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PRICING SUPPLEMENT NO. 2
(To Offering Circular dated February 11, 2005)

Pemex Project Funding Master Trust

Unconditionally Guaranteed by

Petróleos Mexicanos

U.S. $1,000,000,000 5.75% Notes due 2015
U.S. $500,000,000 6.625% Bonds due 2035

Issued Under U.S. $20,000,000,000 Medium-Term Notes Program, Series A

The payment of principal of and interest on the 5.75% Notes due 2015 (the "Notes") and the 6.625% Bonds due 2035 (the "Bonds," and, together with the Notes, the "Securities") will be unconditionally and irrevocably guaranteed by Petróleos Mexicanos (the "Guarantor"), a decentralized public entity of the Federal Government of the United Mexican States ("Mexico"). Petróleos Mexicanos' obligations as Guarantor will be unconditionally and irrevocably 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 Mexican Government. The Securities are not obligations of, or guaranteed by, Mexico.

Pemex Project Funding Master Trust (the "Issuer") will pay interest on the Securities on June 15 and December 15 of each year. The first such payment will be made on December 15, 2005. Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on December 15, 2015 and the Bonds will be redeemed at their principal amount on June 15, 2035. The Securities 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 "Description of the Notes—Redemption—Tax Redemption" in the Offering Circular. In addition, the Issuer may redeem any of the Securities in whole or in part, at any time, by paying the principal amount of the applicable Securities plus a "make-whole" amount plus, in each case, accrued interest. See "Description of the Securities—Redemption at the Option of the Issuer (other than tax redemption)" in this Pricing Supplement. Application has been made to list the Securities on the Luxembourg Stock Exchange.

The Securities will contain provisions regarding acceleration and future modifications to their terms that differ from those applicable to certain of the Issuer's and the Guarantor's other outstanding public external indebtedness issued prior to October 2004. Under these provisions, which are commonly referred to as "collective action clauses" and are described under "Description of Notes—Modification and Waiver" in the Offering Circular, in certain circumstances, the Issuer and the Guarantor may amend the payment and certain other provisions of a series of Securities with the consent of the holders of 75% of the aggregate principal amount of the Securities of that series.

The Issuer and the Guarantor have agreed to file an exchange offer registration statement or, under specified circumstances, a shelf registration statement, pursuant to an exchange and registration rights agreement. If the Issuer and the Guarantor fail to comply with specified obligations under the exchange and registration rights agreement, the Issuer will pay additional interest to the holders of the Securities.

Investing in the Securities involves risks. See "Risk Factors" beginning on page 13 of the Offering Circular.

The Securities have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and are being offered and sold only (a) to "Qualified Institutional Buyers" (as defined in Rule 144A under the Securities Act ("Rule 144A")) in compliance with Rule 144A and (b) outside the United States in accordance with Regulation S under the Securities Act. For a description of certain restrictions on resale and transfer of the Securities, see "Plan of Distribution" in this Pricing Supplement and "Notice to Investors" and "Offering and Sale" in the Offering Circular.

Issue Price of the Notes: 99.788% plus accrued interest, if any, from June 8, 2005.
Issue Price of the Bonds: 98.652% plus accrued interest, if any, from June 8, 2005.

The Managers expect to deliver the Securities on or about June 8, 2005.

Joint Lead Managers

Credit Suisse First Boston **Lehman Brothers**

Co- Managers

Barclays Capital **JPMorgan** **Morgan Stanley**

June 1, 2005

You should rely on the information contained in this Pricing Supplement and the Offering Circular. None of the Issuer, the Guarantor or the Subsidiary Guarantors have authorized anyone to provide you with different information. None of the Issuer, the Guarantor, the Subsidiary Guarantors or the Managers (as defined below) are making an offer of these Securities in any state where the offer is not permitted. You should not assume that the information contained in this Pricing Supplement and the Offering Circular is accurate as of any date other than the date on the front of this Pricing Supplement and the Offering Circular.

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This Pricing Supplement and the Offering Circular have been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Securities. This Pricing Supplement and the Offering Circular are personal to each offeree and do not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Securities. Distribution of this Pricing Supplement and the Offering Circular to any other person other than the offeree and any person retained to advise such offeree with respect to its purchase is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Issuer and the Guarantor, is prohibited. Each prospective investor, by accepting delivery of this Pricing Supplement and the Offering Circular, agrees to the foregoing and to make no photocopies of this Pricing Supplement and the Offering Circular or any documents referred to herein.

The Managers make no representation or warranty, express or implied, as to the accuracy or the completeness of the information contained in this Pricing Supplement and the Offering Circular. Nothing in this Pricing Supplement or the Offering Circular is, or shall be relied upon as, a promise or representation by the Managers as to the past or future. The Issuer and the Guarantor have furnished the information contained in this Pricing Supplement and in the Offering Circular.

Neither the Securities and Exchange Commission, any state securities commission, nor any other U.S. regulatory authority, has approved or disapproved the Securities nor have any of the foregoing authorities passed upon or endorsed the merits of this Pricing Supplement or the Offering Circular. Any representation to the contrary is a criminal offense.

In making an investment decision, prospective investors must rely on their own examination of the Issuer, the Guarantor and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this Pricing Supplement or the Offering Circular as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Securities under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

This Pricing Supplement and the Offering Circular contain summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such references. Copies of documents referred to herein will be made available to prospective investors upon request to the Issuer or the Managers.

PETRÓLEOS MEXICANOS, AS GUARANTOR, HAS REGISTERED THE SECURITIES TO BE ISSUED UNDER THE U.S. $20,000,000,000 MEDIUM-TERM NOTES PROGRAM, SERIES A IN THE *SECCIÓN ESPECIAL* (OR "SPECIAL SECTION") OF THE *REGISTRO NACIONAL DE VALORES* (THE "REGISTRY") MAINTAINED BY THE *COMISIÓN NACIONAL BANCARIA Y DE VALORES* (NATIONAL BANKING AND SECURITIES COMMISSION, OR THE "CNBV") OF MEXICO, WHICH IS A REQUIREMENT UNDER THE *LEY DEL MERCADO DE VALORES* (SECURITIES MARKET LAW), IN CONNECTION WITH AN OFFERING OF SECURITIES OUTSIDE OF MEXICO BY A MEXICAN ISSUER. REGISTRATION OF THE SECURITIES IN THE SPECIAL SECTION OF THE REGISTRY DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE SECURITIES, THE SOLVENCY OF THE ISSUER, THE GUARANTOR OR THE SUBSIDIARY GUARANTORS OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR IN THE OFFERING CIRCULAR. FURTHERMORE, THE INFORMATION CONTAINED HEREIN OR IN THE OFFERING CIRCULAR IS THE SOLE RESPONSIBILITY OF THE ISSUER, THE GUARANTOR AND THE SUBSIDIARY GUARANTORS (AND NOT THE MANAGING TRUSTEE) AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV OF MEXICO. THE SECURITIES HAVE NOT BEEN REGISTERED IN THE *SECCIÓN DE VALORES* (OR "SECURITIES SECTION") OF THE REGISTRY AND, CONSEQUENTLY, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO. ANY MEXICAN INVESTOR WHO ACQUIRES THE SECURITIES FROM TIME TO TIME MUST RELY ON ITS OWN EXAMINATION OF THE ISSUER, GUARANTOR AND SUBSIDIARY GUARANTORS.

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NOTICE TO 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.

DESCRIPTION OF SECURITIES

The following items under this heading "Description of Securities" are the particular terms which relate to the tranches of the Securities that are the subject of this Pricing Supplement.

1.	Series No.:	For the Notes: 12 For the Bonds: 13
2.	Principal Amount:	For the Notes: U.S. $1,000,000,000 For the Bonds: U.S. $500,000,000
3.	Issue Price:	For the Notes: 99.788% plus accrued interest, if any, from June 8, 2005 For the Bonds: 98.652% plus accrued interest, if any, from June 8, 2005
4.	Issue Date:	June 8, 2005
5.	Form of Securities:	Registered Securities
6.	Authorized Denomination(s):	U.S. $10,000 and integral multiples of U.S. $1,000 in excess thereof
7.	Specified Currency:	U.S. dollars ("U.S. $" or "$")
8.	Stated Maturity Date:	For the Notes: December 15, 2015 For the Bonds: June 15, 2035
9.	Interest Basis:	Fixed Rate Securities
10.	Interest Commencement Date (if different from the Issue Date):	N/A
11.	Fixed Rate Securities:	
	(a) Interest Rate:	For the Notes: 5.75% per annum, payable semi-annually in arrears. For the Bonds: 6.625% per annum, payable semi-annually in arrears.
	(b) Interest Payment Date(s):	June 15 and December 15 of each year, commencing on December 15, 2005.
	(c) Fixed Rate Day Count Fraction:	30/360
12.	Discount Securities:	No
13.	Redemption at the option of the Issuer (other than tax redemption):	The Issuer will have the right at its option to redeem any of the Securities, in whole or in part, at any time or from time to time prior to their maturity, at a redemption price equal to the principal amount thereof, plus the Make-Whole Amount (as defined below), plus accrued interest on the principal amount of the Securities to the date of redemption. "Make-Whole Amount" means the excess of (i) the sum of the present values of each remaining scheduled payment of principal and interest on the applicable Securities (exclusive of interest accrued to the date of

redemption), discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 37.5 basis points (in the case of the Notes) or 50 basis points (in the case of the Bonds) over (ii) the principal amount of such Securities.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker (as defined below) as having an actual or interpolated maturity comparable to the remaining term of the Securities to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Securities.

"Independent Investment Banker" means one of the Reference Treasury Dealers (as defined below) appointed by either the Issuer or the Guarantor.

"Comparable Treasury Price" means, with respect to any redemption date (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (ii) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Reference Treasury Dealer" means any of Credit Suisse First Boston LLC, Lehman Brothers Inc., Barclays Capital Inc., J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated or their affiliates which are primary United States government securities dealers, and their respective successors; *provided* that if any of the foregoing shall cease to be a primary United States government securities dealer in the City of New York (a "Primary Treasury Dealer"), the Issuer or the Guarantor will substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 pm New York time on the third business day preceding such redemption date.

14. Repayment at the option of the holders: No

15. Indexed Securities: No

16.	Registration Rights; Exchange Offer:	Pursuant to an exchange and registration rights agreement to be entered into among the Issuer, the Guarantor and the Managers (the "Registration Rights Agreement"), the Issuer will agree to use its best efforts to (a) file with the United States Securities and Exchange Commission (the "Commission") a registration statement (an "Exchange Offer Registration Statement") on an appropriate form under the Securities Act of 1933, as amended (the "Securities Act"), with respect to an offer to exchange (an "Exchange Offer") the Notes and the Bonds for new notes or bonds of the Issuer, as the case may be (the "Exchange Notes" and the "Exchange Bonds," respectively, and, together, the "Exchange Securities") with terms identical to the Notes or the Bonds, as the case may be (subject to certain exceptions), within 90 days after the date of issue of the Securities, (b) have such registration statement declared effective under the Securities Act within 240 days after such date of issue and (c) consummate the Exchange Offers within 275 days after such date of issue. In the event that applicable law, regulation or policy of the Commission does not allow the consummation of the Exchange Offers, or upon the occurrence of certain other conditions, the Issuer will use its best efforts to file a "shelf" registration statement covering resales of the Notes and the Bonds by the holders thereof; *provided* that the Issuer shall not be required to file a "shelf" registration statement during any period prior to August 1 or after September 30 of any calendar year. With respect to any Notes or Bonds, if a Registration Default (as defined herein) relating to the filing or declaration of effectiveness of a registration statement or the related Exchange Offer occurs, the per annum interest rate on all outstanding Notes or Bonds (as the case may be) or, in the case of all other Registration Defaults, the per annum interest rate on the Notes or Bonds to which such Registration Default relates, will increase by 0.25% per annum with respect to each 90-day period during the existence of such failure, until all Registration Defaults are cured, up to an aggregate maximum of 1.00% per annum over the relevant rate shown on the cover page of this Pricing Supplement. See "Exchange Offers; Registration Rights" below.
17.	Additional provisions relating to the Securities:	The Issuer reserves the right to increase the size of the issue of either the Notes or the Bonds, or from time to time, without the consent of the holders of either the Notes or the Bonds, create and issue further securities having substantially the same terms and conditions thereof, except for the Issue Price, Issue Date and amount of the first payment of interest, which additional securities may be consolidated and form a single series with the Notes or the Bonds, as the case may be; *provided* that such additional securities do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the Notes or the Bonds, as the case may be, have on the date of issue of such additional securities.
	Other Relevant Terms	
18.	Listing:	Luxembourg Stock Exchange
19.	Syndicated:	Yes

20	If Syndicated:		
	(a) Joint Lead Managers:		Credit Suisse First Boston LLC Lehman Brothers Inc.
	(b) Stabilizing Manager:		Credit Suisse First Boston LLC
21.	Commissions and Concessions:		For the Notes: 0.40% For the Bonds: 0.55%
22.	Codes:		
	(a)	Common Code:	For the Notes: 22177605 (Restricted Global Note) 22177648 (Regulation S Global Note) For the Bonds: 22177834 (Restricted Global Bond) 22177893 (Regulation S Global Bond)
	(b)	ISIN:	For the Notes: US70645JAP75 (Restricted Global Note) US70645KAP49 (Regulation S Global Note) For the Bonds: US70645JAQ58 (Restricted Global Bond) US70645KAQ22 (Regulation S Global Bond)
	(c)	CUSIP:	For the Notes: 70645JAP7 (Restricted Global Note) 70645KAP4 (Regulation S Global Note) For the Bonds: 70645JAQ5 (Restricted Global Bond) 70645KAQ2 (Regulation S Global Bond)
23.	Identity of Managers:		See “Plan of Distribution” below
24.	Listing Agent:		Kredietbank S.A. Luxembourgeoise
25.	Provisions for Registered Securities:		
	(a)	Rule 144A eligible:	Yes
	(b)	Regulation S Global Note and Regulation S Global Bond deposited with or on behalf of DTC:	Yes
	(c)	Restricted Global Note and Restricted Global Bond deposited with or on behalf of	

	DTC:	Yes
(d)	Regulation S Global Note and Regulation S Global Bond deposited with Common Depositary:	No

26.	Use of Proceeds (if different from Offering Circular):	In addition to financing PEMEX's investment program, the Issuer will use the net proceeds of the issuance of the Securities to refinance inter-company obligations arising from the redemption by Pemex Finance, Ltd. of certain of its outstanding securities (see "Recent Developments—Liquidity and Capital Resources—Recent Financing Activities" in this Pricing Supplement).
27.	Further Information:	For purposes of this Pricing Supplement, all references in the Offering Circular to "Notes" shall be deemed to include, where applicable, the Notes and the Bonds described herein, and the terms "Fixed Rate Security," "Discount Securities," "Indexed Securities," "Registered Securities," "Restricted Global Bond" and "Regulation S Global Bond" shall have the respective meanings assigned to the terms "Fixed Rate Note," "Discount Notes," "Indexed Notes," "Registered Notes," "Restricted Global Note" and "Regulation S Global Note," respectively, in the Offering Circular.

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EXCHANGE OFFERS; REGISTRATION RIGHTS

Pursuant to the Registration Rights Agreement, the Issuer will agree to use its best efforts to file with the Commission the Exchange Offer Registration Statement on an appropriate form under the Securities Act with respect to its offers to exchange the Notes for Exchange Notes and the Bonds for Exchange Bonds. Upon the effectiveness of the Exchange Offer Registration Statement, the Issuer will offer to the holders of the Notes and Bonds who are able to make certain representations the opportunity to exchange their Securities for Exchange Securities. The Exchange Securities will have terms identical to the applicable Securities, except that the Exchange Securities (1) will not contain the restrictions on transfer that are applicable to the Securities and (2) will not contain any provisions for additional interest.

The Registration Rights Agreement will provide that: (i) unless the related Exchange Offer would not be permitted by applicable law or Commission policy, the Issuer will use its best efforts (a) to file an Exchange Offer Registration Statement with the Commission within 90 days after the date of issue of the Securities, (b) to have the Exchange Offer Registration Statement declared effective by the Commission within 240 days after the date of issue of the Securities, and (c) to commence promptly such Exchange Offer after such declaration of effectiveness and to issue, within 275 days after the date of issue of the Securities, Exchange Securities in exchange for all Securities tendered prior to the expiration of such Exchange Offer, and (ii) if obligated to file the Shelf Registration Statement (as defined below), the Issuer will use its best efforts to file the Shelf Registration Statement prior to the later of 240 days after the date of issue of the Securities or 30 days after such filing obligation arises (but in no event prior to August 1 or after September 30 of any calendar year) and the Issuer will use its best efforts to have such Shelf Registration Statement declared effective by the Commission on or prior to the 60th day after such filing was required to be made (but in no event prior to August 1 or after September 30 of any calendar year), *provided* that if the Issuer has not consummated such Exchange Offer within 275 days after the date of the issue of the Securities, then the Issuer will file the Shelf Registration Statement with the Commission on or prior to the 240th day after the date of issue of the Securities (but in no event prior to August 1 or after September 30 of any calendar year). The Issuer will use its best efforts to keep such Shelf Registration Statement continuously effective, supplemented and amended until the second anniversary of the effective date of the Shelf Registration Statement or such shorter period that will terminate when all the Registrable Securities (as defined below) covered by the Shelf Registration Statement have been sold pursuant thereto or may be sold pursuant to Rule 144(k) under the Securities Act if held by a non-affiliate of the Issuer; *provided* that the Issuer shall not be obligated to keep the Shelf Registration Statement effective, supplemented or amended during any period prior to August 1 or after September 30 of any calendar year.

If (i) the Issuer is not permitted to file the Exchange Offer Registration Statement or to consummate such Exchange Offer because such Exchange Offer is not permitted by applicable law or Commission policy, (ii) such Exchange Offer is not consummated within 275 days after the date of issue of the Securities or (iii) any holder of Securities notifies the Issuer within a specified time period that (a) due to a change in law or Commission policy it may not resell the Exchange Securities acquired by it in such Exchange Offer to the public without delivering a prospectus and the prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales by such holder, (b) it is a Manager and owns Securities acquired directly from the Issuer or an affiliate of the Issuer or (c) the holders of a majority in aggregate principal amount of the Securities may not resell the Exchange Securities acquired by them in such Exchange Offer to the public without restriction under applicable blue sky or state securities laws, then the Issuer will use its best efforts (1) to file with the Commission a shelf registration statement (the "Shelf Registration Statement") to cover resales of all Registrable Securities (as defined below) by the holders thereof and (2) to have the applicable registration statement declared effective by the Commission on or prior to 60 days after such filing was required to be made; *provided* that the Issuer shall not be obligated to file a Shelf Registration Statement, or to cause a Shelf Registration Statement to remain effective, during any period prior to August 1 or after September 30 of any calendar year. For purposes of the foregoing, "Registrable Securities" means each Security until (i) the date on which such Security is exchanged by a person other than a broker-dealer for an Exchange Security in an Exchange Offer, (ii) following the exchange by a broker-dealer in an Exchange Offer of a Security for an Exchange Security, the date on which such Exchange Security is sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of a prospectus, (iii) the date on which such Security is effectively registered under the Securities Act and disposed of in accordance with a Shelf Registration Statement, (iv) the date on which such Security is sold to the public pursuant to Rule 144 under the Securities Act (or any similar provision then in force, but not Rule 144A, (v) the date on which (A) such Security is otherwise transferred by the holder thereof and a new Security not bearing a legend restricting further transfer is delivered by the Issuer in exchange therefore and (B) a subsequent disposition of such Security shall not

require registration or qualification under the Securities Act or any similar state law then in force or (vi) the date on which such Security ceases to be outstanding.

Under existing Commission interpretations, the Exchange Securities would, in general, be freely transferable after the Exchange Offer without further registration under the Securities Act; *provided* that any broker-dealer participating in an Exchange Offer must deliver a prospectus meeting the requirements of the Securities Act upon any resale of Exchange Securities. Subject to certain exceptions, the Issuer has agreed, for a period of 180 days after consummation of an Exchange Offer, to make available a prospectus meeting the requirements of the Securities Act to any such broker-dealer for use in connection with any resale of any Exchange Security acquired in an Exchange Offer. A broker-dealer that delivers such a prospectus to purchasers in connection with such resales will be subject to certain of the civil liability provisions under the Securities Act and will be bound by the provisions of the applicable Registration Rights Agreement, including certain indemnification obligations.

Each holder of Securities that wishes to exchange Securities for Exchange Securities in an Exchange Offer will be required to make certain representations, including representations that (i) any Exchange Securities to be received by it will be acquired in the ordinary course of its business, (ii) it has no arrangement with any person to participate in a distribution of the Exchange Securities and it does not intend to participate in any such distribution and (iii) it is not an "affiliate," as defined in Rule 405 of the Securities Act, of the Issuer, or if it is an affiliate, it will comply (at its own expense) with the registration and prospectus delivery requirements of the Securities Act to the extent applicable.

If the holder is a broker-dealer that will receive Exchange Securities for its own account in exchange for Securities that were acquired as a result of market-making activities or other trading activities, it will be required to acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities.

If (i) the Exchange Offer Registration Statement (or a Shelf Registration Statement in lieu thereof) is not filed on or prior to the 90th day after the date of issue of the Securities, (ii) the Exchange Offer Registration Statement (or a Shelf Registration Statement in lieu thereof) is not declared effective by the Commission on or prior to the 240th day after the date of issue of the Securities, (iii) an Exchange Offer is not consummated on or prior to the 35th day after the date specified for the effectiveness of the Exchange Offer Registration Statement, (iv) a Shelf Registration Statement required to be filed is not filed on or before the date specified above for such filing, (v) a Shelf Registration Statement otherwise required to be filed is not declared effective on or before the date specified above for effectiveness thereof or (vi) a Shelf Registration Statement is declared effective but thereafter, subject to certain exceptions, ceases to be effective or usable in connection with resales of Registrable Securities during the periods specified in the Registration Rights Agreement (each such event referred to in clauses (i) through (vi) above, a "Registration Default"), then, with respect to any Securities, in the case of a Registration Default referred to in clause (i), (ii) or (iii) above, the interest rate on all Securities or, in the case of a Registration Default referred to in clause (iv), (v) or (vi) above, the interest rate on the Notes or Bonds, as the case may be, to which such Registration Default relates, will increase by 0.25% per annum with respect to each 90-day period that passes until all such Registration Defaults have been cured, up to a maximum amount of 1.00% per annum. Following the cure of any Registration Default, the accrual of such additional interest related to such Registration Default will cease, and the interest rate applicable to the affected Notes or Bonds will revert to the original rate.

RECENT DEVELOPMENTS

The following discussion of PEMEX's recent results should be read in conjunction with Pemex's 2004 financial statements included in Annex S/F to this Pricing Supplement, "Annex A–Recent Developments" and "Annex B–Pemex 2003 Annual Report on Form 20-F," in particular "Annex B–Item 5–Operating and Financial Review and Prospects" and the audited consolidated financial statements included in Annex B to the accompanying Offering Circular.

Exchange Rates

The Noon Buying Rate for cable transfers in New York reported by the Federal Reserve Bank of New York on June 1, 2005 was Ps. 10.8450 = U.S. $1.00.

Capitalization of PEMEX

The following table sets forth the capitalization, at December 31, 2004 and March 31, 2005, of Petróleos Mexicanos, the four subsidiary entities listed in "—Consolidated Structure of PEMEX" in Annex B to the Offering Circular (the "Subsidiary Entities"), and the other consolidated subsidiary companies, including the Issuer, listed in "—Consolidated Structure of PEMEX" in Annex B to the Offering Circular (the "Subsidiary Companies") (collectively, "PEMEX"). The figures are not directly comparable because they are stated in constant pesos as of different dates; however, no material difference would result from a restatement of the figures to constant pesos at March 31, 2005, as the inflation for the three-month period was 0.7%.

	At December 31, 2004 (millions of constant pesos as of December 31, 2004)	At March 31, 2005[1][2][3] (millions of constant pesos or U.S. dollars as of March 31, 2005)	
Long-term external debt	Ps. 325,655	Ps. 394,287	$ 35,273
Long-term domestic debt	68,894	53,522	4,788
Total long-term debt[4]	Ps. 394,549	Ps. 447,809	$ 40,061
Certificates of Contribution "A"[5]	Ps. 86,909	Ps. 87,526	$ 7,830
Mexican Government increase in equity of Subsidiary Entities[6]	32,638	33,208	2,971
Surplus in the restatement of equity	132,342	134,317	12,016
Effect on equity from labor obligations	(6,976)	(7,031)	(629)
Comprehensive income	0	(1,616)	(145)
Accumulated losses (prior years)[7]	(186,074)	(213,072)	(19,061)
Net income (loss) for the period[8]	(25,496)	5,138	460
Total equity	33,343	38,470	3,441
Total capitalization	Ps. 427,892	Ps. 486,279	$ 43,502

Notes: Numbers may not total due to rounding.

(1) Unaudited.

(2) Convenience translations into U.S. dollars of amounts in pesos have been made at the established exchange rate of Ps. 11.1783 = U.S. $1.00 at March 31, 2005. Such translations 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) There has been no material change in the capitalization of PEMEX since March 31, 2005, except for PEMEX's undertaking of new financings as disclosed in "—Liquidity and Capital Resources—Recent Financing Activities" below.

(4) Total long-term debt does not include short-term indebtedness of Ps. 47,065 million at December 31, 2004 and Ps. 23,348 million at March 31, 2005 or short-term indebtedness relating to notes payable to contractors of Ps. 2,077 million at December 31, 2004 and Ps. 2,373 million at March 31, 2005. See "—Liquidity and Capital Resources—Recent Financing Activities" below. Long-term debt also does not include long-term notes payable to contractors of Ps. 11,285 million and Ps. 11,453 million at December 31, 2004 and March 31, 2005, respectively, and sales of future accounts receivable of Ps. 36,636 million and Ps. 30,908 million at December 31, 2004 and March 31, 2005, respectively.

(5) Equity instruments held by the Mexican Government.

(6) In 2004 the equity of the Subsidiary Entities was increased by Ps. 32,638 million. This increase in equity was derived from amounts that the Mexican Government transferred to Petróleos Mexicanos on various dates during 2004 as reimbursements of the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure paid by PEMEX during the year. See "—Liquidity and Capital Resources—Equity Structure and Certificates of Contribution 'A'" below and Note 13 to the 2004 Financial Statements (as defined below).

(7) In 2004, Petróleos Mexicanos paid dividends to the Mexican Government in the amount of Ps. 10,388 million.

(8) The income for March 31, 2005 relates to the income for the three-month period then ended.

Sources: 2004 Financial Statements (as defined below). Petróleos Mexicanos for unaudited interim information.

Pemex Project Funding Master Trust

At December 31, 2004, cash and cash equivalents of the Issuer totaled U.S. $ 2.0 billion, its total assets were U.S. $37.9 billion, its long-term indebtedness totaled U.S. $29.1 billion, its short-term indebtedness (including interest payable of U.S. $0.4 billion) totaled U.S. $3.1 billion and its other liabilities totaled U.S. $5.6 billion (including accounts payable to contractors of U.S. $1.1 billion and derivative instruments in a notional amount of U.S. $4.5 billion), of which short-term liabilities totaled U.S. $1.1 billion.

At March 31, 2005, cash and cash equivalents of the Issuer totaled U.S. $4.3 billion, its total assets were U.S. $35.1 billion, its long-term indebtedness totaled U.S. $32.4 billion, its short-term indebtedness (including interest payable of U.S. $0.4 billion) totaled U.S. $2.3 billion and its other liabilities totaled U.S. $5.0 billion (including accounts payable to contractors of U.S. $0.2 billion and other comprehensive income of U.S. $0.2 billion), of which short-term liabilities totaled U.S. $0.3 billion.

Future amortization of the Issuer's outstanding indebtedness of U.S. $34.2 billion at March 31, 2005 is scheduled as follows:

Pemex Project Funding Master Trust
Indebtedness Amortization Schedule

	Maturities				
2005	**2006**	**2007**	**2008**	**2009**	**Over 5 years**
		(in millions of U.S. dollars)			
U.S. $1,507.1	U.S. $2,521.9	U.S. $2,620.3	U.S. $3,615.1	U.S. $3,320.6	U.S. $20,616.6

Presentation of Financial Information

PEMEX has included two separate sets of financial statements in this Pricing Supplement. The consolidated financial statements of PEMEX included in Annex B to the accompanying Offering Circular as of December 31, 2003 and 2002 and for the three years ended December 31, 2003 (the "2003 Financial Statements") were prepared in accordance with Mexican generally accepted accounting principles ("Mexican GAAP"), and the 2003 Financial Statements were reconciled to United States generally accepted accounting principles ("U.S. GAAP"). The consolidated financial statements of PEMEX included in Annex S/F to this Pricing Supplement as of December 31, 2004 and 2003 and for the three years ended December 31, 2004 (the "2004 Financial Statements," and together with the 2003 Financial Statements, the "Financial Statements") were prepared in accordance with Mexican GAAP. Mexican GAAP differs in certain significant respects from U.S. GAAP; the differences that are material to PEMEX's 2003 Financial Statements are described in Note 19 to the 2003 Financial Statements. A reconciliation between equity as of December 31, 2004 and net loss for the year then ended, each as determined in accordance with Mexican GAAP, with the corresponding amounts under U.S. GAAP is not currently available and is therefore not included in this Pricing Supplement. PEMEX's 2002 and 2003 U.S. GAAP reconciling items may not be comparable to its unreconciled items as of and for the year ended December 31, 2004. Readers should not assume that the nature and amount of the reconciling items between Mexican GAAP and U.S. GAAP as of and for the years ended December 31, 2002 and 2003 are indicative of the nature and amounts of these reconciling items as of and for the year ended December 31, 2004 or for any other period, including March 31, 2005 presented herein. Any reconciliation to U.S. GAAP may reveal significant differences between PEMEX's equity, net income and other items as reported under Mexican GAAP and U.S. GAAP. In addition, another significant difference between the 2003 Financial Statements and the 2004 Financial Statements is that the financial information is presented in constant pesos as of different dates. Therefore, in viewing financial information of periods (2002 and 2003) that are presented in each of the Financial Statements, readers are directed to use the amounts stated for those periods in the 2004 Financial Statements, as this information is stated in constant pesos as of December 31, 2004. In addition, readers are directed to apply an inflation factor of 5.2% to all financial figures appearing in "Annex B–Pemex 2003 Annual Report on Form 20-F," in order to be consistent with the other financial information as of and for the year ended December 31, 2004 presented in this Pricing Supplement.

PEMEX has also included condensed consolidated interim financial information for the three months ended March 31, 2005, which are not audited and were prepared in accordance with Mexican GAAP. The condensed consolidated interim financial information set forth below is stated in constant pesos with purchasing power as at March 31, 2005. Accordingly, the consolidated interim financial information presented below for the three months ended March 31, 2005 is not directly comparable to the information presented in either of the Financial Statements because they are stated in constant pesos as of different dates.

Selected Financial Information

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. The selected financial data set forth below as of and for the year ended December 31, 2001 have been derived from the 2003 Financial Statements. The selected financial data set forth below as of and for three years ended December 31, 2004 have been derived from the 2004 Financial Statements. The Financial Statements included in this Pricing Supplement were audited by PricewaterhouseCoopers, S.C.

As described above, the consolidated financial statements of PEMEX were prepared in accordance with Mexican GAAP. Beginning January 1, 2003, PEMEX recognizes the effects of inflation on its financial statements in accordance with Bulletin B-10. The recognition of the effects of inflation in accordance with Bulletin B-10 consists of, among other things, the restatement of non-monetary assets using inflation factors based on the Mexican National Consumer Price Index ("NCPI") (including the restatement of fixed assets with consideration of value in use), the recognition in the income statement of comprehensive financing cost (including the determination of gains or losses in monetary position), the restatement of the equity accounts and the presentation of the financial statements for all periods in constant pesos with purchasing power at the latest balance sheet date. Consequently, the amounts shown in the 2004 Financial Statements and 2003 Financial Statements are expressed in thousands of constant Mexican pesos as of December 31, 2004 and December 31, 2003, respectively. The December 31, 2004 restatement factors applied to the financial statements at December 31, 2003 and 2002 were 5.2% and 9.4%, which correspond to inflation from January 1, 2004 and 2003 through December 31, 2004, respectively, based on the NCPI. The selected financial data set for below as of and for the year ended December 31, 2001 are also expressed in thousands of constant Mexican pesos as of December 31, 2004. The December 31, 2004 restatement factor applied to the selected financial data set for below as of and for the year ended December 31, 2001 was 15.6%, which corresponds to inflation from January 1, 2002 through December 31, 2004 based on the NCPI.

Mexican GAAP differs in certain significant respects from U.S. GAAP. The most significant differences between U.S. GAAP and Mexican GAAP affecting PEMEX's consolidated financial statements as of December 31, 2003 and 2002 for the three years then ended were the accounting treatment of: (1) exploration and drilling costs, (2) pensions, seniority premiums and post-retirement benefit obligations, (3) capitalized interest, (4) impairment of fixed assets, (5) depreciation, (6) derivatives, (7) profit in inventory, (8) PEMEX's investment in Repsol YPF, S.A. ("Repsol") shares, (9) accrued vacation and (10) the related inflation effects of the U.S. GAAP adjustments. For a further discussion of these and other differences, see Note 19 to the 2003 Financial Statements and "Annex B—Item 5—Operating and Financial Review and Prospects—U.S. GAAP Reconciliation."

	Year Ended December 31,[1][2]				
	2001	2002	2003	2004[3]	2004[4]
	(in millions of constant pesos as of December 31, 2004)				(in millions of U.S. dollars)
Income Statement Data					
Amounts in accordance with Mexican GAAP:					
Net sales[5]	Ps. 526,177	Ps. 541,574	Ps. 657,894	Ps. 773,587	$68,673
Total revenues[5]	527,965	541,480	661,008	784,741	69,663
Total revenues net of the IEPS Tax	415,484	412,687	562,048	730,036	64,807
Operating income	281,682	311,070	386,647	455,201	40,409
Comprehensive financing cost	2,578	6,563	32,338	7,048	626
Income (loss) for the period	(31,974)	(25,850)	(42,754)	(25,496)	(2,263)
Balance Sheet Data (end of period)					
Amounts in accordance with Mexican GAAP:					
Cash and cash equivalents	16,696	47,989	77,143	84,872	7,534
Total assets	641,835	807,571	889,359	947,527	84,114
Long-term debt	142,396	208,956	319,373	394,549	35,025
Total long-term liabilities	418,584	573,812	697,094	773,702	68,683
Equity	140,048	109,300	48,242	33,343	2,960
Amounts in accordance with U.S. GAAP:					
Total revenues[6]	414,948	412,687	562,049	N/A	
Operating income[6]	168,904	176,218	259,673	N/A	
Comprehensive financing (cost) income	839	(8,889)	(28,204)	N/A	
Loss for the period	(24,556)	(34,363)	(69,751)	N/A	
Total assets	665,111	800,248	857,801	N/A	
Equity (deficit)	66,729	18,020	(46,726)	N/A	
Other Financial Data					
Amounts in accordance with Mexican GAAP:					
Depreciation and amortization	33,619	35,570	42,649	41,900	3,720
Investments in fixed assets at cost[7]	59,737	99,900	71,387	91,338	8,857
Ratio of earnings to fixed charges:					
Mexican GAAP[8]	—	—	—	—	—
U.S. GAAP[8]	—	—	—	—	—

(1) Includes Petróleos Mexicanos, the Subsidiary Entities and the subsidiary companies (including the Issuer). For Mexican GAAP and U.S. GAAP purposes, beginning with the year ended December 31, 2003, PEMEX includes the financial position and results of RepCon Lux S.A. and Fideicomiso Irrevocable de Administración No. F/163 ("Fideicomiso F/163"), a Mexican statutory trust incorporated in 2003 in Mexico and controlled by Petróleos Mexicanos.

(2) Mexican GAAP differs in certain significant respects from U.S. GAAP. The most significant differences between U.S. GAAP and Mexican GAAP affecting PEMEX's consolidated financial statements as of December 31, 2003, 2002 and 2001 for the three years then ended were the accounting treatment of: (1) exploration and drilling costs, (2) pensions, seniority premiums and post-retirement benefit obligations, (3) capitalized interest, (4) impairment of fixed assets, (5) depreciation, (6) derivatives, (7) profit in inventory, (8) PEMEX's investment in Repsol shares, (9) accrued vacation and (10) the related inflation effects of the U.S. GAAP adjustments.

(3) No reconciliation of PEMEX's 2004 Financial Statements to U.S. GAAP has been prepared yet for the year ended December 31, 2004.

(4) Translations into U.S. dollars of amounts in pesos have been made at the established exchange rate for accounting purposes of Ps. 11.2648 = U.S. $1.00 at December 31, 2004. Such translations 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.

(5) Includes the Special Tax on Production and Services (the "IEPS Tax") as part of the sales price of the products sold.

(6) Figures are net of the IEPS Tax.

(7) Includes investments in fixed assets and capitalized interest in 2003 and 2004. For 2003, it excludes certain expenditures charged to the oil field exploration and depletion reserve. See Note 2(e) to the 2004 Financial Statements and "Annex B—Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources."

(8) Under U.S. GAAP, earnings for each of the years ended December 31, 2001, 2002 and 2003 were insufficient to cover fixed charges. The amount by which fixed charges exceeded earnings was Ps. 30,556 million for 2001, Ps. 40,674 million for 2002 and Ps. 78,199 million for 2003. Under Mexican GAAP, earnings for each of the years ended December 31, 2001, 2002, 2003 and 2004 were insufficient to cover fixed charges. The amount by which fixed charges exceeded earnings was Ps. 36,443 million for 2001, Ps. 31,654 million for 2002, Ps. 50,397 million for 2003 and Ps. 29,836 million for 2004.

Source: PEMEX's Financial Statements.

Results of Operations of Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies – For the Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003

Sales

Total sales, net of the IEPS Tax, were Ps. 718.9 billion in 2004, an increase of 28.6% from total sales in 2003, net of the IEPS Tax, of Ps. 558.9 billion. The increase in total sales from 2003 to 2004 resulted primarily from a 27.9% increase in domestic sales, net of the IEPS Tax, in 2004, from Ps. 308.4 billion in 2003 to Ps. 394.3 billion in 2004 due to increased unit prices and higher sales volumes. In addition, total sales increased due to a 29.5% increase in export sales, from Ps. 250.6 billion in 2003 to Ps. 324.6 billion in 2004 due to an increase in crude oil export prices, a 30% increase in the volume of total export sales and the depreciation of the peso against the dollar (which increased the peso value of sales denominated in dollars).

Domestic Sales

Domestic sales, net of the IEPS Tax, increased by 27.9% in 2004, from Ps. 308.4 billion in 2003 to Ps. 394.3 billion in 2004, due to increases in prices and in the volume of domestic sales of certain products. Domestic sales of petroleum products other than natural gas increased by 26.8% in 2004, from Ps. 239.6 billion in 2003 to Ps. 303.9 billion in 2004, primarily due to increases in the average sales prices and volumes of PEMEX's principal petroleum products. The 5.9% increase in the sales volumes of gasoline, from 601.2 thousand barrels per day in 2003 to 636.7 thousand barrels per day in 2004, was primarily due to an increase in the number of vehicles in Mexico. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) increased by 28.2%, from Ps. 13.1 billion in 2003 to Ps. 16.8 billion in 2004, due to an increase in the domestic prices of PEMEX's principal petrochemical products, particularly polethylenes, ethylene oxide and ammonia, and a change in commercial strategy to take advantage of the higher profit margins of certain products. Sales of natural gas increased by 24.4% in 2004, from Ps. 55.7 billion in 2003 to Ps. 69.3 billion in 2004, as a result of an increase in average prices and a 5.4% increase in volumes of natural gas sold. The higher demand for natural gas was primarily driven by an increase in demand in the electricity sector, while the industrial and distribution sectors maintained demand at levels consistent with the levels of demand in 2003.

Export Sales

In 2004, total consolidated export sales increased by 29.5% in peso terms from Ps. 250.6 billion in 2003 to Ps. 324.6 billion in 2004. Excluding the trading activities of the PMI Group, export sales by the subsidiary entities to the PMI Group and third parties increased by 27.2% in peso terms, from Ps. 213.7 billion in 2003 to Ps. 271.8 billion in 2004. In dollar terms, excluding the trading activities of the PMI Group, export sales (which are dollar-denominated) increased by 27.2% in 2004, from U.S. $18.4 billion in 2003 to U.S. $23.4 billion in 2004. This increase was a result of a 25.5% increase in crude oil export prices, and a 1.8% increase in crude oil sales volumes. The trading and export activities of the PMI Group generated additional marginal revenues of Ps. 52.8 billion in 2004, 43.5% higher in peso terms than the Ps. 36.8 billion of additional revenues generated in 2003, mainly due to the increased price of crude oil that PEMEX exported and the strengthening of the dollar against the peso. The weighted average price per barrel of crude oil that the PMI Group sold to third parties in 2004 was U.S. $31.08, 25.6% higher than the weighted average price of U.S. $24.75 in 2003.

Crude oil sales by Pemex-Exploration and Production to PMI for export accounted for 90.9% of export sales (excluding the trading activities of the PMI Group) in 2004, as compared to 90.4% in 2003. These crude oil sales increased in peso terms by 27.8% in 2004, from Ps. 193.2 billion in 2003 to Ps. 246.9 billion in 2004, and increased in dollar terms by 28.3% in 2004, from U.S. $16.6 billion in 2003 to U.S. $21.3 billion in 2004. The weighted average price per barrel of crude oil that Pemex-Exploration and Production sold to PMI for export in 2004 was U.S. $31.08, 25.6% higher than the weighted average price of U.S. $24.75 in 2003. The volume of crude oil exports increased by 1.5%, from 1,844 thousand barrels per day in 2003 to 1,870 thousand barrels per day in 2004, as a result of increased demand.

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 8.8% of export sales (excluding the trading activities of the PMI Group) in 2003 to 8.2% in 2004. Export sales of petroleum products, including natural gas liquids, increased by 19.1%, from Ps. 18.8 billion in 2003 to Ps. 22.4 billion in 2004, primarily due to an increase in

the export prices of naphtas. In dollar terms, export sales of petroleum products, including natural gas liquids, increased by 18.8%, from U.S. $1.6 billion in 2003 to U.S. $1.9 billion in 2004.

Petrochemical products accounted for the remainder of export sales in 2003 and 2004. Export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 56.3%, from Ps. 1.6 billion in 2003 to Ps. 2.5 billion in 2004, primarily due to an 100.0% increase in volumes of ethylene sold. In dollar terms, export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 47.0% in 2004, from U.S. $147.7 million in 2003 to U.S. $217.1 million in 2004.

Other Revenues and Expenses

Other revenues, net, increased by Ps. 8.1 billion, from Ps. 3.1 billion in 2003 to Ps. 11.2 billion in 2004, primarily due to an increase in the value of PEMEX's investment in the Deer Park refinery, which is accounted for under the equity method (see Note 6 to the 2004 Financial Statements) and the recognition of a gain arising from the transactions executed in respect of PEMEX's shares in Repsol during 2004.

Costs and Operating Expenses

Costs of sales, transportation, distribution expenses and administrative expenses increased by 17.4%, from Ps. 271.2 billion in 2003 to Ps. 318.4 billion in 2004. This increase was mainly due to an increase in maintenance expenses of Ps. 15.9 billion in accordance with PEMEX's maintenance program, an increase in product purchases of Ps. 16.9 billion due primarily to increased domestic demand for gasoline and natural gas, an increase in the cost of products purchased for sale abroad by P.M.I. Trading Ltd. of Ps. 14.6 billion and an increase in costs associated with the labor reserve for pension obligations of Ps. 5.0 billion resulting from the increase in the number of employees and changes in actuarial assumptions, which was partially offset by an increase in the value of crude oil and petroleum product inventories of Ps. 3.3 billion.

Comprehensive Financing Cost

Under Mexican GAAP, comprehensive financing cost reflects interest income (including gains and losses on certain derivative instruments), interest expense, foreign exchange gain or loss and the gain or loss attributable to the effects of inflation on monetary liabilities and assets. A substantial portion of PEMEX's indebtedness (86.8% at December 31, 2004) is denominated in foreign currencies, so a depreciation of the peso results in foreign exchange loss and higher interest expense in peso terms.

In 2004, comprehensive financing cost decreased by Ps. 25.3 billion, or 78.3%, from Ps. 32.3 billion in 2003 to Ps. 7.0 billion in 2004, primarily as a result of the following:

- The peso depreciated at a lower rate against the U.S. dollar during 2004 in comparison to 2003, which resulted in a decrease in net foreign exchange losses of Ps. 23.3 billion, from Ps. 26.8 billion in 2003 to Ps. 3.5 billion in 2004.

- In 2003 and 2004, PEMEX's average monetary liabilities exceeded its average monetary assets, resulting in a net gain in monetary position. The net gain in monetary position, which amounted to Ps. 19.5 billion in 2004, was 61.1% higher than the net gain in monetary position in 2003 of Ps. 12.1 billion, due to an increase in the inflation rate (from 4.0% in 2003 to 5.2% in 2004). This gain decreased PEMEX's comprehensive financing cost.

- These decreases in comprehensive financing cost were partially offset by an increase in net interest expense of Ps. 5.5 billion, or 31.3%, from Ps. 17.6 billion in 2003 to Ps. 23.1 billion in 2004, as a result of the increase in interest expense in connection with debt financing obtained for, but not yet committed to, PIDIREGAS projects, which is not capitalized, and the financial costs generated by the appreciation of the Repsol shares underlying the exchangeable bonds issued by RepCon Lux, S.A. (gains or losses related to derivatives associated with borrowings are classified within interest expense).

Duties and Taxes

Hydrocarbon extraction duties and other duties and taxes (including the IEPS Tax) increased by 17.9%, from Ps. 402.3 billion in 2003 to Ps. 474.3 billion in 2004, largely due to the 28.6% increase in PEMEX's net sales revenues, excluding the IEPS tax. PEMEX paid Ps. 34.4 billion in the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure in 2004, which represents the difference between the actual crude oil prices at which Pemex-Exploration and Production sold to PMI, which averaged U.S. $31.08 per barrel for the Mexican weighted crude oil mix, and the threshold crude oil price for 2004 of U.S. $20.00 per barrel. PEMEX paid Ps. 19.7 billion in excess gains revenue duties in 2003.

Cumulative Effect of Adoption of New Accounting Standards

Beginning January 1, 2003, PEMEX adopted Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments," issued by the Mexican Institute of Public Accountants, which establishes rules relating to provisions for dismantlement and abandonment costs. The adoption of Bulletin C-9 resulted in the recognition of a benefit of Ps. 2.1 billion as of January 1, 2003 related to the provision for dismantlement and abandonment costs.

In 2004, PEMEX adopted Bulletin C-15, "Impairment of the Value of Long-Lived Assets and their Disposal," which resulted in a Ps. 2.0 billion charge at January 1, 2004 attributable to the cumulative effect of recognition of the impairment of the carrying value of fixed assets, primarily those of Pemex-Exploration and Production. In 2004, PEMEX also adopted the amendments to Bulletin D-3, "Labor Obligations," which resulted in the recognition of an initial liability related to prior service costs and a charge to income for 2004 in the amount of Ps. 8.4 billion.

Results of Operations of Petróleos Mexicanos and the Subsidiary Entities – First Three Months of 2005 Compared to First Three Months of 2004

The interim financial information set forth below has been derived from the unaudited condensed consolidated interim financial statements of PEMEX for the three-month periods ended March 31, 2004 and 2005. The consolidated interim financial information set forth below was prepared in accordance with Mexican GAAP. The consolidated interim financial information set forth below is stated in constant pesos with purchasing power as of March 31, 2005. Accordingly, the consolidated interim financial information presented below for the three months ended March 31, 2004 and 2005 is not directly comparable to the information presented in the 2004 Financial Statements or the 2003 Financial Statements because they are stated in constant pesos as of different dates. The information contained herein does not contain all of the information and disclosures normally included in interim financial statements prepared in accordance with Mexican GAAP. PEMEX has not undertaken a U.S. GAAP reconciliation for any period or date in 2004 and 2005.

	Three months ended March 31,		
	2004[1]	2005[1] [2]	
	(millions of constant pesos as of March 31, 2005 or U.S. dollars)		
Net sales			
Domestic[3]	Ps. 106,197	Ps. 113,497	$ 10,153
Export	65,882	82,211	7,355
Total	172,079	195,708	17,508
Other revenues (net)	2,318	3,908	350
Total revenues[3]	174,397	199,616	17,858
Costs and operating expenses	66,448	75,702	6,772
Comprehensive financing cost[4]	3,839	3,451	309
Income before taxes and duties	104,110	120,463	10,777
Taxes and duties			
Hydrocarbon extraction duties and other	84,456	108,210	9,680
Special Tax on Production and Services (IEPS Tax)	20,691	11,541	1,032
Total	105,147	119,751	10,712
Cumulative effect of adoption of new accounting standard[5]	(10,552)	4,426	396
Net (loss) for the period	Ps. (11,589)	Ps. 5,138	$ 460

(1) Unaudited.

(2) Convenience translations into U.S. dollars of amounts in pesos have been made at the established exchange rate of Ps. 11.1783 = U.S. $1.00 at March 31, 2005. Such 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 or any other rate.

(3) Includes the IEPS Tax, which is described in "Annex B—Item 5—Operating and Financial Review and Prospects—IEPS Tax, Excess Gains Duty, Hydrocarbon Duties and Other Taxes," as part of the sales price of products sold.

(4) Includes exchange rate losses in the amount of Ps. 2,506 million in the first three months of 2004 and exchange rate losses in the amount of Ps. 2,962 million in the first three months of 2005.

(5) The net loss for the three months ended March 31, 2004 differs from that as previously reported since it includes the full effects from the adoption of new accounting standards related to Bulletin C-15, "Impairment of the Value of Long-Lived Assets and their Disposal," and amendments to Bulletin D-3, "Labor Obligations," of Ps. 10.5 billion. Prior information for the three months ended March 31, 2004 did not include such adjustments due to the fact that as of the date of such reporting, PEMEX did not have the information necessary to estimate the impacts of these two Bulletins. See Notes 2(i), 2(l) and 11 to the 2004 Financial Statements for more information on Bulletin C-15 and Bulletin D-3.

Source: Petróleos Mexicanos.

Sales

During the first three months of 2005, total sales, net of the IEPS Tax, were Ps. 184.2 billion, an increase of 21.7% from total sales in the first three months of 2004, net of the IEPS Tax, of Ps. 151.4 billion. The increase in total sales resulted primarily from a 19.3% increase in domestic sales, net of the IEPS tax, from the first three months of 2004 (which is described below under "—*Domestic Sales*") and a 24.7% increase in export sales from the first three months of 2004 (which is described below under "—*Export Sales*").

Domestic Sales

Domestic sales, net of the IEPS Tax, increased by 19.3% in the first three months of 2005, from Ps. 85.5 billion in the first three months of 2004 to Ps. 102.0 billion in the first three months of 2005, due to increased unit prices and higher sales volumes. Domestic sales of petroleum products other than natural gas increased by 21.1% in the first three months of 2005, from Ps. 65.3 billion in the first three months of 2004 to Ps. 79.1 billion in the first three months of 2005, primarily due to increases in the average sales prices and volumes of PEMEX's principal petroleum products. The increase in the sales volumes of gasoline was primarily due to an increase in the number of vehicles in Mexico. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production

process) increased by 45.0%, from Ps. 4.0 billion in the first three months of 2004 to Ps. 5.8 billion in the first three months of 2005, due to an increase in the domestic prices of PEMEX's principal petrochemical products and a change in commercial strategy to take advantage of the higher profit margins of certain products. Sales of natural gas increased by 5.6% in the first three months of 2005, from Ps. 16.2 billion in the first three months of 2004 to Ps. 17.1 billion in the first three months of 2005, due to an increase in the volume of natural gas sold and an increase in natural gas prices.

Export Sales

In the first three months of 2005, total consolidated export sales increased by 24.7% in peso terms, from Ps. 65.9 billion in the first three months of 2004 to Ps. 82.2 billion in the first three months of 2005. Excluding the trading activities of the PMI Group, export sales by the Subsidiary Entities to the PMI Group and third parties increased by 29.8% in peso terms, from Ps. 55.0 billion in the first three months of 2004 to Ps. 71.4 billion in the first three months of 2005. In dollar terms, excluding the trading activities of the PMI Group, export sales (which are dollar-denominated) increased by 28% in the first three months of 2005, from U.S. $5.0 billion in the first three months of 2004 to U.S. $6.4 billion in the first three months of 2005. This increase was a result of a 27.0% increase in crude oil export prices and higher crude oil sales volumes, which increased the peso value of sales denominated in dollars. The trading and export activities of the PMI Group generated additional marginal revenues of Ps. 8.1 billion in the first three months of 2004, as compared to Ps. 10.7 billion in the first three months of 2005, due to an increase in prices.

Crude oil sales by Pemex-Exploration and Production to PMI for export accounted for 89.9% of export sales (excluding the trading activities of the PMI Group) in the first three months of 2005, as compared to 89.0% in the first three months of 2004. These crude oil sales increased in peso terms by 31.3% in the first three months of 2005, from Ps. 48.7 billion in the first three months of 2004 to Ps. 64.0 billion in the first three months of 2005, and increased in dollar terms by 29.5% in the first three months of 2005, from U.S. $4.4 billion in the first three months of 2004 to U.S. $5.7 billion in the first three months of 2005. The weighted average price per barrel of crude oil that Pemex-Exploration and Production sold to PMI for export in the first three months of 2005 was U.S. $34.25, 27.8% higher than the weighted average price of U.S. $26.81 per barrel in the first three months of 2004.

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 6.7% of export sales (excluding the trading activities of the PMI Group) in the first three months of 2004 to 10.0% in the first three months of 2005. In dollar terms, export sales of petroleum products, including natural gas liquids, increased by 20.0%, from U.S. $0.5 billion in the first three months of 2004 to U.S. $0.6 billion in the first three months of 2005. Export sales of petroleum products, including natural gas liquids, increased by 6.9%, from Ps. 5.8 billion in the first three months of 2004 to Ps. 6.2 billion in the first three months of 2005, primarily due to increases in the volume of exports of naphtas.

Petrochemical products accounted for the remainder of export sales in the first three months of 2004 and 2005. Export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 83.3%, from Ps. 0.6 billion in the first three months of 2004 to Ps. 1.1 billion in the first three months of 2005. In dollar terms, export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 102.4% in the first three months of 2005, from U.S. $0.5 million in the first three months of 2004 to U.S. $1.0 million in the first three months of 2005, primarily due to an increase in the volume of ethylene sold.

Other Revenues and Expenses

Other revenues, net, increased by Ps. 1.6 billion, from Ps. 2.3 billion in the first three months of 2004 to Ps. 3.9 billion in the first three months of 2005, primarily due to an increase in the value of PEMEX's investment in the Deer Park refinery, which is accounted for under the equity method.

Costs and Operating Expenses

Costs of sales, transportation, distribution expenses and administrative expenses increased by 14.0%, from Ps. 66.4 billion in the first three months of 2004 to Ps. 75.7 billion in the first three months of 2005. This increase was due to an increase in product purchases, mainly of gasoline, natural gas and liquefied gas, and an increase in costs associated with the labor reserve for pension obligations and depreciation in fixed assets, which was partially offset by an increase in the value of crude oil and petroleum product inventories (which is accounted for as a decrease in

costs of sales).

Comprehensive Financing Cost

Under Mexican GAAP, comprehensive financing cost reflects interest income (including gains and losses on certain derivative instruments), interest expense, foreign exchange gain or loss and the gain or loss attributable to the effects of inflation on monetary liabilities and assets. A substantial portion of PEMEX's indebtedness (82.3% at March 31, 2005) is denominated in foreign currencies, so a depreciation of the peso results in foreign exchange loss and higher peso-denominated interest expense.

In the first three months of 2005, comprehensive financing cost decreased by Ps. 0.3 billion, or 7.9%, from Ps. 3.8 billion in the first three months of 2004 to Ps. 3.5 billion in the first three months of 2005, primarily as a result of the following:

- The greater appreciation of the peso against the U.S. dollar in the first three months of 2005 in comparison to the same period of 2004 resulted in a Ps. 5.4 billion decrease in net foreign exchange losses, from a net loss of Ps. 2.4 billion in the first three months of 2004 to a net gain of Ps. 3.0 billion in the first three months of 2005.

- In the first three months of 2004 and 2005, PEMEX's average monetary liabilities exceeded its average monetary assets, resulting in a net gain in monetary position. The net gain in monetary position, which amounted to Ps. 2.0 billion in the first three months of 2005, was 45.9% less than the net gain in monetary position in the first three months of 2004 of Ps. 3.7 billion, due to a decrease in the inflation rate (from 1.5% in the first three months of 2004 to 0.7% in the first three months of 2005) despite the increase in net monetary liabilities.

- Net interest expense increased by 68.0% in the first three months of 2005 due to an increase in total debt, which was only partially offset by lower average interest rates on PEMEX's liabilities. The increase in net interest expense and the reduction in the gain in monetary position offset in large part the aforementioned decreases in net foreign exchange losses.

Taxes and Duties

Hydrocarbon extraction duties and other duties and taxes (including the IEPS Tax) increased by 13.9%, from Ps. 105.1 billion in the first three months of 2004 to Ps. 119.8 billion in the first three months of 2005, largely due to an increase in sales revenues. PEMEX paid Ps. 7.7 billion in excess gains duties in the first three months of 2005, which represents the difference between the actual crude oil prices at which Pemex-Exploration and Production sold to PMI, which averaged U.S. $34.25 per barrel for the Mexican weighted average crude oil mix, and the threshold crude oil price for 2005 of U.S. $27.00 per barrel. PEMEX paid Ps. 4.8 billion in excess gains revenue duties in the first three months of 2005.

Cumulative Effect of Adoption of New Accounting Standard

In 2005, PEMEX adopted Bulletin C-10, "Financial Instruments and Hedging Operations," which resulted in a gain of Ps. 4.4 billion for the first three months of 2005.

In 2004, PEMEX adopted Bulletin C-15, "Impairment of the Value of Long-Lived Assets and their Disposal," ("Bulletin C-15") which resulted in a Ps. 2.0 billion charge at January 1, 2004 attributable to the cumulative effect of recognition of the impairment of the carrying value of fixed assets, primarily those of Pemex-Exploration and Production. In 2004, PEMEX also adopted the amendments to Bulletin D-3, "Labor Obligations," ("Bulletin D-3") which resulted in the recognition of an initial liability related to prior service costs and a charge to income for 2004 in the amount of Ps. 8.4 billion. As discussed above, the prior information for the three months ended March 31, 2004 reported by PEMEX did not include such adjustments due to the fact that as of the date of such reporting, PEMEX did not have the information necessary to estimate the impacts of these two Bulletins.

Income/(Loss)

In the first three months of 2005, PEMEX reported a gain of Ps. 5.1 billion on Ps. 188.1 billion in total revenues net of the IEPS Tax, as compared with a loss of Ps. 11.6 billion on Ps. 153.7 billion in total revenues net of the IEPS Tax in the first three months of 2004. The Ps. 16.7 billion increase in income from the first three months of 2004 to the first three months of 2005 resulted primarily from the adoption of Bulletin C-10 in 2005, the impact from the adoption of Bulletin C-15 and the amendments to Bulletin D-3 in 2004 and the various other factors described above.

Liquidity and Capital Resources

Equity Structure and the Certificates of Contribution "A"

PEMEX's total equity as of December 31, 2004 was Ps. 33.3 billion, and its total capitalization (long-term debt plus equity) amounted to Ps. 427.9 billion. PEMEX's total equity as of March 31, 2005 was Ps. 38.5 billion, and its total capitalization (long-term debt plus equity) amounted to Ps. 486.3 billion.

On September 30, 2004, PEMEX received Ps. 12,549 million from the Ministry of Finance and Public Credit as an advance payment of the total amount of reimbursements that PEMEX was to receive from the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure in 2004. As of November 30, 2004, this advance payment is recorded as a line item reflecting a future increase of equity. On November 4, 2004, the Board of Directors of Petróleos Mexicanos approved the increase of its equity by any amount that PEMEX receives from the Ministry of Finance and Public Credit in connection with the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure that PEMEX paid to the Mexican Government, subject to the establishment of a trust or to the execution of an agreement with a financial institution to manage these funds. On December 15, 2004 and on December 31, 2004, PEMEX received Ps. 8,000 million and Ps. 12,451 million, respectively, from the Ministry of Finance and Public Credit as payments that PEMEX was to receive from the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure that PEMEX paid to the Mexican Government in 2004. As a result of these three payments and the execution of an agreement to manage these funds, PEMEX's equity increased by Ps. 32,638 million in December 2004. In March 2005, after receiving the necessary approvals from the Ministry of Finance and Public Credit, PEMEX's equity was increased by Ps. 362 million to compensate for foreign exchanges losses in 2004 in respect of the transfers made by the Ministry of Finance and Public Credit for the reimbursements of the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure that PEMEX paid to the Mexican Government in 2004. For further information regarding the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure, see "Annex B—Item 4—Information on the Company—Taxes and Duties—Duty for Exploration, Gas, Refining and Petrochemical Infrastructure" and Note 13 to the 2004 Financial Statements.

Recent Financing Activities

During the period from January 1, 2005 to March 31, 2005, Petróleos Mexicanos, the Pemex Project Funding Master Trust and Fideicomiso F/163 participated in the following financings:

- Petróleos Mexicanos obtained loans from export credit agencies totaling U.S. $17.1 million;
- the Pemex Project Funding Master Trust obtained loans from export credit agencies totaling U.S. $400 million;
- the Pemex Project Funding Master Trust obtained U.S. $56.1 million in project financing from several financial institutions;
- Petróleos Mexicanos issued, under its peso-denominated short-term program, certificados bursátiles de corto plazo, for the equivalent of Ps. 6.5 million in the Mexican domestic market; as of the date of this Pricing Supplement, Petróleos Mexicanos maintains an outstanding balance of Ps. 2.0 billion under this program, all of which become due at or prior to June 30, 2005;
- on February 1, 2005, the Fideicomiso F/163 issued a total of Ps. 6,000,000,000 of notes denominated in Unidades de Inversión (Units of Investment, or "UDI's"), guaranteed by Petróleos Mexicanos, in the

Mexican domestic market. The value of UDI's are calculated daily by the Banco de México based on the National Consumer Price Index.

- on February 11, 2005, Fideicomiso F/163 issued a total of Ps. 15,000,000,000 of notes in the Mexican domestic market, guaranteed by Petróleos Mexicanos, consisting of two issuances:
  - Ps. 7,500,000,000 of notes due February 11, 2010, bearing interest at the 91-day Cetes (Treasury bill) rate plus 51 basis points; and
  - Ps. 7,500,000,000 of notes due February 11, 2013, bearing interest at the 182-day Cetes rate plus 57 basis points.
- on February 11, 2005, the Pemex Project Funding Master Trust increased the size of its Medium-Term Note program, Series A, from U.S. $11,000,000,000 to U.S. $20,000,000,000, and on February 24, 2005, the Pemex Project Funding Master Trust issued €1,000,000,000 of its 5.50% Notes due 2025, guaranteed by Petróleos Mexicanos, under the program.
- on March 22, 2005, the Pemex Project Funding Master Trust entered into a Credit Facility Agreement, guaranteed by Petróleos Mexicanos, in the amount of U.S. $4.250 billion with a group of international financial institutions to refinance the outstanding amounts of certain syndicated loan facilities and for new PIDIREGAS financing. This agreement consists of two separate tranches, which become due in 2010 and 2012, respectively.

In addition, during the second quarter of 2005, the Pemex Project Funding Master Trust delivered to Petróleos Mexicanos a portion of the Old Securities (as defined below) acquired by it in its November 2004 exchange offer described below in exchange for cash payments, a portion of which will be made over time, equal to the market value of the relevant Old Securities at the time of such delivery. Petróleos Mexicanos then delivered the Old Securities to the relevant trustees for cancellation. The Pemex Project Funding Master Trust intends to deliver the remaining Old Securities to Petróleos Mexicanos, in exchange for cash payments as described above, over the next several months. In November 2004 the Pemex Project Funding Master Trust launched and on December 30, 2004, the Pemex Project Funding Master Trust completed an exchange offer pursuant to which the Pemex Project Funding Master Trust issued U.S. $158,353,000 of its 9.00% Guaranteed Notes due 2007, U.S. $399,619,000 of its 8.85% Guaranteed Notes due 2007, U.S. $439,011,000 of its 9⅜% Guaranteed Notes due 2008, U.S. $324,220,000 of its 9¼% Guaranteed Bonds due 2018, U.S. $228,735,000 of its 8.625% Guaranteed Bonds due 2023, U.S. $354,477,000 of its 9.50% Guaranteed Bonds due 2027 and U.S. $403,746,000 of its 9.50% Guaranteed Puttable or Mandatory Exchangeable Securities ("POMES[SM]") due 2027, in exchange for an equal principal amount of corresponding 9.00% Guaranteed Notes due 2007, 8.85% Global Guaranteed Notes due 2007, 9⅜% Global Guaranteed Notes due 2008, 9¼% Global Guaranteed Bonds due 2018, 8.625% Bonds due 2023, 9.50% Global Guaranteed Bonds due 2027 and 9.50% Puttable or Mandatory Exchangeable Securities ("POMES[SM]") due 2027 (collectively, the "Old Securities") issued by Petróleos Mexicanos, and pursuant to which the Pemex Project Funding Master Trust made early participation payments totaling U.S. $5,713,665.

On May 13, 2005, Fideicomiso F/163 issued a total of Ps. 10,000,000,000 of notes in the Mexican domestic market, guaranteed by Petróleos Mexicanos, consisting of two issuances:

- Ps. 5,012,600,000 of notes due February 4, 2010, bearing interest at the 91-day *Cetes* rate plus 51 basis points; and
- Ps. 4,987,400,000 of notes due January 31, 2013, bearing interest at the 182-day *Cetes* rate plus 57 basis points.

On May 26, 2005, Pemex Finance, Ltd., announced that on June 27, 2005 it will redeem the following series of its outstanding notes:

Series	Outstanding Principal Amount
6.55% Notes due 2008	U.S. $194,117,647.07
6.30% Notes due 2010	U.S. $400,000,000.00
7.33% Notes due 2012	U.S. $250,000,000.00
7.80% Notes due 2013	U.S. $150,000,000.00

Pemex Finance is a special purpose financing vehicle formed as part of a program to finance PEMEX's capital expenditures. The redemption will result in a reduction in the long-term liabilities in respect of sales of future accounts receivable in PEMEX's Mexican GAAP financial statements.

Business Overview

Set forth below is selected summary operating data relating to PEMEX

	Twelve months ended December 31,		Three months ended March 31,	
	2003	**2004**	**2004**	**2005**
Operating Highlights				
Crude oil (tbpd)	3,371	3,383	3,382	3,316
Natural gas production (mmcfpd)	4,498	4,573	4,557	4,640
Refined products[1] (tbpd)	1,556	1,587	1,580	1,597
Petrochemicals[2] (mtpy)	10,173	10,598	2,547	2,656
Monthly average crude oil exports (tbpd)				
Olmeca	216	221	238	222
Isthmus	25	27	0	21
Maya[3]	1,603	1,622	1,624	1,613
Total	1,844	1,870	1,862	1,856
Value of crude oil exports (value in millions of U.S. dollars)	16,676	21,258	4,546	5,761
Monthly average PEMEX crude oil export prices per barrel[4][5]				
Olmeca	$29.32	$39.34	$33.28	$47.28
Isthmus	28.08	38.04	0	43.06
Maya	24.13	29.82	25.89	32.66
Weighted average price[6]	$24.78	$31.05	$26.83	$34.49
Monthly average West Texas Intermediate crude oil average price per barrel[7]	$31.10	$41.49	$35.33	$49.88

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 of 212 tbpd and 225 tbpd processed by Pemex-Gas and Basic Petrochemicals in 2003 and 2004,respectively, and 222 tbpd and 218 tbpd in the first three months of 2004 and 2005, respectively.
(2) Excludes ethane and butane gases.
(3) Includes Altamira crude oil, which is recorded as a separate category for annual, but not interim, sales.
(4) Subject to adjustment to reflect the percentage of water in each shipment.
(5) Average price during period indicated.
(6) On June 1, 2005, the weighted average price of PEMEX's crude oil export mix was U.S. $42.16 per barrel.
(7) On June 1, 2005, the West Texas Intermediate crude oil spot price was U.S. $54.52 per barrel.

Sources: December 2003, December 2004, March 2004 and March 2005 Indicadores Petroleros and P.M.I. Comercio Internacional, S.A. de C.V.

Exports and Exports Agreements

Although Mexico is not a member of Organization of the 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. In September 2004, OPEC announced that it would increase crude oil production by 1 million barrels per day beginning November 1, 2004. In March 2005, OPEC announced that it would raise its oil production ceiling from 27 million barrels per day to 27.5 million barrels per day with immediate effect, and authorized an additional increase in the oil production ceiling of 0.5 million barrels per day should oil prices remain at their then current level or increase prior to the next extraordinary meeting of OPEC in June. As of this date, Mexico has not announced any revisions to its current levels of crude oil exports as a result of these latest announcements by OPEC.

Exploration and Production

Reserves

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 7.7% in 2004, from 16.0 billion barrels of oil equivalent at December 31, 2003 to 14.8 billion barrels of oil equivalent at December 31, 2004. Mexico's proved developed reserves of crude oil and condensates decreased by 6.9% in 2004, from 10.5 billion barrels of oil equivalent at December 31, 2003 to 9.7 billion barrels of oil equivalent at December 31, 2004. Mexico's total proved developed and undeveloped dry gas reserves decreased by 0.3% in 2004, from 14.9 trillion cubic feet at December 31, 2003 to 14.8 trillion cubic feet at December 31, 2004. Mexico's proved developed dry gas reserves increased by 2.9% in 2004, from 8.1 trillion cubic feet at December 31, 2003 to 8.3 trillion cubic feet at December 31, 2004**.**

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

Crude Oil and Condensate Reserves (including natural gas liquids)[1]

Proved developed and undeveloped reserves	**2004 (in millions of barrels)**
At January 1	16,041
Revisions	(109)
Extensions and discoveries[2]	245
Production	(1,374)
At December 31	14,803
Proved developed reserves at December 31	9,745

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

Proved developed and undeveloped reserves	**2004 (in billions of cubic feet)**
At January 1	14,850
Revisions	547
Extensions and discoveries[1]	641
Production[2]	(1,231)
At December 31	14,807
Proved developed reserves at December 31	8,325

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.

Capital Expenditures and Investments

PIDIREGAS

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 PEMEX's annual budget, which is approved by the Mexican Congress. PIDIREGAS are long-term productive infrastructure projects funded through financing activities of the Pemex Project Funding Master Trust and the Fideicomiso F/163 or directly by a contractor and must also be authorized in a budget approved by the Mexican Congress. Each year, PEMEX submits proposals to and negotiates with the Mexican Government regarding how its after-tax funds should be allocated. For more information on PIDIREGAS projects, see "Annex B—Item 4—Information on the Company—Capital Expenditures and Investments."

The following table sets forth PEMEX's capital expenditures for PIDIREGAS for the year ended December 31, 2004, and the budget for such expenditures for 2005.

	Year ended December 31, [1][2]	
	2004	Budget 2005[3]
	(millions of nominal pesos)	(millions of constant 2005 pesos)
Pemex-Exploration and Production		
Cantarell	Ps. 27,240	Ps. 24,340
Strategic Gas Program[4]	23,413	19,909
Burgos	16,344	14,172
Antonio J. Bermúdez	6,270	6,867
Ku-Maloob-Zaap	10,222	17,226
El Golpe-Puerto Ceiba	1,695	1,863
Agua Fría-Coapechaca-Tajín	2,402	1,560
Abkatún Integral	2,769	1,330
Chuc	4,152	3,246
Jujo-Tecominoacán	1,699	2,467
Pol	481	508
Bellota-Chinchorro	2,001	1,867
Cactus-Sitio Grande	918	453
Arenque	2,274	1,995
Taratunich	787	575
Caan	1,393	1,669
Ek-Balam	668	1,059
Och-Uech-Kax	718	460
Delta del Grijalva	728	781
Carmito-Artesa	614	389
Amatitlán-Profeta-Tzapotempa-Vinazco	650	1,397
Integral Poza Rica	938	719
Integral Batab	593	99
Integral Kanaab	186	108
Cárdenas	215	198
Ayín-Alux	108	57
Integral Yaxche	158	712
Total	109,636	106,025
Pemex-Refining		
Cadereyta[5]	—	—
Madero[6]	—	—
Salamanca[7]	—	—
Tula[8]	—	—
Minatitlán	445	7,079
Total	445	7,079
Pemex-Gas and Basic Petrochemicals		
Cryogenic Plant No. 2	—	—
Modular Cryogenic Plants in Reynosa	537	1,524
Total	537	1,524
Pemex-Petrochemicals		
Aromatics Train 1 at Petroquímica La Cangrejera	—	266
Total	—	266
Total PIDIREGAS Expenditures	**Ps. 110,620**	**Ps.114,894**

Note: 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 23 different natural gas projects expected to increase domestic supply of natural gas, thereby minimizing imports.
(5) As of December 31, 2004, the Cadereyta project was certified as 100% complete and formally concluded.
Source: Petróleos Mexicanos.

The following table sets forth PEMEX's approved capital expenditures budget for non-PIDIREGAS projects for the years 2005 and 2006.

Non-PIDIREGAS Capital Expenditures[1]

	Year ended December 31,	
	Budget 2005[3]	**Budget 2006[4]**
	(in millions of nominal pesos)	
Pemex-Exploration and Production	Ps. 4,629	Ps. 8,555
Pemex-Refining	6,233	9,871
Pemex-Gas and Basic Petrochemicals	2,463	3,750
Pemex-Petrochemicals	1,928	2,879
Petróleos Mexicanos corporate[2]	523	700
Total	**Ps. 15,776**	**Ps. 25,755**

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 during the 2006 budgetary process.
Source: Petróleos Mexicanos.

Environmental Regulation

PEMEX's Internal Monitoring

In 2004, two significant oil spills occurred in the state of Veracruz. In October 2004, the Nuevo Teapa-Venta de Carpio pipeline ruptured near Omealca, spilling approximately 10,000 barrels of crude oil. In December 2004, the Nuevo Teapa-Poza Rica pipeline ruptured, spilling approximately 5,000 barrels of crude oil near Nanchital. In each of these two incidents, the emergency action plan developed by PEMEX, in coordination with local authorities and private companies, permitted the recovery of substantially all of the spilled crude oil. In each case, the *Procuraduría Federal de Protección al Ambiente* (the Office of the Federal Attorney for Environmental Protection, or "PROFEPA"), which is the government entity responsible for administering the Mexican environmental regulations and establishing acceptable standards of environmental remediation, requested that PEMEX initiate environmental impact evaluations. It is anticipated that during the second quarter of 2005 the results of such evaluations will provide estimates of the areas that have been impacted and will recommend environmental remediation activities.

Legal Proceedings

Mexican Government Audits and Other Investigations

In 2001, the *Secretaría de la Función Pública* ("SFP") conducted an audit of PEMEX's operations in 2000 and previous years. In the audit, SFP identified a series of transactions between PEMEX and the Petroleum Workers' Union (the "Union") during 2000 which PEMEX believe involved illicit behavior. The transactions, allegations and related proceedings are described in "Annex A—Legal Proceedings—Mexican Government Audits and Other Investigations." and "Annex B—Item 8—Financial Information—Legal Proceedings—Mexican Government Audits and Other Investigations." In connection with these proceedings, on May 10, 2005, the SFP announced it had fined the former Director General of Petróleos Mexicanos and four other former officers for a total amount of Ps. 2.8 billion and banned each of them (in addition to another former officer) from holding public office for varying periods of time. This decision has been appealed by the former officers and the final resolution is pending.

Directors, Senior Management and Employees

Employees

As described in "Annex A—Recent Developments—Directors, Senior Management and Employees," the collective bargaining agreement between Petróleos Mexicanos and the Union is subject to renegotiation every two years, although salaries are reviewed annually. As discussed under "Annex B—Item 6—Directors, Senior Management and Employees—Employees," on July 18, 2003, Petróleos Mexicanos and the Union renewed the collective bargaining agreement, effective August 1, 2003 through July 31, 2005. Subsequently, on July 26, 2004, Petróleos Mexicanos and the Union entered into a side agreement, effective August 1, 2004, which provides for a 4% increase in wages and other benefits, as well as an out-of-court settlement of a claim filed in August 2003 by the Union which is described in Annex A—Recent Developments—Legal Proceedings" and in "Annex B—Item 8—Financial Information—Legal Proceedings—Labor-related Proceedings." As of the date of this Pricing Supplement, Petróleos Mexicanos and the Union are negotiating an amendment to this side agreement in order to make any adjustments required by applicable regulations and to establish a mechanism for the payment of benefits. This amendment would be subject to the approval of the Board of Directors of Petróleos Mexicanos and the Ministry of Finance and Public Credit.

The negotiations regarding the new collective bargaining agreement that will be effective on August 1, 2005 will commence on June 13, 2005. As of the date of this Pricing Supplement, there are no new outstanding labor disputes, actual or threatened, which may have a material effect on PEMEX's business or results of operations.

United Mexican States

Presidential and federal congressional elections in Mexico will be held in July 2006. Recent uncertainty regarding the impeachment and presidential candidacy of Andres Manuel Lopez Obrador has led to political unrest. If Lopez Obrador had been found guilty of contempt of court charges that were filed against him, he could have been prevented from running as a candidate for the presidency. Although Mexico's new Attorney General appointed on April 27, 2005, Daniel Cabeza de Vaca, has announced that he will formally drop the contempt of court charges against Lopez Obrador, which were initiated by his predecessor, there can be no assurance that similar charges will not be brought again prior to the elections. The impeachment process also led to a constitutional controversy filing by the Congress of Mexico City with the Supreme Court contesting the impeachment process that was conducted by the Federal Chamber of Deputies, to which the Federal Chamber of Deputies responded with its own constitutional controversy filing. The Supreme Court dismissed the case filed by the Congress of Mexico City and the filing by the Federal Chamber of Deputies was dismissed accordingly.

The Economy

Gross Domestic Product

According to preliminary figures, Mexico's Gross Domestic Product ("GDP") increased by 4.4% in real terms during 2004, as compared with 2003. The transportation, storage and communications sector grew by 9.7%, the construction sector grew by 5.3%, the financial services, insurance and real estate sector grew by 4.6% and the commerce, hotels and restaurants sector grew by 4.9%, each in real terms. The manufacturing sector grew by 3.8%, the mining, petroleum and gas sector grew by 2.5%, the agriculture, livestock, fishing and forestry sector grew by 4.0%, the electricity, gas and water sector grew by 2.3% and the community, social and personal services sector grew by 1.7%, each in real terms.

According to preliminary figures, during the first three months of 2005, GDP increased by 2.4% in real terms, as compared with the same period of 2004. The transportation, storage and communications sector grew by 7.8%, the financial services, insurance and real estate sector grew by 5.1%, the commerce, hotels and restaurants sector grew by 3.3%, the community, social and personal services sector grew by 1.6% and the construction sector grew by 1.0%, each in real terms. The agriculture, livestock, fishing and forestry sector contracted by 1.5%, the electricity, gas and water sector contracted by 1.2%, the mining, petroleum and gas sector contracted by 1.1% and the manufacturing sector contracted by 0.2%, each in real terms.

Prices and Wages

Inflation during 2004 was 5.2%, 1.2 percentage points higher than in 2003. Inflation during the first four months of 2005 was 1.2%, 0.6 percentage points lower than in the first four months of 2004.

Interest Rates

During 2004, interest rates on 28-day *Cetes* averaged 6.82% and interest rates on 91-day *Cetes* averaged 7.10%, as compared with average rates on 28-day *Cetes* and 91-day *Cetes* of 6.23% and 6.51%, respectively, during 2003. During the first four months of 2005, interest rates on 28-day *Cetes* averaged 9.20% and interest rates on 91-day *Cetes* averaged 9.45%, as compared with average rates on 28-day *Cetes* and 91-day *Cetes* of 5.70% and 5.73%, respectively, during the same period of 2004. On May 24, 2005, the 28-day *Cetes* rate was 9.69% and the 91-day *Cetes* rate was 9.80%.

Financial System

Central Bank and Monetary Policy

At December 31, 2004, the monetary base totaled Ps. 340.2 billion, a 12.0% nominal increase from the level of Ps. 303.6 billion at December 31, 2003. At May 23, 2005, the monetary base totaled Ps. 304.4 billion, a 10.5% nominal decrease from the level of Ps. 340.2 billion at December 31, 2004.

During 2004, the M1 money supply (defined as bills and coins held by the public, plus checking accounts denominated in local currency and foreign currency, plus interest-bearing deposits denominated in pesos and operated by debit cards) increased by 4.9% in real terms, as compared with 2003. In addition, checking account deposits denominated in pesos decreased by 1.8% in real terms during 2004, as compared with 2003.

During 2004, financial savings increased by 8.2% in real terms, as compared with 2003. Savings generated by Mexican residents increased by 7.0% in real terms and savings generated by non-residents increased by 98.2% in real terms during 2004, each as compared with 2003.

During the first three months of 2005, the M1 money supply increased by 8.6% in real terms, as compared with the same period of 2004. In addition, checking account deposits denominated in pesos increased by 7.1% in real terms during the first three months of 2005, as compared with the same period of 2004.

During the first three months of 2005, financial savings increased by 7.3% in real terms, as compared with the same period of 2004. Savings generated by Mexican residents increased by 6.7% in real terms and savings generated by non-residents increased by 30.2% in real terms during the first three months of 2005, each as compared with the same period of 2004.

Banco de México utilizes the "short" mechanism to induce necessary changes in interest rates to achieve inflation objectives. Banco de México increased the "short" on nine occasions during 2004, from Ps. 25 million to Ps. 29 million on February 20, 2004, from Ps. 29 million to Ps. 33 million on March 12, 2004, from Ps. 33 million to Ps. 37 million on April 27, 2004, from Ps. 37 million to Ps. 41 million on July 23, 2004, from Ps. 41 million to Ps. 45 million on August 27, 2004, from Ps. 45 million to Ps. 51 million on September 24, 2004, from Ps. 51 million to Ps. 57 million on October 22, 2004, from Ps. 57 million to Ps. 63 million on November 26, 2004 and from Ps. 63 million to Ps. 69 million on December 10, 2004. These increases were made in response to internal and external factors that threatened the achievement of the 3.0% inflation target for 2004. Banco de México has increased the "short" on three occasions during 2005, from Ps. 69 million to Ps. 75 million on January 28, 2005, from Ps. 75 million to Ps. 77 million on February 25, 2005 and from Ps. 77 million to Ps. 79 million on March 23, 2005.

In 2005, Banco de México has on two occasions established a minimum interest rate for its overnight lending to financial institutions in an effort to strengthen the effect of the "short" in controlling inflation. On January 31, 2005, Banco de México set a minimum interest rate of 8.90% for overnight lending and on February 3, 2005, it set a minimum interest rate of 9.15% for overnight lending.

The Securities Market

At December 31, 2004, the Stock Market Index stood at 12,917.9 points, representing a 46.9% increase from the level of 8,795.3 points at December 31, 2003. At June 1, 2005, the Stock Market Index stood at 13,143.62 points, representing a 1.75% increase from the level at December 31, 2004.

External Sector of the Economy

Foreign Trade

During 2004, according to preliminary figures, Mexico registered a trade deficit of U.S. $8.8 billion, as compared with a trade deficit of U.S. $5.8 billion during 2003. Merchandise exports increased by 14.1% during 2004, to U.S. $188.0 billion, as compared with U.S. $164.8 billion during 2003. During 2004, petroleum exports increased by 27.2%, while non-petroleum exports increased by 12.4%, each as compared with 2003.

During 2004, according to preliminary figures, total imports grew by 15.4% to U.S. $196.8 billion, as compared with U.S. $170.5 billion for 2003. During 2004, imports of intermediate goods increased by 15.5%, imports of capital goods increased by 11.8% and imports of consumer goods increased by 18.1%, each as compared with 2003.

During the first four months of 2005, according to preliminary figures, Mexico registered a trade deficit of U.S. $2.6 billion, as compared with a trade deficit of U.S. $1.2 billion during the first four months of 2004. Merchandise exports increased by 10.9% during the first four months of 2005, to U.S. $64.2 billion, as compared with U.S. $57.9 billion during the same period of 2004. During the first four months of 2005, petroleum exports increased by 32.8%, while non-petroleum exports increased by 8.0%, each as compared with the same period of 2004.

During the first four months of 2005, according to preliminary figures, total imports grew by 12.9% to U.S. 66.8 billion, as compared with U.S. $59.1 billion during the same period of 2004. During the first four months of 2005, imports of intermediate goods increased by 9.8%, imports of capital goods increased by 19.1% and imports of consumer goods increased by 27.2%, each as compared with the first four months of 2004.

Balance of International Payments

According to preliminary figures, during 2004, Mexico's current account registered a deficit of 1.3% of GDP, or U.S. $8.7 billion, a 1.5% increase in the deficit in nominal terms as compared with 2003. The capital account surplus for the same period totaled U.S. $13.7 billion, a 24.1% decrease in nominal terms as compared with 2003.

According to preliminary figures, during first three months of 2005, Mexico's current account registered a deficit of 1.5% of GDP, or U.S. $2.6 billion, a 97.2% increase in the deficit in nominal terms as compared with the same period of 2004. The capital account surplus for the same period totaled U.S. $3.6 billion, a 34.1% decrease in nominal terms as compared with the same period of 2004.

Under the new mechanism to moderate the rate of accumulation of international reserves adopted on March 12, 2004 that commenced on May 3, 2004, on October 19, 2004, Banco de México announced that the daily amount of dollars to be auctioned pursuant to this procedure for the period from November 1, 2004 to January 31, 2005 would be U.S. $22.0 million. On January 18, 2005, Banco de México announced that the daily amount of dollars to be auctioned pursuant to this procedure for the period from February 1, 2005 to April 29, 2005 would be U.S. $23.0 million. On April 19, 2005, Banco de México announced that the daily amount of dollars to be auctioned pursuant to this procedure for the period from May 2, 2005 to July 29, 2005 will be U.S. $15.0 million.

At May 20, 2005, Mexico's international reserves totaled U.S. $59.7 billion, a decrease of U.S. $1.7 billion from the level at December 31, 2004. The net international assets of Banco de México totaled U.S. $61.3 billion at May 20, 2005, a decrease of U.S. $2.9 billion from the level at December 31, 2004.

Direct Foreign Investment in Mexico

According to preliminary figures, net foreign investment in Mexico totaled U.S. $22.7 billion during 2004, and was composed of direct foreign investment totaling U.S. $16.6 billion and net foreign portfolio investment (including securities placed abroad) inflows totaling U.S. $6.1 billion.

According to preliminary figures, net foreign investment in Mexico totaled U.S. $10.2 billion during the first three months of 2004, and was composed of direct foreign investment totaling U.S. $3.8 billion and net foreign portfolio investment (including securities placed abroad) inflows totaling U.S. $6.5 billion.

Exchange Controls and Foreign Exchange Rates

The peso/U.S. dollar exchange rate announced by Banco de México on May 24, 2005 (to take effect on the second business day thereafter) was Ps. 10.9801 = U.S. $1.00

Public Finance

2005 Budget and Fiscal Package

On November 13, 2004, the Congress approved the Federal Annual Revenue Law for 2005 and on November 18, 2004, the Chamber of Deputies approved the Federal Expenditure Decree for 2005 (as passed, together with the Federal Annual Revenue Law for 2005 as passed, the "2005 Budget"). The 2005 Budget maintains fiscal discipline as the cornerstone of the economic program, and contemplates a public sector deficit of 0.22% of GDP for 2005.

The 2005 Budget as originally proposed to Congress was based on an estimated weighted average price of Mexico's oil exports of U.S. $23.00 per barrel. Congress's upward revision to U.S. $27.00 per barrel and the 2005 Budget's estimated volume of oil exports of 1,900 thousand barrels per day resulted in Ps. 41.7 billion of additional revenues with respect to the original proposal. The 2005 Budget as originally proposed to Congress contemplated a public sector deficit as a percentage of GDP of 0.1%. Congress revised the proposal to provide for a public sector deficit of 0.22% of GDP.

Subsequent to the passing of the Federal Expenditure Decree for 2005 by the Chamber of Deputies, the President on December 21, 2004 submitted a filing to the Supreme Court of Mexico contesting the limitations of the powers of the Executive with respect to the budget approval process and the reallocation of certain expenditures set forth in the Federal Expenditure Decree for 2005, which represent amounts allocated by the President in the proposal to certain federal programs and entities and shifted by Congress to fund programs administered in certain cases by the states. The President's filing with the Supreme Court requested that the court rule, among other things, that the President has the power to eliminate changes made by the Chamber of Deputies to the original Federal Expenditure Decree as proposed by the President and submitted to the Chamber of Deputies. On December 22, 2004, the Supreme Court granted an interim ruling suspending until a further ruling is issued by the Supreme Court the carrying out of specific works projects, services and transfers within the expenditures contested by the President and which account for up to Ps. 4.2 billion of expenditures. On May 17, 2005, the Supreme Court ruled that the President Fox does have the power to veto changes made by the Chamber of Deputies to the original Federal Expenditure Decree, but also ruled that the Chamber of Deputies may override the President's veto by a two-thirds vote. The Supreme Court ordered the Chamber of Deputies to reconsider the President's original proposed changes to the Federal Expenditures Decree for 2005. This reconsideration is pending in the Chamber of Deputies and there can be no assurance as to whether the Federal Expenditures Decree for 2005 will be revised.

The results for 2003 and 2004, the revised budget assumptions and targets for 2004 and the budget assumptions and targets for 2005, as set forth in the 2005 Budget passed by Congress, are set forth below.

2003 and 2004 Results;
2004 Revised Budget Assumptions and Targets;
2005 Budget Assumptions and Targets

	2003 Results	2004 Budget	2004 Results	2005 Budget
Real GDP growth (%)	1.3 (1)	3.1	4.4(1)	3.8
Increase in the national consumer price index (%)	3.98	3.0	5.19	3.0
Average export price of Mexican oil mix (U.S. $/barrel)	24.77	20.00	31.01	27.00
Current account deficit as % of GDP	1.5(1)	2.6	1.3(1)	2.1
Average exchange rate (Ps./$1.00)	10.79	11.2	11.29	11.6
Average rate on 28-day *Cetes* (%)	6.23	6.5	6.82	7.8
Public sector balance as % of GDP	(0.62) (1)	(0.3)	(0.26)(1)	(0.2)
Primary balance as % of GDP	2.20(1)	2.7	2.49(1)	N/A
Public sector borrowing requirement(2)	(2.54) (1)	2.7	1.78(1)	2.2

(1) Preliminary.
(2) Includes the public sector balance (comprising the Government and budget controlled agencies) as well as financing needs of the national development banks, the Bank Savings Protection Institute (IPAB) and certain other public sector agencies and enterprises.
N/A = Not available.
Source: Ministry of Finance and Public Credit.

Revenues and Expenditures

According to preliminary figures, during 2004, the public sector overall balance registered a deficit of Ps. 19.7 billion, 55.6% lower in real terms than the Ps. 42.5 billion deficit registered in 2003. The primary balance amounted to a surplus of Ps. 189.9 billion, 26.1% higher in real terms as compared with 2003.

According to preliminary figures, during the first three months of 2005, the public sector overall balance registered a surplus of Ps. 26.4 billion, 46.4% lower in real terms than the Ps. 47.2 billion surplus registered in the first three months of 2004. The primary balance amounted to a surplus of Ps. 81.4 billion, 20.8% lower in real terms as compared with the first three months of 2004.

Public Debt

Internal Debt

Internal debt of the Government as presented herein on a net basis includes Banco de México's general account balance (which was positive at March 31, 2005, indicating monies owed to the Government). Net internal debt includes *Cetes* and other securities sold to the public in primary auctions, but not such debt allocated to Banco de México nor debt issued by Banco de México for its use in regulating liquidity ("*Regulación Monetaria*"). The internal debt of the Government does not include the debt of budget and administratively controlled agencies.

At December 31, 2004, the net internal debt of the Mexican Government totaled Ps. 1,030.0 billion, as compared with the Ps. 927.1 billion outstanding at December 31, 2003. At December 31, 2004, the gross internal debt of the Government totaled Ps. 1,099.2 billion, as compared with Ps. 1,011.9 billion at December 31, 2003. The Government's financing costs on internal debt totaled Ps. 85.7 billion during 2004, an increase of 5.1% in nominal terms as compared with 2003.

At March 31, 2005, the net internal debt of the Mexican Government totaled Ps. 1,031.7 billion, as compared with the Ps. 1,030.0 billion outstanding at December 31, 2004. At March 31, 2005, the gross internal debt of the Government totaled Ps. 1,127.7 billion, as compared with Ps. 1,099.2 billion at December 31, 2004. The Government's financing costs on internal debt totaled Ps. 19.6 billion during the first three months of 2005, a decrease of 2.6% in nominal terms as compared with the same period of 2004.

External Debt

The total external debt of the public sector consists of the external portion of the long-term indebtedness incurred directly by the Government, the external long-term indebtedness incurred by budget controlled agencies, the external long-term indebtedness incurred directly or guaranteed by administratively controlled agencies (including but not limited to national development banks), and the short-term external debt of the public sector.

Outstanding gross external debt increased by approximately U.S. $0.2 billion during 2004, from U.S. $79.0 billion at December 31, 2003 to U.S. $79.2 billion at December 31, 2004. Of this amount, U.S. $77.1 billion represented long-term debt and U.S. $2.1 billion represented short-term debt. Public sector external debt financing costs totaled U.S. $6.8 billion during 2004, a 2.9% decrease in nominal terms as compared with 2003.

Outstanding gross external debt increased by approximately U.S. $0.04 billion during the first three months of 2005, from U.S. $79.2 billion at December 31, 2004 to U.S. $79.3 billion at March 31, 2005. Of this amount, U.S. $75.5 billion represented long-term debt and U.S. $3.8 billion represented short-term debt. Public sector external debt financing costs totaled U.S. $2.3 billion during the first three months of 2005, a 7.5% increase in nominal terms as compared with the same period of 2004.

At March 31, 2005, commercial banks held approximately 3.7% of Mexico's total public sector external debt (excluding bonds issued in debt exchange transactions), multilateral and bilateral creditors (excluding the IMF) held 23.4%, bondholders (including commercial banks holding bonds issued in debt exchange transactions) held 69.7% and others held the remaining 3.3%.

Mexico issued €750,000,000 of its 5.500% Global Notes due 2020 on November 15, 2004 and U.S. $1,000,000,000 of its 6.625% Global Notes due 2015 on January 7, 2005. On June 14, 2005, Mexico expects to issue Swiss Francs 250,000,000 of its 3.00% Global Notes due 2012.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the terms agreement dated as of June 1, 2005, which incorporates by reference a distribution agreement with respect to the Securities, Credit Suisse First Boston LLC, Lehman Brothers Inc., Barclays Capital Inc., Credit Suisse First Boston (Europe) Limited, J.P. Morgan Securities Inc., Lehman Brothers International (Europe) and Morgan Stanley & Co. Incorporated (collectively, the "Managers") have severally agreed to purchase, and the Issuer has agreed to sell to the Managers, the principal amount of the Notes or the Bonds set forth opposite such Manager's name in the following tables.

For the Notes

U.S. Managers	**Principal Amount**
Credit Suisse First Boston LLC	U.S. $470,000,000
Lehman Brothers Inc.	459,500,000
Barclays Capital Inc.	16,670,000
J.P. Morgan Securities Inc.	16,670,000
Morgan Stanley & Co. Incorporated	16,660,000
Sub-total	U.S. $979,500,000
International Managers	
Credit Suisse First Boston (Europe) Limited	U.S. $5,000,000
Lehman Brothers International (Europe)	15,500,000
Sub-total	U.S. $20,500,000
Total	U.S. $1,000,000,000

For the Bonds

U.S. Managers	**Principal Amount**
Credit Suisse First Boston LLC	U.S. $232,500,000
Lehman Brothers Inc.	237,000,000
Barclays Capital Inc.	8,330,000
J.P. Morgan Securities Inc.	8,330,000
Morgan Stanley & Co. Incorporated	8,340,000
Sub-total	U.S. $494,500,000
International Managers	
Credit Suisse First Boston (Europe) Limited	U.S. $5,000,000
Lehman Brothers International (Europe)	500,000
Sub-total	U.S. $5,500,000
Total	U.S. $500,000,000

The terms agreement and distribution agreement provide that the obligations of the Managers to purchase the Securities are subject to various conditions. The Managers must purchase all the Securities if they purchase any of the Securities. The purchase price for the Notes will be the issue price for the Notes set forth on the cover page of this Pricing Supplement less a combined management and underwriting commission and selling concession totaling 0.40% of the principal amount of the Notes purchased. The purchase price for the Bonds will be the issue price for the Bonds set forth on the cover page of this Pricing Supplement less a combined management and underwriting commission and selling concession totaling 0.55% of the principal amount of the Bonds purchased.

The Issuer has been advised that the Managers propose to resell the Securities initially at the issue price set forth on the cover page of this Pricing Supplement. After the Securities are released for sale, the offering price and other selling terms may from time to time be varied by the Managers.

The Securities 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 (as defined in Regulation S) except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Issuer has been advised by the Managers that the Managers propose to resell the Securities, directly or through their selling agents, only (i) to qualified institutional buyers (as such term is defined in Rule 144A under the Securities Act) in reliance on Rule 144A and (ii) outside the United States in offshore transactions in reliance on Regulations S under the Securities Act. See "Notice to Investors" and "Offering and Sale" in the Offering Circular.

Accordingly, in connection with Securities offered outside the United States in offshore transactions, each Manager has agreed that, except as permitted by the terms agreement and the distribution agreement and as set forth in "Notice to Investors" in the Offering Circular, it will not offer, sell or deliver any Securities within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the original issue date for the Securities, and that it will send to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons.

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

Terms used in the four preceding paragraphs have the meanings given to them by Regulation S and Rule 144A under the Securities Act.

The Securities will constitute new issues of securities with no established trading market. Application has been made to list the Securities on the Luxembourg Stock Exchange. However, PEMEX cannot assure you that the prices at which the Securities will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Securities will develop and continue after this offering. The Managers have advised the Issuer that they currently intend to make a market in the Securities. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Securities at any time without notice. Accordingly, no assurance can be given as to the liquidity of the trading market for the Securities.

In connection with the offering, the Managers may purchase and sell the Securities in the open market. These transactions may include over-allotment, covering transactions and stabilizing transactions. Over-allotment involves sales of Securities in excess of the principal amount of the Securities to be purchased by the Managers in this offering, which creates a short position for the Managers. Covering transactions involve purchases of the Securities in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Securities made for the purpose of preventing or retarding a decline in the market price of the Securities while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Securities. They may also cause the price of the Securities to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Managers may conduct these transactions in the over-the-counter market or otherwise. If the Managers commence any of these transactions, they may discontinue them at any time.

Certain of the Managers or their affiliates have performed from time to time various investment banking and/or other services for the Issuer, the Guarantor or one or more of the Subsidiary Guarantors in the ordinary course of their business and have received separate fees for the provision of such services.

The Issuer, the Guarantor and the Subsidiary Guarantors have agreed to indemnify the Managers against certain liabilities, including liabilities under the Securities Act.

The net proceeds to the Issuer, excluding accrued interest on the Notes, from the sale of the Notes will be approximately U.S. $993,782,500 after the deduction of the underwriting discount and the Issuer's share of expenses in connection with the sale of the Notes. The net proceeds to the Issuer, excluding accrued interest on the Bonds, from the sale of the Bonds will be approximately U.S. $490,412,500 after the deduction of the underwriting discount and the Issuer's share of expenses in connection with the sale of the Bonds.

The Securities are offered for sale in those jurisdictions in the United States, Europe, Asia and elsewhere where it is lawful to make such offers.

Each of the Managers has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Securities, directly or indirectly, or distribute this offering circular or any other offering material relating to the Securities in or from any jurisdiction, except under circumstances that will result in compliance with

the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

Each Manager has severally represented and agreed that it has only offered and sold and will only offer and sell the Securities in the Federal Republic of Germany in accordance with the provisions of the Securities Sales Prospectus Act of September 9, 1998, as amended (*Wertpapier-Verkaufsprospektgesetz*) and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of securities. Any resale of the Securities in the Federal Republic of Germany may only be made in accordance with the provisions of the Securities Sales Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the sale and offering of securities.

Each Manager has represented and agreed that it and each of its affiliates have not (i) offered or sold, and will not offer or sell, in Hong Kong, by means of any document, the Securities other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance or (ii) issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere any advertisement, invitation or document relating to the Securities which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors," as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Each Manager has represented and agreed that this Pricing Supplement or any other offering material relating to the Securities has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the Securities will be offered in Singapore pursuant to exemptions under Section 274 and Section 275 of the Securities and Futures Act, Chapter 289, of Singapore (the "Securities and Futures Act"). Accordingly, the Securities may not be offered or sold, or be the subject of an invitation for subscription or purchase, nor may this offering circular or any other offering material relating to the Securities be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, (b) to a sophisticated investor and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each Manager has represented and agreed that the Securities are being issued and sold outside the Republic of France and that, in connection with their initial distribution, it has not offered or sold and will not offer or sell, directly or indirectly, any Securities to the public in the Republic of France, and that it has not distributed and will not distribute or cause to be distributed to the public in the Republic of France this offering circular or any other offering material relating to the Securities, and that such offers, sales and distributions have been and will be made in the Republic of France only to qualified investors *(investisseurs qualifiés)* in accordance with Article L.411-2 of the Monetary and Financial Code and *decrét no.* 98-880 dated 1st October, 1998.

Each Manager has represented and agreed that the Securities may not be offered, sold, transferred or delivered in or from the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to individuals or legal entities situated in the Netherlands who or which trade or invest in securities in the conduct of a business or profession (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institution, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities; hereinafter, "Professional Investors"), provided that in the offer, offering circular and any other documents or advertisements in which a forthcoming offering of the Securities is publicly announced (whether electronically or otherwise) in the Netherlands it is stated that such offer is and will be exclusively made to Professional Investors. Individual or legal entities that are not Professional Investors may not participate in the offering of the Securities, and this Pricing Supplement, the offering circular or any other offering material relating to the Securities may not be considered an offer or the prospect of an offer to sell or exchange the Securities.

Credit Suisse First Boston LLC will make the Securities available for distribution on the Internet through a proprietary Web site and/or a third-party system operated by MarketAxess Corporation, an Internet-based communications technology provider. MarketAxess Corporation is providing the system as a conduit for communications between Credit Suisse First Boston LLC and its customers and is not a party to any transactions. MarketAxess Corporation, a registered broker-dealer, will receive compensation from Credit Suisse First Boston LLC based on transactions conducted through the system. Credit Suisse First Boston LLC will make the Securities available to its customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

See "Offering and Sale" in the Offering Circular for additional restrictions on the offer and sale of the Securities in certain jurisdictions.

GENERAL INFORMATION

1. The Ministry of Finance and Public Credit authorized the Guarantor to guaranty the Securities and issued such authorization in an Official Communication dated June 2005.

2. Except as disclosed herein, there has been no material adverse change in the consolidated financial position of the Guarantor and its subsidiaries, including the Subsidiary Guarantors and the Issuer, since March 31, 2005.

3. 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 Securities. None of the Issuer, the Guarantor or any of the Subsidiary Guarantors is aware of any such litigation or arbitration proceeding pending or threatened.

4. The Issuer accepts responsibility for the information it has provided in this Pricing Supplement.

5. Application has been made to list the Securities pursuant to the listing of the program of U.S. $20,000,000,000 Medium-Term Notes, Series A, of the Issuer. The date of the original commencement of the Medium-Term Note program was July 31, 2000, and these Securities are being offered pursuant to the recommencement and update of such program on February 11, 2005.

6. This Pricing Supplement is supplementary to, and should be read in conjunction with, the Offering Circular dated February 11, 2005. Terms used but not defined herein have the same meanings as in the Offering Circular.

Annex S/F – PEMEX 2004 Financial Statements

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

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REPORT OF INDEPENDENT AUDITORS

Mexico City, April 22, 2005

To the General Comptroller's Office
and the Board of Directors of
Petróleos Mexicanos:

We have audited the accompanying consolidated balance sheets of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies (collectively, "PEMEX") as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in equity and changes in financial position for each of the three years in the period ended December 31, 2004. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and have been prepared on the basis of generally accepted accounting principles. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained 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 provide a reasonable basis for our opinion.

As described in Notes 2(l) and 11 to the consolidated financial statements, effective January 1, 2004, PEMEX adopted the amendments to Bulletin D-3, "Labor Obligations", issued by the Mexican Institute of Public Accountants ("MIPA"). These amendments set forth additional valuation and disclosure requirements for the recognition of post-retirement obligations. As of January 1, 2004, the adoption of these amendments resulted in the recognition of an initial liability related to prior service costs and a charge to income for 2004 in the amount of Ps. 8,444,988,000 which is presented as a cumulative effect of adoption of new accounting standards in the consolidated statement of operations.

