PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005, 2004 AND 2003

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005, 2004 AND 2003

INDEX

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers, S. C.
Mariano Escobedo 573
Col. Rincón del Bosque
11580 México, D.F.
Teléfono: 5263 6000
Fax: 5263 6010
www.pwc.com

REPORT OF INDEPENDENT AUDITORS

Mexico City, Mexico, April 21, 2006

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, 2005 and 2004, 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, 2005. 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 México. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and 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 Note 2l. to the consolidated financial statements, effective January 1, 2005, PEMEX adopted the amendments to Bulletin D-3, "Labor Obligations", issued by the Mexican Institute of Public Accountants ("MIPA"), which establishes the rules for valuation and recording of liabilities arising from other severance payments paid to employees upon dismissal. As of January 1, 2005, the adoption of these amendments resulted in a charge of Ps. 1,322,540,000, which is presented in the consolidated statement of operations as a cumulative effect of adoption of new accounting standards.

As described in Note 2t. to the consolidated financial statements, effective January 1, 2005, PEMEX adopted the provisions of Bulletin C-10, "Derivative Financial Instruments and Hedging Operations", issued by the MIPA, which establishes the criteria for valuation, recording and disclosure applicable to derivative financial instruments for hedging and to embedded derivatives. As of January 1, 2005, the adoption of these amendments resulted in the recognition of an initial cumulative charge of Ps. 442,730,000, recognized in the consolidated statement of operations as a cumulative effect of adoption of new accounting standards.

PRICEWATERHOUSECOOPERS

As described in Note 21. to the consolidated financial statements, effective January 1, 2004, PEMEX adopted the amendments to Bulletin D-3, "Labor Obligations", issued by the 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. 8,726,434,000, which is presented in the consolidated statement of operations as a cumulative effect of adoption of new accounting standards.

As described in Note 2e. to the consolidated financial statements, effective January 1, 2004, the Board of Directors of PEMEX approved a change in the accounting policy for recognition of well exploration and drilling expenses to the successful efforts method of accounting. As a result, the oil-field exploration and depletion reserve was 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 2i. 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. 2,091,590,000 and an impairment charge for the year of Ps. 1,707,645,000, 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 statements of operations under costs and operating expenses.

As discussed in Note 2h. to the consolidated financial statements, effective January 1, 2003, PEMEX adopted the guidelines of Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments", issued by MIPA. As a result, an initial cumulative benefit totaling Ps. 2,187,823,000 was recognized in earnings in the consolidated statements of operations as a cumulative effect of adoption of new accounting standards.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PEMEX, at December 31, 2005 and 2004, and the consolidated results of their operations, the changes in equity and changes in financial position for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in Mexico.

PricewaterhouseCoopers

Francisco J. Hernández Franco
Public Accountant

100 México Años 1906-2006

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS
(Notes 1, 2 and 3)

(In thousands of Mexican pesos as of December 31, 2005 purchasing power)

