (6,464,559)	Ps. (3,779,541)
Monetary position gain, net	8,124,697	11,847,359
	<u>Ps. 1,660,138</u>	<u>Ps. 8,067,818</u>

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**10. Commitments and contingencies**

- a. PEMEX is involved in various lawsuits filed against it by dismissed personnel. If any of these lawsuits were resolved in favor of the dismissed personnel, there would be a charge to operations in the year in which the payment is made. Management does not believe that the ultimate outcome of these events will have a material effect on its financial position or results of operations.
- b. PEMEX is subject to the *Ley General de Equilibrio Ecológico y Protección al Ambiente* (the General Law on Ecology and Protection of the Environment, or the "Environmental Law"). To comply with this law, PEMEX has contracted environmental audits for its larger operating, storage and transportation facilities. To date, audits of refineries, secondary petrochemical plants and certain other facilities have been concluded. Following the completion of such audits, PEMEX signed various agreements with the *Procuraduría Federal de Protección al Ambiente* (the Federal Attorney of Environmental Protection, or "PROFEPA") to implement environmental remedy and improvement plans. Such plans consider remedy for environmental damages previously caused, as well as related investments for the improvement of equipment, maintenance, labor and materials.

PEMEX has recorded obligations for environmental remediation as of June 30, 2002 and December 31, 2001 of Ps. 2,223,953 and Ps. 2,316,175, respectively. These liabilities are included in the "Reserve for sundry creditors and others".

- c. A trust agreement has been formed between Pemex-Gas and Basic Petrochemicals as beneficiary, Distribuidora de Gas de Querétaro, S.A. de C.V.; DGN de la Laguna Durango, S. de R.L. de C.V.; DGN de Chihuahua, S. de R.L. de C.V.; Repsol México, S.A. de C.V. (now Gas Natural de México, S.A. de C.V.); Gas Natural del Río Pánuco, S. de R.L. de C.V.; Tamauligas, S.A. de C.V.; NATGASMEX, S.A. de C.V.; Consorcio Mexigas, S.A. de C.V.; Comercializadora Metrogas, S.A. de C.V. (formerly DIGANAMEX, S.A. de C.V.) and Distribuidora de Gas Natural de Jalisco, S.A. de C.V., as trustees, and the Banco Nacional de Obras y Servicios Públicos, S.N.C. (National Bank of Public Works and Services, S.N.C.) as trust administrator. Pursuant to this agreement, Pemex-Gas and Basic Petrochemicals is obligated to transfer the right to the use of assets associated with natural gas distribution from Pemex-Gas and Basic Petrochemicals to the trustees and, in return, the trustees are obligated to deposit in the trust a payment for the right of use of the transferred assets. This payment was approximately Ps. 332,799 at June 30, 2002 and at December 31, 2001. The trust administrator is obligated to transfer the ownership of the assets to the trustees once the title and control of the assets has been formalized and properly accredited into the name of the trustees.

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- d. PEMEX, through its subsidiaries PMI and PMI-NASA, has executed several long-term purchase and sale contracts for Maya crude oil with various refineries. These contracts oblige the buyers to construct conversion units (coking/catalyst conversion units) that permit the optimization of yields from the refining process of Maya crude. PMI, in its role, principally has the obligation to assign Maya crude oil once the new investments have been completed.

The contracts which have been signed to date include:

- (i) An agreement with Clark Refining and Marketing Inc. (now Port Arthur Coker Company), signed in March 1998 for delivery of crude oil to its refinery in Port Arthur, Texas, U.S.A. The contract is for approximately 158,000 barrels per day of Maya crude oil to be delivered for a period of seven years following project completion, which occurred in April 2001.
- (ii) An agreement with Coastal Aruba Refining Company N.V., signed in July 1998, for delivery of crude oil to its refinery in Lagoweg, Aruba. The contract is for approximately 100,000 barrels per day of Maya crude oil to be delivered for a period of five years following project completion, which occurred in April 2000.
- (iii) An agreement with Exxon Company U.S.A. and Exxon Trading Company International, signed in September 1998 for delivery of crude oil to its refinery in Baytown, Texas, U.S.A. The contract is for approximately 65,000 barrels per day of Maya crude oil to be delivered for a period of five years following project completion, which occurred in December 2001.
- (iv) In May 1999, an agreement, signed with Pecten Trading Company, which is a trading subsidiary of Shell Oil Company and PMI-NASA to expand the refinery at Deer Park Refining Limited Partnership by increasing its total processing capacity from 280,000 barrels per day to 340,000 barrels per day; the project was completed in April 2001. The increased requirements for heavy crude are satisfied through an increase in the supply of Maya crude oil from PMI, which increased its existing agreements with Pecten and PMI-NASA from 140,000 barrels per day to 200,000 barrels per day, 50,000 barrels per day of the additional contractual quantity are contracted under terms similar to the other agreements mentioned in this section.
- (v) An agreement with Marathon Ashland Supply LLC, signed in May 1999 to supply its Garyville, Louisiana, U.S.A. refinery with approximately 90,000 barrels per day, which by today has been increased to up to 100,000 barrels per day, of Maya crude oil for a period of five years following project completion, which occurred in December 2001.



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- (vi) An agreement with Valero Marketing & Supply Company and Valero Refining-Texas, L.P., signed in December 2001 to supply its Texas City, Texas, U.S.A. refinery with approximately 90,000 barrels per day of Maya crude oil for a period of five years following project completion, which is scheduled to occur on or before October 1, 2003.
- (vii) An agreement with Chevron Products Company, signed in March 2002 to supply its Pascagoula, Mississippi, U.S.A. refinery with approximately 130,000 barrels per day of Maya crude oil for a period of five years following project completion, which is scheduled to occur in April 2003.
- e. At June 30, 2002, PEMEX is involved in various civil, labor, tax and administrative lawsuits with a total claim amount of Ps. 12,049,780. At June 30, 2002 and December 31, 2001, PEMEX has accrued Ps. 961,695, related to those contingencies for which management believes that the outcome will be unfavorable. The most important lawsuits are as follows:
- (i) PEMEX presently faces claims in courts, filed by service providers for damages amounting to U.S. \$497,300 (Ps. 4,951,517). Those legal proceedings have recently begun and PEMEX believes that to date it is not necessary to create any provision.
- (ii) PEMEX has been sued by a supplier for late and non-payment of billings and other items for a total of U.S. \$79,276 (Ps. 789,335). Based on an analysis of the documentation presented by the supplier, PEMEX recognized a liability of U.S. \$4,576 (Ps. 45,562). In addition, PEMEX will file suit against the supplier for U.S. \$4,949 (Ps. 49,276) for unsatisfactory work. At the present time, documentary evidence is now in the process of being presented to the court.
- (iii) The *Comisión Federal de Competencia* ("Federal Competition Commission") handed down a resolution against PEMEX for presumed monopolistic policies relative to exclusivity clauses for the sale of lubricants, grease and oil.

The resolution established the following measures:

- The payment of a fine in the amount of Ps. 17,055;
- Amendment of the joint venture agreements, use of trademark license contract, franchise supply contract, as well as documents containing the exclusivity clause;

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- Amendment of contracts with franchise service stations to adjust franchise and supply contracts; and
- Report the resolution handed down by the Federal Competition Commission to the legal representatives of service stations.

To date, PEMEX has filed two appeals for constitutional relief from this resolution. Both appeals were resolved favorably in the first instance; however one of them is still subject to be challenged through an appeal for review.

- f. PEMEX has a nitrogen supply contract for the pressure maintenance program for the Cantarell field that expires in 2015. At June 30, 2002 and December 31, 2001, the value of the nitrogen to be supplied during the term of the contract is approximately Ps. 20,846,960 and Ps. 22,015,737, respectively. In the event of the annulment of the contract for causes attributable to PEMEX, PEMEX would be required to purchase the nitrogen production plant from the supplier for Ps. 7,331,192.
- g. PEMEX sold 13,679,704 shares of Repsol and simultaneously contracted an equity swap on such shares with an international financial institution. The agreement contains a mandatory re-purchase clause for the shares. The repurchase commitment is for U.S. \$292,000.
- h. At June 30, 2002, PEMEX has entered into contracts with various contractors for an approximate amount of Ps. 58,079,877. These contracts are for the development of PIDIREGAS and, therefore, subject to standards required in NIF-09-A.
- i. In the normal course of business, PEMEX is named in a number of lawsuits of various natures. PEMEX evaluates the merit of each claim and assesses the likely outcome, accruing a contingent liability when an unfavorable decision is probable and the amount is reasonably estimable. PEMEX does not believe a materially unfavorable outcome is probable for any known or pending lawsuits or threatened litigation for which PEMEX has not made accruals.

## **11. Specific Oil-Field Exploration and Depletion Reserve Reclass**

On April 24, 2002, the Board of Directors approved a transfer of Ps. 8,222,385 from the specific oil field exploration and depletion equity reserve to the accumulated losses from prior years equity account.

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**12. Differences between Mexican GAAP and U.S. GAAP**

A summary of the significant differences between the accounting principles followed by PEMEX and generally accepted accounting principles in the United States (“U.S. GAAP”) is presented below.

The accompanying consolidated financial statements have been prepared in accordance with Mexican GAAP and, as to the recognition of inflation, in accordance with NIF-06-BIS “A”, Section A, applicable to public-sector entities, which differs in certain significant respects from U.S. GAAP. Such differences involve methods for measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP.