As described in Note 2(e) to the consolidated financial statements, effective January 1, 2004, the Board of Directors of PEMEX approved a change in the accounting policy for the recognition of well exploration and drilling expenses to the successful efforts method of accounting. As a result, the oil-field exploration and depletion reserve will be discontinued. The change in the accounting policy for recognizing exploration and drilling costs had no effect on the consolidated financial statements upon adoption, since at December 31, 2003, the specific oil-field exploration and depletion reserve had been entirely utilized.

As described in Note 2(i) to the consolidated financial statements, Bulletin C-15, "Impairment of the Value of Long-Lived Assets and their Disposal", issued by the MIPA, became effective January 1, 2004. PEMEX calculated an impairment of the value of long-lived assets at January 1 and December 31, 2004, and determined a cumulative effect of Ps. 2,024,132,000 and an impairment charge for the year of Ps. 1,652,570,000, respectively. The initial effect is presented in the consolidated statement of operations as a cumulative effect of adoption of new accounting standards and the impairment charge for the year is presented in the consolidated statement of operations under costs and operating expenses.

As discussed in Note 2(h) to the consolidated financial statements, effective January 1, 2003, PEMEX adopted the guidelines of the Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments", issued by the MIPA. As a result, an initial cumulative benefit totaling Ps. 2,117,261,000 was recognized in earnings as a cumulative effect of adoption of new accounting standards in the consolidated statement of operations.

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, 2004 and 2003, and the consolidated results of their operations, changes in equity and changes in financial position for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in Mexico.

PricewaterhouseCoopers

/s/ FRANCISCO J. HERNÁNDEZ F.

Francisco J. Hernández F.
Public Accountant

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS
(Notes 1, 2 and 14)

(In thousands of Mexican pesos as of December 31, 2004 purchasing power)

	As of December 31,	
Assets	2004	2003
Current assets:		
Cash and cash equivalents	Ps. 84,872,231	Ps. 77,143,143
Cash in trust fund (Note 13)	32,705,633	
Accounts, notes receivable and other - Net (Note 3)	90,273,995	73,857,439
Inventories - Net (Note 4)	35,763,728	28,903,964
Total current assets	243,615,587	179,904,546
Properties and equipment - Net (Note 5)	594,568,925	567,209,192
Intangible asset derived from the actuarial computation of labor obligations and other assets (Notes 6 and 11)	109,342,825	142,244,817
Total assets	Ps. 947,527,337	Ps. 889,358,555
Liabilities		
Current liabilities:		
Current portion of long-term debt (Note 9)	Ps. 47,065,088	Ps. 60,488,366
Current portion of notes payable to contractors (Note 8)	2,076,592	1,985,108
Suppliers	24,322,630	35,282,295
Accounts and accrued expenses payable	22,881,389	7,720,936
Taxes payable	44,136,805	38,546,112
Total current liabilities	140,482,504	144,022,817
Long-term liabilities:		
Long-term debt (Note 9)	394,549,328	319,373,040
Notes payable to contractors (Note 8)	11,285,080	13,821,639
Sale of future accounts receivable (Note 7)	36,635,689	42,557,120
Reserve for dismantlement and abandonment activities, sundry creditors and others (Notes 2(h) and 5)	25,969,304	20,739,386
Reserve for retirement payments, pensions and seniority premiums (Note 11)	305,262,514	300,603,198
Total long-term liabilities	773,701,915	697,094,383
Total liabilities	914,184,419	841,117,200
Commitments and contingencies (Notes 16 and 17)		
Equity (Note 13)		
Certificates of Contribution “A”	86,908,890	86,908,890
Surplus in restatement of equity	132,342,011	137,018,937
Mexican Government increase in equity of Subsidiary Entities	32,637,530	-
Effect on equity from labor obligations	(6,975,592)	-
Accumulated losses:		
From prior years	(186,074,311)	(132,932,341)
Net loss for the year	(25,495,610)	(42,754,131)
	(211,569,921)	(175,686,472)
Total equity	33,342,918	48,241,355
Total liabilities and equity	Ps. 947,527,337	Ps. 889,358,555

The accompanying notes are an integral part of these consolidated financial statements.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Notes 1 and 2)

(In thousands of Mexican pesos as of December 31, 2004 purchasing power)

	Year ended December 31,		
	2004	2003	2002
Net sales:			
Domestic	Ps. 449,012,740	Ps. 407,337,262	Ps. 353,526,447
Export	324,574,385	250,556,143	188,047,374
	773,587,125	657,893,405	541,573,821
Other revenues (expenses) - Net	11,154,377	3,114,711	(94,065)
Total revenues	784,741,502	661,008,116	541,479,756
Costs and operating expenses:			
Cost of sales	264,105,487	217,869,140	177,513,719
Transportation and distribution expenses	17,574,308	16,356,086	16,831,378
Administrative expenses	36,706,034	37,021,765	36,158,166
Total cost and operating expenses	318,385,829	271,246,991	230,503,263
Comprehensive financing cost:			
Exchange loss - Net	(3,470,747)	(26,830,343)	(4,661,247)
Interest paid - Net	(23,123,667)	(17,598,848)	(15,493,308)
Gain on monetary position	19,546,261	12,090,999	13,591,567
	(7,048,153)	(32,338,192)	(6,562,988)
Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new accounting standards	459,307,520	357,422,933	304,413,505
Hydrocarbon extraction duties and other	419,629,162	303,334,715	201,470,457
Special tax on production and services (IEPS Tax)	54,704,848	98,959,610	128,792,678
	474,334,010	402,294,325	330,263,135
Cumulative effect of adoption of new accounting standards (Notes 2(e), 2(h) and 2(l))	(10,469,120)	2,117,261	-
Net loss for the year	(Ps. 25,495,610)	(Ps. 42,754,131)	(Ps. 25,849,630)

The accompanying notes are an integral part of these consolidated financial statements.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIE

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(Notes 1, 2 and 13)

(In thousands of Mexican pesos as of December 31, 2004 purchasing power)

	Certificates of Contribution "A"	Specific oil-field exploration and depletion reserve	Surplus in restatement of equity	Mexican Government increase in equity of Subsidiary Entities	Effect on equity from labor obligations	A From pr years
Balances at December 31, 2001	Ps. 86,908,890	Ps. 21,145,734	Ps. 135,504,569	Ps. -	Ps. -	(Ps. 65,08
Transfer to prior years' accumulated losses						(38,42
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on April 24, 2002						(2,44
Transfer to prior years' accumulated losses from the specific oil-field exploration and depletion reserve, approved by the Board of Directors on April 24, 2002		(9,326,018)				9,32
Comprehensive loss for the year (Note 12)		1,911,708	(4,413,521)			4
Balances at December 31, 2002	86,908,890	13,731,424	131,091,048			(96,58
Transfer to prior years' accumulated losses						(25,84
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 28, 2003						(10,50
Comprehensive loss for the year (Note 12)		(13,731,424)	5,927,889			
Balances at December 31, 2003	86,908,890		137,018,937			(132,93
Transfer to prior years' accumulated losses						(42,75
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 12, 2004						(10,38
Increase in equity (Note 13)				32,637,530		
Comprehensive loss for the year (Note 12)			(4,676,926)		(6,975,592)	
Balances at December 31, 2004	Ps. 86,908,890	Ps. -	Ps. 132,342,011	Ps. 32,637,530	(Ps. 6,975,592)	(Ps. 186,07

The accompanying notes are an integral part of these consolidated financial statements.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Notes 1 and 2)

(In thousands of Mexican pesos as of December 31, 2004 purchasing power)

	Year ended December 31,		
Funds provided by (used in):	2004	2003	2002
Operating activities:			
Net loss for the year	(Ps. 25,495,610)	(Ps. 42,754,131)	(Ps. 25,849,630)
Charges to operations not requiring the use of funds:			
Depreciation and amortization	41,900,077	42,648,759	35,569,746
Reserve for retirement payments, pensions and indemnities	53,052,445	40,961,047	41,773,368
Specific oil-field exploration and depletion reserve	-	9,344,332	9,035,374
	69,456,912	50,200,007	60,528,858
Variances in:			
Accounts, notes receivable and other	(16,416,556)	(13,294,701)	(8,689,691)
Inventories	(6,859,764)	(2,183,199)	(6,781,632)
Intangible asset derived from the actuarial computation of labor obligations and other assets	32,901,992	417,586	(57,735,716)
Suppliers	(10,959,665)	3,267,931	4,841,686
Accounts payable and accrued expenses	15,160,453	357,467	(2,379,021)
Taxes payable	5,590,693	9,325,935	26,287,870
Cash in trust fund	(32,705,633)	-	-
Reserve for dismantlement and abandonment activities, sundry creditors and others	5,229,918	12,330,413	(304,610)
Effect on equity from labor obligations	(6,975,592)	-	-
Reserve for retirement payments, pensions and indemnities and others	(48,393,129)	(19,303,921)	37,132,905
Exploration and well-drilling expenses charged to the specific oil-field exploration and depletion reserve	-	(23,075,756)	(7,123,667)
Funds provided by operating activities	6,029,629	18,041,762	45,776,982
Financing activities:			
Minimum guaranteed dividends paid to the Mexican Government	(10,387,839)	(10,500,161)	(2,441,738)
Debt - Net	61,753,010	116,768,545	78,793,678
Notes payable to contractors	(2,445,075)	(15,908,291)	14,488,431
Sale of future accounts receivable	(5,921,431)	(4,953,601)	(4,149,808)
Increase in equity of Subsidiary Entities	32,637,530	-	-
Other	-	-	44,436
Funds provided by financing activities	75,636,195	85,406,492	86,734,999
Investing activities:			
Increase in fixed assets - Net	(73,936,736)	(74,294,409)	(101,218,761)
Funds used in investing activities	(73,936,736)	(74,294,409)	(101,218,761)
Net increase in cash and cash equivalents	7,729,088	29,153,845	31,293,220
Cash and cash equivalents at beginning of the year	77,143,143	47,989,298	16,696,078
Cash and cash equivalents at end of the year	Ps. 84,872,231	Ps. 77,143,143	Ps. 47,989,298

The accompanying notes are an integral part of these consolidated financial statements.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Figures stated in thousands of Mexican pesos as of December 31, 2004 purchasing power and in thousands of U.S. dollars or other currency units)

NOTE 1 - STRUCTURE AND BUSINESS OPERATIONS 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 created 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 comprise the Mexican state oil and gas company.

The operations of Petróleos Mexicanos and Subsidiary Entities are regulated by the *Constitución Politica de los Estados Unidos Mexicanos* (Political Constitution of the United Mexican States, or the "Mexican Constitution"), the *Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (Regulation 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, as amended effective January 1, 1994 and January 16, 2002. 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 meanings attributed to them herein or the meanings as defined in the Mexican Constitution 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, other than those entrusted to Pemex-Petrochemicals, 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 work.

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;

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 labor 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 the Subsidiary Entities and the Subsidiary Companies (as defined below) is that the 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 any other private corporations subject to the general corporations law, in their respective jurisdictions.

As used herein, "Subsidiary Companies" include those companies listed in Note 2(c) below, which are defined as (a) those companies which are not Subsidiary Entities but in which Petróleos Mexicanos has more than a 50% ownership investment, (b) the Pemex Project Funding Master Trust (the "Master Trust"), a Delaware statutory trust, (c) Fideicomiso Irrevocable de Administración No. F/163 ("Fideicomiso F/163"), a Mexican statutory trust incorporated in 2003 in Mexico (both the Master Trust and Fideicomiso F/163 are controlled by Petróleos Mexicanos) and (d) RepCon Lux, S.A., a Luxembourg finance vehicle whose debt in guaranteed by Petróleos

Mexicanos ("RepCon Lux"). Petróleos Mexicanos also guarantees the debt of the Master Trust. The guarantee, when taken together with the Indenture pursuant to which the Master Trust issues debt securities, the Trust Agreement constituting the Master Trust, and Petróleos Mexicanos' obligations to pay all fees and expenses of the Master Trust, constitutes a full and unconditional guarantee by Petróleos Mexicanos of the Master Trust's obligations under those securities. "Non-consolidated subsidiary companies", as used herein, are defined as those companies (a) which are 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".

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies followed by PEMEX in the preparation of these consolidated financial statements, including the concepts, methods and criteria pertaining to the effects of inflation on the financial information, 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").

(b) Effects of inflation on the financial information

Beginning in January 1, 2003, PEMEX recognizes the effects of inflation in accordance with Financial Reporting Standard ("NIF") 06-BIS "A" Section C, which establishes the obligation for PEMEX to adopt Bulletin B-10 of Mexican GAAP, "Recognition of the Effects of Inflation on Financial Information" ("Bulletin B-10"). All periods presented herein are presented in accordance with Bulletin B-10.

The recognition of the effects of inflation in accordance with Bulletin B-10 consists of, among other things, the restatement of non-monetary assets using inflation factors based on the Mexican National Consumer Price Index ("NCPI") (including the restatement of fixed assets with consideration of value in use), the recognition in the consolidated statement of operations of comprehensive financing cost (including the determination of gains or losses in monetary position), the restatement of the equity accounts and the presentation of the financial statements for all periods in constant pesos with purchasing power at the latest balance sheet date. See Notes 2(h), 2(m), 2(n), 2(o) and 2(p). Consequently, the amounts shown in the accompanying financial statements and these notes are expressed in thousands of constant Mexican pesos as of December 31, 2004. The December 31, 2004 restatement factors applied to the consolidated financial statements at December 31, 2003 and 2002 were 5.2% and 9.4%, which correspond to inflation from January 1, 2004 and 2003 through December 31, 2004, respectively, based on the NCPI.

(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 consolidated Subsidiary Companies 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.; the Master Trust; Fideicomiso F/163; and RepCon Lux.

Through December 31, 2003, certain investments in Subsidiary Companies and other non-consolidated subsidiary companies, due to their immateriality in relation to PEMEX's total assets and revenues, are accounted for under the cost method. Effective January 1, 2004, these investments are accounted for under the equity method; however, the effect of this change was not material for the consolidated financial statements.

(d) Long-term productive infrastructure projects (PIDIREGAS)

The investment in long-term productive infrastructure projects ("PIDIREGAS") and related liabilities are initially recorded in accordance with NIF-09-B applicable to *Entidades Paraestatales de la Administración Pública Federal* (State-owned Entities of the Federal Public Administration), which provides for recording only liabilities maturing in less than two years.

For the purposes of these consolidated financial statements and in accordance with Mexican GAAP, all the accounts related to PIDIREGAS were incorporated into the consolidated financial statements for the years ended December 31, 2004, 2003 and 2002, i.e., all effects of NIF-09-B are excluded.

The main objective of the Master Trust and of Fideicomiso F/163 is to administer financial resources related to PIDIREGAS, such financial resources having been designated by PEMEX for that purpose.

(e) Exploration and drilling costs and specific oil-field exploration and depletion reserve

Effective January 1, 2004, the Board of Directors of PEMEX approved a change in the accounting policy for the recognition of well exploration and drilling expenses to the successful-efforts method of accounting. As a result, the oil-field exploration and depletion reserve will be discontinued. The change in accounting policy for recording well exploration and drilling

expenses had no effect on the consolidated financial statements, since at December 31, 2003, the specific oil-field exploration and depletion reserve had been entirely utilized.

Under the successful efforts method of accounting for oil and gas exploration costs, exploration costs are charged to income when incurred, except that exploratory drilling costs are included in fixed assets, pending determination of proven reserves. Exploration wells more than 12 months old are expensed unless (a) (i) they are in an area requiring major capital expenditure before production can begin, (ii) commercially productive quantities of reserves have been found, and (iii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future, or (b) proved reserves are recorded within 12 months following the completion of exploratory drilling. Expenses pertaining to the drilling of development wells are capitalized whether or not successful.

Management makes annual assessments of the amounts included within fixed assets to determine whether capitalization is initially appropriate and can continue. Exploration wells capitalized beyond 12 months are subject to additional judgment as to whether the facts and circumstances have changed and therefore whether the conditions described in clauses (a) and (b) of the preceding paragraph no longer apply. PEMEX management believes that this new methodology reflects the best practice for recognizing the capitalization of expense related to the exploration and drilling of wells.

Through December 31, 2003, a specific capital reserve was established to cover current and future exploration and drilling costs. As oil and gas was extracted from existing wells, the equity reserve was increased, and an amount equal to the increase was charged to cost of sales based upon a calculated quota of exploration and drilling cost per barrel. Accumulated drilling costs pertaining to successful wells were reclassified from that reserve and charged as an investment in fixed assets.

(f) Marketable securities

Marketable securities include investments in debt and equity securities and have been classified on the basis of their intended use at the date of acquisition as debt instruments to be held to maturity, financial instruments for trading and financial instruments available for sale. These financial instruments are initially recorded at acquisition cost, and are subsequently valued as follows (See Note 10):

i. Debt instruments to be held to maturity are valued at acquisition cost and are subsequently reduced by the amortization of any premiums or increased by the amortization of any discounts over the term of the debt instrument, in proportion to the outstanding balance. Any loss in value is recognized at the end of each period.

ii. Financial instruments held for trading and available for sale are valued at fair value, which is similar to market value. The fair value is the value at which a financial asset can be exchanged or a financial liability can be liquidated between interested and willing parties in

an arm's-length transaction. The effect of the valuation of financial instruments is recorded in income for the year.

(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, 2004 and 2003, less a provision for distribution expenses and shrinkage.

II. Crude oil and derivatives thereof 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.

(h) Properties and equipment

PEMEX's assets are initially recorded at acquisition or construction cost. Interest pertaining to fixed assets in the construction or installation phase are capitalized as part of the asset cost. As of December 31, 2004 and 2003, these assets are expressed at their inflation restated value, determined by applying factors computed from the National Consumer Price Index ("NCPI").

Property, plant and equipment assets are depreciated using the straight-line method, based on the inflation restated value of the assets and applying depreciation rates according to their expected useful life, based on calculations from independent appraisals. Asset depreciation begins the month after the asset is placed into service. The depreciation rates used by PEMEX are as follows:

	%	Years
Buildings	3	33
Plants 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 for the period in which they are incurred. 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 barrels of crude oil extracted from each specific field as compared to the field's total proven 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 for the purpose of properly and definitively isolating 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.

Through December 31, 2002, estimated dismantlement and abandonment costs were taken into account in determining amortization and depreciation rates. PEMEX recognized the costs related to currently producing and temporarily closed wells based on the UOP method. In the case of non-producing wells subject to abandonment and dismantlement, the full dismantlement and abandonment cost was recognized at the end of each period. All estimates were based on the life of the field, and taking into consideration current cost estimates on an undiscounted basis. No salvage value was considered when determining such rates because salvage values have traditionally been zero. The estimated dismantlement and abandonment costs were reflected within accumulated depreciation and amortization.

Effective January 1, 2003, PEMEX adopted Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" issued by the MIPA ("Bulletin C-9"). As a result, PEMEX changed the method of accruing the costs related to wells subject to abandonment and dismantlement. The present values of these costs are recorded as liabilities on a discounted basis when incurred, which is typically at the time the wells are put into service. The amounts recorded for these obligations are initially recorded by capitalizing the respective costs. Over time the liabilities will be accreted by the change in their present value during each period and the initial capitalized costs will be depreciated over the useful lives of the related assets based on the UOP method. In the case of the non-producing wells subject to abandonment and dismantlement, the full dismantlement and abandonment cost will be recognized at the end of each period.

The adoption of Bulletin C-9 resulted in the recognition of a benefit of Ps. 2,117,261 related to the provision for dismantlement and abandonment, as of January 1, 2003.

The carrying value of these long-lived assets is subject to an annual impairment assessment. See Notes 2(i) and 5.

(i) Impairment of the value of long-lived assets

Effective January 1, 2004, PEMEX adopted Bulletin C-15, "Impairment of the Value of Long-Lived Assets and their Disposal", issued by the MIPA ("Bulletin C-15"). PEMEX recognized impairment in the value of long-lived assets as of January 1, 2004 and for the year ended December 31, 2004 with an initial effect of adoption and a subsequent impairment charge for the year of Ps. 2,024,132 and Ps. 1,652,570, respectively. The initial adoption effect is presented in the consolidated statement of operations as a cumulative effect of adoption of a new accounting standard, and the impairment for the year is also presented in the consolidated statement of operations within costs and operating expenses. See Note 5.

PEMEX evaluates the impairment of long-lived assets whenever there are events or circumstances indicating that the book value of a given asset may not be recoverable. In order to analyze impairment, PEMEX makes a comparison, for each of the cash-generating units, of the book value of the long-lived assets and the estimated future value (discounted) of cash flows generated by such long-lived assets. If the book value of the long-lived assets exceeds the estimated recoverable value, a charge is made to income for the period for an impairment loss. This calculation is made at the end of each period, and in accordance with Bulletin C-15, the impairment recorded can be reversed in subsequent periods if the subsequent impairment analysis does not indicate a loss in such future periods.

(j) Liabilities, provisions, contingent assets and liabilities and commitments

PEMEX's liabilities represent present obligations and the liability provisions recognized in the balance sheet represent present obligations whose settlement will probably require the use of an estimate of economic resources. These provisions have been recorded, based on management's best estimate of the amount needed to settle present liability; however, actual results could differ from the provisions recognized.

Bulletin C-9 went into effect on January 1, 2003. This Bulletin establishes general rules for the valuation, presentation and disclosure of liabilities, provisions and contingent assets and liabilities, as well as for the disclosure of commitments entered into by a company as a part of its normal operations. See Note 2(h) for a discussion of the impact of Bulletin C-9 related to the provision for dismantlement and abandonment costs.

(k) 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. Monetary assets and liabilities in foreign currencies are stated in pesos at the rates in effect at the balance sheet date and published by the *Secretaría de Hacienda y Crédito Público* (Ministry of Finance and Public Credit, or "SHCP"). Foreign exchange losses and gains are charged and credited, respectively, to income. This resulted in net exchange losses charged to income of Ps. 3,470,747, Ps. 26,830,343 and Ps. 4,661,247 in 2004, 2003 and 2002, respectively.

(l) Retirement benefits, pensions and seniority premiums

Seniority premiums to which PEMEX employees are entitled upon termination of their employment as well as the obligations under retirement plans established for the employees, to which the employees do not contribute, are recorded as a cost of the years in which the respective services are rendered, based on actuarial studies carried out using the projected unit credit method. PEMEX has recorded the results of the actuarial valuations in these consolidated financial statements in accordance with Mexican GAAP Bulletin D-3, "Labor Obligations", issued by the MIPA ("Bulletin D-3").

Payments for indemnities to dismissed personnel are charged to expense as they are incurred.

Effective January 1, 2004, PEMEX adopted the amendments to Bulletin D-3, issued by the MIPA, which include rules for valuation, presentation and recording for recognition of remuneration upon retirement. The plan for other post-retirement benefits includes support given in the form of cash to retired personnel and their dependents for gas, gasoline and basic supplies, as well as medical services. See Note 11.

(m) Equity

Certificates of Contribution "A", the specific oil-field exploration and depletion reserve (until 2003) and accumulated losses represent the value of these items stated in terms of purchasing power of the most recent balance sheet date, and are determined by applying factors derived from the NCPI to the historical amounts.

(n) Surplus in the restatement of equity

The surplus in the restatement of equity at December 31, 2004 and 2003 is composed of cumulative results from the initial net monetary position and of results from holding non-monetary assets (mainly inventories and properties and equipment), restated in Mexican pesos of purchasing power as of the most recent balance sheet date.

(o) Result on monetary position

The gain on monetary position represents the gain or loss, measured in terms of the NCPI, on net monthly monetary assets and liabilities for the year, expressed in Mexican pesos of purchasing power as of the most recent balance sheet date. The inflation rates were 5.2%, 3.8% and 5.7%, in 2004, 2003 and 2002, respectively.

(p) Comprehensive financing cost

Comprehensive financing cost includes all types of financial gains or costs, such as interest income and expense, net foreign exchange gains or losses and effects on valuation of financial instruments, in addition to gains or losses on monetary position.

(q) Cost of sales

Cost of sales is determined by adding to inventories at the beginning of the year the operating cost of oil fields, refineries and plants (including internally-consumed products), the purchase cost of refined and other products, and deducting the value of inventories at the end of the year. The amount thus determined is restated to period end purchasing power based on NCPI factors. Cost of sales also includes the depreciation and amortization expense associated with assets used in operations as well as the expense associated with the reserve for future dismantlement and abandonment costs. Through December 31, 2003, cost of sales also included the increase in the specific oil-field exploration and depletion reserve for the year (a fixed charge per barrel extracted).

(r) 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* ("Asset Tax Law"). Some of the Subsidiary Companies are subject to the Income Tax Law and Asset 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 *Impuesto al Valor Agregado* (Value Added Tax, or "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; the rate of this tax 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. In addition, PEMEX pays a 39.2% duty on excess gains revenues, i.e., the portion of revenues in respect of crude oil sales at prices in excess of a threshold price set by the Mexican Government annually of 20.00 U.S. dollars, 18.35 U.S. dollars and 15.50 U.S. dollars per barrel for 2004, 2003 and 2002, 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.

(s) Special Tax on Production and Services (IEPS Tax)

The IEPS Tax 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 IEPS Tax collected from customers is presented as part of "Net domestic sales", and the payment to the Government is deducted after "Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new accounting standards".

(t) 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 at the time delivery is taken. For domestic sales in 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.

(u) Financial instruments with characteristics of liability, equity or both

PEMEX enters into derivative financial instruments in order to reduce the risk of adverse movements in interest rates, in the price of oil and natural gas, in the value of foreign currencies and in the price of PEMEX's investment portfolios. Derivative instruments contracted for hedging purposes are recorded in the balance sheet on the basis of the same criteria used to record the assets or liabilities covered by those instruments. Financial instruments not considered hedges are recorded at fair value, with the realized and unrealized results recorded in earnings.

Financial instruments issued by PEMEX with characteristics of equity, of liability or of both, are recorded at the time of issuance as a liability, as equity or as both, depending on the components involved. Initial costs incurred in the issuance of those instruments are assigned to liabilities and equity in the same proportion as the amounts of their components. Gains or losses pertaining to the components of financial instruments classified as liabilities are recorded as part of comprehensive financing cost. The distribution of profits to the owners of the components of financial instruments classified as equity is charged directly to an equity account.

(v) Use of estimates

The preparation of the financial statements in accordance with Mexican GAAP requires the use of estimates. PEMEX 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.

(w) Comprehensive income (loss)

Comprehensive income (loss) is represented by the net loss for the period plus the effect of restatement, the net increase or decrease in the specific oil-field exploration and depletion reserve (through 2003), and items required by specific accounting standards to be reflected in equity but which do not constitute equity contributions, reductions or distributions, and is restated on the basis of NCPI factors. See Note 12.

NOTE 3 - ACCOUNTS, NOTES RECEIVABLE AND OTHER:

At December 31, accounts, notes receivable and other receivables are as follows:

	2004	2003
Sales-domestic	Ps. 30,635,446	Ps. 23,322,587
Sales-export	9,253,595	11,880,701
Pemex Finance, Ltd.	8,051,516	8,570,007
Mexican Government advance payments on minimum guaranteed dividends (Note 13)	10,387,839	10,703,189
Employees and officers	2,450,763	2,426,868
Other accounts receivable	31,414,785	19,155,183
Less:		
Allowance for doubtful accounts	(1,919,949)	(2,201,096)
	Ps. 90,273,995	Ps. 73,857,439

NOTE 4 - INVENTORIES:

At December 31, inventories are as follows:

	2004	2003
Crude oil, refined products, derivatives and petrochemical products	Ps. 30,590,768	Ps. 25,226,625
Materials and supplies in stock	4,242,957	4,382,523
Materials and products in transit	2,587,864	1,238,969
Less:		
Allowance for slow-moving and obsolete inventory	(1,657,861)	(1,944,153)
	Ps. 35,763,728	Ps. 28,903,964

NOTE 5 - PROPERTIES AND EQUIPMENT:

At December 31, components of properties and equipment are as follows:

	2004	2003
Plants	Ps. 302,162,096	Ps. 292,399,170
Pipelines	228,317,114	228,894,105
Wells	263,238,565	224,075,520
Drilling equipment	19,944,162	21,397,388
Buildings	37,663,443	37,615,830
Offshore platforms	97,065,643	72,944,546
Furniture and equipment	27,171,179	24,064,588
Transportation equipment	12,780,796	12,911,345
	988,342,998	914,302,492
Less:		
Accumulated depreciation and amortization	(515,710,572)	(477,041,882)
	472,632,426	437,260,610
Land	38,046,582	39,723,521
Construction in progress	82,571,832	88,384,704
Fixed assets to be disposed of	1,318,085	1,684,867
Construction spares	-	155,490
Total	Ps. 594,568,925	Ps. 567,209,192

a) For the years ended December 31, 2004, 2003 and 2002, interest costs associated with fixed assets in the construction or installation phase and that were capitalized as part of those assets totaled Ps. 4,339,933, Ps. 7,622,449 and Ps. 5,532,066, respectively.

b) Depreciation of assets and amortization of wells for the periods ended December 31, 2004, 2003 and 2002 recorded in operating costs and expenses were Ps. 41,900,077, Ps. 42,648,759 and Ps. 35,569,746, respectively, which included Ps. 314,277, Ps. 479,596 and Ps. 1,473,535, respectively, related to dismantlement and abandonment costs.

c) As of December 21, 2004 and 2003, PEMEX has recognized cumulative impairment charges in the value of the long-lived assets amounting to Ps. 11,166,694 and Ps. 7,489,992, respectively. Impairments recorded through December 31, 2003 were determined in accordance with the value in use concept in accordance with Bulletin B-10. With the adoption of Bulletin C-15, PEMEX determined a cumulative effect totaling Ps. 2,024,132 at January 1, 2004 and an effect for the year ended December 31, 2004 totaling Ps. 1,652,570 for the year. The cumulative effect at January 1, 2004 of the adoption of Bulletin C-15 is shown in the consolidated

statement of operations under cumulative effect of adoption of new accounting standards, and the effect for the year is presented under costs and operating expenses.

NOTE 6 - INTANGIBLE ASSET DERIVED FROM THE ACTUARIAL COMPUTATION OF LABOR OBLIGATIONS AND OTHER ASSETS:

At December 31, intangible and other assets consist of:

	2004	2003
Intangible asset derived from the actuarial computation of labor obligations (Note 11)	Ps. 76,438,830	Ps. 125,502,324
Long-term investments and other assets	32,903,995	16,742,493
	Ps. 109,342,825	Ps. 142,244,817

Included in long-term investments and other assets are 58,679,800 shares of Repsol YPF, S.A. with a carrying value of Ps. 17,224,496 at December 31, 2004 and 18,557,219 shares of the same company with a carrying value of Ps. 4,274,205 at December 31, 2003.

PMI NASA has a 50% 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. 5,182,708 and Ps. 2,952,132, respectively, at December 31, 2004 and 2003. During 2004, 2003 and 2002, PEMEX recorded Ps. 3,232,074 and Ps. 935,910 of profits and Ps. 276,553 of losses, respectively, relative to its interest in the joint venture, which has been reflected in the line item “Other revenues” in the statements of operations. In 2004, 2003 and 2002, PEMEX paid the joint venture Ps. 7,638,459, Ps. 4,903,450 and Ps. 2,829,725, respectively, for the processing of petroleum.

NOTE 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 from Pemex-Exploration and Production and PMI, either already existing or to arise in the future. The current and future accounts receivable sold are those generated from 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)). For the year ended December 31, 2004, 2003 and 2002, the sales under these agreements were Ps. 170,160,778, Ps. 128,339,972 and Ps. 82,918,425, respectively.

The "Sale of future accounts receivable" is shown as a long-term liability in the consolidated financial statements at December 31, 2004 and 2003. Although the agreements between Petróleos Mexicanos, Pemex-Exploration and Production, PMI, P.M.I. Services, B.V. and Pemex Finance establish short term payment obligations, it is not expected that current receivables will have to be used in the short term to cover those obligations, because those receivables are constantly being regenerated. Additionally, Pemex Finance has a proven continuous ability to contract debt in the international market sufficient to sustain the acquisition of accounts receivable from PEMEX.

NOTE 8 - NOTES PAYABLE TO CONTRACTORS

At December 31, the notes payable to contractors consisted of:

	2004	2003
Total notes payable to contractors (a) (b) (c)	Ps. 13,361,672	Ps. 15,806,747
Less: Current portion of notes payable to contractors	(2,076,592)	(1,985,108)
Notes payable to contractors (long-term)	Ps. 11,285,080	Ps. 13,821,639

(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. Héctor 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 percentage of completion. At December 31, 2004 and 2003, the outstanding balances of the respective contracts were Ps. 11,832,618 and Ps. 14,180,314, respectively.

(b) On June 25, 1997, PEMEX entered into a 10-year service agreement, with a contractor for a daily fee of U.S. $82.50 for the storage and loading of stabilized petroleum by means of a floating system ("FSO"). At December 31, 2004 and 2003, the outstanding balances were Ps. 976,442 and Ps. 1,227,715, respectively

(c) In 2004 and 2003, PEMEX had liabilities of Ps. 552,612 and Ps. 398,718, respectively, for the upgrade of the refinery located in Minatitlán, Veracruz. Additionally, during 2004 and 2003, PEMEX paid Ps. 6,046,440 and Ps. 15,364,577, for the upgrading and modernization of the refineries located in Salamanca, Guanajuato and Ciudad Madero, Tamaulipas.

NOTE 9 - DEBT:

In 2004, significant financing activities were as follows:

a. Petróleos Mexicanos issued short-term certificates totaling Ps. 9,000,000 (in nominal terms), bearing fixed interest rates ranging from 8.43% to 8.79%. Of that amount, Ps. 7,000,000 was repaid in 2004 and Ps. 2,000,000 is repayable in 2005.

b. Petróleos Mexicanos obtained direct loans denominated in Japanese yen (¥) of ¥ 13,229,411 equivalent to U.S. $129,302 or Ps. 1,456,558, bearing interest at a fixed rate of 4.2%. Of this amount, ¥ 1,202,674 was paid in December 2004, and the remainder is payable on different dates up 2009.

c. Petróleos Mexicanos obtained U.S. $93,666 (Ps. 1,055,129) for purchasing loans and project financing, granted by export credit agencies. These loans bear interest at LIBOR plus 0.0625% to 0.5% with various maturity dates through 2014.

In 2004, the Master Trust undertook the following financing activities:

a. The Master Trust obtained credit lines from export credit agencies totaling U.S. $1,399,069 (Ps. 15,760,232) to finance foreign trade operations. These loans are repayable on various maturity dates through 2007 and are subject to interest at LIBOR plus 0.03% and 0.38%.

b. On June 15, 2004, the Master Trust issued U.S. $1,500,000 (Ps. 16,897,200) of Guaranteed Floating Rate Notes due 2010. These notes, which bear interest at the LIBOR plus 1.3%, mature in 2010 and are guaranteed by Petróleos Mexicanos.

c. On August 5, 2004, the Master Trust issued € 850,000 (Ps. 13,022,085) of 6.375% Guaranteed Notes due 2016. The notes are guaranteed by Petróleos Mexicanos.

d. On September 28, 2004, the Master Trust issued perpetual bonds with no fixed maturity date totaling U.S. $1,750,000 (Ps. 19,713,400), which bear a fixed interest rate of 7.75%. The bonds are guaranteed by Petróleos Mexicanos and may be redeemed at any time on or after the fifth anniversary from the date of issuance at the option of the issuer.

e. On December 30, 2004, the Master Trust completed an exchange offer pursuant to which the Master Trust issued seven tranches of notes with a principal amount totaling U.S. $2,308,161 (Ps. 26,000,972) in exchange for an equal principal amount of notes previously issued by Petróleos Mexicanos. This amount represented 78.4% of the total principal amount of notes subject to the offer.

f. At various dates in 2004, the Master Trust obtained bank loans to finance PIDIREGAS projects, which totaled U.S. $25,000 (Ps. 281,620), subject to an interest rate of LIBOR plus 0.55% to 0.7%. Such loans are due in 2006 and 2007.

In 2004, Fideicomiso F/163 undertook the following financing activities:

a. On January 30, 2004, under its Ps. 20,000,000 peso-denominated publicly-traded notes (*certificados bursátiles*) program approved by the *Comisión Nacional Bancaria y de Valores*

(National Banking and Securities Commission, or "CNBV"), the Fideicomiso F/163, issued Ps. 11,500,000 (in nominal terms) of notes the Mexican domestic market which corresponded to a reopening of an earlier issuance and involved three separate tranches: Ps. 4,000,000 at a variable 91-day interest rate *Certificados de la Tesorería de la Federación* (Mexican Government Treasury Bonds "CETES") plus 0.65% maturing in 2007; Ps. 5,000,000 at the 182-day CETES rate plus 0.67%, maturing in 2009; and Ps. 2,500,000 at a fixed rate of 8.38%, maturing in 2010.

b. On March 26, 2004, under its peso-denominated publicly-traded notes (*certificados bursátiles*) program (which was increased to Ps. 40,000,000), the Fideicomiso F/163 issued Ps. 14,672,000 (in nominal terms) of the foregoing notes in a further reopening, also in three tranches, of Ps. 6,00,000 at the CETES rate plus 0.65%, maturing in 2007; Ps. 6,000,000 at the CETES rate plus 0.67% maturing in 2009; and Ps. 2,672,000 at a fixed rate of 8.38%, maturing in 2010.

c. On March 30, 2004, Fideicomiso F/163 obtained a bank loan for Ps. 4,000,000 (in nominal terms), which is subject to a variable interest at the *Tasa de Interés Interbancaria de Equilibrio* (Inter-banking interest rate, or "TIIE") plus 0.40% and is repayable from 2005 to 2009.

d. On November 4, 2004, Fideicomiso F/163 obtained a bank loan of Ps. 4,000,000 (in nominal terms), which is subject to interest at a fixed rate of 11% and matures in 2011 and 2012.

e. On November 23, 2004, Fideicomiso F/163 obtained a bank loan of Ps. 3,000,000 (in nominal terms), which is subject to interest at TIIE plus 0.48% and is repayable in 2010 and 2012.

f. On December 23, 2004, Fideicomiso F/163 issued zero coupon notes denominated in *Unidades de Inversión* (Units of Investment, or UDI) in an amount of UDI 1,415,800 (equivalent to Ps. 5,000,000 (in nominal terms)) with a maturity of 15 years.

g. On December 20, 2004, Fideicomiso F/163 obtained a loan for Ps. 4,000,000 (in nominal terms) subject to an interest rate equal to the TIIE rate plus 0.425%, which was subsequently changed to a fixed rate of 10.55% and will mature from 2010 to 2012.

Additionally, in 2004 the following financing activities were also undertaken:

a. On January 26, 2004, RepCon Lux issued U.S. $1,373,738 (Ps. 15,474,884) of 4.5% guaranteed exchangeable bonds due 2011, bearing interest at the fixed rate of 4.5%. These bonds are guaranteed by Petróleos Mexicanos and are exchangeable for shares of common stock of Repsol YPF, S. A. or the cash equivalent thereof. See Note 6.

b. As of December 31, 2004, PMI Trading has signed a number of agreements with foreign banks pertaining to credit lines intended to support commercial transactions, totaling U.S. $60,000. At December 31, 2004, these credit lines remain unused. Additionally, PMI Trading obtained a bank loan of U.S. $25,000 (Ps. 281,620) at a fixed interest rate of 3.45%, payable in 2005.

In 2003, significant financing operations were as follows:

a. Petróleos Mexicanos obtained loans to finance foreign trade operations totaling U.S. $125,000 (Ps. 1,477,405). The loans were payable (and paid) in 2004 and bore interest at LIBOR plus 0.585% to 0.65%.

b. Petróleos Mexicanos obtained direct loans of U.S. $440,000 (Ps. 5,200,464) from a number of banks which bore interest at LIBOR plus 0.55% to 0.695% and matured and were paid in 2004.

c. Petróleos Mexicanos reutilized U.S. $432,000 (Ps. 5,105,911) under its commercial paper program. This commercial paper matured and was paid in 2004 and bore interest at the discount rate of 1.085% to 1.11%, which were the prevailing rates in the market at the date of each issuance.

d. Petróleos Mexicanos utilized U.S. $540,000 (Ps. 6,382,389) of bank credit lines. Drawdowns under these loans bore interest payable at the close of the period at LIBOR plus 0.6%, and matured and were paid in 2004.

e. Petróleos Mexicanos obtained U.S. $152,340 (Ps. 1,800,543) for purchasing goods and services through loans secured by various export credit agencies. The project financing credits bear interest at LIBOR plus 0.0625% to 1.5% and a fixed rate of 3.32% to 5.04%, payable on several dates ending in 2014.

In 2003, the Master Trust undertook the following financing activities:

a. The Master Trust obtained commercial bank loans totaling U.S. $1,173,583 (Ps. 13,870,856). These loans bear fixed interest of 5.44%, LIBOR plus 0.6% to 1.9% and variable plus 0.2% to 0.4%, and are repayable in installments until 2018.

b. The Master Trust obtained loans to finance foreign trade operations totaling U.S. $1,700,000 (Ps. 20,092,705). These loans are repayable in 2004 and 2006 and bear interest at LIBOR plus 0.4% and 0.6%.

c. On January 27, 2003, the Master Trust issued £250,000 (Ps. 5,283,786) of 7.50% Notes due 2013; the notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

d. On February 6, 2003, the Master Trust issued U.S. $750,000 (Ps. 8,864,429) of 6.125% Notes due 2008; the notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

e. On March 21, 2003, the Master Trust issued U.S. $500,000 (Ps. 5,909,619) 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.

f. On April 4, 2003, the Master Trust issued €750,000 (Ps. 11,173,630) of 6.625% Notes due 2010; the notes are guaranteed by Petróleos Mexicanos.

g. On June 4, 2003, the Master Trust issued U.S. $750,000 (Ps. 8,864,428) of 7.375% Notes due 2014; the notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

h. On August 5, 2003, the Master Trust issued €500,000 (Ps. 7,449,086) of 6.25% Guaranteed Notes due 2013; the notes are guaranteed by Petróleos Mexicanos.

i. On October 15, 2003, the Master Trust issued U.S. $500,000 (Ps. 5,909,619) of Guaranteed Floating Rate Notes due 2009; the notes bear interest at LIBOR plus 1.8% and are guaranteed by Petróleos Mexicanos.

j. On November 5, 2003, the Master Trust issued £150,000 (Ps. 3,170,272) of 7.50% Notes due 2013. The notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

k. At various dates during 2003, the Master Trust obtained project financings totaling U.S. $2,096,154 (Ps. 24,774,943) at fixed interest rates from 3.23% to 6.64% and at LIBOR plus 0.03% to 2.25% with various maturities until 2014.

In 2003, Fideicomiso F/163 undertook the following financing activities:

a. On October 24, 2003, Fideicomiso F/163 issued Ps. 6,500,000 (in nominal terms) of publicly-traded notes (*certificados bursátiles*), consisting of three tranches, bearing interest at a fixed rate of 8.38% and at the CETES rate plus 0.65% and 0.67%, with various maturities until 2010.

b. On December 18, 2003, Fideicomiso F/163 obtained a bank loan of Ps. 2,500,000 (in nominal terms), which is subject to interest at the TIIE rate plus 0.36% payable on several dates through 2008.

c. On December 23, 2003, Fideicomiso F/163 obtained a syndicated bank loan of Ps. 7,000,000 (in nominal terms), which is subject to the TIIE rate plus 0.35% and a fixed rate of 8.4% and is repayable in 2007 and 2008.

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 conditions as had been negotiated in 1987. The agreed-upon periods of amortization included 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, the Ministry of Finance 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 Mexican Congress must approve each year. PEMEX's debt is not an obligation of, and is not 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.

Various credit facilities require compliance with various operating covenants which, among other things, place restrictions on the following types of transactions:

- The 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.

As of December 31, 2004 and 2003, long-term debt was as follows:

			December 31, 2004		December 31, 2003	
	Rate of interest (3)	Maturity	Pesos (thousands)	Foreign currency (thousands)	Pesos (thousands)	Foreign currency (thousands)
U.S. dollars:						
Unsecured loans	Variable and LIBOR plus 0.8125%	2005 and 2006	Ps. 2,760,153	Ps. 245,025	Ps. 1,770,531	Ps. 149,801
Unsecured loans	Variable and LIBOR plus 0.8125%	2006	763,360	67,765	5,029,146	425,505
Acceptance lines	LIBOR plus 0.6%	2004			6,382,389	540,000
Bonds	Fixed of 4.5% to 9.125% and LIBOR plus 1.3% to 1.8%	Various to 2023	188,932,978	16,771,978	143,582,944	12,148,240
Financing assigned to PIDIREGAS	Fixed of 3.23% to 7.69% and LIBOR plus 0.03% to 2.25%	Various to 2014	52,109,773	4,625,894	43,516,471	3,681,834
Purchasing loans and project financing	Fixed of 3.32% to7.77% and LIBOR plus 0.0625% to 0.5%	Various to 2012	4,602,299	408,556	5,299,876	448,411
Leasing contracts	Fixed of 8.05% to 10.04%	Various to 2012	2,219,489	197,029	3,006,217	254,350
Commercial paper	Various from 1.085% to 1.11%	Various to 2004			5,105,911	432,000
External trade loans	LIBOR plus 0.6% to 1.125%	Various to 2007	27,138,781	2,409,167	39,279,268	3,323,333
Bank loans	Fixed of 3.45% to 5.58% LIBOR plus 0.55% to 1.2%	Various to 2018	16,897,200	1,500,000	29,257,642	2,475,425
Total financing in U.S. dollars			295,424,033	26,225,414	282,230,395	23,878,899
Euros:						
Bonds	Fixed of 6.25% to 7.75%, and floating of 9.1065%	Various to 2016	47,348,823	3,090,634	36,074,346	2,421,394
Unsecured loans, banks and project financing	Fixed of 2% LIBOR plus 0.8125%	Various to 2016	40,301	2,631	79,759	5,354
Total financing in Euros			47,389,124	3,093,265	36,154,105	2,426,748
Pesos:						
Certificates	Fixed of 8.38% to 8.79% and CETES plus 0.65% to 0.67%	Various to 2019	39,672,000		6,837,402	
Project financing and syndicated bank loans	Fixed of 8.4% to 11%, TIIE plus 0.2% to 0.48%	Various to 2012	29,222,222	-	19,986,252	-
Total financing in pesos			68,894,222	-	26,823,654	-
Japanese yen:						
Directs loans	Fixed of 4.2%	2009	1,324,144	12,016,738		
Bonds	Fixed of 3.5%	2023	3,303,000	30,000,000	3,307,199	30,000,000
Project financing	Fixed 2.9% to 2.9081% and PRIME in yen	Various to 2015	12,929,322	129,502,885	16,402,257	148,786,858
Total financing in Yen			17,556,466	171,519,623	19,709,456	178,786,858
Other currencies (1)	Fixed rate of 7.5% to 14.5% and LIBOR plus 0.8125%	Various to 2013	9,746,203	Various	9,515,174	Various
Total principal in pesos (2)			439,010,048		374,432,784	
Plus: Accrued interest			2,604,368	-	5,428,622	-
Total principal and interest			441,614,416		379,861,406	-
Less: Short-term maturities			47,065,088	-	60,488,366	-
Long-term debt			Ps. 394,549,328	Ps. -	Ps. 319,373,040	Ps. -

Maturity of the principal	2005	2006	2007	2008	2009	2010 and thereafter	Total
In local currency	Ps. 44,460,720	Ps. 44,620,298	Ps. 58,811,119	Ps. 44,962,600	Ps. 59,803,885	Ps. 186,351,426	Ps.439,010,048

Notes to table:

(1) Balance includes debt denominated in Pounds sterling and Swiss francs, carrying different interest rates.

(2) Includes financing from foreign banks for Ps. 389,294,878 and Ps. 340,152,847 as of December 31, 2004 and 2003, respectively.

(3) As of December 31, 2004 and 2003 the rates were as follows: LIBOR, 2.78% and 1.22%, respectively; the Prime rate in Japanese yen, 1.375% and 1.7%, respectively; the rate for bank acceptances was 0.75%; the CETES 8.81% for 91 days and 8.66% for 182 days and 6.17% for 91 days and 6.74% for 182 days, respectively; TIIE 8.95% and 6.2889%, respectively.

NOTE 10 - FINANCIAL INSTRUMENTS:

During the normal course of business, PEMEX is exposed to foreign currency risk, interest rate risk, the hydrocarbon price risk and credit 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 established general risk management guidelines for the use of financial derivative instruments. Each Subsidiary Entity using derivative financial instruments has also adopted specific guidelines and policies to manage their respective risk. The guidelines established by the Subsidiary Entities operate within the PEMEX risk management structure.

The Risk Management Committee of PEMEX, comprised of representatives of PEMEX, the Central Bank of Mexico, the Ministry of Finance, 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").

In 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 catastrophic 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. The bulk of operations is carried out with domestic customers whose operations are industry related, although PEMEX also has customers located abroad (primarily in the United States). To monitor this risk, PEMEX has established an internal credit committee to monitor credit policies and procedures. However, PEMEX closely monitors extensions of credit and has never experienced significant credit losses.

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 financial instruments. When the fair value of the derivate is positive, PEMEX is exposed to the credit risk of the counterparty, i.e., the risk that the counterparty fails to fulfill its performance obligations under the derivative contract. When the fair value of a derivative contract is negative, this indicates that PEMEX owes the counterparty, which means that it does not assume a credit risk.

In order to minimize the credit risk in derivative financial 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 a higher credit rating than that of PEMEX.

Derivative transactions are generally executed on the basis of standard agreements. In general, collateral for debt-related financial derivative transactions is neither provided nor received.

(iii) Interest rate risk management

PEMEX's interest rate risk hedging strategy reduces the volatility of the financial risk in the operating cash flows of PEMEX for the long-term debt commitments and minimum guaranteed dividends. Interest rate derivatives allow PEMEX to have an adequate mix of fixed and variable rates in its debt portfolio.

PEMEX's financial derivative operations consist mainly of fixed interest rate swaps under which PEMEX is entitled to receive payments based on six month LIBOR and Mexican Peso TIIE.

(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 for currencies other than the U.S. dollar. 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 traditionally contracted currency swaps as a hedging strategy against exchange fluctuations to reduce the effects of exposure to the depreciation of the U.S. dollar. These foreign currency financial derivatives have been established to translate the amounts of various bonds issued in other currencies into U.S. dollars.

In 2002 and 2004, Petróleos Mexicanos entered into cross-currency swaps to hedge its exposure in Japanese yen and Euro, with termination dates in 2023 and 2016, respectively. Given the long-term nature of these obligations, the swaps used to hedge these risks include an option linked to a well-defined set of credit default events. In case such an event occurs, the swaps terminate

without any payment obligation by either party. These swaps have a notional amount of U.S. $241,400 and U.S. $1,028,500, respectively.

(v) Commodity price risk management

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:

PEMEX offers its customers financial instruments and hedging contracts in order to give them the option of protecting against fluctuations in the international price of natural gas. As part of the policies of the Mexican Government for promoting economic growth, on January 17, 2001, the Ministry of Finance, the Ministry of Energy and PEMEX announced a program for setting the price of natural gas for certain industrial natural gas customers in Mexico wishing to participate in the program. Most industrial customers in Mexico participated in the program by signing a three-year contract for the purchase of natural gas at a fixed reference price of 4.0 U.S. dollars per million British thermal units (BTUs). During the life of these agreements (January 2001 to December 2003), the price represented a 1.6% discount on the prevailing market sales price.

During the four quarter of 2003, the Ministry of Energy announced a new program for hedging natural gas prices in addition to those already in existence, to be offered by PEMEX to domestic customers for the years 2004 through 2006. The new program offers customers two options:

- A fixed price of 4.50 U.S. dollars per million BTUs for the period from 2004 to 2006 for consumption of up to 10 million cubic feet per day, and 4.55 U.S. dollars per million BTUs for consumption exceeding that amount up to 20 million cubic feet per day.

- A fixed price of 4.425 U.S. dollars per million BTUs plus any excess of the reference index (the spot price for the Reynosa basket) over 6.00 U.S. dollars per million BTUs for the period from January to December 2004.

PEMEX decided to modify its traditional risk profile for natural gas in order to mitigate the volatility of income arising from natural gas sales.

Sales under this program represent approximately 20% of all of PEMEX's domestic industrial natural gas sales and 10% of overall natural gas sales and does not leave PEMEX with basis risk exposure, because the derivative is valued using the same market reference price used to price natural gas sales.

Crude oil:

PEMEX's exports and domestic sales are related to international hydrocarbon prices, thus exposing PEMEX to fluctuations in international markets. PEMEX does not generally enter into any long-term hedges against fluctuations in crude oil prices due to the fiscal regime, in which it transfers, via taxes and duties, most of the risk in the price of this commodity to the federal government. 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. Moreover, for the year 2004, PEMEX entered into a short-term oil price hedging strategy through the use of options to hedge against potential decreases in short-term prices of this commodity, in order to guarantee a minimum price for the volume being hedged, which represented approximately 7% of the total crude oil production for that year. These options expired on December 31, and were not exercised.

(vi) Investment portfolio risk management

At December 31, 2003, PEMEX held two equity swaps in respect of a total of 40,107,485 shares of Repsol YPF, S.A. ("Repsol") whose market value at that date was 19.47 U.S. dollars per share. Those swaps matured in January of 2004 and were not renewed.

(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 derivative financial instruments on a periodic basis. 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 that PEMEX utilizes.

- Gas forwards are valued separately at future rates or market prices as of the balance sheet date.

- Market prices for currency and commodity options are valued using standard option-pricing models commonly used in the international financial market.

- The fair values of interest rate instruments were determined by discounting future cash flows using market interest rates over the remaining terms of the instruments. Discounted cash values for interest rate swaps and cross-currency swaps are determined for each individual transaction as of the balance sheet date.

- Energy future contracts traded on recognized exchanges are valued individually at daily settlement prices determined on the futures markets that are published by their respective clearing houses.

The following table indicates the types of interest rate swaps and equity swaps, at their notional amount and fair value at December 31:

	2004		2003	
	Notional amount	Fair value	Notional amount	Fair value
Interest rate swaps	Ps. 12,513,876	(Ps. 131,693)	Ps. 4,326,456	(Ps. 237,453)
Equity swaps	-	-	8,597,444	(629,047)

The following table indicates the types of cross-currency swaps and their respective fair values at December 31:

	2004		2003	
	Notional amount	Fair value	Notional amount	Fair value
Pounds sterling to U.S. dollars	Ps. 8,497,208	Ps. 1,289,069	Ps. 8,195,089	Ps. 830,026
Japanese yen to U.S. dollars	13,405,145	2,292,394	14,825,716	1,844,856
Euros to U.S. dollars	43,154,825	4,651,255	29,116,726	5,171,162

The following table indicates the natural gas derivative instrument, and their fair value at December 31.

	2004 Fair value	2003 Fair value
Swaps	(Ps. 3,122,776)	(Ps. 1,278,657)
Options	4,839	71,686
Futures	62,193	17,854

(viii) 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 their value, as of December 31, 2004 and 2003, is as follows:

	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents	Ps. 84,872,231	Ps. 84,872,231	Ps. 77,143,143	Ps. 77,143,143
Accounts receivable, notes and other	90,273,995	90,273,995	73,857,439	73,857,439
Liabilities:				
Suppliers	24,322,630	24,322,630	35,282,295	35,282,295
Accounts and accumulated expenses Payable	22,881,389	22,881,389	7,720,936	7,720,936
Sale of future accounts receivable	36,685,689	36,685,689	42,557,120	42,557,120
Taxes payable	44,136,805	44,136,805	38,546,112	38,546,112
Current portion of long-term debt	47,065,088	47,065,088	60,488,366	60,488,366
Current portion of notes payable to contractors	2,076,592	2,076,592	1,985,108	1,985,108
Notes payable to contractors long-term	11,285,080	13,145,739	13,821,639	16,451,060
Long-term debt	394,549,238	426,146,489	319,373,040	342,226,441

The nominal value of financial instruments such as cash equivalents, accounts receivable and payable, taxes payable and current portion of long-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 may not necessarily be realized in a sale or settlement of the instrument.

NOTE 11 - LABOR OBLIGATIONS:

PEMEX has established employee non-contributory retirement plans in accordance with the *Ley Federal del Trabajo* ("Federal Labor Law") and under collective bargaining agreements. Benefits are determined depending on years of service and final salary at retirement. Liabilities and costs of such plans, including those related to the seniority premium benefit, to which every employee is entitled upon termination of employment, are recorded in accordance with an actuarial valuation performed by independent actuaries.

PEMEX has also established plans for other post retirement benefit obligations whose actuarial amounts are determined by independent actuaries.

For the years ended December 31, 2004 and 2003, PEMEX contributed Ps. 1,806,646 and Ps. 17,962,018, respectively, to the pension plan, seniority premium plan and other post retirement benefits plan.

The pension plan and seniority premium liabilities are as follows:

	December 31, 2004			December 31, 2003
	Pension	Seniority premium	Total	Total
Vested benefit obligation	Ps. 127,412,954	Ps. 2,646,718	Ps. 130,059,672	Ps. 115,655,154
Nonvested benefit obligation	85,732,940	8,871,727	94,604,667	100,932,081
Current benefit obligation	213,145,894	11,518,445	224,664,339	216,587,235
Less: Plan assets	(2,484,870)	(10,478)	(2,495,348)	(13,831,178)
Net current liability	Ps. 210,661,024	Ps. 11,507,967	Ps. 222,168,991	Ps. 202,756,057
Additional liability arising from the excess of net current liability over the net projected liability	Ps. 83,414,422	Ps. -	Ps. 83,414,422	Ps. 88,434,071
Net liability portion arising from other post-retirement benefits for 2003	-	-	-	37,068,251
Total additional liability arising from the excess of net current liability over the net projected liability	Ps. 83,414,422	Ps. -	Ps. 83.414,422	Ps. 125,502,322

	Pensions	Seniority premium	Total	Total
Projected benefit obligation	Ps. 219,514,314	Ps. 12,364,573	Ps. 231,878,887	Ps. 230,471,098
Less: Plan assets	(2,484,870)	(10,478)	(2,495,348)	(13,831,178)
Items to be amortized over the following 14 and 15 years:				
Transition obligation:	(72,895,366)	(3,751,149)	(76,646,515)	(85,295,839)
Prior service costs and plan amendments	(4,134,368)	(291,659)	(4,426,027)	(3,496,811)
Variations in assumptions and adjustments for experience	(12,753,108)	5,449,112	(7,303,996)	(13,525,284)
Total of unamortized items	(89,782,842)	1,406,304	(88,376,538)	(102,317,934)
Net projected liability	Ps. 127,246,602	Ps. 13,760,399	Ps. 141,007,001	Ps. 114,321,986

Net cost for the period for seniority premium and pension plan:

	December 31, 2004			December 31, 2003	December 31, 2002
	Pension	Seniority premium	Total	Total	Total
Service cost	Ps. 5,568,008	Ps. 794,684	Ps. 6,362,692	Ps. 5,663,238	Ps. 5,779,313
Financial cost	16,790,888	1,115,091	17,905,979	16,561,294	20,408,930
Return on plan assets	(624,941)	-	(624,941)	(1,082,971)	(752,449)
Transition obligation	5,070,015	345,330	5,415,345	5,472,645	1,266,134
Prior services and plan amendments	240,979	28,369	269,348	150,549	2,890,502
Variations in assumptions and adjustments for experience	177,870	(45,308)	132,562	53,659	1,790,075
Inflationary adjustment	1,408,068	116,178	1,524,246	1,064,096	
Total net cost for the year	Ps. 28,630,887	Ps. 2,354,344	Ps. 30,985,231	Ps. 27,882,510	Ps. 31,382,505

Rates used in calculating benefit obligations and plan benefits:

	December 31,	
	2004	2003
Discount rate	4.59%	4.59%
Rate of increase in compensation levels	0.92%	0.92%
Rate of increase in costs of other post-retirement benefits	0.92%	0.92%
Expected long term rate of the return on plan assets	5.50%	5.50%

Other post-retirement benefits plan:

Obligations for other post-retirement benefits	Ps. 167,845,931	Ps. 99,157,035
Less: Items pending amortization related to other post-retirement benefits	(87,004,840)	(38,378,145)
Total net liability for other post-retirement benefits	Ps. 80,841,091	Ps. 60,778,890

Net cost for other post-retirement benefits:

	December 31, 2004	December 31, 2003	December 31, 2002
Service cost	Ps. 3,524,865	Ps. 2,219,742	Ps. 1,649,091
Financial cost	11,722,692	7,694,822	6,723,796
Transition obligation	5,632,866	2,563,008	30,974
Prior services and plan amendments cost	202,893	212,251	2,737,505
Variations in assumptions and adjustments for experience	(105,052)	(111,463)	(750,503)
Inflation adjustment	1,088,950	500,177	-
Total net cost for the year	Ps. 22,067,214	Ps. 13,078,537	Ps. 10,390,863

	December 31, 2004	2003
Expected obligations for other post-retirement benefits related to retired employees and active employees that have become vested	Ps. 103,846,466	Ps. 56,184,702
Portion of the post-retirement benefits for other employees based on years of service	63,999,465	42,972,333
Total accumulated obligation for other post-retirement benefits	$ 167,845,931	$ 99,157,035
The effect of increasing by one percent the rate used in estimating the increase in the cost of other post-retirement benefits, with no change in other assumptions, is a follows:		
Total labor cost and financial cost	Ps. 5,310,481	Ps. -
Accumulated post-retirement benefit obligation	Ps. 49,131,237	Ps. -

Since 1995, PEMEX has recognized the liability and cost for supplemental payments for gas, gasoline and basic food supplies, in accordance with guidelines of Bulletin D-3, "Labor Obligations", in effect at that date. However, beginning in 2004, these liabilities were recalculated to include medical service liabilities in accordance with guidelines of new Bulletin D-3. In addition, the actuarial calculations and disclosures related to pension plan, seniority premium and post-retirement benefits were separated. Therefore, the additional liability decreased as compared as 2003 due to the guidelines of the revised Bulletin D-3 which does not require that an additional liability be established for other post-retirement benefits.

NOTE 12 - COMPREHENSIVE LOSS:

Comprehensive loss for the years ended December 31, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
Net loss for the year	(Ps. 25,495,610)	(Ps. 42,754,131)	(Ps. 25,849,630)
Effect of restatement of the year, net	(4,676,926)	5,927,889	(4,413,521)
(Application) increase in specific oil-field exploration and depletion reserve, net	-	(13,731,424)	1,911,708
Effect on equity from labor obligations	(6,975,592)		
Other	-	-	44,436
Comprehensive loss for the year	(Ps. 37,148,128)	(Ps. 50,557,666)	(Ps. 28,307,007)

NOTE 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 in nominal terms (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 2004, Petróleos Mexicanos paid Ps. 10,387,839 (Ps. 10,703,190 during 2003) to the Mexican Government in advance 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.

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 in nominal terms (U.S. $1,500,000). Petróleos Mexicanos and the Ministry of Finance agreed upon a corresponding reduction in the future payments of the minimum guaranteed dividend.

As a result, the Certificates of Contribution "A" are as follows:

Certificates of Contribution "A" (nominal value)	Ps. 10,753,090
Inflation restatement increase	76,155,800
Certificates of Contribution "A" in Mexican pesos of December 31, 2004 purchasing power	Ps. 86,908,890

On various dates during 2004, the Mexican Government transferred amounts to Petróleos Mexicanos totaling Ps. 33,000,000 in respect of the duty for infrastructure paid by PEMEX during the year, which was accounted for as an increase in the equity of the Subsidiary Entities. According to the *Ley de Ingresos de la Federación* ("Federal Income Law"), these amounts should be utilized for infrastructure works in exploration, refining, gas and petrochemicals.

Pursuant to an agency agreement (*comisión mercantil*) signed with Banco Santander Serfín, S.A., as agent, cash totaling Ps. 32,637,530 was deposited with such agent, who will disburse the cash for infrastructure works in accordance with PEMEX's instructions. This amount, together with interest accrued thereon, is reflected as cash in trust fund in the balance sheet.

NOTE 14 - FOREIGN CURRENCY POSITION:

At December 31, 2004 and 2003, PEMEX has the following assets and liabilities denominated in foreign currencies (which are translated into Mexican pesos at the 2004 and 2003 year-end exchange rates listed below):

	Amounts in foreign currency (Thousands)				
	Assets	Liabilities	Asset (liability) position	Year-end Exchange rate	Amounts in pesos
2004:					
U.S. dollars	9,322,376	(40,570,870)	(31,248,494)	11.2648	(Ps. 352,008,035)
Japanese yen	90,415	(163,009,706)	(162,919,291)	0.1101	(17,937,414)
Pounds sterling	814	(452,498)	(451,684)	21.6532	(9,780,404)
Euros	14,393	(3,280,525)	(3,266,132)	15.3201	(50,037,469)
Total liability position, before foreign currency hedging (Note 10)					(Ps. 429,763,322)
2003:					
U.S. dollars	5,779,829	(29,843,201)	(24,063,372)	11.2360	(Ps. 270,376,048)
Japanese yen	-	(194,226,518)	(194,226,518)	0.1048	(20,354,939)
Pound sterling	260	(452,718)	(452,458)	20.0922	(9,090,877)
Euros	279,441	(2,670,519)	(2,391,078)	14.1630	(33,864,838)
Total liability position, before foreign currency hedging (Note 10)					(Ps. 333,686,702)

NOTE 15 - SEGMENT FINANCIAL 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.

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 45%) 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 *Comisión Federal de Electricidad* ("CFE") with a significant portion of its fuel oil production. Pemex-Refining's most profitable products are the different types of gasoline.

- 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 gas.

- 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's 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.

Following is the condensed financial information of these segments:

	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrohemicals	Corporate and Subsidiary Companies	Intersegment Eliminations	Total
Year ended December 31, 2004:							
Sales:							
Trade	Ps.	Ps.316,139,585	Ps.116,049,305	Ps. 16,823,850	Ps.324,574,385	Ps. -	Ps.773,587,125
Intersegment	560,997,135	27,021,306	67,187,349	7,365,976	93,070,685	(755,642,451)	-
Total net sales	560,997,135	343,160,891	183,236,654	24,189,826	417,645,070	(755,642,451)	773,587,125
Operating income (loss)	412,422,364	39,877,803	13,298,155	(7,905,400)	(628,631)	(1,862,995)	455,201,296
Comprehensive financing cost	7,589,872	5,296,769	(156,854)	1,348,140	(3,830,960)	(3,198,814)	7,048,153
Net income (loss)	(13,669,930)	(22,060,462)	11,652,271	(12,315,100)	(22,020,397)	32,918,008	(25,495,610)
Depreciation and amortization	28,902,751	7,500,738	3,400,804	1,289,115	806,669	-	41,900,077
Acquisition of fixed assets	66,849,314	4,653,156	1,636,351	1,592,677	330,970	-	75,062,468
Total assets	727,062,059	274,694,329	102,356,613	46,347,703	991,353,926	(1,194,287,293)	947,527,337
Year ended December 31, 2003:							
Sales:							
Trade	Ps. -	Ps.299,551,437	Ps. 96,312,823	Ps. 11,472,993	Ps.250,556,152	Ps. -	Ps.657,893,405
Intersegment	448,779,512	24,657,053	53,442,431	6,375,129	69,862,428	(603,116,553)	-
Total net sales	448,779,512	324,208,490	149,755,254	17,848,122	320,418,580	(603,116,553)	657,893,405
Operating income (loss)	319,977,798	74,950,471	4,176,736	(10,294,391)	(21,364,403)	19,200,203	386,646,414
Comprehensive financing cost	22,387,213	12,932,215	(696,249)	1,082,210	11,804,864	(15,172,061)	32,338,192
Net income (loss)	1,180,484	(38,098,735)	8,082,419	(15,378,314)	(38,887,401)	40,347,416	(42,754,131)
Depreciation and amortization	29,177,389	8,009,797	3,513,544	1,056,697	891,332	-	42,648,759
Acquisition of fixed assets	51,602,488	13,792,567	3,716,279	1,710,828	564,640	-	71,386,802
Total assets	651,073,944	216,364,002	88,949,282	34,638,684	851,895,796	(953,563,153)	889,358,555
Year ended December 31, 2002:							
Sales:							
Trade	Ps. -	Ps.281,356,956	Ps. 64,395,399	Ps. 8,167,656	Ps.187,653,810	Ps. -	Ps.541,573,821
Intersegments	316,852,364	15,803,262	29,155,117	4,409,362	63,175,849	(429,395,954)	-
Total net sales	316,852,364	297,160,218	93,550,516	12,577,018	250,829,659	(429,395,954)	541,573,821
Operating income (loss)	215,938,359	97,978,654	4,268,959	(9,892,062)	(18,371,914)	21,148,562	311,070,558
Comprehensive financing cost	1,865,971	5,575,489	69,901	390,028	653,889	(1,992,290)	6,562,988
Net income (loss)	16,384,685	(37,498,442)	2,440,614	(12,855,688)	(20,231,066)	25,910,267	(25,849,630)
Depreciation and amortization	22,611,578	7,193,072	3,632,643	1,296,963	835,490	-	35,569,746
Acquisition of fixed assets	7,621,267	24,800,902	1,584,804	2,020,351	63,872,081	-	99,899,405
Total assets	452,032,357	215,759,226	72,215,196	34,866,588	783,048,290	(750,350,802)	807,570,855

NOTE 16 - COMMITMENTS:

a. PEMEX has entered into a nitrogen supply contract for the pressure maintenance program at the Cantarell field that expires in 2015. At December 31, 2004 and 2003, the value of the nitrogen to be supplied during the term of the contract is approximately Ps. 18,480,170 and Ps. 22,418,099, 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 in accordance with the terms of the contract.

b. At December 31, 2004, PEMEX has entered into contracts with various contractors for an approximate amount of Ps. 215,567,409. These contracts are for the development of PIDIREGAS.

c. PEMEX, through its subsidiaries PMI and PMI-NASA, has executed several long-term purchase and sale contracts for crude oil with foreign companies in international markets. The terms and conditions of these contracts are specific for each customer and their duration in certain contracts have no expiration and in certain cases, the contracts contain minimum mandatory periods.

NOTE 17 - CONTINGENCIES:

a. In the normal course of business, PEMEX is named in a number of lawsuits of various types. 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 any accruals.

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 remediation and improvement plans. Such plans consider remediation for environmental damages previously caused, as well as related investments for the improvement of equipment, maintenance, labor and materials.

   PEMEX has recorded a reserve for environmental remediation as of December 31, 2004 and 2003 of Ps.1,543,264 and Ps. 2,026,438, respectively. That reserve is included in long-term liabilities in the balance sheet.

c. At December 31, 2004, PEMEX is involved in various civil, tax and administrative lawsuits with a total claim amount of Ps. 13,323,752. At December 31, 2004 and 2003, PEMEX has accrued Ps. 1,578,654 and Ps. 1,409,283, respectively, related to those contingencies.

d. PEMEX is currently involved an arbitration with Conproca, S. A. de C. V. ("Conproca") arising out of public works contracts signed with Conproca and accounted for as PIDIREGAS, pursuant to which Conproca seeks a payment of U.S. $632,801. PEMEX filed a counter-claim against Conproca for the non-fulfillment of contracts relating to the Cadereyta Project in an amount of U.S. $907,660.

   A number of stages of the arbitration hearings are still pending, such as presentation of evidence and expert opinions and other procedures. According to the trial schedule approved by the court, these actions are scheduled to take place in 2005 and 2006.

   PEMEX management has evaluated this lawsuit and determined that a reserve for this lawsuit was not necessary as of December 31, 2004.

e. PEMEX has been sued by Construcciones Industriales del Golfo, S. A. de C. V. for late and non-payment of a total of U.S. $79,276 (Ps. 893,028). The first sentence handed down required PEMEX to pay U.S. $4,000 (Ps. 45,059), plus 6% interest on that amount as from the time the amount became overdue to the date on which full payment is made. An appeal was filed against that resolution, and the respective sentence is being awaited. Based on an analysis of the documentation provided by the supplier, PEMEX recorded a liability of U.S. $4,576 (Ps. 51,548).

f. The *Comisión Federal de Competencia* (Federal Competition Commission) handed down a resolution against PEMEX for alleged monopolistic policies relating to exclusivity clauses for the sale of lubricants, grease, and oil. The resolution required the following measures be taken:

   - Amendment of the joint venture agreements, 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

   - Reporting of 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, but was challenged through an appeal for review. A ruling thereon has not yet been handed down. Consequently, PEMEX has not accrued any reserve for this claim.

NOTE 18 - SUBSEQUENT EVENTS:

New accounting pronouncements:

Bulletin B-7, “Business Acquisitions”, and the amendments to Bulletin C-2, “Financial Instruments”, were issued by the MIPA and became effective January 1, 2005. Management believes that the adoption of these standards will not have a significant effect on PEMEX’s consolidated financial position or results of operations.

Additionally, on January 1, 2005, the provisions of Bulletin C-10, “Derivative Financial Instruments and Hedging Operations” (Bulletin C-10), became effective. This Bulletin provides expanded guidance for the recognition, valuation and disclosures applicable to all derivative financial instruments. PEMEX is currently evaluating the impact that the adoption of this Bulletin will have on its consolidated financial statements.

Certain provisions of revised Bulletin D-3, “Labor Obligations”, became effective January 1, 2005. These provisions provide additional valuation and disclosure requirements for recognizing severance payments paid to employees upon dismissal. The adoption of these provisions will result in the recognition of an initial liability related to prior service costs for an approximate amount of Ps. 1,222,561 and an estimated charge to income upon adoption of approximately Ps. 313,069.

U.S. $20,000,000,000

Pemex Project Funding Master Trust

Medium-Term Notes, Series A, Due 1 Year or More from Date of Issue

unconditionally and irrevocably guaranteed by

Petróleos Mexicanos

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

The Pemex Project Funding Master Trust (the "Issuer"), a statutory trust organized under the laws of the State of Delaware, may offer from time to time its Medium-Term Notes, Series A, due 1 year or more from date of issue, as selected by the purchaser and agreed to by the Issuer, in an aggregate initial offering price not to exceed U.S. $20,000,000,000 or its equivalent in other currencies or currency units, subject to increase by the Issuer. The currency or currency unit of denomination and payment, form, interest rate, interest payment dates, issue price (and the U.S. dollar equivalent thereof, in the case of Notes denominated in other than U.S. dollars) and maturity date of any Note will be set forth in the related Pricing Supplement. See "Description of Notes." The payment of principal of and premium (if any) and interest on the Notes will be unconditionally and irrevocably guaranteed by Petróleos Mexicanos (the "Guarantor"), a decentralized public entity of the Federal Government (the "Mexican Government") of the United Mexican States ("Mexico"). Petróleos Mexicanos' obligations as Guarantor are unconditionally and irrevocably guaranteed jointly and severally by Pemex-Exploración y Producción, Pemex-Refinación and Pemex-Gas y Petroquímica Básica (each, a "Subsidiary Guarantor" and, collectively, the "Subsidiary Guarantors"), each of which is a decentralized public entity of the Mexican Government. The Notes are not obligations of, or guaranteed by, Mexico.

The principal amount payable at or prior to maturity, the amount of interest payable and any premium payable with respect to the Notes may be determined by the difference in the price of crude oil on certain dates, or by some other index or indices, as set forth in the related Pricing Supplement.

Unless a Redemption Commencement Date is specified in the applicable Pricing Supplement, the Notes will not be redeemable prior to their Stated Maturity except in the event of certain changes in Mexican Withholding Taxes (as defined herein). If a Redemption Commencement Date is so specified, the Notes will be redeemable at the option of the Issuer at any time after such date as described herein. Unless otherwise specified in the applicable Pricing Supplement, the Notes will not be subject to repayment at the option of the holder prior to their Stated Maturity.

The Notes will contain provisions regarding acceleration and future modifications to their terms that differ from those applicable to certain of the Issuer's and the Guarantor's other outstanding public external indebtedness issued prior to the date hereof. Under these provisions, which are commonly referred to as "collective action clauses" and are described under "Description of Notes—Modification and Waiver," in certain circumstances, the Issuer and the Guarantor may amend the payment and certain other provisions of an issue of Notes with the consent of the holders of 75% of the aggregate principal amount of such Notes.

The Notes are being offered for sale in offshore transactions in reliance on Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act"). A portion of the Notes may also be offered for sale in the United States pursuant to an available exemption from registration under the Securities Act. Unless otherwise specified in the applicable Pricing Supplement, each Registered Note (as defined herein) offered hereby will be represented by one or more global Registered Notes without interest coupons (each, a "Global Note"), which will be deposited with, or on behalf of, The Depository Trust Company ("DTC") or with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear Clearance System plc ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"). Unless otherwise specified in the applicable Pricing Supplement, Bearer Notes (as defined herein) will initially be represented by a temporary global Bearer Note, without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Such temporary global Bearer Note will be exchangeable for a permanent global Bearer Note or definitive Bearer Notes, as specified in the applicable Pricing Supplement, on or after the Exchange Date therefor and after the requisite certifications as to non-U.S. beneficial ownership have been provided as described herein. See "Description of Notes—Form and Denomination." Except as described herein, Notes in definitive certificated form will not be issued in exchange for Global Notes or Bearer Notes in global form or interests therein. See "Description of Notes—Certificated Notes and Definitive Bearer Notes."

Application has been made to list the Notes issued under the program on the Luxembourg Stock Exchange. No assurance can be given that the Notes will be sold or that an active trading market for the Notes will develop.

See "Risk Factors" on page 13 and "Currency Risks and Risks Associated with Indexed Notes" on page 52 for certain considerations relevant to an investment in the Notes.

THE NOTES HAVE NOT BEEN AND WILL NOT BE 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 AND (B) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT. FOR CERTAIN RESTRICTIONS ON RESALE AND TRANSFER, SEE "OFFERING AND SALE" AND "NOTICE TO INVESTORS."

Offers to purchase Notes are being solicited, on a reasonable efforts basis, from time to time by the Agents on behalf of the Issuer. Notes may be sold to the Agents on their own behalf at negotiated discounts for resale as described above. The Issuer may also sell Notes directly on its own behalf or to or through other brokers or dealers. The Issuer reserves the right to withdraw, cancel or modify the offering contemplated hereby without notice. No termination date for the offering of the Notes has been established. The Issuer, or any Agent if it solicits the offer, may reject any offer to purchase Notes as a whole or in part. See "Offering and Sale."

Joint Arrangers

Citigroup **Credit Suisse First Boston**

Agents

Citigroup **Credit Suisse First Boston**
Goldman, Sachs & Co. **Goldman Sachs International**
JPMorgan **Lehman Brothers**

The Offering Circular is dated February 11, 2005, except as to Annex B, which is dated July 15, 2004. This Offering Circular may not be used for the purpose of listing Notes on the Luxembourg Stock Exchange after February 11, 2006.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Subsidiary Guarantors 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 Agents to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see "Offering and Sale" and "Notice to Investors."

The Issuer is a Delaware statutory trust established by Petróleos Mexicanos pursuant to the terms of a trust agreement dated as of November 10, 1998, as amended by Amendment No. 1 on November 17, 2004 and by Amendment No. 2 on December 22, 2004, among The Bank of New York, as Managing Trustee, The Bank of New York (Delaware), as Delaware Trustee, and Petróleos Mexicanos, as sole beneficiary (the "Trust Agreement"). The Issuer is a financing vehicle for the long-term productive infrastructure projects of Petróleos Mexicanos, which are referred to by Petróleos Mexicanos and the Mexican Government 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, Corporate Trust, Global Structured Finance Unit, 101 Barclay Street, 21W, New York, NY 10286.

Petróleos Mexicanos 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. 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) (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 "Consolidated Structure of PEMEX" in Petróleos Mexicanos' 2003 Annual Report on Form 20-F (the "Form 20-F"), attached hereto as Annex B (such companies, the "Subsidiary Companies"), including the Issuer, are incorporated into the consolidated financial statements. Petróleos Mexicanos, 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) 1944-2500.

The Issuer, the Guarantor and the Subsidiary Guarantors (and not the Managing Trustee), 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 (and not the Managing Trustee) accept responsibility accordingly.

The Notes have not been and will not be registered under the Securities Act and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

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 any 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.

PETROLEOS MEXICANOS, AS GUARANTOR, HAS FILED AN APPLICATION TO REGISTER THE NOTES IN THE *SECCION ESPECIAL,* OR THE SPECIAL SECTION, OF THE *REGISTRO NACIONAL DE VALORES* (THE "REGISTRY") MAINTAINED BY THE *COMISION NACIONAL BANCARIA Y DE VALORES* (NATIONAL BANKING AND SECURITIES COMMISSION, OR THE "CNBV") OF MEXICO, WHICH IS A REQUIREMENT UNDER THE *LEY DEL MERCADO DE VALORES,* OR SECURITIES MARKET LAW, IN CONNECTION WITH AN OFFERING OF SECURITIES OUTSIDE OF MEXICO BY A MEXICAN ISSUER. REGISTRATION OF THE NOTES IN 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. FURTHERMORE, THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS THE SOLE RESPONSIBILITY OF THE ISSUER, THE GUARANTOR AND THE SUBSIDIARY GUARANTORS (AND NOT THE MANAGING TRUSTEE) AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV OF MEXICO. THE NOTES HAVE NOT BEEN REGISTERED IN THE *SECCION DE VALORES*, OR THE SECURITIES SECTION, OF THE REGISTRY AND, CONSEQUENTLY, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO. ANY MEXICAN INVESTOR WHO ACQUIRES THESE NOTES FROM TIME TO TIME MUST RELY ON ITS OWN EXAMINATION OF THE ISSUER, GUARANTOR AND SUBSIDIARY GUARANTORS.

IN CONNECTION WITH AN ISSUE OF NOTES OFFERED HEREBY, THE AGENT OR AGENTS SPECIFIED IN THE APPLICABLE PRICING SUPPLEMENT MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE NOTES, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN THE NOTES, AND THE IMPOSITION OF A PENALTY BID, IN CONNECTION WITH SUCH ISSUANCE. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "OFFERING AND SALE."

IN CONNECTION WITH THE ISSUE OF ANY SERIES OF NOTES, THE AGENT (IF ANY) DISCLOSED AS THE STABILIZING MANAGER IN THE APPLICABLE PRICING SUPPLEMENT, OR ANY PERSON ACTING FOR THE STABILIZING MANAGER, MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF SUCH NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED TIME AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON THE STABILIZING MANAGER OR ANY AGENT OF THE STABILIZING MANAGER TO EFFECT THIS KIND OF TRANSACTION. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. IN ADDITION, SUCH STABILIZING, IF COMMENCED, SHALL BE CARRIED OUT IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

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.

AVAILABLE INFORMATION

Petróleos Mexicanos files periodic reports and other information with the United States Securities and Exchange Commission (the "SEC"). These reports, including the attached exhibits, and any reports or other information filed by Petróleos Mexicanos with the SEC are available at the SEC's public reference room in Washington, D.C. Copies of these SEC filings may also be obtained at prescribed rates from the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of the public reference rooms. In addition, electronic SEC filings of Petróleos Mexicanos are available to the public over the Internet at the SEC's website at http://www.sec.gov. So long as any of the Notes are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act of 1933, as amended (the "Securities Act"), if at any time Petróleos Mexicanos is neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, Petróleos Mexicanos will be required under the Indenture referred to under "Description of Notes—General" to furnish to a holder of a Note and a prospective purchaser designated by such holder, upon the request of such holder in connection with a transfer or proposed transfer of such Note pursuant to Rule 144A, the information required to be delivered under Rule 144A(d)(4)(i) under the Securities Act.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed by Petróleos Mexicanos with the SEC are incorporated by reference into this Offering Circular:

- Petróleos Mexicanos' Annual Report on Form 20-F for the year ended December 31, 2003,
- Petróleos Mexicanos' report relating to the unaudited condensed consolidated results of PEMEX for the nine months ended September 30, 2004, furnished to the SEC on Form 6-K on November 12, 2004, and
- all of Petróleos Mexicanos' annual reports on Form 20-F, and all reports on Form 6-K that are designated in such reports as being incorporated into this Offering Circular, filed with the SEC pursuant to Section 13(a), 13(c) or 15(d) of the Exchange Act after the date of this Offering Circular and prior to the termination of the offer of any issue of Notes hereunder.

The information incorporated by reference is considered to be part of this Offering Circular, and later information filed with the SEC will update and supersede this information.

Copies of the most recent audited annual and unaudited interim consolidated financial statements of PEMEX, as well as this Offering Circular (and any amendment or supplement hereto) and any Pricing Supplement relating to any issue of Notes which may be listed on the Luxembourg Stock Exchange, will be available free of charge at the office of the Paying Agent and the Transfer Agent in Luxembourg. Such documents will also be available free of charge at the office of the Managing Trustee of the Issuer and at the principal executive office of the Trustee.

NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered hereby.

Each purchaser of Notes offered and sold in reliance on Rule 144A ("Rule 144A") will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A, Regulation D ("Regulation D") or Regulation S ("Regulation S") under the Securities Act, are used herein as defined therein):

(a) The purchaser (1) is a qualified institutional buyer; (2) is aware that the sale to it is being made in reliance on Rule 144A; and (3) is acquiring such Notes for its own account or for the account of a qualified institutional buyer;

(b) The purchaser understands that the Notes have not been registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (A) (1) to a person who such purchaser reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; (2) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S; (3) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available); or (4) pursuant to an effective registration statement under the Securities Act and (B) in accordance with all other applicable securities laws;

(c) Such Notes will bear a legend to the following effect unless the Issuer determines otherwise in compliance with applicable law:

> THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING THE NOTES FOR ITS OWN ACCOUNT OR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT; (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION;

(d) The purchaser understands that such Notes will be represented by a Restricted Global Note (as defined herein). Before any interest in a Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, the transferor will be required to provide the Trustee with a written certification (in the form provided in the Indenture) as to compliance with the transfer restrictions referred to in clause (b)(2) or (b)(3) above.

The Notes will constitute "restricted securities" within the meaning of Rule 144(a)(3)(iv) under the Securities Act and any sale pursuant to Rule 144 will be subject to the requirements of that rule, including the holding period requirements. Because affiliates of the Issuer and the Guarantor will not be prohibited from purchasing and reselling the Notes, no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of the Notes.

CURRENCY OF PRESENTATION

References herein to "U.S. dollars," "U.S. $," "dollars" or "$" are to the lawful currency of the United States of America. References herein to "pesos" or "Ps." are to the lawful currency of Mexico. The term "billion" as used in this Offering Circular means one thousand million.

This Offering Circular contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the peso amounts actually represent the U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from pesos at an exchange rate of Ps. 11.236 = U.S. $1.00, which is the exchange rate that the Ministry of Finance and Public Credit instructed Petróleos Mexicanos to use on December 31, 2003. On February 10, 2005, the noon buying rate for cable transfers in New York reported by the Federal Reserve Bank of New York was Ps. 11.1540 = U.S. $1.00.

PRESENTATION OF FINANCIAL INFORMATION

The financial position and results of operation of the Issuer are consolidated with those of PEMEX, which maintains its financial statements and records in pesos. The Issuer does not publish non-consolidated financial statements. 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 Guaranties and the Subsidiary Guaranties (as defined below).

The audited consolidated financial statements of PEMEX as of December 31, 2002 and 2003 and for each of the three years ended December 31, 2003 (the "Financial Statements") are included in Item 18 of the Form 20-F, included in this Offering Circular as Annex B. The Financial Statements were prepared in accordance with Mexican generally accepted accounting principles ("Mexican GAAP"), including the recognition of inflation in accordance with Mexican GAAP Bulletin B-10, "Recognition of the Effects of Inflation on Financial Information" ("Bulletin B-10"), and are presented in constant pesos with purchasing power at December 31, 2003. See Note 2 b) to the Financial Statements for a discussion of Bulletin B-10 and Notes 2 h), 2 l), 2 m), 2 n) and 2 o) to the Financial Statements for a discussion of the inflation accounting rules applied. As a result of the adoption of Bulletin B-10, PEMEX has restated its consolidated financial statements for the years ended December 31, 2001 and 2002 on the same basis as the results for the year ended December 31, 2003 with respect to the recognition of the effects of inflation. The Financial Statements were reconciled to United States generally accepted accounting principles ("U.S. GAAP"). Mexican GAAP differs in certain significant respects from U.S. GAAP; the differences that are material to the Financial Statements are described in Note 19 to the Financial Statements.

Interim summary consolidated financial data of PEMEX as of and for the nine months ended September 30, 2003 and 2004, which are not audited and were prepared in accordance with Mexican GAAP, are also included herein as Annex A. These unaudited interim consolidated data and all interim financial information presented in this Offering Circular are stated in constant pesos with purchasing power at September 30, 2004. As a result of Mexican inflation during the first nine months of 2004, the purchasing power of one peso at December 31, 2003 is equivalent to the purchasing power of Ps. 1.0327 at September 30, 2004. Accordingly, the Financial Statements are not directly comparable to the unaudited interim consolidated data presented in Annex A or any applicable Pricing Supplement, because they are stated in constant pesos as of different dates. In addition, no reconciliation of the consolidated interim financial information to U.S. GAAP has been prepared.

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. These statements have been based 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.

SUMMARY OF THE OFFERING

Issuer:	Pemex Project Funding Master Trust (the "Issuer"), a statutory trust organized under the laws of Delaware.
Guarantor:	Petróleos Mexicanos (the "Guarantor"), a decentralized public entity of the Mexican Government.
Subsidiary Guarantors:	Pemex-Exploración y Producción, Pemex-Refinación and Pemex-Gas y Petroquímica Básica, each a decentralized public entity of the Mexican Government (collectively, the "Subsidiary Guarantors" and each, a "Subsidiary Guarantor").
Security:	Medium-Term Notes, Series A, Due 1 Year or More from Date of Issue (the "Notes").
Guaranties:	The unconditional guarantee by the Guarantor of the Issuer's obligation to pay principal of and premium (if any) and interest on the Notes (the "Guaranties").
Subsidiary Guaranties:	The unconditional obligations of the Subsidiary Guarantors to be jointly and severally liable for the Guarantor's obligations with respect to payment of principal of and premium (if any) and interest on the Notes (the "Subsidiary Guaranties").
Form of Notes; Denominations:	Notes may be issued in registered form without interest coupons ("Registered Notes") or in bearer form with or without interest coupons ("Bearer Notes"). Unless otherwise specified in the applicable Pricing Supplement, Registered Notes of the same tranche and of like tenor sold in offshore transactions in reliance on Regulation S will be represented by one or more Registered Notes in global form (each, a "Regulation S Global Note") which will be deposited with, or on behalf of, The Depository Trust Company ("DTC") or with a common depositary, in each case for the account of Euroclear Bank S.A./N.V., as operator of the Euroclear Clearance System plc ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"). Unless otherwise specified in the applicable Pricing Supplement, Registered Notes initially sold within the United States and eligible for resale in reliance on Rule 144A will be represented by one or more Registered Notes in global form (each, a "Restricted Global Note" and, together with any Regulation S Global Notes, the "Global Notes"), which will be deposited with, or on behalf of, DTC. Bearer Notes may only be sold in offshore transactions in reliance on Regulation S. Unless otherwise specified in the applicable Pricing Supplement, Bearer Notes will initially be represented by a temporary Bearer Note in global form, without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Such temporary Bearer Note in global form will be exchangeable for a permanent Bearer Note in global form or definitive Bearer Notes, as specified in the applicable Pricing Supplement, on or after the 40^{th} day after the completion of the distribution of Notes constituting an identifiable tranche (the "Exchange Date") and after the requisite certifications as to non-U.S. beneficial ownership have been provided as described herein. See "Description of Notes—Form and Denomination." Except as described herein or as specified in the applicable Pricing Supplement, Notes in definitive certificated form will not be issued

	in exchange for a Global Note or Bearer Notes in global form or interests therein. Registered Notes may not be exchanged for Bearer Notes and, unless otherwise specified in the applicable Pricing Supplement, Bearer Notes may not be exchanged for Registered Notes. Unless otherwise specified in the applicable Pricing Supplement, Registered Notes will be issued in denominations of U.S. $10,000 and integral multiples thereof and Bearer Notes will be issued in denominations of U.S. $10,000 and U.S. $100,000 (or, in each case, the approximate equivalent thereof in a specified currency or currency unit).
Amount of Notes Outstanding at any Time:	Not to exceed U.S. $20,000,000,000 (or its equivalent in other currencies or currency units) in aggregate initial offering price, subject to increase by the Issuer.
Currency of Denomination and Payment:	United States dollars or one or more foreign currencies or currency units (each, a "Specified Currency").
Maturities:	Maturities from 1 or more years from date of issue, as indicated in each Note and the applicable Pricing Supplement.
Interest Rate:	Notes may bear interest at a fixed rate ("Fixed Rate Notes") or at a floating rate ("Floating Rate Notes") determined by reference to one or more base rates, which may be adjusted by a Spread and/or a Spread Multiplier (in each case, as defined herein), in each case as indicated in the Note and the applicable Pricing Supplement.
Interest Payments:	Interest on the Notes will be payable on the dates specified therein and in the applicable Pricing Supplement.
Interest Rate Computation:	Unless otherwise specified in the applicable Pricing Supplement, interest on Fixed Rate Notes will be calculated on the basis of a 360-day year of twelve 30-day months (except as specified herein with respect to Fixed Rate Notes denominated in currencies other than U.S. dollars), and interest on Floating Rate Notes will be calculated on the basis of a daily interest factor computed by dividing the interest rate applicable to such day by 360 (or, in the case of Treasury Rate Notes (as defined herein), by the actual number of days in the year).
Redemption:	Except as described in "Tax Redemption" below, no Note will be subject to redemption prior to its maturity at the option of the Issuer unless so indicated in such Note and the applicable Pricing Supplement.

Tax Redemption:	If, as a result of certain changes in Mexican law, the Issuer, the Guarantor or any Subsidiary Guarantor becomes obligated to pay Additional Amounts (as defined herein) in excess of the Additional Amounts that any of them would be obligated to pay if payments on any Notes or Guaranties were subject to withholding tax in Mexico at a rate of 10%, then, at the Issuer's option, such Notes may be redeemed at any time in whole, but not in part, at a price equal to 100% of the outstanding principal amount thereof, except as specified in the applicable Pricing Supplement, plus accrued interest and any Additional Amounts due thereon to the date of such redemption. See "Description of Notes—Redemption—Tax Redemption."
Early Repayment:	No Note will be subject to repayment at the option of the holder prior to its maturity unless indicated in such Note and the applicable Pricing Supplement.
Assumption of Issuer's Obligations by the Guarantor:	The Guarantor may assume payment of the principal of, any premium and any interest on the Notes and the performance of the Issuer under every covenant of the Indenture and the Notes without the consent of the holders of the Notes.
Indexed Notes:	The principal amount payable at or prior to maturity, the amount of interest payable and any premium payable with respect to each Note may be determined by the difference in the price of crude oil on certain dates, or by some other index or indices, if and as indicated in such Note and the applicable Pricing Supplement.
Offering Price:	At par, unless otherwise indicated in the applicable Pricing Supplement.
Trustee:	Deutsche Bank Trust Company Americas.
Status of the Notes:	The Notes will constitute direct, unsecured and unsubordinated Public External Indebtedness (as defined under "Description of Notes—Negative Pledge") of the Issuer and will at all times rank equally with each other and with all other present and future unsecured and unsubordinated Public External Indebtedness of the Issuer. See "Description of Notes—Ranking of Notes."
Status of the Guaranties:	The Guaranties and the Subsidiary Guaranties will constitute direct, unsecured and unsubordinated Public External Indebtedness of the Guarantor and each of the Subsidiary Guarantors, respectively, and will rank equally with each other and with all other present and future unsecured and unsubordinated Public External Indebtedness of the Guarantor and each of the Subsidiary Guarantors. The Guarantor currently has outstanding certain financial leases which will, with respect to the assets securing such financial leases, rank prior to the Guaranties.

Collective Action Clauses:	The Notes will contain provisions regarding acceleration and future modifications to their terms that differ from those applicable to certain of the Issuer's and the Guarantor's other outstanding public external indebtedness issued prior to the date hereof. Under these provisions, in certain circumstances, the Issuer and the Guarantor may amend the payment and certain other provisions of an issue of Notes with the consent of the holders of 75% of the aggregate principal amount of such Notes.
Governing Law:	State of New York.
Agents:	Citigroup Global Markets Inc. Citigroup Global Markets Limited Credit Suisse First Boston LLC Credit Suisse First Boston (Europe) Limited Goldman, Sachs & Co. Goldman Sachs International J.P. Morgan Securities Inc. J.P. Morgan Securities Limited Lehman Brothers Inc. Lehman Brothers International (Europe)
Pricing Supplements:	The Issuer will prepare a Pricing Supplement for each issuance of Notes setting forth, among other things, certain information about the terms of such Notes and the offering and sale thereof. Such information may differ from that set forth herein and in all cases will supplement and, to the extent inconsistent herewith, supersede the information herein.

RISK FACTORS

You should carefully consider the following factors as well as the other information in this Offering Circular.

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 are subject to global supply and demand and fluctuate due to many factors beyond PEMEX's control. These factors include competition within the oil industry and with other industries in supplying clients with competing commodities, international economic trends, exchange rate fluctuations, expectations of inflation, domestic and foreign government regulations, political and other events in major oil producing and consuming nations and actions taken by Organization of the Petroleum Exporting Countries (OPEC) members and other oil exporting countries.

When international crude oil and natural gas prices are low, PEMEX earns less export sales revenue, and, therefore, earns less 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 and natural gas prices will directly affect PEMEX's results of operations and financial condition.

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

PEMEX is subject to several risks that are common among oil and gas companies. These risks include production risks (fluctuations in production due to operational hazards, natural disasters or weather, accidents, etc.), equipment risks (relating to the adequacy and condition of PEMEX's facilities and equipment) and transportation risks (relating to the condition and vulnerability of pipelines and other modes of transportation).

More specifically, PEMEX's business is subject to the risks of explosions in pipelines, refineries, plants, drilling wells and other facilities, hurricanes in the Gulf of Mexico and other natural or geological disasters and accidents, fires and mechanical failures. The occurrence of any of these events could result in personal injuries, loss of life, equipment damage, and environmental damage and the resulting clean-up and repair expenses.

Although PEMEX has purchased insurance policies covering some of these risks, these policies may not cover all liabilities, and insurance may not be available for all risks. See "Annex B—Item 4—Information on the Company—Business Overview—PEMEX Corporate Matters—Insurance."

PEMEX has a substantial amount of debt that could adversely affect its financial health and results of operations.

PEMEX has a substantial amount of debt. At September 30, 2004, the total indebtedness of PEMEX, excluding accrued interest, was approximately U.S. $42.6 billion, which is a 34.4% increase over its total indebtedness, excluding accrued interest, of U.S. $31.7 billion at December 31, 2003. PEMEX's level of debt may not decrease in the near or medium term and may have an adverse effect on its financial condition and results of operations.

To service its debt, PEMEX relies on a combination of cash flows provided by operations, drawdowns under its available credit facilities and the incurrence of additional indebtedness. Certain rating agencies have expressed concern regarding both the total amount of debt and the increase in the indebtedness of PEMEX over the last year. Any lowering of the credit ratings of PEMEX may have adverse consequences on its ability to access the financial markets and/or its cost of financing. PEMEX relies

primarily on debt to finance its investments in capital expenditures. If PEMEX is unable to obtain financing on terms that are favorable, this may hamper its ability to obtain further financing, and, as a result, PEMEX may not be able to make the capital expenditures needed to maintain its current production levels and increase Mexico's hydrocarbon reserves. See "*—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*" below.

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 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 increases PEMEX's costs because it requires PEMEX to make significant capital expenditures and limits PEMEX's ability to extract hydrocarbons, resulting in lower revenues. For an estimate of PEMEX's accrued environmental liabilities, see "Annex B—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. Mexican GAAP differs in certain significant respects from U.S. GAAP. See "Annex B—Item 3—Key Information—Selected Financial Data" and Note 19 to the Financial Statements. In addition, PEMEX generally prepares U.S. GAAP information on a yearly basis only. 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; it could limit PEMEX's ability to satisfy its external debt obligations, and it could privatize PEMEX.

Petróleos Mexicanos is a decentralized public entity of the Mexican Government, and therefore the Mexican Government controls PEMEX, as well as its annual budget, which is approved by the Mexican Congress. The Mexican Government has the power to intervene directly or indirectly in PEMEX's commercial affairs. Such an intervention could adversely affect PEMEX's ability to make payments under any securities issued or guaranteed by PEMEX, including the Notes.

The Mexican Government's agreements with international creditors may affect PEMEX's external debt obligations, including the Guaranties and the Subsidiary Guaranties. In certain past debt restructurings of the Mexican Government, 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.

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 or transfer all or a portion of Petróleos Mexicanos and the Subsidiary Entities or its or their assets. A privatization could adversely affect production, cause a disruption in PEMEX's workforce and its operations, and cause PEMEX to default on certain obligations, including the Notes. See also "—Considerations Related to Mexico" below.

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

The Mexican Government taxes Petróleos Mexicanos and the Subsidiary Entities heavily. In 2003, approximately 64.6% of the sales revenues of Petróleos Mexicanos and the Subsidiary Entities were used to pay taxes to the Mexican Government. The Mexican Congress determines the rates of taxes and duties applicable to Petróleos Mexicanos and the Subsidiary Entities from year to year depending on a variety of factors. For further information, see "Annex B—Item 4—Information on the Company—General—Taxes and Duties" and "Annex B—Item 5—Operating and Financial Review and Prospects—IEPS Tax, Excess Gains Duty, Hydrocarbon Duties and Other Taxes." In addition, Petróleos Mexicanos is obligated to pay minimum guaranteed dividends to the Mexican Government. For further information on how the minimum guaranteed dividend is determined, see "Annex B—Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Equity Structure and the Certificates of Contribution 'A,'" "Annex B—Item 8—Financial Information—Dividends" and Note 13 to the Financial Statements.

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

Although Mexico is not a member of OPEC, in the past it has entered into agreements with OPEC and non-OPEC countries to reduce global crude oil supply. PEMEX does not control the Mexican Government'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. A reduction in PEMEX's oil production or exports could reduce its revenues. For more information, see "Annex B—Item 5—Operating and Financial Review and Prospects—Export Agreements."

PEMEX does not own the hydrocarbon reserves in Mexico, and information on reserves is based on estimates.

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 some or all of these rights to another company. Such an event would adversely affect PEMEX's ability to generate income.

The information on oil, gas and other reserves set forth in Annex B is based on 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 and reliability of available data, engineering and geological interpretation and subjective judgment. Additionally, estimates may be revised based on subsequent results of drilling, testing and production. Therefore, proved reserve estimates may differ materially from the ultimately recoverable quantities of crude oil and natural gas. Pemex-Exploration and Production revises its estimates of Mexico's hydrocarbon reserves annually, which may result in material revisions to PEMEX's estimates of Mexico's hydrocarbon reserves.

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'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. For more information, see "Annex B—Item 4—Information on the Company—Capital Expenditures and Investments."

PEMEX may claim some immunities under the Foreign Sovereign Immunities Act and Mexican law, and your ability to sue or recover may be limited.

Petróleos Mexicanos and the Subsidiary Entities are decentralized public entities of the Mexican Government. Accordingly, you may not be able to obtain a judgment in a U.S. court against them unless that court determines that they are not entitled to sovereign immunity with respect to that action. However, the Guarantor and the Subsidiary Guarantors have irrevocably submitted to the jurisdiction of the federal courts (or, if jurisdiction in federal courts is not available, to the jurisdiction of state courts) located in the Borough of Manhattan in The City of New York 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 Guaranties or 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 Foreign Sovereign Immunities Act of 1976 (the "Immunities Act") 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 U.S. court judgment against one of them only if a U.S. court were to determine that they are not entitled to sovereign immunity under the Immunities Act with respect to that action.

In addition, Mexican law does not allow attachment prior to judgment or attachment in aid of execution upon a judgment by Mexican courts upon the assets of the Guarantor or any of the Subsidiary Guarantors. As a result, your ability to enforce judgments against the Guarantor and the Subsidiary Guarantors in the courts of Mexico may be limited. We also do not know whether Mexican courts would enforce judgments of U.S. courts based on the civil liability provisions of the U.S. federal securities laws. Therefore, even if you were able to obtain a U.S. judgment against the Guarantor or one or more of the Subsidiary Guarantors, 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 the property of the Guarantor or a Subsidiary Guarantor in the United States except under the limited circumstances specified in the Immunities Act. Finally, if you were to bring an action in Mexico seeking to enforce the obligations of the Guarantor and the Subsidiary Guarantors under the Guaranties or the Subsidiary Guaranties, satisfaction of those obligations may be made in pesos, pursuant to the laws of Mexico.

PEMEX's directors and officers, as well as some of the experts named in this Offering Circular, reside outside the United States. Substantially all of PEMEX's assets and those of most of its directors, officers and experts are located outside the United States. As a result, you may not be able to effect service of process on PEMEX's directors or officers or those experts within the United States.

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 condition, 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. In addition, the Mexican Government may cut spending in the future. These cuts could adversely affect PEMEX's business, financial condition and prospects. In the past, Mexico has experienced several periods of slow or negative economic growth, high inflation, high interest rates, currency devaluation and other economic problems. These problems may reemerge in the future, and could adversely affect PEMEX's business and its ability to service its debt, including the Notes.