	As of December 31,	
Assets	2005	2004
Current assets:		
Cash and cash equivalents (Note 4)	Ps. 120,826,589	Ps. 87,700,768
Accounts, notes receivable and other - Net (Note 5)	117,880,340	127,078,170
Inventories - Net (Note 6)	50,582,308	36,955,626
Derivative financial instruments (Note 11)	3,473,583	–
	171,936,231	164,033,796
Total current assets	292,762,820	251,734,564
Investments in shares (Note 8)	26,565,240	26,760,089
Properties, plant and equipment - Net (Note 7)	643,235,556	614,384,124
Intangible asset derived from the actuarial computation of labor obligations (Note 12)	76,664,285	78,986,307
Other assets – Net	3,331,974	7,240,497
Total assets	Ps. 1,042,559,875	Ps. 979,105,581
Liabilities		
Current liabilities:		
Current portion of long-term debt (Note 9)	Ps. 36,095,017	Ps. 50,779,425
Suppliers	30,960,550	25,133,230
Accounts and accrued expenses payable	10,382,503	23,643,958
Taxes payable	68,005,297	45,607,752
Derivative financial instruments (Note 11)	19,032,691	–
Total current liabilities	164,476,058	145,164,365
Long-term liabilities:		
Long-term debt (Note 9)	501,592,619	419,359,651
Sale of future accounts receivable (Note 10)	–	37,856,647
Reserve for dismantlement and abandonment activities, sundry creditors and others (Note 2j.)	25,719,784	26,834,783
Reserve for retirement payments, pensions and seniority premiums (Note 12)	375,663,417	315,435,998
Deferred taxes (Note 2z.)	1,977,728	–
Total long-term liabilities	904,953,548	799,487,079
Total liabilities	1,069,429,606	944,651,444
Commitments and contingencies (Notes 13 and 14)		
Equity (Note 15)		
Certificates of Contribution "A"	89,805,303	89,805,303
Mexican Government increase in equity of Subsidiary Entities	78,330,159	33,725,238
Surplus in restatement of equity	144,333,099	136,752,575
Effect on equity from labor obligations	(27,281,912)	(7,208,067)
Derivative financial instruments	(6,517,352)	–
Accumulated losses:		
From prior years	(229,256,678)	(192,275,610)
Net loss for the year	(76,282,350)	(26,345,302)
	(305,539,028)	(218,620,912)
Total equity	(26,869,731)	34,454,137
Total liabilities and equity	Ps. 1,042,559,875	Ps. 979,105,581

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, 2 and 3)

(In thousands of Mexican pesos as of December 31, 2005 purchasing power)

	Year ended December 31, 2005	2004	2003
Net sales:			
Domestic	Ps. 505,109,185	Ps. 463,976,988	Ps. 420,912,591
Export	423,533,791	335,391,475	258,906,427
	928,642,976	799,368,463	679,819,018
Other revenues - Net	11,837,084	11,526,119	3,218,515
Total revenues	940,480,060	810,894,582	683,037,533
Costs and operating expenses:			
Cost of sales	361,177,339	272,907,331	225,130,065
Transportation and distribution expenses	21,910,789	18,160,007	16,901,185
Administrative expenses	46,800,391	37,929,336	38,255,589
Total cost and operating expenses	429,888,519	328,996,674	280,286,839
Comprehensive financing cost:			
Exchange gain (loss) - Net	17,627,605	(3,586,417)	(27,724,518)
Interest paid - Net	(38,439,382)	(23,894,309)	(18,185,365)
Gain on monetary position	16,332,449	20,197,679	12,493,956
	(4,479,328)	(7,283,047)	(33,415,927)
Income before hydrocarbon extraction duties and other, special tax on production and services, deferred income taxes and cumulative effect of adoption of new accounting standards	506,112,213	474,614,861	369,334,767
Hydrocarbon extraction duties and other	558,437,488	433,614,143	313,443,951
Special tax on production and services (IEPS Tax)	20,214,077	56,527,996	102,257,637
Deferred taxes	1,977,728	–	–
	580,629,293	490,142,139	415,701,588
Cumulative effect of adoption of new accounting standards (Notes 2h., 2i., 2l. and 2t.)	(1,765,270)	(10,818,024)	2,187,823
Net loss for the year	(Ps. 76,282,350)	(Ps. 26,345,302)	(Ps. 44,178,998)

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, 2005, 2004 AND 2003
(Notes 1, 2 and 15)

