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.

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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

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 COMPANIES

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	Accumulated losses: From prior years	Accumulated losses: Net loss for the year	Total
Balances at December 31, 2001	Ps. 86,908,890	Ps. 21,145,734	Ps. 135,504,569	Ps. -	Ps. -	(Ps. 65,089,279)	(Ps. 38,421,987)	Ps. 140,047,927
Transfer to prior years' accumulated losses						(38,421,987)	38,421,987	
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on April 24, 2002						(2,441,738)		(2,441,738)
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)				9,326,018		
Comprehensive loss for the year (Note 12)		1,911,708	(4,413,521)			44,436	(25,849,630)	(28,307,007)
Balances at December 31, 2002	86,908,890	13,731,424	131,091,048			(96,582,550)	(25,849,630)	109,299,182
Transfer to prior years' accumulated losses						(25,849,630)	25,849,630	
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 28, 2003						(10,500,161)		(10,500,161)
Comprehensive loss for the year (Note 12)		(13,731,424)	5,927,889				(42,754,131)	(50,557,666)
Balances at December 31, 2003	86,908,890		137,018,937			(132,932,341)	(42,754,131)	48,241,355
Transfer to prior years' accumulated losses						(42,754,131)	42,754,131	
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 12, 2004						(10,387,839)		(10,387,839)
Increase in equity (Note 13)				32,637,530				32,637,530
Comprehensive loss for the year (Note 12)			(4,676,926)		(6,975,592)		(25,495,610)	(37,148,128)
Balances at December 31, 2004	Ps. 86,908,890	Ps. -	Ps. 132,342,011	Ps. 32,637,530	(Ps. 6,975,592)	(Ps. 186,074,311)	(Ps. 25,495,610)	Ps. 33,342,918

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.

(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 Política 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. 6,000,000 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:

	Rate of interest (3)	Maturity	December 31, 2004 Pesos (thousands)	December 31, 2004 Foreign currency (thousands)	December 31, 2003 Pesos (thousands)	December 31, 2003 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. -

	2005	2006	2007	2008	2009	2010 and thereafter	Total
Maturity of the principal 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	December 31, 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	December 31, 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	Petrochemicals	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.