**I. Differences in measurement methods:**

The principal differences between Mexican GAAP and U.S. GAAP are disclosed below. Loss represents pre-tax loss, because PEMEX is not subject to Mexican income taxes, and is reconciled as follows:

	<b>For the six-month periods ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
Net loss for the period under Mexican GAAP	<b>Ps. (6,361,349)</b>	Ps. (6,024,918)
U.S. GAAP adjustments:		
Exploration and drilling costs (a)	2,871,606	1,918,757
Pensions and seniority premiums (b)	(293,217)	(131,738)
Post retirement benefits (c)	(4,544,375)	(2,888,648)
Accrued vacation (d)	6,406	(16,802)
Fixed asset adjustments:		
· Depreciation (f)	5,775,111	5,566,325
· Foreign currency exchange losses (g)	(3,819,050)	-
· Capitalization of interest, net (h)	651,242	405,285
· Fixed asset impairment (i)	-	(6,092,887)
· Depreciation convention (j)	(65,838)	(87,050)
Accounting for financial instruments:		
· Cumulative effect of adoption of new financial instruments standard (k)	-	5,122,515
· Current period effect (k)	1,303,312	902,225
Profit in inventory (l)	(323,602)	(197,110)
Total U.S. GAAP adjustments, net	<b>1,561,595</b>	4,500,872
Net loss for the period under U.S. GAAP	<b>Ps. (4,799,754)</b>	Ps. (1,524,046)

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	<b><u>For the six-month periods ended June 30,</u></b>	
	<b>2002</b>	<b>2001</b>
Components of U.S. GAAP net loss:		
Loss from continuing operations	<b>Ps. (4,799,754)</b>	Ps. (6,646,561)
Cumulative effect of accounting change (k)	-	5,122,515
Net loss for the period	<b>Ps. (4,799,754)</b>	Ps. (1,524,046)
Comprehensive loss under U.S. GAAP		
Net loss for the period under U.S. GAAP:	<b>Ps. (4,799,754)</b>	Ps. (1,524,046)
Other comprehensive loss income:		
Derivative financial instruments	<b>738,352</b>	-
Unrealized losses on securities (o)	<b>(900,011)</b>	(207,064)
Translation adjustments and other movements in equity	<b>92,769</b>	123,629
Other comprehensive (loss) income	<b>(68,890)</b>	(83,435)
Comprehensive loss	<b>Ps. (4,868,644)</b>	Ps. (1,607,481)

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	<u>As of June 30, 2002</u>	<u>As of December 31, 2001</u>
Equity (deficit) is reconciled as follows:		
Equity under Mexican GAAP	<b>Ps. 121,442,506</b>	Ps. 122,866,233
U. S. GAAP adjustments:		
Exploration and drilling costs (a)	<b>14,620,778</b>	15,881,285
Pensions and seniority premiums (b)	<b>(3,801,894)</b>	(3,508,677)
Post retirement benefits (c)	<b>(30,165,520)</b>	(25,621,145)
Accrued vacation (d)	<b>(457,350)</b>	(463,756)
Fixed asset adjustments:		
· Inflation accounting - fixed assets valuation (e)	<b>(115,238,566)</b>	(112,381,035)
· Accumulated depreciation (f)	<b>50,641,547</b>	44,866,436
· Foreign currency exchange losses (g)	<b>(68,326,618)</b>	(64,507,568)
· Capitalization of interest, net (h)	<b>(1,647,370)</b>	(2,298,612)
· Impairment (i)	<b>(22,595,353)</b>	(22,595,353)
· Depreciation convention (j)	<b>(2,529,758)</b>	(2,463,920)
Accounting for derivatives (k)	<b>9,168,476</b>	7,134,809
Sale of shares of Repsol (m)	<b>(361,150)</b>	(361,150)
Profit in inventory (l)	<b>(894,513)</b>	(570,911)
Advanced payments on minimum guaranteed dividend (n)	<b>(4,728,526)</b>	(2,152,788)
Available-for-sale investment securities (o)	<b>2,945,603</b>	3,845,614
Total U. S. GAAP adjustments, net	<b>(173,370,214)</b>	(165,196,771)
Deficit under U. S. GAAP	<b>Ps. (51,927,708)</b>	Ps. (42,330,538)
Changes in U.S. GAAP equity for the six-month periods ended June 30, 2002:		
Deficit at December 31, 2001		<b>Ps. (42,330,538)</b>
Net loss for the period		<b>(4,799,754)</b>
Minimum guaranteed dividends		<b>(4,728,526)</b>
Other comprehensive income:		
Derivative financial instruments		<b>738,352</b>
Unrealized losses on available-for-sale investment securities		<b>(900,011)</b>
Translation adjustment and other movements in equity		<b>92,769</b>
Deficit at June 30, 2002		<b>Ps. (51,927,708)</b>

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Explanation of reconciling items:

(a) Exploration and drilling costs

Under Mexican GAAP, exploration and drilling costs are charged to the equity reserve for exploration and depletion of oil fields. Exploration and drilling costs related to successful oil wells are credited to the equity reserve and recorded as fixed assets. Cost of sales is recognized by recording a per-crude oil barrel quota charge in the statement of operations and recording a credit to the equity reserve.

Under U.S. GAAP, costs of drilling exploratory wells and exploratory-type stratigraphic test wells are initially capitalized and are charged to expense if proved reserves are not discovered. Development costs, including the costs of drilling development wells and development-type stratigraphic test wells are capitalized. The capitalized costs of wells and related equipment are amortized on a units-of-production (UOP) basis, as the related oil and gas reserves are extracted. Costs of unproved properties are assessed periodically and a loss is recognized if the properties are determined to be impaired. PEMEX has accordingly adjusted the results of operations and equity to reflect the impact of U.S. GAAP on exploration and drilling costs; *i.e.*, the Mexican GAAP operations charge related to the cost per barrel has been reversed, the equity account related to the specific oil field exploration and drilling reserve has been reversed to zero, and costs related to properties in the exploration and development phase have been capitalized in accordance with U.S. GAAP. The adjustment is net of the difference in amortization for capitalized amounts.

(b) Pensions and seniority premiums

Under Mexican GAAP, PEMEX follows the guidance in Bulletin D-3, "Labor Obligations," which establishes the procedures for measuring the expenses and liabilities for pension plans and seniority premiums. The primary differences between PEMEX's application of Bulletin D-3 and the U.S. GAAP guidance provided in Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers Accounting for Pensions" ("SFAS 87") relate to actuarial assumptions and implementation dates. PEMEX adopted SFAS 87 effective January 1, 1989 and recorded a transition obligation on adoption which is being amortized over 15 years.

(c) Post-retirement benefits

Under Mexican GAAP, PEMEX accounts for supplemental payments under its Bulletin D-3 calculations. PEMEX, however, accounts for other health service benefits on a pay-as-you-go basis. Under U.S. GAAP, PEMEX follows the guidelines of SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions," ("SFAS 106") in accounting for health service and other supplemental payments provided to retirees. SFAS 106 requires the accrual of the expected cost of providing such benefits to employees during the years that the employees render service.

(d) Accrued vacation

Under Mexican GAAP, vacation expense is recognized when the vacation is utilized by the employee. Under U.S. GAAP, vacation expense is accrued for when earned by the employee.

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(e) Inflation accounting

As mentioned in Note 2 b) to the 2001 Financial Statements, PEMEX's consolidated financial statements recognize the effects of inflation pursuant to NIF-06-BIS "A", section A, which requires that non-monetary assets, including inventories of materials and supplies and fixed assets be restated to their net realizable value (in the case of inventories) or in the case of fixed assets, through appraisals made by independent appraisers or by using the specific price index; the difference is recorded as a revaluation surplus in equity.

U.S. GAAP does not require the recognition of the effects of inflation on the consolidated financial statements. Since NIF-06-BIS "A", Section A is not deemed to be a comprehensive method of accounting for inflation, PEMEX has eliminated, retroactively to 1992, the effect of revaluation of fixed assets, inventories and costs of sales from the reconciliation of income and equity. PEMEX has not adjusted the depreciation effect of fixed asset revaluations prior to 1992 under NIF-06-BIS "A", Section A for the reconciliation of income and equity. For U.S. GAAP purposes, the 1992 balances became the historical basis of the fixed assets.

(f) Fixed assets-depreciation

Under Mexican GAAP, PEMEX depreciates the book value of its fixed assets which includes amounts capitalized for foreign exchange losses and restatements for inflation. Also, under Mexican GAAP the book value of the fixed assets does not include impairment charges. For U.S. GAAP purposes, PEMEX has reversed the depreciation expense attributable to restatements for inflation (adjustment (e)), foreign currency exchange losses (adjustment (g)) and impairment charges (adjustment (i)) which are included in the Mexican GAAP basis of the fixed assets.

(g) Fixed assets-foreign currency exchange losses

Under Mexican GAAP, exchange losses arising from debt are capitalized as part of fixed assets; any remaining net exchange differences are reflected in the statement of operations as either a debit to costs and operating expenses or a credit to revenues.

Under U.S. GAAP, all exchange gains or losses have been recognized in results of operations in the reconciliation of income and equity. In addition, under U.S. GAAP, foreign currency transaction gains or losses would be reported as non-operating income or expenses. There were no foreign currency exchange losses capitalized for the six-month period ended June 30, 2001, primarily as a result of the appreciation of the peso against the U.S. dollar, and therefore, no adjustment has been recognized.

(h) Fixed assets-capitalization of interest

Under Mexican GAAP, interest is capitalized to property, plant and equipment based upon total interest cost incurred on loans allocated to construction projects, regardless of whether or not the amounts borrowed have been spent on such projects.

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Under U.S. GAAP, interest is capitalized based upon total interest incurred in proportion to additions to construction in progress. PEMEX has accordingly adjusted its results of operations and equity to reflect the U.S. GAAP requirements for capitalizing interest. The adjustment for capitalized interest is presented net of the effects of depreciation related to amounts previously capitalized for such assets.