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 PEMEX from paying its foreign currency obligations.

Most of PEMEX's debt is denominated in U.S. dollars, as is all of the debt of Pemex Finance, Ltd., a Cayman Islands company with limited liability established to issue securities backed by crude oil receivables sold through PEMEX's subsidiary P.M.I. Comercio Internacional, S.A. de C.V. ("PMI" and, together with PMI Trading Ltd. and their affiliates, the "PMI Group") to provide financing for investments in certain PIDIREGAS. In the future, Pemex Finance, Ltd. and PEMEX 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.

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 with the election of President Vicente Fox Quesada, a member of the National Action Party, and resulted in the increased representation of opposition parties in the Mexican Congress and in mayoral and gubernatorial positions. No political party currently has a majority in either house of the Mexican Congress. 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, multi-party rule is still relatively new in Mexico and could result in economic or political conditions that could materially and adversely affect PEMEX's operations.

Considerations 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; (c) pursuant to an exemption from registration provided by Rule 144 under the Securities Act (if available); or (d) pursuant to an effective registration statement under the Securities Act, 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 "Offering and Sale" and "Notice to Investors."

There is no prior market for the Notes; if one develops, it may not be liquid. In addition, a listing of the Notes on a securities exchange cannot be guaranteed.

There currently is no market for the Notes. We 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.

In addition, although application has been made to list the program described herein on the Luxembourg Stock Exchange, the Notes issued under this program may not be so listed. Moreover, there can be no assurance that such a listing can be maintained in light of new legislation in the European Union. The Transparency Directive, which came into force on December 31, 2004, contains measures designed to ensure the harmonization of transparency requirements relating to financial information of issuers whose securities are admitted to trading on a regulated market in the European Union, such as the Luxembourg Stock Exchange. When the Transparency Directive is implemented in Luxembourg or any other European member state in which the Notes are listed, the Issuer and/or the Guarantor may be required to prepare and publish financial statements in accordance with the International Financial Reporting Standards or accounting principles other than Mexican GAAP and/or to comply with other requirements imposed by the implementing legislation. Such requirements may be impracticable or unduly burdensome, and accordingly, the Issuer and the Guarantor may decide to delist the Notes and/or seek an alternative listing for such Notes, although there can be no assurance that such alternative listing will be obtained.

The Notes will contain provisions that permit the Issuer to amend the payment terms of a series of Notes without the consent of all holders.

The Notes will contain provisions regarding acceleration and voting on amendments, modifications and waivers which are commonly referred to as "collective action clauses." Under these provisions, certain key terms of a series of the Notes may be amended, including the maturity date, interest rate and other payment terms, without the consent of the holders. See “Description of Notes—Modification and Waiver.”

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

Payments under the Notes are 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 Notes' exceptions to the obligation of the Issuer, the Guarantor or the relevant Subsidiary Guarantor to pay such Additional Amounts, you may receive an amount which is less than the amount stated to be due and payable on the Notes.

The Notes are the obligations of the Issuer, a Delaware statutory trust that acts as a financing vehicle for the Guarantor. 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 such a tax were to be imposed, the Notes do not require the Issuer to compensate holders of the Notes for any such withholding or deduction.

USE OF PROCEEDS

Unless otherwise indicated in the applicable Pricing Supplement, the net proceeds from the issuance of the Notes offered hereby will be used by the Issuer to finance PEMEX’s investment program.

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. The selected financial data set forth below as of and for the three years ended December 31, 2003 have been derived from the Financial Statements, which were audited by PricewaterhouseCoopers, S.C., an independent registered public accounting firm. The selected financial data set forth below as of and for the nine months ended September 30, 2003 and 2004 have been derived from PEMEX's condensed consolidated interim financial statements, which were not audited.

The Financial Statements and the condensed consolidated interim financial data were prepared in accordance with Mexican GAAP. Beginning January 1, 2003, the effects of inflation were recognized in accordance with NIF-06 BIS **"**A**"** Section C, which requires the adoption of Bulletin B-10. As a result of the adoption of Bulletin B-10, PEMEX has restated its consolidated financial statements for the years ended December 31, 2001 and 2002, in order to present its results for each of these years on the same basis as the results for the year ended December 31, 2003 with respect to the recognition of the effects of inflation. The recognition of inflation in accordance with the guidelines established in Bulletin B-10 consists of, among other things, the recognition in the income statement of comprehensive financing cost (including the determination of gains or losses in monetary position and treatment of foreign exchange gains or losses), the restatement of the equity accounts and the presentation of the financial statements for all periods in constant pesos as of the date of the latest financial statement. See Note 2 b) to the Financial Statements for a summary of the effects of adoption of Bulletin B-10 and Notes 2 h), 2 l), 2 m), 2 n) and 2 o) to the Financial Statements for a discussion of the inflation accounting rules applied as a result of the adoption of Bulletin B-10. As discussed above, the consolidated interim financial data set forth below is stated in constant pesos with purchasing power as of September 30, 2004, and not as of December 31, 2003 as is the case with the information presented for the three years ended December 31, 2003. Accordingly, the consolidated interim financial information presented below for the nine months ended September 30, 2003 and 2004 is not directly comparable to the information presented for the three years ended December 31, 2003 or the Financial Statements because they are stated in constant pesos as of different dates. In addition, no reconciliation of the consolidated interim financial information to U.S. GAAP has been prepared.

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. and Mexican GAAP for the year ended December 31, 2003 were the accounting methodologies for the treatment of exploration and drilling costs, pensions, seniority premiums and post-retirement benefit obligations, capitalized interest, impairment of fixed assets, depreciation, derivatives, profit in inventory and PEMEX's investment in shares of Repsol YFP, S.A. (**"**Repsol**"**), which are described in Note 19 to the Financial Statements and **"**Annex B—Item 5—Operating and Financial Review and Prospects—U.S. GAAP Reconciliation.**"**

Selected Financial Data of PEMEX

	Year Ended December 31,[1][2]			
	2001	2002	2003	2003[3]
	(in millions of constant pesos as of December 31, 2003)			(in millions of U.S. dollars)
Income Statement Data				
Amounts in accordance with Mexican GAAP:				
Net sales[4]	Ps. 500,212	Ps. 514,849	Ps. 625,429	$ 55,663
Total revenues[4]	501,912	514,760	628,390	55,926
Total revenues net of the IEPS Tax	394,981	392,322	534,313	47,554
Operating income[5]	267,782	295,720	367,567	32,713
Comprehensive financing cost	2,451	6,239	30,742	2,736
Loss for the period	(30,396)	(24,574)	(40,644)	(3,617)
Balance Sheet Data (end of period)				
Amounts in accordance with Mexican GAAP:				
Cash and cash equivalents	15,872	45,621	73,336	6,527
Total assets	610,163	767,720	845,472	75,247
Long-term debt	135,369	198,645	303,613	27,021
Total long-term liabilities	397,928	545,496	662,695	58,980
Equity	133,137	103,906	45,861	4,082
Amounts in accordance with U.S. GAAP:				
Total revenues[6]	394,472	392,322	534,314	47,558
Operating income[6][7]	160,569	167,522	246,859	21,973
Comprehensive financing (cost) benefit	796	(8,450)	(26,812)	(2,386)
Loss for the period	(23,344)	(32,667)	(66,309)	(5,902)
Total assets	632,290	760,759	815,472	72,577
Equity (deficit)	63,436	17,131	(44,420)	(3,953)
Other Financial Data				
Amounts in accordance with Mexican GAAP:				
Depreciation and amortization	31,960	33,815	40,544	3,608
Investments in fixed assets at cost[8]	56,789	94,970	67,864	6,040
Ratio of earnings to fixed Charges:				
Mexican GAAP[9]	—	—	—	—
U.S. GAAP[9]	—	—	—	—

(1) Includes Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies (including the Issuer). Beginning with the year ended December 31, 2003, the financial position and results of Fideicomiso F/163 and RepCon Lux S.A. are consolidated. For U.S. GAAP purposes, beginning with the year ended December 31, 2001, the financial position and results of Pemex Finance, Ltd. are consolidated.

(2) The Financial Statements were prepared in accordance with Mexican GAAP, including the recognition of the effect of inflation in accordance with Bulletin B-10. Mexican GAAP differs from U.S. GAAP. The most significant differences between U.S. GAAP and Mexican GAAP affecting the Financial Statements are the accounting treatment of: (1) exploration and drilling costs, (2) pensions, seniority premiums and post-retirement benefit obligations, (3) capitalized interest, (4) impairment of fixed assets, (5) depreciation, (6) derivatives, (7) profit in inventory and (8) PEMEX's investment in Repsol shares. For a further discussion of these and other differences, see Note 19 to the Financial Statements.

(3) Translations into U.S. dollars of amounts in pesos have been made at the established exchange rate of Ps. 11.236 = U.S. $1.00 at December 31, 2003. Such translations 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) Includes the Special Tax on Production and Services (the **"**IEPS Tax**"**) as part of the sales price of the products sold.

(5) Equal to net sales minus total costs and operating expenses.

(6) Figures are net of the IEPS Tax.

(7) Equal to total revenues (net of IEPS tax) minus total costs and operating expenses.

(8) Includes investments in fixed assets and capitalized interest, and excludes certain expenditures charged to the oil field exploration and depletion reserve. See **"**Annex B—Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources.**"**

(9) Under U.S. GAAP, earnings for each of the years ended December 31, 2001, 2002 and 2003 were insufficient to cover fixed charges. The amount by which fixed charges exceeded earnings was Ps. 29,058 million for 2001, Ps. 38,667 million for 2002 and Ps. 74,264 million for 2003. Under Mexican GAAP, earnings for each of the years ended December 31, 2001, 2002 and 2003 were insufficient to cover fixed charges. The amount by which fixed charges exceeded earnings was Ps. 34,645 million for 2001, Ps. 30,092 million for 2002 and Ps. 47,910 million for 2003.

Source: PEMEX's financial statements.

Selected Financial Data of PEMEX (continued)

	Nine Months Ended September 30,[1][2][3]		
	2003	2004	2004[4]
	(in millions of constant pesos as of September 30, 2004)		(in millions of U.S. dollars)
Income Statement Data			
Amounts in accordance with Mexican GAAP:			
Net sales[5]	Ps. 480,610	Ps. 554,603	$ 48,699
Total revenues[5]	484,539	560,841	49,247
Total revenues net of the IEPS Tax	412,293	514,677	45,193
Operating income[6]	296,532	334,944	29,411
Comprehensive financing cost	20,402	8,639	759
Cumulative impact from adoption of accounting standard[7]	—	(1,215)	(107)
Loss for the period	(16,647)	(14,578)	(1,280)
Balance Sheet Data (end of period)			
Amounts in accordance with Mexican GAAP:			
Cash and cash equivalents	60,195	125,835	11,049
Total assets	856,703	960,273	84,320
Long-term debt	339,061	424,757	37,297
Total long-term liabilities	647,925	787,785	69,174
Equity	95,187	23,684	2,079
Other Financial Data			
Amounts in accordance with Mexican GAAP:			
Depreciation and amortization	31,319	31,263	2,745

(1) Unaudited.
(2) Includes Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies (including the Issuer).
(3) The consolidated interim financial data were prepared in accordance with Mexican GAAP, including the recognition of the effect of inflation in accordance with Bulletin B-10.
(4) Convenience translations into U.S. dollars of amounts in pesos have been made at the established exchange rate of Ps. 11.3884 = U.S. $1.00 at September 30, 2004. Such translations 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.
(5) Includes the IEPS Tax as part of the sales price of the products sold.
(6) Equal to net sales minus total costs and operating expenses.
(7) As described in "Annex B—Item 5—Operating and Financial Review and Prospects—Recently Issued Accounting Standards," the new Mexican accounting Bulletin C-15, "Impairment of Long-Lived Assets and their Disposal," went into effect on January 1, 2004.

Source: PEMEX's interim financial statements.

PEMEX PROJECT FUNDING MASTER TRUST

The Issuer was organized as a statutory trust under Delaware law pursuant to the Trust Agreement. 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, as set forth in the Trust Agreement, is to administer certain financial resources earmarked for PIDIREGAS, which are described below.

On December 31, 1998, the Guarantor transferred assets and liabilities related to PIDIREGAS totaling Ps. 12.1 billion (U.S. $1.2 billion) to the Issuer.

Petróleos Mexicanos is the sole beneficiary of the Issuer and controls the Issuer 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 including construction and acquisition contracts in connection with 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 Notes. 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 in the Financial Statements included in Annex B and in the unaudited interim financial information set forth in Annex A of 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 the Guarantor to guarantee the repayment of the debt obligations undertaken by the Issuer to finance PIDIREGAS;
- the obligation of the 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 contracts. The Issuer invests any excess liquidity in short-term investments, including interest-bearing deposits at Banco de México and Mexican commercial banks, pursuant to the instructions of Petróleos Mexicanos.

At December 31, 2003, cash and cash equivalents of the Issuer totaled U.S. $2.2 billion, its total assets were U.S. $31.4 billion, its long-term indebtedness totaled U.S. $23.4 billion, its short-term indebtedness (including interest payable of U.S. $0.3 billion) totaled U.S. $3.3 billion and its other liabilities totaled U.S. $4.7 billion (including accounts payable to contractors of U.S. $1.5 billion and derivative instruments in a notional amount of U.S. $3.1 billion), of which short-term liabilities totaled U.S. $1.7 billion.

At September 30, 2004, cash and cash equivalents of the Issuer totaled U.S. $3.8 billion, its total assets were U.S. $35.7 billion, its long-term indebtedness totaled U.S. $26.3 billion, its short-term indebtedness (including interest payable of U.S. $0.4 billion) totaled U.S. $3.8 billion and its other liabilities totaled U.S. $5.1 billion (including accounts payable to contractors of U.S. $1.1 billion and derivative instruments in a notional amount of U.S. $4.1 billion), of which short-term liabilities totaled U.S. $1.1 billion.

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.

Future amortization of the Issuer's outstanding indebtedness of U.S. $29.8 billion at September 30, 2004 is scheduled as follows:

Pemex Project Funding Master Trust
Indebtedness Amortization Schedule

Maturities

2004	2005	2006	2007	2008	Over 5 years
		(in millions of U.S. dollars)			
U.S. $1,537.3	U.S. $2,687.9	U.S. $3,164.3	U.S. $2,469.8	U.S. $3,108.6	U.S. $16,846.5

SUBSIDIARY GUARANTORS

The Subsidiary Guarantors—Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals—are decentralized public entities of Mexico, which were created by the Mexican Congress on July 17, 1992 out of operations that had previously been directly managed by Petróleos Mexicanos. Each of the Subsidiary Guarantors is a legal entity empowered to own property and carry on business in its own name. The executive offices of each of the Subsidiary Guarantors are located at Avenida Marina Nacional No. 329, Colonia Huasteca, México, D.F. 11311, México.

The *Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (the Organic Law of Petróleos Mexicanos and Subsidiary Entities) allocates the operating functions of Petróleos Mexicanos among the Subsidiary Entities, each of which has the characteristics of a subsidiary of Petróleos Mexicanos. The principal objectives of the Subsidiary Guarantors, as noted in Article 3 of the Organic Law of Petróleos Mexicanos and 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; and

- Pemex-Gas and Basic Petrochemicals processes natural gas, natural gas liquids and artificial gas derivatives and stores, transports, distributes and markets these hydrocarbons and derivatives that may be used as basic industrial raw materials.

For further information about the legal framework governing the Subsidiary Guarantors, see "Annex B—Item 4—Information on the Company—Organizational Laws." Copies of the Organic Law of Petróleos Mexicanos and Subsidiary Entities will be available at the specified offices of each of the Agents.

The Subsidiary Guarantors have been consolidated with PEMEX in the Financial Statements included in Annex B and in the unaudited interim financial information set forth in Annex A of this Offering Circular. See Note 20 to the Financial Statements for the condensed balanced sheets, statements of operations and changes in financial position for the Subsidiary Guarantors that are utilized to produce the consolidated financial statements of PEMEX. None of the Subsidiary Guarantors publish their own financial statements.

The following is a brief description of each Subsidiary Guarantor.

Pemex-Exploration and Production

Pemex-Exploration and Production is entrusted with the exploration of crude oil and natural gas in Mexican territory. 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. In nominal peso terms, PEMEX increased its capital investment in exploration and production activities by 40.3% in 2003 by financing an array of programs to expand production capacity and efficiency. As a result of its investments in previous years, PEMEX's total hydrocarbon production reached a level of approximately 4.35 million barrels of oil equivalent per day in 2003. Pemex-Exploration and Production's crude oil production increased by 6.1% from 2002 to 2003, averaging 3,371 thousand barrels per day in 2003. Pemex-Exploration and Production's natural gas production (excluding natural gas liquids) increased by 1.7% from 2002 to 2003, averaging 4,498 million cubic feet per day in 2003. For further information about Pemex-Exploration and Production, see "Annex B—Item 4—Information on the Company—Exploration and Production." For further information regarding estimates of Mexico's reserves, see "Annex B—Item 4—Information on the Company—Exploration and Production—Reserves."

Pemex-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 at approximately 1,540 thousand barrels per day during 2003. In 2003, Pemex-Refining produced 1,343 thousand barrels per day of refined products, as compared to 1,276 thousand barrels per day of refined products in 2002. For further information about Pemex-Refining, see "Annex B—Item 4—Information on the Company—Refining."

Pemex-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 4,173 million cubic feet per day in 2002 to 4,503 million cubic feet per day in 2003. Pemex-Gas and Basic Petrochemicals processed 3,360 million cubic feet per day of sour natural gas in 2003, a 3.1% increase from the 3,260 million cubic feet per day of sour natural gas produced in 2002. It produced 428 thousand barrels per day of natural gas liquids in 2003, a 2.4% increase from natural gas liquid production of 418 thousand barrels per day in 2002. For further information about Pemex-Gas and Basic Petrochemicals, see "Annex B—Item 4—Information on the Company—Gas and Basic Petrochemicals."

For further information about the investment policies of the Subsidiary Guarantors, see "Annex B—Item 4—Information on the Company—Capital Expenditures and Investment."

DESCRIPTION OF NOTES

General

The Notes are to be issued under an Indenture (the "Indenture"), dated as of December 30, 2004, among the Issuer, the Guarantor and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"). The following summaries of certain provisions of the Indenture and the Notes do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the Indenture and the Notes, including the definitions therein of certain terms. Wherever particular defined terms of the Indenture are referred to, such defined terms are incorporated herein by reference. Capitalized terms not otherwise defined herein shall have the meanings given to them in the Indenture or the Notes.

The particular terms of each issue of Notes, including the purchase price, currency or currency unit of denomination and payment, Stated Maturity (as defined below), form, interest rate, interest payment dates, and, if applicable, redemption, repayment and index provisions, will be set forth for each such issue in the Notes and in the applicable Pricing Supplement. With respect to any particular Note, the description of the Notes herein is qualified in its entirety by reference to, and to the extent inconsistent therewith is superseded by, such Notes and the applicable Pricing Supplement.

The Notes are limited to an aggregate initial offering price of U.S. $20,000,000,000 or its equivalent in other currencies or currency units. The foregoing limit, however, may be increased by the Issuer if in the future it determines that it may wish to sell additional Notes.

The issuance of the Notes has been duly authorized by the managing trustee of the Issuer and the board of directors of the Guarantor, provided that additional authorization of the board of directors of the Guarantor will be necessary in order to issue Notes after December 31, 2005.

Unless previously redeemed, a Note will mature on the date (the "Stated Maturity") from 1 or more years from its date of issue that is specified on the face thereof and in the applicable Pricing Supplement.

Each Note will be denominated in U.S. dollars or in one or more foreign currencies or currency units (each, a "Specified Currency") as shall be specified in such Note and the applicable Pricing Supplement. Unless otherwise specified in the Notes and the applicable Pricing Supplement, payments on the Notes will be made in the applicable Specified Currency, except in the circumstances specified under "—Foreign Currency Notes and Indexed Notes" below. The Pricing Supplement for each issue of Foreign Currency Notes will include additional information with respect to exchange rates applicable to the currency or currency unit specified therein, any relevant foreign exchange controls and any relevant foreign currency risk.

Unless otherwise indicated in the applicable Pricing Supplement, each Note, except any Indexed Note, will bear interest at a fixed rate or at a rate determined by reference to LIBOR or the Treasury Rate, as adjusted by the Spread and/or Spread Multiplier, if any, applicable to such Note. See "Interest Rate" below.

The Notes may be issued as Original Issue Discount Notes. "Original Issue Discount Note" means (i) a Note, including any Note having an interest rate of zero, that has a stated redemption price at maturity that exceeds its issue price (each as defined for U.S. federal income tax purposes) by at least 0.25% of such stated redemption price at maturity, multiplied by the number of complete years from the issue date to the Stated Maturity for such Note and (ii) any other Note designated by the Issuer as issued with original issue discount for U.S. federal income tax purposes, as disclosed in the applicable Pricing Supplement.

The Notes may be issued as Indexed Notes (as defined below), the principal amount of which payable on or prior to Stated Maturity, the amount of interest payable on which and/or any premium payable with respect to which will be determined by reference to the difference in the price of crude oil on certain specified dates or by some other index or indices. See "Foreign Currency Notes and Indexed Notes" below.

The Indenture does not limit the aggregate amount of debt securities that may be issued thereunder and provides that debt securities may be issued thereunder from time to time in one or more series.

The Issuer has agreed to maintain Paying Agents and Transfer Agents in the Borough of Manhattan, The City of New York, and in the City of London. The Issuer has initially appointed the Trustee at its corporate trust office in New York as principal Paying Agent, Transfer Agent, Authenticating Agent and Registrar for all Registered Notes and the Trustee at its corporate trust office in London as principal Paying Agent and Authenticating Agent for all Bearer Notes. The Transfer Agent will keep a register in which, subject to such reasonable regulations as the Issuer may prescribe, the Issuer will provide for the registration of the Notes and the registration of transfers of the Notes. For so long as any Notes are outstanding, the Issuer shall maintain a Paying Agent and a Transfer Agent for the Notes in a city in Western Europe (which, for so long as any Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, shall include a Paying Agent and Transfer Agent in Luxembourg), and, for so long as any Registered Notes are outstanding, the Issuer shall maintain a Paying Agent and Transfer Agent in The City of New York. See "—Payment of Principal and Interest" below.

Ranking of Notes and Guaranties

The Notes will constitute direct, unsecured and unsubordinated Public External Indebtedness (as defined under "—Negative Pledge" below) of the Issuer and will at all times rank equally with each other. The payment obligations of the Issuer under the Notes will, except as may be provided by applicable law and subject to "—Negative Pledge" below, at all times rank equally with all other present and future unsecured and unsubordinated Public External Indebtedness for money borrowed of the Issuer. The payment of principal of and interest on the Notes will be unconditionally guaranteed by the Guarantor pursuant to the Guaranties, and the Guarantor's payment obligations under the Guaranties will be guaranteed, jointly and severally, by the Subsidiary Guarantors pursuant to the Subsidiary Guaranty Agreement and the Certificates of Designation (as defined below) delivered by the Guarantor to each Subsidiary Guarantor designating the Guaranties and the Indenture as subject to the Subsidiary Guaranty Agreement. See "—Guaranties" below. The Guaranties and the Subsidiary Guaranties 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 "—Negative Pledge" below, 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, Mexico.

Form and Denomination

Notes may be issued in registered form without interest coupons ("Registered Notes") or in bearer form, with or without interest coupons ("Bearer Notes"), as specified in the applicable Pricing Supplement and as described below.

Unless otherwise specified in the applicable Pricing Supplement, Registered Notes will be issued in denominations of U.S. $10,000 and integral multiples thereof and Bearer Notes will be issued in denominations of U.S. $10,000 and U.S. $100,000 (or, in each case, the approximate equivalent thereof in a specified currency or currency unit).

Registered Notes will be issued in the forms described below, unless otherwise specified in the applicable Pricing Supplement.

Registered Notes of the same tranche and tenor initially sold outside the United States in compliance with Regulation S will be represented by one or more Registered Notes in global form (collectively, a "Regulation S Global Note") which will be (a) deposited with the Trustee in New York as custodian for DTC and will be registered in the name of a nominee of DTC, for the accounts of Euroclear and Clearstream, Luxembourg or (b) deposited with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of such common depositary or its nominee, for the accounts of Euroclear and Clearstream, Luxembourg (DTC or such other depositary, a "Depositary").

Registered Notes of the same tranche or tenor initially sold within the United States and eligible for resale in reliance on Rule 144A will be represented by one or more Registered Notes in global form (collectively, a "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes") which will be deposited upon issuance with the Trustee in New York as custodian for DTC and will be registered in the name of DTC or a nominee of DTC for credit to an account of a direct or indirect participant in DTC as described below. The Restricted Global Notes (and any Certificated Notes (as defined herein) issued in exchange therefor) will be subject to certain restrictions on transfer set forth under "Notice to Investors."

On or prior to the 40th day after the completion of the distribution (as certified to the Trustee by the relevant Agent) of all Notes of an identifiable tranche (the Restricted Period"), a beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Note of the same tranche and like tenor, but only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a person whom 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 securities laws of the states of the United States (a "Restricted Global Note Certification"). After the last day of the Restricted Period, such certification requirement will no longer apply to such transfers. Beneficial interests in a Restricted Global Note may be transferred to a person in the form of an interest in a Regulation S Global Note of the same tranche and of like tenor, whether before, on or after the end of the Restricted Period, but only upon receipt by the Trustee of a written certification from the transferor (in the form(s) provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or (if available) Rule 144 under the Securities Act (a "Regulation S Global Note Certification"). 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 of the same tranche and of like tenor will, upon transfer, cease to be an interest in such Global Note and become an interest in such 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 as long as it remains such an interest.

Unless otherwise specified in the applicable Pricing Supplement, Bearer Notes of the same tranche and tenor will initially be represented by a temporary global Bearer Note, without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Such temporary global Bearer Note will be exchangeable for a permanent global Bearer Note (such permanent global Bearer Note, together with a temporary global Bearer Note, a "Global Bearer Note"), without interest coupons, or definitive Bearer Notes, with coupons, as specified in the applicable Pricing Supplement, on or after the 40th day after the completion of the distribution (as certified to the Trustee by the relevant Agent) of the identifiable tranche of which such Notes constitute a part (the "Exchange Date"), as notified to the Trustee in writing by the relevant Agents, *provided* that with respect to each beneficial interest in the portion of such temporary global Bearer Note to be exchanged, (i) the participant in Euroclear or Clearstream, Luxembourg, as the case may be, through which such beneficial interest is held has delivered to Euroclear or Clearstream, Luxembourg, as the case may be, an Owner Tax Certification (as defined below), and (ii) Euroclear or Clearstream, Luxembourg, as the case may be, has delivered to the Trustee a Depositary Tax Certification (as defined below) in the form required by the Indenture.

No interest or principal payable in respect of any beneficial interest in a temporary global Bearer Note will be paid until the certification requirements described above have been satisfied with respect to such beneficial interest. Delivery of an Owner Tax Certification by a participant in Euroclear or Clearstream, Luxembourg shall constitute an irrevocable instruction by such participant to Euroclear or Clearstream, Luxembourg, as the case may be, to exchange on the applicable Exchange Date the beneficial interest covered by such certificate for such definitive Bearer Notes or interest in a permanent global Bearer Note as such participant may specify consistent with the Indenture and the applicable Pricing Supplement.

As described above, no payment will be made on any temporary global Bearer Note and no exchange of a beneficial interest in a temporary global Bearer Note for a definitive Bearer Note or an interest in a permanent global Bearer Note may occur until (i) the person entitled to receive such interest or Bearer Note furnishes Euroclear or Clearstream, Luxembourg, as the case may be, a written certification (an "Owner Tax Certification") and (ii) Euroclear or Clearstream, Luxembourg, as the case may be, delivers to the Trustee a written certification (a "Depositary Tax Certification"), in each case in the form required by the Indenture, to the effect that such person (1) is not a United States person (as defined below under "Limitations on Issuance of Bearer Notes"), (2) is a foreign branch of a United States financial institution purchasing for its own account or for resale, or is a United States person who acquired the Note through such a financial institution and who holds the Note through such financial institution on the date of certification, provided in either case that such financial institution certifies that it agrees to comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended (the "Code"), and the United States Treasury Regulations thereunder, or (3) is a financial institution holding for purposes of resale during the restricted period (as defined in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)). A financial institution described in clause (3) of the preceding sentence (whether or not also described in clause (1) or (2)) must certify that it has not acquired the Note for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

The following legend will appear on all permanent global Bearer Notes and definitive Bearer Notes and any coupons with respect thereto: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code of 1986, as amended." The sections referred to in the legend provide that, with certain exceptions, a United States taxpayer will not be permitted to deduct any loss, and will not be eligible for capital gain treatment with respect to any gain, realized on a sale, exchange or redemption of a Bearer Note or coupon.

Global Notes

A Global Note may not be transferred except as a whole by its Depositary to a nominee of such Depositary or by a nominee of such Depositary to such Depositary or another nominee of such Depositary or by such Depositary or any such nominee to a successor of such Depositary or a nominee of such successor.

Upon the issuance of a Global Note or a Global Bearer Note, DTC, Euroclear or Clearstream, Luxembourg, as the case may be, will credit, on its book-entry registration and transfer system, the respective principal amounts of the Notes represented by such Global Note or such Global Bearer Note to the accounts of institutions that have accounts with DTC, Euroclear or Clearstream, Luxembourg, as the case may be ("participants"). The accounts to be credited shall be designated by the underwriters or agents of such Notes or by the Issuer, if such Notes are offered and sold directly by the Issuer. Ownership of beneficial interests in a Global Note or a Global Bearer Note will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in such Global Note or such Global Bearer Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC, Euroclear or Clearstream, Luxembourg, as the case may be (with respect to interests of participants), or by participants or persons that hold through participants (with respect to interests of persons other than participants). The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a Global Note or Global Bearer Note.

So long as a Depositary, or its nominee, is the holder of a Global Note or Global Bearer Note, such Depositary or its nominee, as the case may be, will be considered the sole registered owner or holder of the Notes represented by such Global Note or Global Bearer Note for all purposes under the Indenture. Except as set forth below under "—Certificated Notes and Definitive Bearer Notes," owners of beneficial interests in a Global Note or Global Bearer Note will not be entitled to have Notes represented by such Global Note or such Global Bearer Note registered in their names, will not receive or be entitled to receive physical delivery of Notes of such tranche in definitive form and will not be considered the owners or holders thereof under the Indenture.

Payments of principal of and premium (if any) and interest on Notes registered in the name of or held by a Depositary or its nominee will be made to such Depositary or its nominee, as the case may be, as the registered owner or the holder of the Global Note or Global Bearer Note representing such Notes. None of the Issuer, the Guarantor, the Subsidiary Guarantors or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or Global Bearer Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that DTC, Euroclear or Clearstream, Luxembourg, as the case may be, upon receipt of any payment of principal of or premium (if any) or interest in respect of a Global Note or Global Bearer Note, will credit immediately participants' accounts with payments in amounts proportionate to their respective beneficial ownership interests in the principal amount of such Global Note or Global Bearer Note as shown on the records of DTC, Euroclear or Clearstream, Luxembourg, as the case may be. The Issuer also expects that payments by participants to owners of beneficial interests in such Global Note or Global Bearer Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participants.

Certificated Notes and Definitive Bearer Notes

If DTC or any other Depositary is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by the Issuer within 90 days after the Issuer receives notice from such depositary to that effect, the Issuer will issue Notes in definitive, registered form ("Certificated Notes") in exchange for interests in the relevant Global Note or Notes. In addition, the Issuer may determine that any Global Note will be exchanged for Certificated Notes, upon 10 days' prior written notice to the relevant Depositary. In the case of Certificated Notes issued in exchange for a Restricted Global Note, such certificates will bear, and be subject to, the legend referred to under "Notice to Investors".

Neither the Trustee nor any Transfer Agent will be required to register the transfer or exchange of any Certificated Notes for a period of 15 days preceding any interest payment date, or register the transfer or exchange of any Certificated Notes previously called for redemption.

Certificated Notes may be presented for registration of transfer, or for exchange for new Certificated Notes of authorized denominations, at the corporate trust office of the Trustee in the Borough of Manhattan, The City of New York, or at the office of any Transfer Agent. Upon the transfer, exchange or replacement of Certificated Notes bearing a restrictive legend, or upon specific request for removal of such legend, the Issuer will deliver only Certificated Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of New York counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. In the case of a transfer of less than the principal amount of any Certificated Note, a new Certificated Note will be issued to the transferee in respect of the amount transferred and another Certificated Note will be issued to the transferor in respect of the portion not transferred. Such new Notes will be available within three Business Days at the corporate trust office of the Trustee in New York or at the office of any Transfer Agent.

No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer or the Trustee may require payment of a sum sufficient to cover any stamp tax or other governmental duty payable in connection therewith.

Unless otherwise specified in the applicable Pricing Supplement, if either Euroclear or Clearstream, Luxembourg is closed for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to cease business permanently, the Issuer will issue Bearer Notes in definitive form, with interest coupons ("Definitive Bearer Notes") in exchange for any Bearer Notes in global form, subject to the certification requirements set forth in such Notes. Definitive Bearer Notes of one denomination may be presented for exchange for definitive Bearer Notes of another authorized denomination against surrender of the relevant definitive Bearer Notes at the office of any Transfer Agent located outside the United States. New definitive Notes will be available for delivery within three Business Days at the offices of such Transfer Agent outside the United States.

Replacement of Notes

Notes that become mutilated, destroyed, stolen or lost will be replaced upon delivery to the Trustee of the Notes, or delivery to the Issuer, the Guarantor and the Trustee of evidence of the loss, theft or destruction thereof satisfactory to the Issuer, the Guarantor and the Trustee. In the case of a lost, stolen or destroyed Note, an indemnity satisfactory to the Trustee, the Issuer and the Guarantor may be required at the expense of the holder of such Note before a replacement Note will be issued. Upon the issuance of any new Note, the Issuer may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and the expenses of the Trustee, its counsel and its agents) connected therewith.

Redemption

Redemption at the Option of the Issuer

Unless otherwise specified in the Notes and the applicable Pricing Supplement, the Notes will not be subject to any sinking fund. Unless a Redemption Commencement Date is specified in the Notes and the applicable Pricing Supplement, the Notes will not be redeemable prior to their Stated Maturity, except as specified under "—Tax Redemption" below. If a Redemption Commencement Date is so specified with respect to any Note, such Note and the applicable Pricing Supplement will also specify one or more redemption prices (expressed as a percentage of the principal or face amount of such Note) ("Redemption Prices") and the redemption period or periods ("Redemption Periods") during which such Redemption Prices shall apply. Unless otherwise specified in the Notes and the applicable Pricing Supplement, any such Note shall be redeemable at the option of the Issuer at any time in whole or from time to time in part in increments of U.S. $10,000 (or the approximate equivalent thereof in a Specified Currency other than U.S. dollars) on or after such specified Redemption Commencement Date at the specified Redemption Price applicable to the Redemption Period during which such Note is to be redeemed, together with interest accrued to the redemption date, on notice given not less than 60 days prior to the redemption date.

Tax Redemption

An issue of 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, except as specified in the applicable Pricing Supplement, or in the case of Notes issued with original issue discount, at an amount to be specified in the applicable Pricing Supplement, on giving not less than 30 nor more than 60 days' notice to the holders of such Notes (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 in excess of the Additional Amounts that it would be obligated to pay if payments (including payments of interest) on such Notes (or payments under the Guaranties with respect to interest on the Notes) were subject to a tax at a rate of 10%, 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 such Notes and (ii) prior to the publication of any notice of redemption, the Issuer shall deliver to the Trustee a certificate signed by the Issuer or the Guarantor stating that the obligation referred to in (i) above cannot be avoided by the Issuer or the Guarantor, as the case may be, 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 holders of such Notes; *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 such Notes or Guaranties then due and, at the time such notice is given, such obligation to pay such Additional Amounts remains in effect.

Repayment at the Option of the Holder

Unless otherwise specified in the applicable Pricing Supplement and Notes, the Notes will not be subject to repayment at the option of the holder prior to the Stated Maturity. If so specified in the Pricing Supplement relating to any Note and such Note, such Note will be repayable at the option of the holder on a date or dates specified prior to its Stated Maturity (each, an "Optional Repayment Date") at the price or prices set forth in such Note and in such Pricing Supplement, if any, together with accrued interest to the Optional Repayment Date. The Note and any applicable forms must be tendered to the Issuer at least 30 but not more than 45 days prior to an Optional Repayment Date. Any such tender for repayment is irrevocable. The repayment option may be exercised by the holder for less than the entire principal or face amount of the Note provided that the amount outstanding after repayment is an authorized denomination.

Assumption of Issuer's Obligations by the Guarantor

The Guarantor may at any time directly assume payment of the principal of, and any premium and any interest on, any issue of the Notes and the performance of the Issuer of its obligations under such Notes and every covenant of the Indenture with respect to such Notes without the consent of the holders of the Notes, *provided* that after giving effect to such assumption, no Event of Default shall have occurred and be continuing. Upon such an assumption, the Guarantor shall execute a supplemental indenture evidencing such assumption, and the Issuer shall thereafter be released from its obligations under the Indenture and under such Notes as obligor on such Notes.

Interest Rate

Unless otherwise specified in the applicable Pricing Supplement and Note, each Note will bear interest from its date of issue or from the most recent Interest Payment Date (or, if such Note is a Floating Rate Note and the Interest Reset Period is daily or weekly, from the day following the most recent Regular Record Date) to which interest on such Note has been paid or duly provided for at the fixed rate per annum, or at the rate per annum determined pursuant to the interest rate formula stated therein and in the applicable Pricing Supplement, until the principal thereof is paid or made available for payment. Interest will be payable on each Interest Payment Date and at maturity as specified under "Payment of Principal and Interest" below.

Unless otherwise specified in the applicable Pricing Supplement and Note, each Note will bear interest at either (a) a fixed rate (such Note, a "Fixed Rate Note") or (b) a variable rate (such Note, a "Floating Rate Note") determined by reference to an interest rate basis, which may be adjusted by adding or subtracting the Spread and/or multiplying by the Spread Multiplier. The "Spread" is the number of basis points specified in the applicable Pricing Supplement and Note as being applicable to the interest rate for such Note and the "Spread Multiplier" is the percentage specified in the applicable Pricing Supplement and Note as being applicable to the interest rate for such Note. A Floating Rate Note may also have either or both of the following: (a) a maximum numerical interest rate limitation, or ceiling, on the rate of interest which may accrue during any interest period (a "Maximum Rate"); and (b) a minimum

numerical interest rate limitation, or floor, on the rate of interest which may accrue during any interest period (a "Minimum Rate"). "Market Day" means (a) with respect to any Note (other than any LIBOR Note) denominated in U.S. dollars, any Business Day in The City of New York, (b) with respect to any Note denominated in a Specified Currency other than U.S. dollars, any day (i) that is a Business Day in the financial center of the country issuing the Specified Currency or, in the case of euro, a day on which the Trans-European Automated Real-Time Settlement Express Transfer ("TARGET") System is operating and a day on which commercial banks are open for dealings in euro deposits in the London interbank market, (ii) on which banking institutions in such financial center are carrying out transactions in such Specified Currency and (iii) that is a London Banking Day (as defined below) and (c) with respect to any LIBOR Note, a London Banking Day. "Business Day", when used with respect to any particular location, means each Monday, Tuesday, Wednesday, Thursday or Friday which is not a day on which banking institutions are authorized or obligated by law to close in such location. "London Banking Day" means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market. "Index Maturity" means, with respect to a Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable Pricing Supplement and Note. Unless otherwise specified in the applicable Pricing Supplement, Deutsche Bank Trust Company Americas will be the calculation agent (the "Calculation Agent") with respect to Floating Rate Notes.

The applicable Pricing Supplement relating to a Fixed Rate Note will designate a fixed rate of interest per annum payable on such Note and the Interest Payment Dates with respect to such Note.

The applicable Pricing Supplement relating to a Floating Rate Note will designate an interest rate basis (the "Interest Rate Basis") for such Floating Rate Note. The Interest Rate Basis for each Floating Rate Note will be: (a) LIBOR, in which case such Note will be a LIBOR Note; (b) the Treasury Rate, in which case such Note will be a Treasury Rate Note; or (c) such other interest rate basis as is set forth in such Pricing Supplement. The Pricing Supplement for a Floating Rate Note will also specify, if applicable, the Calculation Agent, the Exchange Rate Agent, the Index Maturity, the Spread and/or Spread Multiplier, the Maximum Rate, the Minimum Rate, the Initial Interest Rate, the Interest Payment Dates, the Regular Record Dates, the Calculation Dates, the Interest Determination Dates, the Interest Reset Period and the Interest Reset Dates with respect to such Note.

The rate of interest on each Floating Rate Note will be reset and become effective daily, weekly, monthly, quarterly, semi-annually or annually or otherwise as specified in the applicable Pricing Supplement and Note (each, an "Interest Reset Period"); *provided* that (a) if so specified in the Note and applicable Pricing Supplement, the interest rate in effect from the date of issue to the first Interest Reset Date with respect to a Floating Rate Note will be the Initial Interest Rate set forth in the Note and the applicable Pricing Supplement and (b) unless otherwise specified in the Note and the applicable Pricing Supplement, the interest rate in effect for the ten days immediately prior to maturity of a Note will be that in effect on the tenth day preceding such maturity. Unless otherwise specified in the applicable Pricing Supplement and Note, the interest reset date ("Interest Reset Date") will be, in the case of Floating Rate Notes which reset daily, each Market Day; in the case of Floating Rate Notes (other than Treasury Rate Notes) which reset weekly, the Wednesday of each week; in the case of Treasury Rate Notes which reset weekly, the Tuesday of each week; in the case of Floating Rate Notes which reset monthly, the third Wednesday of each month; in the case of Floating Rate Notes which reset quarterly, the third Wednesday of March, June, September and December; in the case of Floating Rate Notes which reset semi-annually, the third Wednesday of two months of each year as specified in the Note and the applicable Pricing Supplement; and in the case of Floating Rate Notes which reset annually, the third Wednesday of one month of each year as specified in the Note and the applicable Pricing Supplement. If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Market Day with respect to such Floating Rate Note, the Interest Reset Date for such Floating Rate Note shall be postponed to the next day that is a Market Day with respect to such Floating Rate Note, except that, in the case of a LIBOR Note, if such Market Day is in the next succeeding calendar month, such Interest Reset Date shall be the next preceding Market Day.

Unless otherwise specified in the applicable Pricing Supplement, Interest Determination Dates will be as set forth below. The Interest Determination Date pertaining to an Interest Reset Date for a LIBOR Note (the "LIBOR Interest Determination Date") will be the second Market Day preceding such Interest Reset Date. The Interest Determination Date pertaining to an Interest Reset Date for a Treasury Rate Note (the "Treasury Interest Determination Date") will be the day of the week in which such Interest Reset Date falls on which Treasury bills would normally be auctioned. Treasury bills are usually sold at auction on the Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that such auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Treasury Interest Determination Date pertaining to the Interest Reset Date occurring in the next succeeding week.

All percentages resulting from any calculations referred to in this Offering Circular will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)), and all Specified Currency amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent rounded upward) or approximate equivalent in Specified Currencies other than U.S. dollars.

In addition to any Maximum Rate which may be applicable to any Floating Rate Note pursuant to the above provisions, the interest rate on Floating Rate Notes will in no event be higher than the maximum interest rate permitted by New York law, as the same may be modified by United States law of general application. Under present New York law, the maximum rate of interest is 25% per annum on a simple interest basis, with certain exceptions. The limit may not apply to Floating Rate Notes in which U.S. $2,500,000 or more has been invested.

Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect, and, if determined, the interest rate which will become effective on the next Interest Reset Date with respect to such Floating Rate Note. The Calculation Agent's determination of any interest rate will be final and binding in the absence of manifest error.

The Trustee shall notify the Luxembourg Stock Exchange of the Interest Payment Dates, the applicable interest rate and the amount of interest payable on each Interest Payment Date for each issue of Floating Rate Notes listed on such Exchange by no later than the beginning of the relevant Interest Reset Date relating to such Notes.

LIBOR Notes

LIBOR Notes will bear interest at the interest rates (calculated with reference to LIBOR and the Spread and/or Spread Multiplier, if any), and will be payable on the dates, specified on the face of the LIBOR Note and in the applicable Pricing Supplement.

Unless otherwise indicated in the applicable Pricing Supplement and Note, LIBOR with respect to any Interest Reset Date will be determined by the Calculation Agent in accordance with the following provisions:

(i) On the relevant LIBOR Interest Determination Date, LIBOR will be determined on the basis of either:

(a) if the Pricing Supplement specifies "LIBOR Reuters," or if the Pricing Supplement specifies "LIBOR Telerate" but no rate appears on Telerate Page 3750 as described in clause (b) below, the offered rate for deposits in U.S. dollars having the specified Index Maturity, commencing on the second Market Day immediately following such LIBOR Interest Determination Date, which appears on the display designated as page "LIBO" on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBO page on that service for the purpose of displaying London interbank

offered rates of major banks) (the "Reuters Screen LIBO Page") as of 11:00 a.m., London time, on such LIBOR Interest Determination Date. If no such offered rate appears, LIBOR with respect to such Interest Reset Date will be determined as described in clause (b) below; or

(b) if the Pricing Supplement does not specify a method for determining LIBOR, if the Pricing Supplement specifies "LIBOR Telerate," or if the Pricing Supplement specifies "LIBOR Reuters" but no offered rate appears on the Reuters Screen LIBO Page as described in clause (a) above, the offered rate for deposits in U.S. dollars having the specified Index Maturity, commencing on the second Market Day immediately following such LIBOR Interest Determination Date, which appears on the display designated as Page 3750 on the Moneyline Telerate Service (or such other page as may replace Page 3750 on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits) ("Telerate Page 3750") as of 11:00 a.m., London time, on such LIBOR Interest Determination Date. If no such offered rate appears, LIBOR with respect to such Interest Reset Date will be determined as described in clause (a) above.

(ii) With respect to a LIBOR Interest Determination Date on which fewer than two offered rates for the applicable Index Maturity appear on the Reuters Screen LIBO Page as described in (i)(a) above, and on which no rate appears on Telerate Page 3750, as described in (i)(b) above, LIBOR will be determined on the basis of the rates at approximately 11:00 a.m., London time, on such LIBOR Interest Determination Date at which deposits in U.S. dollars having the specified Index Maturity are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Calculation Agent (after consultation with the Issuer) commencing on the second Market Day immediately following such LIBOR Interest Determination Date and in a principal amount of not less than U.S. $1,000,000 (or its approximate equivalent in a Specified Currency other than U.S. dollars) that in the Issuer's judgment is representative for a single transaction in such market at such time (a "Representative Amount"). The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of such quotations. If fewer than two such quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m., New York City time, on such LIBOR Interest Determination Date by three major banks in The City of New York, selected by the Calculation Agent (after consultation with the Issuer), for loans in U.S. dollars to leading European banks having the specified Index Maturity commencing on the Interest Reset Date and in a Representative Amount; *provided* that if fewer than three banks selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, LIBOR with respect to such Interest Reset Date will be the LIBOR in effect on such LIBOR Interest Determination Date.

Treasury Rate Notes

Treasury Rate Notes will bear interest at the interest rates (calculated with reference to the Treasury Rate and the Spread and/or Spread Multiplier, if any) and will be payable on the dates specified on the face of the Treasury Rate Note and in the applicable Pricing Supplement. Unless otherwise specified in the applicable Pricing Supplement and Note, the "Calculation Date" with respect to a Treasury Interest Determination Date will be the tenth day after such Treasury Interest Determination Date or, if such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Pricing Supplement and Note, "Treasury Rate" means, with respect to any Interest Reset Date, the rate for the auction on the relevant Treasury Interest Determination Date of direct obligations of the United States ("Treasury Bills") having the Index Maturity specified on the face of such Note or in the applicable Pricing Supplement, as such rate appears on Telerate Page 56, in the case of a Note having a three-month Index Maturity, or Telerate Page 57, in the case of a Note having a six-month Index Maturity, under the heading "INVESTMENT RATE." In the event

that such rate does not appear by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Treasury Interest Determination Date, then the Treasury Rate for such Interest Reset Date shall be the rate on such date as published in H.15 Daily Update under the heading "U.S. government securities—Treasury bills—Auction high." In the event that the foregoing rates do not so appear or are not so published by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Treasury Interest Determination Date, then the Treasury Rate for such Interest Reset Date shall be the "Investment Rate" (expressed as a bond equivalent yield, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as announced by the United States Department of the Treasury for the auction held on such Treasury Interest Determination Date, currently available on the worldwide web at: http://www.publicdebt.treas.gov/AI/OFBills. In the event that the results of the auction of Treasury Bills having the Index Maturity specified on the face of the Note and in the applicable Pricing Supplement are not published or reported as provided above by 3:00 p.m., New York City time, on such Calculation Date or if no such auction is held on such Treasury Interest Determination Date, then the Treasury Rate shall be calculated by the Calculation Agent and shall be the rate for such Treasury Interest Determination Date for the issue of Treasury Bills with a remaining maturity closest to the specified Index Maturity (expressed as a bond equivalent yield, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as published in H.15(519), under the heading "U.S. government securities—Treasury bills (secondary market)." In the event that the foregoing rates do not so appear or are not so published by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Treasury Interest Determination Date, then the Treasury Rate for such Interest Reset Date shall be the rate for such Treasury Interest Determination Date for the issue of Treasury bills with a remaining maturity closest to the specified Index Maturity, as published in H.15 Daily Update or another recognized electronic source used for the purpose of displaying such rate, under the heading "U.S. government securities—Treasury bills (secondary market)." In the event that the foregoing rates do not so appear or are not so published by 3:00 p.m., New York City time, on the Calculation Date pertaining to such Treasury Interest Determination Date, then the Treasury Rate shall be calculated by the Calculation Agent and shall be a yield to maturity (expressed as a bond equivalent yield, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates, at approximately 3:30 p.m., New York City time, on such Treasury Interest Determination Date, quoted by three leading primary United States government securities dealers selected by the Calculation Agent with the approval of the Issuer (such approval not to be unreasonably withheld) for the issue of Treasury Bills with a remaining maturity closest to the specified Index Maturity; *provided* that if the dealers selected as aforesaid by the Calculation Agent with the approval of the Issuer (such approval not to be unreasonably withheld) are not quoting as mentioned in this sentence, the Treasury Rate for such Interest Reset Date shall be the Treasury Rate in effect on such Treasury Interest Determination Date.

"Telerate Page 56" means the display designated as page "56" on the Moneyline Telerate Service (or such other page as may replace the "56" page on that service or such other service or services for the purpose of displaying the rate for three-month Treasury Bills). "Telerate Page 57" means the display designated as page "57" on the Moneyline Telerate Service (or such other page as may replace the "57" page on that service or such other service or services for the purpose of displaying the rate for six-month Treasury Bills).

Payment of Principal and Interest

Interest on Registered Notes will be payable to the person in whose name a Note is registered at the close of business on the Regular Record Date next preceding each Interest Payment Date; *provided* that interest payable at maturity will be payable to the person to whom principal shall be payable; and *provided, further,* that any payment of interest on Global Notes shall be made to the applicable Depositary or its nominee, as the registered owner of the Global Note representing such Notes. Unless otherwise specified in the Note or the applicable Pricing Supplement, the first payment of interest on any Note originally issued between a Regular Record Date and an Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date to the registered owner on such next succeeding Regular Record Date. Unless otherwise indicated in the applicable Pricing Supplement and Note, the "Regular Record Date" with respect to any Note shall be the date 15 calendar days prior to each Interest Payment Date, whether or not such date shall be a Business Day.

Payment of principal (and premium, if any) and any interest due with respect to any Registered Note at Stated Maturity will be made in immediately available funds to the person in whose name such Note is registered upon surrender of such Note at the corporate trust office of the Trustee in the Borough of Manhattan, The City of New York, or at the specified office of any other Paying Agent, provided that the Registered Note is presented to the Paying Agent in time for the Paying Agent to make such payments in such funds in accordance with its normal procedures. Payments of principal (and premium, if any) and any interest in respect of Registered Notes to be made other than at Stated Maturity or upon redemption will be made by check mailed on or before the due date for such payments to the address of the person entitled thereto as it appears in the Security Register; *provided* that (a) the applicable Depositary, as holder of the Global Notes, shall be entitled to receive payments of interest by wire transfer of immediately available funds, (b) a holder of U.S. $10,000,000 (or the approximate equivalent thereof in a Specified Currency other than U.S. dollars) in aggregate principal or face amount of Notes having the same Interest Payment Date shall be entitled to receive payments of interest by wire transfer to an account maintained by such holder at a bank located in the United States as may have been appropriately designated by such person to the Trustee in writing no later than the relevant Regular Record Date and (c) to the extent that the holder of a Registered Note issued and denominated in a Specified Currency other than U.S. dollars elects to receive payment of principal and interest at Stated Maturity in such Specified Currency, such payment, except in circumstances described in the applicable Pricing Supplement, shall be made by wire transfer of immediately available funds to an account specified in writing not less than 15 days prior to Stated Maturity by the holder to the Trustee. Unless such designation is revoked, any such designation made by such holder with respect to such Notes shall remain in effect with respect to any future payments with respect to such Notes payable to such holder.

Principal of (and premium, if any, on) a Bearer Note shall be payable by check or wire transfer upon presentation and surrender of such Note at an office of a Paying Agent located outside the United States and its possessions, as defined herein, or at such other offices or agencies located outside the United States and its possessions as the Issuer shall have appointed for the purpose pursuant to the Indenture. Such Paying Agents shall initially be Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A. Interest on Bearer Notes shall be payable by check or wire transfer to the holder of each coupon appertaining to such Note in the amount determined in accordance with such coupon, on or after the due date of such payment as set forth in such coupon, upon presentation and surrender thereof at the offices of the Paying Agents set forth on the reverse of such coupon or at such other offices or agencies located outside the United States and its possessions as the Issuer shall have appointed pursuant to the Indenture.

Unless otherwise indicated in the applicable Pricing Supplement and Note, and except as provided below, interest will be payable, in the case of Floating Rate Notes which reset daily, weekly or monthly, on the third Wednesday of each month or on the third Wednesday of March, June, September and December of each year (as indicated in the applicable Pricing Supplement and Note); in the case of Floating Rate Notes which reset quarterly, on the third Wednesday of March, June, September and December of each year; in the case of Floating Rate Notes which reset semi-annually, on the third Wednesday of the two months of each year specified in the applicable Pricing Supplement and Note; and in the case of Floating Rate Notes which reset annually, on the third Wednesday of the month specified in the applicable Pricing Supplement and Note (each, an “Interest Payment Date”), and in each case, at maturity.

Payments of interest on any Fixed Rate Note or Floating Rate Note with respect to any Interest Payment Date will include interest accrued to but excluding such Interest Payment Date; *provided* that, unless otherwise specified in the applicable Pricing Supplement and Note, if the Interest Reset Dates with respect to any Floating Rate Note are daily or weekly, interest payable on such Note on any Interest Payment Date, other than interest payable on the date on which principal on any such Note is payable, will include interest accrued to but excluding the day following the next preceding Regular Record Date.

With respect to a Floating Rate Note, accrued interest from the date of issue or from the last date to which interest has been paid is calculated by multiplying the principal or face amount of such Floating Rate Note by an accrued interest factor. Such accrued interest factor is computed by adding the interest

factor calculated for each day from the date of issue, or from the last date to which interest has been paid, to but excluding the date for which accrued interest is being calculated. Unless otherwise specified in the applicable Pricing Supplement and Note, the interest factor (expressed as a decimal) for each such day is computed by dividing the interest rate (expressed as a decimal) applicable to such date by 360, in the case of LIBOR Notes, or by the actual number of days in the year, in the case of Treasury Rate Notes. Unless otherwise specified in the applicable Pricing Supplement and Note, interest on Fixed Rate Notes denominated in U.S. Dollars will be computed on the basis of a 360-day year of twelve 30-day months and interest on Fixed Rate Notes denominated in all other currencies will be computed on the basis of the actual number of days in the relevant period for which interest is being calculated (the "Calculation Period") from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of the number of days in the interest period during which such Calculation Period falls (including the first such day but excluding the last) and the number of interest periods normally ending in any year.

If any Interest Payment Date (other than the Stated Maturity) for any Floating Rate Note would otherwise be a day that is not a Market Day, such Interest Payment Date shall be the succeeding Market Day, except that, in the case of a LIBOR Note, if such Market Day is in the next succeeding calendar month, such Interest Payment Date shall be the next preceding Market Day. If the Stated Maturity for any Fixed Rate Note or Floating Rate Note or the Interest Payment Date for any Fixed Rate Note falls on a day which is not a Business Day in the place of payment, payment of principal (and premium, if any) and interest with respect to such Note will be made on the next succeeding Business Day in the place of payment with the same force and effect as if made on the due date and no interest on such payment will accrue from and after such due date.

Foreign Currency Notes and Indexed Notes

If any Note is to be denominated in a Specified Currency other than U.S. dollars (each such Note, a "Foreign Currency Note"), certain provisions with respect thereto will be set forth in the applicable Note and in the related Pricing Supplement, which will specify the foreign currency or currency unit in which the principal, premium, if any, and interest with respect to such Note are to be paid, along with any other terms relating to the non-U.S. dollar denomination.

If the principal of or premium (if any), interest, Additional Amounts or other amounts on any Note is payable in a Specified Currency other than U.S. dollars and such Specified Currency is not available due to the imposition of exchange controls or other circumstances beyond the control of the Issuer, or is no longer used by the government of the country issuing such currency or for settlement of transactions by public institutions of or within the international banking community, the Issuer will be entitled to satisfy its obligations to the holder of such Notes by making such payment in U.S. dollars on the basis of the noon buying rate in The City of New York for cable transfers in such Specified Currency as certified for customs purposes by the Federal Reserve Bank of New York (the "Exchange Rate") for such Specified Currency on the second New York Business Day prior to the applicable payment date or, if the Exchange Rate is not then available, on the basis of the most recently available Exchange Rate. In the event no Exchange Rate is published for such currency, then the payment in U.S. dollars shall be made based on the rate given by the relevant central bank for buying such currency or, if no such rate is available, the rate shall be the average of rates given to the Trustee by internationally recognized commercial banks selected by the Trustee in consultation with the Issuer which regularly engage in foreign currency dealings for buying such currency. The Exchange Rate, or the rate as so determined, is referred to herein as the "Market Exchange Rate." Any payment made under such circumstances in U.S. dollars where the required payment is due in other than U.S. dollars will not constitute an Event of Default under the Notes.

Payments of principal and any premium, interest, Additional Amounts or other amounts to holders of a Foreign Currency Note who hold the Note through DTC will be made in U.S. dollars. However, any DTC holder of a Foreign Currency Note may elect to receive payments by wire transfer in the Specified Currency other than U.S. dollars by delivering a written notice to the DTC participant through which it holds its beneficial interest, not later than the record date, in the case of an interest payment, or at least 15 calendar days before the maturity date, specifying wire transfer instructions to an account

denominated in the specified currency. The DTC participant must notify DTC of the election and wire transfer instructions on or before the twelfth New York business day before the applicable payment of the principal.

If so specified in a Foreign Currency Note and the applicable Pricing Supplement, and except as provided in the next following paragraph, payments of principal and any premium, interest, Additional Amounts or other amounts with respect to such Note will be made in U.S. dollars if the holder of such Note on the relevant Regular Record Date or at Stated Maturity, as the case may be, has transmitted a written request for such payment in U.S. dollars to the Trustee and the applicable Paying Agent on or prior to such Regular Record Date or the date 15 days prior to Stated Maturity, as the case may be. Such request may be in writing (mailed or hand delivered) or by facsimile transmission. Any such request made with respect to any Registered Note by a holder will remain in effect with respect to any further payments of principal and any premium, interest, Additional Amounts or other amounts with respect to such Registered Note payable to such holder, unless such request is revoked on or prior to the relevant Regular Record Date or the date 15 days prior to Stated Maturity, as the case may be. Holders of Foreign Currency Notes that are registered in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in U.S. dollars may be made.

The U.S. dollar amount to be received by a holder of a Foreign Currency Note who elects to receive payment in U.S. dollars will be based on the highest bid quotation in The City of New York received by the Exchange Rate Agent (as defined below) as of 11:00 a.m., New York City time, on the second Business Day in New York next preceding the applicable payment date from three recognized foreign exchange dealers (one of which may be the Exchange Rate Agent) for the purchase by the quoting dealer of the Specified Currency for U.S. dollars for settlement on such payment date in the aggregate amount of the Specified Currency payable to all holders of Notes electing to receive dollar payments and at which the applicable dealer commits to execute a contract. If three such bid quotations are not available on the second Business Day in New York preceding the date of payment of principal or any premium, interest, Additional Amounts or other amounts with respect to any Note, such payment will be made in the Specified Currency. All currency exchange costs associated with any payment in U.S. dollars on any such Foreign Currency Note will be borne by the holder thereof by deductions from such payment of such currency exchange being effected on behalf of the holder by the Exchange Rate Agent. Unless otherwise specified in the applicable Pricing Supplement, the Trustee will be the exchange rate agent (the "Exchange Rate Agent") with respect to Foreign Currency Notes.

Unless otherwise specified in the applicable Pricing Supplement, Foreign Currency Notes will provide that, in the event of an official redenomination of the Specified Currency, the obligations of the Issuer with respect to payments on such Notes shall, in all cases, be deemed immediately following such redenomination to provide for payment of that amount of the redenominated Specified Currency representing the amount of such obligations immediately before such redenomination.

All determinations referred to above made by the Exchange Rate Agent shall, in the absence of manifest error, be conclusive for all purposes and binding on holders of the Notes and the Issuer, and the Exchange Rate Agent shall have no liability therefor.

The Issuer may from time to time offer Notes ("Indexed Notes"), the principal amount of which is payable on or prior to Stated Maturity, the amount of interest payable on which and/or any premium payment with respect to which will be determined with reference to an index or indices (*e.g.,* the difference in price of crude oil on certain dates or any other index or indices). The Pricing Supplement relating to such Indexed Notes and such Indexed Notes will set forth the method by and the terms on which the amount of principal (payable on or prior to Stated Maturity), interest and/or any premium will be determined, any additional tax consequences to the holder of such Note, a description of certain risks associated with investment in such Note and other information relating to such Note.

Introduction of a Single European Currency

On January 1, 1999, the European Community introduced the single European currency known as the euro in the 11 participating member states of the European Economic and Monetary Union (the "EMU"). A participating member state is a member state of the European Community that has adopted the euro as its legal currency according to the Treaty of Rome of March 25, 1957, as amended by the Single European Act of 1986 and the Treaty on European Union, signed in Maastricht, The Netherlands on February 1, 1992. During a transition period from January 1, 1999 to December 31, 2001, the former national currencies of those 11 member states continued to be legal tender in their country of issue, at rates irrevocably fixed on December 3, 1998.

The European Community completed the final stage of its economic and monetary union on January 1, 2002, when euro notes and coins became available and participating member states withdrew their national currencies. It is not possible to predict how the EMU may affect the value of the Notes or the rights of holders of such Notes. Each prospective investor in the Notes that may be affected by the EMU is responsible for informing himself or herself about the EMU and the effects it may have on his or her contemplated investment and assumes for himself or herself the associated investment risks.

If so specified in the applicable Pricing Supplement, the Issuer may at its option, and without the consent of the holders of such Notes or any coupons appertaining thereto or the need to amend the Notes or the Indenture, redenominate the Notes issued in the currency of a country that subsequently participates in the EMU in a manner with similar effect to the final stage of such EMU, into euro. The provisions relating to any such redenomination will be contained in the applicable Pricing Supplement.

Guaranties

Guaranty. Pursuant to the Indenture, the Guarantor has unconditionally guaranteed the due and punctual payment of all amounts payable by the Issuer in respect of the Notes, as and when the same shall become due and payable, whether at maturity, by declaration of acceleration or otherwise.

Subsidiary Guaranties. Pursuant to a guaranty agreement dated July 29, 1996 (the "Subsidiary Guaranty Agreement"), among the Guarantor and the Subsidiary Guarantors, 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. Each of the Indenture and the Guaranties will be so designated by the Subsidiary Guarantors in certificates of designation (the "Certificates of Designation"), to benefit from the Subsidiary Guaranty Agreement. 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 Notes, as and when the same shall become due and payable, whether at maturity, by declaration of acceleration or otherwise. Under the terms of the Subsidiary Guaranty Agreement, each Subsidiary Guarantor will be jointly and severally liable for the full amount of each payment under the Guaranties. Although the Subsidiary Guaranty Agreement may be terminated in the future, the Subsidiary Guaranties will remain in effect with respect to all obligations designated prior to such termination until all amounts payable with respect to such obligations have been paid in full, including the entire principal of and interest and premium, if any, on the Notes. Any amendment to the Subsidiary Guaranty Agreement which would affect the rights of any party to or beneficiary of any designated international financing agreement (including the Guaranties and the Indenture) will be valid only with the consent of each such party or beneficiary (or percentage of parties or beneficiaries) as would be required to amend such agreement.

Additional Amounts

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 holder of Registered Notes 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 holders of Registered Notes 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 holder 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 holder's eligibility, if any, for benefits under an income tax treaty to which Mexico is a party that is in effect, that is necessary to determine the appropriate rate of deduction or withholding of Mexican taxes under any such treaty; provided this clause (d) shall not require holders of Bearer Notes to identify themselves;

(e) any Mexican Withholding Taxes that would not have been so imposed but for the presentation by the holder of such Note 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 holder 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 European Council Directive 2003/48/EC or any other European Union directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, 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 Additional Amounts 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 Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, and a Protocol thereto, both signed on September 18, 1992, as amended by Additional Protocols signed on September 8, 1994 and November 26, 2002), 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 Article 195, Section II, paragraph a) of the Mexican Income Tax Law (or a substantially similar successor of such provision) 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 Article 195, Section II, paragraph a) (or a substantially similar successor of such provision), 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 Article 195, Section II, paragraph a) (or such successor of such provision) 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 Article 195, Section II, paragraph a) 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 Guaranties 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.

Negative Pledge

So long as any Note remains outstanding, 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 Interest 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 or providing such other Security Interest for the Notes as shall be approved by the holders of at least 66 2/3% in aggregate principal amount of the Outstanding (as defined in the Indenture) Notes; *provided* that the Issuer, the Guarantor and its Subsidiaries, and the Subsidiary Guarantors and any of their respective Subsidiaries, may create or permit to subsist a Security Interest upon its or their receivables in respect of crude oil if (i) on the date of creation of such Security Interest 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 that 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 Interest there is no default under any Financing Document (as defined in the Indenture) resulting from a failure to pay principal or interest.

For this purpose:

"Advance Payment Arrangement" means any transaction involving the receipt by the Issuer, the Guarantor, the Subsidiary Guarantors or any of their 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 a Security Interest 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 Interest" 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 percent 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 Interests 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 Interests 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 Interests 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).

Events of Default; Waiver and Notice

If any of the following events (each, an "Event of Default") occurs and is continuing with respect to an issue of Notes, the Trustee, if so requested in writing by holders of at least one-fifth in principal amount of the Notes of such issue then outstanding, shall give notice to the Issuer that such 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 premium, if any, or any interest on, or any sinking fund payment with respect to, any of such

Notes when due and such failure continues, in the case of non-payment of principal or any sinking fund payment for seven days, and of interest or premium for fourteen days after the due date; or

(b) *Breach of Other Obligations:* the Issuer or Guarantor defaults in performance or observance of or compliance with any of its other obligations set out in such Notes or Guaranties or (insofar as it concerns such Notes or Guaranties) the Indenture which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after written notice of such default shall have been given to the Issuer, the Guarantor and the Subsidiary Guarantors 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 under "—Negative Pledge" above) 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 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 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

(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 under "—Negative Pledge" above) 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 such Notes or the Indenture, (ii) to enable the Guarantor lawfully to enter into, exercise its rights and perform and comply with its obligations under the Guaranties relating to such Notes, the Indenture or the Subsidiary Guaranty Agreement in relation to such Notes and related Guaranties, (iii) 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 such Notes, the related Guaranties or the Indenture and (iv) 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 such Notes or the Indenture, (ii) the Guarantor to perform or comply with any of its obligations under the Indenture, the Guaranties or the Subsidiary Guaranty Agreement with respect to such Notes, the related Guaranties or the Indenture, 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 such Notes, the related Guaranties or the Indenture; or

(k) *Control:* the Guarantor ceases to be a decentralized public entity of 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 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 (A) solely in connection with the implementation of the Organic Law of Petróleos Mexicanos and Subsidiary Entities or (B) to a Subsidiary Guarantor; or

(ii) any Subsidiary Guarantor ceases to carry on all or a substantial part 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) *Guaranties:* the Guaranties or the Subsidiary Guaranty Agreement is not (or is claimed by the Guarantor or any of the Subsidiary Guarantors not to be) in full force and effect.

"Material Subsidiaries" 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% of the total assets of the Guarantor, the Subsidiary Guarantors and their Subsidiaries on a consolidated basis. As of the date of this Offering Circular, there were no Material Subsidiaries other than the Subsidiary Guarantors and the Issuer.

After any such acceleration has been made, but before a judgment or decree for the payment of money due based on acceleration has been obtained by the Trustee, the holders of a majority in aggregate principal amount of the Notes of such issue then outstanding may rescind and annul such acceleration in writing if all Events of Default, other than the non-payment of the principal of such Notes that have become due solely by such declaration of acceleration, have been cured or waived as provided in the Indenture.

The holders of a majority in principal amount of the Outstanding Notes of any issue may on behalf of the holders of such Notes waive any past default and any Event of Default arising therefrom, provided that a default not theretofore cured in the payment of the principal of or premium or interest on such Notes or in respect of a covenant or provision in the Indenture the modification of which would constitute a Reserved Matter (as defined below), may be waived only by a percentage of holders of Outstanding Notes of such issue that would be sufficient to effect a modification, amendment, supplement or wavier of such matter.

Purchase of Notes

The Issuer, the Guarantor or any of the Subsidiary Guarantors may at any time purchase Notes at any price in the open market, in privately negotiated transactions or otherwise. Notes so purchased by the Issuer, the Guarantor or any Subsidiary Guarantor may be held, resold or surrendered to the Trustee for cancellation.

Modification and Waiver

The Issuer and the Trustee may modify, amend or supplement the terms of the Notes of any issue or the Indenture in any way, and the holders of a majority in aggregate principal amount of the Notes of any issue may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action that the Indenture or the Notes allow a holder to make, take or give, when authorized: (1) at a meeting of holders that is properly called and held by the affirmative vote, in person or by proxy (authorized in writing), of the holders of a majority in aggregate principal or face amount of the Outstanding Notes of that issue that are represented at the meeting; or (2) with the written consent of the holders of the majority (or of such other percentage as stated in the text of the Notes of that issue with respect to the action being taken) in aggregate principal amount of the Outstanding Notes of that issue.

However, under provisions which are commonly referred to as “collective action clauses,” without the consent of the holders of not less than 75% in aggregate principal amount of the Outstanding Notes of each issue affected thereby, no action may: (1) change the governing law with respect to the Indenture, the Guaranty, the Subsidiary Guaranties or the Notes of that issue; (2) change the submission to jurisdiction of New York courts, the obligation to appoint and maintain an Authorized Agent in the Borough of Manhattan, The City of New York or the waiver of immunity provisions in the Notes of that issue; (3) amend the Events of Default in connection with an exchange offer for the Notes of that issue; (4) change the ranking of the Notes of that issue; or (5) change the definition of “Outstanding” with respect to the Notes of that issue.

Further, without (A) the consent of each holder of Outstanding Notes of each issue affected thereby or (B) the consent of the holders of not less than 75% in aggregate principal amount of the Outstanding Notes of each issue affected thereby, and (in the case of this clause (B) only) the certification by the Guarantor or the Issuer to the Trustee that the modification, amendment, supplement or waiver is sought in connection with a General Restructuring (as defined below) by Mexico, no such modification, amendment or supplement may: (1) change the due date for any payment of, principal (if any) of or premium (if any) or interest on Notes of that issue; (2) reduce the principal or face amount of Notes of that issue, the portion of the principal or face amount that is payable upon acceleration of the maturity of

Notes of that issue, the interest rate on the Notes of that issue or the premium (if any) payable upon redemption of the Notes of that issue; (3) shorten the period during which the Issuer is not permitted to redeem the Notes of that issue or permit the Issuer to redeem Notes of that issue prior to maturity, if, prior to such action, the Issuer is not permitted to do so except as permitted in each case under "—Tax Redemption" above; (4) change the coin or currency in which, or the required places at which, any principal of or premium or interest on Notes of that issue is payable; (5) modify the Guaranty of the Notes of that issue or the Subsidiary Guaranty Agreement in any manner adverse to the holder of any of the Notes of that issue; (6) change the obligation of the Issuer, the Guarantor or any Subsidiary Guarantor to pay Additional Amounts with respect to the Notes of that issue; (7) reduce the percentage of the principal amount of the Notes of that issue, the vote or consent of the holders of which is necessary to modify, amend or supplement the Indenture or the Notes of that issue or the related Guaranties or to take other action provided therein, or (8) modify the provisions in the Indenture relating to waiver of compliance with certain provisions thereof or waiver of certain defaults, or to change the quorum requirements for a meeting of holders of the Notes, in each case except to increase any related percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each Outstanding Note of that issue affected by such action.

A "General Restructuring" by Mexico means a request made by Mexico for one or more amendments or one or more exchange offers by Mexico, each of which affects a matter that would (if made to a term or condition of the Notes) constitute any of the matters described in clauses (1) through (8) in the immediately preceding paragraph or clauses (1) through (5) of the paragraph next preceding such paragraph (each, a "Reserved Matter"), and that applies to either (1) at least 75% of the aggregate principal amount of outstanding External Market Debt of Mexico that will become due and payable within a period of five years following the date of such request or exchange offer or (2) at least 50% of the aggregate principal amount of External Market Debt of Mexico outstanding at the time of such request or exchange offer. For the purposes of determining the existence of a General Restructuring, the principal amount of External Market Debt that is the subject of any such request for amendment by Mexico shall be added to the principal amount of External Market Debt that is the subject of a substantially contemporaneous exchange offer by Mexico. As used herein, "External Market Debt" means Indebtedness of the Mexican Government (including debt securities issued by the Mexican Government) which is payable or at the option of its holder may be paid in a currency other than the currency of Mexico, excluding any such Indebtedness that is owed to or guaranteed by multilateral creditors, export credit agencies and other international or governmental institutions.

In determining whether the holders of the requisite principal amount of the Outstanding Notes of an issue have consented to any amendment, modification, supplement or waiver, whether a quorum is present at a meeting of holders of the Outstanding Notes of an issue or the number of votes entitled to be cast by each holder of a Note in respect of such Note at any such meeting, Notes owned, directly or indirectly, by Mexico or any public sector instrumentality of Mexico (including the Issuer, the Guarantor or any Subsidiary Guarantor) shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such consent, amendment, modification, supplement or waiver, only Notes which a responsible officer of the Trustee actually knows to be so owned shall be so disregarded. As used in this paragraph, "public sector instrumentality" means Banco de México, any department, ministry or agency of the federal government of Mexico or any corporation, trust, financial institution or other entity owned or controlled by the federal government of Mexico or any of the foregoing, and "control" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

If and for so long as Notes of an issue are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, in the case of any such amendment, modification or waiver in respect of such Notes effected pursuant to the terms of the Indenture (excluding amendments or modifications with respect to the curing of any ambiguity or curing, correcting or supplementing any defective provision of the Indenture or the Notes of all issues) the Issuer will prepare a supplement to this Offering Circular. In

addition, a notice regarding any such amendment, modification or waiver will be published in a newspaper of general circulation in Luxembourg.

The Issuer and the Trustee may, without the vote or consent of any holder of the Notes of an issue, modify or amend the Indenture or the Notes of that issue for the purpose of: (1) adding to the covenants of the Issuer or the Guarantor for the benefit of the holders of the Notes of that issue; (2) surrendering any right or power conferred upon the Issuer or the Guarantor; (3) securing the Notes of that issue pursuant to the requirements of the Indenture or otherwise; (4) curing any ambiguity or curing, correcting or supplementing any defective provision of the Indenture or the Notes of that issue or the Guaranties; (5) amending the Indenture or the Notes of that issue in any manner which the Issuer and the Trustee may determine and that will not adversely affect the rights of any holder of the Notes of that issue in any material respect; (6) reflecting the succession of another corporation to the Issuer or the Guarantor and the successor corporation's assumption of the covenants and obligations of the Issuer or the Guarantor, as the case may be, under the Notes of that issue and the Indenture; or (7) modifying, eliminating or adding to the provisions of the Indenture to the extent necessary to qualify the Indenture under the Trust Indenture Act or under any similar U.S. federal statute enacted in the future or adding to the Indenture other provisions that are expressly permitted by the Trust Indenture Act.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment, modification, supplement or waiver. It is sufficient if the consent approves the substance of the proposed amendment, modification, supplement or waiver. After an amendment, modification or waiver under the Indenture becomes effective, the Issuer or the Guarantor will mail to the holders a notice briefly describing the amendment, modification or waiver. However, the failure to give this notice to all the holders, or any defect in the notice, will not impair or affect the validity of the amendment, modification, supplement or waiver.

Meetings

The Indenture has provisions for calling a meeting of the holders of the Notes. Under the Indenture, the Trustee may call a meeting of the holders of any issue of Notes at any time. The Issuer, the Guarantor or holders of at least 10% of the aggregate principal amount of any issue of Notes may also request a meeting of the holders of such Notes by sending a written request to the Trustee detailing the proposed action to be taken at the meeting.

At any meeting of the holders of the Notes to act on a matter that is not a Reserved Matter, a quorum exists if the holders of a majority of the aggregate principal amount Outstanding of any issue of Notes are present or represented. At any meeting of the holders of the Notes to act on a matter that is a Reserved Matter, a quorum exists if the holders of 75% of the aggregate principal amount Outstanding of that issue of Notes are present or represented, provided that if the consent of each such holder is required to act on such Reserved Matter, then a quorum exists only if the holders of 100% of the aggregate principal amount Outstanding of that issue of Notes are present or represented.

Any holders' meeting that has properly been called and that has a quorum can be adjourned from time to time by those who are entitled to vote a majority of the aggregate principal amount Outstanding of the that issue of Notes represented at the meeting. The adjourned meeting may be held without further notice.

Any resolution passed, or decision made, at a holders' meeting that has been properly held in accordance with the Indenture is binding on all holders of the Notes.

Further Issues

The Issuer may from time to time without the consent of any holder of the Notes of any issue create and issue additional Notes having the same terms and conditions as Notes previously issued (or the same except for the issue date, the first payment of interest or the issue price), which additional Notes

may be consolidated to form a single series with the Outstanding Notes of that issue, *provided* that such additional Notes do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the original Notes of such issue have as of the date of the issue of such additional Notes.

Repayment of Monies; Prescription

Any monies paid by the Issuer, the Guarantor or any Subsidiary Guarantor to the Trustee for the payment of the principal of or premium, if any, or interest on any Notes and remaining unclaimed at the end of two years after such principal or interest shall have become due and payable and shall have been paid to the Trustee by the Issuer, the Guarantor or any Subsidiary Guarantor, shall then be repaid to the Issuer upon its written request, and the holders of such Notes will thereafter look only to the Issuer, the Guarantor and the Subsidiary Guarantors for payment thereof. Unless otherwise required by applicable law, the right to receive principal of any Notes or premium, if any, or interest thereon will become void at the end of five years after the due date thereof.

Governing Law, Jurisdiction and Waiver of Immunity

The Indenture and the Notes will be governed by and construed in accordance with the laws of the State of New York, except that the authorization and execution of such documentation by the Guarantor shall be governed by the laws of Mexico. The payment obligations of the Guarantor under the Guaranties and the payment obligations of the Subsidiary Guarantors under the Subsidiary Guaranties will be governed by and construed in accordance with the laws of the State of New York.

The Guarantor and each of the Subsidiary Guarantors will appoint the Consul General of Mexico in New York City and his successors as their authorized agent (the "Authorized Agent") upon whom process may be served in any action based upon the Notes, the Guaranties, the Subsidiary Guaranties or the Indenture which may be instituted in any federal court (or, if jurisdiction in federal court is not available, state court) in the Borough of Manhattan, The City of New York, by the holder of any Note, and the Issuer, the Guarantor, each Subsidiary Guarantor and the Trustee will each irrevocably submit to the jurisdiction of any such court in respect of any such action and will irrevocably waive any objection which it may now or hereafter have to the laying of venue of any such action in any such court, and the Guarantor and each of the Subsidiary Guarantors will waive any right to which it may be entitled on account of residence or domicile. The Guarantor and each of the Subsidiary Guarantors reserve the right to plead sovereign immunity under the Immunities Act with respect to actions brought against them under U.S. federal securities laws or any state securities laws, and the Guarantor's and each of the Subsidiary Guarantors' appointment of the Consul General as its agent for service of process will not extend to such actions. In the absence of a waiver of immunity by the Guarantor and each of the Subsidiary Guarantors with respect to such actions, it would not be possible to obtain a United States judgment in such an action against the Guarantor or such Subsidiary Guarantor unless a U.S. court were to determine that the Guarantor or such Subsidiary Guarantor is not entitled under the Immunities Act to sovereign immunity with respect to such action. However, even if a United States judgment could be obtained in any such action under the Immunities Act, it may not be possible to obtain in Mexico a judgment based on such a United States judgment. Moreover, execution upon property of the Guarantor or a Subsidiary Guarantor located in the United States to enforce a judgment obtained under the Immunities Act may not be possible except under the limited circumstances specified in the Immunities Act.

Article 27 of the Political Constitution of the United Mexican States, Articles 6 and 13 of the General Law on National Patrimony (and other related articles), Articles 1, 2, 3, 4 (and related articles) of the Regulatory Law, Articles 15, 16 and 19 of the Regulations to the Regulatory Law, Articles 1, 2, 3, 4 (and other related articles) of the Organic Law of Petróleos Mexicanos and Subsidiary Entities and Article 4 of the Federal Code of Civil Procedure of Mexico provide, *inter alia,* that (i) attachment prior to judgment, attachment in aid of execution or 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, storage, transportation, distribution and first-hand sale of the derivatives of petroleum (including petroleum products) and of gas used as basic industrial raw materials and that constitute "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, they are entitled to immunity with respect to such exclusive rights and powers). *As a result, notwithstanding the Guarantor's and the Subsidiary Guarantors' waiver of immunity described in the preceding paragraph, Mexican law specifies that attachment in aid of execution may not be ordered against the Guarantor, the Subsidiary Guarantors and their assets and, as a result, may restrict the ability to enforce judgments against them.*

Trustee, Paying Agent and Transfer Agent

Deutsche Bank Trust Company Americas will be the Trustee under the Indenture. The corporate trust office of the Trustee is located at 60 Wall Street, 27th Floor, New York, New York 10005. Deutsche Bank Trust Company Americas has also been appointed as Paying Agent and Transfer Agent under the Indenture, at its offices specified above. The Trustee, Paying Agents and Transfer Agents are agents of the Issuer and do not have the duties of a trustee with respect to the holders of the Notes. For so long as any notes are listed on the Luxembourg Stock Exchange, the Issuer will maintain a Paying Agent and a Transfer Agent in Luxembourg.

The Trustee may resign at any time or may be removed by the Issuer at any time. If the Trustee resigns, is removed or becomes incapable of acting as Trustee or if a vacancy occurs in the office of the Trustee for any cause, a successor Trustee shall be appointed in accordance with the provisions of the Indenture.

In the ordinary course of their respective businesses, Deutsche Bank Trust Company Americas and its affiliates have engaged, and may in the future engage, in investment banking activities and commercial banking activities with the Issuer and PEMEX, and have provided, and may in the future provide, investment advisory and corporate trust services to the Issuer and PEMEX.

Notices

Notices to holders of Registered Notes will be sent by mail to their respective addresses appearing in the register maintained by the Trustee. In addition, if and for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange require, such notices will be published in a daily newspaper of general circulation in Luxembourg (expected to be the *Luxemburger Wort*). If publication as aforesaid is not practicable, notice will be validly given if made in accordance with the rules of the Luxembourg Stock Exchange. Any such notice shall be deemed to have been given on the later of the date of such publication and the fourth calendar day after the date of mailing.

Notices to holders of Bearer Notes will be valid if published in a daily newspaper having general circulation in London and (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require) in a leading newspaper having general circulation in Luxembourg or, if any such publication is not practicable, in another leading daily English language newspaper having general circulation in Europe approved by the Trustee. It is expected that such publication will be made in the *Financial Times* in London and the *Luxemburger Wort* in Luxembourg. Notices will, if published more than once or on different dates, be deemed to have been given on the date of the first publication in both such newspapers as provided above. Holders of coupons shall be deemed for all purposes to have notice of the contents of any notice to the holders of the related Bearer Notes.

LIMITATIONS ON ISSUANCE OF BEARER NOTES

In compliance with United States federal tax laws and regulations, Bearer Notes (including temporary global Bearer Notes), other than Bearer Notes with a maturity not exceeding one year from the date of issue, may not be offered or sold during the restricted period (as defined in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)) within the United States or its possessions or to United States persons (each as defined below) other than to an office located outside the United States or its possessions of a U.S. financial institution (as defined in Section 1.165-12(c)(1) of the U.S. Treasury regulations), purchasing for its own account, that provides a certificate stating that it agrees to comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Code, and the U.S. Treasury regulations thereunder, or to certain other persons described in Section 1.163-5(c)(2)(i)(D)(1)(iii)(B) of the U.S. Treasury regulations. Moreover, such Bearer Notes may not be delivered within the United States or its possessions in connection with their sale during the restricted period. No Bearer Note (other than a temporary global Bearer Note) may be delivered, nor may interest be paid on any Bearer Note, until receipt by the Issuer of (i) a Depositary Tax Certification in the case of temporary global Bearer Notes or (ii) an Owner Tax Certification in all other cases as described above under "Description of Notes—Form and Denomination."

For purposes of the limitations on the issuance of Bearer Notes, "United States Person" means any citizen or resident of the United States, any corporation, partnership or other entity created or organized in or under the laws of the United States, any estate the income of which is subject to U.S. federal income taxation regardless of its source, or any trust if (i) a U.S. court is able to exercise primary supervision over the trust's administration and (ii) one or more United States Persons have the authority to control all of the trust's substantial decisions. "United States" means the United States of America (including the States thereof and the District of Columbia) and "possessions" of the United States include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

IMPORTANT CURRENCY INFORMATION

Unless otherwise specified in the applicable Pricing Supplement, purchasers are required to pay for Notes in the Specified Currency in immediately available funds. Currently, there are limited facilities in the United States for conversion of U.S. dollars into foreign currencies or currency units and vice versa, and it is believed that only a limited number of U.S. banks offer foreign currency checking or savings account facilities in the United States. However, if requested by a prospective purchaser of Notes denominated in a Specified Currency other than U.S. dollars, an Agent soliciting the offer to purchase may at its discretion arrange for the conversion of U.S. dollars into such Specified Currency to enable the purchaser to pay for such Notes. Any request must be made by the date determined by such Agent. Each such conversion will be made by such Agent on such terms and subject to such conditions, limitations and charges as such Agent may from time to time establish in accordance with its regular foreign exchange practice. All costs of exchange will be borne by purchasers of the Notes.

For purposes of determining whether the holders of the requisite principal amount of Outstanding Notes have taken or authorized any action under the Indenture, the principal amount of a Note denominated in a Specified Currency other than U.S. dollars at any time outstanding shall be deemed to be the U.S. dollar equivalent, determined on the basis of the Market Exchange Rate as of the Issue Date of such Note, of the principal amount of such Note.

CURRENCY RISKS AND RISKS ASSOCIATED WITH INDEXED NOTES

Exchange Rates and Exchange Controls

An investment in a Note denominated in a Specified Currency other than the currency of the country in which a purchaser is resident or the currency (including any currency unit) in which a purchaser conducts its primary business (the "home currency") or where principal of or interest on Notes is payable by reference to a Specified Currency index other than an index relating to the home currency entails significant risks that are not associated with a similar investment in a security denominated in the home

currency. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the home currency and the Specified Currency and the possibility of the imposition or modification of foreign exchange controls by either the United States or foreign governments. Such risks generally depend on factors over which the particular country has no control, such as economic, financial, political and military events and the supply of and demand for the relevant currencies. In recent years, rates of exchange for certain currencies have been highly volatile, and such volatility may be expected in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in the exchange rate that may occur during the term of any Note. Depreciation of the Specified Currency in which a Note is denominated against the relevant home currency would result in a decrease in the effective home currency-equivalent yield of such Note below its interest rate, in the home currency-equivalent value of the principal payable at maturity of such Note and generally in the home currency-equivalent market value of such Note and could result in a loss to the investor on a home currency basis.

Foreign exchange rates can either be fixed by sovereign governments or float. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to the U.S. dollar. National governments, however, rarely voluntarily allow their currencies to float freely in response to economic forces. Sovereign governments in fact use a variety of techniques, such as intervention by a country's central bank or imposition of regulatory controls or taxes, to affect the rate of exchange of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing Notes that are denominated in a foreign currency or currency unit is that the U.S. dollar equivalent yields of such Notes could be affected by governmental actions which could change or interfere with theretofore freely determined currency valuations, fluctuations in response to other market forces and the movement of the currencies across borders.

Governments have from time to time imposed, and may in the future impose, exchange controls that could affect the availability of a Specified Currency for making payments with respect to a Note. There can be no assurance that exchange controls will not restrict or prohibit payments in any currency or currency unit. Even if there are no actual exchange controls, it is possible that on a payment date with respect to any particular Note, the Specified Currency for such Note would not be available to the Issuer to make payments then due. In that event, the Issuer will make such payments in the manner set forth below under "Payment Currency."

THIS OFFERING CIRCULAR AND ANY PRICING SUPPLEMENT HERETO DO NOT DESCRIBE ALL THE RISKS OF AN INVESTMENT IN NOTES DENOMINATED IN A CURRENCY (INCLUDING ANY CURRENCY UNIT) OTHER THAN A PROSPECTIVE PURCHASER'S HOME CURRENCY AND THE ISSUER, THE GUARANTOR AND THE SUBSIDIARY GUARANTORS DISCLAIM ANY RESPONSIBILITY TO ADVISE PROSPECTIVE PURCHASERS OF SUCH RISKS AS THEY EXIST AT THE DATE OF THIS OFFERING CIRCULAR AND AS SUCH RISKS MAY CHANGE FROM TIME TO TIME. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN FINANCIAL AND LEGAL ADVISORS AS TO THE RISKS ENTAILED BY AN INVESTMENT IN NOTES DENOMINATED IN A CURRENCY (INCLUDING ANY CURRENCY UNIT) OTHER THAN THEIR PARTICULAR HOME CURRENCY. SUCH NOTES ARE NOT AN APPROPRIATE INVESTMENT FOR PERSONS WHO ARE UNSOPHISTICATED WITH RESPECT TO FOREIGN CURRENCY TRANSACTIONS.

Unless otherwise provided, Notes denominated in a Specified Currency other than the U.S. dollar or euro will not be sold in, or to residents of, the country of the Specified Currency in which such Notes are denominated. The information set forth in this Offering Circular and any Pricing Supplement is directed to prospective purchasers who are United States residents. The Issuer, the Guarantor and the Subsidiary Guarantors disclaim any responsibility to advise prospective purchasers who are residents of countries other than the United States with respect to any matters that may affect the purchase, holding or receipt of payments of principal of or interest on Notes. Such persons should consult their own legal and financial advisors with regard to such matters.

The Pricing Supplement relating to each Foreign Currency Note may contain information concerning relevant historical exchange rates for the applicable Specified Currency, a description of such currency or currencies and any exchange controls affecting such currency or currencies. The information therein concerning exchange rates and exchange controls, if any, is furnished as a matter of information only and should not be regarded as indicative of the range of or trends in fluctuations in exchange rates or of exchange controls that may be imposed in the future. The Issuer, the Guarantor and the Subsidiary Guarantors disclaim any responsibility to advise prospective purchasers of changes in such exchange rates or exchange controls after the date of any such Pricing Supplement.

Payment Currency

Except as set forth below, if payment on a Note is required to be made in a Specified Currency other than U.S. dollars and on a payment date with respect to such Note such currency or currency unit is unavailable due to the imposition of exchange controls or other circumstances beyond the Issuer's control, or is no longer used by the government of the country issuing such currency or currency unit or for the settlement of transactions by public institutions of or within the international banking community, then all such payments due on such payment date shall be made in U.S. dollars. The amount so payable on any payment date in such foreign currency or currency unit shall be converted into U.S. dollars at a rate determined by the Exchange Rate Agent as of the second Business Day prior to the date on which such payment is due on the basis of the most recently available Market Exchange Rate for such currency or currency unit, or as otherwise specified in the applicable Pricing Supplement. Any payment made under such circumstances in U.S. dollars will not constitute an Event of Default under the Notes.

All determinations referred to above made by the Exchange Rate Agent shall be confirmed by the Issuer (except to the extent expressly provided herein or in the applicable Pricing Supplement) and, in the absence of manifest error, shall be conclusive for all purposes and binding on holders of the Notes, and the Exchange Rate Agent shall have no liability therefor.

Unless otherwise specified in the applicable Pricing Supplement, Notes denominated in a Specified Currency other than U.S. dollars will provide that, in the event of an official redenomination of the Specified Currency, the obligations of the Issuer with respect to payments on such Notes shall, in all cases, be deemed immediately following such redenomination to provide for payment of that amount of the redenominated Specified Currency representing the amount of such obligations immediately before such redenomination.

Foreign Currency Judgments; Immunity from Attachment

The Notes and Guaranties will be governed by and construed in accordance with the laws of the State of New York. See "Description of Notes—Governing Law, Jurisdiction and Waiver of Immunity." Courts in the United States customarily have not rendered judgments for money damages denominated in any currency other than U.S. dollars. New York statutory law provides, however, that in an action based on an obligation denominated in a currency other than U.S. dollars, a court shall render a judgment or decree in the foreign currency of the underlying obligation and that the judgment or decree shall be converted into U.S. dollars at the exchange rate prevailing on the date of entry of the judgment or decree. It is not known whether the foregoing New York statutory law would be applied (a) in any action based on an obligation denominated in a currency unit or (b) by a Federal court sitting in the State of New York.

Under the Mexican Monetary Law, payments which should be made in Mexico in foreign currency, whether by agreement or upon judgment of a Mexican court, may be discharged in pesos at a rate of exchange for pesos into the relevant foreign currency prevailing at the time of payment. In addition, Mexican law specifies that attachment in aid of execution may not be ordered against the Guarantor, the Subsidiary Guarantors and their assets and, as a result, the ability of investors to realize upon judgments in the courts of Mexico may be limited. See "Description of Notes—Governing Law, Jurisdiction and Waiver of Immunity."

Risks Associated with Indexed Notes

An investment in Indexed Notes may entail significant risks that are not associated with a similar investment in a debt instrument that has a fixed principal amount, is denominated in U.S. dollars and bears interest at either a fixed rate or a floating rate determined by reference to nationally published interest rate references. The risks of a particular Indexed Note will depend on the terms of such Indexed Note, but may include, without limitation, the possibility of significant changes in the prices of securities, currencies, intangibles, goods, articles or commodities or of other objective price, economic or other measures making up the relevant index (the "Underlying Assets"). Such risks generally depend on factors over which the Issuer has no control, such as economic and political events and the supply of and demand for the Underlying Assets. In recent years, currency exchange rates and prices for various Underlying Assets have been highly volatile, and such volatility may be expected in the future. Fluctuations in any such rates or prices that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur during the term of any Indexed Note.

In considering whether to purchase Indexed Notes, investors should be aware that the calculation of amounts payable in respect of Indexed Notes may involve reference to prices which are published solely by third parties or entities which are not subject to regulation under the laws of the United States.

THIS OFFERING CIRCULAR AND ANY PRICING SUPPLEMENT HERETO DO NOT DESCRIBE ALL THE RISKS OF AN INVESTMENT IN INDEXED NOTES AND THE ISSUER, THE GUARANTOR AND THE SUBSIDIARY GUARANTORS DISCLAIM ANY RESPONSIBILITY TO ADVISE PROSPECTIVE PURCHASERS OF SUCH RISKS AS THEY EXIST AT THE DATE OF THIS OFFERING CIRCULAR OR AS SUCH RISKS MAY CHANGE FROM TIME TO TIME. THE RISK OF LOSS AS A RESULT OF THE LINKAGE OF PRINCIPAL OR INTEREST PAYMENTS ON INDEXED NOTES TO AN INDEX AND TO THE UNDERLYING ASSETS CAN BE SUBSTANTIAL. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN FINANCIAL AND LEGAL ADVISORS AS TO THE RISKS ENTAILED BY AN INVESTMENT IN INDEXED NOTES. AN INDEXED NOTE IS NOT AN APPROPRIATE INVESTMENT FOR PERSONS WHO ARE UNSOPHISTICATED WITH RESPECT TO TRANSACTIONS IN THE UNDERLYING ASSETS OF ANY INDEX RELEVANT TO THAT INDEXED NOTE.

CLEARING AND SETTLEMENT

Arrangements will be made with each of DTC, Euroclear and Clearstream, Luxembourg to facilitate initial issuance of Global Notes deposited with, or on behalf of, DTC ("DTC Global Notes"). See "Description of Notes—Form and Denomination." Transfers within DTC, Euroclear and Clearstream, Luxembourg will be made in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold DTC Global Notes through DTC and investors who hold or will hold DTC Global Notes through Euroclear and/or Clearstream, Luxembourg will be effected in DTC through the respective depositaries of Euroclear and Clearstream, Luxembourg. Each Regulation S Global Note and each Restricted Global Note deposited with DTC will have a different CUSIP or CINS number.

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 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 Global Notes held by it for Certificated Notes, which it will distribute to its participants and which, if representing interests in the Restricted Global Note, will be legended as set forth under "Notice to Investors." See "Description of Notes—Certificated Notes and Definitive Bearer Notes".

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 ("Euroclear"). 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 Agents. 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 participant in DTC.

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 ("Clearstream, Luxembourg"), 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 Agents for the Notes. Other institutions that maintain a custodial relationship with a Clearstream, Luxembourg customer may obtain indirect access to Clearstream, Luxembourg. Clearstream, Luxembourg is an indirect participant in DTC.

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.

Initial Settlement in Relation to DTC Global Notes

Upon the issuance of a DTC Global Note, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such DTC Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Agent or the Issuer, in the case of a Note sold directly by the Issuer. Ownership of beneficial interests in a DTC Global Note will be limited to DTC Participants, including Euroclear and Clearstream, Luxembourg, or Indirect DTC Participants. Ownership of beneficial interests in DTC Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of Indirect DTC Participants).

Euroclear and Clearstream, Luxembourg will hold omnibus positions on behalf of their participants through customers' securities accounts for Euroclear and Clearstream, Luxembourg on the books of their respective depositaries, which in turn will hold such positions in customers' securities accounts in such depositaries' names on the books of DTC.

Investors that hold their interests in a DTC Global Note through DTC will follow the settlement practices applicable to global bond issues. Investors' securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Investors that hold their interests in a DTC Global Note through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. The interests will be credited to the securities custody accounts on the settlement date against payment in same-day funds.

Secondary Market Trading in Relation to DTC 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 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 Paying 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 depositary to receive such interest against payment. Payment will then be made by the depositary to the DTC Participant's account against delivery of the interest in the relevant DTC 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 DTC 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 DTC Global Note would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in the relevant DTC Global Note were credited to their accounts. However, interest on the relevant DTC Global Note would accrue from the value date. Therefore, in many cases the investment income on the interest in the relevant DTC 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 depositaries 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 DTC Global Note are to be transferred by the relevant clearing system, through its respective depositary, to a DTC Participant at least one business day prior to settlement. In these cases, Euroclear or Clearstream, Luxembourg will instruct its respective depositary to deliver the interest in the relevant DTC 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 DTC 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 DTC 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.

Initial Settlement and Secondary Market Trading in relation to Bearer Notes and Global Notes deposited with the Common Depositary

Initial settlement in Euroclear and Clearstream, Luxembourg and secondary market trading between Euroclear Participants and/or Clearstream, Luxembourg Participants will be settled using the procedures applicable to conventional eurobonds.

TAXATION

The following summary contains a description of the principal Mexican and U.S. federal income tax considerations that may be relevant to 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 U.S. and Mexican federal tax laws in effect on the date of this Offering Circular. These laws are subject to change. Any change could apply retroactively and could affect the continued validity of this summary. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than Mexico and the United States.

This summary does not describe all of the tax considerations that may be relevant to a prospective holder's situation, particularly if such holder is subject to special tax rules. 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.

The United States and Mexico entered into a Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, and a Protocol thereto, both signed on September 18, 1992 and amended by additional Protocols signed on September 8, 1994 and November 26, 2002 (the "Tax Treaty"). This summary describes the provisions of the Tax Treaty that may affect the taxation of certain U.S. holders of Notes. 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, most of which are in effect, 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 prospective 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 through a permanent establishment for tax purposes in Mexico (any such non-resident holder a "Foreign Holder"). For purposes of Mexican taxation, an individual is a resident of Mexico if he/she has established his/her domicile in Mexico, unless he/she has a place of residence in another country as well, in which case such individual will be considered a resident of Mexico for tax purposes, if such individual has his/her center of vital interest in Mexico; an individual would be deemed to maintain his/her center of vital interest in Mexico if, among other things, (i) more than 50% of his/her total income for the calendar year results from Mexican sources, or (ii) his/her principal center of professional activities is located in Mexico. A legal entity is a resident of Mexico if it 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. A Mexican national is presumed to be a resident of Mexico unless such person can demonstrate the contrary. If a person has a permanent establishment for tax purposes in Mexico, such person 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. Pursuant to the Mexican Income Tax Law and to rules issued by the Ministry of Finance and Public Credit applicable to PEMEX, payments of interest (or amounts deemed to be interest) made by the Issuer, 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% if, as expected: (i) the Notes are placed outside of Mexico by a bank or broker dealer in a country with which Mexico has a valid tax treaty in effect, (ii) the Notes are registered with the Special Section of the Registry and evidence of such registration is timely 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. If these requirements are not satisfied, the applicable withholding tax rate will be higher.

Under the Tax Treaty, the Mexican withholding tax rate is 4.9% 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 Issuer, 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 respect of such payments in such country, and (iii) is registered with the Ministry of Finance and Public Credit for that purpose

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

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. See “Description of Notes—Additional Amounts.”

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. See “Description of Notes—Additional Amounts.”

Taxation of Dispositions. 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 similar taxes.

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.

U.S. Federal Income Taxation

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a Note that is an individual who is a citizen or resident of the United States, or a 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 and decisions now in effect, all of which are subject to change. This summary deals only with U.S. holders that will 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, dealers in securities or currencies, certain short-term holders of Notes, traders in securities electing to mark to market, persons that hedge their exposure in the Notes or 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. U.S. holders should be aware that the U.S. federal income tax consequences of holding the Notes may be materially

different for investors described in the previous sentence, including as a result of recent changes in law applicable to investors with short-term holding periods or that engage in hedging transaction.

Special U.S. federal income tax considerations, if any, relevant to a particular issue of Notes, including any Indexed Notes, will be provided in the applicable Pricing Supplement.

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 or other tax laws.

Payments of Interest and Additional Amounts. A U.S. holder will be taxed on the gross amount of payments of "qualified stated interest" (as defined below under "—Original Issue Discount") 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 a Note as ordinary income at the time that such payments are accrued or are received (in accordance with the U.S. holder's method of tax accounting). If such payments are made with respect to a Foreign Currency Note, 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 the Specified Currency payment based on the exchange rate in effect on the date 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 the relevant foreign currency and translate the amount accrued into U.S. dollars based on the average exchange rate in effect during the interest 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 (the "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 made with respect to a Foreign Currency Note if the exchange rate in effect on the date the payment is received differs from the rate applicable to a 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.

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 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" 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, increased by any amounts includible in income by the holder as original issue discount and market discount and reduced by any amortized premium (each as described below) and any payments other than payments of qualified stated interest made on such Note. In the case of a Foreign Currency Note, the cost of such Note to a U.S. holder will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Foreign Currency Note that 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 cost of such Note by translating the amount paid at the

spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to a U.S. holder's tax basis in a Note in respect of original issue discount, market discount and premium denominated in a Specified Currency will be determined in the manner described under "—Original Issue Discount" and "—Premium and Market Discount" below. The conversion of U.S. dollars to a Specified Currency and the immediate use of the Specified Currency to purchase a Foreign Currency Note generally will not result in 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 qualified stated interest, which will be taxable as such) and the U.S. holder's tax basis in such Note. If a U.S. holder receives a currency other than the U.S. dollar in respect of the sale, exchange or retirement of a Note, the amount realized will be the U.S. dollar value of the specified currency received calculated at the exchange rate in effect on the date the instrument is disposed of or retired. In the case of a Foreign Currency Note that 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 Foreign Currency 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 market discount, Short-Term Notes (as defined below) and foreign currency gain or loss, gain or loss recognized by a U.S. holder 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 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 Foreign Currency 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.