(i) Fixed asset impairment

For U.S. GAAP purposes, beginning on January 1, 2002, PEMEX follows SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). For the six-month period ended June 30, 2001, Pemex followed SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121"). SFAS 144 and 121 provide criteria for when and in what circumstances an impairment loss (write-down) should be recorded and the manner in which the write-down should be measured. An evaluation of impairment is undertaken whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Under SFAS 144 and 121, the impairment criteria is met when the carrying value of assets exceeds the sum of expected future cash flows (undiscounted and without interest charges) of the related assets. The asset is written down to fair value, if available, or the present value of expected future cash flows. PEMEX measures impairment of its oil and gas producing assets based on the undiscounted estimated future cash flows associated with estimated proved reserves on a field by field basis.

The reversal of the depreciation expense related to impairment charges for the year ended December 31, 2001 was reclassified to fixed-assets depreciation (adjustment (f)) to conform to the current period presentation.

(j) Depreciation convention

Under Mexican GAAP, PEMEX begins to depreciate assets the year after which they are placed in service. In accordance with U.S. GAAP, assets should be depreciated from the date placed in service or using a mid-year convention.

(k) Accounting for derivatives

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by SFAS 137 and SFAS 138 and as interpreted by the Derivative Implementation Group ("DIG"), was adopted by PEMEX effective as of January 1, 2001. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. SFAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting. As a result, PEMEX recognized a cumulative effect credit to earnings of Ps. 3,791,269.



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(l) Profit in inventory

Under Mexican GAAP, PEMEX values crude oil and derivatives for export at net realizable value with the difference between the net realizable value and cost recorded in earnings. In contrast, U.S. GAAP requires that inventories be recorded at net realizable value, but not to exceed cost. For U.S. GAAP purposes, PEMEX has eliminated the effect of profit in inventory and has increased such amount to the U.S. GAAP loss presented.

(m) Sale of shares of Repsol

Under Mexican GAAP, PEMEX recorded gains totalling Ps. 361,150 in prior years on the transfer of its Repsol shares to Chase and J.P. Morgan trusts. For U.S. GAAP purposes, the transfer of the shares does not meet the criteria for sale recognition and accordingly, the gain was reversed and the transfer of the shares was treated as a financing transaction. Therefore, under U.S. GAAP, the Repsol shares would be evaluated pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") and the liability equal to the notional amount resulting from these transactions would also be reflected on the balance sheet.

(n) Advance payments on minimum guaranteed dividend

Under Mexican GAAP, advance payments on the minimum guaranteed dividend owed to the Mexican Government, derived from the capitalization of debt, are recorded as an account receivable prior to formalization of the amount by the Board of Directors of PEMEX.

Under U.S. GAAP, such receivable balances are considered as a reduction in equity. PEMEX has accordingly adjusted equity to reflect the minimum guaranteed dividend payment as a reduction in equity.

The effective rate used to calculate the minimum guaranteed dividend is LIBOR plus 0.8125 % (which was in a range from 2.71625 % to 2.86 % during the first six-month period of 2002 and from 3.4475 % to 7.4626 % for the year 2001).

(o) Accounting for investment securities

PEMEX follows SFAS 115 for U.S. GAAP purposes. PEMEX has classified its investment securities as "Available-for-Sale" and, accordingly, they are recorded at fair value with unrealized gains and losses excluded from the statement of operations and reported in other comprehensive income (loss). The fair value of the securities is determined by quoted market prices.

Under Mexican GAAP, investment securities are carried at cost. The unrealized gain for U.S. GAAP purposes is largely explained by the appreciation of the underlying security price.

**II. Additional disclosure requirements:**

(a) Consolidation of Pemex Finance

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PEMEX and certain subsidiaries entered into several agreements with Pemex Finance. Under these contracts, Pemex Finance purchases certain accounts receivable and rights to future receivables. Pemex Finance obtains resources for such purchases through the placement of debt instruments in the international markets.

In conjunction with the adoption of SFAS No. 140, "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which serves as a replacement of SFAS No. 125, PEMEX has evaluated the Pemex Finance structure in light of the permitted and non-permitted activities as well as the transition provisions of a Qualified Special Purpose Entity ("QSPE") and determined that Pemex Finance does not qualify as a QSPE under the new standard. Consequently, as of June 30, 2002, the U.S. GAAP consolidated total assets would have increased by Ps. 2,511,640 and total liabilities would have increased by Ps. 501,325. Had Pemex Finance been consolidated, there would not have been any effect on equity or net income.

**(b) Special Tax on Production and Services**

Under Mexican GAAP, the IEPS is reflected as part of "Net domestic sales" when charged to customers and then deducted from "Income before hydrocarbon extraction duties, special tax on production and services and other."

Under U.S. GAAP, this tax would have no net effect on revenues nor would it be deducted after "Income before hydrocarbon extraction duties, special tax on production and services and other," as both the amount charged to customers and the amount accrued as payable to the tax authorities would be reflected within revenues.

As a result, under U.S. GAAP, revenues would have been less than those reflected under Mexican GAAP by Ps. 60,164,165 and Ps. 39,872,564, for the six-month periods ended June 30, 2002 and 2001, respectively. Additionally those amounts would not have been deducted after "Income before hydrocarbon extraction duties, special tax on production and services and other."

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c) Cash flow information

Under Mexican GAAP, PEMEX presents statements of changes in financial position. In contrast with the statements of cash flows required by U.S. GAAP, PEMEX's statements of changes in financial position do not include certain information relating to the three major categories of sources and uses of funds: operating, financing and investing activities.

Under U.S. GAAP, the following information would be disclosed separately in reconciling the loss for the year to funds provided by operations: changes in hydrocarbon extraction duties, changes in allowances for doubtful accounts and slow-moving inventories, net exchange gains or losses and accrued interest income from affiliates. Additionally, under U.S. GAAP, borrowings and repayments of debt would be presented separately in arriving at funds from financing activities, and investments in and the proceeds from the sale of property, wells, plants and transportation equipment would be presented separately in arriving at funds from investment activities. In the statements of changes in financial position, PEMEX has disclosed information within the financing and investment categories on a net basis.

The following table details the effects discussed above using Mexican GAAP measurement methods and U.S. GAAP presentation:

	<b>For the six-month periods ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
Cash flows from operating activities:		
Net loss for the period plus or less charges or credits not requiring the use of cash:		
Following U.S. GAAP presentation	<b>Ps. 30,382,480</b>	Ps. 27,892,425
Difference <sup>(1)</sup>	<b>170,318</b>	998,264
Under Mexican GAAP	<b>30,552,798</b>	28,890,689
Increase (decrease) in assets and liabilities:		
Following U.S. GAAP presentation	<b>(3,982,791)</b>	(9,040,638)
Differences:		
Accounts receivable <sup>(2)</sup>	<b>2,008,885</b>	(4,248,589)
Inventory <sup>(1)</sup>	<b>(184,739)</b>	(259,190)
Sundry credits reserve <sup>(1)</sup>	<b>455,858</b>	(282,239)
Under Mexican GAAP	<b>(1,702,787)</b>	(13,830,656)
Cash flows provided by operating activities:		
Following U.S. GAAP presentation	<b>26,399,689</b>	18,851,787
Differences	<b>2,450,322</b>	(3,791,754)
Under Mexican GAAP	<b>Ps. 28,850,011</b>	Ps. 15,060,033

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	<b>For the six-month periods ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
<b>Cash flows from financing activities:</b>		
New long-term financing	<b>Ps. 35,542,629</b>	Ps. 46,506,077
Financing payments	<b>(23,481,598)</b>	(29,968,437)
Dividends paid to the Mexican Government	<b>(4,728,526)</b>	(1,330,892)
Sale of future accounts receivable	<b>(441,774)</b>	(2,783,470)
Net increase in financing following U.S. GAAP presentation	<b>6,890,731</b>	12,423,278
<b>Difference:</b>		
Other equity movements	<b>100,780</b>	123,629
Foreign currency exchange (gain) loss	<b>17,307,750</b>	(9,699,656)
Interest accrued, not paid	<b>724,102</b>	460,065
Dividends paid to the Mexican Government <sup>(3)</sup>	<b>2,575,738</b>	(4,232,907)
Notes payable to contractors	<b>92,034</b>	(847,059)
Net increase (decrease) in financing under Mexican GAAP	<b>Ps. 27,691,135</b>	Ps. (1,772,650)
<b>Cash flows from investing activities:</b>		
Acquisition of fixed assets	<b>Ps. (32,945,105)</b>	Ps. (11,422,488)
Disposal of fixed assets <sup>(4)</sup>	<b>1,045,475</b>	272,424
Net investment at cost in property, wells, plants and transportation equipment under U.S. GAAP	<b>(31,899,630)</b>	(11,150,064)
Capitalized exchange loss	<b>(3,819,050)</b>	-
Net investment at cost in property, wells, plants and transportation equipment under Mexican GAAP (including capitalized exchange loss and interest)	<b>Ps. (35,718,680)</b>	Ps. (11,150,064)
<b>Supplemental cash flow information:</b>		
Cash payments for taxes	<b>Ps. 113,856,950</b>	Ps. 152,165,282
Cash payments for interest, net of amount Capitalized	<b>11,150,191</b>	9,093,053

(1) The items that are excluded from the determination of cash flows under SFAS 95 are the provision for both doubtful accounts and obsolete inventories.

(2) The difference is due to the effects of the advanced payments on minimum guaranteed dividend and the foreign currency translation gain on accounts receivable.

(3) The difference is because for Mexican GAAP purposes, the dividends to the Mexican Government are those approved by the Board of Directors of Petróleos Mexicanos in a given year whereas for U.S. GAAP purposes, such dividends are the amount paid in that year.

(4) Disposal of fixed assets did not generate material cash flow.

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF**  
**DECEMBER 31, 2001 (AUDITED) AND JUNE 30, 2002 (UNAUDITED) AND FOR THE SIX-MONTH**  
**PERIODS ENDED JUNE 30, 2002 AND 2001 (UNAUDITED)**

(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

(d) Business segment information

PEMEX's primary business is the exploration for, and production of, crude oil and natural gas, and the refining and marketing of petroleum products conducted through four business segments: Pemex-Exploration and Production, Pemex-Refining, Pemex-Gas and Basic Petrochemicals, and Pemex-Petrochemicals. Management makes decisions related to the operations of the consolidated business along these four strategic lines.

	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Corporate and Other	Intersegment Eliminations	Total
<b>Six-month period ended June 30, 2002</b>							
Sales:							
Trade	Ps. 55,058,389	Ps. 120,879,143	Ps. 26,525,722	Ps. 3,829,059	Ps. 16,352,700	Ps. -	Ps. 222,645,013
Intersegment	64,239,782	3,481,857	8,560,174	1,240,668	89,237,651	(166,760,132)	-
Total net sales	119,298,171	124,361,000	35,085,896	5,069,727	105,590,351	(166,760,132)	222,645,013
Net income (loss)							
for the period	11,945,309	(13,772,829)	682,217	(4,246,809)	(5,641,514)	4,672,277	(6,361,349)
Total assets	315,632,222	203,775,545	56,313,286	35,097,574	511,459,089	(509,231,696)	613,046,020
<b>Six-month period ended June 30, 2001</b>							
Sales:							
Trade	Ps. 58,980,558	Ps. 118,456,974	Ps. 38,072,250	Ps. 5,128,180	Ps. 6,416,345	Ps. -	Ps. 227,054,307
Intersegment	88,304,942	5,048,667	18,921,787	1,521,267	102,220,550	(216,017,213)	-
Total net sales	147,285,500	123,505,641	56,994,037	6,649,447	108,636,895	(216,017,213)	227,054,307
Net income (loss)							
for the period	6,709,718	(10,042,831)	1,147,120	(5,490,831)	(7,367,281)	9,019,187	(6,024,918)
Total assets	281,881,325	186,459,493	52,170,149	24,793,031	443,692,472	(435,851,997)	553,144,473

(e) Recently issued accounting standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" ("SFAS 141"), which supersedes APB Opinion No. 16, "Business Combinations," and amends or supersedes a number of related interpretations of APB 16. The statement is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method that are completed after June 30, 2001. SFAS 141 addresses financial accounting and reporting for business combinations, eliminates the pooling-of-interests method of accounting for business combinations, and prescribes the initial recognition and measurement of goodwill and other intangible assets, accounting for negative goodwill and the required disclosures in respects of business combinations. The adoption of SFAS 141 did not have a material impact on the consolidated financial statements.

Also in July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets"

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**(Amounts expressed in thousands of pesos and thousands of U.S. dollars)**

("SFAS 142"), which supersedes APB Opinion No. 17, "Intangible Assets." SFAS 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business acquisition) should be accounted for in financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after December 15, 2001. SFAS 142 is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. The adoption of SFAS 142 did not have a material impact on the consolidated financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 requires the recognition of a liability for the legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction and/or normal operation of the asset. The liability is recognized at fair value in the period in which it is incurred if a reasonable estimate of fair value can be made. A corresponding asset retirement cost is added to the carrying value of the long-lived asset and is depreciated to expense using a systematic and rational method over its useful life. SFAS 143 is effective for fiscal years beginning after June 15, 2002. Upon initial adoption, a liability is recognized for existing asset retirement obligations and the associated asset retirement cost is capitalized as an increase to the carrying value of the asset. The recognized liability and asset are adjusted for cumulative accretion and accumulated depreciation, respectively, from the time period when the asset retirement obligation would have originally been recognized had this statement been in effect to the date of initial adoption. Management is currently evaluating the impact that the adoption of SFAS No. 143 will have on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 retains the fundamental provisions of SFAS 121 for recognition and measurement of the impairment of long-lived assets to be held and used, but resolves a number of implementation issues and establishes a single accounting model for assets to be disposed of. SFAS 144 also retains the requirements to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of by sale, abandonment or distribution to owners or is classified as held for sale. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and their interim periods. The provisions of SFAS 144 for long-lived assets to be disposed of by sale or otherwise are effective for disposal activities initiated after the effective date of SFAS 144 or after its initial application. The adoption of SFAS 144 did not have a material impact on the consolidated financial statements.

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In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in Accounting Principles Boards Opinion 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." In addition, SFAS No. 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. Management does not expect the adoption of SFAS No. 145 to have a significant impact on the consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). The issuance of SFAS No. 146 nullifies the former guidance provided by the Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). SFAS No. 146 requires the recognition of a liability for costs associated with exit or disposal activity when the liability is incurred, rather than on the date commitment to an exit or disposal plan. SFAS No. 146 is effective for liabilities, related to exit or disposal activities, which are incurred after December 31, 2002, while earlier application is encouraged. Management is currently evaluating the impact that the adoption of SFAS No. 146 will have on the consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (an interpretation of FASB Statements No. 5, 57, and 107 and rescission of Interpretation No. 34)." FIN 45 clarifies the requirements of SFAS No. 5, "Accounting for Contingencies, relating to a guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45's provisions for initial recognition and measurement should be applied on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The guarantor's previous accounting for guarantees that were issued before the date of FIN 45's initial application may not be revised or restated to reflect the effect of the recognition and measurement provisions of the Interpretation. The disclosure requirements are effective for financial statements of both interim and annual periods that end after December 15, 2002. Management is currently evaluating the impact that the adoption of FIN 45 will have on the consolidated financial statements.

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**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF**  
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In January 2003, the FASB issued Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities, an interpretation of ARB 51.” The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (“variable interest entities” or “VIEs”) and how to determine when and which business enterprise should consolidate the VIE (the “primary beneficiary”). This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. FIN 46 applies to public enterprises as of the beginning of the applicable interim or annual period, and it applies to nonpublic enterprises as of the end of the applicable annual period. Management is currently evaluating the impact that the adoption of FIN 46 will have on the consolidated financial statements.



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(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**BALANCE SHEET**  
**As of June 30, 2002**

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	Ps. 18,019,795	Ps. 1,842,975	Ps. 15,401,560	Ps. -	Ps. 35,264,330
Accounts, notes receivable and other, net	26,246,031	175,304,422	31,173,141	(181,817,539)	50,906,055
Inventories, net	<u>322,167</u>	<u>19,426,753</u>	<u>2,264,751</u>	<u>(190,628)</u>	<u>21,823,043</u>
Total current assets	44,587,993	196,574,150	48,839,452	(182,008,167)	107,993,428
Long term debt receivable – intercompany	60,211,481	-	67,000,839	(127,212,320)	-
Investments in subsidiaries	211,215,618	-	5,071,505	(209,326,472)	6,960,651
Properties, net	8,329,378	338,274,924	84,432,948	190,625	431,227,875
Intangible asset derived from the actuarial computation of labor obligations and other assets	12,774,667	40,871,979	4,092,780	9,124,640	66,864,066
Total assets	<u>Ps. 337,119,137</u>	<u>Ps. 575,721,053</u>	<u>Ps. 209,437,524</u>	<u>Ps. (509,231,694)</u>	<u>Ps. 613,046,020</u>
<b>LIABILITIES</b>					
Current liabilities:					
Current portion of long-term debt	Ps. 37,801,359	Ps. 12,747,091	Ps. 14,676,565	Ps. (35,174,471)	Ps. 30,050,544
Accounts payable – intercompany	73,703,467	42,983,221	16,302,517	(132,989,205)	-
Other current liabilities	<u>5,974,651</u>	<u>32,845,816</u>	<u>10,898,825</u>	<u>(3,314,597)</u>	<u>46,404,695</u>
Total current liabilities	117,479,477	88,576,128	41,877,907	(171,478,273)	76,455,239
Long-term debt	77,656,910	59,985,687	95,876,727	(74,060,884)	159,458,440
Sale of future accounts receivable	-	51,740,437	-	(7,496,609)	44,243,828
Reserve for retirement payments, pensions, indemnities, sundry creditors, and others	23,548,290	166,601,288	63,107,957	(41,811,528)	211,446,007
Total liabilities	<u>218,684,677</u>	<u>366,903,540</u>	<u>200,862,591</u>	<u>(294,847,294)</u>	<u>491,603,514</u>
<b>EQUITY</b>					
Equity accounts	(60,257,038)	101,166,105	(4,021,635)	(100,140,195)	(63,252,763)
Revaluation surplus	<u>178,691,498</u>	<u>107,651,408</u>	<u>12,596,568</u>	<u>(114,244,205)</u>	<u>184,695,269</u>
Total liabilities and equity	<u>Ps. 337,119,137</u>	<u>Ps. 575,721,053</u>	<u>Ps. 209,437,524</u>	<u>Ps. (509,231,694)</u>	<u>Ps. 613,046,020</u>