Original Issue Discount. U.S. holders of Original Issue Discount Notes generally will be subject to the special tax accounting rules for obligations issued with original issue discount ("OID") provided by the Code, and certain regulations promulgated thereunder (the "OID Regulations"). U.S. holders of such Notes should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for U.S. federal income tax purposes as it accrues, generally in advance of the receipt of cash attributable to that income.

In general, each U.S. holder of an Original Issue Discount Note, whether such holder uses the cash or the accrual method of tax accounting, will be required to include in ordinary gross income the sum of the "daily portions" of OID on the Note for all days during the taxable year that the U.S. holder owns the Note. The daily portions of OID on an Original Issue Discount Note are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Note, provided that no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial holder, the amount of OID on an Original Issue Discount Note allocable to each accrual period is determined by (a) multiplying the "adjusted issue price" (as defined below) of the Original Issue Discount Note at the beginning of the accrual period by the yield to maturity of such Original Issue Discount Note (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified stated interest (as defined below) allocable to that accrual period. The yield to maturity of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note. The "adjusted issue price" of an Original Issue Discount Note at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such Note in all

prior accrual periods. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of an Original Issue Discount Note at a single fixed rate of interest or, subject to certain conditions, based on one or more interest indices. In the case of an Original Issue Discount Note that is a Floating Rate Note, both the "yield to maturity" and "qualified stated interest" will generally be determined for these purposes as though the Original Issue Discount Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield that is reasonably expected for the Note. (Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index.) As a result of this "constant yield" method of including OID in income, the amounts includible in income by a U.S. holder in respect of an Original Issue Discount Note denominated in U.S. dollars generally are lesser in the early years and greater in the later years than the amounts that would be includible on a straight-line basis. All payments on an Original Issue Discount Note (other than payments of qualified stated interest) will generally be viewed first as payments of previously-accrued OID (to the extent thereof), with payments attributed first to the earliest-accrued OID, and then as payments of principal.

A U.S. holder generally may make an irrevocable election to include in its income its entire return on a Note (*i.e.,* the excess of all remaining payments to be received on the Note, including payments of qualified stated interest, over the amount paid by such U.S. holder for such Note) under the constant-yield method described above. For Notes purchased at a premium or bearing market discount in the hands of the U.S. holder, a U.S. holder making such election will also be deemed to have made the election (discussed below in "—Premium and Market Discount") to amortize premium or to accrue market discount in income currently on a constant-yield basis.

In the case of an Original Issue Discount Note that is also a Foreign Currency Note, a U.S. holder should determine the U.S. dollar amount includible in income as OID for each accrual period by (a) calculating the amount of OID allocable to each accrual period in the Specified Currency using the constant-yield method described above, and (b) translating the amount of the Specified Currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a U.S. holder's taxable year) or, at the U.S. holder's election (as described above under "—Payments of Interest and Additional Amounts"), 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. Because exchange rates may fluctuate, a U.S. holder of an Original Issue Discount Note that is also a Foreign Currency Note may recognize a different amount of OID income in each accrual period than would the holder of an otherwise similar Original Issue Discount Note denominated in U.S. dollars. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Note), a U.S. holder will recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Note, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

A subsequent U.S. holder of an Original Issue Discount Note that purchases the Note at a cost less than its remaining redemption amount (as defined below), or an initial U.S. holder that purchases an Original Issue Discount Note at a price other than the Note's issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the U.S. holder acquires the Original Issue Discount Note at a price greater than its adjusted issue price, such holder may reduce its periodic inclusions of OID income to reflect the premium paid over the adjusted issue price. The "remaining redemption amount" for a Note is the total of all future payments to be made on the Note other than payments of qualified stated interest.

Floating Rate Notes generally will be treated as "variable rate debt instruments" under the OID Regulations. Accordingly, the stated interest on a Floating Rate Note generally will be treated as "qualified stated interest" and such a Note will not have OID solely as a result of the fact that it provides

for interest at a variable rate. If a Floating Rate Note does not qualify as a "variable rate debt instrument", such Note will be subject to special rules (the "Contingent Payment Regulations") that govern the tax treatment of debt obligations that provide for contingent payments ("Contingent Debt Obligations"). A detailed description of the tax considerations relevant to United States holders of any such Notes will be provided in the applicable Pricing Supplement.

Certain of the Notes may be subject to special redemption, repayment or interest rate reset features, as indicated in the applicable Pricing Supplement. Notes containing such features, may be subject to special rules that differ from the general rules discussed above. Purchasers of Notes with such features should carefully examine the applicable Pricing Supplement and should consult their own tax advisors with respect to such Notes since the tax consequences with respect to such features, and especially with respect to OID, will depend, in part, on the particular terms of the purchased Notes.

Premium and Market Discount. A U.S. holder of a Note that purchases the Note at a cost greater than its remaining redemption amount (as defined in the third preceding paragraph) will be considered to have purchased the Note at a premium, and may elect to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Note. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. holder that elects to amortize such premium must reduce its tax basis in a Note by the amount of the premium amortized during its holding period. Original Issue Discount Notes purchased at a premium will not be subject to the OID rules described above. In the case of premium in respect of a Foreign Currency Note, a U.S. holder should calculate the amortization of such premium in the specified currency. Amortization deductions attributable to a period reduce interest payments in respect of that period and therefore are translated into U.S. dollars at the exchange rate used by the U.S. holder for such interest payments. Exchange gain or loss will be realized with respect to amortized bond premium on such a Note based on the difference between the exchange rate on the date or dates such premium is recovered through interest payments on the Note and the exchange rate on the date on which the U.S. holder acquired the Note. With respect to a U.S. holder that does not elect to amortize bond premium, the amount of bond premium will be included in the U.S. holder's tax basis when the Note matures or is disposed of by the U.S. holder. Therefore, a U.S. holder that does not elect to amortize such premium and that holds the Note to maturity generally will be required to treat the premium as capital loss when the Note matures.

If a U.S. holder of a Note purchases the Note at a price that is lower than its remaining redemption amount, or in the case of an Original Issue Discount Note, its adjusted issue price, by at least 0.25% of its remaining redemption amount multiplied by the number of remaining whole years to maturity, the Note will be considered to have "market discount" in the hands of such U.S. holder. In such case, gain realized by the U.S. holder on the disposition of the Note generally will be treated as ordinary income to the extent of the market discount that accrued on the Note while held by such U.S. holder. In addition, the U.S. holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the Note. In general terms, market discount on a Note will be treated as accruing ratably over the term of such Note, or, at the election of the holder, under a constant yield method. Market discount on a Foreign Currency Note will be accrued by a U.S. holder in the specified currency. The amount includible in income by a U.S. holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that the Note is disposed of by the U.S. holder.

A U.S. holder may elect to include market discount in income on a current basis as it accrues (on either a ratable or constant-yield basis), in lieu of treating a portion of any gain realized on a sale of a Note as ordinary income. If a U.S. holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a Foreign Currency Note that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. holder's taxable year). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

Short-Term Notes. The rules set forth above will also generally apply to Notes having maturities of not more than one year ("Short-Term Notes"), but with certain modifications.

First, the OID Regulations treat *none* of the interest on a Short-Term Note as qualified stated interest (but instead treat such interest payments as part of the Short-Term Note's stated redemption price at maturity, thereby giving rise to OID). Thus, all Short-Term Notes will be Original Issue Discount Notes. OID will be treated as accruing on a Short-Term Note ratably, or at the election of a U.S. holder, under a constant yield method.

Second, a U.S. holder of a Short-Term Note that uses the cash method of tax accounting and is not a bank, securities dealer, regulated investment company or common trust fund, and does not identify the Short-Term Note as part of a hedging transaction, will generally not be required to include OID in income on a current basis. Such a U.S. holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such Note until the Stated Maturity of the Note or its earlier disposition in a taxable transaction. In addition, such a U.S. holder will be required to treat any gain realized on a sale, exchange or retirement of the Note as ordinary income to the extent such gain does not exceed the OID accrued with respect to the Note during the period the U.S. holder held the Note. Notwithstanding the foregoing, a cash-basis U.S. holder of a Short-Term Note may elect to accrue OID in income on a current basis (in which case the limitation on the deductibility of interest described above will not apply). A U.S. holder using the accrual method of tax accounting and certain cash-basis U.S. holders (including banks, securities dealers, regulated investment companies and common trust funds) generally will be required to include OID on a Short-Term Note in income on a current basis.

Third, any U.S. holder (whether cash or accrual basis) of a Short-Term Note can elect to accrue the "acquisition discount", if any, with respect to the Note on a current basis. If such an election is made, the OID rules will not apply to the Note. Acquisition discount is the excess of the remaining redemption amount of the Note at the time of acquisition over the purchase price. Acquisition discount will be treated as accruing ratably or, at the election of the U.S. holder, under a constant-yield method based on daily compounding.

Finally, the market discount rules will not apply to a Short-Term Note.

Indexed Notes and Other Notes Providing for Contingent Payments. Special rules govern the tax treatment of debt obligations that provide for contingent payments ("contingent debt obligations"). These rules generally require accrual of interest income on a constant-yield basis in respect of a contingent debt obligation at a yield determined at the time of issuance of the obligation, and may require adjustments to such accruals when any contingent payments are made. A detailed description of the tax considerations relevant to U.S. holders of any contingent debt obligations will be provided in the applicable Pricing Supplement.

Information Reporting and Backup Withholding. The Paying Agent will be required to file information returns with the IRS with respect to payments made to certain U.S. holders of Notes. In addition, certain U.S. holders may be subject to backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers to the Paying Agent. Persons holding Notes who are not U.S. holders may be required to comply with applicable certification procedures to establish that they are not U.S. holders in order to avoid the application of such information reporting requirements and backup withholding tax.

European Union Savings Directive. The European Union has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that member states of the European Union will be required from July 1, 2005 to provide to the tax authorities of other member states details of payments of interest and other similar income paid by a person to an individual in another member state, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

OFFERING AND SALE

The following is subject to change in the applicable Pricing Supplement. Further, the Agents who have agreed to purchase Notes from the Issuer will be specified in the applicable Pricing Supplement.

Subject to the terms and conditions set forth in the Amended and Restated Distribution Agreement, dated as of February 11, 2005 (the "Distribution Agreement"), the Notes are being offered on a continuing basis by the Issuer through Citigroup Global Markets, Inc., Citigroup Global Markets Limited, Credit Suisse First Boston LLC, Credit Suisse First Boston (Europe) Limited, Goldman, Sachs & Co., Goldman Sachs International, J.P. Morgan Securities Inc., J.P. Morgan Securities Limited, Lehman Brothers Inc. and Lehman Brothers International (Europe) (the "Agents"), who have agreed to use reasonable efforts to solicit purchases of the Notes. The Issuer will have the sole right to accept offers to purchase Notes and may reject any proposed purchase of Notes as a whole or in part. The Agents shall have the right, in their discretion reasonably exercised, to reject any offer to purchase Notes, as a whole or in part. The Issuer will pay the Agents a commission in the amount agreed between the Agents and the Issuer for sales made through them as Agents.

The Issuer may also sell Notes to the Agents as principals for their own accounts at a discount to be agreed upon at the time of sale. Such Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the Agents. The Issuer reserves the right to sell Notes directly on its own behalf or, subject to certain conditions set forth in the Distribution Agreement, through or to brokers or dealers (acting as principal or agent) other than the Agents. No commission will be payable to the Agents on any Notes sold directly by the Issuer. The commission arrangements for agency sales through, or principal sales to, such other brokers or dealers will be agreed between the Issuer and such other brokers or dealers at the time of sale.

Notes may also be sold by the Agents to or through dealers who may resell to investors. The Agents may pay all or part of their discount or commission to such dealers.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

The Notes 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 (as defined in Regulation S) except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

In connection with an offering of Notes, the Agents may purchase and sell the Notes in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the Agents in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Notes; and short positions created by the Agents involve the sale by the Agents of a greater number of Notes than they are required to purchase from the Issuer in the offering. The Agents also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the securities sold in the offering may be reclaimed by the Agents if such Notes are repurchased by the Agents in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Notes, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

The Issuer has been advised by each of the Agents that any offering or sale of Notes by such Agent will be (a) if such Notes are to be offered in the United States or to U.S. persons, only to institutions which such Agent reasonably believes are qualified institutional buyers in reliance on Rule 144A under the Securities Act and (b) if such Notes are to be offered outside of the United States, only to certain persons

in offshore transactions in reliance on Regulation S under the Securities Act and in accordance with applicable law. Any offer or sale of Notes in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Exchange Act.

With respect to Notes offered to non-U.S. persons in offshore transactions in reliance on Regulation S, each Agent has acknowledged and agreed that, except as permitted by the Distribution Agreement, it will not offer, sell or deliver any Notes (whether as principal or agent) (i) as part of their distribution at any time or (ii) otherwise, until 40 days after the completion of the distribution (as certified to the Trustee by the relevant Agent) of the identifiable tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until the expiration of the 40-day period referred to above, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Terms used in the four preceding paragraphs have the meanings given them by Regulation S and Rule 144A under the Securities Act.

The Issuer has agreed to restrictions similar to those described above with regard to sales made by it.

Each Agent 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 such Notes, will not offer or sell any such 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 such Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

Each Agent has represented and agreed that it has not offered and will not offer the Notes publicly in Mexico and that it has not and will not distribute this Offering Circular or any other materials relating to the Notes publicly in Mexico. The Guarantor has filed an application to register the Notes in the Special Section of the Registry. Registration of the Notes in 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. Furthermore, the information contained in this Offering Circular has not been reviewed or authorized by the CNBV of Mexico. The Notes have not been registered in the Securities Section of the Registry and, consequently, may not be offered or sold publicly in Mexico. Any Mexican investor who acquires these Notes from time to time must rely on its own examination of the Issuer, Guarantor and Subsidiary Guarantors.

Each Agent has acknowledged and agreed that the Notes have not been registered under the Securities and Exchange Law of Japan and, in connection with the offering of the Notes offered hereby, are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to, or for the account of, any resident of Japan or to others for offering or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption from the registration

requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law. As part of the offering, the Agents may offer Notes in Japan to a list of 49 offerees in accordance with the above provisions.

The Notes may not be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this Offering Circular nor any other document in respect of the offering may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

Each Agent has acknowledged and agreed, on behalf of itself and its respective selling agent, if any, that (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and (b) it has not issued or had in its possession for the purpose of issue and will not issue or have in its possession for the purpose of issue any invitation, advertisement or document relating to the Notes in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes intended to be disposed of to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Future Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Agent has represented, warranted and agreed that it has not circulated or distributed nor will it circulate or distribute this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes nor has it offered or sold or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of such Notes to the public in Singapore.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular, any Pricing Supplement or any other material relating to the Issuer or the Notes, in any jurisdiction where action for such purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, nor may this Offering Circular, any Pricing Supplement or any other offering material or advertisements in connection with the Notes be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price and accrued interest, if any, set forth in the Pricing Supplement with respect to such Notes.

Application has been made to list the notes issued under the program on the Luxembourg Stock Exchange.

Each of the Agents may from time to time perform various investment and/or commercial banking services for the Issuer, the Guarantor or the Subsidiary Guarantors in the ordinary course of their business and receive separate fees for the provision of such services.

The Issuer, the Guarantor and the Subsidiary Guarantors have agreed to indemnify the Agents against certain liabilities in connection with the offering of the Notes, including liabilities under the Securities Act.

VALIDITY OF THE NOTES

The validity under New York law of the Notes, and the Guaranties and the Subsidiary Guaranty Agreement will be passed upon by Cleary Gottlieb Steen & Hamilton LLP, New York counsel for the Issuer, the Guarantor and the Subsidiary Guarantors, and by Sullivan & Cromwell LLP or such other counsel as is specified in the applicable Pricing Supplement as New York counsel for the Agents. Certain legal matters governed by Mexican law will be passed upon by the Deputy Legal Counsel and Head of the Legal Department of the Guarantor, and by Ritch, Heather y Mueller, S.C., special Mexican counsel for the Agents. Certain legal matters governed by Delaware Law will be passed upon by Richards, Layton & Finger, P.A., special Delaware counsel to the Issuer.

PUBLIC OFFICIAL DOCUMENTS AND STATEMENTS

The information included herein under the heading "Annex B—PEMEX 2003 Annual Report on Form 20-F—Item 3—Key Information—Exchange Rates" and "—Item 4—Information on the Company—United Mexican States" identified as having been extracted or derived from a publication of or sourced from official publications of PEMEX, which is a governmental agency of Mexico, and is included herein on the authority of such publication or source as a public official document of Mexico. The Issuer takes responsibility for having accurately reproduced any such information from the respective public official document of Mexico.

All other information herein is included as a public official statement made on the authority of the Director General of the Guarantor, Luis Ramírez Corzo.

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ANNEX A

RECENT DEVELOPMENTS

The following discussion of PEMEX's recent results should be read in conjunction with "Annex B—PEMEX 2003 Annual Report on Form 20-F," and in particular "—Item 5—Operating and Financial Review and Prospects" and the audited Financial Statements included in Annex B.

Capitalization of PEMEX

The following table sets forth the capitalization of PEMEX at December 31, 2003 and September 30, 2004, as calculated under Mexican GAAP. The figures are not directly comparable because they are stated in constant pesos as of different dates; however, no material difference would result from a restatement of the figures to constant pesos at September 30, 2004, as the inflation for the nine-month period was 3.2%.

	At December 31, 2003 (millions of constant pesos at December 31, 2003)	At September 30, 2004[1][2][3] (millions of constant pesos or U.S. dollars at September 30, 2004)	
Long-term external debt	Ps. 282,891	Ps. 324,809	$ 28,521
Long-term domestic debt	20,722	51,209	4,497
Total long-term debt[4]	Ps. 303,613	Ps. 376,018	$ 33,018
Certificates of Contribution "A" [5]	Ps. 82,620	Ps. 85,327	$ 7,492
Excess in the restatement of equity	130,258	134,306	11,793
Accumulated losses (prior years) [6]	(126,373)	(181,371)	(15,926)
Loss for the period	(40,644)	(14,578)	(1,280)
Total equity	45,861	23,684	2,079
Total capitalization	Ps. 349,474	Ps. 399,702	$ 35,097

(1) Unaudited.
(2) Convenience translations into U.S. dollars of amounts in pesos have been made at the established exchange rate of Ps. 11.3884 = U.S. $1.00 at September 30, 2004. Such translations 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) There has been no material change in the capitalization of PEMEX since September 30, 2004, except for PEMEX's undertaking of new financings as disclosed in "Recent Developments—Liquidity and Capital Resources—Recent Financing Activities" below.
(4) Total long-term debt does not include short-term indebtedness of Ps. 57,503 million at December 31, 2003 and Ps. 57,880 million at September 30, 2004 or short-term indebtedness relating to notes payable to contractors of Ps. 1,887 million as of December 31, 2003 and Ps. 2,629 million as of September 30, 2004. See "Annex B—Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Financing Activities" and "Recent Developments—Liquidity and Capital Resources—Recent Financing Activities." Long-term debt also does not include long-term notes payable to contractors of Ps. 13,140 million and Ps. 11,797 million as of December 31, 2003 and September 30, 2004, respectively, and sales of future accounts receivable of Ps. 40,457 million and Ps. 36,942 million as of December 31, 2003 and September 30, 2004, respectively.
(5) Equity instruments held by the Mexican Government.
(6) In June 2004, Petróleos Mexicanos' Board of Directors approved dividends to the Mexican Government of Ps. 10,175 million.

Sources: Financial Statements. Petróleos Mexicanos for unaudited interim information.

Results of Operations of PEMEX for the First Nine Months of 2004 Compared to the First Nine Months of 2003

The interim financial information set forth below has been derived from the unaudited summary consolidated financial statements of PEMEX for the nine-month periods ended September 30, 2003 and 2004. As described above, the interim financial information was prepared in accordance with Mexican GAAP.

	Nine months ended September 30,		
	2003[1]	2004[1] [2]	
	(millions of constant pesos as of September 30, 2004 or U.S. dollars)		
Net sales			
Domestic[3]	Ps. 297,921	Ps. 322,872	$ 28,351
Export	182,689	231,731	20,348
Total	480,610	554,603	48,699
Other revenues (net)	3,929	6,238	548
Total revenues[3]	484,539	560,841	49,247
Costs and operating expenses	188,007	225,897	19,836
Comprehensive financing cost[4]	20,402	8,639	759
Income before taxes and duties	276,130	326,305	28,652
Taxes and duties			
Hydrocarbon extraction duties and other	220,531	293,504	25,772
Special Tax on Production and Services (IEPS Tax)	72,246	46,164	4,054
Total	292,777	339,668	29,826
Cumulative effect of adoption of new accounting standard[5]	—	(1,215)	(107)
Net income (loss) for the period	Ps. (16,647)	Ps. (14,578)	$ (1,280)

(1) Unaudited.
(2) Convenience translations into U.S. dollars of amounts in pesos have been made at the established exchange rate of Ps. 11.3884 = U.S. $1.00 at September 30, 2004. Such 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 or any other rate.
(3) Includes the IEPS Tax, which is described in "Annex B—Item 5—Operating and Financial Review and Prospects—IEPS Tax, Excess Gains Duty, Hydrocarbon Duties and Other Taxes," as part of the sales price of products sold.
(4) Includes exchange rate losses in the amount of Ps. 18,394 million in the first nine months of 2003 and exchange rate losses in the amount of Ps. 8,278 million in the first nine months of 2004.
(5) As described in "Annex B—Item 5—Operating and Financial Review and Prospects—Recently Issued Accounting Standards," the new Mexican accounting Bulletin C-15, "Impairment of Long-Lived Assets and their Disposal," went into effect on January 1, 2004. The carrying value of the fixed assets of Pemex-Refining was revised to reflect the recognition of a Ps. 13.2 billion impairment as of June 30, 2004; however, as of September 30, 2004 the carrying value of these fixed assets was revised again as a result of certain modifications made to product costs, which costs had previously been assigned to distribution and commercialization costs. The result of this revision was to restore the value of the carrying value of the fixed assets of Pemex-Refining to their value prior to the recognition of the Ps. 13.2 billion impairment.

Source: Petróleos Mexicanos.

Sales

During the first nine months of 2004, total sales, net of the IEPS Tax, were Ps. 508.4 billion, an increase of 24.5% from total sales in the first nine months of 2003, net of the IEPS Tax, of Ps. 408.4 billion. The increase in total sales resulted primarily from a 22.6% increase in domestic sales, net of the

IEPS tax, from the first nine months of 2003 (which is described below under "—*Domestic Sales*") and a 26.8 % increase in export sales from the first nine months of 2003 (which is described below under "—*Export Sales*").

Domestic Sales

Domestic sales, net of the IEPS Tax, increased by 22.6% in the first nine months of 2004, from Ps. 225.7 billion in the first nine months of 2003 to Ps. 276.7 billion in the first nine months of 2004, due to increased unit prices and higher sales volumes. Domestic sales of petroleum products other than natural gas increased by 21.8% in the first nine months of 2004, from Ps. 174.9 billion in the first nine months of 2003 to Ps. 213.1 billion in the first nine months of 2004, primarily due to increases in the average sales prices and volumes of PEMEX's principal petroleum products. The increase in the sales volumes of gasoline was primarily due to an increase in the number of vehicles in Mexico. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) increased by 43.5%, from Ps. 9.2 billion in the first nine months of 2003 to Ps. 13.2 billion in the first nine months of 2004, due to an increase in the domestic prices of PEMEX's principal petrochemical products and a change in commercial strategy to take advantage of the higher profit margins of certain products. Sales of natural gas increased by 21.2% in the first nine months of 2004, from Ps. 41.5 billion in the first nine months of 2003 to Ps. 50.3 billion in the first nine months of 2004, due to an increase in volumes of natural gas sold and an increase in natural gas prices.

Export Sales

In the first nine months of 2004, total consolidated export sales increased by 26.8% in peso terms, from Ps. 182.7 billion in the first nine months of 2003 to Ps. 231.7 billion in the first nine months of 2004. Excluding the trading activities of the PMI Group, export sales by the Subsidiary Entities to the PMI Group and third parties increased by 25.6% in peso terms, from Ps. 153.6 billion in the first nine months of 2003 to Ps. 192.9 billion in the first nine months of 2004. In dollar terms, excluding the trading activities of the PMI Group, export sales (which are dollar-denominated) increased by 23.5% in the first nine months of 2004, from U.S. $13.6 billion in the first nine months of 2003 to U.S. $16.8 billion in the first nine months of 2004. This increase was a result of an increase in crude oil export prices of 22% and higher crude oil sales volumes, which increased the peso value of sales denominated in dollars. The trading and export activities of the PMI Group generated additional marginal revenues of Ps. 38.8 billion in the first nine months of 2004, as compared to Ps. 29.1 billion in the first nine months of 2003.

Crude oil sales by Pemex-Exploration and Production to PMI for export accounted for 90.5% of export sales (excluding the trading activities of the PMI Group) in the first nine months of 2004, as compared to 90.6% in the first nine months of 2003. These crude oil sales increased in peso terms by 25.5% in the first nine months of 2004, from Ps. 139.2 billion in the first nine months of 2003 to Ps. 174.7 billion in the first nine months of 2004, and increased in dollar terms by 23.6% in the first nine months of 2004, from U.S. $12.3 billion in the first nine months of 2003 to U.S. $15.2 billion in the first nine months of 2004. The weighted average price per barrel of crude oil that Pemex-Exploration and Production sold to PMI for export in the first nine months of 2004 was U.S. $30.23, 22.4% higher than the weighted average price of U.S. $24.69 in the first nine months of 2003. The volume of crude oil exports increased by 0.5%, from 1,828 barrels per day in the first nine months of 2003 to 1,838 barrels per day in the first nine months of 2004.

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 8.6% of export sales (excluding the trading activities of the PMI Group) in the first nine months of 2003 to 8.5% in the first nine months of 2004. In dollar terms, export sales of petroleum products, including natural gas liquids, increased by 16.7%, from U.S. $1.2 billion in the first nine months of 2003 to U.S. $1.4 billion in the first nine months of 2004. Export sales of petroleum products, including natural gas liquids, increased by 23.3%, from Ps. 13.3 billion in the first nine months of 2003 to Ps. 16.4 billion in the first nine months of 2004, primarily due to increases in the volume of exports of naphtas.

Petrochemical products accounted for the remainder of export sales in the first nine months of 2003 and 2004. Export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 63.6%, from Ps. 1.1 billion in the first nine months of 2003 to Ps. 1.8 billion in the first nine months of 2004. In dollar terms, export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 64.3% in the first nine months of 2004, from U.S. $98.1 million in the first nine months of 2003 to U.S. $161.2 million in the first nine months of 2004, primarily due to an increase in the volume of ethylene sold.

Other Revenues and Expenses

Other revenues, net, increased by Ps. 2.3 billion, from Ps. 3.9 billion in the first nine months of 2003 to Ps. 6.2 billion in the first nine months of 2004, primarily due to an increase in the value of PEMEX's investment in the Deer Park refinery, which is accounted for under the equity method (see Note 6 to the Financial Statements), and the recognition of a gain from the revaluation of PEMEX's shares in Repsol during the first nine months of 2004.

Costs and Operating Expenses

Costs of sales, transportation, distribution expenses and administrative expenses increased by 20.2%, from Ps. 188.0 billion in the first nine months of 2003 to Ps. 225.9 billion in the first nine months of 2004. This increase was due to an increase in maintenance expenses, an increase in exploration expenses, an increase in product purchases, mainly of gasoline, natural gas and liquefied gas, and an increase in costs associated with the labor reserve for pension obligations resulting from the increase in the number of employees and changes in actuarial assumptions, which was partially offset by an increase in the value of crude oil and petroleum product inventories (which is accounted for as a decrease in costs of sales) and the elimination of the specific oil-field exploration and depletion reserve as a consequence of implementing the successful efforts method of accounting for the costs incurred in the exploration, acquisition and development of oil and gas reserves.

Comprehensive Financing Cost

Under Mexican GAAP, comprehensive financing cost reflects interest income (including gains and losses on certain derivative instruments), interest expense, foreign exchange gain or loss and the gain or loss attributable to the effects of inflation on monetary liabilities and assets. A substantial portion of PEMEX's indebtedness (88.5% at September 30, 2004) is denominated in foreign currencies, so a depreciation of the peso results in foreign exchange loss and higher interest expense.

In the first nine months of 2004, comprehensive financing cost decreased by Ps. 11.8 billion, or 57.8%, from Ps. 20.4 billion in the first nine months of 2003 to Ps. 8.6 billion in the first nine months of 2004, primarily as a result of the following:

- Net interest expense increased by 21.1% in the first nine months of 2004 due to an increase in total debt, which was only partially offset by lower average interest rates on PEMEX's liabilities.

- The higher depreciation of the peso against the U.S. dollar in the first nine months of 2003 in comparison to the same period of 2004, resulted in a decrease in net foreign exchange losses of Ps. 10.1 billion in the first nine months of 2004 as compared to the first nine months of 2003.

- In the first nine months of 2003 and 2004, PEMEX's average monetary liabilities exceeded its average monetary assets, resulting in a net gain from monetary position, partially offsetting the aforementioned increases in net interest expense. The net gain in monetary position, which amounted to Ps. 11.9 billion in the first nine months of 2004, was 45.1% higher than the net gain in monetary position in the first nine months of 2003 of Ps. 8.2 billion, due to an increase in the inflation rate (from 2.3% in the first nine months of 2003 to 3.3% in the first nine months of 2004).

Taxes and Duties

Hydrocarbon extraction duties and other duties and taxes (including the IEPS Tax) increased by 16.0%, from Ps. 292.8 billion in the first nine months of 2003 to Ps. 339.7 billion in the first nine months of 2004, largely due to an increase in sales revenues. PEMEX paid Ps. 22.5 billion in excess gains duties in the first nine months of 2004, which represents the difference between the actual prices at which Pemex-Exploration and Production sold crude oil to PMI, which averaged U.S. $30.23 per barrel for the Mexican weighted crude oil mix, and the Mexican Government's crude oil price budgetary assumption for 2004 of U.S. $20.00 per barrel. PEMEX paid Ps. 13.8 billion in excess gains duties in the first nine months of 2003.

Cumulative Effect of Adoption of New Accounting Standard

In 2004, PEMEX adopted Bulletin C-15, "Impairment of Assets and their Disposal," which resulted in a loss of Ps. 1.2 billion for the first nine months of 2003 attributable to the recognition of the impairment of the carrying value of fixed assets, primarily those of Pemex-Exploration and Production. The carrying value of the fixed assets of Pemex-Refining was revised to reflect the recognition of a Ps. 13.2 billion impairment as of June 30, 2004; however, as of September 30, 2004 the carrying value of these fixed assets was revised again as a result of certain modifications made to product costs, which costs had previously been assigned to distribution and commercialization costs. The result of this revision was to restore the value of the carrying value of the fixed assets of Pemex-Refining to their value prior to the recognition of the Ps. 13.2 billion impairment.

Income/(Loss)

In the first nine months of 2004, PEMEX reported a loss of Ps. 14.6 billion on Ps. 514.7 billion in total revenues net of the IEPS Tax, as compared with a loss of Ps. 16.6 billion on Ps. 412.3 billion in total revenues net of the IEPS Tax in the first nine months of 2003. This 12.0% decrease in losses from the first nine months of 2003 to the first nine months of 2004 resulted from the various factors described above.

Liquidity and Capital Resources

Equity Structure and the Certificates of Contribution "A"

On September 30, 2004, PEMEX received Ps. 12,549 million from the Ministry of Finance and Public Credit as an advance payment of the total amount of reimbursements that PEMEX was to receive from the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure in 2004. As of September 30, 2004, this advance payment was recorded as a line item reflecting a future increase of equity.

On November 4, 2004, the Board of Directors of Petróleos Mexicanos approved the increase of its equity by any amount that PEMEX receives from the Ministry of Finance and Public Credit in connection with the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure accrued in 2004. On December 15, 2004 and on December 31, 2004, PEMEX received Ps. 8,000 million and Ps. 12,451 million, respectively, from the Ministry of Finance and Public Credit as payments that PEMEX was to receive from the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure accrued in 2004.

As a result of these three payments, PEMEX's equity increased by Ps. 33,000 million. For further information regarding the Duty for Exploration, Gas, Refining and Petrochemical Infrastructure, see "Annex B—Item 4—Information on the Company—Taxes and Duties—Duty for Exploration, Gas, Refining and Petrochemical Infrastructure."

Recent Financing Activities

During the period from June 1, 2004 to September 30, 2004, Petróleos Mexicanos, the Pemex Project Funding Master Trust and Fideicomiso F/163 participated in the following financings:

- Petróleos Mexicanos obtained loans from export credit agencies totaling U.S. $44.9 million;
- Petróleos Mexicanos obtained direct loans denominated in Japanese yen in an amount equivalent to U.S. $120.1 million;
- the Pemex Project Funding Master Trust obtained U.S. $291.1 million in project financing from several financial institutions;
- the Pemex Project Funding Master Trust obtained U.S. $25 million in commercial bank loans;
- on June 15, 2004, the Pemex Project Funding Master Trust issued U.S. $1,500,000,000 of its Guaranteed Floating Rate Notes due 2010, guaranteed by Petróleos Mexicanos;
- on August 5, 2004, the Pemex Project Funding Master Trust issued €850,000,000 of its 6.375 per cent. Guaranteed Notes due 2016, guaranteed by Petróleos Mexicanos;
- on August 16, 2004, the National Banking and Securities Commission of Mexico authorized Petróleos Mexicanos' new short-term peso-denominated notes program, under which it and the Fideicomiso F/163 may issue up to Ps. 10 billion of peso-denominated *certificados bursátiles de corto plazo* in the Mexican market. As of this date, Petróleos Mexicanos maintains an outstanding balance of Ps. 2,000 million under this program in four separate tranches, all of which become due at or prior to March 3, 2005; and
- on September 28, 2004, the Pemex Project Funding Master Trust issued U.S. $1,750,000,000 of its 7.75 percent Guaranteed Perpetual Bonds, guaranteed by Petróleos Mexicanos.

During the period from October 1, 2004 to December 31, 2004, Petróleos Mexicanos, the Pemex Project Funding Master Trust and Fideicomiso F/163 participated in the following financings:

- Petróleos Mexicanos obtained loans from export credit agencies totaling U.S. $15.6 million;
- Petróleos Mexicanos issued, under its peso-denominated short-term program, *certificados bursátiles de corto* plazo, for the equivalent of U.S. $529.1 million;
- the Pemex Project Funding Master Trust obtained U.S. $829.8 million in project financing from several financial institutions;
- on November 4, 2004, Petróleos Mexicanos, through Fideicomiso F/163, entered into a loan in the amount of Ps. 4,000 million, guaranteed by Petróleos Mexicanos, from a Mexican commercial bank for use in financing PIDIREGAS;
- on November 23, 2004, Petróleos Mexicanos, through Fideicomiso F/163, entered into a loan in the amount of Ps. 3,000 million, guaranteed by Petróleos Mexicanos, from a Mexican commercial bank for use in financing PIDIREGAS;
- on December 20, 2004, Petróleos Mexicanos, through Fideicomiso F/163, entered into a loan in the amount of Ps. 4,000 million, guaranteed by Petróleos Mexicanos, from a Mexican commercial bank for use in financing PIDIREGAS; and
- on December 23, 2004, the Fideicomiso F/163 issued a total of Ps. 5,000 million of notes denominated in *Unidades de Inversión* (Units of Investment, or "UDI's"), guaranteed by Petróleos Mexicanos, in the Mexican domestic market. The value of UDI's are calculated daily by the Banco de México based on the National Consumer Price Index.

In addition, on December 30, 2004, the Pemex Project Funding Master Trust completed an exchange offer pursuant to which the Pemex Project Funding Master Trust issued U.S. $158,353,000 of its 9.00% Guaranteed Notes due 2007, U.S. $399,619,000 of its 8.85% Guaranteed Notes due 2007, U.S.

$439,011,000 of its 9⅜% Guaranteed Notes due 2008, U.S. $324,220,000 of its 9¼% Guaranteed Bonds due 2018, U.S. $228,735,000 of its 8.625% Guaranteed Bonds due 2023, U.S. $354,477,000 of its 9.50% Guaranteed Bonds due 2027 and U.S. $403,746,000 of its 9.50% Guaranteed Puttable or Mandatory Exchangeable Securities ("POMES[SM]") due 2027, in exchange for an equal principal amount of corresponding 9.00% Guaranteed Notes due 2007, 8.85% Global Guaranteed Notes due 2007, 9⅜% Global Guaranteed Notes due 2008, 9¼% Global Guaranteed Bonds due 2018, 8.625% Bonds due 2023, 9.50% Global Guaranteed Bonds due 2027 and 9.50% Puttable or Mandatory Exchangeable Securities ("POMES[SM]") due 2027 (collectively, the "old securities") issued by Petróleos Mexicanos, and pursuant to which the Pemex Project Funding Master Trust made early participation payments totaling U.S. $5,713,665. Over time, the Pemex Project Funding Master Trust intends to deliver to Petróleos Mexicanos the old securities acquired by it in the exchange offers in exchange for cash payments from Petróleos Mexicanos.

Business Overview

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

	Nine months ended September 30,	
	2003	**2004**
Operating Highlights		
Monthly average production		
Crude oil (tbpd)	3,357	3,395
Natural gas production (mmcfpd)	4,477	4,568
Refined products[(1)] (tbpd)	1,576	1,606
Petrochemicals[(2)] (mtpy)	7,655	7,914
Monthly average crude oil exports (tbpd)		
Olmeca	208	219
Isthmus	22	15
Maya[(3)]	1,598	1,604
Total	1,828	1,838
Value of crude oil exports (value in millions of U.S. dollars)	12,319	15,219
Monthly average PEMEX crude oil export prices per barrel[(4)(5)]		
Olmeca	$ 29.15	$37.27
Isthmus	28.31	37.91
Maya	24.07	29.19
Weighted average price[(6)]	$24.69	$30.22
Monthly average West Texas Intermediate crude oil average price per barrel[(7)]	$ 31.03	$39.23

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 of 210 tbpd and 226 tbpd processed by Pemex-Gas and Basic Petrochemicals in the first nine months of 2003 and 2004, respectively.
(2) Excludes ethane and butane gases.
(3) Includes Altamira crude oil, which is recorded as a separate category for annual, but not interim, sales.
(4) Subject to adjustment to reflect the percentage of water in each shipment.
(5) Average price during period indicated.
(6) On February 7, 2005, the weighted average price of PEMEX's crude oil export mix was U.S. $30.48 per barrel.
(7) On February 7, 2005, the West Texas Intermediate crude oil spot price was U.S. $45.30 per barrel.

Capital Expenditures and Investments

PIDIREGAS

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 PEMEX's annual budget, which is approved by the Mexican Congress. PIDIREGAS projects must also be authorized in a budget approved by the Mexican Congress. Each year, PEMEX submits proposals to and negotiates with the Mexican Government regarding how its after-tax funds should be allocated. For more information on PIDIREGAS projects, see "Annex B—Item 4—Information on the Company—Capital Expenditures and Investments."

The following table sets forth PEMEX's approved capital expenditures budget for PIDIREGAS projects for 2005 through 2008.

PIDIREGAS Approved Budget Capital Expenditures

	Year ended December 31, [1][2]			
	2005	**2006**	**2007**	**2008**
	(millions of constant 2005 pesos)			
Pemex-Exploration and Production				
Cantarell	Ps. 24,340	Ps. 23,456	Ps. 21,793	Ps. 19,139
Strategic Gas Program	19,909	14,243	19,267	20,332
Burgos	14,172	21,887	27,349	24,088
Antonio J. Bermúdez	6,867	3,479	3,426	3,543
Ku-Maloob-Zaap	17,226	16,490	19,056	13,579
El Golpe-Puerto Ceiba	1,863	902	679	536
Agua Fría-Coapechaca-Tajín[3]	1,560	3,481	5,686	6,901
Abkatún Integral	1,329	2	—	—
Chuc	3,246	1,857	2,304	1,776
Jujo-Tecominoacán	2,467	740	1,276	1,004
Pol	508	—	—	—
Bellota-Chinchorro	1,867	872	1,479	1,472
Cactus-Sitio Grande	453	1,070	1,110	713
Arenque	1,995	877	1,174	454
Taratunich	575	85	322	439
Caan	1,669	856	1,544	1,286
Ek-Balam	1,059	614	803	433
Och-Uech-Kax	460	239	167	76
Delta del Grijalva	781	443	544	170
Carmito-Artesa	389	330	1,026	622
Amatitlán-Profeta-Tzapotempa-Vinazco[3]	1,397	3,296	4,422	3,398
Integral Poza Rica	719	868	774	668
Integral Batab	99	153	350	79
Integral Kanaab	108	11	—	—
Cárdenas	198	90	361	287
Ayín-Alux	57	934	1,654	1,638
Integral Yaxche	712	420	398	318
Total	106,025	97,694	116,964	102,951
Pemex-Refining				
Minatitlán	7,079	7,588	6,119	3,548
Salina Cruz	—	—	1,825	7,150
Total	7,079	7,588	7,944	10,698
Pemex-Gas and Basic Petrochemicals				
Modular Cryogenic Plants in Reynosa	1,524	303	—	—
Total	1,524	303		
Pemex-Petrochemicals				
Modernization and Enlargement of the Aromatics Train I	266	622	666	—
Total	266	622	666	—
Total PIDIREGAS Budget	**Ps.114,894**	**Ps.106,207**	**Ps.125,574**	**Ps.113,649**

Note: Numbers may not total due to rounding.
(1) Amounts based on cash basis method of accounting.
(2) Includes capitalized interest during the construction period.
(3) PIDIREGAS relating to the development of the Chicontepec field.
Source: Petróleos Mexicanos.

The following table sets forth PEMEX's approved capital expenditures budget for non-PIDIREGAS projects for the year 2005.

Non-PIDIREGAS Capital Expenditures[1]

	Budget 2005[2]
	(in millions of nominal pesos)
Pemex-Exploration and Production	Ps. 4,629
Pemex-Refining	6,233
Pemex-Gas and Basic Petrochemicals	2,463
Pemex-Petrochemicals	1,928
Petróleos Mexicanos corporate[3]	523
Total	**Ps. 15,776**

Note: Numbers may not total due to rounding.
(1) There are no capital expenditures at the subsidiary company level.
(2) Approved budget.
(3) Petróleos Mexicanos corporate consists of the operations of the central management of Petróleos Mexicanos.
Source: Petróleos Mexicanos.

Pemex-Petrochemicals

Pemex-Petrochemicals is developing the Phoenix Project, which will involve the construction of two new petrochemical complexes (an ethylene cracker and an aromatics chain) for the production of olefins and its derivatives, aromatics and other products, with the participation of private investment. On October 21, 2004, PEMEX announced the names of its partners to carry out the first stage of this project: Indelpro, S.A. de C.V., a subsidiary of the Alfa Group, Grupo Idesa, S.A. de C.V., and Nova Chemicals Corporation. As of the date of this Offering Circular, the budget for the Phoenix Project remained subject to approvals.

On September 15, 2004, a resolution was published in the Official Gazette of the Federation (*Diario Oficial de la Federación*) authorizing the Ministry of Energy to carry out the merger of the seven wholly-owned subsidiaries of Pemex-Petrochemicals into Pemex-Petrochemicals. Unless there is a legal impediment, the merger process should be completed during the twelve-month period beginning on the date of such publication.

Exports and Exports Agreements

Although Mexico is not a member of 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. In September 2004, OPEC announced that it would increase crude oil production by 1 million barrels per day beginning November 1, 2004. As of this date, Mexico has not announced any revisions to its current levels of crude oil exports as a result of this latest announcement by OPEC.

Taxes and Duties

Future Fiscal Reform

On October 28, 2004, the Chamber of Deputies approved a proposal for a new fiscal regime that would be applicable to PEMEX; however, this proposal failed to gain the approval of the Senate. PEMEX expects that proposals to change the current tax regime applicable to PEMEX will be discussed again in 2005. However, 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 hydrocarbon tax laws applicable to us.

Directors, Senior Management and Employees

The collective bargaining agreement between Petróleos Mexicanos and the Petroleum Workers' Union (the "Union") is subject to renegotiation every two years, although salaries are reviewed annually. As discussed under "Annex B—Item 6—Directors, Senior Management and Employees—Employees," on July 18, 2003, Petróleos Mexicanos and the Union renewed the collective bargaining agreement, effective August 1, 2003 through July 31, 2005. Subsequently, on July 26, 2004, Petróleos Mexicanos and the Union entered into a side agreement, effective August 1, 2004, which provides for a 4% increase in wages and other benefits, as well as an out-of-court settlement of a claim filed in August 2003 by the Union which is described below under "—Legal Proceedings" and in "Annex B—Item 8—Financial Information—Legal Proceedings—Labor-related Proceedings." As of the date of this Offering Circular, Petróleos Mexicanos and the Union are negotiating an amendment to this side agreement in order to make any adjustments required by applicable regulations and to establish a mechanism for the payment of benefits. This amendment would be subject to the approval of the Board of Directors of Petróleos Mexicanos and the Ministry of Finance and Public Credit.

Shortly after the events described above, in August 2004, the resignation of Mr. Juan Carlos Soriano from his position as Legal Counsel and Head of the Legal Department of Petróleos Mexicanos was requested and accepted, and Mr. J. Alfonso Iturbide Guerra was designated as Deputy Legal Counsel and Head of the Legal Department of Petróleos Mexicanos. On September 20, 2004, Mr. José Nestor García Reza was designated Deputy Legal Counsel and Head of the Legal Department of Petróleos Mexicanos, and Mr. Iturbide Guerra returned to his former position as Legal Counsel of Consultancy and Prevention.

On November 1, 2004, Mr. Raúl Muñoz Leos resigned his position and Mr. Luis Ramírez Corzo (former Director General of Pemex-Exploration and Production) was designated Director General of Petróleos Mexicanos.

On January 13, 2005, the Board of Directors of Petróleos Mexicanos approved the designation of Mr. Rosendo Villarreal Dávila as Corporate Director of Administration, Mr. Federico Martínez Salas as Corporate Director of Engineering and Project Development and Mr. Rosendo Zambrano Fernández as Director General of P.M.I. Comercio Internacional, S.A. de C.V.

Legal Proceedings

Mexican Government Audits and Other Investigations

At a hearing on July 20, 2004, a U.S. federal judge authorized the extradition of Rogelio Montemayor Seguy (former Director General of Petróleos Mexicanos) from the United States to Mexico. On August 5, 2004, Mr. Montemayor's habeas corpus petition appealing the decision was denied, and on September 2, 2004, U.S. authorities turned him over to officials in Mexico to face charges for the alleged commission of the crimes of embezzlement and wrongful use of powers in connection with the illegal diversion of federal moneys from PEMEX to the Union in 2000. For more information on Mexican government audits and

investigations, see “Annex B—Item 8—Financial Information—Legal Proceedings—Mexican Government Audits and Other Investigations.”

Following the submission by Pemex-Refining of a criminal complaint against former officers of Pemex-Refining to the Office of the Federal Attorney General in connection with the negotiation and settlement of a claim with Productos Ecológicos S.A. de C.V. (Proesa) regarding the early termination of a long-term MTBE supply and services contract, the Office of the Federal Attorney General filed charges against these officers for unlawful use of their corporate powers and privileges. For more information regarding the underlying claim and settlement, see “Annex B—Item 8—Financial Information—Legal Proceedings—Mexican Government Audits and Other Investigations.” A federal judge subsequently issued formal imprisonment writs against former officers Mr. Mario Willars Andrade (former Director General of Pemex-Refining), Mr. Luis Ricardo Bouchot Guerrero and Mr. Cuauhtémoc Arce Herce. The proceeding against Mr. Arce is currently in its evidentiary stages.

Civil Actions

In connection with the August 2003 claim filed by the Union against Petróleos Mexicanos before the Federal Council of Conciliation and Arbitration for alleged unpaid benefit payments, the Union and Petróleos Mexicanos agreed to settle this claim out of court and expressly waived any right to further pursue the claim pursuant to the side agreement referenced above under “—Directors, Senior Management and Employees.” On August 3, 2004, the Union withdrew its claim from the Federal Council of Conciliation and Arbitration.

Some Congressmen have questioned the benefits payments agreed between Petróleos Mexicanos and the Union under the side agreement described above. However, as of this date no formal charges have been commenced against Petróleos Mexicanos or its directors or officers in connection with the agreement. For more information on the claim filed by the Union and other Mexican government investigations relating to the Union, see “Annex B—Item 8—Financial Information—Legal Proceedings.”

In connection with the claims filed by CONPROCA, the construction company performing construction and maintenance services for Pemex-Refining’s Cadereyta refinery, for expenses it incurred in providing those services, and by Petróleos Mexicanos and Pemex-Refining before the International Court of Arbitration, the parties have until March 15, 2005 to file their respective rejoinders to the prior responses filed by the parties in connection with additional claims filed by each of them.

The claim brought by the Unión Nacional de Trabajadores de Confianza de la Industria Petrolera (the National Alliance of Non-Union Petroleum Industry Workers) relating to the constitutionality of the Multiples Services Contract (“MSC”) entered into between Pemex-Exploration and Production and Repsol Exploración México, S.A. de C.V. was remitted to an administrative judge after the initial court held that it lacked jurisdiction. On July 29, 2004, the administrative judge hearing the case found that certain records presented by the plaintiffs contained irregularities and consequently returned to the plaintiffs and declared void all records that had been submitted to allow them to cure certain irregularities. The appeal submitted by the plaintiffs against this decision was granted and the judge subsequently acknowledged receipt of the claim. In connection with the second claim challenging the MSC program—brought by a group of Congressmen led by Senator Manuel Barlett Díaz—on July 27, 2004, Pemex-Exploration and Production provided the court with certain information that had been requested by the presiding judge, who subsequently acknowledged receipt of the claim presented by this group of Congressmen. Pemex-Exploration and Production has filed a motion, which is currently pending, arguing that the court lacks jurisdiction. Neither of these claims seek monetary damages as relief; rather, they seek a declaration that the MSCs are void, and to prevent their performance.

In December 2003, Unión de Sistemas Industriales, S.A. de C.V. filed a claim in a Mexican civil court against Pemex-Refining seeking approximately U.S. $142 million for, among other things, works performed and not paid under a construction agreement. In January 2004, Pemex-Refining filed a motion arguing that the court lacked jurisdiction, and on June 4, 2004 the judge granted the motion and remitted the claim to an administrative judge. Following a successful appeal by Unión de Sistemas Industriales,

S.A. de C.V., the judge pronounced that the claim had to be remitted again to the initial Mexican civil court. Pemex-Refining has appealed this decision.

In July 2000, Petroquímica Cosoleacaque S.A. de C.V. ("PECOSA") filed a claim against Afianzadora Insurgentes, S.A. de C.V. and Fianzas México Bital, S.A. The claim seeks an award of approximately U.S. $100 million for a surety bond granted in favor of Agronitrogenados, S.A. de C.V., an ammonia supplier of PECOSA. In June 2004, a judgment was entered in favor of PECOSA. In October 2004, Afianzadora Insurgentes, S.A. de C.V. and Fianzas México Bital, S.A. appealed this decision, which appeal is currently pending resolution.

In December 2004, Corporación Mexicana de Mantenimiento Integral S. de R.L. de C.V. ("COMMISA") filed a claim before the International Court of Arbitration against Pemex-Exploration and Production seeking approximately U.S. $300 million for, among other things, the breach of a construction agreement in connection with two platforms in the Cantarell complex. In December 2004, the judge acknowledged receipt of the claim and Pemex-Exploration and Production designated its arbitrator. Such designation was appealed by COMMISA. Pemex-Exploration and Production has until February 21, 2005 to respond to this claim.

In January 2005, COMBISA S. de R.L. de C.V. ("COMBISA") filed a claim before the International Court of Arbitration against Pemex-Exploration and Production seeking approximately U.S. $236 million plus interest accrued for, among other things, the breach of a construction agreement in connection with two platforms in the Cantarell complex. In January 2005, the court granted to Pemex-Exploration and Production thirty days in which to answer this claim. Pemex-Exploration and Production intends to request an extension to answer the claim and designate its arbitrator.

United Mexican States

The following information regarding Mexico should be read in conjunction with "Annex B—Item 4—Information on the Company—United Mexican States."

The Economy

Gross Domestic Product

According to preliminary figures, Mexico's Gross Domestic Product ("GDP") for the first nine months of 2004 increased by 4.0% in real terms, as compared with the same period of 2003. The transportation, storage and communications sector grew by 9.0%, the construction sector grew by 5.1%, the financial services, insurance and real estate sector grew by 4.6% and the commerce, hotels and restaurants sector grew by 4.2%, each in real terms. The manufacturing sector grew by 4.0%, the mining, petroleum and gas sector grew by 3.4%, the agriculture, livestock, fishing and forestry sector grew by 3.0%, the electricity, gas and water sector grew by 1.7% and the community, social and personal services sector grew by 1.3%, each in real terms.

Prices and Wages

Inflation during 2004 was 5.2%, 1.2 percentage points higher than for the same period of 2003. The Mexican consumer price index remained stable during January 2005, registering no inflation, as compared to inflation of 0.6% for the month of January 2004.

Interest Rates

During 2004, interest rates on 28-day *Cetes* averaged 6.82% and interest rates on 91-day *Cetes* averaged 7.10%, as compared with average rates on 28-day *Cetes* and 91-day *Cetes* of 6.23% and 6.51%, respectively, during 2003. During the first month of 2005, interest rates on 28-day *Cetes* averaged 8.60% and interest rates on 91-day *Cetes* averaged 8.74%, as compared with average rates on

28-day *Cetes* and 91-day *Cetes* of 4.95% and 5.11%, respectively, during the same month of 2004. On February 1, 2005, the 28-day *Cetes* rate was 9.07% and the 91-day *Cetes* rate was 9.21%.

Financial System

Central Bank and Monetary Policy

During 2004, the M1 money supply increased by 4.9% in real terms, as compared with 2003. In addition, checking account deposits denominated in pesos decreased by 1.9% in real terms during 2004, as compared with 2003.

During 2004, financial savings increased by 7.9% in real terms, as compared with 2003. Savings generated by Mexican residents increased by 6.7% in real terms and savings generated by non-residents increased by 98.2% in real terms during 2004, each as compared with 2003.

At December 31, 2004, the monetary base totaled Ps. 340.2 billion, a 12.0% nominal increase from the level of 303.6 billion at December 31, 2003. At February 7, 2005, the monetary base totaled Ps. 312.2 billion, an 8.2% nominal decrease from the level of 340.2 billion at December 31, 2004.

Banco de México utilizes the “short” mechanism to induce necessary changes in interest rates to achieve inflation objectives. Banco de México increased the “short” on nine occasions during 2004, from Ps. 25 million to Ps. 29 million on February 20, 2004, from Ps. 29 million to Ps. 33 million on March 12, 2004, from Ps. 33 million to Ps. 37 million on April 27, 2004, from Ps. 37 million to Ps. 41 million on July 23, 2004, from Ps. 41 million to Ps. 45 million on August 27, 2004, from Ps. 45 million to Ps. 51 million on September 24, 2004, from Ps. 51 million to Ps. 57 million on October 22, 2004, from Ps. 57 million to Ps. 63 million on November 26, 2004 and from Ps. 63 million to Ps. 69 million on December 10, 2004. These increases were made in response to internal and external factors that threatened the achievement of the 3.0% inflation target for 2004. Banco de México increased the “short” from Ps. 69 million to Ps. 75 million on January 28, 2005.

In 2005, Banco de México has on two occasions established a minimum interest rate for its overnight lending to financial institutions in an effort to strengthen the effect of the "short" in controlling inflation. On January 31, 2005, Banco de Mexico set a minimum interest rate of 8.90% for overnight lending and on February 3, 2005, it set a minimum interest rate of 9.15% for overnight lending.

The Securities Market

At December 31, 2004, the Stock Market Index stood at 12,917.9 points, representing a 46.9% increase from the level of 8,795.3 points at December 31, 2003. At February 8, 2005, the Stock Market Index stood at 13,508.5 points, representing a 4.6% increase from the level at December 31, 2004.

External Sector of the Economy

Foreign Trade

During 2004, according to preliminary figures, Mexico registered a trade deficit of U.S. $8.1 billion, as compared to a trade deficit of U.S. $5.6 billion during 2003. Merchandise exports increased by 14.7% during 2004, to U.S. $189.1 billion, as compared to U.S. $164.9 billion during 2003. During 2004, petroleum exports increased by 27.1%, while non-petroleum exports increased by 13.1%, each as compared to 2003.

During 2004, according to preliminary figures, total imports grew by 15.7% to U.S. $197.2 billion, as compared to U.S. $170.5 billion for 2003. During 2004, imports of intermediate goods increased by 15.9%, imports of capital goods increased by 11.8% and imports of consumer goods increased by 17.9%, each as compared to 2003.

Balance of International Payments

According to preliminary figures, during the first nine months of 2004, Mexico's current account registered a deficit of 0.85% of GDP, or U.S. $4.1 billion, a 25.7% decrease in nominal terms as compared to the same period of 2003. The capital account surplus for the same period totaled U.S. $6.0 billion, a 40.0% decrease in nominal terms as compared to the same period of 2003.

At December 31, 2004, Mexico's international reserves totaled U.S. $61.5 billion, as compared to U.S. $57.4 billion at December 31, 2003. At February 4, 2005, Mexico's international reserves totaled U.S. $61.7 billion, an increase of U.S. $0.2 billion from the level at December 31, 2004. The net international assets of Banco de México totaled U.S. $64.2 billion at December 31, 2004, as compared to U.S. $59.1 billion at December 31, 2003. The net international assets of Banco de México totaled U.S. $64.3 billion at February 4, 2005, an increase of U.S. $0.1 billion from the level at December 31, 2004.

Under the new mechanism to moderate the rate of accumulation of international reserves adopted on March 12, 2004 that commenced on May 3, 2004, Banco de México announced that the amount of dollars to be auctioned during the quarter from November 2004 through January 2005 would be U.S. $22.0 million. The total amount of dollars to be sold in a quarter is sold through daily auctions, each for an amount equal to the total for the quarter divided by the number of business days in the quarter. On January 18, 2005, Banco de México announced that the daily amount of dollars to be auctioned pursuant to this procedure for the period from February through April 2005 will be U.S. $23.0 million.

Direct Foreign Investment in Mexico

Net foreign investment in Mexico totaled U.S. $19.8 billion during the first nine months of 2004, and was composed of direct foreign investment totaling U.S. $13.6 billion and net foreign portfolio investment (including securities placed abroad) inflows totaling U.S. $6.2 billion.

Exchange Controls and Foreign Exchange Rates

The peso/U.S. dollar exchange rate announced by Banco de México on February 8, 2005 (to take effect on the second business day thereafter) was Ps. 11.2152 = U.S. $1.00.

Public Finance

2005 Budget and Fiscal Package

On November 13, 2004, the Congress approved the Federal Annual Revenue Law for 2005 and on November 18, 2004, the Chamber of Deputies approved the Federal Expenditure Decree for 2005 (as passed, together with the Federal Annual Revenue Law for 2005 as passed, the "2005 Budget"). The 2005 Budget maintains fiscal discipline as the cornerstone of the economic program, and contemplates a public sector deficit of 0.22% of GDP for 2005.

The 2005 Budget as originally proposed to Congress was based on an estimated weighted average price of Mexico's oil exports of U.S. $23.00 per barrel. Congress's upward revision to U.S. $27.00 per barrel and the 2005 Budget's estimated volume of oil exports of 1,900 thousand barrels per day resulted in Ps. 41.7 billion of additional revenues with respect to the original proposal. The 2005 Budget as originally proposed to Congress contemplated a public sector deficit as a percentage of GDP of 0.1%. Congress revised the proposal to provide for a public sector deficit of 0.22% of GDP.

Subsequent to the passing of the Federal Expenditure Decree for 2005 by the Chamber of Deputies, the President on December 21, 2004 submitted a filing to the Supreme Court of Mexico contesting the limitations of the powers of the Executive with respect to the budget approval process and the reallocation of certain expenditures set forth in the Federal Expenditure Decree for 2005, which represent amounts

allocated by the President in the proposal to certain federal programs and entities and shifted by Congress to fund programs administered in certain cases by the states. The President's filing with the Supreme Court requested that the court rule, among other things, that the President has the power to eliminate changes made by the Chamber of Deputies to the original Federal Expenditure Decree as proposed by the President and submitted to the Chamber of Deputies. On December 22, 2004, the Supreme Court granted an interim ruling suspending until a further ruling is issued by the Supreme Court the carrying out of specific works projects, services and transfers within the expenditures contested by the President and which account for up to Ps. 4.2 billion of expenditures. The Supreme Court has not yet issued a further ruling, but it has rejected two petitions filed by the Chamber of Deputies formally contesting the Supreme Court's interim ruling.

The results for 2003 and the first nine months of 2004, the revised budget assumptions and targets for 2004 and the budget assumptions and targets for 2005, as set forth in the 2005 Budget passed by Congress, are set forth below.

2003 and First Nine Months of 2004 Results;
2004 Revised Budget Assumptions and Targets;
2005 Budget Assumptions and Targets

	2003 Results	2004 Budget	First Nine Months of 2004 Results[1]	2005 Budget
Real GDP growth (%)	1.3 [1]	3.1	4.0[1]	3.8
Increase in the national consumer price index (%)	3.98	3.0	3.37	3.0
Average export price of Mexican oil mix (U.S. $/barrel)	24.77	20.00	30.22	27.00
Current account deficit as % of GDP	1.5[1]	2.6	0.85[1]	2.1
Average exchange rate (Ps./$1.00)	10.79	11.2	11.27	11.6
Average rate on 28-day *Cetes* (%)	6.23	6.5	6.37	7.8
Public sector balance as % of GDP	(0.62) [1]	(0.3)	1.10[1]	(0.2)
Primary balance as % of GDP	2.20[1]	2.7	3.33[1]	N/A
Public sector borrowing requirement[2]	(2.54) [1]	2.7	0.22[1]	2.2

(1) Preliminary.
(2) Includes the public sector balance (comprising the Government and budget controlled agencies) as well as financing needs of the national development banks, the Bank Savings Protection Institute (IPAB) and certain other public sector agencies and enterprises.
N/A = Not available.
Source: Ministry of Finance and Public Credit.

Revenues and Expenditures

According to preliminary figures, during 2004, the public sector overall balance registered a surplus of Ps. 19.7 billion, 55.6% lower in real terms than the Ps. 42.5 billion surplus registered in 2003. The primary balance amounted to a surplus of Ps. 189.9 billion, 26.1% higher in real terms as compared with 2003.

Public Debt

Internal Debt

At December 31, 2004, the net internal debt of the Mexican Government totaled Ps. 1,030.0 billion, as compared to Ps. 927.1 billion outstanding at December 31, 2003. At December 31, 2004, the gross internal debt of the Government was Ps. 1,099.2 billion, as compared to Ps. 1,011.9 billion at December 31, 2003.

The Mexican Government's financing costs on internal debt totaled Ps. 85.7 billion during 2004, an increase of 5.1% in nominal terms as compared to 2003.

External Debt

Outstanding gross external debt increased by approximately U.S. $0.2 billion during 2004, from U.S. $79.02 billion at December 31, 2003 to U.S. $79.23 billion at December 31, 2004.

Subsequent to July 31, 2004, Mexico issued U.S. $500,000,000 of its Floating Rate Notes due 2009 on August 9, 2004, U.S. $1,500,000,000 of its 6.75% Global Notes due 2034 on September 27, 2004, €750,000,000 of its 5.500% Global Notes due 2020 on November 15, 2004 and U.S. $1,000,000,000 of its 6.625% Global Notes due 2015 on January 4, 2005.

Public sector external debt financing costs totaled U.S. $6.8 billion during 2004, a 2.9% decrease in nominal terms as compared to 2003.

At December 31, 2004, commercial banks held approximately 7.4% of Mexico's total public sector external debt (excluding bonds issued in debt exchange transactions), multilateral and bilateral creditors (excluding the IMF) held 23.5%, bondholders (including commercial banks holding bonds issued in debt exchange transactions) held 64.5% and others held the remaining 4.6%.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 20-F

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

For the fiscal year ended December 31, 2003

Commission File Number: 0-99

PETRÓLEOS 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)

Avenida Marina Nacional No. 329
Colonia Huasteca
México, D.F. 11311
México
(Address of principal executive offices)

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 3/8% Global Guaranteed Notes due 2005
9¼% Global Guaranteed Bonds due 2018
9 3/8% Notes due December 2, 2008, Puttable at Par on December 2, 2001
9.50% Puttable or Mandatorily Exchangeable Securities (POMES[SM]) due 2027
8.50% Notes due 2008
9.125% Notes due 2010
6.50% Guaranteed Notes due February 1, 2005
8.00% Notes due 2011
7.875% Notes due 2009
8.625% Bonds due 2022
7.375% Notes due 2014
6.125% Notes due 2008

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.

[X] Yes [ ] No

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

[ ] Item 17 [X] Item 18

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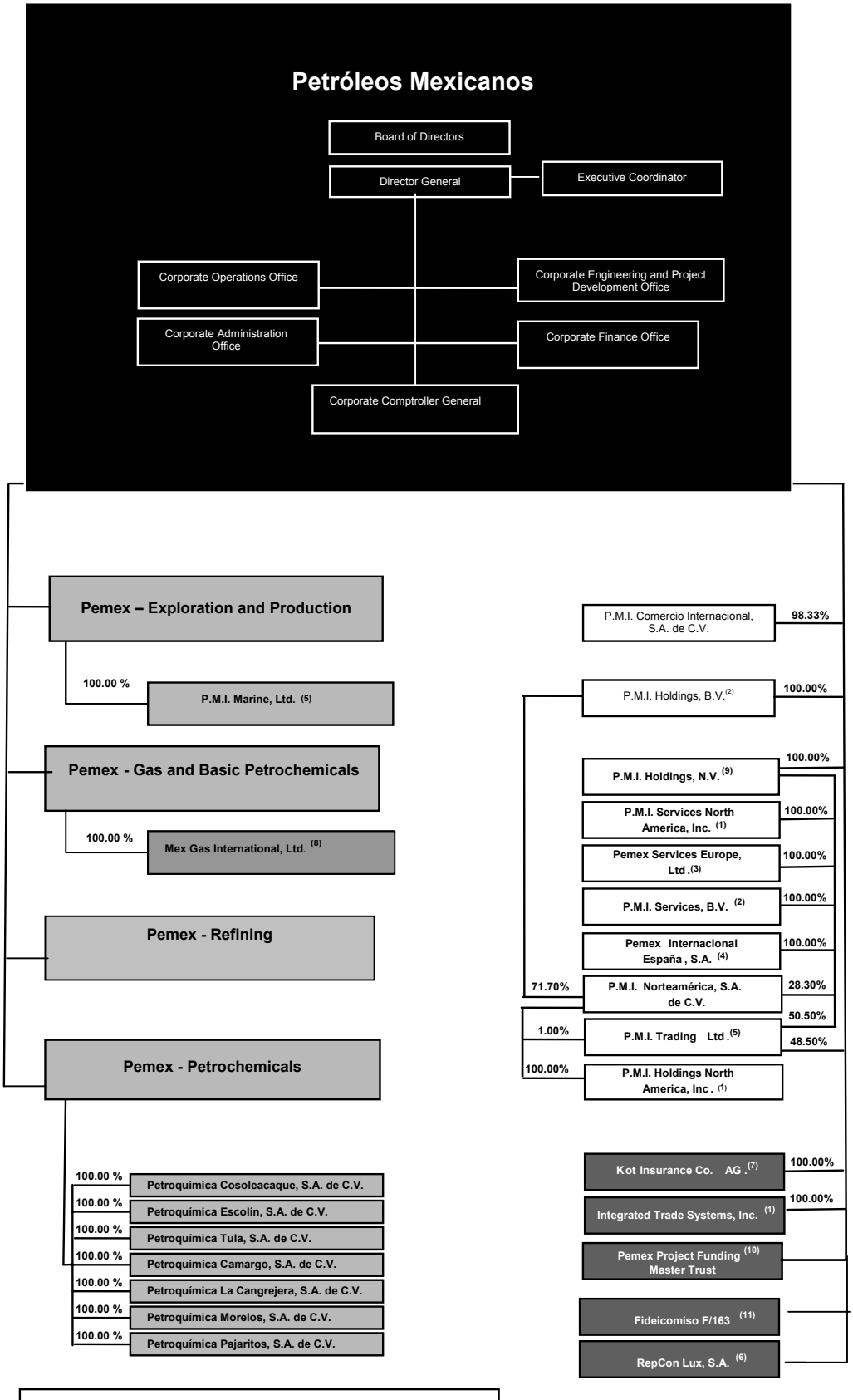
Petróleos Mexicanos and its four subsidiary entities, *Pemex-Exploración y Producción* (Pemex-Exploration and Production), *Pemex-Refinación* (Pemex-Refining), *Pemex-Gas y Petroquímica Básica* (Pemex-Gas and Basic Petrochemicals) and *Pemex-Petroquímica* (Pemex-Petrochemicals), comprise the state oil and gas company of the United Mexican States, which we refer to as Mexico. Each of Petróleos Mexicanos and the subsidiary entities is a decentralized public entity of the Federal Government of Mexico, which we refer to as 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 consolidated financial statements included in Item 18, including the Pemex Project Funding Master Trust and the Fideicomiso F/163 (which are described below under "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Commitments for Capital Expenditures and Sources of Funding"), 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 Mexico. References herein to "euros" or "€" are to the lawful currency of the European Economic and Monetary Union. References herein to "pounds" or "£" are to the lawful currency of the United Kingdom. The term "billion" as used herein means one thousand million.

We maintain our consolidated financial statements and records in constant pesos. Unless otherwise indicated, we have translated all peso amounts to U.S. dollars in this Form 20-F, including all convenience translations of our consolidated financial statements included herein, at an exchange rate of Ps. 11.236 = U.S. $1.00, which is the exchange rate that *Secretaría de Hacienda y Crédito Público* (Ministry of Finance and Public Credit) instructed us to use on December 31, 2003. You should not construe these translations 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, our consolidated financial statements included in Item 18. The selected financial data set forth below as of the five years ended December 31, 2003 have been derived from our consolidated financial statements for the years ended December 31, 1999 and 2000, which are not included herein, and the consolidated financial statements of PEMEX for the years ended December 31, 2001, 2002 and 2003. The consolidated financial statements included in this Form 20-F were audited by PricewaterhouseCoopers, S.C.

Our consolidated financial statements are prepared in accordance with Mexican Generally Accepted Accounting Principles (which we refer to as Mexican GAAP). Beginning January 1, 2003, we recognize the effects of inflation in accordance with NIF-06 BIS "A" Section C, which requires the adoption of Bulletin B-10, "Recognition of the Effects of Inflation on Financial Information," under Mexican GAAP (which we refer to as Bulletin B-10). As a result of the adoption of Bulletin B-10, we have restated our consolidated financial statements for the years ended December 31, 2001 and 2002, in order to present our results for each of these years on the same basis as the results for the year ended December 31, 2003 with respect to the recognition of the effects of inflation.

Our consolidated financial statements for the years ended December 31, 1999 and 2000 previously recognized inflation in accordance with the guidelines established in Financial Reporting Standard NIF-06 BIS "A," section A. The most significant differences between the recognition of inflation in accordance with the guidelines established in Financial Reporting Standard NIF-06 BIS "A," section A, and the guidelines established in Bulletin B-10 relate to the recognition in the income statement of the comprehensive financing cost (including the determination of gains or losses in monetary position and treatment for foreign exchange gains or losses), the restatement of the equity accounts and the presentation of the financial statements for all periods in constant pesos as of the date of the latest financial statement. See Note 2 b) to our consolidated financial statements included herein for a summary of the effects of adoption of Bulletin B-10 and Notes 2 h), 2 l), 2 m), 2 n) and 2 o) to our consolidated financial statements included herein for a discussion of the inflation accounting rules applied as a result of the adoption of Bulletin B-10.

We have not restated our consolidated financial statements for the two years ended December 31, 2000 to present our results for these years on the same basis as the results for the three years ended December 31, 2003 with respect to the full application of Bulletin B-10 because such a restatement would have involved unreasonable effort and expense. However, we have presented certain selected financial data set forth below for the two years ended December 31, 2000 which are available on a comparable basis with the data presented for subsequent years, and have restated such information to constant pesos as of December 31, 2003 by applying the change in inflation, as measured by the national consumer price index, or "NCPI," from the respective year through December 31, 2003. We believe that restating this historical information in accordance with the inflationary change measured by the NCPI provides meaningful information with regard to trends for the data included below for those years. However, the restatement into constant pesos as of December 31, 2003 of certain other items below for the two years ended December 31, 2000 would result in information that is materially different from that which would result from the preparation of restated financial statements in accordance with Bulletin B-10. As a result, we believe that this information would not be comparable to the information presented for the three years ended December 31, 2003, and would thus not provide meaningful information with regard to trends relating to our results. Accordingly, we have omitted the selected financial data relating to these items for the two years ended December 31, 2000.

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, pensions, seniority premiums and post-retirement benefit obligations, capitalized interest, impairment of fixed assets, depreciation, derivatives, profit in inventory and our investment in shares of Repsol YFP, S.A. ("Repsol"), which are described in Note 19 to our consolidated financial statements and "Item 5—Operating and Financial Review and Prospects—U.S. GAAP Reconciliation."

Selected Financial Data of PEMEX

	Year Ended December 31,[1][2]					
	1999	2000	2001	2002	2003	2003[5]
	(in millions of constant pesos as of December 31, 2003)[3]		(in millions of constant pesos as of December 31, 2003)[4]			(in millions of U.S. dollars)
Income Statement Data						
Amounts in accordance with Mexican GAAP:						
Net sales[6]	Ps. 418,595	Ps. 537,307	Ps. 500,212	Ps. 514,849	Ps. 625,429	$ 55,663
Total revenues[6]	431,303	549,263	501,912	514,760	628,390	55,926
Total revenues net of the IEPS Tax	320,847	469,452	394,981	392,322	534,313	47,554
Operating income	—[7]	—[7]	267,782	295,720	367,567	32,713
Comprehensive financing cost	—[7]	—[7]	2,451	6,239	30,742	2,736
Income (loss) for the period	—[7]	—[7]	(30,396)	(24,574)	(40,644)	(3,617)
Balance Sheet Data (end of period)						
Amounts in accordance with Mexican GAAP:						
Cash and cash equivalents	29,989	31,930	15,872	45,621	73,336	6,527
Total assets	—[7]	—[7]	610,163	767,720	845,472	75,247
Long-term debt	103,928	119,758	135,369	198,645	303,613	27,021
Total long-term liabilities	—[7]	—[7]	397,928	545,496	662,695	58,980
Equity	—[7]	—[7]	133,137	103,906	45,861	4,082
Amounts in accordance with U.S. GAAP:						
Total Revenues[8]	331,318	486,914	394,472	392,322	534,314	47,558
Operating income[8]	—[7]	—[7]	160,569	167,522	246,859	21,973
Comprehensive Financing (Cost) Benefits			796	(8,450)	(26,812)	(2,386)
Loss for the period	—[7]	—[7]	(23,344)	(32,667)	(66,309)	(5,902)
Total assets	—[7]	—[7]	632,290	760,759	815,472	72,577
Equity (deficit)	—[7]	—[7]	63,436	17,131	(44,420)	(3,953)
Other Financial Data						
Amounts in accordance with Mexican GAAP:						
Depreciation and amortization	—[7]	—[7]	31,960	33,815	40,544	3,608
Investments in fixed assets at cost[9]	50,631	87,472	56,789	94,970	67,864	6,040
Ratio of earnings to fixed charges:						
Mexican GAAP[10]	—[7]	—[7]	—	—	—	—
U.S. GAAP[10]	—[7]	—[7]	—	—	—	—

(1) Includes Petróleos Mexicanos, the subsidiary entities and the subsidiary companies (including the Pemex Project Funding Master Trust). For Mexican GAAP and U.S. GAAP purposes, beginning with the year ended December 31, 2000, we include the financial position and results of Mex Gas International, Ltd. and, beginning with the year ended December 31, 2003, we include the financial position and results of Fideicomiso F/163 and RepCon Lux S.A. 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) Mexican GAAP differs from U.S. GAAP. The most significant differences between U.S. GAAP and Mexican GAAP affecting our consolidated financial statements included herein are the accounting treatment of: (1) exploration and drilling costs, (2) pensions, seniority premiums and post-retirement benefit obligations, (3) capitalized interest, (4) impairment of fixed assets, (5) depreciation, (6) derivatives, (7) profit in inventory and (8) our investment in Repsol shares. For a further discussion of these and other differences, see Note 19 to our consolidated financial statements included herein.

(3) As described above, the financial data included herein for the two years ended December 31, 2000 have been translated into constant pesos as of December 31, 2003, but were not restated to recognize the effects of inflation in accordance with Bulletin B-10 because we were unable to do so without unreasonable effort and expense.

(4) Our consolidated financial statements for each of the three years ended December 31, 2003 were prepared in accordance with Mexican GAAP, including the recognition of the effect of inflation in accordance with Bulletin B-10.

(5) Translations into U.S. dollars of amounts in pesos have been made at the established exchange rate for accounting purposes of Ps. 11.236 = U.S. $1.00 at December 31, 2003. Such translations 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.

(6) Includes the Special Tax on Production and Services (the "IEPS Tax") as part of the sales price of the products sold.

(7) As described above, this data is omitted for the two years ended December 31, 2000 because we were unable to restate our financial statements for those years to recognize the effects of inflation in accordance with Bulletin B-10 without unreasonable effort or expense, and, if presented in accordance with Financial Reporting Standard NIF-06 BIS "A," section A (even if restated into constant pesos as of December 31, 2003), this data would not be comparable to the financial data presented for the three years ended December 31, 2003.

(8) Figures are net of the IEPS Tax.

(9) 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."

(10) Under U.S. GAAP, earnings for each of the years ended December 31, 2001, 2002 and 2003 were insufficient to cover fixed charges. The amount by which fixed charges exceeded earnings was Ps. 29,058 million for 2001, Ps. 30,092 million for 2002 and Ps. 47,910 million for 2003. Under Mexican GAAP, earnings for each of the years ended December 31, 2001, 2002 and 2003 were insufficient to cover fixed charges. The amount by which fixed charges exceeded earnings was Ps. 34,645 million for 2001, Ps. 30,092 million for 2002 and Ps. 47,910 million for 2003.

Source: PEMEX's financial statements.

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. These rates have not been restated in constant currency units.

Period	Exchange Rate			
Year Ended December 31,	**High**	**Low**	**Average[1]**	**Period End**
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
2002	10.425	9.001	9.746	10.425
2003	11.406	10.113	10.846	11.242
2004:				
January	11.097	10.805	10.920	11.012
February	11.245	10.910	11.032	11.062
March	11.229	10.918	11.019	11.183
April	11.432	11.157	11.270	11.402
May	11.635	11.382	11.520	11.414
June	11.538	11.303	11.393	11.538
July[2]	11.535	11.463	11.498	11.503

(1) Average of month-end rates, except for 2004 monthly exchange rates.
(2) For the period beginning July 1, 2004 to July 12, 2004.
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 July 12, 2004 was Ps. 11.503 = 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 are subject to global supply and demand and fluctuate due to many factors beyond our control. These factors include competition within the oil industry and with other industries in supplying clients with competing commodities, international economic trends, exchange rate fluctuations, expectations of inflation, domestic and foreign government regulations, political events in major oil producing and consuming nations and actions taken by Organization of the Petroleum Exporting Countries (OPEC) members and other oil exporting countries.

When international crude oil and natural gas prices are low, we earn less export sales revenue, and, therefore, earn less 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 and natural gas prices will directly affect our results of operations and financial condition.

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

We are subject to several risks that are common among oil and gas companies. These risks include production risks (fluctuations in production due to operational hazards, natural disasters or weather, accidents, etc.), equipment risks (relating to the adequacy and condition of our facilities and equipment) and transportation risks (relating to the condition and vulnerability of pipelines and other modes of transportation).

More specifically, our business is subject to the risks of explosions in pipelines, refineries, plants, drilling wells and other facilities, hurricanes in the Gulf of Mexico and other natural or geological disasters and accidents, fires and mechanical failures. The occurrence of any of these events could result in personal injuries, loss of life, equipment damage, and environmental damage and the resulting clean-up and repair expenses.

Although we have purchased insurance policies covering some of these risks, these policies may not cover all liabilities, and insurance may not be available for all risks. See "Item 4—Information on the Company—Business Overview—PEMEX Corporate Matters—Insurance."

PEMEX's substantial amount of debt could adversely affect its financial health and results of operations

We have a substantial amount of debt. At December 31, 2003, our total indebtedness, excluding accrued interest, was approximately U.S. $31.7 billion, which is a 37.8% increase over our total indebtedness, excluding accrued interest, of U.S. $23 billion at December 31, 2002. Our level of debt may not decrease in the near or medium term and may have an adverse effect on our financial condition and results of operations.

To service our debt, we rely on a combination of cash flows provided by operations, drawdowns under our available credit facilities and the incurrence of additional indebtedness. Certain rating agencies have expressed concern regarding both the total amount of debt and our increase in indebtedness over the last year. Any lowering of our credit ratings may have adverse consequences on our ability to access the financial markets and/or our cost of financing. We rely primarily on debt to finance our investments in capital expenditures. If we are unable to obtain financing on terms that are favorable it may hamper our ability to obtain further financing, and, as a result, we may not be able to make the capital expenditures needed to maintain our current production levels and increase Mexico's hydrocarbon reserves. See "*—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*" below.

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 increases our costs because it requires us to make significant capital expenditures and limits our ability to extract hydrocarbons, resulting in lower revenues. For an estimate of our accrued environmental liabilities, 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, which differs in certain significant respects from U.S. GAAP. See "Item 3—Key Information—Selected Financial Data" and Note 19 to our consolidated financial statements included herein. 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, it could limit PEMEX's ability to satisfy its external debt obligations, and it could privatize PEMEX

Petróleos Mexicanos is a decentralized public entity of the Mexican Government, and therefore the Mexican Government controls us, as well as our annual budget, which is approved by the Mexican Congress. The Mexican Government has the power to intervene directly or indirectly in our commercial affairs. Such an intervention could adversely affect our ability to make payments under any securities issued or guaranteed by us.

The Mexican Government's agreements with international creditors may affect our external debt obligations. In certain past debt restructurings of the Mexican Government, 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.

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 or transfer all or a portion of Petróleos Mexicanos and the subsidiary entities or its assets. A privatization could adversely affect production, cause a disruption in our workforce and our operations, and cause us to default on certain obligations. See also "—Considerations Related to Mexico" below.

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

The Mexican Government taxes Petróleos Mexicanos and the subsidiary entities heavily. In 2003, approximately 64.6% of the sales revenues of Petróleos Mexicanos and the subsidiary entities were used to pay taxes to the Mexican Government. The Mexican Congress determines the rates of taxes and duties applicable to Petróleos Mexicanos and the subsidiary entities from year to year depending on a variety of factors. For further information, 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." In addition, Petróleos Mexicanos is obligated to pay minimum guaranteed dividends to the Mexican Government. 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 our consolidated financial statements included herein.

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

Although Mexico is not a member of OPEC, in the past it has entered into agreements with OPEC and non-OPEC countries to reduce global crude oil supply. 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. A reduction in our oil production or exports could reduce our revenues. For more information, see "Item 5—Operating and Financial Review and Prospects—Export Agreements."

PEMEX does not own the hydrocarbon reserves in Mexico, and information on reserves is based on estimates

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 some or all of these rights to another company. Such an event would adversely affect our ability to generate income.

The information on oil, gas and other reserves set forth in this Form 20-F is based on 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 and reliability of available data, engineering and geological interpretation and subjective judgment. Additionally, estimates may be revised based on subsequent results of drilling, testing and production. Therefore, proved reserve estimates may differ materially from the ultimately recoverable quantities of crude oil and natural gas. Pemex-Exploration and Production revises its estimates of Mexico's hydrocarbon reserves annually, which may result in material revisions to our estimates of Mexico's hydrocarbon reserves.

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. 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. For more information, see "Item 4—Information on the Company—Capital Expenditures and Investments."

PEMEX may claim some immunities under the Foreign Sovereign Immunities Act and Mexican law, and your ability to sue or recover may be limited

Petróleos Mexicanos and the subsidiary entities are decentralized public entities of the Mexican Government. Accordingly, you may not be able to obtain a judgment in a U.S. court against us unless the U.S. court determines that we are not entitled to sovereign immunity with respect to that action. In addition, Mexican law does not allow attachment prior to judgment or attachment in aid of execution upon a judgment by Mexican courts. As a result, your ability to enforce judgments against us in the courts of Mexico may be limited. We also do not know whether Mexican courts would enforce judgments of U.S. courts based on the civil liability provisions of the U.S. federal securities laws. Therefore, even if you were able to obtain a U.S. judgment against us, 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. Finally, 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.

Our directors and officers, as well as some of the experts named in this Form 20-F, 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.

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 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. In the past, Mexico has experienced several periods of slow or negative economic growth, high inflation, high interest rates, currency devaluation and other economic problems. These problems may reemerge in the future, and could adversely affect our business and our ability to service our debt.

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.

Most of our debt is denominated in U.S. dollars, as is all of the debt of Pemex Finance, Ltd., a Cayman Islands company with limited liability established to issue securities backed by crude oil receivables sold through our subsidiary P.M.I. Comercio Internacional, S.A. de C.V. (which we refer to as PMI, and together with PMI Trading Ltd. and their affiliates, the PMI Group) to provide financing for investments in certain of our largest capital expenditures as long-term productive infrastructure projects, which we refer to as PIDIREGAS. In the future, Pemex Finance, Ltd. and we 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.

For information on 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 with the election of President Vicente Fox Quesada, a member of the National Action Party, and resulted in the increased representation of opposition parties in the Mexican Congress and in mayoral and gubernatorial positions. As a result of such elections and Congressional elections held on July 6, 2003, no political party has a majority in either house of the Mexican Congress. 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, multi-party rule is still relatively new in Mexico and could result in economic or political conditions that could materially and adversely affect our operations.

Item 4. Information on the Company

HISTORY AND DEVELOPMENT

We are the largest company in Mexico, and according to the December 15, 2003 issue of *Petroleum Intelligence Weekly*, we were the eighth largest oil and gas company in the world. In 1938, President Lázaro Cárdenas del Río of Mexico nationalized the 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, México, D.F. 11311, México. PEMEX's telephone number is (52-55) 1944-2500.

Organizational Laws

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

- 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, which we refer to as 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. Pursuant to the Regulatory Law, as amended, these types of companies may construct, own and operate pipelines, installations and equipment. Since 1997, the Mexican Government has required that we divest our existing natural gas distribution assets but has allowed us 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

We fund our annual budget (not including PIDIREGAS) through revenue generated by our 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 and the Fideicomiso F/163 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 these 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 us, build and deliver the project to us; and
- We, with the Mexican Government's authorization, pay all amounts owing to contractors and make final payments to receive delivery of the completed project and then record as a liability the full principal amount of all indebtedness incurred to finance the project.

Compliance with the Mexican Government's Financial Reporting Standards and the Guidelines for the Accounting Treatment of Investments in Long-Term Productive Infrastructure Projects (Technical Release NIF-09), 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 PIDIREGAS and non-PIDIREGAS expenditures is an important factor for budgetary purposes, as a project's designation as a PIDIREGAS guarantees that its financing is immune from across-the-board budget cuts. For the purposes of our consolidated financial statements included herein and in accordance with Mexican GAAP, all of the accounts related to PIDIREGAS were incorporated into the consolidated financial statements, i.e., all of the effects of Technical Release NIF-09 are excluded. These expenditures and liabilities are included in our consolidated financial statements in accordance with Mexican GAAP Bulletin B-8 "Consolidated and Combined Financial Statements and Valuation of Permanent Investments in Stocks," which is described at Note 21 to our consolidated financial statements.

In recent years, PIDIREGAS have represented a significant portion of our total annual capital expenditures. PIDIREGAS capital expenditures alone totaled Ps. 94.7 billion in nominal terms in 2003 (72% of our total capital expenditures), Ps. 57.8 billion in nominal terms in 2002 (64% of our total capital expenditures) and Ps. 35.9 billion in nominal terms in 2001 (53% of our total capital expenditures). For 2004, we have budgeted Ps. 123.5 billion in nominal terms for PIDIREGAS expenditures (or approximately 76% of our total budgeted capital expenditures).

The following table sets forth our capital expenditures for PIDIREGAS for the five years ended December 31, 2003, and the budget for such expenditures for 2004.

PIDIREGAS Capital Expenditures

	Year ended December 31, [1][2]					
	1999	2000	2001	2002	2003	Budget 2004[3]
	(millions of nominal pesos)					
Pemex-Exploration and Production						
Cantarell	Ps. 18,337	Ps. 20,210	Ps. 25,867	Ps. 24,397	Ps. 23,011	Ps. 31,976
Strategic Gas Program[4]	—	—	1,594	8,967	18,079	20,304
Burgos	7,307	5,596	7,018	9,383	10,995	19,236
Antonio J. Bermúdez	—	—	—	471	3,622	6,446
Ku-Maloob-Zaap	—	—	—	865	3,072	14,726
El Golpe-Puerto Ceiba	—	—	—	396	1,915	1,872
Agua Fría-Coapechaca-Tajín	—	—	—	93	1,860	2,428
Abkatún Integral	—	—	—	529	1,856	2,164
Chuc	—	—	—	302	1,753	2,968
Jujo-Tecominoacán	—	—	—	279	1,668	1,818
Pol	—	—	—	720	1,466	430
Bellota-Chinchorro	—	—	—	244	1,399	1,995
Cactus-Sitio Grande	—	—	—	114	1,276	2,025
Arenque	—	—	—	183	1,089	2,123
Taratunich	—	—	—	92	938	413
Caan	—	—	—	374	834	1,361
Ek-Balam	—	—	—	99	748	1,179
Och-Uech-Kax	—	—	—	261	750	731
Delta del Grijalva	982	1,431	1,466	1,439	641	988
Carmito-Artesa	—	—	—	187	606	1,046
Amatitlán-Profeta-Tzapotempa-Vinazco	—	—	—	8	465	1,466
Integral Poza Rica	—	—	—	22	424	631
Integral Batab	—	—	—	57	388	487
Integral Kanaab	—	—	—	13	284	44
Cárdenas	—	—	—	44	241	178
Ayín-Alux	—	—	—	17	37	1,226
Integral Yaxche	—	—	—	—	18	693
Total	26,626	27,236	35,945	49,557	79,435	120,954
Pemex-Refining						
Cadereyta[5]	—	15,652	—	115	—	—
Madero[6]	—	—	—	6,608	11,323	—
Salamanca[7]	—	—	—	—	2,679	—
Tula[8]	—	—	—	1,461	133	—
Minatitlán	—	—	—	—	—	1,583
Total	—	15,652	—	8,184	14,134	1,583
Pemex-Gas and Basic Petrochemicals						
Cryogenic Plant No. 2	653	—	—	—	—	—
Modular Cryogenic Plants in Reynosa	—	—	—	75	1,105	991
Total	653	—	—	75	1,105	991
Total PIDIREGAS Expenditures	**Ps. 27,279**	**Ps. 42,888**	**Ps. 35,945**	**Ps. 57,815**	**Ps. 94,674**	**Ps. 123,528**

Note: 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 23 different natural gas projects expected to increase domestic supply of natural gas, thereby minimizing imports.
(5) As of December 2003, the Cadereyta project was certified as 99.31% complete and formally concluded.
(6) The Madero project was completed on October 24, 2002, and the final payment was made to the contractor on March 3, 2003.
(7) The Salamanca project was completed on January 9, 2003.
(8) The Tula project was completed and contractors were paid in August 2002, although amounts were budgeted for and paid in 2003 to cover potential adjustments or additional works required in connection with this project.

Source: Petróleos Mexicanos.

During 2003, Pemex-Exploration and Production implemented 27 PIDIREGAS projects. Pemex-Exploration and Production will continue to implement these projects in 2004. Pemex-Refining will implement a new PIDIREGAS project in Minatitlán in 2004, which was approved by the Mexican Government in 1998.

The following table sets forth our approved capital expenditures budget for PIDIREGAS projects for 2004 through 2007.

PIDIREGAS Approved Budget Capital Expenditures

	Year ended December 31, [1][2]			
	2004	**2005**	**2006**	**2007**
	(millions of pesos)			
Pemex-Exploration and Production				
Cantarell	Ps. 31,976	Ps. 28,043	Ps. 27,360	Ps. 33,633
Strategic Gas Program	20,304	13,206	24,698	35,980
Burgos	19,236	25,211	24,304	20,855
Antonio J. Bermúdez	6,446	4,619	4,603	4,415
Ku-Maloob-Zaap	14,726	14,648	19,098	12,510
El Golpe-Puerto Ceiba	1,872	1,387	713	465
Agua Fría-Coapechaca-Tajín[3]	2,428	633	61	—
Abkatún Integral	2,164	1,390	1,175	1,070
Chuc	2,968	1,483	1,671	877
Jujo-Tecominoacán	1,818	1,681	1,268	599
Pol	430	253	231	164
Bellota-Chinchorro	1,995	1,555	1,327	666
Cactus-Sitio Grande	2,025	944	578	597
Arenque	2,123	518	1,321	1,359
Taratunich	413	507	65	—
Caan	1,361	915	999	901
Ek-Balam	1,179	768	827	634
Och-Uech-Kax	731	23	0	—
Delta del Grijalva	988	440	310	315
Carmito-Artesa	1,046	539	740	564
Amatitlán-Profeta-Tzapotempa-Vinazco[3]	1,466	1,665	181	—
Integral Poza Rica	631	500	409	51
Integral Batab	487	43	0	—
Integral Kanaab	44	46	4	0
Cárdenas	178	290	378	124
Ayín-Alux	1,226	1,185	1,943	1,496
Integral Yaxche	693	783	600	522
Total	120,954	103,275	114,864	117,797
Pemex-Refining				
Minatitlán	1,583	6,442	6,881	2,594
Salina Cruz	—	—	—	1,755
Total	1,583	6,442	6,881	4,349
Pemex-Gas and Basic Petrochemicals				
Modular Cryogenic Plants in Reynosa	991	604	—	—
Total	991	604	—	—
Total PIDIREGAS Budget	**Ps. 123,528**	**Ps. 110,321**	**Ps. 121,745**	**Ps. 122,146**

Note: Numbers may not total due to rounding.
(1) Amounts based on cash basis method of accounting.
(2) Includes capitalized interest during the construction period.
(3) PIDIREGAS relating to the development of the Chicontepec field.
Source: Petróleos Mexicanos.

Non-PIDIREGAS Capital Expenditures. In addition to the Ps. 94.7 billion spent on PIDIREGAS in 2003, in nominal terms we spent Ps. 19.0 billion in 2003 on other capital expenditures excluding PIDIREGAS (which we refer to as non-PIDIREGAS capital expenditures), which represents a 17.0% decrease from the Ps. 22.9 billion in non-PIDIREGAS capital expenditures in 2002. Of the Ps. 19.0 billion in non-PIDIREGAS capital expenditures during 2003, we directed Ps. 8.9 billion (or 46.8% of total non-PIDIREGAS capital expenditures) to exploration and production programs. Of the Ps. 22.9 billion in non-PIDIREGAS capital expenditures in 2002, we directed Ps. 13.4 billion (or 58.5% of total non-PIDIREGAS capital expenditures) in 2002 to exploration and production programs.

Excluding PIDIREGAS expenditures, we have budgeted a total of Ps. 10.9 billion in nominal terms for capital expenditures in 2004. Of this amount, we expect to direct Ps. 3.7 billion (or 33.9% of total non-PIDIREGAS capital expenditures) to exploration and production programs in 2004. In addition to our budgeted capital expenditures, the Mexican Congress allocates money in our budget to make payments on our PIDIREGAS debt, which in 2004 is expected to be Ps. 27.4 billion. The amounts allocated to us to make payments on our PIDIREGAS debt are not included in any of the tables or discussions of capital expenditures herein as these amounts do not reflect actual capital expenditures.

Our non-PIDIREGAS capital expenditures for the five years ended December 31, 2003 and budgeted for 2004 and 2005 were distributed and budgeted among the subsidiary entities as follows:

Non-PIDIREGAS Capital Expenditures[1]

	Year ended December 31,						
	1999	2000	2001	2002	2003	Budget 2004[3]	Budget 2005[4]
	(in millions of nominal pesos)						
Pemex-Exploration and Production	Ps. 14,454	Ps. 17,418	Ps. 17,501	Ps. 13,443	Ps. 8,945	Ps. 3,744	Ps. 58,829
Pemex-Refining	6,608	6,374	5,501	5,893	5,744	3,573	8,313
Pemex-Gas and Basic Petrochemicals	2,777	3,620	2,567	1,721	2,148	1,896	4,810
Pemex-Petrochemicals	945	996	1,058	1,454	1,627	1,231	4,730
Petróleos Mexicanos corporate[2]	319	429	366	432	549	419	583
Total	Ps. 25,103	Ps. 28,837	Ps. 26,993	Ps. 22,942	Ps. 19,013	Ps. 10,864	Ps. 77,265

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 during the 2005 budgetary process.
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 2004, 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 2004 budget objectives are to increase the supply of hydrocarbons, satisfy natural gas demand and increase refining capacity. Moreover, our increased production goals for 2004 include producing, on average, 3.5% more crude oil and 4.7% more natural gas as compared to 2003, in order to decrease imports of natural gas and derivatives of crude oil and natural gas.

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. In nominal peso terms, we increased our capital investment in exploration and production activities by 40.3% in 2003 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 4.35 million barrels of oil equivalent per day in 2003. Pemex-Exploration and Production's crude oil production increased by 6.1% from 2002 to 2003, averaging 3,371 thousand barrels per day in 2003. Pemex-Exploration and Production's natural gas production (excluding natural gas liquids) increased by 1.7% from 2002 to 2003, averaging 4,498 million cubic feet per day in 2003.

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 at approximately 1,540 thousand barrels per day during 2003. In 2003, Pemex-Refining produced 1,343 thousand barrels per day of refined products, as compared to 1,276 thousand barrels per day of refined products in 2002.

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 4,173 million cubic feet per day in 2002 to 4,503 million cubic feet per day in 2003. Pemex-Gas and Basic Petrochemicals processed 3,360 million cubic feet per day of sour natural gas in 2003, a 3.1% increase from the 3,260 million cubic feet per day of sour natural gas produced in 2002. It produced 428 thousand barrels per day of natural gas liquids in 2003, a 2.4% increase from natural gas liquid production of 418 thousand barrels per day in 2002.

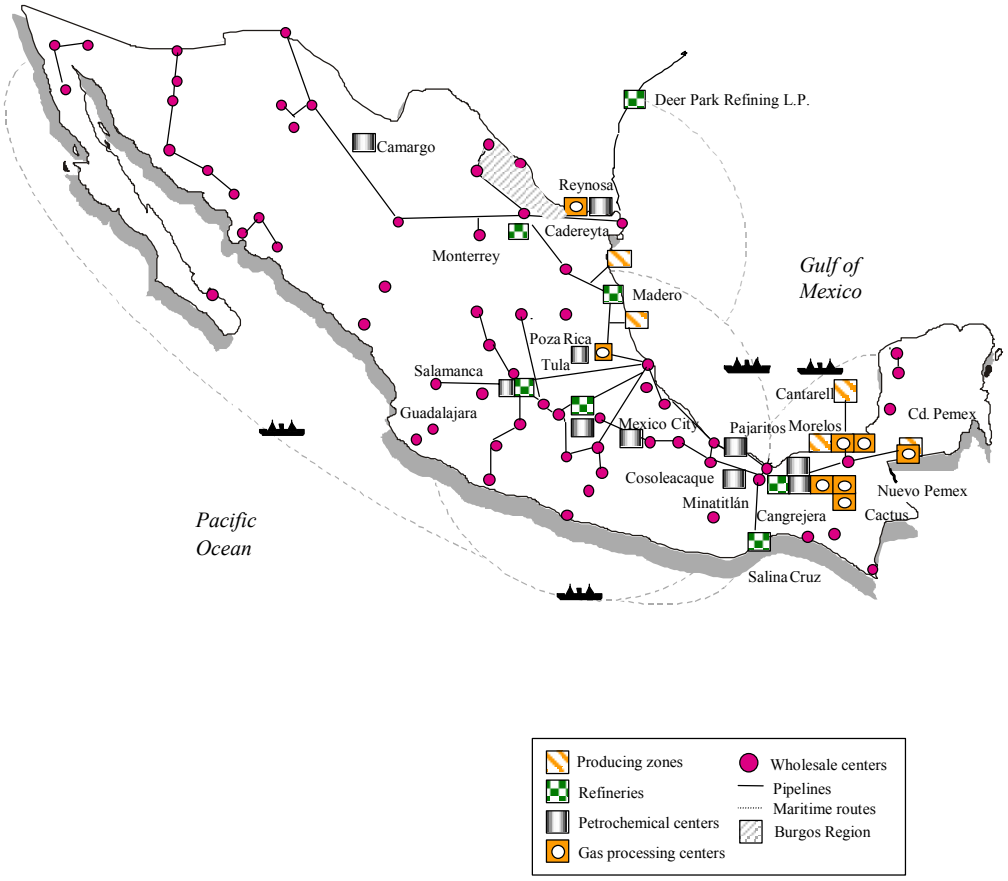
Petrochemicals

Pemex-Petrochemicals manufactures different petrochemical products, including: (1) methane derivatives, such as ammonia and methanol; (2) ethane derivatives, such as ethylene, polyethylenes, vinyl chloride monomer and ethylene oxide; (3) aromatics and their derivatives, such as styrene, toluene and paraxylene; (4) propylene and its derivatives, such as acrylonitrile; and (5) oxygen, nitrogen and other products. Pemex-Petrochemicals' total annual production (excluding ethane and butane gases) increased by 3.3% in 2003, from 5,889 thousand tons in 2002 to 6,083 thousand tons in 2003.

International Trading

In 2003, we exported 1,844 thousand barrels per day of crude oil through our subsidiary PMI. We are a major supplier of crude oil to the United States. The PMI Group provides us and a number of independent customers with international trading, distribution and related services. PMI and PMI Trading Ltd. 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 us. The PMI Group has offices in Mexico City, Houston and London. The PMI Group's trading volume of sales and imports totaled U.S. $24,030.2 million in 2003, including U.S. $16,691.8 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 us. 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 6.7% in 2003, from 17.2 billion barrels of oil equivalent at December 31, 2002 to 16.0 billion barrels of oil equivalent at December 31, 2003. Mexico's proved developed reserves of crude oil and condensates decreased by 10.7% in 2003, from 11.7 billion barrels of oil equivalent at December 31, 2002 to 10.5 billion barrels of oil equivalent at December 31, 2003. Mexico's total proved developed and undeveloped dry gas reserves decreased by 0.9% in 2003, from 15.0 trillion cubic feet at December 31, 2002 to 14.9 trillion cubic feet at December 31, 2003. Mexico's proved developed dry gas reserves decreased by 5.6% in 2003, from 8.6 trillion cubic feet at December 31, 2002 to 8.1 trillion cubic feet at December 31, 2003.

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.

Crude Oil and Condensate Reserves
(including natural gas liquids)[1]

	2000	2001	2002	2003
Proved developed and undeveloped reserves		**(in millions of barrels)**		
At January 1	21,519	20,186	18,767	17,196
Revisions	(180)	(144)	(247)	120
Extensions and discoveries[2]	91	2	(36)	84
Production	(1,244)	(1,277)	(1,288)	(1,359)
At December 31	20,186	18,767	17,196	16,041
Proved developed reserves at December 31	12,312	12,622	11,725	10,473

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

	2000	2001	2002	2003
Proved developed and undeveloped reserves		**(in billions of cubic feet)**		
At January 1	18,471	17,365	16,256	14,985
Revisions	3	(78)	(443)	695
Extensions and discoveries[1]	58	98	313	354
Production[2]	(1,167)	(1,129)	(1,141)	(1,184)
At December 31	17,365	16,256	14,985	14,850
Proved developed reserves at December 31	9,713	8,776	8,572	8,094

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, 2003.