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**BALANCE SHEET**

**As of December 31, 2001**

	<b>Corporate</b>	<b>Subsidiary Guarantors</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>PEMEX Consolidated</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	Ps. 5,522,511	Ps. 722,477	Ps. 8,196,876	Ps. -	Ps. 14,441,864
Accounts, notes receivable and other, net	2,699,390	94,357,062	23,416,641	(75,603,666)	44,869,427
Inventories, net	<u>165,166</u>	<u>14,222,954</u>	<u>2,834,594</u>	<u>-</u>	<u>17,222,714</u>
Total current assets	8,387,067	109,302,493	34,448,111	(75,603,666)	76,534,005
Long term debt receivable – intercompany	50,509,012	-	63,413,676	(113,922,688)	-
Investments in subsidiaries	178,487,519	-	4,924,513	(174,969,287)	8,442,745
Properties, net	8,826,710	335,022,388	63,064,168	-	406,913,266
Intangible asset derived from the actuarial computation of labor obligations and other assets	12,468,275	95,749,586	4,526,275	(47,750,904)	64,993,232
Total assets	<u>Ps. 258,678,583</u>	<u>Ps. 540,074,467</u>	<u>Ps. 170,376,743</u>	<u>Ps. (412,246,545)</u>	<u>Ps. 556,883,248</u>
<b>LIABILITIES</b>					
Current liabilities:					
Current portion of long-term debt	Ps. 28,328,581	Ps. 12,724,756	Ps. 14,654,660	Ps. (19,461,891)	Ps. 36,246,106
Accounts payable – intercompany	16,290,049	12,017,704	13,163,044	(41,470,797)	-
Other current liabilities	<u>4,324,874</u>	<u>23,938,251</u>	<u>19,580,324</u>	<u>(12,141,133)</u>	<u>35,702,316</u>
Total current liabilities	48,943,504	48,680,711	47,398,028	(73,073,821)	71,948,422
Long-term debt	67,730,850	113,673,593	61,290,605	(119,525,053)	123,169,995
Sale of future accounts receivable	-	48,923,317	-	(4,237,715)	44,685,602
Reserve for retirement payments, pensions, indemnities, sundry creditors and others	21,233,452	157,797,694	59,179,262	(43,997,412)	194,212,996
Total liabilities	<u>137,907,806</u>	<u>369,075,315</u>	<u>167,867,895</u>	<u>(240,834,001)</u>	<u>434,017,015</u>
<b>EQUITY</b>					
Equity accounts	(60,610,938)	65,873,943	(9,671,154)	(54,563,356)	(58,971,505)
Revaluation surplus	<u>181,381,715</u>	<u>105,125,209</u>	<u>12,180,002</u>	<u>(116,849,188)</u>	<u>181,837,738</u>
Total liabilities and equity	<u>120,770,777</u>	<u>170,999,152</u>	<u>2,508,848</u>	<u>(171,412,544)</u>	<u>122,866,233</u>
	<u>Ps. 258,678,583</u>	<u>Ps. 540,074,467</u>	<u>Ps. 170,376,743</u>	<u>Ps. (412,246,545)</u>	<u>Ps. 556,883,248</u>

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
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(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**

**For the six-month period ended June 30, 2002**

	<b>Corporate</b>	<b>Subsidiary Guarantors</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>PEMEX Consolidated</b>
Net sales	Ps. 10,602,012	Ps. 278,745,067	Ps. 100,058,066	Ps. (166,760,132)	Ps. 222,645,013
Other revenues	<u>(1,553,202)</u>	<u>5,597,071</u>	<u>741,607</u>	<u>(945,884)</u>	<u>3,839,592</u>
Total revenues	9,048,810	284,342,138	100,799,673	(167,706,016)	226,484,605
Costs and operating expenses:					
Cost of sales	53,030	126,315,014	100,995,997	(155,111,098)	72,252,943
Transportation and distribution expenses	-	6,589,444	240,500	(44,937)	6,785,007
Administrative expenses	7,553,851	15,093,363	2,098,116	(10,827,186)	13,918,144
Other expenses	<u>2,707,130</u>	<u>7,104,960</u>	<u>856,775</u>	<u>(1,535,855)</u>	<u>9,133,010</u>
Total costs and operating expenses	10,314,011	155,102,781	104,191,388	(167,519,076)	102,089,104
Equity participation in subsidiaries	<u>(4,859,217)</u>	<u>-</u>	<u>-</u>	<u>4,859,217</u>	<u>-</u>
(Loss) income before hydrocarbon extraction duties, and other special tax on production and services	(6,124,418)	129,239,357	(3,391,715)	4,672,277	124,395,501
Hydrocarbon extraction duties and other Special tax on production and services (IEPS)	-	70,220,495	372,190	-	70,592,685
	<u>-</u>	<u>60,164,165</u>	<u>-</u>	<u>-</u>	<u>60,164,165</u>
	<u>-</u>	<u>130,384,660</u>	<u>372,190</u>	<u>-</u>	<u>130,756,850</u>
Net (loss) income for the period	<u>Ps. (6,124,418)</u>	<u>Ps. (1,145,303)</u>	<u>Ps. (3,763,905)</u>	<u>Ps. 4,672,277</u>	<u>Ps. (6,361,349)</u>

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
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(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF INCOME**

**For the six-month period ended June 30, 2001**

	<u>Corporate</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
	Ps.	Ps.	Ps.	Ps.	Ps.
Net sales	4,913,982	327,785,188	110,372,359	(216,017,222)	227,054,307
Other revenues	<u>2,347,444</u>	<u>6,894,420</u>	<u>921,589</u>	<u>(978,856)</u>	<u>9,184,597</u>
Total revenues	7,261,426	334,679,608	111,293,948	(216,996,078)	236,238,904
Costs and operating expenses:					
Cost of sales	(11)	176,186,640	113,094,708	(213,382,744)	75,898,593
Transportation and distribution expenses	-	6,138,548	209,074	(50,781)	6,296,841
Administrative expenses	6,617,626	8,837,142	1,946,125	(5,149,605)	12,251,288
Other expenses	<u>248,247</u>	<u>7,305,613</u>	<u>598,807</u>	<u>(442,713)</u>	<u>7,709,954</u>
Total costs and operating expenses	6,865,862	198,467,943	115,848,714	(219,025,843)	102,156,676
Equity participation in subsidiaries	(6,989,423)	-	-	6,989,423	-
Cumulative effect of adoption of new financial instruments standard	<u>(1,301,451)</u>	<u>(29,796)</u>	<u>-</u>	<u>-</u>	<u>(1,331,247)</u>
(Loss) income before hydrocarbon extraction duties, and other special tax on production and services	(7,895,310)	136,181,869	(4,554,766)	9,019,188	132,750,981
Hydrocarbon extraction duties and other Special tax on production and services (IEPS)	-	98,495,298	408,037	-	98,903,335
	<u>-</u>	<u>39,872,564</u>	<u>-</u>	<u>-</u>	<u>39,872,564</u>
	<u>-</u>	<u>138,367,862</u>	<u>408,037</u>	<u>-</u>	<u>138,775,899</u>
Net (loss) income for the period	<u>Ps. (7,895,310)</u>	<u>Ps. (2,185,993)</u>	<u>Ps. (4,962,803)</u>	<u>Ps. 9,019,188</u>	<u>Ps. (6,024,918)</u>

**PETROLÉOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the six-month period ended June 30, 2002**

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
	Ps.	Ps.	Ps.	Ps.	Ps.
<b>Funds provided by (used in) operating activities</b>	(238,986)	45,970,298	(19,096,107)	2,214,806	28,850,011
<b>Financing activities:</b>					
Sale of future accounts receivable	-	2,817,120	-	(3,258,894)	(441,774)
Long-term debt	19,398,837	(54,902,950)	34,608,028	31,081,002	30,184,917
Net income distributions to Petróleos Mexicanos	(4,909,209)	1,145,302	3,763,907	-	-
Other equity movements	797,690	20,189,134	9,369,728	(32,408,560)	(2,052,008)
Funds provided by (used in) financing activities	15,287,318	(30,751,394)	47,741,663	(4,586,452)	27,691,135
<b>Investing activities:</b>					
Increase in fixed assets, net	(2,551,045)	(14,098,406)	(21,440,875)	2,371,646	(35,718,680)
Funds provided by (used in) investing activities	(2,551,045)	(14,098,406)	(21,440,875)	2,371,646	(35,718,680)
Increase in cash and cash equivalents	12,497,287	1,120,498	7,204,681	-	20,822,466
Cash and cash equivalents at beginning of the period	5,522,511	722,477	8,196,876	-	14,441,864
Cash and cash equivalents at the end of the period	18,019,798	1,842,975	15,401,557	-	35,264,330

**PETROLÉOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (AUDITED) and JUNE**  
**30, 2002 (UNAUDITED) and FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

**STATEMENT OF CHANGES IN FINANCIAL POSITION**

**For the six-month period ended June 30, 2001**

	<u>Corporate</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
<b>Funds provided by (used in) operating activities</b>	Ps. 85,481,226	Ps. 24,473,721	Ps. 84,338,368	Ps. (179,233,282)	Ps. 15,060,033
<b>Financing activities:</b>					
Sale of future accounts receivable	-	(2,783,470)	-	-	(2,783,470)
Long-term debt	(77,966,177)	(35,393,372)	(33,603,327)	153,413,866	6,450,990
Net income distributions to Petróleos Mexicanos	(7,148,796)	2,185,993	4,962,803	-	-
Other equity movements	630,671	16,327,684	(2,381,759)	(20,016,766)	(5,440,170)
Funds provided by (used in) financing activities	(84,484,302)	(19,663,165)	(31,022,283)	133,397,100	(1,772,650)
<b>Investing activities:</b>					
Increase in fixed assets, net	273,876	(4,527,089)	(52,733,033)	45,836,182	(11,150,064)
Funds provided by (used in) investing activities	273,876	(4,527,089)	(52,733,033)	45,836,182	(11,150,064)
Increase in cash and cash equivalents	1,270,800	283,467	583,052	-	2,137,319
Cash and cash equivalents at beginning of the period	14,428,209	1,452,602	11,946,035	-	27,826,846
Cash and cash equivalents at the end of the period	Ps. 15,699,009	Ps. 1,736,069	Ps. 12,529,087	Ps. -	Ps. 29,964,165

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (AUDITED) and JUNE**  
**30, 2002 (UNAUDITED) and FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

**BALANCE SHEET**  
**As of June 30, 2002**

	<u>Corporate</u>	<u>Master Trust</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	Ps. 18,019,795	Ps. 10,812,374	Ps. 1,842,975	Ps. 4,589,186	Ps. -	Ps. 35,264,330
Accounts, notes receivable and other, net	26,246,031	9,022,024	175,304,422	22,151,117	(181,817,539)	50,906,055
Inventories, net	<u>322,167</u>	<u>-</u>	<u>19,426,753</u>	<u>2,264,751</u>	<u>(190,628)</u>	<u>21,823,043</u>
Total current assets	44,587,993	19,834,398	196,574,150	29,005,054	(182,008,167)	107,993,428
Long-term debt receivable—intercompany	60,211,481	67,000,839	-	-	(127,212,320)	-
Investments in subsidiaries	211,215,618	-	-	5,071,505	(209,326,472)	6,960,651
Properties, net	8,329,378	65,477,154	338,274,924	18,955,794	190,625	431,227,875
Intangible asset derived from the actuarial computation of labor obligations and other assets	<u>12,774,667</u>	<u>718,388</u>	<u>40,871,979</u>	<u>3,374,392</u>	<u>9,124,640</u>	<u>66,864,066</u>
Total assets	<u>Ps. 337,119,137</u>	<u>Ps. 153,030,779</u>	<u>Ps. 575,721,053</u>	<u>Ps. 56,406,745</u>	<u>Ps. (509,231,694)</u>	<u>Ps. 613,046,020</u>
<b>LIABILITIES</b>						
Current liabilities:						
Current portion of long-term debt	Ps. 37,801,359	Ps. 10,186,812	Ps. 12,747,091	Ps. 4,489,753	Ps. (35,174,471)	Ps. 30,050,544
Accounts payable—intercompany	73,703,467	454,882	42,983,221	15,847,635	(132,989,205)	-
Other current liabilities	<u>5,974,651</u>	<u>4,594,725</u>	<u>32,845,816</u>	<u>6,304,100</u>	<u>(3,314,597)</u>	<u>46,404,695</u>
Total current liabilities	117,479,477	15,236,419	88,576,128	26,641,488	(171,478,273)	76,455,239
Long-term debt	77,656,910	93,144,398	59,985,687	2,732,329	(74,060,884)	159,458,440
Sale of future accounts receivable	-	-	51,740,437	-	(7,496,609)	44,243,828
Reserve for retirement payments, pensions, indemnities sundry creditors, and others	<u>23,548,290</u>	<u>44,649,962</u>	<u>166,601,288</u>	<u>18,457,995</u>	<u>(41,811,528)</u>	<u>211,446,007</u>
Total liabilities	<u>Ps. 218,684,677</u>	<u>Ps. 153,030,779</u>	<u>Ps. 366,903,540</u>	<u>Ps. 47,831,812</u>	<u>Ps. (294,847,294)</u>	<u>Ps. 491,603,514</u>
<b>EQUITY</b>						
Equity accounts	(60,257,038)	-	101,166,105	(4,021,635)	(100,140,195)	(63,252,763)
Revaluation surplus	<u>178,691,498</u>	<u>-</u>	<u>107,651,408</u>	<u>12,596,568</u>	<u>(114,244,205)</u>	<u>184,695,269</u>
	118,434,460	-	208,817,513	8,574,933	(214,384,400)	121,442,506
Total liabilities and equity	<u>Ps. 337,119,137</u>	<u>Ps. 153,030,779</u>	<u>Ps. 575,721,053</u>	<u>Ps. 56,406,745</u>	<u>Ps. (509,231,694)</u>	<u>Ps. 613,046,020</u>

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (AUDITED) and JUNE**  
**30, 2002 (UNAUDITED) and FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

**BALANCE SHEET**

**As of December 31, 2001**

**ASSETS**

Current assets:

	<u>Corporate</u>	<u>Master Trust</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
Cash and cash equivalents	Ps. 5,522,511	Ps. 5,288,454	Ps. 722,477	Ps. 2,908,422	Ps. -	Ps. 14,441,864
Accounts, notes receivable and other, net	2,699,390	7,804,623	94,357,062	15,612,018	(75,603,666)	44,869,427
Inventories, net	<u>165,166</u>	<u>-</u>	<u>14,222,954</u>	<u>2,834,594</u>	<u>-</u>	<u>17,222,714</u>
Total current assets	8,387,067	13,093,077	109,302,493	21,355,034	(75,603,666)	76,534,005
Long-term debt receivable—intercompany	50,509,012	63,413,676	-	-	(113,922,688)	-
Investments in subsidiaries	178,487,519	-	-	4,924,513	(174,969,287)	8,442,745
Properties, net	8,826,710	44,326,188	335,022,388	18,737,980	-	406,913,266
Intangible asset derived from the actuarial computation of labor obligations and other assets	<u>12,468,275</u>	<u>1,395,274</u>	<u>95,749,586</u>	<u>3,131,001</u>	<u>(47,750,904)</u>	<u>64,993,232</u>
Total assets	<u>Ps. 258,678,583</u>	<u>Ps. 122,228,215</u>	<u>Ps. 540,074,467</u>	<u>Ps. 48,148,528</u>	<u>Ps. (412,246,545)</u>	<u>Ps. 556,883,248</u>

**LIABILITIES**

Current liabilities:

Current portion of long-term debt	Ps. 28,328,581	Ps. 8,707,639	Ps. 12,724,756	Ps. 5,947,021	Ps. (19,461,891)	Ps. 36,246,106
Accounts payable—intercompany	16,290,049	436,459	12,017,704	12,726,585	(41,470,797)	-
Other current liabilities	<u>4,324,874</u>	<u>9,468,451</u>	<u>23,938,251</u>	<u>10,111,873</u>	<u>(12,141,133)</u>	<u>35,702,316</u>
Total current liabilities	48,943,504	18,612,549	48,680,711	28,785,479	(73,073,821)	71,948,422
Long-term debt	67,730,850	61,041,007	113,673,593	249,598	(119,525,053)	123,169,995
Sale of future accounts receivable	-	-	48,923,317	-	(4,237,715)	44,685,602
Reserve for retirement payments, pensions, indemnities sundry creditors and others	<u>21,233,452</u>	<u>42,574,659</u>	<u>157,797,694</u>	<u>16,604,603</u>	<u>(43,997,412)</u>	<u>194,212,996</u>
Total liabilities	<u>Ps. 137,907,806</u>	<u>Ps. 122,228,215</u>	<u>Ps. 369,075,315</u>	<u>Ps. 45,639,680</u>	<u>Ps. (240,834,001)</u>	<u>Ps. 434,017,015</u>
<b>EQUITY</b>						
Equity accounts	(60,610,938)	-	65,873,943	(9,671,154)	(54,563,356)	(58,971,505)
Revaluation surplus	<u>181,381,715</u>	<u>-</u>	<u>105,125,209</u>	<u>12,180,002</u>	<u>(116,849,188)</u>	<u>181,837,738</u>
Total liabilities and equity	<u>Ps. 258,678,583</u>	<u>Ps. 122,228,215</u>	<u>Ps. 540,074,467</u>	<u>Ps. 48,148,528</u>	<u>Ps. (412,246,545)</u>	<u>Ps. 556,883,248</u>



**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

**STATEMENT OF INCOME**

**For the six-month period ended June 30, 2002**

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	PEMEX Consolidated
Net sales	Ps. 10,602,012	-	Ps. 278,745,067	Ps. 100,058,066	Ps. (166,760,132)	Ps. 222,645,013
Other revenues	<u>(1,553,202)</u>	-	<u>5,597,071</u>	<u>741,607</u>	<u>(945,884)</u>	<u>3,839,592</u>
Total revenues	9,048,810	-	284,342,138	100,799,673	(167,706,016)	226,484,605
Costs and operating expenses:						
Cost of sales	53,030	-	126,315,014	100,995,997	(155,111,098)	72,252,943
Transportation and distribution expenses	-	-	6,589,444	240,500	(44,937)	6,785,007
Administrative expenses	7,553,851	-	15,093,363	2,098,116	(10,827,186)	13,918,144
Other expenses	<u>2,707,130</u>	-	<u>7,104,960</u>	<u>856,775</u>	<u>(1,535,855)</u>	<u>9,133,010</u>
Total costs and operating expenses	<u>10,314,011</u>	-	<u>155,102,781</u>	<u>104,191,388</u>	<u>(167,519,076)</u>	<u>102,089,104</u>
Equity participation in subsidiaries	<u>(4,859,217)</u>	-	-	-	<u>4,859,217</u>	-
(Loss) income before hydrocarbon extraction duties and other and special tax on production and services	(6,124,418)	-	129,239,357	(3,391,715)	4,672,277	124,395,501
Hydrocarbon extraction duties and other Special tax on production and services (IEPS)	-	-	70,220,495	372,190	-	70,592,685
	<u>-</u>	<u>-</u>	<u>60,164,165</u>	<u>-</u>	<u>-</u>	<u>60,164,165</u>
	<u>-</u>	<u>-</u>	<u>130,384,660</u>	<u>372,190</u>	<u>-</u>	<u>130,756,850</u>
Net (loss) income for the period	<u>Ps. (6,124,418)</u>	<u>-</u>	<u>Ps. (1,145,303)</u>	<u>Ps. (3,763,905)</u>	<u>Ps. 4,672,277</u>	<u>Ps. (6,361,349)</u>