Field	Proved Reserves	Developed Reserves	Undeveloped Reserves	Producing Wells	Undeveloped Locations
		(in millions of barrels of crude oil equivalent)			
Akal	7,313.8	5,886.0	1,427.8	204	47
Ku-Maloob-Zaap	1,709.7	754.3	955.4	45	61
Samaria	1,186.1	790.4	395.7	36	10
Jujo-Tecominoacán	1,045.7	522.3	523.5	43	30
Chicontepec	779.0	87.4	691.6	476	1,576
Iride	593.8	306.5	287.4	19	25
Cunduacán	465.8	250.1	215.7	18	10
Sihil	335.1	32.2	302.9	2	9
Oxiacaque	252.8	119.0	133.8	8	5
Caan	228.1	180.0	48.1	24	0
Sinán	191.2	14.7	176.5	1	23
Ayín	188.6	0.0	188.6	0	13
Chuc	185.5	185.5	0.0	17	5
Muspac	174.9	174.9	0.0	20	0
Puerto Ceiba	156.7	85.4	71.3	9	8
Cactus	144.6	86.4	58.2	20	7
Ixtal	132.1	0.0	132.1	0	9
Poza Rica	117.0	94.2	22.8	193	18
Balam	96.5	76.2	20.3	7	2
Paredón	95.8	95.8	0.0	7	0
Caparroso-Pijije-Escuintle	92.6	68.6	24.0	13	4
Abkatún	88.1	88.1	0.0	17	0
Cárdenas	85.1	81.5	3.6	16	1
Kutz	79.3	79.3	0.0	2	0
Sen	72.9	45.3	27.6	9	5
Lum	54.5	0.0	54.5	0	7
Culebra	53.7	44.6	9.0	350	30
Bolontikú	48.3	0.0	48.3	0	5
May	47.5	0.0	47.5	0	11
Citam	44.8	4.5	40.3	1	7
Cuitláhuac	36.8	25.1	11.7	181	22
Ek	31.1	31.1	0.0	1	0
Pol	23.4	23.4	0.0	15	0
Ixtoc	22.6	22.6	0.0	2	0
Bacab	19.5	19.5	0.0	2	0
Chac	16.6	16.6	0.0	2	0
Arcos	15.9	15.4	0.5	127	3
Arcabuz	13.9	6.8	7.0	76	43
Luna-Palapa	13.2	13.2	0.0	8	0
Nohoch	11.0	11.0	0.0	2	0
Tizón	6.5	6.5	0.0	1	0
Platanal	4.5	4.5	0.0	2	0
Escarbado	3.9	3.9	0.0	1	0
Total	**16,278.5**	**10,352.7**	**5,925.8**	**1,977**	**1,996**
Mexico's proved reserves	**18,895.2**	**12,029.0**	**6,866.2**		
Percentage	**86.1%**	**86.1%**	**86.3%**		

Note: Numbers may not total due to rounding.
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 2003, we completed 3,091 exploration and development wells. During 2003, the average success rate for exploration wells was 60%, and the average success rate for development wells was 90%. From 1999 to 2003, we discovered 16 new crude oil fields and 70 new natural gas fields, bringing the total number of our crude oil and natural gas fields in production to 340 at the end of 2003.

While most of our offshore production in the Gulf of Mexico occurs in waters less than 100 meters deep, our exploration program for 2003 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, Abkatún and Chuc in the Southwest Marine region. The Cantarell complex, for example, produced 2,096 thousand barrels per day of crude oil in 2003, or 62.2% of our total 2003 crude oil production, and 770 million cubic feet per day of natural gas in 2003, or 17.1% of our total 2003 natural gas production.

The following table summarizes our drilling activity for the five years ended December 31, 2003.

	Year Ended December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
Wells drilled	234	285	449	447	653
Wells completed	234	247	459	459	593
Exploratory wells	22	37	53	55	88
Success rate %	41	57	53	50	60
Development wells	212	210	406	404	505
Success rate %	91	95	91	88	90
Producing wells at end of period[1]	4,269	4,184	4,435	4,590	4,941
Marine Region[1]	302	310	352	346	369
Southern Region[1]	1,125	1,113	1,066	1,000	980
Northern Region[1]	2,842	2,761	3,017	3,245	3,592
Fields in production	313	299	301	309	340
Marine Region	19	18	19	20	23
Southern Region	106	104	96	93	102
Northern Region	188	177	186	196	215
Drilling Rigs	42	43	50	70	101
Kilometers drilled	706	782	1,098	1,186	1,793
Average depth by well (meters)	3,062	2,838	2,359	2,478	2,904
Discovered Fields[2]	5	6	20	18	37
Crude Oil	—	1	1	1	13
Natural gas	5	5	19	17	24
Crude oil and natural gas output by well (barrels per day)	920	959	923	900	880

(1) Figures for the years ended December 31, 2000, 2001, 2002 and 2003 represent annual averages of producing wells.
(2) Includes only fields with proved reserves.
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,		
2001	**2002**	**2003**
(U.S. dollars per barrel)		
$3.34	$3.04	$3.26

Source: Pemex-Exploration and Production.

Our lifting costs increased by 7.2% from 2002 to 2003, primarily as a result of an increase in the average purchase cost of gas used for pneumatic pumping, from U.S. $2.78 per million cubic feet in 2002 to U.S. $4.85 per million cubic feet in 2003.

Pemex-Exploration and Production calculates its lifting costs (the cost of producing oil from a well) in accordance with international practice. The lifting cost per barrel is calculated by dividing the total lifting cost (in U.S. dollars) into the total production of hydrocarbons (in barrels of oil equivalent) over the relevant period.

The total lifting costs includes all direct and indirect costs incurred to produce oil and gas, which includes costs incurred to operate and maintain wells and related equipment and facilities. In addition, it includes costs of labor to operate the wells and facilities, the costs of materials, supplies and fuel consumed, including gas used for gas lifting, nitrogen and other chemicals, repair and non-capitalized maintenance costs, and other costs, such as fees for general services, a labor fund for active personnel, corporate services and indirect overhead, but excludes non-cash expenses such as reserves for depletion, amortization of capitalized well expenses, the depreciation of fixed assets, and expenses associated with the distribution and handling of hydrocarbons, and related to exploration and drilling activities.

Extensions and Discoveries

During the year 2003, we discovered new sources of crude oil and natural gas reserves in the Southwest Marine region, the Northern region and the Southern region. The new discoveries yielded a total of 151.7 million barrels of crude oil equivalent of proved reserves.

In the Southwestern Marine region, drilling of the Amoca-1, Chuhuk-1, Homol-1, Nak-1, Teekit-1, Uchaek-1, Xaxamani-1, Isiw-1 and Xicope-1 wells led to the addition of 71.9 billion cubic feet of proved natural gas, and 39.8 million barrels of proved oil reserves. The drilling of wells in the Northern region led to the addition of 262.1 billion cubic feet of proved natural gas reserves. The main discoveries in the Burgos basin were Nejo, Dragón and Viernes, which accounted for 36.2 billion cubic feet of proved natural gas reserves. Other important discoveries in Veracruz and Poza Rica led to the addition of 170.9 and 8.5 billion cubic feet of natural gas, respectively.

No extensions were determined in 2003.

Investment in Exploration and Production

In nominal peso terms, we invested Ps. 88,380 million in exploration and production in 2003, as compared to Ps. 63,000 million in 2002, representing a 40.3% increase in nominal terms 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 2003, in nominal peso terms, Pemex-Exploration and Production's PIDIREGAS investments totaled approximately Ps. 79,435 million, consisting of Ps. 23,011 million in investments in the Cantarell fields, Ps. 18,079 million in the Strategic Gas Program, Ps. 10,995 million for development of the Burgos natural gas fields, Ps. 3,622 million in investments in the Antonio J. Bermúdez fields, Ps. 3,072 million in investments in the Ku-Maloob-Zaap fields, Ps. 1,753 million in investments in the Chuc fields and Ps. 1,856 million in investments in the Abkatún Integral project. During 2003, the investments in these seven projects amounted to 78.5% of all PIDIREGAS investments in exploration and production. The remaining 21.5% amounted to Ps. 17,047 million in nominal terms, which was invested in the 20 remaining projects, 18 of which were commenced in 2002. The Cantarell, Strategic Gas Program, Burgos, Antonio J. Bermúdez, Ku-Maloob-Zaap, Chuc, Abkatún Integral and Delta del Grijalva PIDIREGAS are described below.

Cantarell. In nominal peso terms, Pemex-Exploration and Production invested Ps. 25,867 million in 2001, Ps. 24,397 million in 2002 and Ps. 23,011 million in 2003 in the development of the Cantarell reservoirs in the Marine region. For 2004, we have budgeted Ps. 31,976 million for Cantarell investments. By the end of 2004, we expect our investments in the Cantarell project to total approximately U.S. $16.2 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 cost approximately Ps. 10,131 million in nominal terms. 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. During 2003, Pemex-Exploration and Production paid approximately U.S. $158.8 million under this contract for a total volume of approximately 399.8 billion cubic feet of nitrogen. We plan to inject approximately 1.17 million cubic feet per day into the Cantarell reservoirs until 2009. Thereafter, the volume of nitrogen required is expected to decrease gradually by 2015 and the existing surplus of nitrogen will be injected in other fields of the Marine region. 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 increasing the productive life of the wells and the volume of oil recovered. 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, as of December 31, 2003.

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. In 2002, our total projected investment for the program increased to U.S. $8,456 million to include three new exploratory projects: Integral Tampico Misantla Sur de Burgos, Veracruz Marino and Cazones. The purpose of the program is to increase Mexico's 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 44% of investments, with the goal of increasing the production of natural gas to 3,699 million cubic feet per day by 2012. Exploration activities will represent 49% of investments with the goal of increasing proved reserves in twelve different exploratory natural gas and integral gas projects. Finally, development of newly discovered fields will represent 7% of the investment amount. In nominal peso terms, Pemex-Exploration and Production invested Ps. 18,079 million in the program in 2003, as compared with Ps. 8,967 million in 2002. For 2004, we expect to invest Ps. 20.3 billion, which would bring our total investment in the program to approximately U.S. $4.6 billion. During the period from 2001 to 2003, average production was 268 million cubic feet per day of natural gas. Since 2001, 79 exploratory wells demonstrated offshore and onshore gas potential, resulting in a 57% exploratory success ratio. During 2003, 14 fields were discovered, mainly Vistoso in the Veracruz basin (onshore) and Shishito in the Southern region. Important discoveries in 2002, such as Lankuhuasa (offshore) and Playuela in the Veracruz basin (onshore), are currently under development.

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. From 2001 to 2003, exploration activities and reclassification of reserves increased estimated proved reserves by 77 million barrels of oil equivalent. Therefore, although production in this period was 222 million barrels of oil equivalent, reserves were only reduced by 145 million barrels of oil equivalent. In nominal peso terms, we invested Ps. 7,018 million in 2001, Ps. 9,383 million in 2002 and Ps. 10,995 million in 2003 in the Burgos project. For 2004, we anticipate that our investments in this project will amount to Ps. 19,236 million and that our total accumulated investments will reach approximately U.S. $6.6 billion.

Antonio J. Bermúdez. In 2002, we began investing in the Antonio J. Bermúdez project, the main PIDIREGAS project in the Southern region. This project is designed to accelerate reserve recovery, as well as increase the recovery factor by drilling additional wells and implementing a pressure maintenance system. In nominal peso terms, we invested Ps. 471 million in 2002 and Ps. 3,622 million in 2003 in the Antonio J. Bermúdez project. For 2004, we anticipate that our investments in this project will amount to Ps. 6,446 million and that our total accumulated investments will reach approximately U.S. $962 million.

Ku-Maloob-Zaap. The Ku-Maloob-Zaap project is one of our main producers of heavy crude oil and plays an important part in the production of the Maya crude oil mix. In order to maintain its volume of production, the project aims to increase drilling of wells and to implement pressure maintenance systems. In nominal peso terms, we

invested Ps. 865 million in 2002 and Ps. 3,072 million in 2003 in the Ku-Maloob-Zaap project. For 2004, we anticipate that our investments in this project will amount to Ps. 14,726 million and that our total accumulated investments will reach approximately U.S. $1,694 million.

Chuc. The Chuc project is part of an integrated strategy of light crude oil production in the Southwest Marine region. It is part of the operating and maintenance of the Pol-A facility and water injection complexes. In nominal peso terms, we invested Ps. 302 million in 2002 and Ps. 1,753 million in 2003 in the Chuc project. For 2004, we anticipate that our investments in this project will amount to Ps. 2,968 million and that our total accumulated investments will reach approximately U.S. $460 million.

Abkatún Integral. In 1999, Pemex-Exploration and Production initiated a plan to optimize the recovery of light crude oil and natural gas. The Abkatún Integral project is an important part of the Abkatún-Pol-Chuc production complex and it shares the water injection secondary recovery process with this complex. In nominal peso terms, we invested Ps. 529 million in 2002 and Ps. 1,856 million in 2003 in the Abkatún Integral project. For 2004, we anticipate that our investments in this project will amount to Ps. 2,164 million and that our total accumulated investments will reach approximately U.S. $421 million.

Delta del Grijalva. In 1998, Pemex-Exploration and Production initiated a 15-year, U.S. $600 million investment project named Delta del Grijalva, which involves the continued 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 our behalf. In nominal peso terms, we invested Ps. 1,466 million in 2001, Ps. 1,439 million in 2002 and Ps. 641 million in 2003 in the Delta del Grijalva project. In 2004, we expect to invest Ps. 988 million in this project, bringing our total investment in Delta del Grijalva to U.S. $795 million.

Non-PIDIREGAS Investments. In addition to PIDIREGAS investments, Pemex-Exploration and Production makes non-PIDIREGAS investments called *Recursos Propios* (Proprietary Funds) or *Inversiones Programables* (Programmed Investments), authorized by the Ministry of Finance and Public Credit and the Congress. In nominal peso terms, in 2003, non-PIDIREGAS investments of Pemex-Exploration and Production totaled Ps. 8,945 million, of which Ps. 1,615 million, or 18.1%, was invested in strategic projects and Ps. 7,330 million, or 81.9%, in general operating improvements. Our investments in strategic projects consisted of Ps. 571 million in oil and gas exploration and Ps. 1,044 million in general field development and facilities.

2004 Exploration and Production Investment Budget. For 2004, Pemex-Exploration and Production anticipates investing Ps. 3,744 million in non-PIDIREGAS expenditures. Approximately Ps. 179 million, or 4.8% 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 1998 to 2003. Approximately Ps. 3,565 million, or 95.2%, will be allocated to operating projects as well as to projects relating to maintenance facilities, industrial safety and environmental projects. In addition to these non-PIDIREGAS investments, the 2004 budget includes all of the 27 on-going PIDIREGAS strategic exploration and production projects for a total PIDIREGAS budget of approximately Ps. 120,954 million. This amount includes Ps. 31,976 million for Cantarell, Ps. 20,304 million for the Strategic Gas Program, Ps. 19,236 million for Burgos, Ps. 14,726 million for Ku-Maloob-Zaap, Ps. 6,466 million for Antonio J. Bermúdez and Ps. 28,266 million for the other PIDIREGAS projects.

Exploration and Production Investment Trends. During the past three years, our investments in exploration have increased significantly. In nominal peso terms, in 2003, we invested Ps. 16,411 million, or 18.6% of the total capital expenditures for Pemex-Exploration and Production, in exploration activities, which represents a 91.9% increase from the Ps. 8,552 million, or 13.6% of the total capital expenditures of Pemex-Exploration and Production, invested in exploration activities in 2002. In 2003, we invested Ps. 44,577 million in nominal terms, or 50.4% of the total capital expenditures for Pemex-Exploration and Production, in development activities, with the remaining investments directed towards major maintenance in production facilities. In 2002, we invested Ps. 32,630 million in nominal terms, or 51.8% of the total capital expenditures for Pemex-Exploration and Production, in development activities, with the remaining investments directed towards major maintenance in production facilities.

We anticipate that the trend of increasing both the total amounts invested, as well as the amount allocated to exploration as a percentage of the total capital expenditures for Pemex-Exploration and Production, will continue in upcoming years. In 2004, we have budgeted Ps. 17,851 million, or 14.3% of the total capital expenditures for Pemex-Exploration and Production, in exploration activities, which represents an 8.8% increase in nominal terms from the Ps. 16,411 million that Pemex-Exploration and Production invested in 2003. We anticipate that this trend will increase even more significantly from 2005 through 2007. In 2005, we expect to spend Ps. 35,144 million, or 21.7% of the total capital expenditures for Pemex-Exploration and Production, in exploration activities, which represents a 96.9% increase in nominal terms from the amount projected for 2004. In 2006, we expect to spend Ps. 45,416 million, or 32.5% of the total capital expenditures for Pemex-Exploration and Production, in exploration activities, which represents a 29.2% increase in nominal terms from the amount projected for 2005. In 2007, we expect to spend Ps. 53,102 million, or 40.6% of the total capital expenditures for Pemex-Exploration and Production, in exploration activities, which represents a 16.9% increase in nominal terms from the amount projected for 2006. These estimates are subject to the approval of the Mexican Congress of our budget for each year.

The following table sets forth our capital expenditures related to exploration, development and maintenance during the five years ended December 31, 2003, and the budget for such expenditures for 2004.

Exploration, Development and Maintenance Capital Expenditures for 1999-2004

	Year ended December 31,[1]					
	1999	2000	2001	2002	2003	Budget 2004[2]
	(millions of nominal pesos)					
Exploration	Ps. 4,537	Ps. 4,511	Ps. 4,186	Ps. 8,552	Ps. 16,411	Ps. 17,851
Development	29,660	27,525	32,503	32,630	44,577	76,432
Maintenance	7,029	12,778	16,756	21,817	27,389	30,416
Total	**Ps. 41,226**	**Ps. 44,814**	**Ps. 53,445**	**Ps. 63,000**	**Ps. 88,380**	**Ps. 124,699**

Note: Numbers may not total due to rounding.
(1) Amounts based on cash basis method of accounting.
(2) Approved budget.

The following table sets forth our estimated capital expenditures budget for exploration, development and maintenance for 2004 through 2007:

Estimated Exploration, Development and Maintenance Capital Expenditures for 2004-2007

	Year ended December 31,[1]			
	2004[2]	2005	2006	2007
	(millions of nominal pesos)			
Exploration	Ps. 17,851	Ps. 35,144	Ps. 45,416	Ps. 53,102
Development[3]	76,432	94,293	65,521	51,244
Maintenance[3]	30,416	32,667	28,761	26,470
Total	**Ps. 124,699**	**Ps. 162,104**	**Ps. 139,698**	**Ps. 130,816**

Note: Numbers may not total due to rounding.
(1) Amounts based on cash basis method of accounting.
(2) Approved budget.
(3) Amounts for 2005 through 2007 are estimated based on amounts budgeted for projects in 2004.

Multiple Services Contracts

Our Multiple Services Contracts, or MSC, program was first announced on December 2001. The objective of the program is to provide a contractual framework that promotes an efficient execution of public works, in order to develop the natural gas reserves in the Burgos basin. This development should increase Mexico's supply of natural gas nationwide. The MSC are public works contracts based on unit prices that should lower our costs of production by consolidating a number of different services into a single contract, including seismic reservoir characterization, implementation of new well logging technology and other high technology methods of enhancing well performance and analysis. A distinctive feature of this contractual scheme is that, regardless of the production level, the contractor only receives a cash payment based on the unit prices for the works performed and the services rendered. Under the MSC framework, Pemex-Exploration and Production retains the rights to all extracted hydrocarbons and works performed.

The call for bids for the first MSC bidding round, corresponding to works and services necessary for natural gas production in seven blocks in the Burgos basin, occurred in July 2003. The following table summarizes the results of this round.

Block	Award date	Signature date	Company	Contract amount (in millions of U.S. dollars)
Reynosa-Monterrey	October 16, 2003	November 14, 2003	Repsol Exploración México, S.A. de C.V.	$ 2,437
Cuervito	October 23, 2003	November 21, 2003	A consortium including Petrobras, Teikoku Oil Co., Ltd. and D&S Petroleum	260
Misión	October 30, 2003	November 28, 2003	A consortium including Tecpetrol (a subsidiary of Techint Group) and Industrial Perforadora de Campeche	1,036
Fronterizo	November 19, 2003	December 8, 2003	A consortium including Petrobras, Teikoku Oil Co., Ltd. and D&S Petroleum	265
Olmos	January 15, 2004	February 9, 2004	Lewis Energy Group	344
			Total	**$ 4,342**

Source: Pemex-Exploration and Production.

Following the awarding of the first five MSC (which are expected, subject to the terms and conditions of the individual contracts, to total U.S. $4,342 million over 20 years) we expect natural gas production to increase 425 million cubic feet per day over time, with savings forecasted at approximately U.S. $800 million over the life of the contracts.

On November 5 and 12, 2003, respectively, we announced that companies that had acquired bidding documents for the Corindón-Pandura and Ricos blocks chose not to submit final proposals. During 2004, we plan to carry out a second round of bidding for MSC for those two blocks. We are also considering other potential sites for development under the MSC scheme, with a third round of bidding in 2005.

Crude Oil Production

In 2003, we produced an average of 3,371 thousand barrels per day of crude oil, 6.1% greater than our average daily production in 2002 of 3,177 thousand barrels per day of crude oil. The increase was mainly due to our investments in the Cantarell project, which led to an increase in the production of the Cantarell reservoirs of 210 thousand barrels per day, 11% greater than its average daily production in 2002. This average daily production increase was partially offset by a decrease in light crude oil production in the Marine and 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 2003, 71.8% of Pemex-Exploration and Production's total production of crude oil consisted of heavy crudes and 28.2% consisted of light and very light crudes. The Marine region yields mostly heavy crude oil (70.6% of overall production in 2003), although significant volumes of light crude oil are also produced (12.8% of overall production). The Southern region yields mainly light and very light crudes (together, 14.3% of overall production), whereas the Northern region yields mostly heavy crude oil (2.2% of overall production).

The following table sets forth our annual crude oil production rates for the five years ended December 31, 2003.

	Year Ended December 31,					2003 vs. 2002
	1999	2000	2001	2002	2003	
	(in thousands of barrels per day)					(%)
Marine region						
Heavy crude oil	1,516.3	1,730.5	1,953.7	2,127.1	2,380.9	11.9
Light crude oil	721.5	654.4	586.2	476.7	433.0	(9.2)
Total	2,237.8	2,384.9	2,539.9	2,603.8	2,813.9	8.1
Southern region						
Heavy crude oil	—	—	—	—	—	—
Light crude oil	587.2	549.6	508.7	498.4	483.3	(3.0)
Total	587.2	549.6	508.7	498.4	483.3	(3.0)
Northern region						
Heavy crude oil	47.2	43.7	43.3	40.5	38.1	(5.9)
Light crude oil	33.9	33.7	35.2	34.4	35.5	3.2
Total	81.1	77.5	78.5	74.9	73.6	(1.7)
Total heavy crude oil	1,563.5	1,774.3	1,997.0	2,167.6	2,419.0	11.6
Total light crude oil	1,342.6	1,237.7	1,130.1	1,009.5	951.9	(5.7)
Total crude oil	2,906.0	3,012.0	3,127.0	3,177.1	3,370.9	6.1

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

In 2003, the Marine region's offshore facilities, which are located in the Campeche Sound in the Gulf of Mexico, produced 83.5% of Mexico's crude oil. Approximately 14.3% of crude oil production came from onshore facilities in the Southern region. Inland facilities in the Northern region accounted for the remaining 2.2% of total crude oil production. Due to the high productivity of certain wells, 12 fields accounted for 85.3% of Mexico's crude oil production in 2003.

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 2003, the average production level for this region was 2,813.9 thousand barrels per day. The Marine region's production area includes 23 oil fields that 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 2003, production in the Southern region totaled 483 thousand barrels per day. This production area included 93 oil fields with an average well depth of 5,500 meters.

The Northern region, including the continental shelf area in the Gulf of Mexico, covers an area of approximately 2 million square kilometers. Our production area in this region is located in the states of Veracruz, Tamaulipas, Nuevo León, Coahuila, San Luis Potosí and the continental platform in the Gulf of Mexico. In 2003, production in the Northern region totaled 74 thousand barrels of crude oil per day and 1,347 million cubic feet of natural gas per day. This production area included 201 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, Nohoch and Sihil fields, which extend over an area of 162 square kilometers. As of December 31, 2003, there were a total of 363 wells drilled, 212 of which were producing. During 2003, the complex produced an average of 2.1 million barrels of crude oil and 769.7 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 10.0 billion barrels of crude oil and 4.1 trillion cubic feet of natural gas. Proved hydrocarbon reserves totaled 6.9 billion barrels of crude oil and 3.6 trillion cubic feet of natural gas. Total proved reserves were 7.8 billion barrels of crude oil equivalent, of which 6.0 billion were developed.

Burgos Project. The Burgos fields of Northern Mexico produced more than 1.0 billion cubic feet of natural gas per day in 2003. This complex of fields is the largest producer of non-associated gas in Mexico. The most important producers are the Arcabuz-Culebra, Cuitláhuac and Arcos fields.

- Arcabuz-Culebra. This field covers an area of 380 square kilometers. As of December 31, 2003, there were a total of 575 wells drilled, 426 of which were producing. During 2003, the field produced an average of 234.9 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 1,161.0 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 352.0 billion cubic feet of natural gas, of which 267.4 billion were developed.

- Cuitláhuac. This field covers an area of 190 square kilometers. As of December 31, 2003, there were a total of 268 wells drilled, 181 of which were producing. During 2003, the field produced an average of 91.1 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 352.7 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 162.1 billion cubic feet of natural gas, of which 110.6 billion were developed.

- Arcos. This field covers an area of 45 square kilometers. As of December 31, 2003, there were a total of 147 wells drilled, 127 of which were producing. During 2003, the field produced an average of 142.2 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 442.6 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 86.6 billion cubic feet of natural gas, of which 83.9 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 2003,

the fields produced an average of 58.8 thousand barrels of crude oil and 211.3 million cubic feet of natural gas per day. The most important producers are Sen, Luna-Palapa and Caparroso-Pijije-Escuintle.

- Sen. This field covers an area of 41 square kilometers. As of December 31, 2003, there were a total of 29 wells drilled, nine of which were producing. During 2003, the field produced an average of 21.4 thousand barrels of crude oil and 63.8 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 172.7 million barrels of crude oil and 477.2 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 42.3 million barrels of crude oil and 123.3 billion cubic feet of natural gas. Total proved reserves were 72.9 million barrels of crude oil equivalent, of which 45.3 million were developed.

- Luna-Palapa. This field covers an area of 17 square kilometers. As of December 31, 2003, there were a total of 41 wells drilled, eight of which were producing. During 2003, the field produced an average of 7.9 thousand barrels of crude oil and 51.5 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 112.9 million barrels of crude oil and 627.1 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 5.8 million barrels of crude oil and 30.0 billion cubic feet of natural gas. Total proved reserves were 13.2 million barrels of crude oil equivalent, all of which are developed.

- Caparroso-Pijije-Escuintle. This field covers an area of 16.6 square kilometers. As of December 31, 2003, there were a total of 32 wells drilled, 13 of which were producing. During 2003, the field produced an average of 24.9 thousand barrels of crude oil and 76.8 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 104.1 million barrels of crude oil and 300.7 billion cubic feet of natural gas, and proved hydrocarbon reserves totaled 51.4 million barrels of crude oil and 165.6 billion cubic feet of natural gas. Total proved reserves were 92.6 million barrels of crude oil equivalent, 68.6 million 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, Cunduacán, Oxiacaque, Iride, Platanal and Carrizo fields and covers an area of 192 square kilometers. As of December 31, 2003, there were a total of 386 wells drilled, 83 of which were producing. During 2003, the complex produced an average of 147.1 thousand barrels of crude oil and 249.9 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 2.5 billion barrels of crude oil and 3.4 trillion cubic feet of natural gas, and proved hydrocarbon reserves totaled 1.7 billion barrels of crude oil and 3.3 trillion cubic feet of natural gas. Total proved reserves were 2.5 billion barrels of crude oil equivalent, of which 1.5 billion were developed.

Jujo-Tecominoacán Field. This field is the second largest crude oil producer in the Southern region and the fifth largest producer in Mexico and covers an area of 74 square kilometers. As of December 31, 2003, there were a total of 104 wells drilled, 43 of which were producing. During 2003, the field produced an average of 74.7 thousand barrels of crude oil and 83.1 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 967.9 million barrels of crude oil and 1.1 trillion cubic feet of natural gas, and proved hydrocarbon reserves totaled 651.0 million barrels of crude oil and 1.5 trillion cubic feet of natural gas. Total proved reserves were 1.0 billion barrels of crude oil equivalent, of which 522.3 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, 2003, there were a total of 30 wells drilled, 20 of which were producing. During 2003, the field produced an average of 4.3 thousand barrels of crude oil and 214.7 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 90.7 million barrels of crude oil and 1.4 trillion cubic feet of natural gas. Total proved reserves were 174.9 million barrels of crude oil equivalent, all of which were developed. Proved hydrocarbon reserves totaled 11.5 million barrels of crude oil and 0.7 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, 2003, there were a total of 189 wells drilled, 10 of which were injectors. Currently, there are 49 producing wells. During 2003, the complex produced an average of

204.1 thousand barrels of crude oil and 218.3 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 3.7 billion barrels of crude oil and 3.4 trillion cubic feet of natural gas. Proved hydrocarbon reserves totaled 245.8 million barrels of crude oil and 221.7 billion cubic feet of natural gas. Total proved reserves were 296.9 million barrels of crude oil equivalent, all of which 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, 2003, there were a total of 41 wells drilled, 24 of which were producing. During 2003, the field produced an average of 114.2 thousand barrels of crude oil and 206.3 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 675.3 million barrels of crude oil and 1.1 trillion cubic feet of natural gas. Proved hydrocarbon reserves totaled 144.6 million barrels of crude oil and 387.7 billion cubic feet of natural gas. Total proved reserves were 228.1 million barrels of crude oil equivalent, of which 180.0 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, 2003, there were a total of 61 wells drilled, 45 of which were producing. During 2003, this complex produced an average of 288.0 thousand barrels of crude oil and 153.0 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 1.8 billion barrels of crude oil and 952.8 billion cubic feet of natural gas. Proved hydrocarbon reserves totaled 1.5 billion barrels of crude oil and 974.1 billion cubic feet of natural gas. Total proved reserves were 1,709.7 million barrels of crude oil equivalent, of which 754.3 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, 2003, there were a total of 35 wells drilled, eight of which were producing. During December 31, 2003, the fields produced an average of 15.1 thousand barrels of crude oil and 3.7 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 113.5 million barrels of crude oil and 27.9 billion cubic feet of natural gas. Proved hydrocarbon reserves totaled 120.5 million barrels of crude oil and 29.7 billion cubic feet of natural gas. Total proved reserves were 127.6 million barrels of crude oil equivalent, 107.3 million 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, 2003, there were a total of 1,237 wells drilled, 476 of which were producing. During 2003, Chicontepec produced an average of 9.7 thousand barrels of crude oil and 24.5 million cubic feet of natural gas per day. As of December 31, 2003, cumulative production was 116.9 million barrels of crude oil and 210.7 billion cubic feet of natural gas. Proved hydrocarbon reserves totaled 557.0 million barrels of crude oil and 1.2 trillion cubic feet of natural gas. Total proved reserves were 779.0 million barrels of crude oil equivalent, of which 87.4 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 2003, this pipeline network consisted of approximately 30,689 kilometers of pipe, of which 3,139 kilometers were located in the Marine region, 11,014 kilometers were located in the Southern region and 16,536 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 2003, domestic consumption of crude oil amounted to approximately 1,509 thousand barrels per day, which represented 45% 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 86% of exported crude oil volume sold by PMI in 2003, but only 46% of domestic consumption.

The following table sets forth crude oil distribution.

Crude Oil Distribution

	At December 31,					2003
	1999	2000	2001	2002	2003	vs. 2002
	(in thousands of barrels per day)					(%)
Production	2,906.0	3,012.0	3,127.0	3,177.1	3,370.9	6.1
Distribution						
Refineries	1,132.5	1,126.9	1,140.4	1,171.9	1,246.4	6.4
Products under processing agreements[1]	56.7	103.7	62.3	130.4	112.5	(13.7)
Petrochemicals	149.6	136.0	146.2	144.5	150.4	4.1
Exports[2]	1,551.2	1,619.8	1,756.6	1,716.2	1,848.3	7.7
Total	2,890.0	2,986.4	3,105.6	3,163.1	3,357.6	6.1
Stock changes, statistical differences	16.1	25.6	21.4	14.0	13.3	(5.0)

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 we recovered in August 1998 as part of an unrelated swap arrangement with the SPR. Although we 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 our 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.

- Coking. This process is a severe method of thermal cracking used to upgrade heavy residuals into lighter products or distillates. Coking produces straight-run gasoline (coker naptha) and various middle-distillate fractions used as catalytic feedstock, thus generating a concentrated solid material called coke of petroleum.

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,				
	1999	**2000**	**2001**	**2002**	**2003**
	(in thousands of barrels per day)				
Production Process					
Atmospheric distillation	1,525.0	1,559.0	1,559.0	1,540.0	1,540.0
Vacuum distillation	757.1	774.8	773.8	768.4	768.4
Cracking	368.0	375.0	375.0	395.5	395.5
Visbreaking	141.0	141.0	141.0	141.0	141.0
Reforming	226.0	268.8	268.8	301.3	301.3
Hydrotreatment	748.0	808.0	848.0	987.1	987.1
Alkylation and isomerization	120.7	109.0	109.0	115.9	115.9
Coking	—	—	—	—	100.0

Source: Base de Datos Institucional (*Pemex BDI*).

At the end of 2003, 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 2003, our refineries processed 1,286 thousand barrels per day of crude oil (209 thousand barrels at Cadereyta, 141 thousand barrels at Madero, 177 thousand barrels at Minatitlán, 185 thousand barrels at Salamanca, 306 thousand barrels at Salina Cruz and 268 thousand barrels at Tula), which consisted of 822 thousand barrels per day of Olmeca and Isthmus crude oil and 464 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 refinery in Deer Park 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 included 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 1,343 thousand barrels per day of refined products (including dry gas by-products of the refining process) in 2003, an increase of 5.3% from 2002 levels.

The following table sets forth, by category, Pemex-Refining's production of refined products from 1999 through 2003.

Pemex-Refining Production

	Year Ended December 31,					2003
	1999	2000	2001	2002	2003	vs. 2002
	(in thousands of barrels per day)					(%)
Refinery crude oil runs	1,228.0	1,227.4	1,251.9	1,245.4	1,285.9	3.3
Refined products						
Liquefied petroleum gas	31.0	24.9	27.8	31.3	33.8	8.0
Gasoline						
Nova (leaded)/Base	46.5	27.9	22.4	16.4	10.5	(36.0)
Pemex Magna	346.6	346.0	349.4	359.4	396.5	10.3
Pemex Premium	11.2	17.9	17.3	21.8	37.6	72.5
Others	1.6	1.2	1.2	0.7	0.6	(14.3)
Total	405.9	393.0	390.3	398.2	445.2	11.8
Kerosenes						
Jet fuel	57.8	55.3	56.7	56.7	59.6	5.1
Other kerosenes	0.8	0.3	0.3	–	–	–
Total	58.6	55.6	57.0	56.7	59.6	5.1
Diesel						
Pemex Diesel	248.4	254.5	266.6	246.7	290.8	17.9
Low sulphur diesel	6.9	1.2	1.1	0.7	0.6	(14.3)
Others	16.6	9.7	13.9	19.5	16.4	(15.9)
Total	271.9	265.4	281.6	266.9	307.8	15.3
Fuel oil	427.9	422.6	435.9	449.6	396.5	(11.8)
Other refined products						
Industrial gas oil	3.8	2.4	–	–	–	–
Asphalts	30.3	31.1	28.7	28.8	25.6	(11.1)
Lubricants	8.3	6.0	5.2	4.9	5.5	12.2
Paraffins	1.9	1.3	1.2	1.0	0.9	(10.0)
Still gas	43.3	41.8	39.0	37.4	51.3	37.2
Other refined products[(1)]	1.5	1.9	0.6	1.1	16.7	1,418.2
Total	89.0	84.5	74.7	73.3	100.1	36.6
Total refined products	1,284.4	1,246.0	1,267.3	1,275.9	1,342.9	5.3

Note: Numbers may not total due to rounding.
(1) Includes aeroflex 1-2, coke and furfural extract.
Source: Pemex BDI.

Fuel oil, automotive gasoline and diesels represent the bulk of Pemex-Refining's production. In 2003, fuel oil represented 30%, gasoline represented 33% and diesels represented 23% of total refined product production. Jet fuel represented 4% and liquefied petroleum gas represented 3% of total production of refined products in 2003. 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 several 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 86% in 1998 to 94% in 2003. 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, 2003, the value of Pemex-Refining's domestic sales of refined products was as follows:

Value of Domestic Sales[1]

	Year Ended December 31,					2003
	1999	2000	2001	2002	2003	vs. 2002
Oil Products	(in millions of constant pesos at December 31, 2003)[2]					(%)
Gasoline						
Pemex Magna	Ps. 51,192.9	Ps. 74,967.1	Ps. 68,219.6	Ps. 61,305.6	Ps. 82,471.7	34.5
Pemex Premium	5,969.8	10,961.2	12,214.6	13,291.4	18,729.2	40.9
Aviation fuels	144.2	129.7	126.1	134.0	132.7	(1.0)
Others	179.2	210.9	195.6	131.3	86.5	(34.1)
Total	57,486.0	86,268.7	80,755.8	74,862.3	101,420.2	35.5
Kerosenes						
Jet fuel	4,751.1	7,666.7	6,381.8	5,554.4	7,372.7	32.7
Other kerosenes	124.6	113.9	140.4	142.2	117.3	(17.5)
Total	4,875.8	7,780.6	6,522.2	5,696.6	7,490.0	31.5
Diesel						
Pemex Diesel	23,011.9	34,866.3	30,989.3	27,189.3	37,265.4	37.1
Others	5,329.6	8,641.3	6,968.1	5,154.4	8,330.4	61.6
Total	28,341.5	43,507.6	37,957.6	32,343.6	45,595.8	41.0
Fuel oil						
Total	25,317.7	38,463.9	31,060.9	28,562.7	31,510.6	10.3
Other refined products						
Industrial gas oil	355.1	364.2	10.4	–	–	0.0
Asphalts	1,235.5	1,891.5	1,700.2	1,937.8	2,350.0	21.3
Lubricants	881.4	1,146.3	1,132.4	914.6	1,149.1	25.6
Paraffins	192.7	180.4	158.6	131.4	122.1	(7.1)
Others[3]	1.5	2.3	0.6	1.1	24.5	2,127.3
Total	2,666.1	3,584.7	3,002.3	2,984.8	3,645.4	22.1
Total oil products	Ps. 118,687.1	Ps. 179,605.4	Ps. 159,298.8	Ps. 144,450.1	Ps. 189,662.3	31.3
Petrochemicals[4]	Ps. 320.2	Ps. 625.8	Ps. 772.2	Ps. 585.4	Ps. 935.8	59.9

Notes: Numbers may not total due to rounding.
(1) Excludes IEPS Tax and value added tax. See "—Taxes and Duties" below.
(2) Figures have been restated to constant pesos as of December 31, 2003, by applying the inflation factors, as measured by the NCPI, from the respective year through December 31, 2003. For the three years ended December 31, 2003, the inflation factor is the average inflation rate for each of these years.
(3) Includes aeroflex 1-2, coke and furfural extract. Since 2003, figure also includes sales of coke from the coker at the Cadereyta refinery, which started operating in 2003.
(4) These are 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 79% of our fuel oil production during 2003 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 2003, this volume discount amounted to approximately 1.4% 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 2003 was Ps. 23,593 million and represented 12.7% of our total consolidated domestic sales revenues.

Our domestic sales of refined oil products increased by 31.3% in value, or Ps. 45,212.2 million, in 2003 from 2002 levels. This increase was due to a 2.3% increase in domestic sales volumes, increased sales of products that have greater added value and a 34.5% average increase in international prices of refined products. For example, the price of automotive gasoline increased by 33.9%, the price of automotive diesel increased by 36.1% and the price of jet fuel increased by 36.7%.

The volume of our domestic gasoline sales in 2003 increased by 6.2%, from 566.2 thousand barrels per day in 2002 to 601.2 thousand barrels per day in 2003. The volume of our domestic diesel sales increased by 8.9%, from 270.7 thousand barrels per day in 2002 to 294.7 thousand barrels per day in 2003. In contrast, the volume of our domestic sales of fuel oil decreased by 12.7%, from 406.2 thousand barrels per day to 354.6 thousand barrels per day, primarily due to lesser demand from the Federal Electricity Commission, as a result of its program of substitution of fuel oil for natural gas.

The volume of Pemex-Refining's domestic sales of refined products for the five-year period ended December 31, 2003 was distributed as follows:

Volume of Domestic Sales

	Year Ended December 31,					2003 vs. 2002
	1999	2000	2001	2002	2003	
	(in thousands of barrels per day, except where otherwise indicated)					(%)
Oil Products						
Gasoline						
Pemex Magna	468.0	472.3	476.5	476.5	500.2	5.0
Pemex Premium	42.8	58.9	73.9	88.5	100.1	13.1
Aviation fuels	0.5	0.4	0.4	0.4	0.4	0.0
Others	1.2	1.1	1.0	0.8	0.4	(50.0)
Total	512.6	532.7	551.8	566.2	601.2	6.2
Kerosenes						
Jet fuel	55.3	55.5	55.3	53.3	54.2	1.7
Other kerosenes	0.8	0.7	0.8	0.8	0.7	(12.5)
Total	56.1	56.2	56.1	54.1	54.9	1.5
Diesel						
Pemex Diesel	224.9	228.6	226.4	228.0	240.7	5.6
Others	49.8	56.1	49.4	42.7	54.0	26.5
Total	274.7	284.7	275.8	270.7	294.7	8.9
Fuel oil						
Total	470.8	492.4	474.9	406.2	354.6	(12.7)
Other oil products						
Industrial gas oil	4.3	2.3	—	—	—	—
Asphalts	19.5	20.6	20.9	21.6	22.2	2.8
Lubricants	5.8	6.4	5.5	5.2	5.7	9.6
Paraffins	1.3	1.3	1.2	1.1	1.0	(9.1)
Others[1]	1.1	1.8	0.4	1.3	22.8	1,653.8
Total	32.0	32.4	28.0	29.1	51.7	77.7
Total oil products	1,346.1	1,398.4	1,386.7	1,326.2	1,357.1	2.3
Petrochemicals[2]	84.5	201.1	301.6	235.3	272.3	15.7

Note: Numbers may not total due to rounding
(1) Includes aeroflex 1-2, coke and furfural extract. Since 2003, figure also includes sales of coke from the coker at the Cadereyta refinery, which started operating in 2003.
(2) In thousands of metric tons. These are petrochemical by-products of the refining process produced and sold by Pemex-Refining.
Source: Pemex BDI.

Since 1998, at the retail level, we have offered standard and premium grades of unleaded gasoline throughout the country. Our efforts to build and enhance our brands have also progressed during the past three years. 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 2003, there were 6,166 retail service stations in Mexico, of which 6,164 were privately owned and operated as franchises.

Investments

Over the last eight 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. This focus is primarily the result of the abundance of heavy crudes in Mexico. In addition, due to the reduced availability of heavy crudes in the export markets, the lower cost of raw materials in Mexico leads to higher profit margins on the heavy crudes we do export. In the medium-term, Pemex-Refining will continue to import unleaded gasoline to satisfy

domestic demand. During 2003, Pemex-Refining imported approximately 122.9 thousand barrels per day of unleaded gasoline, which represented 20.5% of total domestic demand for unleaded gasoline in that year.

Non-PIDIREGAS Investments. In nominal terms, in 2003, Pemex-Refining invested Ps. 5,744 million, as compared to Ps. 5,893 million in 2002, representing a 2.5% decrease. Strategic projects, in addition to those described above, comprised Ps. 1,278.5 million of total non-PIDIREGAS investment, operating projects represented Ps. 3,270.2 million and the remaining Ps. 1,195.1 million was dedicated mainly to acquisitions of equipment, research and development and complementary investments.

Cadereyta Project. In November 1997, Pemex-Refining awarded a U.S. $1.6 billion contract to upgrade and revamp the Cadereyta refinery to Conproca, S.A. de C.V. (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 2003, the project was certified as 99.31% complete and formally concluded. Pemex-Refining makes semi-annual amortization payments on June 15 and December 15 of each year, the first of which was a payment of U.S. $53.2 million on December 15, 2000. During 2003, Pemex-Refining made amortization payments totaling U.S. $242.4 million. Semi-annual amortization payments will continue until June 15, 2010.

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 was U.S. $1.8 billion and involved the construction of ten new plants and the upgrading of seven others at the Madero complex in the state of Tamaulipas in northeastern Mexico. Between 1999 and 2003, the project increased the Madero refinery's processing capacity for heavy crude oil (Maya) by 42,437 barrels per day, increased gasoline production by 9,989 barrels per day, increased middle distillates (diesel and jet fuel) production by approximately 500 barrels per day and reduced production of high sulphur fuel oil by 12,050 barrels per day. The project was completed on October 25, 2002. The first amortization payment of U.S. $136.5 million was made in 2003 and the last payment will be made in 2022.

Tula and Salamanca Projects. On November 11, 1999, Pemex-Refining awarded the Tula and Salamanca projects to Samsung Ingeniería Tula, S.A. de C.V. / Siemens, S.A. de C.V. and to Samsung Ingeniería México, S.A. de C.V. / Siemens AG and Siemens S.A. de C.V., respectively, through an international bidding process. These projects are dedicated exclusively to increasing gasoline quality, whereas the Cadereyta and Madero projects are dedicated to increasing heavy crude oil processing capacities through residual conversion. The construction period for the Tula and Salamanca projects lasted 29 and 34 months, respectively. Total costs were U.S. $160.5 million for the Tula project and U.S. $257.0 million for the Salamanca project. The Tula project was completed on August 27, 2002, and the Salamanca project was completed on January 9, 2003. The first amortization payments of U.S. $22.0 million for the Tula project and U.S. $33.6 million for the Salamanca project were made in 2003 and the last payments will be made in 2022.

Minatitlán Project. This refining project is intended to increase production of high quality gasoline and middle distillates and to improve the crude oil blend. The project consists of six bidding packages, each of which was published during 2003. Pemex-Refining awarded the first contract of Ps. 379 million to Tradeco Infraestructura S.A. de C.V. on December 8, 2003. The construction period for the first contract is expected to last approximately 19 months, and the projected date for the completion of this project is October 2008.

2004 Refining Investment Budget. For 2004, Pemex-Refining has budgeted Ps. 1,583 million for investment in PIDIREGAS. In addition, Pemex-Refining has budgeted Ps. 3,573 million for investments in 2004, excluding expenditures related to PIDIREGAS. Pemex-Refining will invest 30.6% of the total amount to expand and upgrade refineries, 20.6% in environmental and industrial safety projects, 33.3% in maintenance and rehabilitation projects and 15.4% in other projects and acquisitions.

Gas and Basic Petrochemicals

Natural Gas and Condensates

Pemex-Exploration and Production's average natural gas production increased by 1.7%, from 4,423 million cubic feet per day in 2002 to 4,498 million cubic feet per day in 2003, while the average wet natural gas processed by Pemex-Gas and Basic Petrochemicals increased by 2.1%, from 3,758 million cubic feet per day in 2002 to 3,837 million cubic feet per day in 2003. Natural gas production associated with crude oil production accounted for 69.3% of production of natural gas in 2003, 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, 58 fields (or 15% of the 390 producing fields) accounted for 85% of all production in 2003. Of the total production, 33.9% originated in the Marine region, 36.2% in the Southern region and the remainder, 29.9%, in the Northern region.

All wet natural gas production is directed to Pemex-Gas and Basic Petrochemical's gas processing facilities. At the end of 2003, Pemex-Gas and Basic Petrochemicals owned 11 facilities.

The following facilities are located in the Southern region:

- Cactus: This facility contains 22 plants that together produced 800 million cubic feet per day of dry gas (which is natural gas with a methane content of more than 90%), 23 thousand barrels per day of ethane, 46 thousand barrels per day of liquefied gas, 21 thousand barrels per day of naphtha and 307 thousand tons of sulphur in 2003.

- Ciudad Pemex: This facility contains eight plants that together produced 715 million cubic feet per day of dry gas and 236 thousand tons of sulphur in 2003.

- La Cangrejera: This facility contains two plants that together produced 29 thousand barrels per day of ethane, 38 thousand barrels per day of liquefied gas and nine thousand barrels per day of naphtha in 2003.

- Morelos: This facility contains one plant that produced 37 thousand barrels per day of ethane, 49 thousand barrels per day of liquefied gas and 11 thousand barrels per day of naphtha in 2003.

- Nuevo Pemex: This facility contains 13 plants that together produced 832 million cubic feet per day of dry gas, 22 thousand barrels per day of ethane, 69 thousand barrels per day of liquefied gas, 36 thousand barrels per day of naphtha and 190 thousand tons of sulphur in 2003.

- Pajaritos: This facility contains one plant that produced nine thousand barrels per day of ethane in 2003.

- La Venta: This facility contains two plants that together produced 182 million cubic feet per day of dry gas in 2003.

- Matapionche: This facility contains five plants that together produced 73 million cubic feet per day of dry gas, two thousand barrels per day of liquefied gas, one thousand barrels per day of naphtha and 11 thousand tons of sulphur in 2003.

The following facilities are located in the Northern region:

- Reynosa: This facility contains two plants that together produced 336 million cubic feet per day of dry gas, one thousand barrels per day of ethane, six thousand barrels per day of liquefied gas, seven thousand barrels per day of naphtha and two thousand barrels per day of other products in 2003.

- Poza Rica: This facility contains four plants that together produced 66 million cubic feet per day of dry gas, four thousand barrels per day of ethane, two thousand barrels per day of liquefied gas, one thousand barrels per day of naphtha and 10 thousand tons of sulphur in 2003.

- Arenque: This facility contains three plants that together produced 25 million cubic feet per day of dry gas, one thousand barrels per day of carbon dioxide liquids and three thousand tons of sulphur in 2003.

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, 2003.

Natural Gas and Condensates Processing and Production[1]

	Year Ended December 31,					2003
	1999	2000	2001	2002	2003	vs. 2002
	(in millions of cubic feet per day, except where otherwise indicated)					(%)
Processing						
Wet gas	3,527	3,691	3,677	3,758	3,837	2.1
Sour gas[2]	3,071	3,220	3,227	3,260	3,360	3.1
Sweet gas[3]	456	471	450	498	477	(4.2)
Condensates[4]	96	101	105	94	95	1.1
Gas to natural gas liquids extraction	3,612	3,710	3,693	3,746	3,829	2.2
Wet gas	3,378	3,536	3,526	3,600	3,689	2.5
Reprocessing streams[5]	234	174	166	146	141	(3.4)
Production						
Dry gas[6]	2,709	2,791	2,804	2,916	3,029	3.9
Natural gas liquids[7][8]	447	445	443	418	428	2.4
Liquefied petroleum gas[7]	201	204	206	205	212	3.4
Ethane[7]	160	156	147	127	125	(1.6)
Naphtha[7][9]	84	85	88	84	86	2.4
Sulphur[10]	687	661	684	703	757	7.7

Note: Numbers may not total due to rounding
(1) Excludes operations of Pemex-Exploration and Production. Pemex-Exploration and Production produced a total of 4,498 million cubic feet per day of natural gas in 2003.
(2) Beginning in early 2000, includes dry gas processed in a sweetening sour natural gas plant at Poza Rica complex in order to eliminate carbon dioxide.
(3) Includes sweet vapor from condensates.
(4) Includes internal streams.
(5) Reprocessing of pipeline dry gas at various cryogenic plants.
(6) Does not include ethane reinjected into the natural gas stream.
(7) In thousands of barrels per day.
(8) Includes stabilized condensates, reprocessing streams from La Cangrejera petrochemical complex and other streams for fractionating.
(9) Includes pentanes.
(10) In thousands of tons.
Source: Pemex BDI.

Processing Capacity

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(in millions of cubic feet per day, except where otherwise indicated)				
Sweetening plants					
Sour condensates[1][2]	192	192	144	144	144
Sour natural gas[2][3]	3,753	3,753	3,923	4,173	4,503
Natural gas liquids recovery plants					
Cryogenics[4]	4,559	4,559	4,559	4,559	4,592
Absorption[3][5]	475	475	475	475	554
Total	5,034	5,034	5,034	5,034	5,146
Natural gas liquids fractionating[1][3][6]	554	554	554	563	569
Processing of hydrosulphuric acid[7]	216	216	219	219	219

(1) In thousands of barrels per day.
(2) In 2001, two sour condensates sweeting plants at Ciudad Pemex were modified to process sour natural gas. In 2002, sweetening sour gas plants No. 1 and No. 2 at Ciudad Pemex increased production capacity from 400 to 525 million cubic feet per day. In 2003, a sour natural gas sweetening plant began operations at the Arenque complex, with a capacity of 34 million cubic feet per day.
(3) In 2003, as a result of Pemex-Gas and Basic Petrochemicals' processing capacity review, adjustments set forth above to the capacity of plants to process sour natural gas, absorption and natural gas liquids fractionating were made.
(4) Includes the cryogenic plant located in La Cangrejera. In 2003, a new cryogenic plant began operations at the Arenque complex, with a capacity of 33 million cubic feet per day.
(5) Since the beginning of 1999, the absorption plant at Ciudad Pemex has been out of service.
(6) In 2002, the La Cangrejera plant increased its liquids fractionating capacity from 104 thousand barrels per day to 113 thousand barrels per day.
(7) In 2003, one sulphur recovery plant began operations at the Arenque complex, with a capacity of 13 tons per day of sulphur production.
Source: Pemex BDI.

Domestic consumption of dry gas totaled 4,615 million cubic feet per day in 2003, a 7.5% increase from the 2002 domestic consumption of 4,295 million cubic feet per day. The subsidiary entities consumed approximately 43% of the total domestic dry gas consumed in 2003, while the industrial-distributor sector consumed 25% and the electrical sector consumed 32%.

We import dry gas to satisfy shortfalls in our production and to meet demand in areas of northern Mexico which, due to their distance from the fields, can be supplied more efficiently by importing natural gas from the United States. We imported 757 million cubic feet per day of dry gas in 2003, a 27.7% increase from the 592 million cubic feet per day imported in 2002.

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, increased by 2.3%, from 418 thousand barrels per day in 2002 to 428 thousand barrels per day in 2003, due to greater availability of wet gas from Pemex-Exploration and Production.

Pemex-Gas and Basic Petrochemicals processes 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 89 thousand barrels per day in 2003, an amount approximately equivalent to that registered in 2002. Of these amounts, 76 thousand barrels per day (86%) resulted in stabilized condensates during 2003, and 75 thousand barrels per day (85%) resulted in stabilized condensates during 2002. Pemex-Gas and Basic Petrochemicals also processes sweet condensates at its Reynosa facilities to produce solvents and naphtha.

At the end of 2002, we began the construction of two modular cryogenic plants at the Burgos complex, which will each produce 200 million cubic feet of dry gas per day in order to process the natural gas production from the Burgos Basin. These plants started operations in March and May of 2004, respectively.

We finished the construction of three processing plants at the Arenque complex during the first half of 2003 and commenced operations in order to better process the gas available in the Altamira district in Tamaulipas. One processing plant is a sweetening sour natural gas plant that produces 34 million cubic feet per day, the second plant is a modular cryogenic plant that produces 33 million cubic feet of gas per day and the third plant is a sulphur recovery plant that produces 13 tons of sulphur per day.

In August 2003, a new sulphur recovery plant, with the capacity to produce 64 tons of sulphur per day, began operations in the Poza Rica complex. The operations at this plant contribute to our objective of reducing pollution emissions.

The Regulatory Law limits basic petrochemicals to the following nine products that are used in the petrochemical production process: ethane, propane, butane, pentanes, hexane, heptane, carbon black, naphthas and methane, when obtained from hydrocarbon reservoirs in Mexico and used as raw material for petrochemical industrial processes. Pemex-Gas and Basic Petrochemicals produces methane, ethane, propane, butane and naptha. All other petrochemical products may be produced by Pemex-Petrochemicals, Pemex-Refining or by private sector companies. However, the Regulatory Law also allows 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 them to us.

Over the five years ended December 31, 2003, the value of Pemex-Gas and Basic Petrochemicals' domestic sales were distributed as follows:

Value of Domestic Sales of Pemex-Gas and Basic Petrochemicals(1)

	Year Ended December 31,					2003
	1999	2000	2001	2002	2003	vs. 2002
	(in millions of constant pesos at December 31, 2003)					(%)
Natural gas	Ps. 19,450.5	Ps. 31,663.3	Ps. 32,477.4	Ps. 32,416.7	Ps. 52,206.9	61.0
Liquefied petroleum gas	22,001.0	32,666.5	32,941.4	27,951.3	37,588.4	34.5
Petrochemicals						
Hexane	151.5	132.1	160.2	143.3	221.9	54.8
Dissolving agents	24.4	298.9	423.5	228.2	42.9	(81.2)
Sulphur	185.2	149.9	81.8	118.2	198.1	67.6
Carbon black	146.9	241.3	134.9	145.1	279.9	92.9
Pentanes	39.5	33.7	3.0	50.7	23.6	(53.5)
Heptane	28.9	25.6	27.7	21.7	30.7	41.5
Butane	25.9	40.5	44.0	39.0	55.8	43.1
Propane	20.0	29.0	26.2	20.1	28.5	41.8
Isobutane	5.5	8.6	7.1	2.7	0.4	(85.2)
Others	39.4	147.0	176.7	119.3	8.0	(93.3)
Total Petrochemicals	666.9	1,106.6	1,085.0	888.5	889.6	0.1
Total	Ps. 42,118.4	Ps. 65,436.4	Ps. 66,503.9	Ps. 61,256.5	Ps. 90,684.9	48.0

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[(1)]

Subsidiary	Principal Activity	Ownership Interest
Gasoductos de Chihuahua, S. de R.L. de C.V	Transport of gas	50.00%
Mex Gas 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 sulphuric acid and distillates	99.87
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, 2003.
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 went into effect on November 9, 1995.

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 *Comisión Reguladora de Energía* (Energy Regulatory Commission) approved the Gradual Access Program for 1996-1997, which 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.

LPG Pricing Program

On February 27, 2003, President Fox issued an executive decree establishing maximum prices on first-hand and end-user sales of liquefied petroleum gas as part of a Mexican Government program to stabilize LPG prices. The purpose of this program was to curtail seasonal price fluctuations that can adversely affect economic development. Pursuant to the decree, the maximum prices of first hand sales were adjusted periodically according to a formula determined by the Mexican Government, and the Ministry of the Economy will fix the end-user's sale price. The decree expired in June 2004.

Natural Gas Hedging Operations

Pemex-Gas and Basic Petrochemicals offers its customers financial instruments as a value added service and we provide various hedging contracts to our customers in order to give them the option of protecting against fluctuations in the price of our products. On January 17, 2001, the Ministry of Finance and Public Credit, the Ministry of Economy, the Ministry of Energy and PEMEX announced a program that would stabilize natural gas prices for certain industrial consumers in Mexico who chose to join it. Most of the Mexican industrial consumers

decided to participate through a 3-year contract with a fixed price of U.S. $4.00 per million British thermal units (BTUs) (from January 2001 through December 2003). This program represented a 1.6% cost savings to our customers on the sales price over that period. In 2001, we hedged approximately 91% of the total volume of natural gas sold under this program.

At the end of 2003, the Ministry of Energy published a bulletin explaining additional hedging mechanisms that Pemex-Gas and Basic Petrochemicals would offer to its natural gas customers for the period from January 1, 2004 through December 31, 2006. This program applies to approximately 20% of our total domestic sales of natural gas to third parties. These mechanisms provide two alternatives:

- Customers can purchase natural gas swaps from us at a fixed price of a maximum of U.S. $4.50 per million BTUs over the period from January 1, 2004 through December 31, 2006 for purchases up to 10 million cubic feet per day. If the customer's requirements are higher (up to 20 million cubic feet per day), the fixed price would be U.S. $4.55 per million BTUs; or

- Customers can purchase natural gas swaps from us for the period between January 2004 through December 2004 at a lower fixed price of U.S. $4.425 per million BTUs, so long as the reference price in Reynosa does not exceed U.S. $6.00 per million BTUs. If the reference price does exceed that amount, the customer would also pay the difference between U.S. $6.00 per million BTUs and the average spot price. In June 2004, all the customers who had already entered the program agreed to renew their respective contracts for the period from 2005 through 2006.

Pemex-Gas and Basic Petrochemicals modified its traditional risk profile for natural gas in order to mitigate the potential volatility in income resulting from the sale of this product. This strategy does not leave Pemex-Gas and Basic Petrochemicals with any exposure to basis risk (i.e., the risk arising from the price of a derivative being based on a different reference than that of the underlying commodity), due to the fact that the derivatives are priced using the same market indices as the ones used to price the natural gas sales.

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

Investments

In nominal peso terms, Pemex-Gas and Basic Petrochemicals invested Ps. 3,253 million in 2003, as compared to Ps. 1,796 million in 2002, in projects primarily related to natural gas and condensates processing, transportation and storage. For 2004, the Mexican Government approved Ps. 991 million of capital expenditures for investment in new PIDIREGAS for Pemex-Gas and Basic Petrochemicals at the modular cryogenic plants in Reynosa. In addition to this, Ps. 1,896 million has been budgeted for Pemex-Gas and Basic Petrochemicals' non-PIDIREGAS-related capital expenditures in 2004.

Petrochemicals

Capacity

At the end of 2003, Pemex-Petrochemicals operated seven petrochemical complexes and one petrochemical unit for the production of non-basic petrochemical products. Pemex-Petrochemicals has one complex at Petroquímica Camargo that has not produced any petrochemical products since April 2002, and a petrochemical unit at Reynosa that has not produced any petrochemical products since August 1998. At the end of 2003, Pemex-Petrochemicals operated 51 plants, including those that were not producing. Pemex-Petrochemicals had a total installed capacity sufficient to produce 12.5 million tons of petrochemical products per year in 2003, 7.8% higher than its 2002 installed capacity of 11.6 million tons per year, due to the increased production capacity of certain ethylene plants, such as the La Cangrejera plant and the Morelos plant. Pemex-Petrochemicals' total production capacity for the last five years was distributed among its facilities as follows:

Pemex-Petrochemicals' Total Capacity

Petrochemical Facility	Year ended December 31, 1999	2000	2001	2002	2003
	(In thousands of tons)				
Cosoleacaque	4,696	4,696	4,736	4,998	4,975
La Cangrejera	2,973	2,873	2,297	2,427	3,205
Morelos	2,031	2,031	2,134	2,107	2,263
Pajaritos	1,066	1,066	1,066	1,021	1,021
Escolín	333	333	337	337	337
San Martín Texmelucan	231	246	260	268	288
Others	402	402	359[(1)]	404	409
Total	11,732	11,647	11,189	11,561	12,496

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

Pemex-Petrochemicals manufactures different non-basic petrochemical products, including:

- methane derivatives, such as ammonia and methanol;
- ethane derivatives, such as ethylene, polyethylenes, vinyl chloride monomer and ethylene oxide;
- aromatics and their derivatives, such as styrene, toluene, xylenes and paraxylene;
- propylene and its derivatives, such as acrylonitrile; and
- other products, such as oxygen, nitrogen, pentane, hexane and heptane liquids.

Our combined annual total petrochemical production (excluding ethane and butane gases) increased by 2.3%, from 9,189 thousand tons in 2002 to 9,401 thousand tons in 2003. Of this amount, Pemex-Petrochemicals produced 6,083 thousand tons of petrochemicals in 2003, representing a 3.3% increase from its production of 5,889 thousand tons in 2002, partly due to the revamping of the ethylene plants in La Cangrejera and Morelos. The remainder was produced by Pemex-Gas and Basic Petrochemicals. For information on Pemex-Gas and Basic Petrochemicals' petrochemical production, see "—Gas and Basic Petrochemicals" above.

Over the past five years, Pemex-Petrochemicals' petrochemical production has decreased due to adverse petrochemical market conditions in Mexico, mainly in the market for methane derivatives. The following table summarizes the annual production associated with the principal petrochemical activities of Pemex-Petrochemicals for the five years ended December 31, 2003.

Pemex-Petrochemicals Production

	Year Ended December 31,					2003
	1999	2000	2001	2002	2003	vs. 2002
	(in thousands of tons per year)					(%)
Liquids						
Hexanes	61	54	62	57	70	22.8
Heptanes	21	15	13	8	18	125.0
Total	82	69	75	65	88	35.4
Other inputs						
Oxygen	453	413	380	376	399	6.1
Nitrogen	112	105	96	109	106	(2.8)
Hydrogen	15	2	–	–	167	–
Total	580	520	476	485	672	38.6
Petrochemicals						
Methane derivatives	3,019	2,271	1,752	1,663	1,383	(16.8)
Ethane derivatives	2,696	2,636	2,408	2,309	2,218	(3.9)
Aromatics and derivatives	1,235	667	642	670	794	18.5
Propylene and derivatives	193	180	127	115	125	8.7
Others	56	359	396	467	722	54.6
Total	7,199	6,113	5,325	5,224	5,242	0.3
Other products						
Hydrochloric acid	105	107	87	92	66	(28.3)
Muriatic acid	25	27	31	24	14	(41.7)
Total	130	134	118	116	81	(30.2)
Total	7,991	6,836	5,994	5,889	6,083	3.3

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), in nominal peso terms, Pemex-Petrochemicals invested Ps. 1,627 million in 2003, as compared to Ps. 1,454 million in 2002, in projects primarily related to natural gas and condensates processing, transportation and storage. For 2004, Pemex-Petrochemicals expects to invest Ps. 1,231 million on these projects.

In addition, Pemex-Petrochemicals is developing the Phoenix Project with the participation of private investment. This project will involve the construction of two new petrochemical complexes (an ethylene cracker and an aromatics chain) for the production of olefins and its derivatives, aromatics and other products, which is expected to strengthen the chemical industry and help relaunch the petrochemical sector of the country. If these projects go forward, the planned production is expected to function as a substitute for the equivalent of one-third of Mexico's current imports of petrochemical substances, an amount equivalent to approximately U.S. $10 billion per year. As of the date of this report, the plan has not yet been finalized or approved.

Domestic Sales

In 2003, the value of the domestic sales of petrochemical products by Pemex-Petrochemicals increased by 43.4%, from Ps. 7,564.9 million in 2002 to Ps. 10,847.4 million in 2003. This increase was primarily due to a significant increase in the prices of some of the products manufactured by Pemex-Petrochemicals, such as polyethylenes, ethylene oxide and ammonia. In addition, the commencement of a new plant in the Morelos complex, which was converted to the production of high density polyethylene, led to an increase in the volume of sales. As part of its commercial strategy in 2003, Pemex-Petrochemicals sold larger volumes of acrylonitrile and modified the production in its aromatic chain in order to stop producing heavy reformed aromatics and instead produce paraxylene, in order to take advantage of the price opportunity that this product represents.

Over the five years ended December 31, 2003, 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[1]

	Year Ended December 31,					2003
	1999	2000	2001	2002	2003	vs. 2002
	(in millions of constant pesos at December 31, 2003)[2]					(%)
Petrochemical Product						
Methane derivatives	Ps. 1,949.1	Ps. 1,777.4	Ps. 1,615.2	Ps. 1,171.0	Ps. 1,670.6	42.7
Ethane derivatives	6,870.0	6,776.7	5,363.5	4,335.3	6,317.1	45.7
Aromatics and derivatives	2,067.9	1905.9	1,390.6	1,403.1	1,949.0	38.9
Propylene and derivatives	748.9	924.8	514.4	562.5	776.1	38.0
Others	28.8	36.7	43.8	93.0	134.6	44.7
Total	Ps. 11,664.6	Ps. 11,421.6	Ps. 8,927.5	Ps. 7,564.9	Ps. 10,847.4	43.4

Note: Numbers may not total due to rounding.
(1) Excludes value added tax.
(2) Figures have been restated to constant pesos as of December 31, 2003, by applying the inflation factors, as measured by the NCPI, from the respective year through December 31, 2003. For the three years ended December 31, 2003, the inflation factor is the average inflation rate for each of these years.
Source: Pemex BDI.

Private Sector Participation in Petrochemicals Sector

Pemex-Petrochemicals and Petróleos Mexicanos are the sole shareholders and own the following seven subsidiaries that 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 La Cangrejera, S.A. de C.V.;
- Petroquímica Morelos, S.A. de C.V.; and
- Petroquímica Pajaritos, S.A. de C.V.

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 remains subject to the fulfillment of various legal requirements, including the resolution of certain tax issues by Pemex-Petrochemicals, and has not yet been completed. The Ministry of Energy also must obtain several approvals from the Mexican Government. Once these approvals are obtained, a final authorization from the Ministry of Finance will be required in order for the merger to be effected.

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 1,844 thousand barrels per day of crude oil in 2003, which constituted 55% 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,									
	1999		2000		2001		2002		2003	
	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)
Crude oil exports (by volume)										
Olmeca (API gravity of 38°-39°)	434	28	398	25	317	18	245	14	216	12
Isthmus (API gravity of 32°-33°)	190	12	110	7	87	5	46	3	25	1
Maya (API gravity of 21°-22°)	920	59	1,086	68	1,331	76	1,395	82	1,590	86
Altamira (API gravity 15.0°-16.5°)	9	1	11	1	20	1	17	1	14	1
Total	1,554	100	1,604	100	1,755	100	1,702	100	1,844	100

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.

Source: PMI operating statistics, which are based on information in bills of lading.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(U.S. dollars per barrel)				
Crude Oil Prices					
Olmeca	$17.85	$29.00	$23.96	$24.87	$29.32
Isthmus	17.45	27.87	22.27	23.48	28.08
Maya	14.08	22.98	17.13	20.71	24.15
Altamira	12.94	19.67	12.75	19.41	22.81
Weighted average realized price	$15.55	$24.78	$18.57	$21.37	$24.80

Source: PMI operating statistics, which are based on information in bills of lading.

Geographic Distribution of Export Sales

In 2003, 96.6% of PMI's sales of our crude oil exports were to countries in the western hemisphere. As of December 31, 2003, PMI had 37 customers in 14 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.

Crude Oil Exports by Country

	Percentage of Exports				
	1999	**2000**	**2001**	**2002**	**2003**
United States	75.4%	75.0%	75.3%	78.6%	78.0%
Spain	7.8	8.7	8.4	8.3	7.8
Netherlands Antilles	6.6	6.7	7.6	5.3	5.7
Japan	2.7	2.2	1.0	0.6	0.6
Canada	1.5	1.7	1.6	1.2	1.6
Others	6.0	5.7	6.1	6.1	6.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Numbers may not total due to rounding.
Source: 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, 1999 through December 31, 2003. 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,									
	1999		2000		2001		2002		2003	
	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)
PMI Crude Oil Export Sales to:										
United States and Canada	1,196	77	1,230	77	1,349	77	1,357	80	1,467	80
Europe	177	11	185	12	184	10	218	13	176	10
Central and South America	134	9	149	9	179	10	117	7	137	7
Far East	42	3	40	2	37	2	10	1	63	3
Africa	5	0	—	—	6	1	—	—	1	0
Total	1,554	100	1,604	100	1,755	100	1,702	100	1,844	100
Olmeca (API gravity of 38°-39°)										
United States and Canada	432	28	378	24	292	17	225	13	195	11
Others	2	—	19	1	25	1	20	1	21	1
Total	434	28	398	25	317	18	245	14	216	12
Isthmus (API gravity of 32°-33°)										
United States and Canada	109	7	68	4	56	3	29	2	11	1
Others	81	5	41	3	31	2	17	1	14	1
Total	190	12	110	7	87	5	46	3	25	1
Maya (API gravity of 21°-22°)										
United States and Canada	646	42	773	48	981	56	1,087	64	1,247	68
Others	274	18	313	20	350	20	308	18	342	19
Total	920	59	1,086	68	1,331	76	1,395	82	1,590	86
Altamira (API gravity of 15.0°-16.5°)										
United States and Canada	9	1	11	1	20	1	17	1	14	1
Others	—	—	—	—	—	—	—	—	—	—
Total	9	1	11	1	20	1	17	1	14	0.7

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.

Source: PMI operating statistics, which are based on information in bills of lading.

PMI makes a significant percentage of its 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 (at the shipping point). 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 provides the purchasers with certain support mechanisms that will protect, under certain adverse market conditions, the investments that the purchasers undertake in accordance with the agreements. These agreements include:

- an agreement with Port Arthur Coker Co., signed on March 10, 1998, to supply its Port Arthur, Texas refinery with approximately 165 thousand barrels per day of Maya crude oil for a period of eight years following project completion, which occurred in March 2001;

- an agreement with Coastal Aruba Refining Company N.V. (which was assigned to Valero Energy Corporation on March 5, 2004 following its acquisition of 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 May 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 January 2002;

- 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 for a period of seven years 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 19, 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 January 2002;

- 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 occurred in January 2004; 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 occurred in April 2003.

These long-term Maya crude oil supply agreements further our strategy of supporting 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 or increase exports of crude oil as discussed below in "—Trade Regulations and Export Agreements."

The following table sets forth the average volume of our exports and imports of crude oil, natural gas and petroleum products for the five years ended December 31, 2003.

Volume of Exports and Imports

	Year Ended December 31,					2003
	1999	2000	2001	2002	2003	vs. 2002
	(in thousands of barrels per day, except as noted)					(%)
Exports						
Crude Oil						
Olmeca	434.4	397.5	317.4	244.8	215.6	(11.9)
Isthmus	190.1	109.7	86.8	45.8	24.9	(45.6)
Maya[1]	929.1	1,096.4	1,350.7	1,411.4	1,603.4	13.6
Total crude oil	1,553.6	1,603.6	1,754.9	1,702.1	1,843.9	8.3
Natural gas[2]	20.4	3.5	3.7	4.4	–	(100.0)
Refined products	149.7	112.5	102.5	155.9	178.9	14.7
Petrochemical products[3]	785.0	1,123.8	794.0	801.7	834.8	4.1
Imports						
Natural gas[4]	146.3	231.4	292.2	592.5	756.9	27.7
Refined products	365.3	445.5	382.1	349.9	287.2	(17.9)
Petrochemical products[3]	214.9	444.4	280.3	295.3	532.4	80.3

Note: Numbers are subject to adjustment because the volume of crude oil exports actually sold during December 2003 may be adjusted to reflect the percentage of water in each shipment.
(1) For 1999, 2000, 2001, 2002 and 2003, numbers include nine, eleven, twenty, seventeen and fourteen thousand barrels per day, respectively, of Altamira crude oil.
(2) Fuel oil equivalent.
(3) Thousands of metric tons.
(4) Millions of cubic feet per day.
Source: PMI operating statistics, which are based on information in bills of lading.

Crude oil exports increased by 8.3% in 2003, from 1,702.1 thousand barrels per day in 2002 to 1,843.9 thousand barrels per day in 2003, partly as a result of increased demand caused by the two million barrel per day decrease in oil production in Venezuela due to the political crisis and strike by oil workers there. Natural gas imports increased by 27.7% in 2003, from 592.5 million cubic feet per day in 2002 to 756.9 million cubic feet per day in 2003, primarily due to increased demand in Mexico. Due to this increased domestic demand, no natural gas was exported in 2003. In 2003, exports of petrochemical products by volume increased by 4.1%, from 801.7 thousand metric tons in 2002 to 834.8 thousand metric tons in 2003, while imports of petrochemical products by volume increased by 80.3%, from 295.3 thousand metric tons in 2002 to 532.4 thousand metric tons in 2003. In 2003, exports of refined products by volume increased by 14.7%, from 155.9 thousand barrels per day in 2002 to 178.9 thousand barrels per day in 2003, while imports of refined products by volume decreased by 17.9%, from 349.9 thousand barrels per day in 2002 to 287.2 thousand barrels per day in 2003.

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, 2003.

Value of Exports and Imports[1]

	Year ended December 31,					2003
	1999	2000	2001	2002	2003	vs. 2002
Exports	(in millions of nominal U.S. dollars)					(%)
Olmeca	$ 2,830.7	$ 4,219.9	$ 2,775.7	$ 2,222.8	$ 2,307.6	3.8
Isthmus	1,211.2	1,119.5	705.9	392.5	255.4	(34.9)
Maya[2]	4,774.3	9,206.8	8,414.1	10,660.6	14,128.8	32.5
Total crude oil[3]	$ 8,816.2	$ 14,546.2	$ 11,895.7	$ 13,275.9	$ 16,691.8	25.7
Natural gas	114.3	48.8	47.8	4.0	—	(100.0)
Refined products	899.6	1,167.8	896.5	1,288.1	1,743.4	35.3
Petrochemical products	133.3	280.3	145.2	145.3	186.0	28.0
Total products	$ 1,147.2	$ 1,496.9	$ 1,089.5	$ 1,437.8	$ 1,929.4	34.2
Total exports	$ 9,963.4	$ 16,043.1	$ 12,985.2	$ 14,713.7	$ 18,621.2	26.6
Imports						
Natural gas	$ 132.2	$ 366.5	$ 423.8	$ 775.4	$ 1,526.2	96.8
Refined products	2,889.1	5,411.8	4,139.2	3,827.4	3,777.3	(1.3)
Petrochemical products	55.2	125.2	83.9	70.5	105.5	49.6
Total imports	$ 3,076.5	$ 5,903.5	$ 4,646.9	$ 4,673.2	$ 5,409.0	15.7
Net exports	$ 6,886.9	$ 10,139.6	$ 8,338.3	$ 10,040.5	$ 13,212.2	31.6

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) For 1999, 2000, 2001, 2002 and 2003, numbers include nine, eleven, twenty, seventeen and fourteen 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: PMI operating statistics, which are based on information in bills of lading.

Imports of natural gas increased in value by 96.8% during 2003, as a result of increased domestic demand for natural gas and higher natural gas prices.

In 2003, we continued to be a net importer of refined products, although imports of refined products decreased in value by 1.3%, and exports of refined products increased in value by 35.3%. Our net imports of refined products for 2003 totaled U.S. $2,033.9 million, a 19.9% reduction in the refined products trade deficit of U.S. $2,539.3 million in 2002. During 2004, import volumes of refined products are likely to continue to fluctuate significantly as a result of the anticipated startup of new refining plants.

The following table describes the composition of our imports and exports of selected refined products in 2001, 2002 and 2003.

Imports and Exports of Selected Refined Products

	Year Ended December 31,					
	2001		2002		2003	
	(tbpd)	(%)	(tbpd)	(%)	(tbpd)	(%)
Imports						
Gasoline[(1)]	167.9	43.9	179.6	51.3	145.2	50.6
Fuel oil	85.7	22.4	19.0	5.4	20.3	7.1
Liquefied petroleum gas	99.8	26.1	101.6	29.0	85.2	29.7
Diesel	16.6	4.3	26.7	7.6	10.0	3.5
Others	12.1	3.2	23.0	6.6	26.5	9.2
Total	382.1	100.0%	349.9	100.0%	287.2	100.0%
Exports						
Gasoline[(1)]	74.2	72.4	70.7	45.3	70.9	39.6
Diesel	8.4	8.2	5.5	3.5	2.5	1.4
Liquefied petroleum gas	3.1	3.0	0.4	0.2	0.3	0.2
Jet fuel	2.5	2.4	6.3	4.1	7.6	4.3
Fuel oil	1.7	1.7	25.7	16.5	23.6	13.2
Others	12.6	12.3	47.3	30.4	73.9	41.3
Total	102.5	100.0%	155.9	100.0%	178.9	100.0%

Notes: tbpd = thousands of barrels per day.
Numbers may not total due to rounding.
(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, 2003, our imports and exports of selected petrochemicals were as follows:

Imports and Exports of Selected Petrochemicals

	Year Ended December 31,					
	2001		2002		2003	
	(tmt)	(%)	(tmt)	(%)	(tmt)	(%)
Imports						
Xylenes	3.4	1.2	5.0	1.7	2.0	0.4
Propylene	–	–	4.5	1.5	0.4	0.1
Ammonia	94.1	33.6	88.6	30.0	35.2	6.6
Others	182.7	65.2	197.2	66.8	494.8	92.9
Total	280.3	100.0%	295.3	100.0%	532.4	100.0%
Exports						
Sulphur	498.4	62.8	411.8	51.4	552.6	66.2
Ammonia	20.1	2.5	123.2	15.4	0.1	0.0
Ethylene	123.6	15.6	98.3	12.3	94.0	11.3
Polyethylenes	45.3	5.7	50.1	6.3	34.3	4.1
Others	106.7	13.4	118.4	14.8	153.8	18.4
Total	794.0	100.0%	801.7	100.0%	834.8	100.0%

Notes: tmt = thousands of metric tons.
Numbers may not total due to rounding.
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 Price Risk."

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 2003, our pipeline network measured approximately 58,376 kilometers in length. Of the total network, approximately 9,951 kilometers of pipelines transport crude oil, approximately 10,904 kilometers transport petroleum products and petrochemicals, 15,933 kilometers transport natural gas, 1,857 kilometers transport liquefied petroleum gas, 1,324 kilometers transport basic petrochemicals and the remaining pipelines 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 2003, we transported approximately 77.2 billion tons per kilometer of crude oil and petroleum products to be processed in the refining system and petroleum products to satisfy domestic demand, as compared to the 74.2 billion tons per kilometer carried in 2002. Of the total amount of tons per kilometer we transported in 2003, we carried 61.7% through pipelines, 34.9% by vessels and the remainder by train tank cars and tank trucks.

At the end of 2003, we owned nineteen refined product tankers and leased another eight. We also owned 77 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 and Environmental Protection

Petróleos Mexicanos' Corporate Division of Operations 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 Operations.

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 all of our insurance policies through Mexican insurance carriers. These policies have limits of U.S. $1.3 billion for onshore and offshore property, U.S. $300 million for extraordinary costs related to the operation of offshore wells, U.S. $1.0 billion for protection and indemnification for marine-related liabilities and U.S. $500 million for civil liabilities. Since June 2003, we have stopped purchasing business interruption insurance that compensated us for loss of revenues because factors related to the nature and operation of our facilities, such as the ability of any of our six refineries to compensate for the loss of any one refinery and the separation of plants within the refineries, have rendered this type of coverage unnecessary in light of the available coverage and conditions from the international insurance and reinsurance markets. In replacement of this coverage, we have purchased business interruption mitigation insurance that compensates us only for the expenses that are necessary for us to recover our production capabilities in the least time possible.

Property, Plants and Equipment

General

Substantially all of our 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 us. 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. The *Secretaría de la Función Pública*, which we refer to as SFP (formerly known as SECODAM), appoints the external auditors of Petróleos Mexicanos and the subsidiary entities.

The *Auditoría Superior de la Federación* (the Supreme Auditor of the Federation is an entity of the Mexican Congress, which we refer to as the ASF), reviews the *Cuenta Pública* (public account) of the various federal government entities on an annual basis, including Petróleos Mexicanos and the subsidiary entities. This review focuses mainly on the entities' compliance with budgetary benchmarks and budget and accounting laws. The ASF prepares reports of its observations based on this review. The reports are subject to our analysis and, if necessary, our clarification and explanation of any issues raised during the audit. Discrepancies in amounts spent may subject our officials to legal sanctions. However, in most instances the observed issues are explained and clarified. The financial

information provided to the ASF is prepared in accordance with Mexican Financial Reporting Standards applicable to Mexican public sector entities, which differ in several aspects from Mexican GAAP. As a result, our financial statements reflect different financial data than that included in the public account.

ENVIRONMENTAL REGULATION

Legal Framework

We are subject to various laws related to the environmental protection of natural resources, as well as the management of hazardous and non-hazardous wastes. In particular, 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 us. 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 Regulations of 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 of the different permits, licenses and authorizations related to environmental matters for a particular facility. Since these regulations went into effect, we have been required to obtain an environmental license for any new facility, while our facilities that existed prior to the effectiveness of these regulations 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 to eliminate these deficiencies. If soil or bodies of water are contaminated at levels that exceed the levels stipulated in the applicable regulation, the remediation requirements derived from these internal audits and inspections are recorded in our financial statements as environmental liabilities when they are known and estimable.

Our Corporate Division of Operations 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 an advanced stage of implementation.

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 us and compliance with permitted contamination levels established by laws and regulations, it does not determine our environmental liabilities. We maintain proper records of all of the studies, estimations, performed works and any other information that PROFEPA may request from time to time.

Since 1993, we have participated in a voluntary environmental audit program with PROFEPA. 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, we negotiate a corrective action plan with PROFEPA, stipulating the time period, amounts to be expended and the steps to be taken to bring each site into compliance. As of December 31, 2003, with respect to Petróleos Mexicanos and the subsidiary entities, 432 environmental audits, which include the negotiation of a corrective action plan, had been concluded under the program with PROFEPA and all main facilities had been covered. As of December 31, 2003, corrective action plans for 345 audits had been implemented and all of these sites have received "clean industry" certifications from PROFEPA (some of which had to be recertified). With respect to the remaining 87 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, 2003, our estimated and accrued environmental liabilities totaled Ps. 1,926 million. Of this total, Ps. 1,023 million was attributable to Pemex-Exploration and Production, Ps. 717 million was attributable to Pemex-Refining, Ps. 164 million was attributable to Pemex-Gas and Basic Petrochemicals and Ps. 23 million was attributable to Pemex-Petrochemicals. There were no environmental liabilities at the subsidiary company level. The following charts detail our environmental liabilities by subsidiary entity and operating region at December 31, 2003.

Pemex-Exploration and Production

	Estimated Affected Area (in hectares)	Estimated Liability (in thousands of pesos)
Northern Region	297.76	Ps. 595,525
Southern Region	11.53	19,760
Southeast Marine Region	0.95	45,707
Total[1]	310.24	Ps. 660,992

(1) During 2003, environmental remediation was completed on 40,684 hectares. There were 28,673 hectares of additional affected areas, including 10,817 hectares in the Northern region and 17,816 hectares in the Southern region, which were affected as a result of spills from pipelines.

Source: PEMEX.

	Holding Ponds Drainage	
	Number of Holding Ponds	Estimated Liability (in thousands of pesos)
Northern Region[1]	606	Ps. 301,913
Southern Region	24	59,963
Total[2]	630	361,876
Total estimated environmental liabilities of Pemex-Exploration and Production		Ps. 1,022,868

Note: Numbers may not total due to rounding.

(1) A total of 237 holding ponds were eliminated as liabilities for 2003. Of these, 20 did not require remediation because of a low concentration of contaminants, and the remaining 217 were incorporated into projects for drilling, maintenance and the repair of wells, which eliminated them as a liability. In the case of these 217 holding ponds, if they have not been restored by the end of the project, they will be reclassified as a liability.

(2) In 2003, a total of 316 holding ponds were classified as new liabilities, and a total of 256 holding ponds were restored and were discharged as liabilities.

Source: PEMEX.

Pemex-Refining

	Estimated affected area (in hectares)	Estimated Liability (in thousands of pesos)
Pipelines[1]	8.28	Ps. 62,898
Refineries [2]	182.31	225,366
Storage and Distribution Terminals [3][4]	238.07	278,534
Other affected areas [5]	52.0	150,537
Total	480.66	Ps. 717,335

(1) PROFEPA has approved the environmental remediation of five pipelines; accordingly, the remaining estimated liabilities associated with these pipelines are considered discharged.

(2) All six of Pemex-Refining's refineries have been audited. Affected areas totaling 802,440 hectares have been discharged as liabilities since 2002 as a result of new characterization studies of the refineries at Madero, Salamanca and Minatitlán, which indicated that the sites were in compliance with the limits established in the environmental regulations. These new characterization studies were based upon a modification in August 2002 by the environmental authorities of the maximum permissible limits (concentrations) for contamination of soils by hydrocarbons. These new limits were significantly higher than those that were used in the initial characterization studies. The new studies indicated that some of the soils in the refineries had hydrocarbon concentrations that were below the new maximum permissible limits and therefore the number of hectares affected by hydrocarbon contamination has been reduced.

(3) All of Pemex-Refining's storage and distribution terminals have been audited. Of the 26 terminals which required environmental remediation, the estimated affected area of 6 storage and distribution terminals has not yet been determined; however, the estimated liability includes the cost estimate for such areas based on available information. The property on which the storage terminal at Aguascalientes is located was donated to the government of the state of Aguascalientes and has therefore been eliminated as a liability.

(4) The estimated value of the liability has been increased since 2002 based on recent information regarding the conditions at these sites.

(5) Figure primarily represents an additional estimated liability of the Santa Alejandrina swamp in Minatitlán, Veracruz.

Source: PEMEX.

Pemex-Gas and Basic Petrochemicals

	Estimated affected area	Estimated Liability
	(in hectares)	(in thousands of pesos)
Gas Complex Processors[1]	50.77	Ps. 152,690
Pipelines[2]	0.11	11,000
Total	50.88	Ps. 163,690

(1) Seven gas complex processing plants and one gas processing plant have been audited and six complex gas processing plants were determined to require environmental remediation. The affected area at the gas complex processing plant of Nuevo Pemex has been eliminated, as a result of a characterization site study that demonstrated that the area was in compliance with the new limits established by environmental regulations.

(2) Following a diagnosis and evaluation stage, new areas and resources have been determined to require remediation. The estimated costs of remediation activities have been modified to include the affected areas in the pipeline sector of Minatitlán.

Source: PEMEX.

Pemex-Petrochemicals

	Estimated affected area	Estimated Liability
	(in hectares)	(in thousands of pesos)
Petroquímica La Cangrejera, S.A. de C.V.	0.30	Ps. 1,344
Petroquímica Pajaritos, S.A. de C.V.	10.13	21,203
Total[1]	10.43	Ps. 22,547

(1) All of 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 up in the past. Our environmental liabilities also include the elimination of holding 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. We accrue environmental liabilities when sufficient basic knowledge is available to form a preliminary estimation as to remediation cost. Although the full potential scope of the remediation cost may not be known with certainty, these accruals are made when the liability is probable and the amount is reasonably estimable, in accordance with Bulletin C-12 "Contingencies and Commitments" for Mexican GAAP purposes and with SFAS No. 5 "Accounting for Contingencies" for U.S. GAAP purposes. These estimated liabilities include assumptions resulting from an 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 a further discussion of our environmental liabilities, see Note 19 II c) to our consolidated financial statements included herein.

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 2003, 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 accountable for any 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 Projects and Expenditures

In 2003, we spent approximately Ps. 3,479 million in environmental projects and related expenditures, as compared to Ps. 3,179 million in 2002. For 2004, we have budgeted Ps. 2,240 million for expenditures on environmental projects. These environmental projects and expenditures are primarily directed to the modernization of installations, the implementation of systems and mechanisms to monitor and control 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. 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 (NAFTA) among the governments of Mexico, the United States and Canada 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 stabilizing 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. During 2002, the Ministry of Energy announced a decrease in crude oil exports of 100 thousand barrels per day, to 1.66 million barrels per day, in line with OPEC announcements to reduce crude oil production levels that year.

In January 2003, as a result of increasing market demand, Mexico agreed to increase its crude oil exports by 100 thousand barrels per day to a level of 1.76 million barrels per day. In February 2003, in light of the loss of more than 2 million barrels per day of Venezuelan crude oil, Mexico announced an additional 120 thousand barrel per day increase in its crude oil export to a level of 1.88 million barrels per day. In September 2003, OPEC announced that it would cut crude oil production by 900 thousand barrels per day beginning November 1, 2003. Following this announcement, Mexico announced that it expected to maintain its crude oil exports at their present levels. In March 2004, OPEC announced that it would cut crude oil production by one million barrels per day beginning April 1, 2004. In June 2004, OPEC announced that it would increase crude oil production by 500 thousand barrels per day beginning August 1, 2004. As of the date of this report, Mexico has not announced any revisions to its current levels of crude oil exports as a result of this latest announcement by OPEC.

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 the exclusive rights of Mexico, through PEMEX, to explore and produce crude oil and natural gas in Mexico, and to refine crude oil and to produce basic petrochemicals in Mexico. In 2004, however, NAFTA has phased 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. These 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 rates at which the Mexican Congress assesses hydrocarbon taxes and duties may vary from year to year and are set after taking into consideration our operating budget, our capital expenditure program and our financing needs. The aggregate tax rate for all special hydrocarbon taxes and duties will not exceed 60.8% of the revenues of sales to third parties under the oil price set for the particular year.

If the indirect IEPS Tax that we collect is taken into account, we contributed approximately 35% of the Mexican Government's revenues in 2003 and 30% in 2002.

The most important taxes and duties that we are required to pay and their applicable rates in 2004 are the following:

Hydrocarbon Extraction Duty.....	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.
Extraordinary Hydrocarbon Extraction Duty	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%.
Additional Hydrocarbon Extraction Duty	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%.
Hydrocarbon Income Tax.....	Petróleos Mexicanos pays this direct tax on behalf of itself and its 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, and may be determined on a consolidated basis.
IEPS Tax.....	The Special Tax on Production and Services (which we refer to as the IEPS Tax) is an indirect tax on domestic sales of gasoline and diesel that Pemex-Refining collects 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 we retain 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.

We make advance payments to the Mexican Government in respect of our Hydrocarbon Extraction Duties and IEPS Tax. These are credited against our liability under the foregoing duties and taxes. 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 (which we refer to collectively as the Taxes and Duties) must equal the Hydrocarbon Duty. For 2004, the Hydrocarbon Duty is calculated by applying a rate of 60.8% to the sales revenues of Petróleos Mexicanos and subsidiary entities from the PMI Group and third parties, including the IEPS Tax generated by Pemex-Refining, but excluding the value added 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

The Excess Gains Revenue Duty was a duty payable to the Mexican Government in addition to the Hydrocarbon Duty when our crude oil export prices exceeded the per barrel threshold price established for that year. In 2003, we paid an Excess Gains Revenue Duty in an amount equal to 39.2% of those revenues in excess of the threshold price set for that year of U.S. $18.35 per barrel. Thus, in 2003, for every dollar exceeding the threshold price, we paid 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 were payable to the Mexican Government. However, for the amount up to the threshold price, we paid 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, 2002 and 2003 and do not expect to pay this duty again.

Duty for Exploration, Gas, Refining and Petrochemical Infrastructure

Beginning in 2004, instead of paying the Excess Gains Revenue Duty to the Mexican Government, we are obligated to pay a Duty for Exploration, Gas, Refining and Petrochemical Infrastructure, the proceeds of which will be dedicated for investment in infrastructure works for exploration, gas, refining and petrochemicals that will be carried out by us and our subsidiary entities. Like the prior Excess Gains Revenue Duty, this duty equals 39.2% of our revenues from crude oil export sales in excess of the threshold crude oil price set for that year (which in 2004 is U.S. $20.00 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 Duty for Exploration, Gas, Refining and Petrochemical Infrastructure 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.

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, some of our subsidiary companies are Mexican corporations and are subject to the tax regime applicable to all 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. 752 million in 2001, Ps. 674 million in 2002 and Ps. 715 million in 2003.

Future Fiscal Reform

Over the past few years, we have been discussing various proposals with the Mexican Government for reforming the Mexican federal tax regime applicable to us. The proposals have generally sought to change the current 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 that allow the Mexican Government to recover income from hydrocarbon extraction while improving our ability to finance more efficiently the development of hydrocarbon reserves and investments in property, plant and equipment.

Nevertheless, the Mexican Government has not yet 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 hydrocarbon tax laws 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 6, 2003, all of the seats in the Chamber of Deputies were up for election. The members of the Senate were elected on June 2, 2000. The following table provides the current distribution of Congressional seats, reflecting certain post-election changes in the party affiliations of certain senators and deputies:

Party Representation in Congress

	Senate		Chamber of Deputies	
	Seats	**% of Total**	**Seats**	**% of Total**
Institutional Revolutionary Party	60	46.9	224	44.8
National Action Party	46	35.9	151	30.2
Democratic Revolution Party	16	12.5	97	19.4
Ecological Green Party of Mexico	5	3.9	17	3.4
Independent	1	0.8	0	0.0
Labor Party	0	0.0	6	1.2
Convergence for Democracy	0	0.0	5	1.0
Total	128	100.0%	500	100.0%

Note: Totals may differ due to rounding.
Source: Cámara de Diputados H. Congreso de la Unión y Cámara de Senadores.

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 us to MetLife Inc. for Ps. 9,200 million.

On June 19, 2002, the Mexican Government and the Bank Savings Insurance Institute (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 net 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. From November 2002 through January 2003, the Mexican Government and IPAB sold their remaining shares of BBVA Bancomer in the Mexican stock market for total net proceeds of Ps. 444.4 million for the Mexican Government and Ps. 68.2 million for IPAB.

On December 12, 2002, Congress approved the dissolution and liquidation of *Banco Nacional de Crédito Rural, S.N.C.*, a governmental development bank, as discussed under "—Public Finance—2002 Budget and Fiscal Results."

The Mexican Government believes that increased private investment in the generation, distribution and transmission of electrical energy is necessary in order to increase Mexico's electrical capacity to ensure that Mexico will have a sufficient and reliable supply of adequately priced electricity in the long term. A 1992 law currently allows private companies to generate electricity only for their own use or for sale to the Federal Electricity Commission (CFE). The executive branch of the Government presented a proposal to opposing political parties in

August 2002 for a constitutional amendment and amendments to the laws and regulations establishing CFE to achieve this objective. Past legislative initiatives to allow greater private sector participation in this sector have not succeeded. The August 2002 proposal is still under discussion and it remains unclear whether a formal bill enacting these types of reforms will be passed by the Congress.

Gross Domestic Product

During 2002, Gross Domestic Product (GDP) increased by 0.7% in real terms, as compared to 2001. GDP decreased by 2.4% in real terms in the first quarter of 2002, increased by 1.9% in the second quarter, increased by 1.6% in the third quarter and increased by 1.9% in the fourth quarter, each as compared to the same period of 2001.

According to preliminary figures, GDP increased by 1.3% in real terms during 2003. With the exception of the manufacturing sector, which declined by 2.0%, all sectors of the economy grew in 2003, led by the financial services, insurance and real estate sector, which grew by 4.3% in real terms. The agriculture, livestock, fishing and forestry sector grew by 3.9%, the mining, petroleum and gas sector grew by 3.7%, construction increased by 3.4% and the transportation, storage and communications sector grew by 3.3%, each in real terms. The commerce, hotels and restaurants sector grew by 1.3%, the electricity, gas and water sector grew by 1.1% and the community, social and personal services sector grew by 0.5%, each in real terms.

According to preliminary figures, GDP grew by 3.7% in real terms during the first quarter of 2004, as compared with the same period of 2003. This growth was led by the transportation, storage and communications sector, which grew by 9.5% in real terms. The mining, petroleum and gas sector grew by 6.4%, construction increased by 4.9%, the agriculture, livestock, fishing and forestry sector grew by 4.6% and the financial services, insurance and real estate sector grew by 4.3%, each in real terms. The commerce, hotels and restaurants sector grew by 3.8%, the electricity gas and water sector grew by 1.4% and the community, social and personal services sector grew by 1.0%, each in real terms.

The following table sets forth the change in Mexico's real GDP by sector for the periods indicated.

Real GDP Growth by Sector

	1999	2000	2001[1]	2002[1]	2003[1]	First Quarter of 2004[1][2]
GDP (constant 1993 prices)	3.7%	6.6%	(0.1)%	0.7%	1.3%	3.7%
Agriculture, livestock, fishing and forestry	3.6	0.6	3.5	(0.3)	3.9	4.6
Mining, petroleum and gas	(2.1)	3.8	1.5	(0.4)	3.7	6.4
Manufacturing	4.2	6.9	(3.8)	(0.7)	(2.0)	2.8
Construction	5.0	5.1	(5.7)	1.3	3.4	4.9
Electricity, gas and water	7.9	1.0	4.7	0.4	1.1	1.4
Transportation, storage and communications	7.8	9.6	3.8	1.9	3.3	9.5
Commerce, hotels and restaurants	3.1	12.4	(1.2)	0.0	1.3	3.8
Financial services, insurance and real estate	3.6	5.2	4.5	4.3	4.3	4.3
Community, social and personal services	2.1	2.9	(0.3)	0.5	0.5	1.0

(1) Preliminary.
(2) First quarter of 2004 results as compared to same period of 2003.
Source: National Institute of Statistics, Geography and Informatics.

Prices and Wages

Inflation during 2002 (as measured by the change in the national consumer price index, or "NCPI") was 5.7%, 1.3 percentage points higher than the official inflation target for the year. The increase in inflation in 2002 was attributable to several factors, including increases in residential electricity prices, domestic gas prices and fruit and vegetable prices. Inflation during 2003 was 4.0%, 1.7 percentage points lower than during 2002. The decrease in inflation in 2003 was attributable to the relative stability of residential electricity prices, domestic gas prices and fruit and vegetables prices in 2003 as compared to 2002. Inflation during the first six months of 2004 was 1.63%, 0.38 percentage points higher than during the same period of 2003.

Interest Rates

During 2002, interest rates on 28-day Treasury bills (*Certificados de la Tesorería de la Federación,* or *Cetes*) averaged 7.1% and interest rates on 91-day *Cetes* averaged 7.4%, as compared with average rates on 28-day *Cetes* and 91-day *Cetes* of 11.3% and 12.2%, respectively, during 2001. Interest rates rose during the first quarter of 2002 due to expectations that inflation would rise as a result of the partial elimination of subsidies on electricity prices. Interest rates subsequently declined in 2002 following monetary policy interventions that reduced the risk of inflationary pressures.

During 2003, interest rates on 28-day *Cetes* averaged 6.2% and interest rates on 91-day *Cetes* averaged 6.5%, as compared with average rates on 28-day and 91-day *Cetes* of 7.1% and 7.4%, respectively, during 2002. Domestic interest rates were at historically low levels during 2003, largely due to reduced inflationary expectations and favorable conditions in the financial markets.

During the first six months of 2004, interest rates on 28-day *Cetes* averaged 6.0% and interest rates on 91-day *Cetes* averaged 6.2%, as compared with average rates on 28-day *Cetes* and 91-day *Cetes* of 7.5% and 7.6%, respectively, during the same period of 2003. On July 6, 2004, the 28-day *Cetes* rate was 6.69% and the 91-day *Cetes* rate was 7.08%.

Financial System

2003 Monetary Program

- Mexico's monetary program for 2003 had as its principal objective the achievement of an inflation rate not exceeding 3.0% by the end of 2003. Mexico's monetary program for 2003 was made up of the following elements:

- inflation objectives;

- a framework for the implementation of monetary policy;

- a reference guideline for the analysis of the economic situation and inflationary pressures; and

- a plan for regular communications with the public regarding inflationary expectations and monetary policy.

Banco de México uses a "short" mechanism to induce the necessary changes in interest rates to achieve inflation objectives. Under the mechanism, Banco de México sets a predetermined amount at which the daily average of the net total balance of all current accounts of banks accumulated during a certain period will close and controls that amount by restricting the amount of credit it auctions to banks on a daily basis. Prior to April 10, 2003, that amount was set based on a 28-day period. On April 10, 2003, the period was changed from 28 days to a daily average balance. When the predetermined amount is negative, or "short," Banco de México exerts upward pressure on interest rates by leaving the market short of pesos and by increasing the interest rate on a portion of the credit it auctions on that day. This mechanism allows Banco de México to combat inflationary pressures and disorderly

conditions in the money and foreign exchange markets and to ensure that changes in the monetary base follow a path consistent with the assumed inflation rate.

Using the 28-day mechanism then in place, the Board of Governors of Banco de México decided to increase the "short" on three occasions during 2003, from Ps. 475 million to Ps. 550 million on January 10, 2003, from Ps. 550 million to Ps. 625 million on February 7, 2003, and from Ps. 625 million to Ps. 700 million on March 28, 2003. These increases in the "short" were made in response to internal and external factors that threatened the achievement of the inflation target for 2003.

During 2003, the Ml money supply (defined as bills and coins held by the public, plus checking accounts denominated in local currency and foreign currency, plus interest-bearing deposits denominated in pesos and operated by debit cards) increased by 7.6% in real terms, as compared with 2002. In addition, checking account deposits denominated in pesos increased by 8.1% in real terms during 2003, as compared with 2002.

During 2003, financial savings increased by 8.7% in real terms, as compared with 2002. Savings generated by Mexican residents increased by 8.6% in real terms and savings generated by non-residents increased by 17.5% in real terms during 2003, each as compared with 2002.

At December 31, 2003, the monetary base totaled Ps. 303,614 million, a 15.0% nominal increase as compared to the level of Ps. 263,937 million at December 31, 2002.

2004 Monetary Program

Mexico's monetary program for 2004 has as its principal objective the achievement of an inflation rate not exceeding 3.0% by the end of 2004. Mexico's monetary program for 2004 is made up of the following elements:

- inflation objectives;
- a reference guideline for the analysis of the economic situation and the inflationary pressures;
- a framework for the monetary instruments to be used by the Central Bank to reach its objectives; and
- a plan for regular communications with the public that promotes transparency and the credibility of the monetary policy.

Using the new daily average balance mechanism, Banco de México has increased the "short" on three occasions during the first four months of 2004, from Ps. 25 million to Ps. 29 million on February 20, 2004, from Ps. 29 million to Ps. 33 million on March 12, 2004, and from Ps. 33 million to Ps. 37 million on April 27, 2004. These increases were made in response to internal and external factors that could have threatened the achievement of the 3.0% inflation target for 2004.

During the first five months of 2004, the Ml money supply increased by 10.0% in real terms, as compared with the same period of 2003. In addition, checking account deposits denominated in pesos increased by 10.2% in real terms during first five months of 2004, as compared with the same period of 2003.

During the first five months of 2004, financial savings increased by 7.0% in real terms, as compared with the same period of 2003. Savings generated by Mexican residents increased by 6.8% in real terms and savings generated by non-residents increased by 19.0% in real terms during the first five months of 2004, each as compared with the same period of 2003.

At July 8, 2004, the monetary base totaled Ps. 279.3 billion, an 8.0% nominal decrease from the level of Ps. 303.6 billion at December 31, 2003. Banco de México estimates that the monetary base will total approximately Ps. 338.1 billion at December 31, 2004.

Banking System

In connection with the implementation of NAFTA, 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 NAFTA 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 NAFTA 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 (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. GAAP.