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

**STATEMENT OF INCOME**

**For the six-month period ended June 30, 2001**

	<u>Corporate</u>	<u>Master Trust</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
Net sales	Ps. 4,913,982	-	Ps. 327,785,188	Ps. 110,372,359	Ps. (216,017,222)	Ps. 227,054,307
Other revenues	<u>2,347,444</u>	-	<u>6,894,420</u>	<u>921,589</u>	<u>(978,856)</u>	<u>9,184,597</u>
Total revenues	7,261,426	-	334,679,608	111,293,948	(216,996,078)	236,238,904
Costs and operating expenses:						
Cost of sales	(11)	-	176,186,640	113,094,708	(213,382,744)	75,898,593
Transportation and distribution expenses	-	-	6,138,548	209,074	(50,781)	6,296,841
Administrative expenses	6,617,626	-	8,837,142	1,946,125	(5,149,605)	12,251,288
Other expenses	<u>248,247</u>	-	<u>7,305,613</u>	<u>598,807</u>	<u>(442,713)</u>	<u>7,709,954</u>
Total costs and operating expenses	6,865,862	-	198,467,943	115,848,714	(219,025,843)	102,156,676
Equity participation in subsidiaries	<u>(6,989,423)</u>	-	-	-	<u>6,989,423</u>	-
Cumulative effect of adoption of new financial instruments standard	<u>(1,301,451)</u>	-	<u>(29,796)</u>	-	-	<u>(1,331,247)</u>
(Loss) income before hydrocarbon extraction duties and other and special tax on production and services	(7,895,310)	-	136,181,869	(4,554,766)	9,019,188	132,750,981
Hydrocarbon extraction duties and other Special tax on production and services (IEPS)	-	-	98,495,298	408,037	-	98,903,335
	-	-	<u>39,872,564</u>	-	-	<u>39,872,564</u>
	-	-	<u>138,367,862</u>	<u>408,037</u>	-	<u>138,775,899</u>
Net (loss) income for the period	<u>Ps. (7,895,310)</u>	<u>-</u>	<u>Ps. (2,185,993)</u>	<u>Ps. (4,962,803)</u>	<u>Ps. 9,019,188</u>	<u>Ps. (6,024,918)</u>

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (AUDITED) and JUNE**  
**30, 2002 (UNAUDITED) and FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the six-month period ended June 30, 2002**

	<u>Corporate</u>	<u>Master Trust</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
	<u>Ps. (238,986)</u>	<u>Ps. (6,907,678)</u>	<u>Ps. 45,970,298</u>	<u>Ps. (12,188,429)</u>	<u>Ps. 2,214,806</u>	<u>Ps. 28,850,011</u>
Funds (used in) provided by operating activities						
Financing activities:						
Sale of future accounts receivable	-	-	2,817,120	-	(3,258,894)	(441,774)
Long-term debt	19,398,837	33,582,564	(54,902,950)	1,025,464	31,081,002	30,184,917
Net income distributions to Petróleos Mexicanos	(4,909,209)	-	1,145,302	3,763,907	-	-
Other changes in equity and retained earnings	797,690	-	20,189,134	9,369,728	(32,408,560)	(2,052,008)
Funds provided by (used in) financing activities	<u>15,287,318</u>	<u>33,582,564</u>	<u>(30,751,394)</u>	<u>14,159,099</u>	<u>(4,586,452)</u>	<u>27,691,135</u>
Investing activities:						
Increase in fixed assets, net	(2,551,045)	(21,150,966)	(14,098,406)	(289,909)	2,371,646	(35,718,680)
Investments in subsidiaries	-	-	-	-	-	-
Funds provided by (used in) investing activities	<u>(2,551,045)</u>	<u>(21,150,966)</u>	<u>(14,098,406)</u>	<u>(289,909)</u>	<u>2,371,646</u>	<u>(35,718,680)</u>
Increase in cash and cash equivalents	12,497,287	5,523,920	1,120,498	1,680,761	-	20,822,466
Cash and cash equivalents at beginning of the year	<u>5,522,511</u>	<u>5,288,454</u>	<u>722,477</u>	<u>2,908,422</u>	<u>-</u>	<u>14,441,864</u>
Cash and cash equivalents at the end of the year	<u>Ps. 18,019,798</u>	<u>Ps. 10,812,374</u>	<u>Ps. 1,842,975</u>	<u>Ps. 4,589,183</u>	<u>Ps. -</u>	<u>Ps. 35,264,330</u>

**PETROLÉOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

**STATEMENT OF CHANGES IN FINANCIAL POSITION**

**For the six-month period ended June 30, 2001**

	<u>Corporate</u>	<u>Master Trust</u>	<u>Subsidiary Guarantors</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>PEMEX Consolidated</u>
	Ps. 85,481,226	Ps. 87,454,710	Ps. 24,473,721	Ps. (3,116,342)	Ps. (179,233,282)	Ps. 15,060,033
Funds (used in) provided by operating activities	-	-	(2,783,470)	-	-	(2,783,470)
Financing activities:						
Sale of future accounts receivable	(77,966,177)	(34,245,034)	(35,393,372)	641,707	153,413,866	6,450,990
Long-term debt	(7,148,796)	-	2,185,993	4,962,803	-	-
Net income distributions to Petróleos Mexicanos	630,671	-	16,327,684	(2,381,759)	(20,016,766)	(5,440,170)
Other changes in equity and retained earnings	(84,484,302)	(34,245,034)	(19,663,165)	3,222,751	133,397,100	(1,772,650)
Funds provided by (used in) financing activities						
Investing activities:						
Increase in fixed assets, net	273,876	(53,256,569)	(4,527,089)	523,536	45,836,182	(11,150,064)
Investments in subsidiaries	-	-	-	-	-	-
Funds provided by (used in) investing activities	273,876	(53,256,569)	(4,527,089)	523,536	45,836,182	(11,150,064)
(Decrease) increase in cash and cash equivalents	1,270,800	(46,893)	283,467	629,945	-	2,137,319
Cash and cash equivalents at beginning of the year	14,428,209	8,057,964	1,452,602	3,888,071	-	27,826,846
Cash and cash equivalents at the end of the year	<u>Ps. 15,699,009</u>	<u>Ps. 8,011,071</u>	<u>Ps. 1,736,069</u>	<u>Ps. 4,518,016</u>	<u>Ps. -</u>	<u>Ps. 29,964,165</u>

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES  
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF  
DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH  
PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)**

**UNAUDITED SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION  
PREPARED ON A PRICE-LEVEL ADJUSTED BASIS**

**For the Six-Month Periods Ended June 30, 2002 and 2001 and for the Year  
Ended December 31, 2001**

**General**

The unaudited supplementary consolidated price-level adjusted financial information included in the following pages has been prepared pursuant to Rule 3-20 (c) of Regulation S-X promulgated by the United States Securities and Exchange Commission. For the periods presented, Mexico was not considered a hyperinflationary economy. However, PEMEX has continued to provide supplemental price-level adjusted financial information for these subsequent periods in lieu of adoption of Mexican GAAP Bulletin B-10.

The supplemental financial information reflects all appropriate U.S. GAAP adjustments and, in the opinion of PEMEX management, all adjustments which are necessary for a fair presentation of the supplemental price-level adjusted financial information have been included herein. Unless otherwise noted, this financial information has been prepared in a manner consistent with the historical financial statements and should be read in conjunction with the audited consolidated financial statements as of December 31, 2001, 2000 and 1999 and for the three years then ended and the unaudited condensed consolidated financial statements as of June 30, 2002 and the six-month periods ended June 30, 2002 and 2001, presented herein.

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF**  
**DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH**  
**PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2001 AND JUNE 30, 2002**

(in thousands of constant pesos as of June 30, 2002)

	<u>As of June 30,</u> <b>2002</b>	<u>As of December 31,</u> <b>2001</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	Ps. 36,055,743	Ps. 14,869,872
Accounts, notes receivable and other, net	57,051,210	48,519,596
Inventories, net	<u>20,928,530</u>	<u>17,090,195</u>
Total current assets	114,035,483	80,479,663
Properties, net	442,984,408	430,141,203
Intangible asset derived from the actuarial computation of labor obligations and other assets	<u>76,509,365</u>	<u>80,769,022</u>
Total assets	<u>Ps. 633,529,256</u>	<u>Ps. 591,389,888</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	Ps. 34,778,532	Ps. 37,200,357
Other current liabilities	<u>46,003,650</u>	<u>40,567,875</u>
Total current liabilities	80,782,182	77,768,232
Long-term debt	200,430,672	166,564,070
Sale of future accounts receivable		-
Reserve for retirement payments, pensions and indemnities, sundry creditors, and others	<u>248,153,112</u>	<u>231,748,417</u>
Total liabilities	529,365,966	476,080,719
Minority interest	<u>1,731,492</u>	<u>1,499,810</u>
<b>TOTAL EQUITY</b>	<u>102,431,798</u>	<u>113,809,359</u>
Total liabilities and equity	<u>Ps. 633,529,256</u>	<u>Ps. 591,389,888</u>

*The accompanying notes are an integral part of this unaudited supplemental condensed consolidated financial information.*

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF**  
**DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH**  
**PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
**(Amounts expressed in thousands of pesos and thousands of U.S. dollars)**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2002 AND 2001**

**(In thousands of constant pesos as of June, 30, 2002)**

	<u>2002</u>	<u>2001</u>
Net sales (1)	<b>Ps. 164,064,565</b>	Ps. 198,001,205
Other revenues	<u>5,309,859</u>	<u>10,963,471</u>
Total revenues	<u><b>169,374,424</b></u>	<u>208,964,676</u>
Cost and operating expenses:		
Cost of sales	<b>74,045,416</b>	81,158,657
Transportation and distribution Expenses	<b>7,394,656</b>	7,021,242
Administrative expenses	<b>15,329,577</b>	13,815,808
Financial integral cost, net	<b>5,403,404</b>	(4,045,548)
Other expenses	<u><b>1,665,796</b></u>	<u>2,368,912</u>
Total costs and operating Expenses	<b>103,838,849</b>	100,319,071
Income before hydrocarbon extraction duties and other	<b>65,535,575</b>	108,645,605
Hydrocarbon extraction duties and other	<u><b>71,280,759</b></u>	<u>104,620,137</u>
Cumulative effect of adoption of new financial instruments standard	<u></u>	<u>3,995,583</u>
Minority interest	<u><b>(125,827)</b></u>	<u>(269,441)</u>
Net (loss) income for the period	<b>Ps. <u>(5,871,011)</u></b>	Ps. <u>7,751,610</u>

- (1) As discussed in Note 12 II (b), under Mexican GAAP, the IEPS tax is reflected in revenue when charged to customers and, at the same time, deducted from "Income before hydrocarbon extraction duties, special tax on production and services and other." Under U.S. GAAP the IEPS tax would have no effect on revenues nor would it be deducted from "Income before hydrocarbon extraction duties, special tax on production and services and other".

*The accompanying notes are an integral part of this unaudited supplemental condensed consolidated financial information.*

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF**  
**DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH**  
**PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR**  
**THE SIX-MONTH PERIODS ENDED JUNE 30, 2002 AND 2001**  
(In thousands of constant pesos as of June 30, 2002)

	<b>2002</b>	<b>2001</b>
Operating Activities		
Net loss	<b>Ps. (5,871,011)</b>	Ps. 7,751,610
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Depreciation and amortization	<b>15,236,279</b>	15,777,402
Reserve for retirement payments, pensions and indemnization	<b>23,633,029</b>	21,098,281
Impairment of fixed assets	—	(6,164,234)
Loss on disposal of fixed assets	<b>2,795,676</b>	1,843,827
Allowance for uncollectible trade Accounts		
Allowance for slow-moving inventory and obsolescence		
Minority interest	<b>270,155</b>	221,373
Repsol collar		
Foreign exchange loss	<b>5,273,006</b>	(4,906,839)
Accounting for financial instruments	<b>(786,176)</b>	(5,368,060)
Gain from monetary position	<b>(8,124,697)</b>	(5,815,806)
Changes in operating assets and liabilities:		
Accounts and notes receivable	<b>(6,783,826)</b>	(518)
Inventories	<b>(4,276,727)</b>	6,653,475
Other assets	<b>2,088,087</b>	297,836
Accounts payable and accrued Liabilities	<b>9,842,731</b>	(23,786,744)
Sales of future accounts receivable	<b>1,545,266</b>	(2,768,600)
<b>Cash flows provided by operating activities</b>	<b>34,841,792</b>	4,833,003



**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF**  
**DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH**  
**PERIODS ENDED JUNE 30, 2001 (UNAUDITED) and JUNE 30, 2002 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR**  
**THE SIX-MONTH PERIODS ENDED JUNE 30, 2002 AND 2001**  
(In thousands of constant pesos as of June 30, 2002)

	<u>2002</u>	<u>2001</u>
Investing Activities		
Acquisition of fixed assets	<u>(19,764,014)</u>	<u>(17,254,756)</u>
<b>Cash flows used in investing activities</b>	<b><u>(19,764,014)</u></b>	<b><u>(17,254,756)</u></b>
Financing Activities		
New long term financing	48,567,541	52,125,822
Financing payments	(24,808,503)	(31,371,702)
Effect of consolidating PEMEX finance	—	740,998
Dividends paid to the Mexican Government	<u>(4,801,854)</u>	<u>(1,512,669)</u>
<b>Cash flows provided by financing activities</b>	<b><u>18,957,184</u></b>	<b><u>19,982,449</u></b>
Effects of inflation and exchange rate fluctuations on cash and cash equivalents	<u>(12,849,091)</u>	<u>(4,016,622)</u>
Increase in cash and cash equivalents	21,185,871	3,544,074
Cash and cash equivalents, beginning of period	<u>14,869,872</u>	<u>29,816,776</u>
Cash and cash equivalents, end of period	<b>Ps. <u>36,055,743</u></b>	<b>Ps. <u>33,360,850</u></b>

*The accompanying notes are an integral part of this unaudited supplemental condensed consolidated financial information.*

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE**  
**AS OF DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH**  
**PERIODS ENDED JUNE 30, 2002 and 2001 (UNAUDITED)**  
**(Amounts expressed in thousands of pesos and thousands of U.S. dollars)**

**NOTES TO THE UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATED**  
**FINANCIAL INFORMATION PREPARED ON A PRICE-LEVEL ADJUSTED BASIS**

**For the Six-Month Periods Ended June 30, 2002 (unaudited) and 2001 (unaudited)**  
**(In thousands of constant pesos as of June 30, 2002)**

**1. Effects of inflation on the financial information**

The methodology utilized in preparing the price-level adjusted financial information is consistent with the information presented for the three years ended December 31, 2001, 2000 and 1999 and included elsewhere in this registration statement.

a) Effects of inflation on the financial information

The consolidated supplemental financial information of PEMEX has been restated to recognize the effects of inflation and is expressed in thousands of pesos of constant purchasing power as of June 30, 2002, determined as follows:

- The consolidated statement of operations (excluding depreciation and cost of sales which is described below) for the six-month periods ended June 30, 2002 and 2001 were restated applying the Mexican National Consumer Price Index (“NCPI”) from the periods in which the transactions occurred to June 30, 2002. In accordance with U.S. GAAP, the “Net Sales” line item as presented excludes the IEPS Tax; an amount which equaled Ps. 60,750,591 and Ps. 42,177,274 for the six-month periods ended June 30, 2002 and 2001, respectively.
- For comparability purposes, balance sheet information as of December 31, 2001 has been restated to pesos as of June 30, 2002 by utilizing the change in the NCPI from December 31, 2001 to June 30, 2002.

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE**  
**AS OF DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH**  
**PERIODS ENDED JUNE 30, 2002 and 2001 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**NOTES TO THE UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATED**  
**FINANCIAL INFORMATION PREPARED ON A PRICE-LEVEL ADJUSTED BASIS**

**For the Six-Month Periods Ended June 30, 2002 and 2001**  
(In thousands of constant pesos as of June 30, 2002)

- The NCPI factor used to recognize the effects of inflation were:

<u>Six-Month Periods Ended June 30,</u>	<u>Change in National Consumer Price Index</u>
2001 .....	2.1084 %
<b>2002 .....</b>	<b>2.6327 %</b>

- Cash flow information

Supplemental disclosures of interest and taxes paid are as follows:

	<u>2002</u>	<u>2001</u>
Interest paid (net of amounts capitalized)	<b>11,150,191</b>	9,542,159
Taxes paid	<b>113,856,950</b>	159,680,725

Supplemental disclosures of non-cash transactions are as follows:

	<u>2002</u>	<u>2001</u>
Unrealized gains or (losses) on available for sale securities	<b>(900,011)</b>	(217,291)
Additional minimum pension liability	<b>1,540,032</b>	1,188,686
Accounting for financial instruments	<b>2,053,489</b>	6,450,202

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE**  
**AS OF DECEMBER 31, 2001 (AUDITED) and JUNE 30, 2002 (UNAUDITED) and FOR THE SIX-MONTH**  
**PERIODS ENDED JUNE 30, 2002 and 2001 (UNAUDITED)**  
(Amounts expressed in thousands of pesos and thousands of U.S. dollars)

**NOTES TO THE UNAUDITED SUPPLEMENTAL CONDENSED CONSOLIDATED**  
**FINANCIAL INFORMATION PREPARED ON A PRICE-LEVEL ADJUSTED BASIS**

**For the Six-Month Periods Ended June 30, 2002 (unaudited) and 2001 (unaudited)**  
(In thousands of constant pesos as of June 30, 2002)

**2. Segment information**

The following segment information is prepared on a price-level adjusted basis.

Six month periods ended June 30, 2002	Exploration and Production	Refining <sup>(1)</sup>	Gas and Basic Petrochemicals	Petrochemicals	Corporate and other	Intersegment Eliminations	Total
Sales:							
Trade	Ps. 55,595,043	Ps. 122,057,352	Ps. 26,784,268	Ps. 3,866,392	Ps. 16,512,101	Ps. -	Ps. 224,815,156
Intersegment	<u>64,865,927</u>	<u>3,515,795</u>	<u>8,643,610</u>	<u>1,252,761</u>	<u>90,107,450</u>	<u>(168,385,543)</u>	<u>-</u>
Total net sales	<u>Ps. 120,460,970</u>	<u>Ps. 125,573,147</u>	<u>Ps. 35,427,878</u>	<u>Ps. 5,119,153</u>	<u>Ps. 106,619,551</u>	<u>Ps. (168,385,543)</u>	<u>Ps. 224,815,156</u>
Six-month periods ended June 30, 2001	Exploration and Production	Refining <sup>(1)</sup>	Gas and Basic Petrochemicals	Petrochemicals	Corporate and other	Intersegment Eliminations	Total
Sales:							
Trade	Ps. 62,389,747	Ps. 125,304,013	Ps. 40,272,899	Ps. 5,424,599	Ps. 6,787,222	Ps. -	Ps. 240,178,480
Intersegment	<u>93,409,136</u>	<u>5,340,490</u>	<u>20,015,502</u>	<u>1,609,199</u>	<u>108,129,093</u>	<u>(228,503,420)</u>	<u>-</u>
Total net sales	<u>Ps. 155,798,883</u>	<u>Ps. 130,644,503</u>	<u>Ps. 60,288,401</u>	<u>Ps. 7,033,798</u>	<u>Ps. 114,916,315</u>	<u>Ps. (228,503,420)</u>	<u>Ps. 240,178,480</u>

(1) Net sales include IEPS Tax amounting to Ps. 60,750,591 and Ps. 42,177,274 in 2002 and 2001, respectively.

**3. Financial integral result**

Financial integral result is analyzed as follows:

	2002	2001
Exchange (loss) gain	Ps. (5,273,006)	Ps. 4,906,839
Monetary position	8,124,697	5,815,806
Result		
Interest cost and other	(8,255,095)	(6,677,097)
Total	<u>Ps. (5,403,404)</u>	<u>Ps. 4,045,548</u>

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**PEMEX**