In response to the 1994-95 financial crisis, the Mexican Government took a number of additional steps to support the banking system, including broadening the scope for investment by foreign and domestic investors in the equity of Mexican financial institutions, enhancing the power of the CNBV to supervise and intervene in the activities of financial holding companies and creating a number of debtor support programs to restructure past-due loans caused by the crisis, then-rising interest rates and the ongoing recession. From 1994 to 1996, the CNBV exercised its authority to intervene in the management of a number of Mexican financial institutions, including the Cremi/Union financial group, *Grupo Financiero Asemex Banpaís, S.A. de C.V.* and its banking and insurance subsidiaries, *Banco Capital, S.A.* and *Banco del Sureste, S.A.*

In addition, the Government established the Temporary Capitalization Program (PROCAPTE), a voluntary program to assist viable but undercapitalized banks, under which the Banking Fund for the Protection of Savings (FOBAPROA) advanced funds to participating banks in exchange for five-year, mandatorily convertible bonds. 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.

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.

In 1998, the Mexican Government's program to rescue troubled banks, which was first implemented in 1995, was restructured. Under the revised system, 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* (or 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 July 10, 2004, one UDI was set at Ps. 3.413723.

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 March 31, 2004, IPAB's debt totaled Ps. 833.3 billion.

In addition to Mexico's auctions of debt securities in the domestic market, IPAB also sells peso-denominated debt securities in Mexico. IPAB uses 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. During 2000, IPAB conducted its first offering of these securities, placing Ps. 73,360 million of three- and five-year Savings Protection Bonds (BPAs) during that year. BPAs pay interest monthly at a rate (reset monthly) equal to the higher of the 28-day *Cetes* rate and the rate applicable to one-month bank notes (*Pagarés con Rendimiento Liquidable al Vencimiento*). IPAB placed a total of Ps. 74,600 million of these three- and five-year BPAs in the market in 2003, as compared to a total of Ps. 60,400 million in 2002.

In July 2002, IPAB conducted an offering of a type of peso-denominated Savings Protection Bonds (BPATs), placing Ps. 7,000 million of these five-year debt instruments in the Mexican market. These Savings Protection Bonds pay interest every 91 days at a rate (reset monthly) equal to the higher of the 91-day *Cetes* rate and the rate applicable to one-month bank notes (*Pagarés con Rendimiento Liquidable al Vencimiento*). IPAB placed an additional Ps. 11,750 million of these BPAT instruments in the Mexican market in the fourth quarter of 2002. In total, IPAB placed Ps. 77,400 million of these BPAT instruments in 2003 and Ps. 18,740 million of these BPAT

instruments in 2002, in addition to the Ps. 60,400 million of three- and five-year BPAs placed in 2002 and the Ps. 74,600 million of BPAs placed in 2003 discussed above.

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 1994-1996 period. In May 2002, IPAB announced its intention to initiate a review of four banks that had transferred nonperforming loans to FOBAPROA following the 1994-1995 financial crisis, in order to determine whether all of the loans transferred by the banks were in fact eligible for transfer under the applicable guidelines. The four banks subsequently filed suit to challenge the reviews, which were suspended pending resolution of the suits by the applicable courts. On June 1, 2004, the Supreme Court exercised its right to elevate the status of these lawsuits to Supreme Court review, which is currently pending.

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, most of which were phased in by January 1, 2003, 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;

- 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, 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 ten 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, 2003, calculated in accordance with the accounting criteria applicable to credit institutions since the beginning of 1998, the total amount of past-due loans of commercial banks (excluding banks under Government intervention and those in special situations) was Ps. 31.1 billion, as compared with Ps. 45.0 billion at December 31, 2002. The total loan portfolio of the banking system decreased by 3.8% in real terms during 2003. The past-due loan ratio of commercial banks was 3.2% at December 31, 2003, as compared to 4.6% at December 31, 2002. The amount of loan loss reserves created by commercial banks (excluding banks under Government intervention and those in special situations) totaled Ps. 52.0 billion at the end of December 2003, as compared with Ps. 58.4 billion at December 31, 2002. At this level, commercial banks had reserves covering 167.1% of their past-due loans, exceeding the minimum reserve level of 45% required by the applicable accounting criteria.

At March 31, 2004, the total amount of past-due loans of commercial banks (excluding banks under Government intervention and those in special situations) was Ps. 31.8 billion, as compared with Ps. 31.1 billion at

December 31, 2003. The total loan portfolio of the banking system decreased by 2.3% in real terms during the first quarter of 2004. The past-due loan ratio of commercial banks was 3.2% at March 31, 2003, as compared to 3.2% at December 31, 2003. The amount of loan loss reserves created by commercial banks (excluding banks under Government intervention and those in special situations) totaled Ps. 53.3 billion at March 2004, as compared with Ps. 52.0 billion at December 31, 2003. At this level, commercial banks had reserves covering 167.4% of their past-due loans, exceeding the minimum reserve level of 45% required by the applicable accounting criteria.

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 29 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. $122.5 billion at the end of 2003, representing a 17.1% increase in dollar terms from its year-end 2002 level. The value of transactions on the Mexican Stock Exchange reached U.S. $31.6 billion in 2003, 16.6% less than in 2002. Fixed income securities (*i.e.*, commercial paper, notes, bonds and ordinary participation certificates) accounted for 2.9% and equity securities (*i.e.*, shares and certificates of patrimonial contribution) accounted for the remaining 97.2% of transactions in 2003.

At December 31, 2003, the Stock Market Index stood at 8,795.28 points, representing a 43.5% increase from the level at December 31, 2002. At July 10, 2004, the Stock Market Index stood at 10,042.34 points, representing a 14.2% increase from the level at December 31, 2003.

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 was intended to result in greater legal certainty and swifter case resolution for debtors and creditors involved in the insolvency process. The law replaced one that had been in place since 1943. Among its provisions, the law limited 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 law also established 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 amended the Commerce Code, the General Law of Negotiable Instruments and Credit Transactions and the Credit Institutions Law. The law was 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 recognized 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 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 law also provided for an expedited procedure for creditors to execute judgments against security interests.

On June 13, 2003, a congressional decree was published amending the Commerce Code, the General Law of Negotiable Instruments and Credit Transactions, the Securities Market Law, the Banking Law, the Insurance Companies Law, the Bond Companies Law and the General Law of Ancillary Credit Organizations and Activities. Among its provisions, the decree eliminates a prior non-recourse provision applicable to non-possessory pledges and collateral trusts in order to allow creditors further recourse against debtors in the event that proceeds derived from the sale or foreclosure of collateral are insufficient to pay secured obligations. The decree also amends certain aspects of the collateral trust, including extending the period for which a trust may be created and changing certain aspects of the trustee's role. Provisions of the Commerce Code governing judicial foreclosure proceedings of securities trusts are amended accordingly. Additionally, the new decree amends the Securities Market Law to redefine the provisions for creating and transferring the securities granted as collateral under a special pledge over securities deposited in an institution for deposit and clearance of securities.

External Sector of the Economy

Foreign Trade

During 2003, Mexico registered a trade deficit of U.S. $5,624 million, as compared with a trade deficit of U.S. $7,916 million for 2002. Merchandise exports increased by 2.6% during 2003, to U.S. $164,922 million, as compared with U.S. $160,762 million in 2002. Petroleum exports increased by 28.9% and non-petroleum exports decreased by 0.01% in 2003, each as compared with 2002. Exports of manufactured goods, which represented 85.6% of total merchandise exports, decreased by 0.7% during 2003 as compared with 2002.

Total imports were U.S. $170,546 million during 2003, a 1.1% increase as compared to 2002. Imports of intermediate goods increased by 1.8%, imports of capital goods decreased by 3.8% and imports of consumer goods increased by 1.6% during 2003, each as compared with 2002.

During the first five months of 2004, Mexico registered a trade deficit of U.S. $871 million, as compared to a trade deficit of U.S. $1,243 million in the same period of 2003. Merchandise exports increased by 12.6% during the first five months of 2004. During the first five months of 2004, petroleum exports increased by 16.7%, while non-petroleum exports increased by 12.1%, each as compared to the same period of 2003.

During the first five months of 2004, total imports grew by 11.9%, as compared to the same period of 2003. During the first five months of 2004, imports of intermediate goods increased by 13.2%, imports of capital goods increased by 4.6% and imports of consumer goods increased by 10.5%, each as compared to the same period of 2003.

Balance of International Payments

According to preliminary figures, during 2003, Mexico's current account registered a deficit of U.S. $9,231 million, or 1.5% of GDP, U.S. $4,822 million less than the current account deficit registered in 2002. The capital account surplus for the same period totaled U.S. $17,683 million, as compared with a surplus of U.S. $22,231 million in 2002. Net foreign investment in Mexico totaled U.S. $14,647 million in 2003, and was comprised of direct foreign investment totaling U.S. $10,783 million and net foreign portfolio investment (including securities placed abroad) inflows totaling U.S. $3,864 million.

According to preliminary figures, during the first quarter of 2004, Mexico's current account registered a deficit of 1.1% of GDP, or U.S. $1,866 million, 9.9% less than during the same period of 2003. The capital account surplus for the first quarter of 2004 totaled U.S. $4,119 million, 33.6% less than during the same period of 2003. Net foreign investment in Mexico totaled U.S. $9,825 million during the first quarter of 2004, and was comprised of direct foreign investment totaling U.S. $7,425 million and net foreign portfolio investment (including securities placed abroad) inflows totaling U.S. $2,400 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 accumulated U.S. $12,177 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.

On March 20, 2003, the Foreign Exchange Commission announced that it had adopted a new mechanism to moderate the rate of accumulation of international reserves expected in 2003. Under the mechanism, Banco de México announced every quarter the total amount of dollars it would supply to the currency market in the following three-month period. The amount of dollars to be sold, which were sold exclusively to Mexican credit institutions, equaled 50% of the increase in net international reserves registered during the previous quarter less the sales of dollars made through this mechanism during the previous quarter. The total amount of dollars to be sold in a quarter was sold through daily auctions, each for an amount equal to the total for the quarter divided by the number of business days in the quarter.

On March 12, 2004, the Foreign Exchange Commission announced that it would adjust the existing mechanism to moderate the rate of accumulation of international reserves that it had adopted on March 20, 2003 and that commenced on May 2, 2003. Under the adjusted mechanism, Banco de México will continue to make quarterly announcements regarding the daily amounts of dollars to be supplied to the currency market pursuant to the same formula, but the total amount announced will be divided into four equal portions to be sold in the following four quarters. The new mechanism commenced on May 3, 2004, and the amount of dollars to be auctioned during the quarter from May through July 2004 (U.S. $22.0 million) was based retroactively on the accumulation of net international reserves registered in the four quarters from April 16, 2003 through April 16, 2004. The total to be auctioned for the quarter from May through July 2004 is therefore equal to the sum of one-fourth of each of the total amounts announced for the quarters ended in July 2003, October 2003, January 2004 and April 2004. The total amount of dollars to be sold in a quarter will be sold through daily auctions, each for an amount equal to the total for the quarter divided by the number of business days in the quarter.

At December 31, 2003, Mexico's international reserves totaled U.S. $57.4 billion, an increase of U.S. $9.5 billion from the level at December 31, 2002. The net international assets of Banco de México totaled U.S. $59.l billion at December 31, 2003, an increase of U.S. $8.3 billion from the level at December 31, 2002.

At July 2, 2004, Mexico's international reserves totaled U.S. $59.3 billion, an increase of U.S. $1.8 billion from the level at December 31, 2003. The net international assets of Banco de México totaled U.S. $60.5 billion at July 2, 2004, an increase of U.S. $1.5 billion from the level at December 31, 2003.

Direct Foreign Investment in Mexico

During 2003, direct foreign investment in Mexico notified to the National Foreign Investment Commission totaled approximately U.S. $9.7 billion. Total accumulated direct foreign investment in Mexico during the 1999-2003 period amounted to approximately U.S. $79.9 billion. Of the total direct foreign investment during 2003, 47.3% has been channeled to manufacturing industry, 18.9% to financial services, 15.8% to transportation and communications and 9.1% to commerce.

According to preliminary figures, during 2003, net foreign investment in Mexico, as recorded in the balance of payments, totaled U.S. $14.6 billion and comprised direct foreign investment of U.S. $10.8 billion and net portfolio investment (including securities placed abroad) of U.S. $3.9 billion. Net foreign investment in Mexico totaled U.S. $9.8 billion during the first quarter of 2004, and was comprised of direct foreign investment totaling U.S. $7.4 billion and net foreign portfolio investment (including securities placed abroad) inflows totaling U.S. $2.4 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 exceeded 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. The only extraordinary intervention by Banco de México in the foreign currency market outside the auction mechanism took place on September 10, 1998, when Banco de México sold U.S. $200 million under the auction program and an additional U.S. $278 million through an extraordinary direct sale of dollars at market rates in an attempt to stabilize steep declines in the value of the peso.

The Foreign Exchange Commission resolved on May 18, 2001, as a result of the relative stability of the value of the peso, to suspend use of the auction mechanism for the contingent sale of dollars. The suspension took effect as of July 2, 2001.

The peso/dollar exchange rate closed at Ps. 11.2360 = U.S. $1.00 on December 31, 2003, a 9.0% depreciation in dollar terms as compared to the exchange rate at the end of 2002. During 2003, the average peso/U.S. dollar exchange rate was Ps. 10.7890 = U.S. $1.00, as compared to Ps. 9.6560 = U.S. $1.00 in 2002. The peso/U.S. dollar exchange rate announced by Banco de México on July 9, 2004 (to take effect on the second business day thereafter) was Ps. 11.5152 = 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.

2003 Budget and Fiscal Results

In 2003, public sector budgetary revenues were less than public sector budgetary expenditures (excluding off-budget revenues and expenditures of the public sector) by approximately Ps. 44,032.1 million in nominal terms, or approximately Ps. 10,646.1 million in constant pesos with purchasing power at December 31, 1993, reflecting a decrease of 42.1% in real terms as compared to budgetary revenues for 2002. Within budgetary revenues, non-oil tax revenues increased by 4.3% in real terms, while oil related revenues grew at a real rate of 24.6%. Overall, public sector revenues were Ps. 126.2 million higher than the total projected in the Revenue Law for 2003. This result is mainly attributable to the significant increase in oil revenues.

The overall public sector balance registered a deficit of Ps. 41,737.2 million in nominal terms in 2003, or approximately Ps. 10,091.2 million in constant pesos with purchasing power at December 31, 1993, reflecting a decrease of 47.2% in real terms as compared to the public sector deficit for 2002. This public sector deficit includes a gross expenditures of Ps. 16,188 million related to the costs associated with the *Programa de Separación Voluntaria* (Voluntary Retirement Program, or PSV), which was implemented in late 2002 with the long-term goal of reducing the number of Government administrative personnel and which offers severance packages to certain persons who retire voluntarily. Excluding the gross expenditure related to the PSV, the public sector deficit for 2003 was Ps. 25,550 million, equivalent to 0.39% of estimated GDP for 2003 and Ps. 7,318 billion lower than the public sector deficit target approved by Congress for 2003. The primary surplus, defined as total public sector revenues less expenditures other than interest payments on public debt, was Ps. 148,843.2 million in nominal terms in 2003, or approximately Ps. 35,987.2 million in constant pesos with purchasing power at December 31, 1993, 31.8% higher in real terms than the surplus recorded at the end of 2002.

2004 Budget and Fiscal Package

In December 2003, the Congress approved the Federal Annual Revenue Law for 2004 and the Federal Expenditure Decree for 2004 (as passed, together with the Federal Annual Revenue Law for 2004, the 2004 Budget). The 2004 Budget maintains fiscal discipline as the cornerstone of the economic program, and contemplates a public sector deficit of 0.3% of GDP for 2004.

The 2004 Budget is based upon an estimated weighted average price of Mexico's oil exports of U.S. $20.00 per barrel and an estimated volume of oil exports of 1,959 thousand barrels per day.

The results for 2002 and for 2003, the revised budget assumptions and targets for 2003 and the budget assumptions and targets for 2004 are set forth below:

2002 and 2003 Results;
2003 Revised Budget Assumptions and Targets;
2004 Budget Assumptions and Targets

	2002 Results	2003 Budget	2003 Results	2004 Budget
Real GDP growth (%)	0.7[1]	3.0	1.3[1]	3.1
Increase in the national consumer price index (%)	5.7	3.0	4.0	3.0
Average export price of Mexican oil mix (U.S.$/barrel)	21.61	18.35	24.79	20.00
Current account deficit as % of GDP	2.3[1]	2.8	1.5[1]	2.6
Average exchange rate (Ps./$1.00)	9.7	10.1	10.8	11.2
Average rate on 28-day *Cetes* (%)	7.1	7.5	6.2	6.5
Public sector balance as % of GDP	(1.2)[1]	(0.5)	(0.7)[1]	(0.3)
Primary balance as % of GDP	1.7[1]	2.4	2.2[1]	2.7

N/A = Not available.
(1) Preliminary.
Source: Ministry of Finance and Public Credit.

Under the 2004 Budget, the Government estimates that it will devote Ps. 289,975 million (17.6% of total budgetary programmable expenditures) to education and Ps. 304,408 million (18.4% of total budgetary programmable expenditures) to health and social security.

According to preliminary figures, during the first five months of 2004, the public sector overall balance registered a surplus of Ps. 81.8 billion, 26.6% higher in real terms than during the same period of 2003, and the primary balance registered a surplus of Ps. 164.9 billion, 6.1% higher in real terms than during the same period of 2003.

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 May 31, 2004, 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."

Over the last decade, the Mexican Government historically has pursued 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 1999 offered for the first time 10-year UDI-denominated securities and guaranteed 30-year UDI-indexed bonds and subsequently began offering three-year, five-year, seven-year and ten-year fixed rate peso-denominated bonds.

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.

On October 28, 2003, the Mexican Government issued its first twenty-year fixed rate peso-denominated bonds, placing Ps. 1.0 billion of these instruments in the market. The Mexican Government expects to continue to offer these instruments on a regular basis, along with the shorter-term fixed rate peso-denominated bonds mentioned above, pursuant to a securities auction calendar published by the Mexican Government each quarter.

At December 31, 2003, the net internal debt of the Mexican Government totaled U.S. $82.5 billion, as compared with the U.S. $79.6 billion outstanding at December 31, 2002. At December 31, 2003, the gross internal debt of the Government totaled U.S. $90.1 billion, as compared to U.S. $88.0 billion at December 31, 2002.

At March 31, 2004, the net internal debt of the Mexican Government totaled U.S. $81.8 billion, as compared with the U.S. $82.5 billion outstanding at December 31, 2003. At March 31, 2004, the gross internal debt of the Government totaled U.S. $92.7 billion, as compared to U.S. $90.1 billion at December 31, 2003.

At May 31, 2004, the net internal debt of the Mexican Government was U.S. $76.7 billion and the gross internal debt of the Government totaled U.S. $93.6 billion.

The following table summarizes the net internal public debt of the Mexican Government and the budget-controlled agencies at each of the dates indicated.

Net Internal Public Debt

	December 31,					March 31,
	1999	2000	2001[1]	2002[1]	2003[1]	2004[1]
	(in billions of dollars)					
Total net internal debt[2]	$47.7	$63.3	$75.6	$79.6	$82.5	$81.8
Mexican Government	47.7	63.3	75.6	79.6	82.5	81.8
Peso-denominated	47.7	63.3	75.6	79.6	82.5	81.8
Foreign currency-denominated (Tesobonos)[2]	0.0	0.0	0.0	0.0	0.0	0.0
Budget-controlled agencies	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Peso-denominated	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Foreign currency-denominated	N.A.	N.A.	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

The total or gross external debt of the public sector consists of the external portion of the long-term indebtedness incurred directly by the Government, the external long-term indebtedness incurred by budget-controlled agencies, the external long-term indebtedness incurred directly or guaranteed by administratively controlled agencies (including but not limited to national development banks), and the short-term external debt of the public sector.

Outstanding gross external debt increased by approximately U.S. $0.2 billion during 2003, from U.S. $78.8 billion at December 31, 2002 to U.S. $79.0 billion at December 31, 2003. Of the total external debt at December 31, 2003, U.S. $77.3 billion represented long-term debt and U.S. $1.7 billion represented short-term debt.

Overall, total public debt (gross external debt plus net internal debt) at December 31, 2003 represented approximately 26.0% of nominal GDP, 1.0 percentage points higher than at the end of 2002.

Outstanding public sector gross external debt increased by approximately U.S. $1.9 billion during the first quarter of 2004, from U.S. $79.0 billion at December 31, 2003 to U.S. $80.9 billion at March 31, 2004. Of this amount, U.S. $77.2 billion represented long-term debt and U.S. $3.7 billion represented short-term debt.

At May 31, 2004, the total outstanding gross external debt of the Mexican public sector totaled U.S. $79.9 billion. Of this amount, U.S. $76.4 billion represented long-term debt and U.S. $3.5 billion represented short-term debt.

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[1]
By Type

	Long-Term Direct Debt of the Mexican Government	Long-Term Debt of Budget-Controlled Agencies	Other Long-Term Public Debt[2]	Total Long-Term Debt	Total Short-Term Debt	Total Long- and Short-Term Debt
			(in millions of dollars)			
December 31,						
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
2002	43,554	10,630	21,845	76,029	2,789	78,818
2003	44,898	11,190	21,248	77,336	1,688	79,024
March 31, 2004	$46,464	$10,666	$20,070	$77,200	$3,682	$80,882

By Currency[3]

	December 31,										March 31,	
	1999		2000		2001		2002		2003		2004	
	(in millions of $)	(%)	(in millions of $)	(%)	(in millions of $)	(%)	(in millions of $)	(%)	(in millions of $)	(%)	(in millions of $)	(%)
U.S. Dollars	75,853	82.2	71,065	84.0	69,933	87.0	69,804	88.6	70,520	89.0	72,191	89.3
Japanese Yen	7,124	7.7	5,878	7.0	4,708	5.9	3,849	4.9	4,012.7	5.1	3,683	4.6
Deutsche Marks	3,201	3.5	1,270	1.5	390	0.5	0	0.0	0	0.0	0	0.0
Pounds Sterling	743	0.8	144	0.2	140	0.2	156	0.2	173	0.2	1,098	1.4
French Francs	1,521	1.7	627	0.7	170	0.2	0	0.0	0	0.0	0	0.0
Swiss Francs	214	0.2	27	0.0	135	0.2	173	0.2	184	0.2	185	0.2
Others	3,634	3.9	5,588	6.6	4,863	6.0	4,836	6.1	4,385	5.5	3,725	4.5
Total	92,290	100.0	84,600	100.0	80,339	100.0	78,818	100.0	79,275	100.0	80,882	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 March 31, 2004), (b) external borrowings by the public sector after March 31, 2004, including approximately U.S. $2.4 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.

Subsequent to December 31, 2003:

- Mexico issued U.S. $1,000,000,000 of its Floating Rate Notes due 2009 on January 6, 2004 and £500,000,000 of its 6.76% Notes due 2024 on February 6, 2004.

- On April 21, 2004, Mexico issued approximately U.S. $815,000,000 of its 5.875% Global Notes due 2014 and U.S. $2,055,000,000 of its 7.500% Global Notes due 2033 in exchange for approximately U.S. $665,000,000 of its 8.125% Global Bonds due 2019, U.S. $465,000,000 of its 8.00% Global Notes due 2022, and U.S. $1,205,000,000 of its 11.50% Global Bonds due May 15, 2026.

Item 5. Operating and Financial Review and Prospects

General

We earn 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.

Our 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 and, until December 31, 2003, 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.

Our 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 us;
- Mexican inflation;
- fluctuations in the peso-U.S. dollar exchange rate; and
- Mexican and global economic conditions, including the levels of international interest rates.

Overview

Our consolidated financial statements included herein are presented in constant pesos, so all financial information is restated in constant pesos as of December 31, 2003. Unless otherwise indicated, all amounts included in "Item 5— Operating and Financial Review and Prospects" are presented in constant pesos as of December 31, 2003.

We have reported losses in recent years and this trend continued in 2003 as we reported a loss of Ps. 40.6 billion. As described above, our loss is affected by a number of factors. Of principal importance in 2003, we

remained subject to the heavy tax burden imposed on us by the Mexican Government. Approximately 64.6% of the sales revenues of Petróleos Mexicanos and the subsidiary entities were used to pay taxes to the Mexican Government. The rate at which we were taxed in 2003 did not change significantly from prior years; however, in addition to the payment of these taxes and duties, our comprehensive financing cost increased, principally as a result of foreign exchange losses caused by the depreciation of the peso against the dollar. In addition, our costs and operating expenses increased due to an increase in import purchases, primarily of natural gas, and an increase in depreciation expenses. The negative effects on our income of these factors were partially offset by an increase in total revenues due to increased prices and higher sales volumes of our principal products, particularly crude oil, which accounts for a substantial percentage of our total sales.

To reduce our losses in the future, we are undertaking a number of initiatives to increase our efficiency by introducing measures to reduce costs and expenses and increase our profitability. Moreover, beginning in 2004, instead of paying the Excess Gains Revenue Duty, we are obligated to pay to the Mexican Government a Duty for Exploration, Gas, Refining and Petrochemical Infrastructure, the proceeds of which will be dedicated for investment in infrastructure works for exploration, gas, refining and petrochemicals that will be carried out by us. The mechanics for the reimbursement of this duty are still in the process of definition. See "Item 4—Information on the Company—Taxes and Duties—Exploration, Gas, Refining and Petrochemical Infrastructure Duty." The enactment of additional changes to our tax regime and the implementation of measures to increase our profitability would enhance our financial performance. However, only the Mexican Congress has the power to enact further changes in federal tax law, and we cannot predict the extent or nature of future changes, if any, to the federal hydrocarbon tax laws applicable to us. We have increased our capital expenditures, particularly in the area of exploration and production. In nominal peso terms, we increased our capital investment in this area by 40.3% in 2003, as compared to 2002. Our principal objectives for this upstream investment are to increase and improve the quality of Mexico's reserves and enhance the recovery ratio. Our increased production goals for 2004 include producing, on average, 3.5% more crude oil and 4.7% more natural gas as compared to 2003.

Critical Accounting Policies

Our significant accounting policies are more fully described in Notes 2 and 19 to our consolidated financial statements included herein. 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 internationally 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

Until December 31, 2003, under Mexican GAAP, we annually determined a budgeted exploration and drilling cost per barrel based upon internal engineering studies. To determine the cost per barrel, we took 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 was charged as cost 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 have affected our recorded cost of sales expense. Under U.S. GAAP, the budgeted exploration and drilling cost recognized as part of the equity reserve was reversed and the successful efforts method of accounting was applied.

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 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, (b) an immediate write-down of the asset's book value in accordance with accounting rules for the impairment of properties, or (c) changes in our accrual of the asset retirement obligation. An impairment of oil- and gas-producing fixed assets 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 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 and 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, the nature and timing of expenditure, foreign currency exchange rates to the extent that some of these costs are incurred in U.S. dollars, and changes in discount rates. 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, which are based on discounted cash flows, 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 real 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 our obligations under our plans, which are presented in Notes 11 and 19 II e) and f) to our consolidated financial statements included herein, are reasonable based on our experience and advice from our independent actuaries.

Financial Instruments

Under Mexican GAAP, we apply Bulletin C-2, "Financial Instruments" (which we refer to as Bulletin C-2), which 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. See "Item 5—Operating and Financial Review and Prospects—Recently Issued Accounting Standards," for a discussion of the recently issued Bulletin C-10, "Derivative Financial Instruments and Hedge Operations."

We apply SFAS No. 133 for U.S. GAAP purposes, and in accordance with the transition provisions of SFAS No. 133, we recorded a cumulative effect transition after tax decrease in net loss of Ps. 4,350.3 million to recognize the fair value of our derivatives and embedded derivatives at the date of adoption.

Quoted market prices for certain derivatives used by us are not readily available. We have calculated the fair value of these derivatives using common market valuation methods and value-influencing market data at the relevant respective balance sheet dates.

The use of valuation models requires us to make assumptions and estimates regarding the volatility of derivative contracts at the balance sheet dates, and actual results could differ significantly due to fluctuations in value-influencing market data. The valuation models for our 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 also made utilizing common valuation techniques.

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, because 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 long-lived 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 and plant modernizations, 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 and overhead 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."

	Year Ended December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
			(in dollars per barrel)		
West Texas Intermediate crude oil average price	$19.25	$30.97	$25.93	$26.16	$31.11
PEMEX crude oil weighted average export price	15.55	24.78	18.57	21.37	24.80

Note: The numbers in this table are average prices for the full year. Spot prices at year end are different. On July 12, 2004 the spot price for West Texas Intermediate crude oil was U.S. $39.41 per barrel and the spot price for the PEMEX crude oil basket was an estimated U.S. $30.50 per barrel.

Sources: 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, SFP 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 and diesel. See "—IEPS Tax, Excess Gains Duty 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 and other, special tax on production and services, and cumulative effect of adoption of new accounting standards."

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 in nominal terms of petroleum products in Mexico and in the United States for the years indicated.

	1999		2000		2001		2002		2003	
	Mexico	U.S.	Mexico	U.S.	Mexico	U.S.	Mexico	U.S.	Mexico	U.S.
Oil Products										
Unleaded regular gasoline[(1)]	$ 75.57	$ 45.58	$ 84.89	$ 60.83	$ 92.91	$ 56.69	$ 94.70	$ 53.92	$ 87.79	$ 60.94
Premium gasoline[(1)]	83.38	53.45	94.36	68.07	104.29	64.53	106.32	61.68	98.55	68.78
Jet fuel[(2)]	22.41	20.95	37.44	35.69	32.47	30.32	30.11	28.96	36.30	34.87
Kerosene[(3)]	62.59	22.61	70.34	37.64	77.05	32.44	78.50	30.23	72.80	36.72
Natural Gas[(4)]										
Industrial	2.18	3.11	3.65	4.45	4.20	5.03	3.15	3.99	5.31	5.80
Residential	4.65	6.91	6.27	8.44	6.48	9.26	5.65	8.45	7.62	11.70
Selected Petrochemicals										
Ammonia[(5)]	95.37	111.73	153.84	173.93	157.41	160.55	133.74	127.47	237.03	205.36
Polyethylene L.D.[(6)]	915.04	1,099.75	1,034.70	1,298.66	877.90	1,059.74	735.36	1,013.47	925.56	1,286.82
Polyethylene H.D.[(7)]	830.67	992.31	1,082.79	1,183.66	961.44	1,004.63	699.51	947.90	813.49	1,187.97
Styrene[(8)]	590.12	586.34	916.42	888.92	641.56	690.15	757.67	701.30	885.89	873.94

(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. Prices are for Mexico City and surrounding areas. 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. LPDE 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.).

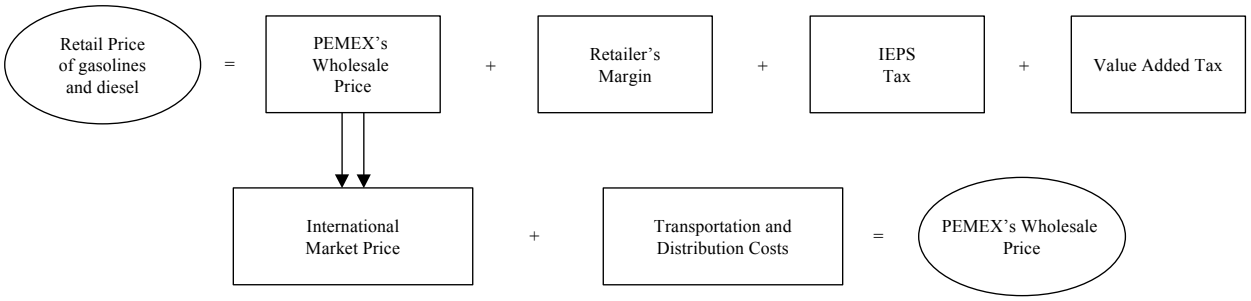
IEPS Tax, Excess Gains Duty, Hydrocarbon Duties and Other Taxes

The following table sets forth the taxes and duties that we recorded each of the past three years.

	Year ended December 31,		
	2001	2002	2003
	(in millions of constant pesos as of December 31, 2003)		
Hydrocarbon extractions duties and other taxes	Ps. 189,000	Ps. 191,529	Ps. 288,366
IEPS Tax	106,931	122,437	94,076
Total	Ps. 295,931	Ps. 313,966	Ps. 382,442

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 ensures that we retain the portion of our sales revenues that represents the adjusted international reference prices of our products, and it also 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.

In addition to the IEPS Tax, we are subject to a number of other federal taxes and duties. In 2003, the sum of these taxes and duties totaled Ps. 382,442 million, including the IEPS Tax, and in 2004 the sum of these taxes and duties is expected to total approximately 60.8% of the sales revenues of Petróleos Mexicanos and the subsidiary entities from sales to the PMI Group and to third parties. In addition to these taxes and duties, we were subject to an additional 39.2% excess gains revenue 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 2003, this price was U.S. $18.35 per barrel. Beginning in 2004, the excess gains revenue duty has been replaced by the duty for exploration, gas, refining and petrochemical infrastructure. The effect of the duty for exploration, gas, refining and petrochemical infrastructure, 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, which is U.S. $20.00 per barrel in 2004. See also "Item 4—Information on the Company—Taxes and Duties—Exploration, Gas, Refining and Petrochemical Infrastructure Duty."

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 Petróleos 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 Petróleos Mexicanos. SFP appoints Petróleos Mexicanos and the subsidiary entities' external auditors.

The Mexican Government incorporates the annual budget and financing program of Petróleos 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, increased to 5.7% in 2002 and decreased to 4.0% in 2003.

Mexican inflation has affected our consolidated financial statements in the following ways:

- Each year, we adjust the value of certain of our fixed assets, materials and spare parts on our balance sheet to reflect the effects of 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. The higher carrying value further exposes us to subsequent impairment charges. Through 2002, we revalued 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. Beginning in 2003, we revalue all of our fixed assets using the NCPI. See Note 2 h) to our consolidated financial statements included herein.

- Mexican GAAP requires that financial statements recognize the effects of inflation in accordance with Bulletin B-10. A component of inflation accounting which is not reflected in historical based accounting is the recognition of a gain or loss on monetary position, which is included in the income statement as a component of comprehensive financing cost. The gain or loss on monetary position captures the impact of purchasing power fluctuations on monetary assets and liabilities. To the extent that we have a net monetary liability position, the income statement will reflect a monetary gain as measured by the change in the NCPI. To the extent that we have a net monetary asset position, the income statement will reflect a monetary loss as measured by the change in the NCPI.

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 either the cost method or the equity method. For a list of the consolidated subsidiary companies, see Note 2 c) to our consolidated financial statements included herein. For U.S. GAAP purposes, beginning in 2001, we began consolidating the results and financial condition of Pemex Finance, Ltd. For U.S. and Mexican GAAP purposes, beginning in 2003, we began consolidating the results and financial position of Fideicomiso F/163 and RepCon Lux S.A.

Export Agreements

In response to continuing weak crude oil prices in international markets, 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. Mexico maintained that level of exports throughout 2002.

In January 2003, as a result of increasing market demand, Mexico agreed to increase its crude oil exports by 100 thousand barrels per day to a level of 1.76 million barrels per day. In February 2003, in light of the loss of more than 2 million barrels per day of Venezuelan crude oil, Mexico announced a further 120 thousand barrel per day increase in its crude oil export to a level of 1.88 million barrels per day. In September 2003, OPEC announced that it would cut crude oil production by 900 thousand barrels per day beginning November 1, 2003. Following this announcement, Mexico announced that it expected to maintain its crude oil exports at their present levels. In March 2004, OPEC announced that it would cut crude oil production by one million barrels per day beginning April 1, 2004. In June 2004, OPEC announced that it would increase crude oil production by 500 thousand barrels per day beginning August 1, 2004. As of the date of this report, Mexico has not announced any revisions to its current levels of crude oil exports as a result of this latest announcement by OPEC.

Results of Operations of Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies – For the Year Ended December 31, 2003 Compared to the Year Ended December 31, 2002

Sales

Total sales, net of the IEPS Tax, were Ps. 531.4 billion in 2003, an increase of 35.4% from total sales in 2002, net of the IEPS Tax, of Ps. 392.4 billion. The increase in total sales from 2002 to 2003 resulted primarily from a 37.3% increase in domestic sales in 2003, from Ps. 213.6 billion in 2002 to Ps. 293.2 billion in 2003 due to increased unit prices and higher sales volumes. In addition, total sales increased due to a 33.2% increase in export sales, from Ps. 178.8 billion in 2002 to Ps. 238.2 billion in 2003 due to an increase in crude oil export prices, higher sales volumes of 8.3% and the depreciation of the peso against the dollar (which increased the peso value of sales denominated in dollars).

Domestic Sales

Domestic sales, net of the IEPS Tax, increased by 37.3% in 2003, from Ps. 213.6 billion in 2002 to Ps. 293.2 billion in 2003. Domestic sales of petroleum products other than natural gas increased by 31.8% in 2003, from Ps. 172.7 billion in 2002 to Ps. 227.7 billion in 2003, primarily due to increases in the average sales prices and volumes of our principal petroleum products. The 6.2% increase in the sales volumes of gasoline, from 566.2 thousand barrels

per day in 2002 to 601.2 thousand barrels per day in 2003, was due to an increase in the number of vehicles in Mexico, increased demand along the northern border following the implementation of a program in January 2003 to bring prices along the northern border closer to the lower market prices in border communities in the United States, and a 13.0% increase in the volume of Pemex Premium gasoline sold as a result of changes in consumer preferences. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) increased 43.7%, from Ps. 8.7 billion in 2002 to Ps. 12.5 billion in 2003, due to an increase in the domestic prices of our principal petrochemical products, particularly polethylenes, ethylene oxide and ammonia, and a change in commercial strategy to take advantage of the higher profit margins of certain products. Sales of natural gas increased by 64.6% in 2003, from Ps. 32.2 billion in 2002 to Ps. 53.0 billion in 2003, as a result of an increase in average prices and an 8.1% increase in volumes of natural gas sold. The higher demand for natural gas was primarily driven by a 14.7% increase in demand in the electricity sector, while the industrial and distribution sectors maintained demand at levels consistent with the levels of demand in 2002.

Export Sales

In 2003, total consolidated export sales increased by 33.2% in peso terms from Ps. 178.8 billion in 2002 to Ps. 238.2 billion in 2003. Excluding the trading activities of the PMI Group, export sales by the subsidiary entities to the PMI Group and third parties increased by 34.4% in peso terms, from Ps. 151.2 billion in 2002 to Ps. 203.2 billion in 2003. In dollar terms, excluding the trading activities of the PMI Group, export sales (which are dollar-denominated) increased by 26.0% in 2003, from U.S. $14.6 billion in 2002 to U.S. $18.4 billion in 2003. This increase was a result of an increase in crude oil export prices, an 8.3% increase in sales volumes and the depreciation of the peso against the dollar. The trading and export activities of the PMI Group generated additional marginal revenues of Ps. 35.0 billion in 2003, 26.8% higher in peso terms than in 2002, mainly due to the increased prices of crude oil that we exported and the strengthening of the dollar against the peso. The weighted average price per barrel of crude oil that the PMI Group sold to third parties in 2003 was U.S. $24.80, 16.1% higher than the weighted average price of U.S. $21.37 in 2002.

Crude oil sales by Pemex-Exploration and Production to PMI for export accounted for 90.4% of export sales (excluding the trading activities of the PMI Group) in 2003, as compared to 91.1% in 2002. These crude oil sales increased in peso terms by 33.3% in 2003, from Ps. 137.7 billion in 2002 to Ps. 183.6 billion in 2003, and increased in dollar terms by 24.8% in 2003, from U.S. $13.3 billion in 2002 to U.S. $16.6 billion in 2003. The weighted average price per barrel of crude oil that Pemex-Exploration and Production sold to PMI for export in 2003 was U.S. $24.75, 16.1% higher than the weighted average price of U.S. $21.31 in 2002. The volume of crude oil exports increased by 8.3%, from 1,702 thousand barrels per day in 2002 to 1,844 thousand barrels per day in 2003, partly as a result of increased demand caused by the two million barrel per day decrease in oil production in Venezuela due to the political crisis and strike by oil workers there.

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 8.2% of export sales (excluding the trading activities of the PMI Group) in 2002 to 8.8% in 2003. Export sales of petroleum products, including natural gas liquids, increased by 45.5%, from Ps. 12.3 billion in 2002 to Ps. 17.9 billion in 2003, due to a 14.7% increase in the volume of exports of petroleum products and higher prices. In dollar terms, export sales of petroleum products, including natural gas liquids, increased by 33.3%, from U.S. $1.2 billion in 2002 to U.S. $1.6 billion in 2003.

Petrochemical products accounted for the remainder of export sales in 2002 and 2003. Export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 45.5%, from Ps. 1.1 billion in 2002 to Ps. 1.6 billion in 2003, primarily due to a 34.2% increase in volumes of sulphur sold. In dollar terms, export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 30.8% in 2003, from U.S. $112.9 million in 2002 to U.S. $147.7 million in 2003.

Other Revenues and Expenses

Other revenues, net, increased by Ps. 3.1 billion, from other expenses, net, of Ps. 89 million in 2002 to other revenues, net, of Ps. 3.0 billion in 2003, primarily due to the favorable results of natural gas hedging operations.

Costs and Operating Expenses

Costs of sales, transportation, distribution expenses and administrative expenses increased by 17.7%, from Ps. 219.1 billion in 2002 to Ps. 257.9 billion in 2003. This increase was mainly due to an increase in import purchases of Ps. 8.7 billion as a result of a 27.7% increase in the volumes of natural gas purchased, an increase in depreciation expense from Ps. 33.8 billion in 2002 to Ps. 40.5 billion in 2003, a decrease of Ps. 5.0 billion in the valuation of crude oil and petroleum products (which is accounted for as an increase in costs of sales) and an increase in maintenance expenses of Ps. 11.2 billion.

Comprehensive Financing Cost

Under Mexican GAAP, comprehensive financing cost reflects interest income, interest expense, foreign exchange gain or loss and the gain or loss attributable to the effects of inflation on monetary liabilities and assets. A substantial portion of our indebtedness (92.9% at December 31, 2003) is denominated in foreign currencies, so a depreciation of the peso results in foreign exchange loss and higher interest expense in peso terms.

In 2003, comprehensive financing cost increased by Ps. 24.5 billion, or 395.2%, from Ps. 6.2 billion in 2002 to Ps. 30.7 billion in 2003, primarily as a result of foreign exchange losses. The changes in each component were as follows:

- Net interest expense increased by 13.6% in 2003 due to an increase in total debt, which was only partially offset by lower average interest rates on our liabilities;

- The depreciation of the peso against the U.S. dollar by 8.96% resulted in an increase in the net foreign exchange loss of Ps. 21.1 billion in 2003 as compared to 2002; and

- In 2002 and 2003, our average monetary liabilities exceeded our average monetary assets, resulting in a net gain from monetary position. The net gain in monetary position, which amounted to Ps. 11.5 billion in 2003, was 10.9% less than in 2002 due to a decline in the inflation rate from 5.7% in 2002 to 4.0% in 2003. The net gain in monetary position in 2002 amounted to Ps. 12.9 billion.

Duties and Taxes

Hydrocarbon extraction duties and other duties and taxes (including the IEPS Tax) increased by 21.8%, from Ps. 314.0 billion in 2002 to Ps. 382.4 billion in 2003, largely due to an increase in sales revenues of 21.5%. We paid Ps. 18.7 billion in excess gains duties in 2003, which represents the difference between the actual crude oil prices at which Pemex-Exploration and Production sold to PMI, which averaged U.S. $24.75 per barrel for the Mexican weighted crude oil mix, and the Mexican Government's crude oil price budgetary assumption of U.S. $18.35 per barrel. We paid Ps. 14.3 billion in excess gains duties in 2002.

Cumulative initial effect from the adoption of new pronouncement

Beginning January 1, 2003, we adopted the guidelines of Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments," under Mexican GAAP, which establishes rules for quantifying the disclosure and presentation of liabilities, reserves and contingent assets and liabilities, as well as general guidelines for the disclosure of commitments by a company in the normal course of business. As a result of the adoption of Bulletin C-9, we recognized a benefit in our reserve for abandonment and dismantlement costs of Ps. 2.0 billion, as of the beginning of 2003. For further information, see Note 2 h) to our consolidated financial statements included herein.

Income/(Loss)

In 2003, we reported a loss of Ps. 40.6 billion on Ps. 534.3 billion in total revenues net of the IEPS Tax, as compared with a loss of Ps. 24.6 billion on Ps. 392.3 billion in total revenues net of the IEPS Tax in 2002. This 65.0% increase in losses from 2002 to 2003 resulted from the various factors described above.

Results of Operations of Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies – For the Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

Sales

Total sales, net of the IEPS Tax, were Ps. 392.4 billion in 2002, a decrease of 0.2% from total sales in 2001, net of the IEPS Tax, of Ps. 393.3 billion. The decrease in total sales from 2001 to 2002 resulted primarily from a 8.9% decrease in domestic sales, net of IEPS Tax, from Ps. 234.4 billion in 2001 to Ps. 213.6 billion in 2002 due to a decrease in the domestic prices of our principal petroleum products, which was partially offset by an increase in export sales. Total export sales increased from Ps. 158.9 billion in 2001 to Ps. 178.8 billion in 2002 due to an increase in crude oil export prices and the depreciation of the peso against the dollar (which increased the peso value of sales denominated in dollars).

Domestic Sales

Domestic sales, net of the IEPS Tax, decreased by 8.9% in 2002, from Ps. 234.4 billion in 2001 to Ps. 213.6 billion in 2002. Domestic sales of petroleum products other than natural gas decreased by 10.1% in 2002, from Ps. 192.1 billion in 2001 to Ps. 172.7 billion in 2002, primarily due to a decrease in the domestic prices of our principal petroleum products. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) decreased by 11.2%, from Ps. 9.8 billion in 2001 to Ps. 8.7 billion in 2002, due to a fall in domestic demand. Sales of natural gas decreased by 0.9% in 2002, from Ps. 32.5 billion in 2001 to Ps. 32.2 billion in 2002, due to an increase in inflation rates that was higher than the increase in prices for natural gas and resulted in a decrease in the sales value of natural gas in constant peso terms, despite an increase in the volume of natural gas sold.

Export Sales

In 2002, total consolidated export sales increased by 12.5% in peso terms from Ps. 158.9 billion in 2001 to Ps. 178.8 billion in 2002. Excluding the trading activities of the PMI Group, export sales by the subsidiary entities to the PMI Group and third parties increased by 11.5% in peso terms, from Ps. 135.6 billion in 2001 to Ps. 151.2 billion in 2002. In dollar terms, excluding the trading activities of the PMI Group, export sales (which are dollar-denominated) increased by 13.2% in 2002, from U.S. $12.9 billion in 2001 to U.S. $14.6 billion in 2002. This increase was a result of an increase in crude oil export prices and the depreciation of the peso against the dollar. The trading and export activities of the PMI Group generated additional marginal revenues of Ps. 27.6 billion in 2002, 18.5% higher in real peso terms than in 2001, mainly due to the increased prices of crude oil that we exported and the strengthening of the dollar against the peso. The weighted average price per barrel of crude oil that the PMI Group sold to third parties in 2002 was U.S. $21.37, 15.1% higher than the weighted average price of U.S. $18.57 in 2001.

Crude oil sales by Pemex-Exploration and Production to PMI for export accounted for 91.1% of export sales (excluding the trading activities of the PMI Group) in 2002, as compared to 92.1% in 2001. These crude oil sales increased in peso terms by 10.2% in 2002, from Ps. 124.9 billion in 2001 to Ps. 137.7 billion in 2002, and increased in dollar terms by 11.8% in 2002, from U.S. $11.9 billion in 2001 to U.S. $13.3 billion in 2002. This increase was a result of higher crude oil prices, which was partially offset by a 3.0% decrease in the volume of crude oil exported. The weighted average price per barrel of crude oil that Pemex-Exploration and Production sold to PMI for export in 2002 was U.S. $21.31, 14.8% higher than the weighted average price of U.S. $18.57 in 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 7.0% of export sales (excluding the trading activities of the PMI Group) in 2001 to 8.2% in 2002. Export sales of petroleum products, including natural gas liquids, increased by 29.5%, from Ps. 9.5 billion in 2001 to Ps. 12.3 billion in 2002, due to a 52.1% increase in the volume of exports of these products. In dollar terms, export sales of petroleum products, including natural gas liquids, increased by 33.3%, from U.S. $0.9 billion in 2001 to U.S. $1.2 billion in 2002.

Petrochemical products accounted for the remainder of export sales in 2001 and 2002. Export sales of petrochemical products (including certain by-products of the petrochemical process) decreased by 8.3%, from Ps. 1.2 billion in 2001 to Ps. 1.1 billion in 2002. In dollar terms, export sales of petrochemical products (including certain

by-products of the petrochemical process) decreased by 2.2% in 2002, from U.S. $115.4 million in 2001 to U.S. $112.9 million in 2002, due to the combination of increases in ammonia sales with decreases in ethylene and polyethylenes sales.

Other Revenues and Expenses

Other revenues, net, decreased from a net revenue of Ps. 1.7 billion in 2001 to a net expense of Ps. 89 million in 2002 primarily due to decreased freight revenues from the distribution of petroleum products and liquefied petroleum gas due to lower transported volumes.

Costs and Operating Expenses

Costs of sales, transportation, distribution expenses and administrative expenses decreased by 5.7%, from Ps. 232.4 billion in 2001 to Ps. 219.1 billion in 2002. This decrease was due to a reduction in import purchases of petroleum and petrochemical products, mainly gasoline and fuel oil, by Ps. 8.5 billion, and an increase of Ps. 16.0 billion in the valuation of ending inventory of crude oil and petroleum products (which is accounted for as a reduction in cost of sales), which were partially offset by increases in depreciation of Ps. 1.9 billion, in the labor reserve for pension obligations of Ps. 1.7 billion and in wages and salaries of Ps. 2.0 billion.

Comprehensive Financing Cost

Under Mexican GAAP, comprehensive financing cost reflects interest income, interest expense, foreign exchange gain or loss and the gain or loss attributable to the effects of inflation on monetary liabilities and assets. A substantial portion of our indebtedness (95% at December 31, 2002) is denominated in foreign currencies, so a depreciation of the peso results in foreign exchange loss and higher interest expense in peso terms.

In 2002, comprehensive financing cost increased by Ps. 3.7 billion, or 148.0%, from Ps. 2.5 billion in 2001 to Ps. 6.2 billion in 2002, primarily as a result of fluctuations in net foreign exchange losses. The changes in each component were as follows:

- Net interest expense maintained a similar level in 2002 as compared to 2001.

- The depreciation of the peso against the U.S. dollar by 12.8% resulted in a net foreign exchange loss of Ps. 4.4 billion in 2002 as compared to the net foreign exchange gain of Ps. 4.4 billion in 2001.

- In 2001 and 2002, our average monetary liabilities exceeded our average monetary assets, resulting in a net gain from monetary position. The net gain in monetary position, which amounted to Ps. 12.9 billion in 2002, was 63.3% higher than in 2001, mainly due to an increase in the inflation rate from 4.4% in 2001 to 5.7% in 2002 and higher net monetary liabilities in 2002 as compared to 2001. The net gain in monetary position in 2001 amounted to Ps. 7.9 billion.

Duties and Taxes

Hydrocarbon extraction duties and other duties and taxes (including the IEPS Tax) increased by 6.1%, from Ps. 295.9 billion in 2001 to Ps. 314.0 billion in 2002, largely due to an increase in the excess gains duties. We paid Ps. 14.3 billion in excess gains duties in 2002, which represents the difference between the actual crude oil prices at which Pemex-Exploration and Production sold crude oil to PMI, which averaged U.S. $21.31 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. We paid Ps. 1.4 billion in excess gains duties in 2001.

Cumulative initial effect from the adoption of new pronouncement

In 2001, we adopted Bulletin C-2, which resulted in a loss of Ps. 1,495 million, primarily attributable to the accounting for the equity swap contracts related to the shares of Repsol described in Note 2 t) to our consolidated financial statements included herein.

Income/(Loss)

In 2002, we reported a loss of Ps. 24.6 billion on Ps. 392.3 billion in total revenues net of the IEPS Tax, as compared with a loss of Ps. 30.4 billion on Ps. 395.0 billion in total revenues net of the IEPS Tax in 2001. This 19.1% decrease in losses from 2001 to 2002 resulted from the various factors described above.

Liquidity and Capital Resources

Equity Structure and the Certificates of Contribution "A"

Our total equity as of December 31, 2003 was Ps. 45.9 billion, and our total capitalization (long-term debt plus equity) amounted to Ps. 349.5 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 the 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 quarter, Petróleos Mexicanos makes advance payments to the Mexican Government that total a prorated portion of the minimum guaranteed dividend.

From 1999 to 2003, Petróleos Mexicanos made annual advance payments, which were declared as dividends to the Mexican Government, as follows.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(in millions of constant pesos as of December 31, 2003)				
Total advance payments to the Mexican Government	Ps. 6,424	Ps. 6,384	Ps. 2,366	Ps. 10,098	Ps. 10,175
Dividends declared in respect of Certificates of Contribution "A"	6,424	6,384	2,321	9,982	10,175

Source: PEMEX's financial statements.

In December 1997, Petróleos Mexicanos 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 dividends that it would receive from Petróleos Mexicanos from 1998 through 2006. 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 in principal and interest under that arrangement. No advance payments of principal were made in 2001. In each of 2002 and 2003, Petróleos Mexicanos paid principal of U.S. $874 million to the Mexican Government. 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 December 1990. The following table sets forth the scheduled maturities on the original principal amount of the capitalized debt for each of the years from 2004 to 2006.

	Year Ended December 31,			
	2004	2005	2006	Total
	(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	$2,622

Note: Numbers may not total due to rounding
Source: PEMEX's financial statements.

Cash Flow from Operating, Financing and Investing Activities

During 2003, net funds provided by operating activities were Ps. 17.2 billion, a 60% decrease from Ps. 43.5 billion provided in 2002. Funds from income (which was negative in 2003) plus items that did not require cash outlays totaled Ps. 47.7 billion, as compared to Ps. 57.5 billion in 2002. New debt financings provided an additional Ps. 111.0 billion of funds. During 2003, we applied net funds of Ps. 70.6 billion for net investments at cost in fixed assets (Ps. 67.9 billion of new investments and capitalized interest, less Ps. 9.6 billion in dispositions of fixed assets, plus Ps. 12.3 billion for the reclassification of abandonment and dismantlement costs, which had previously been registered under accumulated depreciation and amortization, as long-term liabilities under the reserve for abandonment and dismantlement activities, sundry creditors and others (which is a non-cash item)).

At December 31, 2003, our cash and cash equivalents totaled Ps. 73.3 billion, as compared to Ps. 45.6 billion at December 31, 2002. At that time, we did not have sufficient working capital generated exclusively from operations for our budgeted cash flow requirements for 2004. However, based on past experience, we expect to generate sufficient working capital through:

- cash flow generated from operations;
- a new syndicated revolving credit facility;
- the issuance of *certificados bursátiles* (short-term peso-denominated senior notes);
- renewing existing and securing additional lines of credit from international and local commercial banks; and
- other additional financing activities.

On June 30, 2004, we established a new syndicated revolving credit facility to fund our working capital needs for an amount of U.S. $1.25 billion. This new facility will serve as a substitute for a U.S. $445 million U.S. commercial paper program that was established in December 2001 and backed by a letter of credit from Barclays Bank Plc., a U.S. $650 million acceptance credit facility with a group of international banks and a U.S. $135 million acceptance credit facility that we entered into with Japanese banks in 2001. This new revolving credit facility will be used to fund Pemex's working capital needs. Loans under this facility will be borrowed with interest periods ranging from 1 month up to 6 months, and may be prepaid on any interest payment date. The facility will mature in 2007 and 2009. We are also planning to establish a short-term program to issue *certificados bursátiles*, which will be denominated in pesos, with banks in Mexico, in the amount of approximately Ps. 10,000 million in nominal terms. As of December 31, 2003, we had U.S. $4.8 billion in lines of credit, of which U.S. $878.5 million was unused. See also "—Commitments for Capital Expenditures and Sources of Funding" below.

We have met and expect to meet in the future our cash requirements for working capital, capital expenditures and investments 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. 134.4 billion for 2004. 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 2003, in nominal peso terms, Pemex-Exploration and Production invested Ps. 79.4 billion in 27 PIDIREGAS and Ps. 8.9 billion in other general operating investments and strategic products for a total of Ps. 88.4 billion in capital expenditures in exploration and production. In 2004, Pemex-Exploration and Production again has 27 PIDIREGAS in its budget, for which Ps. 121.0 billion was budgeted in 2004. In addition, Pemex-Exploration and Production has budgeted Ps. 3.7 billion for non-PIDIREGAS capital expenditures for 2004. 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 three PIDIREGAS in 2003 and invested in other general operating projects, strategic projection, acquisition of equipment, research and development and complementary investments for a total of Ps. 19.9 billion in capital expenditures in nominal peso terms by Pemex-Refining in 2003. In 2004, Pemex-Refining expects to invest Ps. 5.2 billion in capital expenditures. Of this amount, Pemex-Refining has budgeted Ps. 1.6 billion for one PIDIREGAS and Ps. 3.6 billion 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 2004, Pemex-Gas and Basic Petrochemicals will invest Ps. 1.1 billion in capital expenditures for one PIDIREGAS, the modular cryogenic plants in Reynosa. The combined capital expenditures for Pemex-Gas and Basic Petrochemicals and Pemex-Petrochemicals are expected to be Ps. 4.1 billion in 2004. For more detail on the expenditures for and purpose of these investments, see "Item 4—Information on the Company—Business Overview—Gas and Basic Petrochemicals—Investments" and "—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 advisable 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, pounds sterling or Mexican pesos, among others; these securities may be issued with fixed or floating rates and with maturities ranging between three and thirty years, or possibly more, depending on market conditions and funding requirements. Commercial bank syndicated loans may be established with single or multiple tranches with maturities ranging between one 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. $2.9 billion in debt securities in the international capital markets in 2004 through our guarantee of the securities issued by RepCon Lux S.A., a Luxembourg financing vehicle, and our guarantee of securities by the Pemex Project Funding Master Trust, and we expect to issue additional securities over the rest of the year. In addition, as part of our activities for funding our capital expenditures in 2003 we began issuing *certificados bursátiles* in the domestic market, and have issued Ps. 26.2 billion of such securities through a new trust in the domestic market to date in 2004. This new trust, Fideicomiso F/163, issues debt through BankBoston, S.A., Institución de Banca Múltiple, División Fiduciaria, in its capacity as trustee of this trust, which we refer to as Fideicomiso F/163. Prior to 2003, Petróleos Mexicanos had never issued debt securities in the domestic market. Because the domestic market has demonstrated significant growth over the past five years, we believe that this market represents a good alternative source of PIDIREGAS funding, offering competitive conditions in terms of tenor, amount and type of interest rates, and as a result we plan to continue to issue such securities in the Mexican domestic market. Additionally, we may also fund some PIDIREGAS through commercial bank loans denominated in Mexican pesos.

Non-PIDIREGAS investments 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.

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

2004 Financing Activities. During the period from January 1 to May 31, 2004, Fideicomiso F/163 obtained Ps. 4.0 billion in nominal terms 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. $33.2 million;
- the Pemex Project Funding Master Trust obtained U.S. $278.2 million in project financing from financial institutions;
- RepCon Lux S.A. issued approximately U.S. $1.37 billion of its 4.5 per cent. Guaranteed Exchangeable Bonds due 2011; these bonds are guaranteed by Petróleos Mexicanos, and are exchangeable for shares of common stock of Repsol or, at the option of RepCon Lux S.A., the cash equivalent thereof;
- Fideicomiso F/163 issued a total of Ps. 11,500,000,000 in nominal terms of notes in the Mexican domestic market on January 30, 2004; the notes are guaranteed by Petróleos Mexicanos and were reopenings of earlier issuances, consisting of three separate tranches:
    - Ps. 4,000,000,000 in nominal terms of notes due October 18, 2007, bearing interest at the 91-day *Cetes* (treasury bill) rate plus 67 basis points;
    - Ps. 5,000,000,000 in nominal terms of notes due October 8, 2009, bearing interest at the 182-day *Cetes* rate plus 65 basis points; and
    - Ps. 2,500,000,000 in nominal terms of 8.38% notes due October 14, 2010;
- Fideicomiso F/163 issued a total of Ps. 14,672,000,000 in nominal terms of notes in the Mexican domestic market on March 26, 2004; the notes are guaranteed by Petróleos Mexicanos and were reopenings of earlier issuances, consisting of three separate tranches:
    - Ps. 6,000,000,000 in nominal terms of notes due October 18, 2007, bearing interest at the 91-day *Cetes* rate plus 67 basis points;
    - Ps. 6,000,000,000 in nominal terms of notes due October 8, 2009, bearing interest at the 182-day *Cetes* rate plus 65 basis points; and
    - Ps. 2,672,000,000 in nominal terms of 8.38% notes due October 14, 2010.

Subsequently, the Pemex Project Funding Master Trust issued U.S. $1.5 billion of Guaranteed Floating Rate Notes due 2010 on June 15, 2004, which bear interest at a rate per year, adjusted quarterly, equal to three-month LIBOR plus 1.30 per cent.; the notes are guaranteed by Petróleos Mexicanos.

In the period from January 1 to May 31, 2004, Petróleos Mexicanos' net payments on borrowings totaled U.S. $1.7 billion and were as follows:

- U.S. $311.2 million in respect of direct loans;
- U.S. $50 million in respect of foreign trade lines;
- U.S. $540 million in respect of bankers' acceptances;
- U.S. $68.7 million in respect of credit lines from export credit agencies;
- U.S. $432 million in respect of commercial paper;
- U.S. $218.2 million in respect of bond issues;
- U.S. $19 million in respect of restructured debt; and
- U.S. $49.9 million in respect of leases.

In the period from January 1 to May 31, 2004, the Pemex Project Funding Master Trust's net payments on borrowings totaled U.S. $761.0 million and were as follows:

- U.S. $60 million in respect of foreign trade financing;
- U.S. $124 million in respect of project financing;
- U.S. $475 million in respect of financing from commercial banks; and
- U.S. $102 million in respect of the Convenio de Derivación de Fondos (Transfer of Funds Agreement) with the Mexican Government. See "Item 10—Additional Information—Material Contracts" for more information.

2003 Financing Activities. During the period from January 1, 2003 to December 31, 2003, Petróleos Mexicanos obtained direct credits in the amount of U.S. $440 million for use in financing our working capital requirements, and the Pemex Project Funding Master Trust obtained U.S. $2.9 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. $152.3 million;
- Petróleos Mexicanos obtained foreign trade financing in the amount of U.S. $125 million;
- Petróleos Mexicanos obtained U.S. $432 million through its commercial paper program;
- Petróleos Mexicanos re-utilized U.S. $540 million from two acceptance credit facilities;
- the Pemex Project Funding Master Trust obtained U.S. $2.1 billion in project financing from various institutions;
- the Pemex Project Funding Master Trust issued £250,000,000 of its 7.50% Notes due 2013 on January 27, 2003; 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. $750,000,000 of its 6.125% Notes due 2008 on February 6, 2003; 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. $500,000,000 of its 8.625% Bonds due 2022 on March 21, 2003; the bonds 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 €750,000,000 of 6.625 per cent. Guaranteed Notes due 2010 on April 4, 2003; the notes are guaranteed by Petróleos Mexicanos;

- the Pemex Project Funding Master Trust issued U.S. $750,000,000 of its 7.375% Notes due 2014 on June 4, 2003; 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 €500,000,000 of its 6.25 per cent. Guaranteed Notes due 2013 on August 5, 2003; the notes are guaranteed by Petróleos Mexicanos;

- the Pemex Project Funding Master Trust issued U.S. $500,000,000 of its Guaranteed Floating Rate Notes due 2009 on October 15, 2003; the notes bear interest at a rate per year, adjusted quarterly, equal to three-month LIBOR plus 1.80 per cent. and are guaranteed by Petróleos Mexicanos;

- Fideicomiso F/163 issued a total of Ps. 6,500,000,000 in nominal terms of notes in the Mexican domestic market on October 24, 2003; the notes are guaranteed by Petróleos Mexicanos, and consist of three separate issuances:

    - Ps. 3,000,000,000 in nominal terms of notes due October 18, 2007, bearing interest at the 91-day *Cetes* (treasury bill) rate plus 67 basis points;

    - Ps. 2,500,000,000 in nominal terms of notes due October 8, 2009, bearing interest at the 182-day *Cetes* rate plus 65 basis points; and

    - Ps. 1,000,000,000 in nominal terms of 8.38% notes due October 14, 2010;

- the Pemex Project Funding Master Trust issued £150,000,000 of its 7.50% Notes due 2013 on November 7, 2003; the notes were issued under the Master Trust's Medium-Term Note program, Series A and are guaranteed by Petróleos Mexicanos;

- Fideicomiso F/163 entered into a loan in the amount of Ps. 2,500,000,000 in nominal terms on December 18, 2003, guaranteed by Petróleos Mexicanos, from a Mexican commercial bank for use in financing PIDIREGAS; and

- Fideicomiso F/163 entered into syndicated loans in the amount of Ps. 7,000,000,000 in nominal terms on December 23, 2003 from a group of Mexican commercial banks for use in financing PIDIREGAS; the loans are guaranteed by Petróleos Mexicanos and consist of two separate tranches: Ps. 4,945,000,000 in nominal terms bearing interest at the 28-day *Cetes* rate plus 35 basis points, and Ps. 2,055,000,000 in nominal terms bearing interest at a fixed rate of 8.40%; the tranches become due in 2007 and 2008, respectively.

In the period from January 1, 2003 to December 31, 2003, Petróleos Mexicanos' net payments on borrowings totaled U.S. $3.0 billion and were allocated as follows:

- U.S. $963.6 million in respect of direct loans;

- U.S. $187.7 million in respect of credit lines from export credit agencies in connection with project financing;

- U.S. $432.5 million in respect of commercial paper;

- U.S. $72.3 million in respect of restructured debt;

- U.S. $24.3 million in respect of leases;

- U.S. $225 million in respect of foreign trade financing;

- U.S. $785 million in respect of bankers' acceptances; and

- U.S. $330 million in respect of bond issues.

In the period from January 1, 2003 to December 31, 2003, the Pemex Project Funding Master Trust's net payments on borrowings totaled U.S. $1.8 billion and were allocated as follows:

- U.S. $426.7 million in respect of foreign trade financing;

- U.S. $426.8 million in respect of project financing from commercial banks;

- U.S. $731.9 million in respect of commercial bank loans; and

- U.S. $260.8 million in respect of the Convenio de Derivación de Fondos (Transfer of Funds Agreement) with the Mexican Government. See "Item 10—Additional Information—Material Contracts" for more information.

At December 31, 2003, our total indebtedness, excluding accrued interest, was approximately U.S. $31.7 billion. Of this amount, U.S. $27 billion consisted of total long-term debt, which was composed of approximately U.S. $17.4 billion in instruments with fixed annual interest rates ranging from 1.55% to 14.5% with maturities ranging from 2005 to 2027, approximately U.S. $9.6 billion at variable interest rates, of which U.S. $8.0 billion in drawings under lines of credit was based on LIBOR with maturities ranging from 2005 to 2014, and U.S. $1.6 billion in floating rate notes with maturities ranging from 2005 to 2009. Short-term debt totaled approximately U.S. $4.7 billion, consisting of U.S. $4.3 billion of variable interest rate borrowings under various lines of credit established under committed credit facilities with various international commercial banks and U.S. $0.4 billion of lines of credit with fixed interest rates.

The portion of our total debt at December 31, 2003 corresponding to borrowings of the Pemex Project Funding Master Trust and the Fideicomiso F/163 was U.S. $23.9 billion, of which U.S. $22.5 billion consisted of borrowings of the Pemex Project Funding Master Trust and U.S. $1.4 billion consisted of borrowings of the Fideicomiso F/163. The U.S. $23.9 billion corresponding to the borrowings of the Pemex Project Funding Master Trust and the Fideicomiso F/163 consisted of U.S. $12.2 billion in long-term debt at fixed interest rates with maturities ranging from 2005 to 2023, U.S. $9.1 billion in long-term debt with variable interest rates with maturities ranging from 2005 to 2014, and U.S. $2.6 billion in short-term debt, of which U.S. $2.4 billion consisted of variable interest rate borrowings under various lines of credit. The Pemex Project Funding Master Trust also has U.S. $3.8 billion in short-term and 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 off-setting effects of the consolidation of the results of both Pemex-Exploration and Production and the Pemex Project Funding Master Trust (*i.e.*, the effects of intercompany indebtedness are eliminated).

2002 Financing Activities. During the period from January 1, 2002 to December 31, 2002, Petróleos Mexicanos obtained direct credits in the amount of U.S. $650 million for use in financing our working capital

requirements, and the Pemex Project Funding Master Trust obtained U.S. $1.8 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. $146.4 million;
- Petróleos Mexicanos obtained foreign trade financing in the amount of U.S. $225 million;
- Petróleos Mexicanos obtained U.S. $962.5 million (which includes U.S. $350 million in renewals) through its commercial paper program;
- Petróleos Mexicanos re-utilized U.S. $785 million from two acceptance credit facilities;
- the Pemex Project Funding Master Trust obtained U.S. $2.0 billion in project financing from financial institutions;
- 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 of 7.875% Notes due 2009 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;
- the Pemex Project Funding Master Trust issued U.S. $500 million of 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;
- 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 3, 2002;
- the Pemex Project Funding Master Trust issued JP¥30,000,000,000 (approximately U.S. $241 million) of 3.50% Notes due 2023 on December 5, 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. $1 billion of 7.375% Notes due 2014 on December 12, 2002; the notes 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 December 31, 2002, Petróleos Mexicanos' net payments on borrowings totaled U.S. $3.2 billion and were allocated as follows:

- U.S. $909.1 million in respect of direct loans;
- U.S. $300 million in respect of bond issues;
- U.S. $490 million in respect of foreign trade lines;
- U.S. $785 million in respect of bankers' acceptances;
- U.S. $177.8 million in respect of credit lines from export credit agencies in connection with project financing;
- U.S. $407.5 million in respect of commercial paper;

- U.S. $68.9 million in respect of restructured debt; and

- U.S. $40.4 million in respect of leases.

In the period from January 1, 2002 to December 31, 2002, the Pemex Project Funding Master Trust's net payments on borrowings totaled U.S. $611 million and were allocated as follows:

- U.S. $375 million in respect of foreign trade financing; and

- U.S. $235.9 million in respect of project financing.

At December 31, 2002, our total debt, excluding accrued interest, was approximately U.S. $23 billion. Of this amount, U.S. $18.5 billion consisted of total long-term debt, which was composed of approximately U.S. $12.2 billion in instruments with fixed annual interest rates ranging from 1.55% to 14.5% with maturities ranging from 2004 to 2027, approximately U.S. $6.3 billion at variable interest rates, of which U.S. $5.5 billion was in drawings under lines of credit based on LIBOR with maturities ranging from 2004 to 2013, and U.S. $0.8 billion in floating rate notes with maturities ranging from 2004 to 2008. Short-term debt totaled approximately U.S. $4.5 billion, consisting of U.S. $3.9 billion of variable interest rate borrowings under various lines of credit established under committed credit facilities with various international commercial banks and U.S. $0.6 billion of lines of credit with fixed interest rates.

The portion of our total debt at December 31, 2002 corresponding to borrowings of the Pemex Project Funding Master Trust was U.S. $14.1 billion. This amount consisted of U.S. $7.0 billion in long-term debt at fixed interest rates with maturities ranging from 2004 to 2023, U.S. $5.5 billion in long-term debt with variable interest rates with maturities ranging from 2004 to 2013, and U.S. $1.6 billion in short-term debt, of which U.S. $1.5 billion consisted of variable interest rate borrowings under various lines of credit. The Pemex Project Funding Master Trust also has U.S. $4.2 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 financial statements due to the off-setting effects of the consolidation of the results of both Pemex-Exploration and Production and the Pemex Project Funding Master Trust (*i.e.*, the effects of intercompany indebtedness are eliminated).

The table below sets forth our total indebtedness as of December 31 for each of the five years from 1999 to 2003.

Total Indebtedness of PEMEX

	Year Ended December 31,[1]				
	1999[2]	**2000**[2]	**2001**[2]	**2002**[2]	**2003**[2]
	(in millions of U.S. dollars)[4]				
Domestic Debt in Various Currencies[3]	$ 1,301	$ 923	$ 749	$ 694	$ 2,900
External Debt[4]					
MYRA[5]	$ 398	$ 351	$ 292	$ 224	$ 153
Other direct bank loans	100	1,749	2,148	3,674	2,769
Securities					
Bonds	5,863	6,719	8,509	11,515	16,285
Commercial paper	307	447	228	433	432
Total securities	6,170	7,166	8,737	11,948	16,717
Trade financing[6]					
Acceptance lines	896	880	785	785	540
Advances from commercial banks[7]	2,035	1,395	1,490	2,150	3,323
Total trade financing	2,931	2,275	2,275	2,935	3,863
Purchasing loans[8]	382	355	351	380	387
Financial leases	496	437	319	279	254
Project finance[9]	685	1,650	2,282	2,866	4,636
Total external debt	$ 11,162	$ 13,983	$ 16,404	$ 22,306	$ 28,779
Total Indebtedness [2][10]	$ 12,463	$ 14,906	$ 17,153	$ 23,000	$ 31,679

Note: Numbers may not total due to rounding.

(1) Figures do not include accrued interest. Accrued interest was U.S. $184 million, U.S. $224 million, U.S. $284 million, U.S. $331 million and U.S. $459 million at December 31, 1999, 2000, 2001, 2002 and 2003, respectively.

(2) Includes U.S. $1.4 billion, U.S. $4.5 billion, U.S. $7.5 billion, U.S. $14.1 billion and U.S. $22.5 billion of indebtedness of the Pemex Project Funding Master Trust as of December 31, 1999, 2000, 2001, 2002 and 2003, respectively, and U.S. $1.4 billion of indebtedness of Fideicomiso F/163 as of December 31, 2003.

(3) 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. 9.5143 = U.S. $1.00 for 1999, Ps. 9.5722 = U.S. $1.00 for 2000, Ps. 9.1423 = U.S. $1.00 for 2001, Ps. 10.3125 = U.S. $1.00 for 2002 and Ps. 11.236 = U.S. $1.00 for 2003. See Notes 9 and 14 to our consolidated financial statements included herein.

(4) 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.

(5) Multi-Year Restructuring Agreement.

(6) To finance external trade of crude oil and derivatives.

(7) 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, 1999, 2000 and 2001, U.S. $1.9 billion as of December 31, 2002 and U.S. $3.2 billion as of December 31, 2003.

(8) To finance imports of equipment and spare parts.

(9) Includes U.S. $394 million, U.S. $1,450 million, U.S. $2,176 million, U.S. $2,771 million and U.S. $4,529 million of indebtedness of the Pemex Project Funding Master Trust as of December 31, 1999, 2000, 2001, 2002 and 2003, respectively.

(10) Does not include U.S. $1,565.1 million, U.S. $1,451.8 million, U.S. $1,330.4 million and U.S. $1,195.4 million of indebtedness as of December 31, 2000, 2001, 2002 and 2003, respectively, incurred in connection with notes payable to contractors. See Note 8 to our consolidated financial statements included herein.

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, 2003, the outstanding debt of Pemex Finance, Ltd. was composed of U.S. $4 billion aggregate principal amount of notes with maturities ranging from 2004 to 2018 and interest rates ranging between 5.72% and 10.61%, as well as three series of floating rate notes.

2004 Financing Activities. During 2004, Pemex Finance, Ltd. has made payments of U.S. $50 million in principal of its notes. Pemex Finance, Ltd. has not incurred any additional indebtedness during 2004.

2003 Financing Activities. During 2003, Pemex Finance, Ltd. made payments of U.S. $328.3 million in principal of its notes. Pemex Finance, Ltd. did not incur any additional indebtedness during 2003.

2002 Financing Activities. During 2002, Pemex Finance, Ltd. made payments of U.S. $305.8 million in principal of its notes. Pemex Finance, Ltd. did not incur any additional indebtedness during 2002.

2001 Financing Activities. During 2001, Pemex Finance, Ltd. made payments of U.S. $230 million in principal of its notes. Pemex Finance, Ltd. did not incur any additional indebtedness during 2001.

Contractual Obligations and Off-balance Sheet Arrangements

Information about our long-term contractual obligations and off-balance sheet arrangements outstanding at December 31, 2003 from the notes to our consolidated financial statements included herein is set forth below. This information is important in understanding our financial position. In considering the economic viability of investment opportunities, we view any source of financing, for example, operating leases or sales of future accounts receivable, as being economically equivalent to consolidated debt.

Contractual Obligations as of December 31, 2003

		Payment due by period			
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	(in millions of U.S. dollars)				
Contractual obligations recognized in balance sheet:					
Long-term debt[1]	$31,425.0	$ 4,601.0	$11,104.0	$ 6,069.0	$ 9,651.0
Capital lease obligations[2]	254.0	57.0	84.3	60.6	52.1
Sales of future accounts receivable[3]	3,601.0	–	801.0	1,040.0	1,760.0
Notes payable to contractors[4]	1,330.4	161.0	402.2	432.1	335.1
Other Long-Term Liabilities:					
Dismantlement and abandonment costs obligations[5]	1,092.4	13.0	60.0	60.0	959.4
Pension obligations[6]	25,433.4	1,227.7	2,732.4	2,745.4	18,727.9
Total contractual obligations recognized in balance sheet	$ 63,136.2	$ 6,059.7	$ 15,183.9	$ 10,407.1	$ 31,485.5
Other contractual obligations not recognized in liabilities:					
PIDIREGAS commitments[7]	15,366.0	7,787.5	5,459.8	1,045.6	1,073.1
Nitrogen supply contract[8]	1,896.7	256.2	670.0	263.1	707.4
Minimum Guaranteed Dividends[9]	2,621.4	873.8	1,747.6	–	–
Total contractual obligations not recognized in liabilities	$ 19,884.1	$ 8,917.5	$ 7,877.4	$ 1,308.7	$ 1,780.5
Total contractual obligations	$ 83,020.3	$14,977.2	$ 23,061.3	$ 11,715.8	$ 33,266.0

Note: These figures do not include accrued interest.

(1) See Note 9 to our consolidated financial statements included herein.
(2) See Note 19 II g) to our consolidated financial statements included herein.
(3) Under U.S. GAAP, we consolidate Pemex Finance, Ltd. and recognize on our balance sheet its outstanding debt of U.S. $4.0 billion. See Notes 7 and 19 II a) to our consolidated financial statements included herein.
(4) See Note 8 to our consolidated financial statements included herein.
(5) See Notes 2h) and 5 to our consolidated financial statements included herein.
(6) See Note 11 to our consolidated financial statements included herein.
(7) See Note 16 b) to our consolidated financial statements included herein.
(8) See Note 16 a) to our consolidated financial statements included herein.
(9) See Note 13 to our consolidated financial statements included herein.

As of December 31, 2003, we did not have any off-balance sheet arrangements of the type that we are required to disclose under Item 5.E of Form 20-F.

The following tables set forth information regarding the fair value of our derivative contracts in connection with natural gas trading activities as of December 31, 2003:

Fair Value of Natural Gas Derivative Contracts[1]

	(in thousands of U.S. dollars)
Fair value of contracts outstanding at the beginning of the period	$ (54,085)
Contracts realized or otherwise settled during the period	(7,377)
Fair value of new contracts when entered into during the period	(106,237)
Other changes in fair values	61,730
Fair value of contracts outstanding at the end of the period	$ (105,629)

(1) As of December 31, 2003.

Fair Value of Natural Gas Derivative Contracts at Period-End by Maturity[1]

Source of Fair Value	Maturity less than 1 year	Maturity 1-3 years	Maturity 4-5 years	Maturity in excess of 5 years	Total fair value
	(in thousands of U.S. dollars)				
Prices actively quoted	623	700	–	–	1,323
Prices provided by other external sources	(68,923)	(38,028)	–	–	(106,952)

(1) As of December 31, 2003.

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, 2003 as well as the percentage change in sales revenues for the years 2001 to 2003.

	Year Ended December 31,					2002 vs. 2001	2003 vs. 2002
	1999	2000	2001	2002	2003		
	(in millions of constant pesos at December 31, 2003)					(%)	(%)
Exploration and Production							
Trade sales[(1)]	Ps. 104,563	Ps. 157,581	Ps. 124,867	Ps. 137,699	Ps. 183,628	10.3	33.4
Intersegment sales	115,373	200,657	172,797	163,518	243,006	(5.4)	48.6
Total net sales	Ps. 219,936	Ps. 358,238	Ps. 297,664	Ps. 301,217	426,634	1.2	41.6
Refining							
Trade sales	Ps. 234,270	Ps. 263,978	Ps. 268,712	Ps. 274,058	Ps. 294,578	2.0	7.5
Intersegment sales	8,376	11,015	9,871	8,438	13,632	(14.5)	61.6
Total net sales	Ps. 242,646	Ps. 274,993	Ps. 278,583	Ps. 282,496	308,210	1.4	9.1
Gas and Basic Petrochemicals							
Trade sales[(1)]	Ps. 48,365	Ps. 73,386	Ps. 73,328	Ps. 66,769	Ps. 99,935	(8.9)	49.7
Intersegment sales	17,377	29,717	30,908	22,165	42,430	(28.3)	91.4
Total net sales	Ps. 65,742	Ps. 103,103	Ps. 104,236	Ps. 88,934	Ps. 142,365	(14.7)	60.1
Petrochemicals							
Trade sales[(1)]	Ps. 12,634	Ps. 13,980	Ps. 10,125	Ps. 8,755	Ps. 12,259	(13.5)	40.0
Intersegment sales	2,413	3,121	3,139	3,201	4,708	2.0	47.1
Total net sales	Ps. 15,047	Ps. 17,101	Ps. 13,264	Ps. 11,956	Ps. 16,967	(9.9)	41.9
Corporate and Subsidiary Companies							
Trade sales	Ps. 18,763	Ps. 28,382	Ps. 23,180	Ps. 27,568	Ps. 35,029	18.9	27.1
Intersegment sales and eliminations	(143,539)	(244,510)	(216,715)	(197,322)	(303,776)	(8.9)	53.9
Total net sales	Ps.(124,777)	Ps.(216,128)	Ps.(193,535)	Ps.(169,754)	(268,747)	(12.3)	58.3
Total Net Sales	Ps. 418,595	Ps. 537,307	Ps. 500,212	Ps. 514,849	Ps. 625,429	2.9	21.5

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. These 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, 2003, as well as the percentage change in income for the years 2001 to 2003.

	Year Ended December 31,			2002 vs. 2001	2003 vs. 2002
	2001	2002	2003		
	(in millions of constant pesos at December 31, 2003)			(%)	(%)
Business Segment					
Exploration and Production	Ps. 11,810	Ps. 15,576	Ps. 1,122	31.9	(92.8)
Refining	(30,869)	(35,648)	(36,219)	15.5	1.6
Gas and Basic Petrochemicals	818	2,320	7,684	183.6	231.2
Petrochemicals	(10,851)	(12,221)	(14,619)	12.6	19.6
Corporate and Subsidiary Companies[1]	(1,304)	5,399	1,388	514.0	(74.3)
Total Income/(loss)	Ps. (30,396)	Ps. (24,574)	Ps. (40,644)	(19.2)	65.4

Note: Numbers may not total due to rounding.
(1) Includes intersegment eliminations.
Source: PEMEX's financial statements.

2003 Compared to 2002

Exploration and Production

In 2003, Pemex-Exploration and Production's trade sales of crude oil and natural gas to the PMI Group increased by 33.4% in peso terms and by 24.8% in U.S. dollar terms, as a result of higher sales volumes and an increase in crude oil export prices. The weighted average price of crude oil sold by Pemex-Exploration and Production to the PMI Group for export was U.S. $24.75 in 2003, as compared to U.S. $21.31 in 2002. Intersegment sales increased by 48.6%, principally as a result of the increase in crude oil export prices. Income related to exploration and production activities decreased by 92.8% from Ps. 15,576 million in 2002 to Ps. 1,122 million in 2003, primarily as a result of an increase in product purchases and an increase in depreciation and maintenance expenses.

Refining

In 2003, trade sales related to refining activities increased by 7.5%, from Ps. 274,058 million in 2002 to Ps. 294,578 million in 2003, due to an increase in the average sales prices and volumes of our principal petroleum products. Export sales related to refining activities increased by 44.8%, from Ps. 6,773 million in 2002 to Ps. 9,808 million in 2003, as a result of increase in sales of virgin stock. Net of the IEPS Tax, domestic sales related to refining activities increased by 31.7%, from Ps. 144,848 million in 2002 to Ps. 190,693 million in 2003, principally due to an increase in the average sales prices and volumes of our principal petroleum products. Intersegment sales increased by 61.6%, to Ps. 13,632 million, largely due to an increase in the sales volumes of liquefied petroleum gas and diesel. In 2003, the total loss related to refining activities was Ps. 36,219 million, 1.6% greater than the loss of Ps. 35,648 million in 2002. The increased loss was primarily due to increases in the purchases of products due to higher prices and higher volume of crude oil purchased, which was partially offset by an increase in trade sales by Pemex-Refining.

Gas and Basic Petrochemicals

In 2003, trade sales related to the natural gas and basic petrochemical business segment increased by 49.7%, from Ps. 66,769 million in 2002 to Ps. 99,935 million in 2003. Liquefied petroleum gas sales increased by 34.2%, from Ps. 27,179 million in 2002 to Ps. 36,465 million in 2003, principally due to an increase in liquefied petroleum prices. The volume of domestic sales of basic petrochemicals decreased by 7.8% in 2003, from 861 thousand tons per year in 2002 to 794 thousand tons per year in 2003. Natural gas sales increased by 65.7%, from Ps. 31,320 million in 2002 to Ps. 51,884 million in 2003, mainly due to an increase in natural gas prices. Income related to

natural gas and basic petrochemicals increased by 231.2%, to Ps. 7,684 million, mainly due to increases in the prices of our principal products.

Petrochemicals

In 2003, trade sales related to the petrochemicals business segment increased by 40.0%, from Ps. 8,755 million in 2002 to Ps. 12,259 million in 2003. Prices and volumes for petrochemicals sold domestically increased for a majority of our petrochemical products. In 2003, the volume of petrochemical exports decreased by 28.2%, from 387 thousand tons in 2002 to 278 thousand tons in 2003. Losses related to petrochemical activities increased by 19.6%, from Ps. 12,221 million in 2002 to Ps. 14,619 million in 2003, mainly due to an increase in cost of sales resulting from an increase in product purchases and losses resulting from the disposal of fixed assets.

Corporate and Subsidiary Companies

In 2003, additional marginal trade sales revenues relating to PMI's exports of crude oil and petroleum products to third parties and after intercompany eliminations increased by 27.1% in peso terms, from Ps. 27,568 million in 2002 to Ps. 35,029 million in 2003, as a result of increased prices of the crude oil that we exported and the strengthening of the dollar against the peso. In 2003, the trade income related to corporate and subsidiary companies, which includes the international trading activities of the PMI Group, decreased from Ps. 5,399 million in 2002 to Ps. 1,388 million in 2003, primarily due to a lower net gain from monetary position in 2003.

2002 Compared to 2001

Exploration and Production

In 2002, Pemex-Exploration and Production's trade sales of crude oil and natural gas to the PMI Group increased by 10.3% in peso terms and by 11.8% in U.S. dollar terms, as a result of the increase in the weighted average price of crude oil which was partially offset by a 3.0% decline in the volume of crude oil exported. The weighted average price of crude oil sold by Pemex-Exploration and Production to the PMI Group for export was U.S. $21.31 in 2002, as compared to U.S. $18.57 in 2001. Intersegment sales decreased by 5.4%, principally as a result of lower natural gas sales. Income related to exploration and production activities increased by 31.9% from Ps. 11,810 million in 2001 to Ps. 15,576 million in 2002, primarily as a result of the increase in export sales and a decrease in product purchases.

Refining

In 2002, trade sales related to refining activities increased by 2.0%, from Ps. 268,712 million in 2001 to Ps. 274,058 million in 2002 due to an increase in the IEPS Tax. Export sales related to refining activities increased by 142.6% from Ps. 2,792 million in 2001 to Ps. 6,773 million in 2002, as a result of an increase in sales of fuel oil and virgin stock. Net of the IEPS Tax, domestic sales related to refining activities decreased by 8.9%, from Ps. 158,989 million in 2001 to Ps. 144,848 million in 2002, principally due to a decrease in the domestic prices of our principal petroleum products. Intersegment sales decreased by 14.5%, to Ps. 8,438 million, largely due to a decrease in the sales of liquefied petroleum gas. In 2002, the total loss related to refining activities was Ps. 35,648 million, 15.5% greater than the loss of Ps. 30,869 million in 2001. The increased loss was primarily due to a decrease in the prices of domestic sales of our principal petroleum products (net of IEPS tax) and increases in the purchases of products due to higher prices and higher volume of crude oil purchased.

Gas and Basic Petrochemicals

In 2002, trade sales related to the natural gas and basic petrochemical business segment decreased by 8.9%, from Ps. 73,328 million in 2001 to Ps. 66,769 million in 2002. Liquefied petroleum gas sales decreased from Ps. 32,234 million in 2001 to Ps. 27,179 million in 2002, due to a decrease in the price of the product. The volume of domestic sales of basic petrochemicals decreased by 0.9% in 2002, from 869 thousand tons per year in 2001 to 861 thousand tons per year in 2002. Natural gas sales decreased by 0.9%, from Ps. 32,517 million in 2001 to Ps. 32,212 million in 2002, mainly due to an increase in inflation rates that was higher than the increase in prices for natural gas and resulted in a decrease in the value in constant pesos of sales of natural gas, despite an increase in the volume of

natural gas sold. Income related to natural gas and basic petrochemicals increased by 183.6%, due to a decrease in costs of sales by a reduction in the value of product purchases from Pemex-Exploration and Production and third parties resulting from a fall in the price of natural gas, which was partially offset by the decrease in sales of liquefied petroleum gas and basic petrochemical products discussed above.

Petrochemicals

In 2002, trade sales related to the petrochemicals business segment decreased by 13.5%, from Ps. 10,125 million in 2001 to Ps. 8,755 million in 2002. Prices and volumes for petrochemicals sold domestically decreased for a majority of our petrochemical products. In 2002, the volume of petrochemical exports increased by 28.1%, from 302 thousand tons in 2001 to 387 thousand tons in 2002. Losses related to petrochemical activities increased by 12.6%, from Ps. 10,851 million in 2001 to Ps. 12,221 million in 2002, mainly due to the recognition of a loss from the disposal of several plants of Ps. 2,370 million in 2002.

Corporate and Subsidiary Companies

In 2002, additional marginal trade sales revenues relating to PMI's exports of crude oil and petroleum products to third parties and after intercompany eliminations increased by 18.9% in peso terms, from Ps. 23,180 million in 2001 to Ps. 27,568 million in 2002, as a result of the strengthening of the dollar against the peso. In 2002, the results of trade related to corporate and subsidiary companies, which includes the international trading activities of the PMI Group, went from a loss of Ps. 1.3 billion in 2001 to net income of Ps. 5.4 billion in 2002, primarily due to the increase in total sales by PMI discussed above and a net gain from monetary position.

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, seniority premiums and post-retirement benefit obligations, capitalized interest, impairment of fixed assets, depreciation, derivatives, profit in inventory and our investment in Repsol shares. 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 our consolidated financial statements included herein.

Income and Equity (Deficit) under U.S. GAAP

For the year ended December 31, 2003, our loss under U.S. GAAP was approximately Ps. 66.3 billion, representing a Ps. 25.7 billion increase from the loss recorded under Mexican GAAP. For the year ended December 31, 2002, our loss under U.S. GAAP was approximately Ps. 32.7 billion, representing a Ps. 8.1 billion increase from the loss recorded under Mexican GAAP. For the year ended December 31, 2001, our loss under U.S. GAAP was approximately Ps. 23.3 billion, representing a Ps. 7.1 billion decrease from the loss recorded under Mexican GAAP. For further detail regarding the adjustments related to these amounts, see Note 19 to our consolidated financial statements included herein.

Our deficit under U.S. GAAP was approximately Ps. 44.4 billion at December 31, 2003, as compared to an equity of Ps. 17.1 billion at December 31, 2002. For further detail regarding the adjustments related to these amounts, see Note 19 to our consolidated financial statements included herein.

Exploration and Drilling Costs

Under Mexican GAAP, through 2003, 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. Effective as of January 1,

2004, we will change our Mexican GAAP accounting policy and adopt a policy similar to that used under U.S. GAAP.

Pensions and Post-retirement Benefits

Seniority premiums and pension plans are treated differently under U.S. GAAP and Mexican GAAP because of the different implementation dates required by Bulletin D-3 and SFAS No. 87. Under Mexican GAAP, we account for supplemental payments under its Bulletin D-3 calculations. However, we account for other health services benefits on a pay-as-you-go basis. Under U.S. GAAP, we follow the guidelines of SFAS No. 106, which uses the transitional recognition method in accounting for health service and other supplemental payments provided to retirees.

Fixed Asset Adjustments

- *Capitalization of interest*. 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.

- *Impairment*. For Mexican GAAP purposes, for the year ended December 31, 2003, we evaluated the carrying value of our long-lived assets under the value-in-use concept established by Bulletin B-10. Under U.S. GAAP, SFAS No. 144 requires that we evaluate our long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 144 requires us to write-down impaired assets to the fair value, if available, or the discounted present value of expected future cash flows on related assets. We measure impairment of our oil and gas producing assets based on the undiscounted estimated future cash flows associated with estimated proved reserves on a field-by-field basis. See "Item 5—Operating and Financial Review and Prospects—Recently Issued Accounting Standards," for a discussion of new impairment guidance under Mexican GAAP, which is effective as of January 1, 2004.

Derivatives

For Mexican GAAP purposes, we apply Bulletin C-2, 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, we apply SFAS No. 133 (as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 149), 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 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 and other contracts related to the Repsol shares described in Note 10 to our consolidated financial statements included herein.

Profit in Inventory

Under Mexican GAAP, we value crude oil and derivatives for export at net realizable value with the difference between the net realizable value and cost recorded in earnings. By contrast, U.S. GAAP requires that inventories be recorded at net realizable cost, but not to exceed cost. For U.S. GAAP purposes, we have eliminated the effect of recognizing a profit within its inventory balance.

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, our investment in Repsol shares and the sale of transport assets. See Note 19 to our consolidated financial statements included herein.

Recently Issued Accounting Standards

New Mexican GAAP Accounting Standards

The Mexican Institute of Public Accountants, or MIPA, issued Bulletin C-15, "Impairment and Disposal of Long-Lived Assets," which provides specific criteria for determining when there is impairment in the value of long-lived assets for both tangible and intangible assets. Bulletin C-15 establishes a methodology for calculating and recording losses arising from the impairment of assets and their reversal, and provides guidance for accounting, presentation and disclosure for discontinued operations. The provisions of Bulletin C-15 are effective as of January 1, 2004, although early adoption is recommended. Effective January 1, 2004, we adopted the provisions of Bulletin C-15 and carried out a study to determine the value-in-use of our long-lived assets. The study has identified an impairment loss or decrease in value of our long-lived assets of approximately Ps. 10.0 billion.

In May 2004, the MIPA, issued Bulletin B-7, "Business Acquisitions," which provides guidance for the accounting of business acquisitions and investments in affiliated entities. Bulletin B-7 requires that all business acquisitions and investments in affiliates be accounted for by the purchase method of accounting. Upon adoption of Bulletin B-7, goodwill ceases to be amortized and is instead tested annually for impairment. Bulletin B-7 also provides guidelines for the acquisition of a minority interest, and for asset transfers and business acquisitions among entities under common control. Adoption of Bulletin B-7 is effective for periods beginning on January 1, 2005, with early adoption encouraged. We believe that the adoption of Bulletin B-7 will not have a significant impact on our results of operations or financial position.

In April 2004, the MIPA issued Bulletin C-10, "Derivative Financial Instruments and Hedge Operations." Bulletin C-10 establishes revised accounting and reporting standards and requires that all derivative instruments, including certain embedded derivative instruments, be recorded in the balance sheet as either an asset or a liability measured at its fair value. Bulletin C-10 also requires that changes in the derivative's fair value be recognized currently in earnings unless hedge accounting criteria is met. Bulletin C-10 is effective for periods beginning on January 1, 2005, with early adoption recommended. Although we have just begun to evaluate the impact that the adoption of Bulletin C-10 will have on our results of operations or financial position, we believe that the revised standards and requirements are more comparable to the standards and requirements of SFAS No. 133 under U.S. GAAP and believe that the adoption of Bulletin C-10 will not have a material impact on our consolidated financial statements.

In 2003, the MIPA issued new Bulletin C-12, "Financial Instruments with Characteristics of Liabilities, Capital or Both," which highlights the differences between liabilities and capital from the viewpoint of the issuer, as a basis for identifying, classifying and accounting for the liability and capital components of combined financial instruments at the date of issuance. The new bulletin establishes the methodology for separating the liabilities and capital components from the proceeds of the issuance of combined financial instruments. The methodology is based on the residual nature of stockholders' equity and avoids the use of fair values affecting stockholders' equity in initial transactions. Additionally, it establishes that beginning on January 1, 2004, the initial costs incurred in connection with the issuance of combined instruments should be assigned to liabilities and stockholders' equity in proportion to the amounts of the components recognized as liabilities and stockholders equity, that the profits and losses related to financial instrument components classified as liabilities should be recorded in comprehensive financing cost and that distributions to owners of financial instrument components classified as capital should be charged directly to a stockholders' equity account other than the net income for the year. Although this bulletin became effective on January 1, 2004, there is no requirement to restate information of prior periods or recognize an initial effect of adopting in the income for the year it is adopted, in accordance with the transitory provisions of the bulletin. PEMEX is currently evaluating the impact the adoption of this Bulletin will have on its consolidated financial statements.

In December 2003, the MIPA issued Bulletin D-3 "Labor Obligations", which will provide accounting and disclosure guidance with respect to post-retirement benefits other than pensions. This would include medical benefits and employee indemnities paid upon termination of an employment relationship prior to retirement. Bulletin D-3 will require that such amounts be actuarially determined in a manner similar to that required for pension accounting. The provisions of the standard related to post-retirement medical and other benefits is effective in 2004, while the provisions related to employee indemnities paid upon termination of an employee relationship are effective no later than 2005. We have begun to analyze the potential impact that this new bulletin may have on our financial position and results of operations and we expect this impact will be significant. We are in the process of obtaining the required data needed to perform the actuarial calculations and are analyzing the transition provisions of Bulletin D-3.

New U.S. GAAP Accounting Standards

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51" ("FIN 46"). 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. In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" ("FIN 46-R"). FIN 46-R amended the effective dates for a Non-Public entity, as defined therein. For Non-Public entities it applies by the beginning of the first fiscal year or interim period beginning after December 15, 2004, to variable interest entities in which an enterprise holds a variable interest that it acquired before December 31, 2003, and immediately to variable entities created after December 31, 2003. We do not expect that the adoption of FIN 46 and FIN 46-R will have a material impact on our consolidated financial statements.

In April 2004, the FASB issued a FASB Staff Position 141-1 and 142-1, "Interaction of FASB Statements No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," and EITF Issue No. 04-2, "Whether Mineral Rights Are Tangible or Intangible Assets" ("FSP 141-1 and 142-1"). FSP 141-1 and 142-1 defined mineral rights as tangible assets. If the guidance in this FSP 141-1 and 142-1 results in the recharacterization of an asset, prior-period amounts on the statements of financial position shall be reclassified. Any effects on amortization or depreciation of the asset shall be accounted for prospectively. It applies to the first reporting period beginning after April 29, 2004, although early adoption is permitted. We do not expect that the adoption of FSP 141-1 and 142-1 will have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"). This statement affects how an entity measures and reports financial instruments that have characteristics of both liabilities and equity, is effective prospectively for financial instruments entered into or modified after May 31, 2003 and is otherwise effective for PEMEX beginning January 1, 2004. We do not expect that the adoption of SFAS No. 150 will have a material impact on our consolidated financial statements.

In December 2003, the FASB issued a revision to SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits," to improve financial statement disclosures for defined benefit plans. The standard requires that companies provide more details about their plan assets, benefit obligations, cash flows and other relevant information, such as plan assets by category. A description of investment policies and strategies for these asset categories and target allocation percentages or target ranges are also required in financial statements. This statement is effective for financial statements with fiscal year ending after December 15, 2003. We adopted this statement at December 31, 2003 and provided the required disclosure in these financial statements

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. An 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 *Sindicato de Trabajadores Petroleros de la República Mexicana* (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 was appointed Director General of Petróleos Mexicanos, effective on such date.

At an extraordinary session of the Board of Directors, held on May 12, 2004, the board approved the dissolution of three executive offices: Corporate Direction of Strategic Planning, Corporate Direction for Competitiveness and Innovation and Corporate Direction for Industrial Safety and Environmental Protection.

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 June 10, 2004.

Petróleos Mexicanos—Directors and Executive Officers

Name	Position with Petróleos Mexicanos	Year Appointed
Mr. Fernando Elizondo Barragán	Chairman of the Board of Directors of Petróleos Mexicanos and Secretary of Energy Born: 1949 Business experience: Presidential Link for the Tax Reform; Acting Governor of the State of Nuevo León; Secretary of Finance and General Treasurer of the State of Nuevo León. Other board memberships: Comisión Federal de Electricidad (Chairman); Luz y Fuerza del Centro (Chairman); Banco Nacional de Comercio Exterior, S.N.C.; Nacional Financiera, S.N.C.; and Comisión Nacional del Agua.	2004

Petróleos Mexicanos—Directors and Executive Officers

Name	Position with Petróleos Mexicanos	Year Appointed
Mr. Fernando de Jesús Canales Clariond.....	Board Member of Petróleos Mexicanos and Secretary of the Economy Born: 1946 Business experience: Governor of Nuevo León; Federal Congressman; and Assistant Director General of Grupo IMSA, S.A. de C.V. Other board memberships: Banco Nacional de Comercio Exterior, S.N.C.; Banco del Ahorro Nacional y Servicios Financieros, S.N.C.; Centro Nacional de Metrología; Comisión Federal de Electricidad; Comisión Intersecretarial de Desincorporación; Comisión Intersecretarial de Política Industrial; Comisión Intersecretarial de Gasto-Financiamiento; Comisión Intersecretarial de Precios y Tarifas de los Bienes y Servicios de la Administración Pública Federal; Comisión Intersecretarial para la Transparencia y el Combate a la Corrupción de la Administración Pública Federal; Fondo para la Micro, Pequeña y Mediana Empresa; Consejo Nacional de Ciencia y Tecnología; and Nacional Financiera.	2003
Mr. Alberto Cárdenas Jiménez	Board Member of Petróleos Mexicanos and Secretary of the Environment and Natural Resources Born: 1958 Business experience: Director General of Comisión Nacional Forestal; Governor of the State of Jalisco and Mayor of Zapotlán El Grande, Jalisco. Other board memberships: Comisión Federal de Electricidad.	2003
Mr. Luis Ernesto Derbez Bautista	Board Member of Petróleos Mexicanos and Secretary of Foreign Affairs Born: 1947 Business experience: Secretary of the Economy; Independent Consultant of World Bank and Inter-American Development Bank; Responsible for Regional Areas of international interest of the World Bank (Chile, West and Central Regions of Africa, India, etc.); and Professor at the Instituto Tecnológico de Estudios Superiores de Monterrey. Other board memberships: Banco de Desarrollo de América del Norte; Banco Nacional de Comercio Exterior, S.N.C.; Comisión de Comercio Exterior; Comisión Intersecretarial para la Transparencia y el Combate a la Corrupción de la Administración Pública Federal; Consejo General de Investigación Científica y Tecnológica; Aeropuertos y Servicios Auxiliares; Telecomunicaciones de México; and Servicio Postal Mexicano.	2001

Petróleos Mexicanos—Directors and Executive Officers

Name	Position with Petróleos Mexicanos	Year Appointed
Mr. Pedro Cerisola y Weber.....	Board Member of Petróleos Mexicanos and Secretary of Communications and Transportation Born: 1949 Business experience: Advisor to President Vicente Fox; General Coordinator for Vicente Fox's Presidential Campaign; Projects and Planning of Aeropuertos y Servicios Auxiliares; 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 Finance and Public Credit Born: 1943 Business experience: Director General of Avantel; Director General of Economic-Finance Studies at the Ministry of Finance and Public Credit; Manager of the Organization and Information Analysis Unit at Banco de México; and Director General of Income Policy and Undersecretary of Income at the Ministry of Finance and Public Credit. Other board memberships: Banco del Ahorro Nacional y Servicios Financieros, S.N.C. (Chairman); Banco Nacional de Comercio Exterior, S.N.C. (Chairman); Banco Nacional de Crédito Rural, S.N.C. (Chairman); Banco Nacional de Obras y Servicios Públicos, S.N.C. (Chairman); Casa de Moneda de México (Chairman); Nacional Financiera, S.N.C. (Chairman); Comisión Federal de Electricidad; Comisión Intersecretarial de Gasto Financiamiento (Chairman); Comisión Intersecretarial de Desincorporación (Chairman); Comisión Nacional Bancaria y de Valores; Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros (Chairman); and Comisión Nacional de Seguros y Fianzas.	2001
Mr. Ramón Hernández Toledo	Board Member of Petróleos Mexicanos and Union Representative Born: 1937 Business experience: Federal Congressman; Supervisor "A" of Auxiliar Services; Chief of Cauldrons Custody and other positions in Petróleos Mexicanos.	1992
Mr. Pablo Pavón Vinales.....	Board Member of Petróleos Mexicanos and Union Representative Born: 1945 Business experience: Chief "A" of Workshops at Refinería Lázaro Cárdenas and other positions in Petróleos Mexicanos.	1992
Mr. Luis Ricardo Aldana Prieto	Board Member of Petróleos Mexicanos; Union Representative Born: 1954 Business experience: Senator; Treasury Secretary of the General Executive Committee of the Union; and General Secretary of Section 40 of the Union.	2001

Petróleos Mexicanos—Directors and Executive Officers

Name	Position with Petróleos Mexicanos	Year Appointed
Mr. Alejandro Sánchez Narváez.....	Board Member of Petróleos Mexicanos and Union Representative Born: 1952 Business experience: Plant Supervisor and other positions in Petróleos Mexicanos.	2001
Mr. Mario Martínez Aldana	Board Member of Petróleos Mexicanos and Union Representative Born: 1952 Business experience: Technician of Railroad Equipment; Geographic Information Uplifting and other positions in Petróleos Mexicanos.	2001
Mr. Raúl Muñoz Leos	Director General Born: 1939 Business experience: President and Executive Vice-President of DuPont México, S.A. de C.V.	2000
Mr. Juan José Suárez Coppel.....	Chief Financial Officer Born: 1959 Business experience: Chief of Staff of the Secretary of Finance and Public Credit; Corporate Treasurer of Grupo Televisa; and Co-head of Equity Derivatives Trading in Banco Nacional de México S.A. Other board memberships: Deer Park Refining, L.P.; I.I.I. Servicios, S.A. de C.V.; Mexicana de Lubricantes, S.A. de C.V.; and Instituto Mexicano del Petróleo.	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. Victor Manuel Cámara Peón	Deputy Director of Financial Information Systems Born: 1943 Business experience: Director of Control and Operational Risk of Banco Nacional de México, S.A.; Director General of Human Resources of Banco Nacional de México, S.A.; and Administrative Director of Banco Nacional de México, S.A. Other board memberships: Intermarítima Maya, S.A. de C.V.; Grupo Roche, S.A. de C.V.; Comercial Salinera de Yucatán, S.A. de C.V.; Infraestructura Maya Peninsular, S.A. de C.V.; and Industria Salinera de Yucatán, S.A. de C.V.	2003
Mr. Rigoberto Ariel Yépez García	Deputy Director of Economic Planning Born: 1965 Business experience: Director General of Prices Policy of the Ministry of Finance and Public Credit; Associate Managing Director of Business Development of Pemex-Gas and Basic Petrochemicals; and Assistant Director General of Prices and Rates Policy of the Ministry of Finance and Public Credit Other board memberships: Gasoductos de Chihuahua, S. de R.L. de C.V.	2001

Petróleos Mexicanos—Directors and Executive Officers

Name	Position with Petróleos Mexicanos	Year Appointed
Mr. Octavio Javier Ornelas Esquinca	Deputy Director of Finance and Treasury Born: 1954 Business experience: Chief Financial Officer of Fénix S. de R.L. de C.V. (Deutsche Bank Asset Management Company in Mexico); Chief Financial Officer of Grupo Mina, S.A. de C.V. (Industrial and Services Holding Co.) and other industrial and service companies; Senior Financial Advisor in the privatization process of Mexican ports at Puertos Mexicanos; Chief Financial Officer at different banking institutions and financial groups; and Managing Director of the Banking Policy Unit of the Ministry of Finance and Public Credit.	2003
Mr. José Manuel Carrera Panizzo.....	Deputy Director of Risk Management Born: 1969 Business experience: Manager of Foreign Exchange, Metals, Coins and International Agreements of Banco de México; Research Officer of Banco de México ; and Foreign Exchange Trader of Banco de México Other board memberships: MGI Trading, Ltd. (Vice-President); MGI Enterprises, Ltd. (Vice-President); and MGI Supply Ltd. (Vice-President).	2001
Mr. Octavio Aguilar Valenzuela	Corporate Director of Administration Born: 1958 Business experience: General Administrative Officer of the Ministry of Social Development; Director of Human Resources of Altos Hornos de México; and Liaisons Vice-President of Grupo Financiero Santander Mexico.	2004
(Vacant).....	Deputy Director of Labor Relations	
Mr. Juan Carlos Soriano Rosas.....	General Counsel of Petróleos Mexicanos Born: 1962 Business experience: Chief of Legal-Administrative Affairs of Banco de México; General Legal Director and Vice-President of Regulation and Supervision at the Comisión Nacional del Sistema de Ahorro para el Retiro; and Advisor of the Ministry of Finance and Public Credit.	2004
(Vacant).....	Deputy Director of Corporate Services	
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
(Vacant).....	Deputy Director of Human Resources	
(Vacant).....	Deputy Director of Supplies	
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 of Petróleos Mexicanos. Other board memberships: Instituto Mexicano del Petróleo.	1997

Petróleos Mexicanos—Directors and Executive Officers

Name	Position with Petróleos Mexicanos	Year Appointed
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
Mr. Guillermo Ruiz Gutiérrez	Deputy Director of Planning and Operation Evaluation Born: 1959 Business experience: Associate Managing Director; Manager; and Superintendent of Petróleos Mexicanos.	2001
Mr. Pedro Silva López.....	Deputy Director of Operations Coordination Born: 1953 Business experience: Executive Director of Strategic Gas Program; Associate Managing Director of Strategic Planning of Pemex-Exploration and Production; Associate Managing Director of the Burgos Integral Project of Pemex-Exploration and Production; and Associate Managing Director of Planning (North Region) of Pemex-Exploration and Production.	2003
(Vacant)	Deputy Director of Industrial Safety and Environmental Protection	
Mr. Andrés Antonio Moreno y Fernández.....	Corporate Director of Engineering and Project Development Born: 1938 Business experience: President of Mofal Consultores, S.C.; Deputy Director of Construction of the Comisión Federal de Electricidad; and Director General of Lumbreras 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. Other board memberships: Instituto Mexicano del Petróleo.	2001
Mr. Jorge Alberto Aguilar López	Deputy Director of Contracting Born: 1956 Business experience: Project Director of Grupo México; Manager of Financial Planning of Comisión Federal de Electricidad and Research Assistant at Instituto Mexicano del Petróleo.	2001
(Vacant)	Deputy Director of Industrial Plants Projects	
Mr. Javier Pérez Saavedra	Deputy Director of Quality Control Born: 1945 Business experience: Director General of Pérez Saavedra y Asociados Consultores, S.A. de C.V.; Advisor to the Comisión Nacional del Agua; and Deputy Director of Management of the Comisión Nacional del Agua Other board memberships: Desarrollo de Negocios Prendarios, S.A. de C.V.	2001

Petróleos Mexicanos—Directors and Executive Officers

Name	Position with Petróleos Mexicanos	Year Appointed
Mr. Benigno Estrada Rodríguez.....	Head of the Internal Control Body Born: 1947 Business experience: Head of the Internal Control Body of Banco Nacional de Comercio Exterior, S.N.C.; Assistant Director General of Grupo Tek; and Recovery Director of Corporate Banking and Specialized Banking of Banca Cremi, S.A.	2003
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; Advisor of Political Parties of the Instituto Federal Electoral; 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. Aniceto del Río Chico	Head of Control and Evaluation Auditing Born: 1946 Business experience: Director General of Alger Consultores, S.C.; Director of Smiling Company, Director of Fit-Biz Executive Center; Director of Gecisa Internacional and Director of Producciones Patsa. Other board memberships: Smiling Company.	2003
Mr. Manuel Vázquez Bustillos.....	Head of the Auditing Area Born: 1939 Business experience: Associate Managing Director of Supervision of Entities and Affiliates of Petróleos Mexicanos; General Comptroller of the Ministry of Energy; General Comptroller of the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado; and Director General and President of Laboratorios Infan, S.A.	1997
Mr. Jorge Andrés Ocejo Moreno.....	Advisor Coordinator of the Director General Born: 1943 Business experience: Advisor Coordinator of the Secretary of Labor and Social Foresight; Secretary General of the National Executive Committee of Partido Acción Nacional; and Liaisons Secretary of the National Executive Committee of Partido Acción Nacional. Other board memberships: Colegio de Alta Dirección de Empresas, A.C. (Chairman).	2003
Mr. Melchor de los Santos Ordóñez.....	Executive Coordinator to the Director General Born: 1950 Business experience: Senator in the Mexican Congress; General Coordinator of Delegations of Banco Nacional de Obras y Servicios Públicos, S.N.C.; and Head of Universidad Autónoma de Coahuila.	2001
Mr. Moisés Ithuriel Orozco García.....	Executive Advisor to the Director General Born: 1968 Business experience: Corporate Director of Administration of Petróleos Mexicanos; Associate Managing Director of Strategic Planning of Petróleos Mexicanos; Advisor Coordinator of the Director General of Pemex-Petrochemicals; and Director General for Special Projects of the Ministry of Energy.	2004

Petróleos Mexicanos—Directors and Executive Officers

Name	Position with Petróleos Mexicanos	Year Appointed
Mr. Raoul Capdevielle Orozco.....	Technical Secretary of the Director General Born: 1943 Business experience: Deputy Comptroller of Liabilities of Petróleos Mexicanos; Legal Coordinator of Instalaciones Inmobiliarias para Industrias, S.A.; and Legal Director of Franchises of Triturados Basálticos y Derivados, S.A. de C.V.	2001
(Vacant)	Special Projects of the General Director Office	

Pemex-Exploration and Production—Directors and Executive Officers

Name	Position with Pemex-Exploration and Production	Year Appointed
Mr. Raúl Muñoz Leos	Chairman of the Board of Pemex-Exploration and Production (refer to Petróleos Mexicanos)	2000
Mr. Juan Bueno Torio	Board Member of Pemex-Exploration and Production (refer to Pemex-Refining)	2003
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 for Political, Economic and Social Matters in the Presidency; Mexico's Representative to the Organization for Economic Cooperation and Development; General Coordinator of Fondo Nacional de Apoyo a Empresas de Solidaridad; and Director General of Economic and Social Policy. Other board memberships: Aeropuertos y Servicios Auxiliares; Ferrocarriles Nacionales de México; Comisión Federal de Electricidad; and Luz y Fuerza del Centro.	2001
Mr. Héctor Moreira Rodríguez.....	Board Member of Pemex-Exploration and Production and Undersecretary of Hydrocarbons of the Ministry of Energy Born: 1946 Business experience: Undersecretary of Energy Policy and Technological Development of the Ministry of Energy; Vice-Chancellor of Instituto Tecnológico de Estudios Superiores de Monterrey; Chief of the Strategic Planning Unit of the Presidency. Other board memberships: Centro de Investigación y Docencia Económica.	2004

Pemex-Exploration and Production—Directors and Executive Officers

Name	Position with Pemex-Exploration and Production	Year Appointed
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: Assistant Director and Deputy Director of Sectorial Studies for Grupo Financiero Banamex-Accival, S.A.; Senior Advisor to the Energy Sector and Basic Industries of Grupo Financiero Banamex-Accival, S.A.; and Advisor of the Crude Oil Sector for Banco Nacional de México, S.A. Other board memberships: Consejo de Recursos Minerales; Fideicomiso de Fomento Minero; Exportadora de 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 Alberto Martínez Salas	Deputy Director of Engineering and Strategic Works Development Born: 1943 Business experience: Executive Director of Cantarell Project; Deputy Director of Primary Production Projects of Petróleos Mexicanos; and Board Member of Gutsa Constructores, S.A. de C.V.	2001
Mr. J. Javier Hinojosa Puebla.....	Deputy Director (Northeast 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 (South Region), and Associate Managing Director of Production (South Region) of Pemex-Exploration and Production.	2003
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.	2003
Mr. José Tomás Limón Hernández.....	Deputy Director of Operations and Trade Born: 1943 Business Experience: Deputy Director of Operations Coordination; Associate Managing Director of Programming and Evaluation; Director of the Cantarell Project; and Administrator of Cantarell Asset.	2003
Mr. Rogelio Bartolomé Morando Sedas	Deputy Director of Industrial Safety and Environmental Protection Auditing Born: 1946 Business Experience: Director General of Industrias Tecnos S.A. de C.V.; Plant Manager of Industrias Tecnos S.A. de C.V.; and Plant Manager of Dupont S.A. de C.V.	2003

Pemex-Exploration and Production—Directors and Executive Officers

Name	Position with Pemex-Exploration and Production	Year Appointed
Mr. Heberto Ramos Rodríguez.....	Deputy Director (South Region) Born: 1951 Business experience: Associate Managing Director of Planning (South Region); Associate Managing Director of Drilling and Well Maintenance (South Region); and Associate Managing Director of the Marine Drilling Project of Pemex-Exploration and Production.	2003
Mr. Héctor Leyva Torres.....	Deputy Director of Marine Services Coordination Born: 1948 Business experience: Deputy Director (Southwest Marine Region); Deputy Director (South Region); Associate Managing Director of Production (Marine Region); Associate Managing Director of Production (South Region) and General Superintendent of Exploration District in the Marine Zone of Pemex-Exploration and Production. Other board memberships: Administración Portuaria Integral de Dos Bocas, Tabasco.	2003
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 of Pemex-Gas and Basic Petrochemicals.	2002
Mr. Pedro Javier Caudillo Márquez	Deputy Director of Drilling and Well Maintenance Born: 1945 Business experience: Chief of Non-Conventional Drilling, Deputy Manager of Drilling Evaluation, and Superintendent of Drilling and Well Maintenance of Pemex-Exploration and Production.	2003
Mr. Luis Sergio Guaso Montoya	Executive Director of the Multiple Services Contracts Models Born: 1963 Business Experience: Executive Director of the Multiple Services Contracts Project; Associate Managing Director of Economic Analysis of Pemex-Exploration and Production; Associate Managing Director of Investment Resources of Pemex-Exploration and Production; Economic Advisor of PMI Holdings North America, Inc.	2002
Mr. Carlos A. Morales Gil.....	Deputy Director of Planning and Evaluation Born: 1954 Business experience: Deputy Director (South Region), Associate Managing Director of Planning, Associate Managing Director of Production, and Coordinator of Oilfields Management of Pemex-Exploration and Production.	2001
Mr. Francisco Javier Barraza Rodríguez	Deputy Director of Technology Information Coordination Born: 1943 Business experience: Technical Support on Documental Technology of Imaxserve; Director of Administrative Systems of Scotiabank Inverlat; and External Consultant on Administrative Systems of Banco Nacional de México, S.A.	2003

Pemex-Exploration and Production—Directors and Executive Officers

Name	Position with Pemex-Exploration and Production	Year Appointed
Mr. Ricardo Palomo Martínez.....	Deputy Director (Southwest Marine Region) Born: 1954 Business experience: Manager of Burgos Production Asset, Associate Managing Director of Proyecto Integral Cuenca Burgos, and General Superintendent Reynosa District.	2003
Mr. Héber Cinco Ley	Deputy Director of Technical Coordination of Exploitation Born: 1946 Business Experience: Director General of Asesoría y Servicios Petroleros S.A. de C.V.; University Professor of Universidad Nacional Autónoma de México; and Reservoir Engineer of Standard Oil Company.	2003
Mr. Adán Ernesto Oviedo Pérez.....	Deputy Director of Technical Coordination of Exploration Born: 1956 Business Experience: Associate Managing Director of Diagnosis and Risk Analysis of Pemex-Exploration and Production; Manager of Salina del Istmo Exploration Asset; and Chief of the Marbella Project of Pemex-Exploration and Production. Other board memberships: Compañía Mexicana de Exploraciones, S.A. de C.V. (Vice President).	2003
Mr. Jorge Javier Ramos Negrete	Head of the Internal Control Body Born: 1950 Business Experience: Head of the Internal Control Body in Procuraduría Federal del Consumidor; Local Treasurer in Ciudad Juárez and Income Director of Ciudad Juárez.	2003
Mr. Teódulo Gutiérrez Acosta.....	Deputy Director of Human Resources, Competitiveness and Innovation Born: 1944 Business Experience: Associate Managing Director of Professional Development and Technological Development of Pemex-Exploration and Production; Chief of the Crude Oil Exploitation Department at Universidad Nacional Autónoma de México; and Associate Managing Director of Production Technology Development of Pemex-Exploration and Production.	2003

Pemex-Refining—Directors and Executive Officers

Name	Position with Pemex-Refining	Year Appointed
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

Pemex-Refining—Directors and Executive Officers

Name	Position with Pemex-Refining	Year Appointed
Mr. Hector Moreira Rodríguez	Board Member of Pemex-Refining (refer to Pemex-Exploration and Production)	2003
Mr. Andrés Antonio Moreno y Fernández	Board Member of Pemex-Refining (refer to Petróleos Mexicanos)	2002
Mr. Sergio Alejandro García de Alba Zepeda	Board Member of Pemex-Refining and Undersecretary for Small and Medium Companies of the Ministry of Economy Born: 1955 Business experience: Vice-president of Axtel; Secretary of Economic Promotion of the State of Jalisco; Partner of FIBRART, S.A. de C.V. and Vice-President of Confederación de las Cámaras Industriales de los Estados Unidos Mexicanos. Other board memberships: Banco Nacional de Comercio Exterior, S.N.C.; Centro de Investigación y Asistencia Tecnológica y Diseño del Estado de Jalisco, A.C.; Centro de Investigación y Asistencia Tecnológica en Cuero y Calzado, A.C.; Consejo Nacional de Ciencia y Tecnología; Comisión Mixta para la Promoción de las Exportaciones (Chairman); Exportadores Asociados, S.A. de C.V.; Instituto Nacional de Estadística, Geografía e Informática; Nacional Financiera, S.N.C.	2003
Mr. Juan Bueno Torio	Director General Born: 1953 Business experience: Undersecretary for Small and Medium Enterprise of the Ministry of Economy; Federal Congressman; and General Manager of Grupo Empresarial Bueno.	2003
Mr. Miguel Tame Domínguez	Deputy Director of Production Born: 1946 Business experience: Manager of Refinería Miguel Hidalgo; Manager of Refinería Gral. Lázaro Cárdenas; Manager of Refinería Ing. Antonio M. Amor; and Associate Managing Director of Production Control.	2003
Mr. Carlos Pani Espinosa	Deputy Director of Trading Born: 1947 Business experience: Deputy Director of Trading of Pemex-Petrochemicals, Director General of C.P. Estrategia y Servicios, S.A. de C.V.; and Director General of Dermet, S.A. de C.V.	2003
Mr. Pedro Carlos Gómez Flores	Deputy Director of Storage and Distribution Born: 1951 Business experience: Deputy Director of Organization Development; Deputy Director of Sectorial Relations, Deputy Director of Strategic Planning of Petróleos Mexicanos; Deputy Director of Distribution of Pemex-Refining; and Deputy Director of Natural Gas and Sulphur of Pemex-Gas and Basic Petrochemicals.	2004
Mr. José Antonio Gómez Urquiza de la Macorra	Deputy Director of Finance and Management Born: 1951 Business experience: Director General of Canacero; Deputy Delegate of Management of Delegación Benito Juárez; and Director General of Trichem de México, S.A. de C.V.	2003

Pemex-Refining—Directors and Executive Officers

Name	Position with Pemex-Refining	Year Appointed
Mr. Manuel Betancourt García.....	Deputy Director of Planning, Coordination and Evaluation Born: 1947 Business experience: Director General of Industrial Development of Hydrocarbons of the Ministry of Energy; Director General of Policy and Energy Development of the Ministry of Energy; Advisor Coordinator of the General Administrative Officer and Director General of Gas of the Ministry of Commerce and Industrial Development.	2003
Mr. Juan Daniel Gómez Bilbao	Auditor of Industrial Safety and Environmental Protection Born: 1948 Business experience: Associate Managing Director of Program Evaluation of the Corporate General Comptroller of Petróleos Mexicanos; Deputy Director of Training and Technical Services of Instituto Mexicano del Petróleo; and Deputy Director of Research and Technological Development in Industrial Transformation of Instituto Mexicano del Petróleo.	2001
Mr. José María Eugenio Núñez Murillo	Head of the Internal Control Body Born: 1948 Business experience: Federal Congressman; Chief Accountant of Finance of the LVIII Legislature of the State of Jalisco; and Director Partner of Nuñez Asesores, S.C.	2003

Pemex-Gas and Basic Petrochemicals—Directors and Executive Officers

Name	Position with Pemex-Gas and Basic Petrochemicals	Year Appointed
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
Mr. Juan Bueno Torio.....	Board Member of Pemex-Gas and Basic Petrochemicals (refer to Pemex-Refining)	2001
Mr. Rafael Beverido Lomelín.....	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. Héctor Moreira Rodríguez	Board Member of Pemex-Gas and Basic Petrochemicals (refer to Pemex-Exploration and Production)	2004
Mr. Juan José Súarez Coppel.....	Board Member of Pemex-Gas and Basic Petrochemicals (refer to Petróleos Mexicanos)	2002

Pemex-Gas and Basic Petrochemicals—Directors and Executive Officers

Name	Position with Pemex-Gas and Basic Petrochemicals	Year Appointed
Ms. María de Lourdes Dieck Assad.....	Board Member of Pemex-Gas and Basic Petrochemicals and Undersecretary of Economic Liaisons and International Cooperation of the Ministry of Foreign Affairs Born: 1954 Business experience: Advisors Coordinator of the Secretary of Economy; Director of the Ph.D. Program of the Graduate School of Business at Instituto Tecnológico de Estudios Superiores de Monterrey; Professor and Researcher in Economics at Instituto Tecnológico de Estudios Superiores de Monterrey; and Professor and Chair of the Economics Department at Trinity College	2003
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, Associate Managing Director of Marketing, and Deputy Manager of Solvents of Pemex-Gas and Basic Petrochemicals.	1997
Mr. Salvador García-Luna Rodríguez...	Deputy Director of Liquefied Gas and Basic Petrochemicals Born: 1959 Business experience: Commercial Director of Crude Oil of P.M.I. Comercio Internacional, S.A. de C.V.; Commercial Associate Managing Director of Petroleum Products of P.M.I. Comercio Internacional, S.A. de C.V.; 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 Enrique Trulín Espinosa...	Deputy Director of Management and Finance Born: 1945 Business experience: Associate Managing Director of Internal Management and Corporate Support of Petróleos Mexicanos; Advisor to the Ministry of Public Security; Executive Director of Logistics Support of the Ministry of Public Security of the Federal District; and Technical Secretary of Industrial Safety and Environmental Protection Auditing of Petróleos Mexicanos.	2001
Mr. Armando R. Arenas Briones.....	Deputy Director of Production Born: 1948 Business experience: Various positions in Petróleos Mexicanos.	1996

Pemex-Gas and Basic Petrochemicals—Directors and Executive Officers

Name	Position with Pemex-Gas and Basic Petrochemicals	Year Appointed
Mr. Claudio F. Urencio Castro	Deputy Director of Pipelines Born: 1949 Business experience: Director General of Programming and Budget of the Federal District Department; Director of Economic Research of Bancomer S.N.C.; and Director General of Economic Analysis of the Ministry of Commerce and Industrial Development.	1996
Mr. Rubén René Paredes Corral	Head of the Internal Control Body Born: 1966 Business experience: Chief of the Governmental Auditing Unit at the Ministry of Public Service; Head of the Internal Control Body of Comisión Federal de Electricidad; and Director of Finance of Toshiba America Consumer Products.	2003

Pemex- Petrochemicals—Directors and Executive Officers

Name	Position with Pemex-Petrochemicals	Year Appointed
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. Juan Bueno Torio.....	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. Héctor Moreira Rodríguez	Board Member of Pemex-Petrochemicals (refer to Pemex-Exploration and Production)	2004
Mr. Andrés Antonio Moreno y Fernández	Board Member of Pemex-Petrochemicals (refer to Petróleos Mexicanos)	2002
Mr. Juan Antonio García Villa.....	Board Member of Pemex-Petrochemicals and Undersecretary of Foreign Investment and International Trade Practices of the Ministry of Economy Born: 1945 Business experience: Senator and Local Congressman in Coahuila; Advisor of the Governor of the State of Coahuila; Editorial Contributor of Organización Editorial Mexicana; and Professor at Universidad Iberoamericana. Other board memberships: Luz y Fuerza del Centro; Centro de Investigación en Química Aplicada; Fondo de Información y Documentación para la Industria; Corporación Mexicana de Investigación en Materiales; Centro de Investigación y Desarrollo Tecnológico en Electroquímica; Fondo de Investigación y Desarrollo para la Modernización Tecnológica; Centro de Ingeniería y Desarrollo Industrial; Fondo para el Fortalecimiento de las Capacidades Científicas y Tecnológicas; Comisión Federal de Electricidad; Comisión Nacional de Normalización; and Coordinación de la Inversión Pública Federal.	2003

Pemex- Petrochemicals—Directors and Executive Officers

Name	Position with Pemex-Petrochemicals	Year Appointed
Mr. Rafael Beverido Lomelín.....	Director General Born: 1942 Business experience: Director General and other positions in Industrias Negromex, S.A. de C.V. and Adviser to several companies of Grupo DESC.	2001
Mr. Lorenzo Aldeco Ramírez.....	Deputy Director of Operations Born: 1955 Business experience: Deputy Director of Planning of Pemex-Petrochemicals; Manager of Operations of Servicios de Operaciones de Nitrógeno, S.A. de C.V.; Manager of Chemical Plant of Industrias Negromex, S.A. de C.V.; and Manager of Acquisitions of Industrias Negromex, S.A. de C.V.	2001
Mr. Abraham Klip Moshinsky.....	Deputy Director of Planning Born: 1956 Business Experience: Director General of Blindajes Automundo, S.A. de C.V.; Director General of Carrocerías y Adaptaciones Automotrices, S.A. de C.V.; and Operations Manager of Industrias Negromex, S.A. de C.V.	2002
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. Tomás Manuel Beamonte Cisneros	Deputy Director of Trading Born: 1956 Business experience: Commercial Director of Celanese Mexicana; Director of Operations Supports (Purchases) of Celanese Mexicana; and Director of New Business of Celanese Mexicana. Other board memberships: Universidad Latinoamericana; Resinas TB (Chairman); and VRBC (Chairman).	2004
Mr. Felipe de Jesús Barragán Alvídrez.	Head of the Internal Control Body Born: 1950 Business experience: Head of the Internal Control Body of Petroquímica Morelos, S.A. de C.V.; Head of the Internal Control Body of Petroquímica Escolín, S.A. de C.V.; and Deputy Comptroller of Auditing of Pemex-Petrochemicals	2003

Compensation of Directors and Officers

For the year ended December 31, 2003, the aggregate compensation of executive officers of Petróleos Mexicanos and the subsidiary entities (93 persons) paid or accrued in that year for services in all capacities was approximately Ps. 288 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.

Compliance with the Sarbanes-Oxley Act

As a foreign registrant, we are subject to certain provisions of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). We are currently assessing these provisions in order to comply with them. Although some provisions of the Sarbanes-Oxley Act do not apply to us, given that our securities are not listed on any U.S. stock exchanges, we are considering implementation of these requirements because we acknowledge that they promote better corporate governance practices.

We are currently evaluating the provisions of the Sarbanes-Oxley Act and specific rules issued by the SEC related to audit committees and their functions. As no audit committee has yet been formed, the entire Board of Directors of Pétroleos Mexicanos is presently acting as our audit committee as specified by Section 3(a)(58)(B) of the Exchange Act.

Employees

Excluding employees of the PMI Group and including those employed by us on a temporary basis, at December 31, 2003, Petróleos Mexicanos and the subsidiary entities had 138,215 employees, as compared with 137,134 at December 31, 2002. During 2003, Petróleos Mexicanos and the subsidiary entities employed an average of 15,867 temporary employees. The following table sets forth the number of employees of Petróleos Mexicanos, the subsidiary entities and the PMI Group at year-end for the past five years.

	At December 31,					2003
	1999	2000	2001	2002	2003	% of Total
Pemex-Refining	48,939	47,717	47,710	47,341	46,692	33.78
Pemex-Exploration and Production	43,417	46,215	43,208	44,658	46,322	33.51
Pemex-Petrochemicals	13,900	13,526	14,578	14,360	14,203	10.28
Pemex-Gas and Basic Petrochemicals	10,690	10,595	11,716	11,977	12,104	8.76
Petróleos Mexicanos	15,550	17,038	17,640	18,798	18,894	13.67
Total	132,496	135,091	134,852	137,134	138,215	100.00
PMI Group	289	303	324	330	318	—

Source: Petróleos Mexicanos.

The Union represents approximately 79.3% 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, there was an investigation and judicial proceeding relating to certain alleged improper diversions of federal monies by Union officials, which resulted in an offer by the Union to pay to us, over a period of years, Ps. 1,580 million for the amounts allegedly diverted from us. 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. Petróleos Mexicanos and the Union renewed the collective bargaining agreement effective August 1, 2001, pursuant to which wages were increased by 8.5%. This renewed contract was set to expire on July 31, 2003. However, following an impasse in negotiations over salaries and a threat of a strike, on September 29, 2002, we reached an agreement with the Union on a total salary increase of 7.3% (consisting of a 5.5% increase in wages and a 1.8% increase in benefits). We paid this increase in wages and benefits to our workers, including retirees in accordance with the collective bargaining agreement, retroactively to August 1, 2002. On July 18, 2003, Petróleos Mexicanos and the Union renewed the collective bargaining agreement, effective August 1, 2003, which provided for a 4.3% increase in wages and several increases in benefits oriented to improve productivity. The renewed contract is set to expire on July 31, 2005.

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. 10,674 million in 2002 and Ps. 17,185 million in 2003.

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 us. 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 (SFP) appoints our external auditors and the Director General of Petróleos Mexicanos is a member of the President of Mexico's cabinet. 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 Officials), which is applicable to all of our employees, our 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 officials 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.

In August 2003, the Union filed a claim against Petróleos Mexicanos before the *Junta Federal de Conciliación y Arbitraje* (Federal Council of Conciliation and Arbitration) arguing that certain benefit payments have not been made. The initial hearing to discuss the possible mediation of the claim, as well as the admissibility of evidence, has not yet been held; therefore, we are not able to quantify the potential economic impact of a final ruling in favor of the Union.

For information on our negotiations with the Union and collective bargaining agreements, see "Item 6—Directors, Senior Management and Employees—Employees."

Mexican Government Audits and Other Investigations

In 2001, the SFP conducted an audit of our operations in 2000 and previous years. In the audit, SFP identified a series of transactions between PEMEX and the Union during 2000 which we believe involved illicit behavior. We describe the transactions, allegations and related proceedings below.

On January 21, 2002, SFP 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 us to the Union from March 2000 to October 2000. SFP has alleged that the payments were not properly made under applicable Mexican laws and government regulations.

In addition, the Federal Attorney General filed charges against certain of our former officers 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 the Board of Directors of Petróleos Mexicanos, our 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 million previously identified by SFP in its complaint). On that same date, the Federal Attorney General filed charges against Manuel Gómez Peralta Damirón (also a former Corporate Management Director) for the alleged commission of the crime of embezzlement in connection with the aforementioned diversion of funds to the Union. The evidentiary stage in the case against him is in its final stages.

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. In May 2002, a Mexican federal judge issued arrest warrants against these and certain other former officers of Petróleos Mexicanos for their embezzlement and unlawful use of their corporate powers and privileges. In 2002, Mr. Montemayor surrendered himself to U.S. federal authorities in Texas instead of federal authorities in Mexico, and the Mexican Government has subsequently requested that the U.S. authorities extradite him to Mexico. The hearing on his extradition has been set for July 16, 2004.

On September 10, 2002, the Federal Attorney General submitted a request to the Mexican Congress to 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, for his participation in the illegal diversion of our funds. Senator Ricardo Aldana Prieto will complete his term in 2006, and will continue to have legislative immunity unless the Congress strips him of it. If the Congress strips him of his legislative immunity, the Federal Attorney General will be able to proceed with the criminal prosecution.

In July 2003, the Federal Attorney General closed its investigation against Messrs. Montemayor, Juaristi and Domene with regard to the charges of money laundering and organized crime, on the grounds that it had insufficient proof to support these charges. Nevertheless, these former officers continue to be sought by the federal courts of Mexico for their alleged commission of the crimes of embezzlement, electoral embezzlement, wrongful use of powers and, in the case of Messrs. Juaristi and Domene, improper exercise of a public service.

A Mexican judge issued two arrest warrants in September and October 2003 and issued formal imprisonment writs in October 2003 against Carlos Romero Deschamps (a former federal Congressman), in connection with the investigation, commencing the criminal trial against him. This criminal trial is in the evidentiary stages.

The Union has offered to pay, over a period of years, Ps. 1,580 million to us for the amounts allegedly diverted from us through the transactions under investigation. This offer was accepted by the Board of Directors of Petróleos Mexicanos on September 1, 2003 and any restitution received will be appropriately recorded as a gain in the period in which cash is received, in accordance with both Mexican and U.S. GAAP.

Since learning from SFP about the illegal diversion of funds, we have been cooperating with SFP 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 our daily operations. On July 31, 2002, a code of ethics for federal public servants (*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. On October 3, 2003, our Director General announced a corporate code of conduct for Petróleos Mexicanos and the subsidiary entities, *el Código de Conducta de Petróleos Mexicanos y Organismos Subsidiarios* (the Code of Conduct of Petróleos Mexicanos and the subsidiary entities) that defines the code of conduct expected from all workers in Petróleos Mexicanos and its subsidiary entities in the daily performance of their duties, and which is designed to promote transparency and prevent abuses. In addition, on May 12, 2004, the Board of Directors of Petróleos Mexicanos adopted a Code of Ethics for our chief executive officer, chief financial officer, chief accounting officer and all other employees performing similar functions in Petróleos Mexicanos, the subsidiary entities and the subsidiary companies. For more information on this Code of Ethics, see "Item 16B—Code of Ethics." We expect that these efforts will result in a more effective system of internal controls.

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. Pemex-Refining has submitted a criminal complaint to the Office of the Federal Attorney General against former officers of Pemex-Refining for unlawful use of their corporate powers and privileges in connection with the negotiation and settlement of this claim. This criminal process is in the evidentiary stages.

Actions Against the Illicit Market in Fuels in Mexico

We are working with the Mexican Government's Ministry of Finance and the Ministry of Energy to implement a number of measures to combat the illegal trade in fuels. This illegal trade is primarily the product of theft from pipelines, theft from our installations and the smuggling of products used to adulterate fuels. In connection with the implementation of these measures, the Federal Criminal Code was modified to include as a high crime the theft or exploitation of hydrocarbons or its derivatives without consent or authorization. The Federal Preventive Police has guarded Pemex-Refining's installations, which has helped to reduce the illicit market in fuels. Pemex-Refining is implementing several measures to prevent and fight the illicit market in fuels, including the development of an electronic control system in retail service stations that can detect irregularities, the installation of a system that allows us to detect and locate leaks from pipelines and the utilization of satellite monitoring of tankers.

Civil Actions

In March 1999, Zapata Internacional, S.A. de C.V. ("Zapata") filed a claim in a Mexican court against Pemex-Exploration and Production arguing that work under a construction agreement had been concluded but had not been paid for. Following a ruling in favor of Zapata, a judgment of approximately Ps. 9.2 million plus interest was entered against Pemex-Exploration and Production. In November 2003, Zapata filed a motion to execute this judgment for a sum of Ps. 2.5 billion, and in March 2004, Pemex-Exploration and Production was ordered to pay Ps. 1.6 billion. Pemex-Exploration and Production has filed an appeal to contest the monetary sum awarded. We believe we have sufficient elements to support our appeal. Accordingly, we have not created a reserve to pay for any potential judgment or settlement.

In March 2000, Construcciones Industriales del Golfo, S.A. de C.V. filed a claim in a Mexican court against Pemex-Refining and Petróleos Mexicanos arguing that work under a construction agreement had been concluded but had not been paid for. In February 2004, following a ruling in favor of Construcciones Industriales del Golfo, S.A. de C.V., a judgment of approximately U.S. $4.6 million plus accrued interest was entered against Pemex-Refining. Petróleos Mexicanos has filed an appeal, as a decision regarding expenses was not included in such judgment.

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 those services. The claim is for U.S. $648.1 million. The parties have agreed on the competency of the International Arbitration Court to hear and resolve the technical and legal disputes related to the claim. The parties filed their respective responses before the International Arbitration Court on November 18, 2003, and their respective rejoinders were filed before the deadline of May 7, 2004. On May 28, 2004, Petróleos Mexicanos and Pemex-Refining filed a writ for additional claims against CONPROCA for approximately U.S. $36 million plus taxes.

In April 2004, Construcciones Industriales del Golfo, S.A. de C.V. filed a claim in a Mexican court for breach of contract against Pemex-Exploration and Production and Petróleos Mexicanos in connection with the removal of deposits in the Salamanca refinery. The claim seeks an award of approximately Ps. 15.2 million for works performed and not paid and approximately U.S. $219.6 million for damages. On May 6, 2004, Pemex-Exploration and Production and Petróleos Mexicanos responded by arguing that the court failed to have jurisdiction. The following day, the court announced that it was suspending this claim until a preliminary judgment regarding jurisdiction has been pronounced.

Two claims have been presented in connection with the MSC, one by the *Unión Nacional de Trabajadores de Confianza de la Industria Petrolera* (the National Alliance of Non-Union Petroleum Industry Workers) and the other by a group of Congressmen, led by Senator Manuel Barlett Díaz. In the first case, a civil claim was presented in April 2004 alleging that the MSC entered into between Pemex-Exploration and Production and Repsol Exploración México, S.A. de C.V. was void because it violated Article 27 of the Political Constitution of the United Mexican States. Pemex-Exploration and Production denied the validity of this argument and responded by asserting all applicable legal defenses. On June 22, 2004, the judge issued a preliminary judgment declaring that the court did not have jurisdiction over the claim. In the second case, on May 6, 2004, prior to acknowledging receipt of the claim, the judge made a motion to require Pemex-Exploration and Production to fulfill certain requirements in connection with the aforementioned MSC. Pemex-Exploration and Production filed an initial response to vacate this motion, which

was denied, and plans to file an appeal. Neither of these claims seek monetary damages as relief, rather they seek to prevent the execution of the MSC through a declaration that the MSC are void.

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, 1999, 2000, 2001, 2002 and 2003, Petróleos Mexicanos made advance payments to the Mexican Government in the aggregate of Ps. 6,424 million, Ps. 6,384 million, Ps. 2,366 million, Ps. 10,098 million and Ps. 10,175 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 debt securities issued by Petróleos Mexicanos and the Pemex Project Funding Master Trust takes place primarily in the over-the-counter market. All the debt securities that are registered pursuant to the Securities Act are listed 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

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 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 December 3, 2002, the Pemex Project Funding Master Trust increased the aggregate principal amount of debt securities issuable under its Medium-Term Notes program to U.S. $11,000,000,000. Following the increase the Pemex Project Funding Master Trust issued the following securities:

- JP¥30,000,000,000 (approximately U.S. $241 million) 3.50% Notes due 2023, issued on December 5, 2002;
- U.S. $1,000,000,000 7.375% Notes due 2014, issued on December 12, 2002;
- £250,000,000 7.50% Notes due 2013, issued on January 27, 2003;
- U.S. $750,000,000 6.125% Notes due 2008, issued on February 6, 2003;
- U.S. $500,000,000 8.625% Bonds due 2022, issued on March 21, 2003;
- U.S. $750,000,000 7.375% Notes due 2014, issued on June 4, 2003; and
- £150,000,000 7.50% Notes due 2013, issued on November 7, 2003.

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 from January 2003 through December 2006.

As of December 31, 2003 and 2002, we have entered into contracts with various contractors for an approximate amount of Ps. 172,652 million and Ps. 117,644 million, respectively. These contracts are for the development of PIDIREGAS and are therefore subject to standards required in NIF-09-B, which is a Mexican accounting guideline that outlines specific accounting and budgetary treatment applicable to PIDIREGAS. For an explanation of NIF-09-B, see "Item 4—Information on the Company—History and Development—Capital Expenditures and Investment" and Note 2 d) to our consolidated financial statements included herein.

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, the 2001 Securities and the 2003 Securities

Pursuant to a registration statement on Form F-4 (File No. 333-7796), which was declared effective by the SEC 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 SEC 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 8³/₈% Global Guaranteed Notes due 2005 and up to U.S. $350,000,000 of 9 ¼% 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 SEC 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 9³/₈% 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 SEC 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[SM]) 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 SEC on August 29, 2001, the Pemex Project Funding Master Trust, 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.

Pursuant to a registration statement on Form F-4 (File No. 333-102993) which was declared effective by the SEC on February 14, 2003, Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basis Petrochemicals registered pursuant to the Securities Act of 1933 up to U.S. $600,000,000 of 6.50% Notes due February 1, 2005. Pursuant to a registration statement on Form F-4 (File No. 333-103197), which was declared effective by the SEC on February 24, 2003, the Pemex Project Funding Master Trust, 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. $750,000,000 of 8.00% Notes due 2011, up to U.S. $1,000,000,000 of 7.875% Notes due 2009, up to U.S. $500,000,000 of 8.625% Bonds due 2022 and up to U.S. $1,000,000,000 of 7.375% Notes due 2014. Pursuant to a registration statement on Form F-4 (File No. 333-107905), which was declared effective by the SEC on August 21, 2003, the Pemex Project Funding Master Trust, 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. $750,000,000 of 6.125% Notes due 2008, up to U.S. $510,154,000 of 8.625% Bonds due 2022 and up to U.S. $757,265,000 of 7.375% Notes due 2014. Pursuant to a registration statement on Form F-4 (File No. 333-103197), which was declared effective by the SEC on August 21, 2003, the Pemex Project Funding Master Trust, Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals registered pursuant to the Securities Act of 1933 up to U.S.$ 36,977,000 of 8.00% Notes due 2011 and up to U.S. $24,692,000 of 7.875% Notes due 2009. Pursuant to a registration statement on Form F-4 (File No. 333-108257), which was declared effective by the SEC on August 28, 2003, the Pemex Project Funding Master Trust, 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. $9,841,000 of 9.125% Notes due 2010. The securities registered in 2003 under these registration statements are collectively referred to as the 2003 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, the 2001 Securities and the 2003 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, the 2001 Securities or the 2003 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, the 2001 Securities or the 2003 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, the 2001 Securities or the 2003 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, the 2001 Securities or the 2003 Securities that are not residents of Mexico for Mexican tax purposes and do not conduct any 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/she has established his/her home address in Mexico. When an individual also has a home address in another country, that individual will be considered a resident of Mexico, if such individual has his/her center of vital interest in Mexico. An individual would be deemed to have his/her center of vital interest in Mexico if, among other things, (i) more than 50% of his/her total income for the year derives from Mexican sources, or (ii) his/her principal center of professional activities is located in Mexico.

A legal entity is a resident of Mexico if;

- it 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 legal entity or individual 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 Mexican *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 of the securities), 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 maintained by the National Banking and Securities Commission;
- 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
- the issuer duly complies with the information requirements established in the general rules issued by the Ministry of Finance and Public Credit for such purposes.

If the effective beneficiaries, directly or indirectly, individually or jointly with related parties, receive more than 5% of the interest paid on the notes or bonds and are holders, directly or indirectly, individually or jointly, with related parties of more than 10% of the voting stock of the issuer or entities 20% or more of whose stock is owned directly or indirectly, individually or jointly, by parties related to the issuer, the withholding tax rate applicable to payment of interest on the notes or bonds may be significantly higher.

Payments of interest made by Petróleos Mexicanos or Pemex-Exploration and Production, Pemex-Refining, or Pemex-Gas and Basic Petrochemicals in respect of the 1997 Securities, the 1998 Securities, the 1999 Securities, the 2001 Securities and the 2003 Securities to non-Mexican pension or retirement funds will be exempt from Mexican withholding taxes, provided that:

- 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
- such fund 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[SM] in respect of the Mexican withholding taxes described above;
- 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 and the 2003 Securities; and
- pay Additional Amounts (as defined in the Indenture dated as of February 3, 2003, between Petróleos Mexicanos and Deutsche Bank) to the holders of the 6.50% Notes due February 1, 2005 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, the 2001 Securities or the 2003 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, the 2001 Securities or the 2003 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 from a Mexican resident or a non-resident with a permanent establishment in Mexico, is deemed interest income, and therefore, subject to taxes in Mexico. Such interest income results from the difference between the face value (plus accrued interest not subject to withholding) and the purchase price of such notes or bonds.

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, the 2001 Securities or the 2003 Securities. A Foreign Holder of the 1997 Securities, the 1998 Securities, the 1999 Securities, the 2001 Securities or the 2003 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, the 2001 Securities or the 2003 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, the 2001 Securities or the 2003 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, the 2001 Securities or the 2003 Securities at their issue price as part of the initial distribution. Investors who purchase the 1997 Securities, the 1998 Securities, the 1999 Securities, the 2001 Securities or the 2003 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, the 2001 Securities or the 2003 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, the 2001 Securities or the 2003 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, 2001 Security or 2003 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, the 2001 Securities or 2003 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, the 2001 Securities or 2003 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, the 2001 Securities or 2003 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, 2001 Security or 2003 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 each of the 1997 Securities, the 1998 Securities, 1999 Securities, the 2001 Securities and the 2003 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 SEC. These materials, including this annual report, and the exhibits thereto, may be inspected and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. In addition, any filings we make electronically with the SEC will be available to the public over the Internet at the SEC'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 as part of our normal business operations as result of the fluctuation of the prices of the commodities we produce and trade, of the value of the foreign currency in which some of our liabilities are denominated and of the interest rates of our debt obligations. 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.

During 2001, the Board of Directors of Petróleos Mexicanos approved a restructuring of the risk management area and created the Risk Management Deputy Direction. The objectives of this area are to create value by aligning the supply of internal and external capital with the demand for funds for operations and investment projects, 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.

We also established a risk management corporate governance framework, by updating our Risk Management General Policies, modifying the operation rules of the Risk Management Committee and creating the Risk Management General Guidelines, in accordance with an integrated and consolidated risk management approach aimed at managing the volatility inherent in these normal business exposures. 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.

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—Export Agreements."

Over 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. Nonetheless, during December 2002, we entered into a short-term oil price hedge through the use of options for approximately 6% of our total crude oil production. We continued this strategy during January 2003, when we hedged against potential decreases in short-term crude oil prices for approximately 20% of total production. As of December 31, 2003, these options had expired and were not exercised.

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, 2003, the capital at risk as measured against the above-mentioned benchmark was U.S. $6,079,000.

Natural Gas

As described above under "Item 4—Information on the Company—Business Overview—Gas and Basic Petrochemicals—Hedging Operations," we have entered into a number of three-year agreements with Mexican industrial consumers 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.

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 fixed-price contracts. This basis risk is treated as an inefficiency of the transaction and may affect our earnings in a period other than the one during which the transaction was realized.

Additionally, during the fourth quarter of 2003, the Ministry of Energy announced a new natural gas hedging program for the years 2004 through 2006. This program, which represents approximately 20% of the total volume of natural gas sales, was implemented in order to fix the price for the aforementioned period to the natural gas consumers. We decided to change our traditional risk profile with respect to natural gas, in order to mitigate the volatility of the revenues derived from the sales of this product. This strategy does not leave us with an exposure to basis risk, due to the fact that the derivatives are priced using the same market indices as the ones used to price the natural gas sales. For more information on this new program, see "Item 4—Information on the Company—Business Overview—Gas and Basic Petrochemicals—Hedging Operations."

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. However, we borrow in currencies other than the U.S. dollar. Therefore, fluctuations in non-dollar currencies 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 2002, Petróleos Mexicanos, and in 2001 and 2003, the Pemex Project Funding Master Trust, respectively, entered into various cross-currency swaps to hedge currency risk arising from debt obligations denominated in Euros, pounds sterling and Japanese yen issued by the Pemex Project Funding Master Trust. As of December 31, 2003, the aggregate notional amount of the swaps entered into in 2001, 2002 and 2003 was U.S. $883.8 million, U.S. $1,201.1 million and U.S. $2,039.5 million, respectively, for a total outstanding position on currency swaps at year-end of U.S. $4,640.2 million. During 2004, Petróleos Mexicanos has not entered into any cross-currency swaps. In December 2002, Petróleos Mexicanos entered into a cross-currency swap to hedge its exposure in Japanese yen with a termination date in 2023. Given the long-term nature of this obligation, the swap used to hedge this risk includes an option linked to a well-defined set of credit default events. In case such an event occurs, the swap terminates without any payment obligation by either party. This swap has a notional amount of U.S. $241.4 million.

Effective January 1, 2003, due to the adoption of Bulletin B-10 we have ceased to capitalize our debt-related foreign exchange losses on our balance sheet. Prior to this date, we had capitalized 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. We recorded total net foreign exchange gains of Ps. 4,371 million in 2001 and net foreign exchange losses of Ps. 4,431 million in 2002 and Ps. 25,506 million in 2003.

Interest Rate Risk

We are exposed to fluctuations in interest rates 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 a desired mix of fixed and floating instruments in our debt portfolio. As of December 31, 2003, the proportion of floating rate debt was approximately 44% 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, 2003, Petróleos Mexicanos was a party to interest-rate swap agreements with a notional amount of U.S. $366 million, with an average fixed interest rate of approximately 5.25% and a weighted average term of approximately 5 years. We have not entered into any interest-rate swap agreements in 2004.

The market value of Petróleos Mexicanos' foreign exchange and interest rate derivatives position was negative Ps. 1,270.3 million as of December 31, 2002 and positive Ps. 7,260.3 million as of December 31, 2003.

The effects on the consolidated statements of income of entering into swap transactions designated as hedges are recorded as incurred and when the precise settlement amounts are known. The effects on the consolidated statements of income of derivative instruments not designated as hedges are recognized according to changes in their fair value. Such amounts are included in the consolidated statements of income within the "Interest, net" caption. See Note 10 to our consolidated financial statements included herein.

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

At December 31, 2003, Petróleos Mexicanos held two 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. 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. Upon the maturity of the two swaps, Petróleos Mexicanos had continuously renewed these swaps for periods up to three months. As of December 31, 2003 the market value of the Repsol shares was U.S. $19.47 per share. These swaps matured in January 2004 and they were not renewed.

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 allows derivative positions to serve as hedges for other derivatives. Therefore, these operations are 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 underlying index related to the offsetting position.

The following tables set forth our portfolio of debt and derivative financial instruments as of December 31, 2003. 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 tables show 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, 2003 [1]

	Year of Expected Maturity Date							
	2004	2005	2006	2007	2008	Thereafter	Total Carrying Value	Fair Value
				(in thousands of nominal pesos)				
Liabilities								
Outstanding debt								
Fixed rate (U.S. dollars)	Ps. 1,707,746	Ps. 11,909,097	Ps. 6,886,127	Ps. 10,891,257	Ps. 28,703,075	Ps. 77,708,498	Ps. 137,805,800	Ps. 159,098,352
Average Interest Rate (%)							8.02	
Fixed rate (Japanese yen)	2,121,975	2,121,975	2,121,975	2,121,975	2,121,975	8,126,988	18,736,863	20,385,339
Average Interest Rate (%)							2.69	
Fixed rate (British pounds)			1,004,610			8,036,880	9,041,490	9,556,528
Average Interest Rate (%)							8.28	
Fixed rate (Pesos)				1,027,500	1,027,500	1,000,000	3,055,000	3,025,137
Average Interest Rate (%)							8.39	
Fixed rate (Euro)	750	750	750	12,568,184	750	17,707,945	30,279,129	31,022,613
Average Interest Rate (%)							6.94	
Total fixed rate debt	3,830,471	14,031,822	10,013,462	26,608,916	31,853,300	112,580,311	198,918,282	223,087,969
Variable rate (U.S. dollars)	41,134,498	24,242,900	29,207,968	9,437,229	5,711,821	20,763,090	130,497,506	133,084,322
Variable rate (Swiss francs)	2,072	1,036	1,036				4,144	3,948
Variable rate (Euro)	2,597,919	16,339	13,723		1,462,916		4,090,897	4,049,429
Variable rate (pesos)	4,777,778	3,055,556	3,055,555	6,028,056	3,028,055	2,500,000	22,445,000	22,615,566
Total variable rate debt	48,512,267	27,315,831	32,278,282	15,465,285	10,202,792	23,263,090	157,037,547	159,754,264
Total Debt	Ps. 52,342,738	Ps. 41,347,653	Ps. 42,291,744	Ps. 42,074,201	Ps. 42,056,092	Ps. 135,843,401	Ps. 355,955,829	Ps. 382,842,233

Note: Numbers may not total due to rounding.

(1) The information in this table has been calculated using exchange rates at December 31, 2003 of Ps. 11.236 = U.S. $1.00; Ps. 0.1048 = 1.00 Japanese yen; Ps. 20.0922 = 1.00 British pound; and Ps. 14.1630 = 1.00 Euro.

Source: Petróleos Mexicanos.

Quantitative Disclosure of Market Risk (Interest Rate Risk) as of December 31, 2003[1]

Derivative financial instruments held or issued for purposes other than trading:

	Year of Expected Maturity Date							
	2004	2005	2006	2007	2008	Thereafter	Total Notional Amount	Fair Value
	(in thousands of nominal pesos)							
Hedging Instruments								
Interest Rate Swaps								
Variable to Fixed	Ps. 427,051	Ps. 427,051	Ps. 427,051	Ps. 427,051	Ps. 427,051	Ps. 854,103	Ps. 2,989,360	Ps. (174,097)
Average pay rate	4.94	4.94	4.94	4.94	4.94	4.94		
Average receive rate	1.25	2.28	3.71	4.61	5.17	5.66		
Cross Currency Swaps	3,990,668	1,634,407	2,440,309	11,519,002	2,983,641	29,569,505	52,137,531	7,846,044
Receive Euro / Pay U.S. dollars	2,356,261	—	—	9,884,596	1,349,234	15,526,635	29,116,726	5,171,162
Receive Japanese Yen/ Pay U.S. dollars	1,634,407	1,634,407	1,634,407	1,634,407	1,634,407	6,653,683	14,825,716	1,844,856
Receive British pounds/ Pay U.S. dollars	—	—	805,902	—	—	7,389,187	8,195,089	830,026
Non-Hedging Instruments								
Interest Rate Swaps								
Variable to fixed	1,123,600	—	—	—	—	—	1,123,600	(51,639)
Average pay rate (%)	7.33	—	—	—	—	—	—	—
Average receive rate (%)	1.16	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	—	—

Note: Numbers may not total due to rounding.

(1) The information in this table has been calculated using exchange rates at December 31, 2003 of Ps. 11.236 = U.S. $1.00; Ps. 0.1048 = 1.00 Japanese yen; Ps. 20.0922 = 1.00 British pound; and Ps. 14.1630 = 1.00 Euro.

Quantitative Disclosure of Market Risk (Equity Swap) as of December 31, 2003[1]

	Year of Expected Maturity Date							
	2004	2005	2006	2007	2008	Thereafter	Total Notional Amount	Fair Value
	(in thousands of nominal pesos)							
Equity Swap	Ps. 8,173,190	—	—	—	—	—	Ps. 8,173,190	Ps. 598,006

Note: Numbers may not total due to rounding.

(1) The information in this table has been calculated using exchange rate of Ps. 11.236 = U.S. $1.00 at December 31, 2003.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

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

We carried out an evaluation under the supervision and with the participation of our management, including our Director General and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2003. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Director General and our Chief Financial Officer concluded that the disclosure controls and procedures as of December 31, 2003 were effective to provide reasonable assurance that the information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported as and when required.

There have been no significant changes in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, these internal controls subsequent to the date of their evaluation.

Item 16A. Audit Committee Financial Expert

We do not currently have an audit committee. Thus, the entire Board of Directors of Pétroleos Mexicanos is presently acting as our audit committee as specified by Section 3(a)(58)(B) of the Exchange Act. We believe that the members of our Board of Directors have sufficient financial and other experience to perform their acting responsibilities as members of the audit committee. Notwithstanding the board members' financial and other experience, the audit committee does not include a "financial expert" as that term is strictly defined in the rules promulgated under the Sarbanes-Oxley Act. Further, we do not have the power to appoint a financial expert to our board as the members of the boards of directors, except for those selected by the Union, serve subject to the discretion of the President of Mexico. See "Item 6—Directors, Senior Management and Employees."

Item 16B. Code of Ethics

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our Code of Ethics applies to our chief executive officer, chief financial officer, chief accounting officer and all other employees of Pétroleos Mexicanos, the subsidiary entities and the subsidiary companies. Our Code of Ethics is available on our website at http://www.pemex.com. If we amend the provisions of our Code of Ethics that apply to our chief executive officer, chief financial officer, chief accounting officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

In addition, all of our employees are currently also subject to the *Código de Etica de los Servidores Públicos de la Administración Pública Federal* (the Code of Ethics for Federal Public Officials of the Federal Public Administration), which was issued by SFP in July 2002 pursuant to the requirements of the *Ley Federal de Responsabilidades Administrativas de los Servidores Públicos* (Federal Law of Administrative Responsibilities of Public Officials) in order to establish clear rules to promote and enforce legal and ethical standards of conduct and to prevent corruption and corporate abuses by Mexican public officials. See "Item 8—Financial Information—Legal Proceedings—Mexican Government Audits and Other Investigations" for more information.

Item 16C. Principal Accountant Fees and Services

Audit and Non-Audit Fees

The following table sets forth the fees billed to us by our independent auditors, PricewaterhouseCoopers, S.C. during the fiscal years ended December 31, 2002 and 2003:

	Year ended December 31,	
	2002	2003
	(in thousands of nominal pesos)	
Audit fees	Ps. 27,002	Ps. 24,688
Audit-related fees	945	1,192
Tax fees	2,861	1,584
Other fees	3,647	3,500
Total fees	Ps. 34,455	Ps. 30,964

Audit fees in the above table are the aggregate fees billed by PricewaterhouseCoopers, S.C. in connection with the audit of our annual financial statements, the review of our interim financial statements, services provided in connection with statutory and regulatory filings, comfort letters, statutory audits and consents.

Audit-related fees in the above table are the aggregate fees billed by PricewaterhouseCoopers, S.C. for special purpose audits performed in accordance with the instructions of the SFP, which were performed pursuant to agreed upon procedures.

Tax fees in the above table are fees billed by PricewaterhouseCoopers, S.C. for tax compliance services, which generally involved the review of original and amended tax returns and claims for tax refunds.

Other fees in the above table are fees billed by PricewaterhouseCoopers, S.C. primarily related to the review of the information technology services for safety, health and the environment.

Audit Committee Approval Policies and Procedures

The SFP appoints the external auditors of Petróleos Mexicanos and the subsidiary entities through a competitive bidding process on an annual basis to audit our financial statements in accordance with the Mexican Financial Reporting Standards applicable to Mexican public sector entities. The auditors selected by the SFP to audit these financial statements subsequently audit financial statements in accordance with Mexican GAAP and reconcile them to U.S. GAAP. The Board of Directors of Petróleos Mexicanos reviews and ratifies the engagement of the external auditors by the SFP.

PART III

Item 17. Financial Statements.

Not applicable.

Item 18. Financial Statements.

See pages F-1 through F-104, incorporated herein by reference.

Item 19. Exhibits.

Documents filed as exhibits to this Form 20-F:

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 Indenture, dated as of February 3, 2003, between Petróleos Mexicanos and Deutsche Bank Trust Company Americas (previously filed as Exhibit 4.7 to Petróleos Mexicanos' Registration Statement on Form F-4 (File No. 333-102993) on February 12, 2003 and incorporated by reference herein).

2.7 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).

2.8 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).

2.9 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, (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).

2.10 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).

The registrant agrees to furnish to the Securities and Exchange Commission, upon request, copies of any instruments that define the rights of holders of long-term debt of the registrant that are not filed as exhibits to this annual report.

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).

7.1 Computation of Ratio of Earnings to Fixed Charges.

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.

12.1 CEO Certification pursuant to Rule 13a-14(a)/15d-14(a).

12.2 CFO Certification pursuant to Rule 13a-14(a)/15d-14(a).

13.1 Certification pursuant to Rule 13a-14(b)/15d-14(b) and 18 U.S.C. § 1350.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, as amended, 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: July 15, 2004

Exhibit 12.1

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: July 15, 2004

/s/ Raúl Muñoz Leos
Name: Raúl Muñoz Leos
Title: Director General/Chief Executive Officer

Exhibit 12.2

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: July 15, 2004

/s/ Juan José Suárez Coppel
Name: Juan José Suárez Coppel
Title: Chief Financial Officer

Exhibit 13.1

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Petróleos Mexicanos, a decentralized public entity of the Federal Government of the United Mexican States (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2003 (the "Form 20-F") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 15, 2004

/s/ Raúl Muñoz Leos

Name: Raúl Muñoz Leos
Title: Director General/Chief Executive Officer

Dated: July 15, 2004

/s/ Juan José Suárez Coppel

Name: Juan José Suárez Coppel
Title: Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Mexico City, Mexico, April 20, 2004

To the General Comptroller's Office
and the Board of Directors of
Petróleos Mexicanos:

We have audited the accompanying consolidated balance sheets of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies (collectively, "PEMEX") as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in equity and changes in financial position for each of the three years in the period ended December 31, 2003. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and with the Standards of the Public Company Accounting Oversight Board (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 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 provide a reasonable basis for our opinion.

As discussed in Note 2b) to the consolidated financial statements, effective January 1, 2003 PEMEX recognizes the effects of inflation in accordance with Financial Reporting Standard ("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", of accounting principles generally accepted in Mexico. Consequently, the financial statements for 2002 and 2001 have been restated by PEMEX's management to present them on the same basis as 2003.

As discussed in Note 2h) to the consolidated financial statements, effective January 1, 2003, PEMEX adopted the guidelines of the Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments", issued by the Mexican Institute of Public Accountants. As a result, a cumulative effect benefit totaling Ps. 2,012,782,000 was recognized in earnings.

As discussed in Note 2t) 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 totaling Ps. 1,495,307,000 was recognized in earnings.

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, 2003 and 2002, and the consolidated results of their operations, changes in equity and changes in financial position for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in Mexico.

Accounting principles generally accepted in Mexico vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of said differences is presented in Note 19 to the consolidated financial statements.

PricewaterhouseCoopers

/s/ FRANCISCO J. HERNÁNDEZ F.
Francisco J. Hernández F.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2003 AND 2002

(In thousands of Mexican pesos of December 31, 2003 purchasing power and thousands of U.S. dollars)
(Notes 1, 2 and 14)

ASSETS:	2003 (Unaudited)	2003	2002
Current assets:			
Cash and cash equivalents	**US$ 6,526,913**	**Ps. 73,336,397**	Ps. 45,621,193
Accounts, notes receivable and other, net (Note 3)	**6,248,917**	**70,212,832**	57,574,177
Inventories, net (Note 4)	**2,445,501**	**27,477,654**	25,402,188
Total current assets	**15,221,331**	**171,026,883**	128,597,558
Properties and equipment, net (Note 5)	**47,990,334**	**539,219,391**	503,499,976
Intangible asset derived from the actuarial computation of labor obligations and other assets (Notes 6 and 11)	**12,035,024**	**135,225,530**	135,622,509
Total assets	**US$ 75,246,689**	**Ps. 845,471,804**	Ps. 767,720,043
LIABILITIES:			
Current liabilities:			
Current portion of long-term debt (Note 9)	**US$ 5,117,789**	**Ps. 57,503,476**	Ps. 51,465,139
Current portion of notes payable to contractors (Note 8)	**167,956**	**1,887,150**	1,640,274
Suppliers	**2,985,158**	**33,541,237**	30,434,568
Accounts payable and accrued expenses	**653,251**	**7,339,932**	7,000,103
Taxes payable	**3,261,303**	**36,643,996**	27,778,263
Total current liabilities	**12,185,457**	**136,915,791**	118,318,347
Long-term debt (Note 9)	**27,021,457**	**303,613,091**	198,645,005
Notes payable to contractors (Note 8)	**1,169,419**	**13,139,589**	28,509,738
Sale of future accounts receivable (Note 7)	**3,600,665**	**40,457,075**	45,166,232
Reserve for dismantlement and abandonment activities, sundry creditors and others (Notes 2i) and 5)	**1,754,713**	**19,715,956**	7,994,019
Reserve for retirement payments, pensions and seniority premiums (Note 11)	**25,433,383**	**285,769,489**	265,181,054
Total long-term liabilities	**58,979,637**	**662,695,200**	545,496,048
Total liabilities	**71,165,094**	**799,610,991**	663,814,395
Commitments and contingencies (Notes 16 and 17)			
EQUITY (Note 13):			
Certificates of Contribution "A"	**7,353,172**	**82,620,239**	82,620,239
Specific oil-field exploration and depletion reserve			13,053,826
Surplus in restatement of equity	**11,592,873**	**130,257,529**	124,622,162
Accumulated losses:			
From prior years	**(11,247,116)**	**(126,372,592)**	(91,816,539)
Net loss for the year	**(3,617,334)**	**(40,644,363)**	(24,574,040)
	(14,864,450)	**(167,016,955)**	(116,390,579)
Total equity	**4,081,595**	**45,860,813**	103,905,648
Total liabilities and equity	**US$ 75,246,689**	**Ps. 845,471,804**	Ps. 767,720,043

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, 2003, 2002 AND 2001

(In thousands of Mexican pesos of December 31, 2003 purchasing power and thousands of U.S. dollars)
(Notes 1 and 2)

	2003 (Unaudited)	2003	2002	2001
Net sales:				
Domestic	US$ 34,463,918	Ps. 387,236,585	Ps. 336,081,147	Ps. 341,299,241
Export	21,199,009	238,192,069	178,767,890	158,912,290
	55,662,927	625,428,654	514,849,037	500,211,531
Other revenues (expenses), net	263,529	2,961,012	(89,423)	1,699,985
Total revenues	55,926,456	628,389,666	514,759,614	501,911,516
Costs and operating expenses:				
Cost of sales	18,433,433	207,118,056	168,754,035	185,687,467
Transportation and distribution expenses	1,383,853	15,548,970	16,000,808	15,263,092
Administrative expenses	3,132,331	35,194,870	34,373,886	31,479,110
Total cost and operating expenses	22,949,617	257,861,896	219,128,729	232,429,669
Comprehensive financing cost:				
Exchange (loss) gain, net	(2,270,057)	(25,506,359)	(4,431,231)	4,371,304
Interest paid, net	(1,489,000)	(16,730,406)	(14,728,767)	(14,718,921)
Gain on monetary position	1,022,993	11,494,350	12,920,871	7,896,166
	(2,736,064)	(30,742,415)	(6,239,127)	(2,451,451)
Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new accounting standards	30,240,775	339,785,355	289,391,758	267,030,396
Hydrocarbon extraction duties and other	25,664,489	288,366,202	191,528,591	188,999,968
Special tax on production and services (IEPS Tax)	8,372,757	94,076,298	122,437,207	106,930,781
	34,037,246	382,442,500	313,965,798	295,930,749
Cumulative effect of adoption of new accounting standards (Notes 2h) and 2t))	179,137	2,012,782		(1,495,307)
Net loss for the year	(US$ 3,617,334)	(Ps. 40,644,363)	(Ps. 24,574,040)	(Ps. 30,395,660)

The accompanying notes are an integral part of these consolidated financial statements.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY C
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(In thousands of Mexican pesos of December 31, 2003 purchasing power
thousands of U.S. dollars)
(Notes 1, 2 and 13)

	Certificates of Contribution "A"	Specific oil-field exploration and depletion reserve	Surplus in restatement of equity	A From prior yea
Balances at December 31, 2000	Ps. 82,620,239	Ps. 16,159,670	Ps. 134,471,076	(Ps. 53,895,(
Transfer to prior years' accumulated losses				(8,443,3
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 7, 2001				(6,267,(
Comprehensive loss for the year (Note 12)		3,942,596	(5,653,186)	598,2
Balances at December 31, 2001	82,620,239	20,102,266	128,817,890	(68,007,(
Transfer to prior years' accumulated losses				(30,395,(
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on April 24, 2002				(2,321,2
Transfer to prior years' accumulated losses from the specific oil-field exploration and depletion reserve, approved by the Board of Directors on April 24, 2002		(8,865,811)		8,865,8
Comprehensive loss for the year (Note 12)		1,817,371	(4,195,728)	42,2
Balances at December 31, 2002	**82,620,239**	**13,053,826**	**124,622,162**	**(91,816,5**
Transfer to prior years' accumulated losses				**(24,574,(**
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 28, 2003				**(9,982,(**
Comprehensive loss for the year (Note 12)		**(13,053,826)**	**5,635,367**	
Balances at December 31, 2003	**Ps. 82,620,239**	**Ps.**	**Ps. 130,257,529**	**(Ps. 126,372,5**
(Unaudited)	**US$7,353,172**	**US$**	**US$11,592,873**	**(US$11,247,1**

The accompanying notes are an integral part of these consolidated financial statements.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(In thousands of Mexican pesos of December 31, 2003 purchasing power and thousands of U.S. dollars)
(Notes 1 and 2)

Funds provided by (used in):	**2003 (Unaudited)**	**2003**	2002	2001
Operating activities:				
Net loss for the year	**(US$ 3,617,334)**	**(Ps. 40,644,363)**	(Ps. 24,574,040)	(Ps. 30,395,660)
Charges to operations not requiring the use of funds:				
Depreciation and amortization	**3,608,419**	**40,544,191**	33,814,503	31,959,891
Reserve for retirement payments, pensions and indemnities	**3,465,522**	**38,938,604**	39,711,998	38,020,657
Specific oil-field exploration and depletion reserve	**790,604**	**8,883,222**	8,589,510	9,193,576
Reserve for sundry creditors and others				58,435
	4,247,211	**47,721,654**	57,541,971	48,836,899
Variances in:				
Accounts, notes receivable and other	**(1,124,836)**	**(12,638,655)**	(8,260,885)	15,748,070
Inventories	**(184,715)**	**(2,075,466)**	(6,446,982)	9,601,531
Intangible asset derived from the actuarial computation of labor obligations and other assets	**35,331**	**396,979**	(54,886,659)	(5,150,021)
Suppliers	**276,492**	**3,106,669**	4,602,766	(159,603)
Accounts payable and accrued expenses	**30,244**	**339,829**	(2,261,625)	2,258,866
Taxes payable	**789,047**	**8,865,733**	24,990,655	(26,275,803)
Reserve for dismantlement and abandonment activities, sundry creditors and others	**1,043,248**	**11,721,937**	(289,579)	1,231,739
Reserve for retirement payments, pensions and indemnities	**(1,633,158)**	**(18,350,169)**	35,300,525	(6,774,164)
Exploration and well-drilling expenses charged to the specific oil-field exploration and depletion reserve	**(1,952,390)**	**(21,937,048)**	(6,772,139)	(5,250,980)
Funds provided by operating activities	**1,526,474**	**17,151,463**	43,518,048	34,066,534
Financing activities:				
Minimum guaranteed dividends paid to the Mexican Government	**(888,396)**	**(9,982,013)**	(2,321,247)	(6,267,019)
Other equity movements, net			42,243	598,284
Notes payable to contractors, net	**(1,345,966)**	**(15,123,273)**	13,773,477	(3,587,085)
Debt, net	**9,879,532**	**111,006,423**	74,905,484	9,024,981
Sale of future accounts receivable	**(419,114)**	**(4,709,157)**	(3,945,029)	(10,528,478)
Funds provided by (used in) financing activities	**7,226,056**	**81,191,980**	82,454,928	(10,759,317)
Investing activities:				
Increase in fixed assets, net	**(6,285,887)**	**(70,628,239)**	(96,223,968)	(39,364,529)
Funds used in investing activities	**(6,285,887)**	**(70,628,239)**	(96,223,968)	(39,364,529)
Net increase (decrease) in cash and cash equivalents	**2,466,643**	**27,715,204**	29,749,008	(16,057,312)
Cash and cash equivalents at beginning of the year	**4,060,270**	**45,621,193**	15,872,185	31,929,497
Cash and cash equivalents at end of the year	**US$ 6,526,913**	**Ps. 73,336,397**	Ps. 45,621,193	Ps. 15,872,185

The accompanying notes are an integral part of these consolidated financial statements

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Amounts expressed in thousands of Mexican pesos of December 31, 2003 purchasing power and thousands of U.S. dollars or other currency units)

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, as amended effective January 1, 1994 and January 16, 2002. 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;

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 statutory trust, as well as (c) Fideicomiso F/163, a Mexican statutory trust incorporated in 2003 with Bank Boston, S.A., as trustee (both trusts are controlled by Petróleos Mexicanos), and (d) RepCon Lux S.A., a Luxembourg finance vehicle. "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").

b) Effects of inflation on the financial information

Beginning in January 1, 2003, PEMEX recognizes the effects of inflation in accordance with Financial Reporting Standard ("NIF") 06-BIS "A" Section C, which establishes the obligation for PEMEX to adopt Bulletin B-10 of Mexican GAAP, "Recognition of the Effects of Inflation on Financial Information" ("Bulletin B-10"). The recognition of the effects of inflation in accordance with Bulletin B-10 consists of, among other things, the restatement of non-monetary assets using inflation factors based on the Mexican National Consumer Price Index ("NCPI") (including the restatement of fixed assets with consideration of value in use), the recognition in the income statement of comprehensive financing cost (including the determination of gains or losses in monetary position), the restatement of the equity accounts and the presentation of the financial statements for all periods in constant pesos with purchasing power at the latest balance sheet date. See Notes 2h), 2l), 2m), 2n) and 2o) below. Consequently, the financial statements for 2002 and 2001 have been restated by PEMEX's management to present them on the same basis as 2003.

The effects of adoption of Bulletin B-10, at December 31 2002 and 2001 and for the two years then ended are summarized below:

	December 31, 2002			December 31, 2001		
	Amounts previously reported	Restatement increase	Amounts including Bulletin B-10	Amounts previously reported	Restatement increase	Amounts including Bulletin B-10
Total assets	Ps. 697,379,233	Ps. 70,340,810	Ps. 767,720,043	Ps. 556,883,248	Ps. 53,279,524	Ps. 610,162,772
Equity	100,695,549	3,210,099	103,905,648	122,866,233	10,270,816	133,137,049
Net loss for the year	(30,492,113)	5,918,073	(24,574,040)	(34,090,587)	3,694,927	(30,395,660)

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.; the Master Trust; Fideicomiso F/163; and RepCon Lux, S.A.

Certain investments in Subsidiary Companies and other non-consolidated subsidiary companies, due to their immateriality in relation to PEMEX's total assets and revenues, 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-B 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-B 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-B, which provides for only recording liabilities having maturities expiring in less than two years. For the purposes of these financial statements and in accordance with Mexican GAAP consolidation principles, all of the accounts related to PIDIREGAS were incorporated into the consolidated financial statements at December 31, 2003 and 2002, i.e., all effects of NIF-09-B are excluded.

The main objective of the Master Trust and of Fideicomiso F/163 is to administer financial resources related to PIDIREGAS, such financial resources having been designated by PEMEX for that purpose. The Master Trust and, since 2003, Fideicomiso F/163, are consolidated in the financial statements in accordance with the consolidation principles 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 with a credit to 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. Cumulative drilling costs related to successful wells are capitalized as fixed assets and a corresponding amount is added back to re-establish the reserve. During 2003, 2002 and 2001, PEMEX maintained the cost per barrel of 5.48 (nominal pesos).

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, 2003 and 2002, less a provision for distribution expenses and shrinkage.

II. Crude oil and derivatives thereof 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.

h) Properties

PEMEX's assets are initially recorded at acquisition or construction cost. Associated interest costs are capitalized as part of the asset cost. As of December 31, 2003, the properties are expressed at their restated value, determined by applying factors computed from the NCPI. As of December 31, 2002, such assets are expressed at their restated value determined by applying specific indexes based on technical studies.

Property, plant and equipment assets are depreciated using the straight-line method, considering the restated value of the assets and applying depreciation rates according to its useful expected life, with

calculations beginning the month after the asset is placed into service. Until December 31, 2002, PEMEX calculated the depreciation beginning the year after the asset was placed into service.

The depreciation rates used by PEMEX are as follows:

	%	Years
Buildings	3	33
Plants 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 proved 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.

Until December 31, 2002, estimated dismantlement and abandonment costs were taken into account in determining amortization and depreciation rates. PEMEX recognized 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 had been recognized at the end of each period. All estimates were based on the life of the field, and taking into consideration current cost estimates on an undiscounted basis. No salvage value was considered when determining such rates because salvage values have traditionally been zero. The estimated dismantlement and abandonment costs were reflected within accumulated depreciation and amortization.

Effective January 1, 2003, PEMEX adopted Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" ("Bulletin C-9"). As a result, PEMEX changed the method of accruing the costs related to wells subject to abandonment and dismantlement. The fair values of these costs are recorded as liabilities on a discounted basis when incurred, which is typically at the time the wells are put into service. The amounts recorded for these obligations are initially recorded by capitalizing the respective costs. Over time the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depreciated over the useful lives of the related assets based on the UOP method. In the case of the non-producing wells subject to abandonment and dismantlement, the full dismantlement and abandonment cost had been recognized at the end of each period.

The adoption of Bulletin C-9 resulted for PEMEX in the recognition of a benefit of Ps. 2,012,782 related to the provision for dismantlement and abandonment, as of January 1, 2003.

i) Liabilities, provisions, contingent assets and liabilities and commitments

PEMEX's liabilities represent present obligations and the liability provisions recognized in the balance sheet represent present obligations whose settlement will probably require the use of an estimate of economic resources. These provisions have been recorded, based on management's best estimate of the amount needed to settle present liability; however, actual results could differ from the provisions recognized.

Beginning January 1, 2003, Bulletin C-9 went into effect. This Bulletin establishes general rules for the valuation, presentation and disclosure of liabilities, provisions and contingent assets and liabilities, as well as for the disclosure of commitments entered into by a company as a part of its normal operations. See Note 2h) for a discussion of the impact of Bulletin C-9 related to the provision for dismantlement and abandonment costs.

j) 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 Ministry of Finance and Public Credit (SHCP). Foreign exchange losses and gains are charged and credited, respectively, to income. This resulted in net exchange losses charged to income of Ps. 25,506,359 and Ps. 4,431,231 in 2003 and 2002, respectively, and in net exchange gain credited to income of Ps. 4,371,304 in 2001.

k) 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."

Payments for indemnities to dismissed personnel are charged to income as and when the expense is incurred.

l) Equity

The Certificates of Contribution "A", the specific oil-field exploration and depletion reserve and the accumulated losses represent the value of these items stated in terms of purchasing power of the most recent balance sheet date, and are determined by applying factors derived from the NCPI to the historical amounts.

m) Surplus in restatement of equity

The surplus in the restatement of equity is composed of the cumulative results from the initial net monetary position, as well as the effects of restating non-monetary items, such as inventory and property and equipment, above or below inflation, the translation effect of foreign subsidiaries and, for 2003, the cumulative inflationary restatement of construction-in-progress and certain refinery assets that were not previously inflation-indexed.

n) Result on monetary position

The result on monetary position represents the gain or loss, measured in terms of the NCPI, on net monthly monetary assets and liabilities for the year, expressed in Mexican pesos of purchasing power as of the most recent balance sheet date. The inflation rates were 4.0%, 5.7% and 4.4%, in 2003, 2002 and 2001, respectively.

o) Comprehensive financing cost

Comprehensive financing cost includes all types of financial gains or costs, such as interest income and expense, net foreign exchange gains or losses and effects on valuation of financial instruments, in addition to gains or losses on monetary position.

p) 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 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 and amortization expense associated with assets used in operations as well as the expense associated with the reserve for future dismantlement and abandonment costs.

q) 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* ("Asset Tax Law"). Some of the Subsidiary Companies are subject to the Income Tax Law and Asset 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; the rate of this tax 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. In addition, PEMEX pays a 39.2% duty on excess gains revenues, i.e., the portion of revenues in respect of crude oil sales at prices in excess of 18.35 U.S. dollars, 15.50 U.S. dollars and 18.00 U.S. dollars per barrel for 2003, 2002 and 2001, 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.

r) 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 collected from customers is presented as part of "Net domestic sales" and the payment to the Government is deducted after "Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new accounting standards".

s) 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 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.

t) Financial instruments

PEMEX enters into derivative financial instruments to manage its exposures to foreign currency risk, interest rate risk, oil and natural gas price risk, counterparty risk and investment portfolio risk. Derivative financial instruments designated as hedge instruments are recorded in the balance sheet and valued using the same valuation criteria used to value the hedged asset or liability. Derivative financial instruments not designated as hedge instruments are recorded at fair value. Subsequent fair value adjustments are reflected in the statement of operations.

As a result of the adoption of Bulletin C-2, "Financial Instruments" ("Bulletin C-2") as of January 1, 2001, PEMEX recognized a charge to earnings totaling Ps. 1,495,307 which has been reflected as a cumulative effect of adopting a new accounting standard. The adjustment was primarily the result of the accounting for the equity swap related to Repsol YPF, S.A. ("Repsol") shares (see additional discussion in Note 10). At December 31, 2001, PEMEX had 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 totaled Ps. 1,394,515, 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.

u) Use of estimates

The preparation of the financial statements in accordance with Mexican GAAP requires the use of estimates. PEMEX's 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.

v) Comprehensive loss

Comprehensive loss is represented by the net loss plus the effect of restatement, the net increase in the specific oil-field exploration and depletion reserve, and items required by specific accounting standards to be reflected in equity but which do not constitute equity contributions, reductions or distributions (see Note 12).

w) 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 for the settlement of obligations in foreign currencies provided by *Banco de México* and the SHCP at December 31, 2003. 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.

x) Reclassifications

Certain reclassifications have been made to 2002 and 2001 amounts presented in the consolidated financial statements and related notes to conform such amounts and disclosures to the current year presentation.

y) Recently issued accounting standards

In 2003, the MIPA issued new Bulletin C-12, "Financial Instruments with Characteristics of Liabilities, Capital or Both", which highlights the differences between liabilities and capital from the viewpoint of the issuer, as a basis for identifying, classifying and accounting for the liability and capital components of combined financial instruments at the date of issuance.

The new Bulletin establishes the methodology for separating the liabilities and capital components from the proceeds of the issuance of combined financial instruments. That methodology is based on the residual nature of stockholders' equity and avoids the use of fair values affecting stockholders' equity in initial transactions. Additionally, it establishes that beginning on January 1, 2004, the

initial costs incurred in connection with the issuance of combined instruments should be assigned to liabilities and stockholders' equity in proportion to the amounts of the components recognized as liabilities and stockholders equity, that the profits and losses related to financial instrument components classified as liabilities should be recorded in comprehensive financing cost and that distributions to owners of financial instrument components classified as capital should be charged directly to a stockholders' equity account other than the net income for the year.

Although this Bulletin became effective on January 1, 2004, there is no requirement to restate information of prior periods or recognize an initial effect of adopting in the income for the year it is adopted, in accordance with the transitory provisions of the Bulletin. PEMEX is currently evaluating the impact the adoption of this Bulletin will have on its consolidated financial statements.

In 2003, the MIPA issued new Bulletin C-15, "Impairment of the Value of Long-Lived Assets and their Disposal," which became effective on January 1, 2004. For a description of Bulletin C-15, see Note 18 below.

3. Accounts, notes receivable and other

At December 31, accounts, notes receivable and other amounts are as follows:

	2003	2002
Trade-domestic	**Ps. 22,171,699**	Ps. 24,756,657
Trade-foreign	**11,294,430**	7,248,986
Pemex Finance, Ltd	**8,147,107**	7,779,464
Mexican Government (Note 13) advance payments on minimum guaranteed dividends	**10,175,024**	10,098,227
Employees and officers	**2,307,111**	2,085,881
Other accounts receivable	**18,209,940**	7,592,816
Less:		
Allowance for doubtful accounts	**(2,092,479)**	(1,987,854)
	Ps. 70,212,832	Ps. 57,574,177

4. Inventories

At December 31, inventories are as follows:

		2003	2002
Crude oil, refined products, derivatives and petrochemical products	**Ps.**	**23,981,779**	Ps. 21,903,277
Materials and supplies in stock		**4,166,261**	4,664,164
Materials and products in transit		**1,177,830**	979,514
Less:			
Allowance for slow-moving inventory and obsolescence reserve		**(1,848,216)**	(2,144,767)
	Ps.	**27,477,654**	Ps. 25,402,188

5. Properties and equipment

At December 31, components of properties and equipment are as follows:

		2003	2002
Plants	**Ps.**	**277,970,288**	Ps. 238,873,955
Pipelines		**217,598,977**	203,340,674
Wells and field assets		**213,018,173**	168,296,187
Perforation equipment		**20,341,501**	19,267,114
Buildings		**35,759,620**	35,368,777
Offshore platforms		**69,344,986**	45,911,342
Furniture and fixtures		**22,877,084**	21,091,437
Transportation equipment		**12,274,215**	12,225,200
		869,184,844	744,374,686
Less:			
Depreciation and amortization		**(453,501,524)**	(425,315,442)
		415,683,320	319,059,244
Land		**37,763,303**	38,076,892
Construction in progress		**84,023,226**	145,355,060
Fixed assets pending disposition		**1,601,725**	823,622
Construction spares		**147,817**	185,158
Total	**Ps.**	**539,219,391**	Ps. 503,499,976

a) At December 31, 2003, the value of properties and equipment was restated using factors computed from the NCPI, and at December 31, 2002, by applying specific factors based on technical studies.

b) At December 31, 2003, 2002 and 2001, interest costs associated with fixed assets in the phase of construction or installation are capitalized as part of the cost of those assets. Interest capitalized totaled Ps. 7,246,308, Ps. 5,468,205 and Ps. 4,153,866, respectively.

c) Depreciation and amortization expense recorded in operating expenses for the years ended December 31, 2003, 2002 and 2001 was Ps. 40,544,191, Ps. 33,814,503 and Ps. 31,959,891, respectively, which included Ps. 455,930, Ps. 1,400,821 and Ps. 1,584,506, respectively, related to dismantlement and abandonment costs.

d) Until December 31, 2002, the total estimated future costs related to dismantlement and abandonment activities (determined on an undiscounted basis) was Ps. 12,257,893. The accrued amounts were included in accumulated depreciation and amortization. As a result of the adoption of Bulletin C-9 (see Note 2h) and i)), PEMEX's calculation at December 31, 2003, of the total estimated future costs related to dismantlement and abandonment activities (determined on a discounted basis) was Ps. 12,274,000 and was reclassified as a liability in the "Reserve for dismantlement and abandonment activities, sundry creditors and others."

6. Intangible asset derived from the actuarial computation of labor obligations and other assets

At December 31, the intangible and other assets amount consists of:

	2003	2002
Intangible asset derived from the actuarial computation of labor obligations (Note 11)…….……..	**Ps. 119,309,221**	Ps. 120,065,003
Long-term investments and other assets……	**15,916,309**	15,557,506
	Ps. 135,225,530	Ps. 135,622,509

Included in long-term investments are 18,557,219 shares in Repsol which are held by Petróleos Mexicanos and not under any equity swap arrangement (see Note 10). The carrying value at December 31, 2003 and 2002 was Ps. 4,063,288 and Ps. 4,619,646, respectively.

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. 2,806,455 and Ps. 2,440,448, respectively, at December 31, 2003 and 2002. During 2003, 2002 and 2001, PEMEX recorded Ps. 889,726, (Ps. 262,906) and Ps. 596,382 of earnings (losses) respectively, relative to its interest in the joint venture which has been reflected in the line item "Other revenues" in the statements of operations. During 2003, 2002 and 2001, PEMEX paid the joint venture Ps. 4,661,482, Ps. 2,690,088 and Ps. 4,175,822, respectively, for the processing of petroleum.

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 current and future accounts receivables sold are those generated or to be 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 2d)). At December 31, 2003 and 2002, the sales under these agreements were Ps. 122,006,841 and Ps. 78,826,689, respectively.

The "Sale of future accounts receivable" relates to the purchase of rights to certain accounts receivable that will be generated based on existing commitments and is therefore treated as a liability to PEMEX. Sale of future accounts receivable has been classified as a long-term liability as of December 31, 2003 and 2002. 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, the notes payable to contractors consisted of:

	2003	2002
Total notes payable to contractors (a) (b) (c)……	**Ps. 15,026,739**	Ps. 30,150,012
Less: Current portion of notes payable to contractors…..	**1,887,150**	1,640,274
Notes payable to contractors (long-term)…….	**Ps. 13,139,589**	Ps. 28,509,738

(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. Héctor 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 advancement of the project. At December 31, 2003 and 2002, the outstanding balance was Ps. 13,480,564 and Ps. 14,298,491, 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. $82.50 for the storage and loading of stabilized petroleum by means of a floating system ("FSO"). At December 31, 2003 and 2002, the outstanding balance was Ps. 1,167,132 and Ps. 1,245,132, respectively

(c) During 2003, PEMEX recorded a liability of Ps. 379,043 for the upgrade of the refinery located in Minatitlán, Veracruz. Additionally, during 2003, PEMEX paid Ps. 14,606,389 to various contractors with proceeds from financing activities that the Master Trust undertook, which was recorded as a liability to various contractors relating to the upgrade of the refineries located in Salamanca, Guanajuato, and Madero City, Tamaulipas in 2002.

9. Debt

As of December 31, 2003, revolving lines of credit contracted by PEMEX (credit acceptance facilities and commercial paper) and of partial availability, amounted to Ps. 54,030,425. At December 31, 2003 the unused portion of those credit lines amounted to Ps. 9,870,861, which included Ps. 2,898,888 of revolving lines and Ps. 6,971,973 of lines granted by export credit agencies. These credit lines bear fixed interests from 3.32% to 7.77% and LIBOR plus 0.03% to 2.25%.

During 2003, significant financing operations were as follows:

a. Petróleos Mexicanos obtained loans to finance foreign trade operations totaling U.S. $125,000 (Ps. 1,404,500). The loans are repayable during 2004 and bear interest at LIBOR plus 0.585% to 0.65%.

b. Petróleos Mexicanos obtained unsecured loans of U.S. $440,000 (Ps. 4,943,840), which bear interest at LIBOR plus 0.55% to 0.695% and are repayable during 2004.

c. Petróleos Mexicanos reutilized U.S. $432,000 (Ps. 4,853,952) under its commercial paper program. This commercial paper bears interest at the discount rate of 1.085% to 1.11%, which are the prevailing rates in the market at the date of each issuance.

d. Petróleos Mexicanos utilized U.S. $540,000 (Ps. 6,067,440) from two acceptance credit facilities from foreign banks consisting of U.S. $405,000 (Ps. 4,550,580) and U.S. $135,000 (Ps. 1,516,860). The acceptance credit facilities bear interest at LIBOR plus 0.6% and will expire in 2004.

e. Petróleos Mexicanos obtained U.S. $152,340 (Ps. 1,711,692) for purchasing loans and project financing, granted by various export credit agencies. The project financing credits bear fixed interest from 3.32% to 5.04% and LIBOR plus 0.0625% to 1.5%.

During 2003, the Master Trust undertook the following financing activities:

a. The Master Trust obtained commercial bank loans totaling U.S. $1,173,583 (Ps. 13,186,379). These loans bear fixed interest of 5.44%, LIBOR plus 0.6% to 1.9% and variable plus 0.2% to 0.4%, and are repayable in installments until 2018.

b. The Master Trust obtained loans to finance foreign trade operations totaling U.S. $1,700,000 (Ps. 19,101,200). These loans are repayable in 2004 and 2006 and bear interest at LIBOR plus 0.4% and 0.6%.

c. On January 27, 2003, the Master Trust issued £250,000 (Ps. 5,023,050) of 7.50% Notes due 2013; the notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

d. On February 6, 2003, the Master Trust issued U.S. $750,000 (Ps. 8,427,000) of 6.125% Notes due 2008; the notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

e. On March 21, 2003, the Master Trust issued U.S. $500,000 (Ps. 5,618,000) 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.

f. On April 4, 2003, the Master Trust issued €750,000 (Ps. 10,622,250) of 6.625% Notes due 2010; the notes are guaranteed by Petróleos Mexicanos.

g. On June 4, 2003, the Master Trust issued U.S. $750,000 (Ps. 8,427,000) of 7.375% Notes due 2014; the notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

h. On August 5, 2003, the Master Trust issued €500,000 (Ps. 7,081,500) of 6.25% Guaranteed Notes due 2013; the notes are guaranteed by Petróleos Mexicanos.

i. On October 15, 2003, the Master Trust issued U.S. $500,000 (Ps. 5,618,000) of Guaranteed Floating Rate Notes due 2009; the notes bear interest at a rate of LIBOR plus 1.80% and are guaranteed by Petróleos Mexicanos.

j. On November 5, 2003, the Master Trust issued £150,000 (Ps. 3,013,830) of 7.5% Notes due 2013. The notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

k. At various dates during 2003, the Master Trust obtained U.S. $2,096,154 (Ps. 23,552,386) in project financing at fixed interest rates from 3.23% to 6.64% and at LIBOR plus 0.03% to 2.25% with various settlements until 2014.

During 2003, Fideicomiso F/163 undertook the following financing activities:

a. On October 24, 2003, Fideicomiso F/163 issued Ps. 6,500,000 (in nominal terms) of certificates at a fixed rate of 8.38% and a variable rate plus 0.65% and 0.67% with various settlements until 2010.

b. On December 18, 2003, Fideicomiso F/163 obtained a bank loan of Ps. 2,500,000 (in nominal terms), which bears a variable rate plus 0.36% and has several settlements until 2008.

c. On December 23, 2003, Fideicomiso F/163 obtained a syndicated bank loan of Ps. 7,000,000 (in nominal terms), which bears a variable rate plus 0.35% and a fixed rate of 8.4% and is repayable in 2007 and 2008.

During 2002, significant financing operations were as follows:

a. Petróleos Mexicanos obtained loans from export credit agencies totaling U.S. $225,000 (Ps. 2,412,579). The loans are repayable during 2003 and bear interest at LIBOR plus 0.55% to 0.65%.

b. Petróleos Mexicanos obtained unsecured loans of U.S. $650,000 (Ps. 6,969,675) from domestic banks. The unsecured loans bear interest at LIBOR plus 0.625% to 0.760% and are repayable during 2003.

c. Petróleos Mexicanos reutilized U.S. $962,500 (Ps. 10,320,480) under the commercial paper program. This commercial paper bears interest at the discount rate of 1.345% to 1.42%, which are the prevailing rates in the market at the date of each issuance. The program expires in 2004.

d. Petróleos Mexicanos reutilized U.S. $785,000 (Ps. 8,417,222) from acceptance credit facilities. These facilities bear interest at LIBOR plus 0.6%. These facilities were contracted in 2001 and will expire in 2004.

e. Petróleos Mexicanos obtained U.S. $146,442 (Ps. 1,570,235) for purchasing loans and project financing, granted by various export credit agencies. These credits bear fixed interest from 4.14% to 5.51% and LIBOR plus 0.0625% to 0.225%. The purchasing loans and project financing are repayable from 2003 through 2010.

f. P.M.I. Trading Ltd. obtained U.S. $10,000 (Ps. 107,226) in a bank loan from a financial institution. The bank loan bears a fixed interest rate of 2.2345% and is due in January 2003.

During 2002, the Master Trust undertook the following financing activities:

a. The Master Trust obtained commercial bank loans totaling U.S. $650,000 (Ps. 6,969,675). These loans bear interest at LIBOR plus 0.9% and are repayable in 2004. In addition, the Master Trust obtained commercial bank loans for Ps. 11,957,298. These loans bear interest at domestic rate of 8.3% and 8.13% and are repayable from 2003 through 2005.

b. On January 7, 2002, the Master Trust issued U.S. $500,000 (Ps. 5,361,288) of Floating Rate Notes due 2005; the notes bear interest at a rate of LIBOR plus 1.5%, 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. $1,000,000 (Ps. 10,722,577) 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.

d. On February 1, 2002, the Master Trust issued U.S. $500,000 (Ps. 5,361,288) 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.

e. On December 3, 2002, the Master Trust increased its Medium-Term Note program, Series A, from U.S. $6,000,000 (Ps. 64,335,459) to U.S. $11,000,000 (Ps. 117,948,342).

f. On December 5, 2002, the Master Trust issued ¥30,000,000 (Ps. 2,710,667) of 3.50% Notes due 2023; the notes are guaranteed by Petróleos Mexicanos.

g. On December 12, 2002, the Master Trust issued U.S. $1,000,000 (Ps. 10,722,577) of 7.375% Notes due 2014; the notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

h. The Master Trust obtained U.S. $2,042,500 (Ps. 21,900,862) in project financing from several financial institutions, of which U.S. $300,000 (Ps. 3,216,773) relates to foreign trade financing and U.S. $742,500 (Ps. 7,961,513) to financing guarantee by export credit agencies, which include ¥13,962,623 (Ps. 1,261,601) and U.S. $1,000,000 (Ps. 10,722,577) to a syndicated facility. The project financing bears fixed interest at rates between 4.14% and 5.74% and variable rates of LIBOR plus 0.05% to 2.25% and the Yen Prime rate. The project financing is repayable between 2003 and 2013.

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.

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.

As of December 31, 2003 and 2002, long-term debt was as follows:

	Rate of interest (4)	Maturity	December 31, 2003		December 31, 2002	
			Pesos (thousands)	**Foreign currency (thousands)**	Pesos (thousands)	Foreign currency (thousands)
U.S. dollars:						
Unsecured loans (1)	Variable and LIBOR plus 0.8125%	Various to 2006	**Ps. 1,683,161**	**149,801**	Ps. 2,369,194	220,954
Unsecured loans	Variable and LIBOR plus 0.55 to 0.8125%	Various to 2006	**4,780,975**	**425,505**	10,177,021	949,121
Acceptance lines	LIBOR plus 0.6%	2004	**6,067,440**	**540,000**	8,417,223	785,000
Bonds	Fixed of 6.125% to.9.5% and LIBOR plus 1.5% to 1.8%	Various to 2027	**136,497,625**	**12,148,240**	103,453,992	9,648,240
Financing assigned to PIDIREGAS	Fixed of 3.23% to 7.69% and LIBOR plus 0.03% to 2.25%	Various to 2014	**41,369,085**	**3,681,834**	60,123,966	5,607,231
Purchasing loans and project financing	Fixed of 3.32% to7.77% and LIBOR plus 0.0625% to 2%	Various to 2012	**5,038,346**	**448,411**	4,589,066	427,982
Leasing contracts	Fixed of 8.05% to 10.34%	Various to 2012	**2,857,871**	**254,350**	2,987,949	278,660
Commercial paper	Various from 1.085% to 1.11%	Various to 2004	**4,853,952**	**432,000**	4,637,514	432,500
External trade loans	LIBOR plus 0.4% to 1.125%	Various to 2007	**37,340,973**	**3,323,333**	2,412,580	225,000
Bank loans	Fixed of 5.44% to 5.58% LIBOR plus 0.6% to 1.9%	Various to 2018	**27,813,879**	**2,475,425**	107,720	10,046
Total financing in U.S. dollars			**268,303,307**	**23,878,899**	199,276,225	18,584,734
Euros:						
Bonds	Fixed of 6.25% to 7.75%, floating, and LIBOR plus 1.65%	Various to 2013	**34,294,203**	**2,421,394**	15,145,600	1,346,394
Unsecured loans, banks and project financing	Fixed of 2% LIBOR plus 0.8125	Various to 2016	**75,823**	**5,354**	89,790	7,982
Total financing in Euros			**34,370,026**	**2,426,748**	15,235,390	1,354,376
Pesos:						
Certificates	Fixed of 8.38% and variable plus 0.65% to 0.67%	Various to 2010	**6,500,000**			
Project financing and bank loans	Fixed of 8.4% and variable plus 0.62% to 0.64%	Various to 2008	**19,000,000**		11,957,296	
Total financing in pesos			**25,500,000**		11,957,296	
Japanese yen:						
Bonds	Fixed of 3.5%	2023	**3,144,000**	**30,000,000**	2,710,667	30,000,000
Project financing	Fixed 2.9% and Prime in yen	Various to 2015	**15,592,863**	**148,786,858**	15,273,229	169,034,706
Total financing in Yen			**18,736,863**	**178,786,858**	17,983,896	199,034,706
Other currencies (2)	Fixed rate of 7.5% and 14.5% and LIBOR plus 0.8125%	Various to 2013	**9,045,633**	**Various**	2,170,580	Various
Total principal in pesos (3)			**355,955,829**		246,623,387	
Plus: Accrued interest			**5,160,738**		3,486,757	
Total principal and interest			**361,116,567**		250,110,144	
Less: Short-term maturities			**57,503,476**		51,465,139	
Long-term debt			**Ps. 303,613,091**		Ps. 198,645,005	

	2004	2005	2006	2007	2008	2009 and thereafter	Total
Maturities (in thousands of pesos)	Ps. 52,342,738	Ps. 41,347,653	Ps. 42,291,744	Ps. 42,074,201	Ps. 42,056,092	Ps. 135,843,401	Ps. 355,955,829

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, loans denominated in Pounds sterling and Swiss francs, all carrying different interest rates.

(3) Includes financing from foreign banks for Ps. 323,367,487 and Ps. 239,068,285 as of December 31, 2003 and 2002, respectively.

(4) As of December 31, 2003 and 2002 the rates were as follows: LIBOR, 1.22% and 1.38%, respectively; and the Prime rate in Japanese yen, 1.7% and 1.375%, respectively.

10. Financial instruments

During the normal course of business, PEMEX is exposed to foreign currency risk and interest rate risk, among other risks. 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.

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 and derivative financial instruments. To monitor this risk, PEMEX has established an internal credit committee to monitor credit policies and procedures. 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 fair value of the derivative. Currently, when the fair value of a derivative contract is positive, this 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 derivative 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 at fixed or variable rates and to select the appropriate mix of the debt at variable versus fixed rates.

PEMEX's hedging strategy against interest rate volatility has allowed it to change effectively the characteristics of its liabilities. At December 31, 2003, the effective interest rate on approximately 56% (57% in 2002) of PEMEX's debt is at fixed rate. Derivative financial instruments used in hedging transactions of PEMEX are mainly interest rate swaps, in which PEMEX has the rights to receive payments based on LIBOR at three and six months.

(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. These foreign currency financial derivatives have been established to translate the amounts relative to various bonds issued in other currencies into U.S. dollars.

In December 2002, PEMEX entered into a cross-currency swap with a termination date in 2023 to hedge its exposure in Japanese yen, given the long term nature of this obligation, the swap used to hedge this risk includes an option to rescind the contract linked to a defined set of credit default events by PEMEX. In case such an event occurs, the swap terminates without any additional obligation to any of the parties. This swap has a notional amount of U.S. $241.4 million and accounts for 5.2% of the total outstanding cross-currency swap position.

(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. Currently, PEMEX does not enter into any long-term 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. Notwithstanding, during December 2002 PEMEX entered into a short-term crude oil price hedge through the use of options for approximately 6% of the PEMEX total production.

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:

PEMEX offers its customers financial instruments as a value added service and provides various hedging contracts to its customers in order to give them the option of protecting against fluctuations in the price of PEMEX's products. In 2001 PEMEX entered into a number of three-year agreements with Mexican industrial consumers to sell natural gas at a fixed reference price of 4.00 U.S. dollars per million BTUs, covering a period from January 1, 2001 through December 31, 2003. As part of PEMEX's risk management strategy, PEMEX has also entered into a number of derivative instruments, primarily swaps and futures, to hedge these fixed price sales under the three-year agreements, while locking in a profit margin. PEMEX 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 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 fixed-price 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 was realized.

During the fourth quarter of 2003, the Ministry of Energy announced a new natural gas pricing program for its domestic sales for the years 2004 through 2006. Under this program, customers may purchase natural gas from PEMEX at a fixed price of either (1) 4.50 U.S. dollars per million BTUs (for purchases up to 10 million cubic feet per day) and 4.55 U.S. dollars per million BTUs (for larger requirements up to 20 million cubic feet per day) over the period from January 1, 2004 through December 31, 2006 or (2) 4.425 U.S. dollars per million BTUs plus any excess of the average spot price over 6.00 U.S. dollars per million BTUs, for the period from January 1, 2004 through December 31, 2004, subject to certain conditions. This program applies to approximately 20% of PEMEX's total domestic sales of natural gas to third parties. This program is designated to change PEMEX's traditional risk profile with respect to natural gas in order to mitigate the volatility of the revenues derived from the sales of this product. This strategy does not leave PEMEX with an exposure to basis risk, due to the fact that the derivatives are priced using the same market indices as the ones used to price the natural gas sales.

(vi) Investment portfolio risk management

At December 31, 2003, PEMEX held two equity swaps with respect to shares of Repsol. In 1994, PEMEX 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. In addition, in January 2000, PEMEX entered into a second equity swap with respect to 13,679,704 Repsol shares maturing in three years. Upon the maturity of the two swaps, PEMEX has continuously renewed these swaps for periods up to three months. As of December 31, 2003 the market value of the Repsol shares was U.S. $19.47 per share. These swaps matured in January 2004 and they were not renewed.

(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 derivative financial instruments on a periodic basis. The fair value of foreign currency, commodity and interest rate financial 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.

Fair value for instruments designated as non-market interest rate hedging instruments was calculated discounting the future cash flows at its present value, using the market interest rate for the remaining period of the instrument. Cash flows discounted for interest rate swaps are determined for each individual transaction at the balance sheet date.

The following is a summary of the methods and assumptions for the valuation of utilized derivative financial instruments.

- Currency, 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 and gas options are valued using standard option-pricing models commonly used in the market.

- 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.

- Energy future contracts are valued individually at daily settlement prices determined on the futures markets that are published by their respective clearing houses.

The following table indicates the types of current swaps, their notional amount and fair value at December 31:

	2003		2002	
	Notional amount	**Fair value**	Notional amount	Fair value
Interest rate swaps…….	**Ps. 4,112,960**	**(Ps. 225,736)**	Ps. 4,332,558	(Ps. 350,371)
Equity swaps…….	**8,173,190**	**598,006**	6,851,222	(1,208,844)

The following table indicates the types of cross-currency swaps and their respective notional amounts and fair values at December 31:

	2003		2002	
	Notional amount	**Fair value**	Notional amount	Fair value
British pounds to U.S. dollars…….....	**Ps. 8,195,089**	**Ps. 830,026**	Ps. 2,104,037	Ps. 28,524
Japanese yen to U.S. dollars……..	**14,825,716**	**1,844,856**	15,707,986	(57,673)
Euro to U.S. dollars…….....	**29,116,726**	**5,171,162**	14,975,024	(1,056,648)

The following table indicates the commodity derivative instruments, and their fair value at December 31, in thousands of U.S. dollars:

	2003	2002
	Fair value	Fair value
Swaps……	**(US$ 113,800)**	US$ 166,234
Options…….	**6,380**	(8,781)
Futures……..	**1,589**	(3,649)

Fair value of derivative financial instruments presented in the previous schedules is presented for information purposes only.

(viii) 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 its value, as of December 31, 2003 and 2002 is as follows:

	2003		2002	
	Carrying value	**Fair value**	Carrying value	Fair value
Assets:				
Cash and cash equivalents……	**Ps. 73,336,397**	**Ps. 73,336,397**	Ps. 45,621,193	Ps. 45,621,193
Accounts receivable, notes and other ……...	**70,212,832**	**70,212,832**	70,212,832	70,212,832
Liabilities:				
Suppliers……..	**Ps. 33,541,237**	**Ps. 33,541,237**	Ps. 30,434,568	Ps. 30,434,568
Accounts payable…….	**7,339,932**	**7,339,932**	7,000,103	7,000,103
Sale of future accounts receivable...	**40,457,075**	**40,457,075**	45,166,232	45,166,232
Taxes payable……..	**36,643,996**	**36,643,996**	27,778,263	27,778,263
Short-term debt……	**57,503,476**	**57,503,476**	51,465,139	51,465,139
Notes payable to contractors short-term…….	**1,887,150**	**1,887,150**	1,640,274	1,640,274
Notes payable to contractors long-term…….	**13,139,589**	**15,639,257**	28,509,738	32,295,581
Long-term debt…….	**303,613,091**	**325,338,757**	198,645,005	211,724,375

The reported carrying value 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.

In 2003, PEMEX amended its pension and other post retirement benefits plans. The net cost of the plan recorded in the consolidated statements of operations amounted to Ps. 38,938,604, Ps. 39,711,998 and Ps. 38,020,657 in 2003, 2002 and 2001, respectively.

The amount of benefits projected for pensions and seniority premiums, determined by independent actuaries, is as follows:

	2003	2002
Obligation for current benefits	**Ps. 298,918,138**	Ps. 272,046,398
Additional amount for projected benefits	**14,443,993**	7,303,724
Projected benefit obligation	**313,362,131**	279,350,122
Less:		
Plan assets (trust funds)	**13,148,657**	6,865,808
	300,213,474	272,484,314
Transition liability to be amortized over the following 15 years, actuarial gains or losses, prior service costs and plan amendments	**133,753,206**	127,368,263
Net projected liability	**166,460,268**	145,116,051
Additional minimum liability	**119,309,221**	120,065,003
Accumulated obligation	**Ps. 285,769,489**	Ps. 265,181,054

Net cost for the year is comprised as follows:

	2003	2002	2001
Service cost	**Ps. 7,493,503**	Ps. 7,061,838	Ps. 6,432,943
Financial cost	**23,058,739**	25,793,820	25,198,747
Gain of plan assets	**(1,029,529)**	(715,319)	(1,124,603)
Amortization of transition obligation	**7,638,880**	1,233,101	1,380,737
Prior services and plan changes	**344,877**	5,350,289	1,693,537
Actuarial (gains) losses	**(54,950)**	988,269	4,439,296
Inflation adjustment	**1,487,084**		
Net cost for the year	**Ps. 38,938,604**	Ps. 39,711,998	Ps. 38,020,657

Actuarial assumptions used in the calculation of net seniority premium and pension plan cost for the years 2003 and 2002, are the following:

Expected long-term rate of return on assets……..	5.50%
Interest rate……	4.59%
Rate of increase in compensation levels……...	0.92%

12. Comprehensive loss

Comprehensive loss for the years ended December 31, 2003, 2002 and 2001 is analyzed as follows:

	2003	2002	2001
Net loss for the year……	(P**s. 40,644,363)**	(Ps. 24,574,040)	(Ps. 30,395,660)
Effect of restatement of the year, net….....	**5,635,367**	(4,195,728)	(5,653,186)
(Application) increase in specific oil-field exploration and depletion reserve, net…….	**(13,053,826)**	1,817,371	3,942,596
Other equity movements (1)……...…		42,243	598,284
Comprehensive loss for the year……...	**(Ps. 48,062,822)**	(Ps. 26,910,154)	(Ps. 31,507,966)

(1) Represents primarily translation adjustments from non-Mexican subsidiaries.

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 in nominal terms (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 in nominal terms (U.S. $1,500,000). Petróleos Mexicanos and SHCP agreed upon a corresponding reduction in the future payments of the minimum guaranteed dividend. As a result, the Certificates of Contribution "A" are as follows:

Certificates of Contribution "A" (nominal value)…….....	Ps.	10,222,463
Inflation restatement increase…….……..		72,397,776
Certificates of Contribution "A" in Mexican pesos of December 31, 2003 purchasing power……..	Ps.	82,620,239

During 2003, Petróleos Mexicanos paid Ps. 10,175,024 (Ps. 10,098,227 during 2002) to the Mexican Government in advance 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.

14. Foreign currency position

PEMEX has the following assets and liabilities denominated in foreign currencies, which are stated in thousands of Mexican pesos at the exchange rate prevailing at December 31, 2003 and 2002:

	Amounts in foreign currency (Thousands)				
	Assets	Liabilities	Long (short) position	Exchange rate	Amounts in pesos
2003:					
U.S. dollars	**5,779,829**	**29,843,201**	**(24,063,372)**	**11.2360**	**Ps. (270,376,048)**
Japanese yen		**194,226,518**	**(194,226,518)**	**0.1048**	**(20,354,939)**
Pounds sterling	**260**	**452,718**	**(452,458)**	**20.0922**	**(9,090,877)**
Euros	**279,441**	**2,670,519**	**(2,391,078)**	**14.1630**	**(33,864,838)**
Net-short position, before foreign-currency hedging (Note 10)					**(Ps. 333,686,702)**
2002:					
U.S. dollars	12,969,633	32,372,228	(19,402,595)	10.3125	Ps. (200,089,261)
Japanese yen	102,593,907	204,882,010	(102,288,103)	0.0869	(8,888,836)
Pound sterling	125,208	125,479	(271)	16.6217	(4,504)
Swiss francs		669	(669)	7.4572	(4,989)
Dutch guilders	40		40	4.9044	196
Euros	1,318,788	1,369,405	(50,617)	10.8188	(547,615)
Net-short position, before foreign-currency hedging (Note 10)					(Ps. 209,535,009)

15. Segment financial information

PEMEX's primary business is the exploration for and production of the 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.

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 45%) 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 *Comisión Federal de Electricidad* ("CFE") with a significant portion 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's 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.

Following is the condensed financial information of these segments:

	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Corporate and Subsidiary Companies	Intersegment eliminations	Total
Year ended December 31, 2003							
Sales:							
Trade	**Ps. 183,628,097**	**Ps. 294,577,620**	**Ps. 99,934,929**	**Ps. 12,258,658**	**Ps. 35,029,350**	**Ps.**	**Ps. 625,428,654**
Intersegment	**243,005,708**	**13,632,309**	**42,430,424**	**4,708,722**	**251,481,446**	**(555,258,609)**	
Total net sales	**426,633,805**	**308,209,929**	**142,365,353**	**16,967,380**	**286,510,796**	**(555,258,609)**	**625,428,654**
Operating income	**304,188,007**	**71,251,926**	**3,970,629**	**(9,786,399)**	**(20,310,144)**	**18,252,654**	**367,566,758**
Comprehensive financing cost	**21,282,482**	**12,294,055**	**(661,892)**	**1,028,807**	**11,222,335**	**(14,423,372)**	**30,742,415**
Net income (loss)	**1,122,231**	**(36,218,695)**	**7,683,580**	**(14,619,448)**	**(36,968,443)**	**38,356,412**	**(40,644,363)**
Depreciation and amortization	**27,737,586**	**7,614,541**	**3,340,163**	**1,004,553**	**847,348**		**40,544,191**
Acquisition of fixed assets (1)	**49,056,085**	**13,111,952**	**3,532,894**	**1,626,405**	**536,776**		**67,864,112**
Total assets	**618,945,710**	**205,687,191**	**84,559,944**	**32,929,385**	**809,857,702**	**(906,508,128)**	**845,471,804**
Year ended December 31, 2002							
Sales:							
Trade	Ps. 137,698,829	Ps. 274,058,225	Ps. 66,768,894	Ps. 8,755,370	Ps. 27,567,719	Ps.	Ps. 514,849,037
Intersegment	163,517,973	8,438,170	22,165,229	3,201,016	192,337,583	(389,659,971)	
Total net sales	301,216,802	282,496,395	88,934,123	11,956,386	219,905,302	(389,659,971)	514,849,037
Operating income	205,282,552	93,143,748	4,058,301	(9,403,923)	(17,465,324)	20,104,954	295,720,308
Comprehensive financing cost	1,773,892	5,300,358	66,452	370,781	621,622	(1,893,978)	6,239,127
Net income (loss)	15,576,158	(35,648,024)	2,320,178	(12,221,305)	(19,232,733)	24,631,686	(24,574,040)
Depreciation and amortization	21,495,775	6,838,119	3,453,385	1,232,962	794,261		33,814,502
Acquisition of fixed assets (2)	7,245,184	23,577,064	1,506,599	1,920,654	60,720,216		94,969,717
Total assets	429,726,133	205,112,259	68,651,627	33,146,043	744,407,581	(713,323,600)	767,720,043
Year ended December 31, 2001							
Sales:							
Trade	Ps. 124,866,854	Ps. 268,712,341	Ps. 73,328,102	Ps. 10,124,754	Ps. 23,179,480	Ps.	Ps. 500,211,531
Intersegment	172,796,779	9,871,341	30,907,738	3,139,056	188,175,628	(404,890,542)	
Total net sales	297,663,633	278,583,682	104,235,840	13,263,810	211,355,108	(404,890,542)	500,211,531
Operating income	199,389,674	78,983,025	2,943,942	(10,290,382)	(21,904,932)	18,660,535	267,781,862
Comprehensive financing cost	1,773,465	3,573,403	351,938	474,936	(873,472)	(2,848,819)	2,451,451
Net income (loss)	11,809,852	(30,869,449)	818,317	(10,851,073)	(30,081,479)	28,778,172	(30,395,660)
Depreciation and amortization	19,173,842	7,512,660	3,415,951	967,895	889,543		31,959,891
Acquisition of fixed assets (3)	43,649,835	7,689,958	2,476,280	1,243,227	1,730,295		56,789,595
Total assets	362,418,129	172,120,364	55,894,187	28,638,356	575,347,478	(584,255,742)	610,162,772

(1) Beginning in 2003, the acquisition of fixed assets related to the PIDIREGAS projects are presented in each of Subsidiary Entities that will maintain and operate those fixed assets.

(2) In 2002, the Subsidiary Companies segment acquired fixed assets in the amount of Ps. 62,441,179, of which Ps. 61,916,013 are related to the Master Trust and Ps. 1,720,963 of completed assets were transferred from the Master Trust to Subsidiary Entities who will maintain and operate the fixed assets.

(3) In 2001, the Subsidiary Companies segment acquired fixed assets in the amount of Ps. 37,809,990, of which Ps. 37,361,473 are related to the Master Trust and Ps. 36,079,695 of completed assets were transferred from the Master Trust to Subsidiary Entities who will maintain and operate the fixed assets.

16. Commitments

a. PEMEX has a nitrogen supply contract for the pressure maintenance program for the Cantarell field that expires in 2015. At December 31, 2003 and 2002, the value of the nitrogen to be supplied during the term of the contract is approximately Ps. 21,311,844 and Ps. 23,079,619, 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 in accordance with the terms of the contract.

b. At December 31, 2003, PEMEX has entered into contracts with various contractors for an approximate amount of Ps. 172,652,164. These contracts are for the development of PIDIREGAS.

c. PEMEX sold 13,679,704 shares of Repsol and simultaneously contracted an equity swap on such shares with an international financial institution. The agreement contained a mandatory repurchase clause for the shares. The repurchase commitment was for U.S. $292,000; however, at the expiration date, PEMEX did not repurchase the shares and opted for renewing the swap, which has no mandatory repurchase.

d. PEMEX, through its subsidiaries PMI and PMI-NASA, has executed several long-term purchase and sale contracts for crude oil with foreign companies in international markets. The terms and conditions of these contracts are specific for each customer and their duration in certain contracts have no expiration and in certain cases, the contracts contain minimum mandatory periods.

17. Contingencies

a. 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 any accruals.

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 remediation and improvement plans. Such plans consider remediation 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, 2003 and 2002 of Ps. 1,926,440 and Ps. 2,287,228, respectively. These liabilities are included in "Reserve for dismantlement and abandonment activities, sundry creditors and others".

c. At December 31, 2003, PEMEX is involved in various civil, tax and administrative lawsuits with a total claim amount of Ps. 15,736,143. At December 31, 2003 and 2002, PEMEX has accrued Ps. 1,339,740 and Ps. 1,106,557, respectively, related to those contingencies for which management believes that the outcome will be unfavorable.

d. PEMEX was sued in a lawsuit filed by Conproca, relating to the non-fulfillment of the terms agreed between the parties involved in *Contrato de Obra Pública Financiada* (Financed Public Construction Contract) and the *Contrato de Obra Pública a Precios Unitarios* (Unit Price Public Construction Contract) signed with Conproca and accounted for under PIDIREGAS. The claim is before the International Arbitration Court of the International Chamber of Commerce located in Paris, France.

The lawsuit seeks payment for U.S. $648,000 for the alleged non-fulfillment of obligations under the aforementioned contracts and agreements between Conproca and PEMEX. The amount claimed by Conproca is for additional contract work, indemnities and expenses incurred not refunded by PEMEX. PEMEX filed a counterclaim against Conproca for the non-fulfillment of contracts and agreements in the Cadereyta Project. The amount of the counterclaim is U.S. $919,200. Based on PEMEX management's evaluation of this lawsuit, no provision has been recorded as of December 31, 2003.

e. PEMEX has been sued by Construcciones Industriales del Golfo, S. A. de C. V. for late and non-payment of bills and other items for a total of U.S. $79,276 (Ps. 890,745). In connection with this lawsuit, PEMEX subsequently made a counterclaim against the supplier for U.S. $4,949 (Ps. 55,607) for unsatisfactory work. The judge hearing the first claim determined that PEMEX had to pay U.S. $4,000 (Ps. 44,944), plus interest accrued since the date the payment was ceased. PEMEX appealed this decision, which appeal is pending resolution. PEMEX recognized a provision for this claim totaling U.S. $4,576 (Ps. 51,416).

f. The *Comisión Federal de Competencia* ("Federal Competition Commission") handed down a resolution against PEMEX for presumed monopolistic policies relating to exclusivity clauses for the sale of lubricants, grease, and oil. The resolution established the following measures:

- 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, but it was challenged through an appeal for review. A ruling thereon has not been handed down yet. Consequently, PEMEX has not accrued any reserve for this claim.

18. Subsequent events

a. The provisions of Bulletin C-15 went into effect on January 1, 2004. That Bulletin establishes general criteria for the identification and, if applicable, recording of losses from impairment or decrease in value of long-lived tangible and intangible assets, including goodwill. Additionally, it defines concepts such as net sales price and value in use for the valuation of long-lived assets. PEMEX estimates that the impairment loss and corresponding decrease in the carrying value of long-lived assets upon adoption of this new Bulletin to approximate Ps. 10.0 billion.

b. The Board of Directors of Petróleos Mexicanos in its ordinary session of February 11, 2004, approved the change in accounting policy for the recording of exploration and drilling costs, to be applied in 2004, using the successful efforts method, instead of the policy currently used through the reserve for exploration and depletion.

19. Differences between Mexican GAAP and U.S. GAAP

PEMEX's consolidated financial statements are prepared in accordance with Mexican GAAP, which differs in certain significant respects from accounting principles generally accepted in the United States ("U.S. GAAP"). Due to the adoption of Bulletin B-10 as discussed in Note 2b) to the financial statements, all of the related U.S. GAAP adjustments have also been restated to reflect the effects of inflation. The application of B-10 represents a comprehensive measure of the effects of price level changes and is considered to result in a more meaningful presentation than historical cost-based financial reporting in an environment such as Mexico. Consequently, unlike in the past when PEMEX recognized inflation in accordance with NIF-06 BIS "A", none of the adjustments to the financial statements for the effects of inflation required under Mexican GAAP have been eliminated in the U.S. GAAP reconciliation.

The principal differences between Mexican GAAP and U.S. GAAP, as they relate to PEMEX, are presented below together with explanations of certain adjustments that affect net income and shareholders' equity as of and for the years ended December 31:

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Amounts expressed in thousands of Mexican pesos of December 31, 2003 purchasing power and thousands of U.S. dollars or other currency units)

I. Differences in measurement methods:

Loss represents pre-tax loss, because PEMEX is not subject to Mexican income taxes, and is reconciled as follows:

	2003	2002	2001
Net loss for the year under Mexican GAAP	**(Ps. 40,644,363)**	(Ps. 24,574,040)	(Ps. 30,395,660)
U.S. GAAP adjustments:			
Exploration and drilling costs (a)	**(19,283,665)**	3,229,372	1,810,606
Pensions and seniority premiums (b)	**556,055**	(1,448,784)	2,707,043
Post-retirement benefits (c)	**(8,643,741)**	(7,934,957)	(4,587,244)
Accrued vacation (d)	**(25,877)**	(34,958)	(69,973)
Fixed asset adjustments:			
• Capitalized losses of hedging financial instruments (e)……..	**(177,899)**	(282,659)	
• Capitalization of interest, net (f)……..	**1,720,024**	1,548,111	2,571,493
• Impairment, net (g)……..	**(2,619,643)**	2,063,114	(120,957)
• Depreciation convention (h)…….	**667,336**	(536,198)	(1,144,424)
Accounting for financial instruments:			
• Difference in cumulative effect of adoption of new financial instruments standards (i)……..			5,845,333
• Difference in current period effect (i)……..	**1,821,850**	(3,042,039)	2,728,848
Sales of shares of Repsol (j)	**(556,358)**	(668,689)	367,940
Profit in inventory (k)	**(103,921)**	(1,001,752)	(57,282)
Available-for-sale investment securities (m)			(3,005,307)
Effects of inflation accounting on U.S. GAAP adjustments (o).....	**980,812**	16,764	5,222
Total U.S. GAAP adjustments, net	**(25,665,027)**	(8,092,675)	7,051,298
Net loss for the year under U.S. GAAP	**(Ps. 66,309,390)**	(Ps. 32,666,715)	(Ps. 23,344,362)
Components of U.S. GAAP net loss:			
Loss from continuing operations	**(Ps. 68,322,172)**	(Ps. 32,666,715)	(Ps. 27,694,388)
Cumulative effect of accounting changes (i) (n)	**2,012,782**		4,350,026
Net loss for the year	**(Ps. 66,309,390)**	(Ps. 32,666,715)	(Ps. 23,344,362)
Comprehensive loss under U.S. GAAP:			
Net loss for the year under U.S. GAAP	**(Ps. 66,309,390)**	(Ps. 32,666,715)	(Ps. 23,344,362)
Other comprehensive income (loss):			
Derivative financial instruments (i)	**5,022,831**	887,941	(517,263)
Unrealized gains (losses) on securities (m)	**4,535,060**	(272,431)	
Surplus in restatement of equity and other equity movements	**5,635,367**	(4,153,485)	5,054,903
Comprehensive loss	**(Ps. 51,116,132)**	(Ps. 36,204,690)	(Ps. 18,806,722)

Components of accumulated other comprehensive income at December 31:	**2003**	2002
Derivative financial instruments (i)	**Ps. 5,393,508**	Ps. 370,677
Unrealized gains on securities (m)	**4,262,629**	(272,431)
Surplus in restatement of equity and other equity movements	**130,898,054**	125,262,687
Accumulated other comprehensive income	**Ps. 140,554,191**	Ps. 125,360,933

	2003	2002
Equity is reconciled as follows:		
Equity under Mexican GAAP	**Ps. 45,860,813**	Ps. 103,905,648
U.S. GAAP adjustments:		
Exploration and drilling costs (a)	**15,782,616**	22,128,673
Pensions and seniority premiums (b)	**(6,527,382)**	(7,083,437)
Post-retirement benefits (c)	**(40,618,178)**	(31,974,437)
Accrued vacation (d)	**(660,498)**	(654,364)
Fixed asset adjustments:		
• Capitalized losses of hedging financial instruments (e)	**(460,558)**	(282,659)
• Capitalization of interest, net (f)	**(12,944,241)**	(14,664,265)
• Impairment, net (g)	**(42,905,150)**	(40,285,507)
• Depreciation convention (h)	**(2,669,342)**	(3,336,678)
Accounting for financial instruments (i)	**12,040,893**	5,264,421
Sale of shares of Repsol (j)	**(642,921)**	(856,070)
Profit in inventory (k)	**(1,758,233)**	(1,654,312)
Advanced payments on minimum guaranteed dividend (l)	**(10,175,024)**	(10,098,227)
Available-for-sale investment securities (m)	**1,257,322**	(3,277,738)
Total U.S. GAAP adjustments, net	**(90,280,696)**	(86,774,600)
(Deficit) equity under U.S. GAAP	**(Ps. 44,419,883)**	Ps. 17,131,048

Changes in U.S. GAAP equity for the year ended December 31:	**2003**	2002
Equity at January 1	**Ps. 17,131,048**	Ps. 63,654,635
Net loss for the period	**(66,309,390)**	(32,666,715)
Minimum guaranteed dividends	**(10,434,799)**	(10,318,897)
Other comprehensive income:		
Derivative financial instruments	**5,022,831**	887,941
Unrealized gains (losses) on available-for-sale investment securities	**4,535,060**	(272,431)
Surplus in restatement of equity and other equity movements	**5,635,367**	(4,153,485)
(Deficit) equity at December 31	**(Ps. 44,419,883)**	Ps. 17,131,048

Explanation of reconciling items:

a) Exploration and drilling costs

As discussed in Notes 2e) and 2f) 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. Capitalized costs incurred in exploration activity are amortized on a UOP basis over total proved reserves. 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 over proved developed reserves, 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 (adjustment g)). 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 also 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 difference 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 No. 87"), is the 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," ("SFAS No. 106") 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.

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) Fixed assets - Capitalized losses of hedging financial instruments

Under Mexican GAAP, realized losses arising from hedging instruments designated as cash flow hedges are capitalized as part of capitalized interest. Under U.S. GAAP, realized gains and losses arising from currency swap hedging instruments designated as cash flow hedges cannot be capitalized as part of the qualifying assets, but are recognized into earnings during the same period in which the forecasted transaction affects earnings. For the years ended December 31, 2003 and 2002, PEMEX capitalized Ps. 183,713 and Ps. 282,659 of losses arising from hedging instruments. The 2003 adjustment is net of depreciation by Ps. 5,814 related to amounts previously capitalized.

f) 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 by applying an average interest rate outstanding to the construction in progress balance without exceeding total interest expense. 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 in an amount of Ps. 1,030,773, Ps. 1,066,185, and Ps. 1,106,615 for the years ended December 31, 2003, 2002 and 2001, respectively, related to amounts previously capitalized for such assets.

Interest costs for the years ended December 31, 2003, 2002 and 2001, for Mexican GAAP and U.S. GAAP purposes were allocated as follows:

	2003	2002	2001
Under Mexican GAAP:			
Interest capitalized in fixed assets.....	**Ps. 7,246,308**	Ps. 5,468,205	Ps. 4,153,855
Interest in the specific oil-field exploration and depletion reserve	**19,039**	50,045	95,125
Interest expense	**23,487,142**	20,971,411	17,784,090
Total interest cost.....	**Ps. 30,752,489**	Ps.26,489,661	Ps.22,033,070
Under U.S. GAAP:			
Interest capitalized in fixed assets.....	**Ps. 7,954,598**	Ps. 6,000,176	Ps. 5,713,858
Interest expense	**22,797,891**	20,489,485	16,319,212
Total interest cost.....	**Ps. 30,752,489**	Ps.26,489,661	Ps.22,033,070

g) Fixed assets - Impairment

Under Mexican GAAP, through December 31, 2003, PEMEX evaluates the recovery of its long-lived assets utilizing the "value in use criteria" of Bulletin B-10.

For U.S. GAAP purposes, an evaluation of impairment is undertaken whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Under U.S. GAAP, the impairment criteria is met when the carrying value of assets exceeds the sum of expected future cash flows (undiscounted and without financing charges) of the related assets. The asset is written down to fair value as determined by using 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 following the guidance on SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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. 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 2003, under U.S. GAAP, PEMEX recorded an impairment charge of Ps. 4,670,820, which reflects an adjustment relating to certain oil and gas producing fields as well as certain refining assets. The 2003 U.S. GAAP net income reconciliation also includes a credit of Ps. 2,051,177 for depreciation

due to the difference in carrying values of long-lived assets between Mexican GAAP and U.S. GAAP for the cumulative impairment charge differences.

In 2002, under U.S. GAAP, PEMEX recorded an impairment charge of Ps. 4,587,200, which reflects an adjustment relating to certain oil and gas producing fields as well as certain refining assets. The 2002 U.S. GAAP net income reconciliation also includes a credit of Ps. 6,650,314 for depreciation due to the difference in carrying values of long-lived assets between Mexican GAAP and U.S. GAAP for the cumulative impairment charge differences and the reversal of write-off charges recorded under Mexican GAAP for assets previously impaired under U.S. GAAP, primarily in the petrochemical plants.

In 2001, under U.S. GAAP, PEMEX recorded an impairment charge of Ps. 3,609,293, which reflects an adjustment relating to certain oil and gas producing fields. The 2001 U.S. GAAP net income reconciliation also includes a credit of Ps. 3,488,336 for depreciation due to the difference in carrying values of long-lived assets between Mexican GAAP and U.S. GAAP for the cumulative impairment charge differences.

h) Fixed assets - Depreciation convention

Until 2002, under Mexican GAAP, PEMEX began to depreciate assets the year after which they were placed in service. For U.S. GAAP purposes, assets were depreciated from the date placed in service. For the years ended December 31, 2002 and 2001, due to significant new PIDIREGAS financed through the Master Trust, an adjustment for depreciation has been recognized in the U.S. GAAP reconciliation. For the year ended December 31, 2003, as described in Note 2h), PEMEX changed its accounting under Mexican GAAP to require depreciation from the month after the asset was placed into service, therefore eliminating any new differences between Mexican GAAP and U.S. GAAP. Also in 2003, the U.S. GAAP adjustment reflects a credit to income of Ps. 667,336 for the reversal of the depreciation expense previously recorded under U.S. GAAP.

i) Accounting for financial instruments

For U.S. GAAP purposes, beginning January 1, 2001, PEMEX adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS No. 133"), which requires that all derivative instruments (including certain derivative instruments embedded in other contracts) should be recognized in the balance sheet as assets or liabilities at their fair values and changes to fair values are recognized immediately in earnings, unless the derivative qualifies as a "hedge" (as defined in SFAS No. 133), for which certain special accounting treatment is permitted.

In accordance with U.S. GAAP, 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 risks 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 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 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, 2003, PEMEX had not discontinued any hedge accounting.

PEMEX recorded a cumulative effect totaling Ps. 4,350,026 (benefit to earnings) as of January 1, 2001 upon adoption of SFAS No. 133, as compared to the Ps. 1,495,307 cumulative effect loss upon adoption of Mexican GAAP Bulletin C-2 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 and period-to-period income adjustments 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 contractual provisions in Mexico.

- Lastly, under Mexican GAAP Bulletin C-2, PEMEX recognized a loss on the fair value of the equity swap and other contracts related to the Repsol shares described in Notes 2t) and 10. As more fully described in adjustment j), under U.S. GAAP, the transfer of the Repsol shares did not meet the definition of a true sale therefore the swap would not have been fair valued under U.S. GAAP.

The following table indicates the duration and respective rates for the interest rate swaps at December 31:

	2003	2002
Weighted average (maturity years)……	**5.00%**	6.19%
Average receive rate ……	**3.10%**	3.67%
Average pay rate……	**5.25%**	5.12%

For the years ended December 31, 2003, 2002 and 2001, PEMEX recognized a net gain (loss) of Ps. 2,271,474, (Ps. 1,235,610) and Ps. 425,838, respectively, reported as a component of "interest, net" in the consolidated Statements of Operations, 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.

For the years ended December 31, 2003, 2002 and 2001, PEMEX recognized a net gain (loss) of Ps. 5,022,831, Ps. 887,941 and (Ps. 517,263) reported as "derivative financial instruments" in the consolidated other comprehensive loss statement. 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.

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. As of December 31, 2003, a net gain of Ps. 57,636 of the balance related to derivative instruments accumulated in other comprehensive income (loss) are expected to be reclassified during the next twelve months to the consolidated Statement of Operations.

j) Sale of shares of Repsol

Under Mexican GAAP, PEMEX recorded gains in years prior to 2001 totaling Ps. 920,972 related to the transfer of its Repsol shares to a third party. For U.S. GAAP purposes, the transfer of the shares does not meet the criteria for sale recognition and, accordingly, all gains were 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, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115") (adjustment m)), and the liability equal to the notional amount resulting from these transactions would also be reflected on the balance sheet. During the years 2003, 2002 and 2001, PEMEX recognized Ps. 760,507, Ps. 203,337, and Ps. 162,314, respectively, for purposes of the U.S. GAAP reconciliation, of monetary gains included in adjustment o), and (Ps. 556,358), (Ps. 668,689) and Ps. 367,940, respectively, of foreign exchange (losses) gains on the U.S. dollars financing transaction.

k) 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 recognizing a profit within its inventory balance at December 31.

l) 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 as described in Note 13 are recorded as an account receivable prior to authorization 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 ranged from 1.9125% to 2.2125% and from 2.6363% to 2.8908% for 2003 and 2002, respectively).

The scheduled maturities on the original principal amount of the capitalized debt over the remaining years, is as follows:

Year	
2004.....	U.S.$ 873,848
2005.....	873,848
2006.....	873,848
Total	U.S.$2,621,544

m) Accounting for investment securities (Repsol)

Pursuant to SFAS No.115, 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, 2003, 2002 and 2001. An impairment loss is recognized when the loss is considered other than temporary. The cost and fair value of PEMEX's investments at December 31, are as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
2003	**Ps. 8,588,247**	**Ps. 12,850,876**	**Ps. 4,262,629**
2002	Ps. 8,588,247	Ps. 8,315,816	(Ps. 272,431)
2001	Ps. 8,588,247	Ps. 8,588,247	Ps.

Under Mexican GAAP, investment securities are carried at fair value with the mark-to-market adjustment reflected in earnings. The unrealized gains and losses for U.S. GAAP purposes are largely explained by the fluctuations of the underlying price of the securities. In 2001, PEMEX recognized a write-down of its investment in Repsol amounting to Ps. 3,005,307. The fair value at such date became the new carrying value for U.S. GAAP purposes.

n) Cumulative effect as a result of adoption of SFAS No. 143

As discussed in Note 2h), effective January 1, 2003, PEMEX adopted Bulletin C-9, for U.S. GAAP purposes, it also adopted SFAS No. 143 "Asset Retirement Obligations" ("SFAS No. 143").

The cumulative effect of adopting SFAS No. 143 on PEMEX's results of operations and financial condition at January 1, 2003 was a decrease in the reserve for dismantlement and abandonment costs of Ps. 1,486,293, and a benefit for the cumulative effect of adoption of Ps. 2,012,782.

PEMEX's liability provisions recognized in the balance sheet represent present obligations whose settlement will probably require the future use of estimated economic resources. These provisions have been recorded, based on management's best estimate of the amount needed to presently settle the liability; however, actual results could differ from the provisions recognized. No assets or trust funds have been established to satisfy these obligations.

A reconciliation of the changes to PEMEX's asset retirement obligation for the year ended December 31, 2003, is as follows:

	2003
Asset retirement obligation upon adoption of SFAS No. 143 effective January 1	**Ps. 10,771,600**
Liabilities incurred during the year	**568,976**
Accretion expense	**933,424**
Asset retirement obligation at December 31	**Ps. 12,274,000**

Asset retirement obligations settled during 2003 were not significant.

o) Effects of inflation on the U.S. GAAP adjustments

Various U.S. GAAP adjustments included herein are adjustments to monetary assets and liabilities recorded under Mexican GAAP pursuant to Bulletin B-10 as described in Note 2b) and therefore, the adjustments to the respective balance would also result in adjustment to the monetary gain or loss as reported under Mexican GAAP for each of the three years presented.

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 which Pemex Finance purchases existing accounts receivable and rights to future receivables from certain customers. Pemex Finance obtains resources for such purchases through the placement of debt instruments in the international markets as well as the recurring returns on its investments.

Under SFAS No. 140, "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," PEMEX has evaluated the Pemex Finance structure in light of the permitted and non-permitted activities of a Qualified Special Purpose Entity ("QSPE") and determined that Pemex Finance does not qualify as a QSPE and should thus be consolidated for U.S. GAAP purposes. Consequently, as of December 31, 2003 and 2002, the U.S. GAAP consolidated total assets would have increased by Ps. 5,803,937 and Ps. 4,367,347, respectively, and total liabilities would have increased by Ps. 4,459,531 and Ps. 1,251,566, respectively. Had Pemex Finance been consolidated, there would not have been any effect on PEMEX's equity or net income (loss) for each period. Pemex Finance has been consolidated in the accompanying condensed consolidated U.S. GAAP information included herein.

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 the amounts payable to the Mexican Government are then deducted from "Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new accounting standards."

Under U.S. GAAP, this tax would have no net effect on revenues nor would it be deducted from "Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new accounting standards," as both the amount charged to customers and the amount accrued as payable to the tax authorities would be reflected in revenues (i.e., no gross up).

c) 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:

- 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 2003, 2002 and 2001, PEMEX invested Ps. 3,479,000, Ps. 3,179,000 and Ps. 2,893,000, respectively, in various environmental projects and related expenditures. 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 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, are divided among the operating units as follows:

	2003	2002
Pemex-Exploration and Production…….	**Ps. 1,022,868**	Ps. 1,313,572
Pemex-Refining……	**717,335**	804,711
Pemex-Gas and Basic Petrochemicals…….	**163,690**	145,503
Pemex- Petrochemicals……..……..	**22,547**	23,443
Total Environmental Liability Accrual……	**Ps. 1,926,440**	Ps. 2,287,229

d) 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

The components of net seniority premium and pension plan cost, calculated in accordance with SFAS No. 87, using December 31 as a measurement date, consist of the following:

	2003	2002	2001
Service cost:	**Ps. 5,360,669**	Ps. 5,031,632	Ps. 4,424,941
Interest cost on projected benefit obligation	**15,723,619**	17,391,210	13,321,702
Expected return on plan assets	**(1,029,502)**	(429,400)	(831,819)
Net amortization and deferral		146,371	
Amortization of net transition obligation	**4,849,426**	5,281,051	5,346,837
Adjustment to net periodic pension cost due to inflation	**1,045,176**	1,549,302	979,513
Net cost under U.S. GAAP	**25,949,388**	28,970,166	23,241,174
Net cost under Mexican GAAP	**(26,505,443)**	(27,521,382)	(25,948,217)
(Benefit) expense recognized under U.S. GAAP	**(Ps. 556,055)**	Ps. 1,448,784	(Ps. 2,707,043)

Actuarial assumptions used in the calculation of benefit obligations, net seniority premium and pension plan cost under U.S. GAAP as of December 31 are:

	2003	2002	2001
Discount rate	**4.59%**	4.59%	4.59%
Rates of increase in compensation levels.....	**0.92%**	0.92%	0.92%
Expected long-term rate of return on assets.....	**5.50%**	5.50%	5.50%

The combined seniority premium and pension plan liability as of December 31, under SFAS No. 87 is as follows:

	2003	2002
Accumulated benefit obligation	**Ps.206,747,504**	Ps. 185,884,869
Projected benefit obligation	**218,655,661**	192,770,209
Plan assets at fair value	**(13,088,629)**	(6,865,808)
Projected benefit obligation in excess of plan assets	**205,567,032**	185,904,401
Unrecognized net loss	**(11,084,402)**	
Unrecognized transition obligation	**(74,070,163)**	(79,112,410)
Unrecognized prior service costs and plan amendments	**(1,794,229)**	
Accrued liability under U.S. GAAP	**118,618,238**	106,791,991
Accrued liability recognized under Mexican GAAP	**(112,090,856)**	(99,708,554)
Net U.S. GAAP adjustment to seniority premium and pension plan liability	**6,527,382**	7,083,437
Additional minimum liability	**Ps. 75,036,517**	Ps. 72,227,070

The scheduled maturities on the benefits expected to be paid in each of the next five years, and thereafter, are as follows:

Year	**Expected Benefit Payments**
2004	Ps. 9,167,133
2005	9,999,608
2006	10,054,732
2007	10,167,919
2008	10,371,494
2009 to 2013	51,936,682
Total	Ps.101,697,568

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 provided that the asset recognized does

not exceed the sum of the unrecognized prior service cost and the unrecognized transition obligation for the year. As of December 31, 2003 and 2002, PEMEX recognized an intangible asset of Ps. 75,036,517 and Ps. 72,227,070, respectively.

The objective of PEMEX's investment guidelines is to grant the highest security together with an adequate rate of return of the fund, maintaining the purchasing power of the investment. In addition, the comparative benchmark used by PEMEX is the monthly average of primary interest rates of Mexican 28-day T-bills (*Cetes 28*).

At December 31, 2003 and 2002, all of PEMEX's plan assets were invested in debt securities. The following table shows target allocation.

Securities	*Target Allocation*
Federal Government Bonds	30% - 100%
Bonds issued by financial institutions listed on the Mexican Stock Exchange	0% - 70%
Bonds issued by companies guaranteed by credit institutions and listed on the Mexican Stock Exchange	0% - 35%
Mutual Funds composed of bonds	0% - 10%
Stocks listed on the Mexican Stock Exchange	0% - 10%
Structured notes, in Mexican pesos with protection of the initial invested capital	0% - 30%
Foreign exchange indexed bonds issued by financial institutions, listed on the Mexican Stock Exchange	0% - 10%

The investment guidelines list certain prohibited investments, such as securities of companies that are subject to intervention by a regulatory authority, subordinated securities, convertible securities, certain foreign exchange securities, derivatives other than the structured notes mentioned above, securities having terms with certain characteristics such as liquidity, risk, return, or maturity that do not comply with certain requirements set by PEMEX's Financial Resources Committee and securities not listed on the Mexican Stock Exchange.

The expected long-term rate of return is based on the guidelines of the Mexican Society of Consulting Actuaries which annually issues recommendations for selecting financial assumptions based on a historical analysis conducted on economic variables such as inflation, free risk interest rates and increases to the legal minimum wage and salaries in general.

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.

f) Post retirement benefits

PEMEX has implemented SFAS No. 106 effective January 1, 1995, using the transitional recognition method and December 31 as a measurement date.

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.

The scheduled maturities on the benefits expected to be paid in each of the next five years, and thereafter, are a follows:

Year	Expected Benefit Payments
2004	Ps. 7,268,945
2005	8,063,558
2006	8,019,071
2007	7,981,291
2008	7,943,165
2009 to 2013	38,465,309
Total	Ps. 77,741,339

The components of other post-retirement benefits expense consist of the following for the years ended Decen
2001:

	2003			2002			
	Supplemental Payments	**Health Services**	**T o t a l**	Supplemental Payments	Health Services	T o t a l	Supplemental Payments
Service cost	**Ps. 2,110,205**	**Ps. 2,261,478**	**Ps. 4,371,683**	Ps. 1,436,246	Ps. 1,229,200	Ps. 2,665,446	Ps. 1,452,964
Interest cost	**7,315,109**	**5,904,398**	**13,219,507**	5,651,977	5,674,208	11,326,185	4,803,698
Amortization of actuarial (gains) and losses					(18,506)	(18,506)	
Amortization of prior service cost and plan amendments				(6,327)		(6,327)	
Amortization of transition obligation	**2,632,566**	**2,314,387**	**4,946,953**	2,275,433	1,937,212	4,212,645	2,303,778
Adjustment to net periodic post-retirement benefit cost due to inflation	**479,484**	**418,615**	**898,099**	533,368	502,861	1,036,229	376,660
Net expense under U.S. GAAP	**12,537,364**	**10,898,878**	**23,436,242**	9,890,697	9,324,975	19,215,672	8,937,100
Expense under Mexican GAAP	**(12,433,161)**	**(2,359,340)**	**(14,792,501)**	(8,817,609)	(2,463,106)	(11,280,715)	(9,790,490)
Additional expense (benefit) under U.S. GAAP	**Ps. 104,203**	**Ps. 8,539,538**	**Ps. 8,643,741**	Ps. 1,073,088	Ps. 6,861,869	Ps. 7,934,957	(Ps. 853,390)

Actuarial assumptions used in the calculation of other post-retirement benefits and cost under U.S. GAAP as of December 31 were:

	2003	2002	2001
Discount rate	**4.59%**	4.59%	4.59%
Health care cost trend rate.....	**0.92%**	0.92%	0.92%

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. 562,590 for 2003 (Ps. 1,193,819 for 2002 and Ps. 1,536,358 for 2001) and increase the accumulated post-retirement benefit obligation by Ps. 5,153,373 for 2003 (Ps. 6,663,825 for 2002 and Ps. 10,418,013 for 2001). The effect of a 1% decrease in the health care cost trend rate is to decrease net expense for post-retirement benefits by Ps. 634,412 for 2003 (Ps. 829,519 for 2002 and Ps. 1,341,082 for 2001) and decrease the accumulated post-retirement benefit obligation by Ps. 4,434,440 (Ps. 5,585,626 for 2002 and Ps. 9,413,530 for 2001).

The other post-retirement benefit liability as of December 31, 2003 and 2002 is as follows:

	2003			2002	
	Supplemental Payments	**Health Services**	**T o t a l**	Supplemental Payments	Health Services
Accumulated unfunded post retirement benefit obligation:					
Retirees	**Ps. 50,868,236**	**Ps. 43,574,970**	**Ps. 94,443,206**	Ps. 47,158,651	Ps. 40,857,025
Fully eligible active participants	**2,543,946**	**3,961,910**	**6,505,856**	2,298,651	3,677,580
Other active plan participants	**40,851,799**	**29,068,735**	**69,920,534**	37,121,531	27,044,319
Total	**94,263,981**	**76,605,615**	**170,869,596**	86,578,833	71,578,924
Unrecognized actuarial losses (gains)	**(1,414,764)**	**1,057,668**	**(357,096)**		
Prior service cost and plan amendments	**59,558**		**59,558**		
Unamortized transition obligation	**(40,270,841)**	**(35,313,627)**	**(75,584,468)**	(43,008,084)	(37,768,806)
Net post-retirement benefit liability:					
U.S. GAAP	**52,637,934**	**42,349,656**	**94,987,590**	43,570,749	33,810,118
Mexican GAAP	**(54,369,412)**		**(54,369,412)**	(45,406,430)	
Net U.S. GAAP adjustment	**(Ps. 1,731,478)**	**Ps. 42,349,656**	**Ps. 40,618,178**	(Ps. 1,835,681)	Ps. 33,810,118

Pursuant to the requirements of SFAS No. 132, the following tables present a reconciliation of the beginning plan assets' fair value and the accumulated post-retirement benefit obligation.

	Seniority Premiums and Pension Benefits		Supplemental Payments		
	2003	2002	**2003**	2002	**2003**
Change in benefit obligation (ABO)					
Benefits obligation at beginning of year	**Ps. 192,770,209**	Ps. 170,862,395	**Ps. 86,578,832**	Ps. 75,909,094	**Ps. 71,578**
Effect of inflation on beginning balance	**(7,372,346)**	(9,214,694)	**(3,311,140)**	(4,093,815)	**(2,737**
Service cost	**5,360,669**	5,031,632	**2,110,205**	1,834,384	**2,261**
Interest cost	**15,723,619**	17,391,210	**7,315,109**	7,687,714	**5,904**
Prior service costs and plan amendments	**1,790,109**	2,003,156	**(59,558)**	4,770,757	
Actuarial (gains)/losses	**18,813,131**	14,181,546	**5,100,721**	3,906,077	**1,957**
Benefits paid	**(8,429,729)**	(7,485,036)	**(3,470,189)**	(3,435,378)	**(2,359**
Benefits obligation at end of year	**Ps. 218,655,662**	Ps. 192,770,209	**Ps. 94,263,980**	Ps. 86,578,833	**Ps. 76,605**
Change in plan assets					
Fair value of plan assets at beginning of year	**Ps. 6,865,807**	Ps. 6,378,145	**Ps.**	Ps.	**Ps.**
Effect of inflation on beginning balance	**(262,577)**	(343,977)			
Actual return on plan assets	**850,939**	857,421			
Company contributions	**13,774,257**	8,103,557	**3,410,253**	2,570,208	
Benefits paid	**(8,139,798)**	(8,129,339)	**(3,410,253)**	(2,570,208)	
Fair value of plan assets at end of year	**Ps. 13,088,628**	Ps. 6,865,807	**Ps.**	Ps.	**Ps.**

g) Leases

During 2003, 2002 and 2001, PEMEX's rent expense under operating leases amounted to Ps. 0, Ps. 1,544 and Ps. 14,927, respectively. As of December 31, 2003, the Company did not have any significant operating lease arrangements.

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, 2003:

	Capital Leases [1]
2004	Ps. 1,356,146
2005	535,267
2006	505,601
2007	613,461
2008	484,065
2009 and thereafter..	1,093,198
	Ps. 4,587,738

(1) includes a total of Ps. 1,729,867 of imputed interest and commissions.

Assets acquired under capital leases, together with their related depreciation, are included in "Properties and equipment, net".

h) Supplemental geographical 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 (on a Mexican GAAP basis):

	2003	2002	2001
Domestic sales	**Ps. 387,236,585**	Ps. 336,081,147	Ps. 341,299,241
Export sales:			
United States	**195,356,465**	147,280,751	138,859,472
Canada, Central and South America	**18,500,214**	11,505,430	1,304,685
Europe	**17,684,058**	15,911,552	15,607,498
Far East	**6,651,332**	4,070,157	3,140,635
Total export sales	**238,192,069**	178,767,890	158,912,290
Total sales	**Ps. 625,428,654**	Ps. 514,849,037	Ps. 500,211,531

PEMEX does not have significant long-lived assets outside of Mexico.

i) 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, 2003:				
Reserves deducted in the balance sheet from the assets to which they apply:				
Allowance for uncollectible trade accounts	**Ps. 1,911,830**	**Ps. 248,845**	**Ps. 68,196**	**Ps. 2,092,479**
Allowance for slow-moving inventory and obsolescence	**2,062,741**	**330,765**	**545,290**	**1,848,216**
For the year ended December 31, 2002:				
Reserves deducted in the balance sheet from the assets to which they apply:				
Allowance for uncollectible trade accounts	1,258,295	834,406	180,871	1,911,830
Allowance for slow-moving inventory and obsolescence	1,982,572	504,693	424,524	2,062,741
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	1,214,596	147,847	104,148	1,258,295
Allowance for slow-moving inventory and obsolescence	2,261,065	195,616	474,109	1,982,572

Note: The above valuation and qualifying accounts are presented in accordance with U.S. GAAP. The Mexican GAAP accounts titled "reserve for dismantlement and abandonment activities, sundry creditors and others" and "reserve for retirement payments, pensions, and seniority premiums" are accrued liability accounts and not valuation and qualifying accounts and have not been included in the table above.

j) 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.

Mexican 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, budgetary adjustments, restrictions on production levels and capital expenditures, price controls, tax increases, cancellation of contract rights, refined product specifications, and 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 79.2% of the workforce. They have a collective bargaining agreement which is renegotiated every two years and has no firm expiration date.

Product prices

Because PEMEX's major products are commodities, significant changes in the international 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 35% 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.

k) 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, net of amortization, as of December 31, 2003 and 2002 amounted to Ps. 358,379 and Ps. 228,731, respectively. Amortization expense for the years ended December 31, 2003, 2002 and 2001 amounted to Ps. 86,984, Ps. 708,353 and Ps. 225,939, respectively.

l) Supplemental condensed information on a U.S. GAAP basis.

The following condensed consolidating information reflects the U.S. GAAP adjustments disclosed in this note.

**CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2003 AND 2002**

	2003	2002
ASSETS		
Total current assets	**Ps.167,034,876**	Ps.150,332,633
Properties and equipment, net	**508,686,729**	470,823,006
Intangible asset derived from the actuarial computation of labor obligations and other assets	**139,750,497**	139,603,193
Total assets	**Ps.815,472,102**	Ps.760,758,832
LIABILITIES		
Total current liabilities	**Ps. 99,107,089**	Ps.106,946,849
Long-term debt	**405,758,567**	314,684,084
Reserve for dismantlement and abandonment activities, sundry creditors and others	**19,760,653**	15,697,761
Reserve for retirement payments, pensions and seniority premiums	**332,915,049**	304,238,928
Total liabilities	**857,541,358**	741,567,622
Minority interest	**2,350,627**	2,060,162
TOTAL EQUITY	**(44,419,883)**	17,131,048
Total liabilities and equity	**Ps.815,472,102**	Ps.760,758,832

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Amounts expressed in thousands of Mexican pesos of December 31, 2003 purchasing power and thousands of U.S. dollars or other currency units)

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	2001
Total revenues, net of IEPS Tax.....	**Ps. 534,313,819**	Ps. 392,322,407	Ps. 394,471,891
Total costs and operating expenses	**287,454,748**	224,800,246	233,902,403
Comprehensive financing (cost) benefit....	**(26,812,462)**	(8,450,382)	795,705
Income before hydrocarbon extraction duties and other, cumulative effect of adoption of new accounting standards and minority interest	**220,046,609**	159,071,779	161,365,193
Hydrocarbon extraction duties and other ..	**288,366,202**	191,528,591	188,410,870
Cumulative effect of adoption of new accounting standards	**2,012,782**		4,350,026
Minority interest.....	**(2,579)**	(209,903)	(648,711)
Net loss.....	**(Ps. 66,309,390)**	(Ps. 32,666,715)	(Ps. 23,344,362)

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

(Amounts expressed in thousands of Mexican pesos of December 31, 2003 purchasing power and thousands of U.S. dollars or other currency units)

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	2001
Operating Activities			
Net loss for the year	**(Ps. 66,309,390)**	(Ps. 32,666,715)	(Ps. 23,344,362)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization	**37,825,678**	27,700,387	29,623,706
Reserve for retirement payments, pensions and seniority premiums	**47,026,290**	49,095,739	39,900,858
Impairment of fixed assets	**4,670,820**	4,587,200	3,609,293
Loss on disposal of fixed assets	**11,102,309**	13,657,229	9,376,576
Allowance for uncollectible trade accounts	**104,625**	679,523	106,462
Allowance for slow-moving inventory and obsolescence	**(296,551)**	83,357	(306,076)
Minority interest	**290,465**	390,960	656,440
Foreign exchange loss (gain)	**34,066,732**	6,190,829	(9,233,003)
Financial instruments	**(1,753,637)**	3,464,935	(8,574,181)
Loss on available for sale investment securities			3,005,307
Gain from monetary position	**(12,474,376)**	(12,878,916)	(7,864,632)
Changes in operating assets and liabilities:			
Accounts and notes receivable	**(14,573,254)**	(2,710,885)	8,956,749
Inventories	**(1,679,870)**	(5,528,587)	9,965,425
Other assets	**722,156**	(3,350,692)	(822,675)
Accounts payable and accrued liabilities	**(19,447,327)**	17,820,590	(26,202,598)
Cash flows provided by operating activities	**19,274,670**	66,534,954	28,853,289
Investing Activities			
Acquisition of fixed assets	**(58,238,964)**	(94,527,314)	(51,312,598)
Cash flows used in investing activities	**(58,238,964)**	(94,527,314)	(51,312,598)
Financing Activities			
Proceeds from long term financing	**Ps. 147,325,975**	Ps. 110,903,634	Ps. 126,970,859
Financing payments	**(68,763,298)**	(41,107,270)	(118,562,689)
Effect of consolidating Pemex Finance			2,579,188
Dividends paid to the Mexican Government	**(10,349,146)**	(10,053,482)	(2,248,914)
Cash flows provided by financing activities	**68,213,531**	59,742,882	8,738,444
Effects of inflation on cash and cash equivalents	**(1,751,599)**	(1,030,570)	(594,579)
Increase (decrease) in cash and equivalents	**27,497,638**	30,719,952	(14,315,444)
Cash and cash equivalents, beginning of period	**48,334,005**	17,614,053	31,929,497
Cash and cash equivalents, end of period	**Ps. 75,831,643**	Ps. 48,334,005	Ps. 17,614,053
Supplemental cash disclosures:			
Interest paid (net of amounts capitalized)	**Ps. 30,197,000**	Ps. 23,117,370	Ps. 21,709,201
Taxes paid	**367,404,246**	278,922,400	335,353,525
Supplemental non-cash disclosures:			
Acquisition of fixed assets via contractor financing	**Ps.**	Ps. 14,885,605	Ps.
Unrealized gains (losses) on available for sale securities	**4,535,060**	(272,431)	
Additional minimum pension liability	**2,809,447**	9,665,793	8,442,342
Financial instruments	**5,022,831**	887,941	(517,263)

n) Recently issued accounting standards

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities an interpretation of ARB 51" ("FIN 46"). 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. In December 2003 the FASB issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" ("FIN 46-R"). FIN 46-R amended the effective dates for a Non-Public entity, as defined therein. For Non-Public entities it applies by the beginning of the first fiscal year or interim period beginning after December 15, 2004, to variable interest entities in which an enterprise holds a variable interest that it acquired before December 31, 2003, and immediately to variable entities created after December 31, 2003. Management does not expect that the adoption of FIN 46 and FIN 46-R will have a material impact on the consolidated financial statements.

In April 2004, the FASB issued a FASB Staff Position 141-1 and 142-1, "Interaction of FASB Statements No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," and EITF Issue No. 04-2, "Whether Mineral Rights Are Tangible or Intangible Assets" ("FSP 141-1 and 142-1"). FSP 141-1 and 142-1 defined mineral rights as tangible assets. If the guidance in this FSP 141-1 and 142-1 results in the recharacterization of an asset, prior-period amounts on the statements of financial position shall be reclassified. Any effects on amortization or depreciation of the asset shall be accounted for prospectively. It applies to the first reporting period beginning after April 29, 2004, although early adoption is permitted. The adoption of FSP 141-1 and 142-1 does not have a material impact on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"). This statement affects how an entity measures and reports financial instruments that have characteristics of both liabilities and equity, is effective prospectively for financial instruments entered into or modified after May 31, 2003 and is otherwise effective for PEMEX beginning January 1, 2004. The adoption of SFAS No. 150 does not have a material impact on the consolidated financial statements.

In December 2003, the FASB issued a revision to SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits," to improve financial statement disclosures for defined benefit plans. The standard requires that companies provide more details about their plan assets, benefit obligations, cash flows and other relevant information, such as plan assets by category. A description of investment policies and strategies for these asset categories and target allocation percentages or target ranges are also required in financial statements. This statement is effective for financial statements with fiscal year ending after December 15, 2003. PEMEX adopted this statement at December 31, 2003 and provided the required disclosure in these financial statements.

20. Subsidiary guarantor information

The following consolidating information presents condensed balance sheets at December 31, 2003 and 2002 and condensed statements of operations and changes in financial position for the years ended December 31, 2003, 2002 and 2001 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, including the recognition of inflation, in accordance with Bulletin B-10, 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 (i.e., corporate). 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 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"). As of December 31, 2003, Petróleos Mexicanos, the Master Trust and Fideicomiso F/163 are the only entities of PEMEX authorized to contract debt with debt outstanding as of that date, 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 described 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 profit in inventory relates to Pemex-Exploration and Production and Pemex-Refining. The U.S. GAAP adjustment related to fixed asset impairment relates to Pemex-Exploration and Production, Pemex-Refining, Pemex-

Petrochemicals and Pemex-Gas and Basic Petrochemicals. U.S. GAAP adjustments pertaining to advance payment on minimum guaranteed dividends, available for sale investment securities, and the sale of Repsol shares relate exclusively to Petróleos Mexicanos. The U.S. GAAP adjustment to account for financial instruments 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 capitalized losses on hedging activities relate to the Master Trust. All other U.S. GAAP adjustments (pensions and seniority premiums, post-retirement benefit obligations, capitalized interest, depreciation and monetary gain or loss) relate collectively to Petróleos Mexicanos, Pemex-Refining, Pemex-Exploration and Production and Pemex-Gas and Basic Petrochemicals.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YE
ENDED DECEMBER 31, 2003, 2002 AND 2001

(Amounts expressed in thousands of Mexican pesos of December 31, 2003 purchasing
and thousands of U.S. dollars or other currency units)

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
BALANCE SHEET
As of December 31, 2003

ASSETS	**Corporate**	**Subsidiary Guarantors**	**Non-Guarantor Subsidiaries**	**Eli**
Current assets:				
Cash and cash equivalents	Ps. 27,626,106	Ps. 983,602	Ps. 44,726,689	Ps.
Accounts, notes receivable and other, net	65,637,971	235,425,184	87,892,478	(3
Inventories, net	349,395	24,252,853	3,023,224	
Total current assets	93,613,472	260,661,639	135,642,391	(3
Long-term receivable - intercompany	75,419,683		258,346,322	(3
Investments in subsidiaries	209,547,100	1,963,055	7,495,064	(2
Properties and equipment, net	8,434,879	511,631,070	19,153,442	
Intangible asset derived from the actuarial computation of labor obligations and other assets	18,513,968	134,937,081	16,620,766	(4
Total assets	Ps.405,529,102	Ps.909,192,845	Ps.437,257,985	(Ps.9
LIABILITIES				
Current liabilities:				
Current portion of long-term debt	Ps. 25,890,652	Ps. 15,223,929	Ps. 33,429,068	(Ps.
Accounts payable - intercompany	152,064,736	21,136,293	27,579,770	(2
Other current liabilities	25,915,897	53,750,311	(107,263,751)	(1
Total current liabilities	203,871,285	90,110,533	168,272,589	(3
Long-term debt	89,687,084	345,756,640	242,957,072	(3
Long-term liabilities – intercompany / Sale of future accounts receivable		52,550,175		(
Reserve for retirement payments, pensions, seniority premiums, dismantlement and abandonment activities, sundry creditors and others	38,975,710	236,008,110	30,649,443	
Total liabilities	332,534,079	724,425,458	441,879,104	(6
EQUITY	72,995,023	184,767,387	(4,621,119)	(2
Total liabilities and equity	Ps.405,529,102	Ps.909,192,845	Ps.437,257,985	(Ps.9

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YE
ENDED DECEMBER 31, 2003, 2002 AND 2001

(Amounts expressed in thousands of Mexican pesos of December 31, 2003 purchasing
and thousands of U.S. dollars or other currency units)

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
BALANCE SHEET
As of December 31, 2002

ASSETS	**Corporate**	**Subsidiary Guarantors**	**Non-Guarantor Subsidiaries**	**Elim**
Current assets:				
Cash and cash equivalents	Ps. 23,171,944	Ps. 879,387	Ps. 21,569,862	Ps.
Accounts, notes receivable and other, net	40,720,922	177,738,912	43,487,916	(20
Inventories, net	406,145	21,641,224	3,539,977	
Total current assets	64,299,011	200,259,523	68,597,755	(20
Long-term receivable - intercompany	62,645,267		61,717,027	(12
Investments in subsidiaries	340,931,694	1,680,922	5,748,724	(33
Properties and equipment, net	8,996,176	360,673,068	133,830,732	
Intangible asset derived from the actuarial computation of labor obligations and other assets	18,322,724	140,876,506	12,464,514	(4
Total assets	Ps. 495,194,872	Ps. 703,490,019	Ps. 282,358,752	(Ps. 7
LIABILITIES				
Current liabilities:				
Current portion of long-term debt	Ps. 32,824,599	Ps. 15,064,696	Ps. 19,606,169	(Ps.
Accounts payable - intercompany	107,074,415	16,693,636	22,760,094	(14
Other current liabilities	6,615,028	52,566,401	29,286,414	(2
Total current liabilities	146,514,042	84,324,733	71,652,677	(18
Long-term debt	76,936,195	153,741,583	179,112,713	(18
Sale of future accounts receivable		54,536,412		
Reserve for retirement payments, pensions, seniority premiums, dismantlement and abandonment activities, sundry creditors and others	35,130,650	209,977,930	28,249,005	
Total liabilities	258,580,887	502,580,658	279,014,395	(37
EQUITY	236,613,985	200,909,361	3,344,357	(33
Total liabilities and equity	Ps. 495,194,872	Ps. 703,490,019	Ps. 282,358,752	(Ps. 7

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YE
ENDED DECEMBER 31, 2003, 2002 AND 2001

(Amounts expressed in thousands of Mexican pesos of December 31, 2003 purchasing
and thousands of U.S. dollars or other currency units)

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF INCOME
For the year ended December 31, 2003

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eli
Net sales	Ps.	Ps.877,209,087	Ps.303,478,176	(Ps.5
Other revenues (expenses), net	17,951,790	5,534,582	8,357,180	(
Total revenues	17,951,790	882,743,669	311,835,356	(5
Costs and operating expenses:				
Cost of sales		453,739,335	308,840,733	(5
Transportation and distribution expenses		15,631,513	328,689	
Administrative expenses	20,024,162	28,427,677	4,381,135	(
Total costs and operating expenses	20,024,162	497,798,525	313,550,557	(5
Comprehensive financing cost (income)	(4,041,321)	32,914,645	16,292,463	(
Equity participation in subsidiaries	(41,003,993)			
Capitalization of Master Trust operations			6,430,889	
(Loss) income before hydrocarbon extraction duties and other, special tax on production and services and cumulative effect of adoption of new accounting standards	(39,035,044)	352,030,499	(11,576,775)	
Hydrocarbon extraction duties and other	41,082	287,379,867	934,990	
Special tax on production and services (IEPS Tax)		94,076,298		
	41,082	381,456,165	934,990	
Cumulative effect of adoption of new accounting standards		2,012,782		
Net (loss) income for the year	(Ps. 39,076,126)	(Ps. 27,412,884)	(Ps. 12,511,765)	Ps.

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF INCOME
For the year ended December 31, 2002

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eli
Net sales	Ps.	Ps.672,647,320	Ps.231,861,688	(Ps.3
Other revenues (expenses), net	20,441,864	39,424	4,055,584	(
Total revenues	20,441,864	672,686,744	235,917,272	(4
Costs and operating expenses:				
Cost of sales		324,129,120	234,980,641	(3
Transportation and distribution expenses		15,334,577	929,578	
Administrative expenses	18,008,686	30,699,022	4,812,030	(
Total costs and operating expenses	18,008,686	370,162,719	240,722,249	(4
Comprehensive financing cost (income)	1,932,712	7,140,702	(940,309)	
Equity participation in subsidiaries	(24,853,096)			
Capitalization of Master Trust operations and others			(2,405,953)	
(Loss) income before hydrocarbon extraction duties and other, special tax on production and services and cumulative effect of adoption of new accounting standards	(24,352,630)	295,383,323	(6,270,621)	
Hydrocarbon extraction duties and other		190,697,804	830,787	
Special tax on production and services (IEPS Tax)		122,437,207		
		313,135,011	830,787	
Cumulative effect of adoption of new accounting standards				
Net (loss) income for the year	(Ps. 24,352,630)	(Ps. 17,751,688)	(Ps. 7,101,408)	Ps.

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF INCOME
For the year ended December 31, 2001

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eli
Net sales	Ps.	Ps.680,483,155	Ps. 224,618,918	(Ps.4
Other revenues (expenses), net	14,392,778	1,250,308	7,110,072	(
Total revenues	14,392,778	681,733,463	231,728,990	(4
Costs and operating expenses:				
Cost of sales		360,301,197	234,217,082	(4
Transportation and distribution expenses		14,836,748	599,558	
Administrative expenses	17,371,200	24,028,569	4,626,392	(
Total costs and operating expenses	17,371,200	399,166,514	239,443,032	(4
Comprehensive financing cost (income)	2,207,665	5,698,806	(2,606,201)	
Equity participation in subsidiaries	(26,262,953)			
Capitalization of Master Trust operations and others			(2,059,038)	
(Loss) income before hydrocarbon extraction duties and other, special tax on production and services and cumulative effect of adoption of new accounting standards	(31,449,040)	276,868,143	(7,166,879)	
Hydrocarbon extraction duties and other		188,145,174	854,794	
Special tax on production and services (IEPS Tax)		106,930,781		
		295,075,955	854,794	
Cumulative effect of adoption of new accounting standards	(1,461,839)	(33,468)		
Net (loss) income for the year	(Ps. 32,910,879)	(Ps. 18,241,280)	(Ps. 8,021,673)	Ps.

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 2003

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	E
Funds provided by (used in) operating activities	Ps. 127,080,680	(Ps. 58,677,210)	(Ps. 188,960,841)	Ps
Financing activities:				
Sale of future accounts receivable		(1,986,237)		
Long-term debt	50,807,263	198,345,405	82,486,934	
Net (loss) income passed to Petróleos Mexicanos	(39,924,649)	27,412,884	12,511,765	
Other changes	665,808	17,840,682	817,049	
Funds provided by (used in) financing activities	11,548,422	241,612,734	95,815,748	
Investing activities:				
Increase in fixed assets, net	(134,174,940)	(182,831,309)	116,301,920	
Funds (used in) provided by investing activities	(134,174,940)	(182,831,309)	116,301,920	
Increase in cash and cash equivalents	4,454,162	104,215	23,156,827	
Cash and cash equivalents at beginning of the year	23,171,944	879,387	21,569,862	
Cash and cash equivalents at the end of the year	Ps. 27,626,106	Ps. 983,602	Ps. 44,726,689	Ps

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 2002

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	E
Funds provided by (used in) operating activities	(Ps. 60,694,007)	(Ps. 37,262,836)	(Ps. 67,113,809)	Ps.
Financing activities:				
Sale of future accounts receivable		767,730		
Long-term debt	101,306,898	27,048,148	129,350,273	
Net income (loss) passed to Petróleos Mexicanos	(24,853,096)	17,751,688	7,101,408	
Other changes	5,071,961	17,897,186	8,567,097	
Funds provided by (used in) financing activities	81,525,763	63,464,752	145,018,778	
Investing activities:				
Increase in fixed assets, net	(3,729,272)	(26,116,560)	(65,343,801)	
Funds (used in) provided by investing activities	(3,729,272)	(26,116,560)	(65,343,801)	
Increase in cash and cash equivalents	17,102,484	85,356	12,561,168	
Cash and cash equivalents at beginning of the year	6,069,460	794,031	9,008,694	
Cash and cash equivalents at the end of the year	Ps. 23,171,944	Ps. 879,387	Ps. 21,569,862	Ps.

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 2001

	Corporate	Subsidiary Guarantors	Non-Guarantor Subsidiaries	
Funds (used in) provided by operating activities	Ps. 109,666,756	Ps. 33,482,789	Ps. 71,663,956	(
Financing activities:				
Sale of future accounts receivable		(5,871,057)		
Long-term debt	(95,900,168)	(20,666,907)	(27,912,916)	
Net (loss) income passed to Petróleos Mexicanos	(26,262,953)	18,241,280	8,021,673	
Other changes	4,766,716	14,848,624	(3,506,467)	
Funds (used in) provided by financing activities	(117,396,405)	6,551,940	(23,397,710)	
Investing activities:				
Increase in fixed assets, net	(2,756,323)	(40,907,464)	(52,964,851)	
Funds (used in) provided by investing activities	(2,756,323)	(40,907,464)	(52,964,851)	
Increase in cash and cash equivalents	(10,485,972)	(872,735)	(4,698,605)	
Cash and cash equivalents at beginning of the year	16,555,432	1,666,766	13,707,299	
Cash and cash equivalents at the end of the year	Ps. 6,069,460	Ps. 794,031	Ps. 9,008,694	

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. On December 31, 1998, PEMEX transferred all assets and liabilities related to PIDIREGAS for an amount equaling Ps. 12,104,010 (nominal) to the Master Trust. 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.

The Master Trust is consolidated in the financial statements of PEMEX for each of the periods presented 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, 2003 and 2002 and condensed consolidating statements of operations and statements of changes in financial position for the years ended December 31, 2003, 2002 and 2001 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, including the recognition of inflation in accordance with Bulletin B-10, except that in the following condensed financial information, the Master Trust and the Subsidiary 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.

As of December 31, 2003, Petróleos Mexicanos, the Master Trust and Fideicomiso F/163 are the only entities of PEMEX authorized to contract debt with debt outstanding as of that date, and thus all guaranteed debt is held by these entities.

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
BALANCE SHEET
As of December 31, 2003

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries
ASSETS				
Current assets:				
Cash and cash equivalents	Ps. 27,626,106	Ps. 24,328,035	Ps. 983,602	Ps. 20,398,654
Accounts, notes receivable and other, net	65,637,971	70,449,724	235,425,184	17,442,754
Inventories, net	349,395		24,252,853	3,023,224
Total current assets	93,613,472	94,777,759	260,661,639	40,864,632
Long-term receivables-intercompany	75,419,683	258,346,322		
Investments in subsidiaries	209,547,100		1,963,055	7,495,064
Properties and equipment, net	8,434,879		511,631,070	19,153,442
Intangible asset derived from the actuarial computation of labor obligations and other assets	18,513,968		134,937,081	16,620,766
Total assets	Ps.405,529,102	Ps. 353,124,081	Ps. 909,192,845	Ps. 84,133,904
LIABILITIES				
Current liabilities:				
Current portion of long-term debt	Ps. 25,890,652	Ps. 32,917,792	Ps. 15,223,929	Ps. 511,276
Accounts payable-intercompany	152,064,736	466,896	21,136,293	27,112,874
Other current liabilities	25,915,897	96,506,072	53,750,311	10,757,679
Total current liabilities	203,871,285	129,890,760	90,110,533	38,381,829
Long-term debt	89,687,084	223,233,321	345,756,640	19,723,751
Sale of future accounts receivable			52,550,175	
Reserve for retirement payments, pensions, seniority premiums, dismantlement and abandonment activities, sundry creditors, and others	38,975,710		236,008,110	30,649,443
Total liabilities	332,534,079	353,124,081	724,425,458	88,755,023
EQUITY	72,995,023		184,767,387	(4,621,119)
Total liabilities and equity	Ps.405,529,102	Ps. 353,124,081	Ps. 909,192,845	Ps. 84,133,904

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
BALANCE SHEET
As of December 31, 2002

ASSETS	**Corporate**	**Master Trust**	**Subsidiary Guarantors**	**Non-Guarantor Subsidiaries**
Current assets:				
Cash and cash equivalents	Ps. 23,171,944	Ps. 16,266,340	Ps. 879,387	Ps. 5,303,522
Accounts, notes receivable and other, net	40,720,922	27,231,890	177,738,912	16,256,026
Inventories, net	406,145		21,641,224	3,539,977
Total current assets	64,299,011	43,498,230	200,259,523	25,099,525
Long-term receivables-intercompany	62,645,267	61,717,027		
Investments in subsidiaries	340,931,694		1,680,922	5,748,724
Properties and equipment, net	8,996,176	114,563,438	360,673,068	19,267,294
Intangible asset derived from the actuarial computation of labor obligations and other assets	18,322,724	86,266	140,876,506	12,378,248
Total assets	Ps.495,194,872	Ps.219,864,961	Ps.703,490,019	Ps.62,493,791
LIABILITIES				
Current liabilities:				
Current portion of long-term debt	Ps. 32,824,599	Ps. 19,358,136	Ps. 15,064,696	Ps. 248,033
Accounts payable-intercompany	107,074,415	479,732	16,693,636	22,280,362
Other current liabilities	6,615,028	21,043,318	52,566,401	8,243,096
Total current liabilities	146,514,042	40,881,186	84,324,733	30,771,491
Long-term debt	76,936,195	178,897,509	153,741,583	215,204
Sale of future accounts receivable			54,536,412	
Reserve for retirement payments, pensions, seniority premiums, dismantlement and abandonment activities, sundry creditors, and others	35,130,650	86,266	209,977,930	28,162,739
Total liabilities	258,580,887	219,864,961	502,580,658	59,149,434
EQUITY	236,613,985		200,909,361	3,344,357
Total liabilities and equity	Ps.495,194,872	Ps.219,864,961	Ps.703,490,019	Ps.62,493,791

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF INCOME
For the year ended December 31, 2003

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries
Net sales	Ps.	Ps.	Ps.877,209,087	Ps.303,478,176
Other revenues (expenses), net	17,951,790		5,534,582	8,357,180
Total revenues	17,951,790		882,743,669	311,835,356
Costs and operating expenses:				
Cost of sales			453,739,335	308,840,733
Transportation and distribution expenses			15,631,513	328,689
Administrative expenses	20,024,162	45,195	28,427,677	4,335,940
Total costs and operating expenses	20,024,162	45,195	497,798,525	313,505,362
Comprehensive financing cost (income)	(4,041,321)	6,385,694	32,914,645	9,906,769
Equity participation in subsidiaries	(41,003,993)			
Capitalization of Master Trust Operations		6,430,889		
(Loss) income before hydrocarbon extraction duties and other, special tax on production and services and cumulative effect of adoption of new accounting standards	(39,035,044)		352,030,499	(11,576,775)
Hydrocarbon extraction duties and other	41,082		287,379,867	934,990
Special tax on production and services (IEPS Tax)			94,076,298	
	41,082		381,456,165	934,990
Cumulative effect of adoption of new accounting standards			2,012,782	
Net (loss) income for the year	Ps.(39,076,126)	Ps.	Ps. (27,412,884)	Ps. (12,511,765)

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF INCOME
For the year ended December 31, 2002

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries
Net sales	Ps.	Ps.	Ps.672,647,320	Ps. 231,861,688
Other revenues (expenses), net	20,441,864		39,424	4,055,584
Total revenues	20,441,864		672,686,744	235,917,272
Costs and operating expenses:				
Cost of sales			324,129,120	234,980,641
Transportation and distribution expenses			15,334,577	929,578
Administrative expenses	18,008,686	35,736	30,699,022	4,776,294
Total costs and operating expenses	18,008,686	35,736	370,162,719	240,686,513
Comprehensive financing cost (income)	1,932,712	(5,915,633)	7,140,702	4,975,324
Equity participation in subsidiaries	(24,853,096)			
Capitalization of Master Trust operations and others		(2,405,953)		
(Loss) income before hydrocarbon extraction duties and other, special tax on production and services and cumulative effect of adoption of new accounting standards	(24,352,630)	3,473,944	295,383,323	(9,744,565)
Hydrocarbon extraction duties and other			190,697,804	830,787
Special tax on production and services (IEPS Tax)			122,437,207	
			313,135,011	830,787
Net (loss) income for the year	(Ps. 24,352,630)	Ps. 3,473,944	(Ps. 17,751,688)	(Ps. 10,575,352)

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF INCOME
For the year ended December 31, 2001

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries
Net sales	Ps.	Ps.	Ps. 680,483,155	Ps.224,618,918
Other revenues (expenses), net	14,392,778		1,250,308	7,110,072
Total revenues	14,392,778		681,733,463	231,728,990
Costs and operating expenses:				
Cost of sales			360,301,197	234,217,082
Transportation and distribution expenses			14,836,748	599,558
Administrative expenses	17,371,200	18,162	24,028,569	4,608,230
Total costs and operating expenses	17,371,200	18,162	399,166,514	239,424,870
Comprehensive financing cost (income)	2,207,665	(3,238,973)	5,698,806	632,772
Equity participation in subsidiaries	(26,262,953)			
Capitalization of Master Trust operations and others		(2,059,038)		
(Loss) income before hydrocarbon extraction duties and other, and special tax on production and services and cumulative effect of adoption of new accounting standards	(31,449,040)	1,161,773	276,868,143	(8,328,652)
Hydrocarbon extraction duties and other			188,145,174	854,794
Special tax on production and services (IEPS Tax)			106,930,781	
			295,075,955	854,794
Cumulative effect of adoption of new accounting standard	(1,461,839)		(33,468)	
Net (loss) income for the year	(Ps. 32,910,879)	Ps.1,161,773	(Ps. 18,241,280)	(Ps. 9,183,446)

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 2003

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries
Funds provided by (used in) operating activities	Ps.127,080,680	(Ps. 164,384,375)	(Ps. 58,677,210)	(Ps.24,576,466)
Financing activities:				
Sale of future accounts receivable			(1,986,237)	
Long-term debt	50,807,263	57,882,632	198,345,405	24,604,302
Net income passed to Petróleos Mexicanos	(39,924,649)		27,412,884	12,511,765
Other changes in equity and retained earnings	665,808	(3,473,944)	17,840,682	4,290,993
Funds provided by (used in) financing activities	11,548,422	54,408,688	241,612,734	41,407,060
Investing activities:				
Increase in fixed assets, net	(134,174,940)	118,037,382	(182,831,309)	(1,735,462)
Funds (used in) provided by investing activities	(134,174,940)	118,037,382	(182,831,309)	(1,735,462)
Increase in cash and cash equivalents	4,454,162	8,061,695	104,215	15,095,132
Cash and cash equivalents at beginning of the year	23,171,944	16,266,340	879,387	5,303,522
Cash and cash equivalents at the end of the year	Ps. 27,626,106	Ps. 24,328,035	Ps. 983,602	Ps.20,398,654

SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 2002

	Corporate	Master Trust	Subsidiary Guarantors	Non-Guarantor Subsidiaries
Funds (used in) provided by operating activities	(Ps. 60,694,007)	(Ps. 38,349,717)	(Ps.37,262,836)	(Ps. 28,764,092)
Financing activities:				
Sale of future accounts receivable			767,730	
Long-term debt	101,306,898	121,599,139	27,048,148	7,751,134
Net (loss) income passed to Petróleos Mexicanos	(24,853,096)	(3,473,944)	17,751,688	10,575,352
Other changes in equity and retained earnings	5,071,961	(1,161,773)	17,897,186	9,728,870
Funds provided by (used in) financing activities	81,525,763	116,963,422	63,464,752	28,055,356
Investing activities:				
Increase in fixed assets, net	(3,729,272)	(68,159,356)	(26,116,560)	2,815,555
Funds (used in) provided by investing activities	(3,729,272)	(68,159,356)	(26,116,560)	2,815,555
Increase in cash and cash equivalents	17,102,484	10,454,349	85,356	2,106,819
Cash and cash equivalents at beginning of the year	6,069,460	5,811,992	794,031	3,196,702
Cash and cash equivalents at the end of the year	Ps. 23,171,944	Ps. 16,266,341	Ps. 879,387	Ps. 5,303,521

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
Funds provided by (used in) operating activities	Ps.109,666,756	Ps.72,861,205	Ps.33,482,789	(Ps.1,197,249)
Financing activities:				
Sale of future accounts receivable			(5,871,057)	
Long-term debt	(95,900,168)	(25,255,404)	(20,666,907)	(2,657,512)
Net income passed to Petróleos Mexicanos	(26,262,953)	(1,161,773)	18,241,280	9,183,446
Other changes in equity and retained earnings	4,766,716		14,848,624	(3,506,467)
Funds (used in) provided by financing activities……	(117,396,405)	(26,417,177)	6,551,940	3,019,467
Investing activities:				
Increase in fixed assets, net	(2,756,323)	(49,878,026)	(40,907,464)	(3,086,825)
Funds (used in) provided by investing activities	(2,756,323)	(49,878,026)	(40,907,464)	(3,086,825)
Decrease in cash and cash equivalents	(10,485,972)	(3,433,998)	(872,735)	(1,264,607)
Cash and cash equivalents at beginning of the year	16,555,432	9,245,990	1,666,766	4,461,309
Cash and cash equivalents at the end of the year	Ps. 6,069,460	Ps. 5,811,992	Ps. 794,031	Ps. 3,196,702

The significant differences between Mexican and U.S. GAAP as they affect PEMEX are described 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 profit in inventory relates to Pemex-Exploration and Production and Pemex-Refining. The U.S. GAAP adjustment related to fixed asset impairment relates to Pemex-Exploration and Production, Pemex-Refining, Pemex-Petrochemicals and Pemex-Gas and Basic Petrochemicals. U.S. GAAP adjustments pertaining to advance payment on minimum guaranteed dividends, available for sale investment securities, and the sale of Repsol shares relate exclusively to Petróleos Mexicanos. The U.S. GAAP adjustment to account for financial instruments 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 capitalized losses on hedging activities relate to the Master Trust. All other U.S. GAAP adjustments (pensions and seniority premiums, post-retirement benefits, capitalized interest and depreciation and monetary gain or loss) relate collectively to Petróleos Mexicanos, Pemex-Refining, Pemex-Exploration and Production and Pemex-Gas and Basic Petrochemicals.

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" ("SFAS No. 69"). 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 and have included the effects of adoption of SFAS No. 143 where appropriate. Under otherwise indicated, all information is presented in constant pesos as of December 31, 2003.

Capitalized costs for oil and gas producing activities (unaudited):

	As of December 31,		
	2003	2002	2001
Proved properties……	**Ps. 474,090,748**	Ps. 385,205,711	Ps. 392,443,127
Construction in progress…….	**68,485,535**	113,116,028	57,768,479
Accumulated depreciation and amortization……	**(218,461,951)**	(228,292,716)	(211,495,167)
Net capitalized costs……..	**Ps. 324,114,332**	Ps. 270,029,023	Ps. 238,716,439

Costs incurred for oil and gas property exploration and development activities (unaudited):

	Year ended December 31,		
	2003	2002	2001
Exploration…….	**Ps. 17,583,725**	Ps. 11,439,609	Ps. 5,212,107
Development……..	**45,950,237**	35,186,705	34,237,357
Total costs incurred……	**Ps. 63,533,962**	Ps. 46,626,314	Ps. 39,449,464

There are no property acquisition costs because PEMEX exploits oil reserves owned by the Mexican nation.

Exploration costs include costs of geological and geophysical studies of fields amounting to Ps. 11,527,405, Ps. 5,596,885 and Ps. 3,154,557 for 2003, 2002 and 2001, respectively, that, in accordance with the successful efforts methods are accounted for as geological and geophysical exploration expenses.

Development costs include those incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas.

Results of operations for oil and gas producing activities (unaudited):

	Year Ended December 31,		
	2003	2002	2001
Revenues from sale of oil and gas	**Ps. 426,633,805**	Ps. 301,216,802	Ps. 297,663,632
Hydrocarbon duties.....	**265,738,795**	173,473,676	184,106,312
Excess-gains taxes	**18,693,987**	14,721,618	1,477,010
Production costs (excluding taxes)	**68,781,301**	43,908,586	60,888,716
Exploration expenses	**5,947,802**	4,842,724	2,057,550
Depreciation, depletion, amortization and accretion.....	**23,567,409**	21,138,106	18,713,929
	382,729,294	258,084,710	267,243,517
Results of operations for oil and gas producing activities.....	**Ps. 43,904,511**	Ps. 43,132,092	Ps. 30,420,115

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:

	2003	2002	2001
December average sales price.....	**$ 24.51**	$ 24.53	$ 13.62
Crude oil, per barrel.....	**$ 25.83**	$ 26.36	$ 15.21
Natural gas, per thousand cubic feet.	**$ 4.10**	$ 3.58	$ 1.85

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 these reserves and sells the production subject to a 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, 2003, 2002 and 2001 in accordance with the definition of proved reserves under Rule 4-10(a) Regulation S-X of the Securities Act of 1933.

Mexico's total proved developed and undeveloped reserves of crude oil and condensates decreased by 6.7% in 2003, from 17.2 billion barrels of oil equivalent in 2002 to 16.0 billion barrels of oil equivalent in 2003. In 2003, proved developed reserves of crude oil and condensates decreased by 10.7%, from 11.7 billion barrels of oil equivalent in 2002 to 10.5 billion barrels in 2003. Mexico's total proved developed and undeveloped dry gas reserves decreased by 0.9% in 2003, from 15.0 trillion cubic feet in 2002 to 14.9 trillion cubic feet in 2003. Mexico's proved developed dry gas reserves decreased by 5.6% in 2003, from 8.6 trillion cubic feet in 2002 to 8.1 trillion cubic feet in 2003.

Crude oil and condensate reserves (including natural gas liquids)[a] (unaudited)

	(Millions of barrels)		
	2003	2002	2001
Proved developed and undeveloped reserves			
At January 1	**17,196**	18,767	20,186
Revisions	**120**	(247)	(144)
Extensions and discoveries [b]	**84**	(36)	2
Production	**(1,359)**	(1,288)	(1,277)
At December 31	**16,041**	17,196	18,767
Proved developed reserves at December 31	**10,473**	11,725	12,622

Note: Table amounts may not total due to rounding.

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

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

Dry gas reserves (unaudited)

	(Billions of cubic feet)		
	2003	2002	2001
Proved developed and undeveloped reserves			
At January 1	**14,985**	16,256	17,365
Revisions	**695**	(443)	(78)
Extensions and discoveries [a]	**354**	313	98
Production [b]	**(1,184)**	(1,141)	(1,129)
At December 31	**14,850**	14,985	16,256
Proved developed reserves at December 31	**8,094**	8,572	8,776

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.

b. Natural gas production reported in other tables refer 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.

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, 2003 are estimated to be 18,895 million barrels of oil equivalent (20,077 million barrels of oil equivalent at December 31, 2002).

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 2.5 billion barrels of proved reserves scheduled to be produced after the year 2028, as well as, in a lesser way, proved reserves from newly discovered fields.

Estimated future cash inflows from production are computed by applying average prices of oil and gas on December 31 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 2004-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 2003 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 18.35 U.S. dollars per barrel. Since the 2003 prices were higher than 18.35 U.S. dollars per barrel, Petróleos Mexicanos and Subsidiary Entities paid excess gains tax. For 2004 a new tax replacing and equal to the excess gains tax (the duty for exploration, gas, refining and petrochemical infrastructure) will apply to prices in excess of 20.00 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.

Standardized measure of discounted net cash flows (unaudited)

	As of December 31,		
	2003	2002	2001
Future cash inflows	**U.S.$ 419,342,000**	U.S.$ 426,218,000	U.S.$ 253,752,000
Future production costs (excluding taxes)	**(46,323,000)**	(46,536,000)	(42,101,000)
Future development costs	**(50,190,000)**	(36,212,000)	(38,993,000)
Future cash flows before tax	**322,829,000**	343,470,000	172,658,000
Future production-and-excess-gains taxes	**(261,100,000)**	(272,450,000)	(132,778,000)
Future net cash flows	**61,729,000**	71,020,000	39,880,000
Effect of discounting net cash flows at 10%	**(27,845,000)**	(32,493,000)	(19,496,000)
Standardized measure of discounted future net cash flows	**U.S.$ 33,884,000**	U.S.$ 38,527,000	U.S.$ 20,384,000

Note: Table amounts may not total due to rounding.

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 (unaudited)

	2003	2002	2001
Sales of oil and gas produced, net of production costs	**(U.S.$ 34,417,000)**	(U.S.$ 26,097,000)	(U.S.$ 24,671,000)
Net changes in prices and production costs	**5,190,000**	112,329,000	(83,212,000)
Extensions and discoveries	**1,934,000**	1,528,000	130,000
Development cost incurred during the year	**7,709,000**	6,355,000	5,946,000
Changes in estimated development costs	**(15,230,000)**	(4,613,000)	(2,352,000)
Reserves revisions, extensions, discoveries and timing changes	**11,834,000**	519,000	4,519,000
Accretion of discount of pre-tax net cash flows	**17,612,000**	8,592,000	16,437,000
Net changes in production-and excess-gains taxes	**725,000**	(80,470,000)	80,894,000
Aggregate change in standardized measure	**(U.S.$ 4,643,000)**	U.S.$ 18,143,000	(U.S.$ 2,309,000)
Standardized measure			
As of January 1	**38,527,000**	20,384,000	22,693,000
As of December 31	**33,884,000**	38,527,000	20,384,000
Change	**(U.S.$ 4,643,000)**	U.S.$ 18,143,000	(U.S.$ 2,309,000)

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.

Exhibit 7.1
(1 of 2)

PETROLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

Computation of ratio of earnings to fixed charges

(thousands of constant pesos as of December 31, 2003)

	2003	2002	2001
Mexican GAAP			
Fixed charges (1):			
Interest capitalized in fixed assets	7,246,308	5,468,205	4,153,855
Interest in the specific reserve for exploration and depletion	19,039	50,045	95,125
Interest expense	23,487,142	20,971,411	17,784,090
Total interest cost	30,752,489	26,489,661	22,033,070
Total Fixed Charges	30,752,489	26,489,661	22,033,070
Earnings after IEPS taxes and Hydrocarbon Extraction duties	(40,644,363)	(24,574,040)	(30,395,660)
Fixed Charges (1):			
Interest cost net of amounts capitalized	23,487,142	20,971,411	17,784,090
Total Fixed Charges (Net of amounts capitalized)	23,487,142	20,971,411	17,784,090
Earnings after taxes and duties plus fixed charges (net of amounts capitalized)	(17,157,221)	(3,602,629)	(12,611,570)
Amount by which fixed charges exceed earnings	**47,909,710**	**30,092,290**	**34,644,640**

(1) These figures do not include rental expense

Exhibit 7.1
(2 of 2)

PETROLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

Computation of ratio of earnings to fixed charges
(thousands of constant pesos as of December 31, 2003)

	2003	2002	2001
U.S. GAAP			
Fixed Charges (1):			
Interest capitalized in fixed assets	7,954,598	6,000,176	5,713,858
Interest expense	22,797,891	20,489,485	16,319,212
Total interest cost	30,752,489	26,489,661	22,033,070
Total Fixed Charges	30,752,489	26,489,661	22,033,070
Income Earnings after taxes and duties	(66,309,390)	(32,666,715)	(23,344,362)
Fixed Charges (1):			
Interest cost net of amounts Capitalized	22,797,891	20,489,485	16,319,212
Total Fixed Charges (Net of amounts capitalized)	22,797,891	20,489,485	16,319,212
Earnings after taxes and duties plus fixed charges (net of amounts capitalized)	(43,511,499)	(12,177,230)	(7,025,150)
Amount by which fixed charges exceed earnings	**74,263,988**	**38,666,891**	**29,058,220**

(1) These figures do not include rental expense

Exhibit 12.1

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: July 15, 2004

/s/ Raúl Muñoz Leos
Name: Raúl Muñoz Leos
Title: Director General/Chief Executive Officer

Exhibit 12.2

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: July 15, 2004

/s/ Juan José Suárez Coppel
Name: Juan José Suárez Coppel
Title: Chief Financial Officer

Exhibit 13.1

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Petróleos Mexicanos, a decentralized public entity of the Federal Government of the United Mexican States (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2003 (the "Form 20-F") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 15, 2004

/s/ Raúl Muñoz Leos

Name: Raúl Muñoz Leos
Title: Director General/Chief Executive Officer

Dated: July 15, 2004

/s/ Juan José Suárez Coppel

Name: Juan José Suárez Coppel
Title: Chief Financial Officer

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ANNEX C

GENERAL INFORMATION

1. The Notes have been accepted for clearance and settlement in DTC's book-entry settlement system. The Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear. The appropriate CUSIP, Common Code(s) and International Securities Identification Number(s), as applicable, with respect to each issue of Notes will be set forth in the Pricing Supplement relating thereto. All payments of principal and interest with respect to DTC Global Notes denominated in a currency other than U.S. dollars and registered in the name of DTC's nominee, will be converted to U.S. dollars unless the relevant participants in DTC elect to receive such payment of principal or interest in that other currency.

2. In connection with the application to list the Notes issued under the program described herein on the Luxembourg Stock Exchange, a legal notice relating to the program and copies of the Trust Agreement establishing the Issuer will be deposited with the *Registre de Commerce et des Sociétés à Luxembourg* (Registrar of Commerce and Companies in Luxembourg) where such documents may be examined and copies obtained.

3. The Luxembourg Stock Exchange has allocated to the program the number 12393 for listing purposes. So long as the Notes are listed under the program on the Luxembourg Stock Exchange, they will be freely transferable and negotiable in accordance with the rules of the Luxembourg Stock Exchange, subject, however, to the limitations set forth under "Notice to Investors," "Limitations on the Issuance of Bearer Notes" and "Offering and Sale."

4. On February 11, 2005, the Issuer authorized the issue of up to U.S. $20,000,000,000 of Notes. The Guarantor obtained the authorization of its board of directors on November 4, 2004 and of the Ministry of Finance and Public Credit on February 11, 2005 to guaranty up to U.S. $20,000,000,000 of Notes and has obtained 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 Indenture and the forms of Notes and the Guaranties attached to the Indenture; *provided* that in connection with each issue of Notes under the program, the Guarantor will obtain the authorization of the Ministry of Finance and Public Credit of the terms of such issue and will register the Notes, Guaranties and other necessary documentation with the Ministry of Finance and Public Credit. The Guarantor is obliged and has undertaken to register the Notes with the Special Section of the Registry. The board of directors of each of Pemex-Refining, Pemex-Gas and Basic Petrochemicals and Pemex-Exploration and Production authorized the signing of the Subsidiary Guaranty Agreement on June 19, 1996 and June 25, 1996.

5. 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.

6. 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 are aware of any such litigation or arbitration proceedings pending or threatened.

7. 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 and the 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.

8. 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 establishing the Issuer may be obtained, and copies of the Organic Law of Petróleos Mexicanos and Subsidiary Entities (constituting the Guarantor and its Subsidiary Entities) and of the Indenture, incorporating the form of Notes and the Guaranties, and the Subsidiary Guaranty Agreement will be available, free of charge during usual business hours on any day (except Saturday and Sunday and legal holidays) at the specified offices of each of the Paying Agents, so long as any of the Notes are outstanding. Neither the Issuer nor any of the Subsidiary Guarantors publish their own financial statements and none of them plans to publish interim or annual financial statements. The Guarantor publishes interim consolidated financial statements in Spanish on a regular basis, and summaries of these interim consolidated financial statements in English are available, free of charge, at the office of the Paying and Transfer Agent in Luxembourg. The summary for the nine months ended September 30, 2004 is incorporated by reference herein.

9. The principal offices of PricewaterhouseCoopers, S.C., independent registered public accounting firm and auditors of PEMEX for fiscal years ended December 31, 2001, 2002 and 2003, are located at Mariano Escobedo 573, Col. Rincón del Bosque, 11580 Mexico, D.F.

10. The Mexican Government is not legally or otherwise liable for obligations incurred by the Issuer or PEMEX.

11. 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.

12. 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 6 and 13 (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 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 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 gas used as basic industrial raw materials and that constitute "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, they are 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).

13. 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 Mexico, 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. Banco de México currently determines such rate every business day and publishes it in the *Diario Oficial* on the following business day in Mexico.

14. All Bearer Notes and coupons will bear the following legend:

Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code of 1986, as amended.

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ANNEX D

FORM OF PRICING SUPPLEMENT

(to be completed by the Issuer and the Relevant Agent)

Pricing Supplement No. __
To Offering Circular dated [DATE]

Pemex Project Funding Master Trust

U.S. $20,000,000,000
Medium-Term Notes, Series A

[Currency and Amount] [Description of Notes] [due]
Issue price: [ ]

unconditionally guaranteed by
Petróleos Mexicanos

[AGENT NAME(S)]

The date of this Pricing Supplement is [ ].

This Pricing Supplement is issued to give details of a tranche of notes (the "Notes") to be issued by the Pemex Project Funding Master Trust (the "Issuer"), pursuant to a program for the issuance of up to U.S. $20,000,000,000 of Medium-Term Notes, Series A (the "Program"). It is supplementary to, and should be read in conjunction with, the Offering Circular issued in relation to the Program dated [DATE][, as supplemented by the Offering Circular Supplement dated [DATE]].

This Pricing Supplement does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the Notes or the distribution of this Pricing Supplement in any jurisdiction where such action is required.

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 STATE SECURITIES LAWS [AND THE NOTES COMPRISE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS]. THE NOTES MAY NOT BE [OFFERED OR SOLD/OFFERED, SOLD OR DELIVERED] WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")) 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] [OFFERED, SOLD AND DELIVERED] ONLY [(A) TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT); (B)] PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT[; (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION]. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE NOTES AND DISTRIBUTION OF THIS PRICING SUPPLEMENT, SEE "OFFERING AND SALE" AND "NOTICE TO INVESTORS" IN THE OFFERING CIRCULAR.

The Notes will contain provisions regarding acceleration and future modifications to their terms that differ from those applicable to certain of the Issuer's and the Guarantor's other outstanding public external indebtedness issued prior to the date hereof. Under these provisions, in certain circumstances, the Issuer and the Guarantor may amend the payment and certain other provisions of an issue of Notes with the consent of the holders of 75% of the aggregate principal amount of such Notes. See "Description of Notes—Modification and Waiver" in the Offering Circular.

[Set out any additions or variations to the selling restrictions].

Description of Notes

The following items under this heading "Description of Notes" are the particular terms which relate to the tranche of the Notes that is the subject of this Pricing Supplement.

[Include whichever of the following apply to the relevant Tranche of Notes]

1.	Series No.	[Number]
2.	Principal Amount:	[Amount]
3.	Issue Price:	[Price]
4.	Issue Date:	[Date]
5.	Form of Notes:	[Registered Notes/Bearer Notes]
6.	Authorized Denomination(s):	[Currency and amount(s)]
7.	Specified Currency:	[Currency of denomination]
8.	Specified Principal Payment Currency:	[Currency]
9.	Specified Interest Payment Currency:	[Currency]
10.	Stated Maturity Date (Fixed Interest Rate and Zero Coupon):	[Dates]
11.	Stated Maturity Month (Variable Interest Rate):	[Month and year]
12.	Interest Basis:	[Fixed Rate Note/Floating Rate Note/Zero Coupon Note]
13.	Interest Commencement Date (if different from the Issue Date):	[Date]
14.	Fixed Rate Notes:	
	(a) Interest Rate:	[ ]% per annum
	(b) Interest Payment Date(s):	[Date(s)]
15.	Floating Rate Notes:	
	(a) Interest Rate Basis:	[LIBOR] [Treasury Rate] [Other]

	(b)	Primary Source for LIBOR Quotations:	[Reuters Screen LIBO Page/Telerate Page 3750]
	(c)	Indexed Maturity:	[Number of months, weeks or days]
	(d)	Interest Reset Dates:	[Dates]
	(e)	Interest Determination Dates:	[Specify if other than as provided in Offering Circular]
	(f)	Interest Payment Dates:	[Dates]
	(g)	Calculation Agent:	[Trustee] [Specify any Other]
16.	Basis of Calculation of Floating Interest Rate where Offering Circular provisions do not apply:		[Give details]
17.	Other Floating Interest Rate Terms:		
	(a)	Minimum Interest Rate:	[ ]% per annum
	(b)	Maximum Interest Rate:	[ ]% per annum
	(c)	Spread:	[+/-[ ]% per annum]
	(d)	Spread Multiplier(s):	[Specify]
	(e)	Variable Rate Day Count Fraction(s) if not actual/360:	[Fraction]
	(f)	Initial Interest Rate:	[ ]% per annum
18.	Discount Notes:		
	(a)	Accrual Yield:	[Yield]
	(b)	Basis:	[Specify if other than as provided in Offering Circular]
19.	Redemption at the option of the Issuer:		Yes/No
	(a)	Amount:	[All or less than all and, if less than all, minimum amounts]
	(b)	Redemption Commencement Date:	[Date(s)]
	(c)	Redemption Price(s) for each Redemption Period:	[Specify]

20.	Repayment at the option of the holders:		Yes/No
	(a)	Deposit Period:	[Specify other maximum and minimum number of days for deposit period]
	(b)	Amount:	[All or less than all and, if less than all, minimum amounts]
	(c)	Date(s):	[Date(s)]
	(d)	Repayment Price:	[Price and other details]
	(e)	Withdrawal of Notes:	[No] [Give details]
21.	Indexed Notes:		[Specify relevant details]
22.	Principal Payment Dates and Amount of each Installment for Amortizing Notes:		[Specify]
23.	Additional provisions relating to the Notes:		[Give details]
26.	Option to Elect Payments in Other than Specified Currency:		Yes/No

Other Relevant Terms

1.	Listing (if yes, specify Stock Exchange):		Yes/No [Specify Stock Exchange]
2.	Syndicated:		Yes/No
3.	If Syndicated:		
	(a)	Lead Agents:	[Name]
	(b)	Stabilizing Agent(s):	[Name]
4.	Commissions and Concessions:		[Specify]
5.	Codes:		
	(a)	Common Code:	[Number]
	(b)	ISIN:	[Number]
	(c)	CUSIP:	[Number] [Restricted Global Note] [Number] [Regulation S Global Note]
	(d)	CINS:	[Number] [Restricted Global Note] [Number] [Regulation S Global Note]
	(e)	Other:	[Specify]
6.	Identity of Agent(s):		[Names]

7.	Provisions for Bearer Notes:		
	(a)	Exchange Date:	[None/Date]
	(b)	Permanent Global Note:	Yes/No
	(c)	Definitive Bearer Notes:	Yes/No
8.	Provisions for Registered Notes:		
	(a)	Rule 144A eligible:	Yes/No
	(b)	Regulation S Global Note deposited with or on behalf of DTC:	Yes/No
	(c)	Restricted Global Note deposited with or on behalf of DTC:	Yes/No
	(d)	Regulation S Global Note deposited with Common Depositary:	Yes/No
9.	Use of Proceeds (if different from Offering Circular):		[Specify]
10.	Details of any additional Risk Factors:		[ ]
11.	Details of any additional Selling Restrictions:		[Insert the restrictions relating to the Specified Currency of the Notes or the jurisdiction(s) in which Notes are to be offered if not contained in, or if varied from, the Offering Circular.]
12.	[Additional Information]:		[Set out]

[Supplemental Offering Circular Information

The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular.]

[Set out any additional disclosure and, if applicable, an indication as to where it should be inserted into the Offering Circular.]

General Information

The Issuer accepts responsibility for the information it has provided in this Pricing Supplement.

Application has been made to list this issue of Notes pursuant to the listing of the program of U.S. $20,000,000,000 Medium-Term Notes, Series A of the Pemex Project Funding Master Trust. The date of the commencement of the Medium-Term Notes program pursuant to which these Notes are being offered was July 31, 2000, as amended on November 14, 2001, December 3, 2002 and February [ ], 2005.

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No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular and related Pricing Supplement hereto and, if given or made, such information or representations must not be relied upon as having been authorized. This Offering Circular and any related Pricing Supplement hereto do 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 any 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 Pemex Project Funding Master Trust, Petróleos Mexicanos or the Subsidiary Entities since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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U.S. $20,000,000,000

Pemex Project Funding Master Trust

Medium-Term Notes, Series A
Due 1 Year or More
from Date of Issue

guaranteed by

Petróleos Mexicanos

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

Citigroup
Credit Suisse First Boston
Goldman, Sachs & Co.
Goldman Sachs International
JPMorgan
Lehman Brothers

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The Bank of New York
Corporate Trust
Global Structured Finance Unit
101 Barclay Street, 21W
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OFFICE OF THE DELAWARE TRUSTEE OF THE ISSUER

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White Clay Center
Newark, Delaware 19711

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México, D.F. 11311

TRUSTEE, PRINCIPAL PAYING AGENT AND TRANSFER AGENT

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Trust & Securities Services
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LUXEMBOURG LISTING AGENT

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Colonia Huasteca
México, D.F. 11311

Pemex Project Funding Master Trust

Unconditionally Guaranteed by

Petróleos Mexicanos

U.S. $1,000,000,000 5.75% Notes due 2015
U.S. $500,000,000 6.625% Bonds due 2035

Issued Under U.S. $20,000,000,000 Medium-Term Notes Program, Series A

PRICING SUPPLEMENT NO. 2

June 1, 2005

Joint Lead Managers

Credit Suisse First Boston **Lehman Brothers**

Co- Managers

Barclays Capital **JPMorgan** **Morgan Stanley**