(In thousands of Mexican pesos as of December 31, 2005 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	Derivative financial instrument	Effect on equity from labor obligations	Accumulated losses: From prior years	Accumulated losses: Net loss for the year	Total
Balances at December 31, 2002	Ps. 89,805,303	Ps. 14,189,051	Ps. 135,459,919	Ps. –	Ps. –	Ps. –	(Ps. 99,801,356)	(Ps. 26,711,121)	Ps. 112,941,796
Transfer to prior years' accumulated losses							(26,711,121)	26,711,121	
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 28, 2003							(10,850,100)		(10,850,100)
Comprehensive loss for the year (Note 16)		(14,189,051)	6,125,448					(44,178,998)	(52,242,601)
Balances at December 31, 2003	89,805,303	–	141,585,367	–	–	–	(137,362,577)	(44,178,998)	49,849,095
Transfer to prior years' accumulated losses							(44,178,998)	44,178,998	
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 12, 2004							(10,734,035)		(10,734,035)
Increase in equity of the Subsidiary Entities made by the Federal Government (Note 15)				33,725,238					33,725,238
Comprehensive loss for the year (Note 16)			(4,832,792)			(7,208,067)		(26,345,302)	(38,386,161)
Balances at December 31, 2004	89,805,303	–	136,752,575	33,725,238	–	(7,208,067)	(192,275,610)	(26,345,302)	34,454,137
Transfer to prior years' accumulated losses							(26,345,302)	26,345,302	
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 18 2005							(10,635,766)		(10,635,766)
Increase in equity of the Subsidiary Entities made by the Federal Government (Note 15)				44,604,921					44,604,921
Comprehensive loss for the year (Note 16)			7,580,524		(6,517,352)	(20,073,845)		(76,282,350)	(95,293,023)
Balances at December 31, 2005	Ps. 89,805,303	Ps. –	Ps. 144,333,099	Ps. 78,330,159	(Ps. 6,517,352)	(Ps. 27,281,912)	(Ps. 229,256,678)	(Ps. 76,282,350)	(Ps. 26,869,731)

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, 2005 purchasing power)

	Year ended December 31,		
	2005	2004	2003
Operating activities:			
Net loss for the year	(Ps. 76,282,350)	(Ps. 26,345,302)	(Ps. 44,178,998)
Charges to operations not requiring the use of funds:			
Depreciation and amortization	52,790,751	43,296,481	44,070,114
Reserve for retirement payments, pensions and indemnities	59,081,939	54,820,524	42,326,154
Specific oil-field exploration and depletion reserve	–	–	9,655,753
Deferred taxes	1,977,728	–	–
Impairment	1,327,000	3,799,230	7,739,616
	38,895,068	75,570,933	59,612,639
Variances in:			
Accounts, notes receivable and other	9,197,830	(50,759,285)	(13,737,774)
Inventories	(6,046,158)	(7,088,379)	(2,255,958)
Intangible asset derived from the actuarial computation of labor obligations and other assets	7,570,874	33,998,517	431,503
Suppliers	5,827,320	(11,324,918)	3,376,841
Accounts payable and accrued expenses	(13,261,455)	15,665,705	369,380
Taxes payable	22,397,545	5,777,014	9,636,740
Reserve for dismantlement and abandonment activities, sundry creditors and others	(1,114,999)	5,404,215	12,741,348
Effect on equity from labor obligations	(20,073,845)	(7,208,067)	–
Reserve for retirement payments, pensions and indemnities and others	–	(50,005,927)	(19,947,262)
Exploration and well-drilling expenses charged to the specific oil-field exploration and depletion reserve	–	–	(23,844,801)
Derivative financial instruments	15,559,108	–	–
Funds provided by operating activities	58,951,288	10,029,808	26,382,656
Financing activities:			
Minimum guaranteed dividends paid to the Mexican Government	(10,635,766)	(10,734,035)	(10,850,100)
Debt - Net	61,031,208	61,284,491	104,221,625
Increase in equity of Subsidiary Entities	44,604,921	33,725,238	–
Sale of future accounts receivable	(37,856,647)	(6,118,775)	(5,118,690)
Funds provided by financing activities	57,143,716	78,156,919	88,252,835
Investing activities:			
Increase in fixed assets - Net	(82,969,183)	(80,200,052)	(84,510,035)
Funds used in investing activities	(82,969,183)	(80,200,052)	(84,510,035)
Net increase in cash and cash equivalents	33,125,821	7,986,675	30,125,456
Cash and cash equivalents at beginning of the year	87,700,768	79,714,093	49,588,637
Cash and cash equivalents at end of the year	Ps. 120,826,589	Ps. 87,700,768	Ps. 79,714,093

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

(Figures stated in thousands of Mexican pesos as of December 31, 2005 purchasing power and in thousands of U.S. dollars or other currency units)

NOTE 1 - STRUCTURE AND BUSINESS OPERATIONS OF PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES:

Following the nationalization of the foreign-owned oil companies then operating in the United Mexican States ("Mexico"), Petróleos Mexicanos was created by a decree of the Mexican Congress dated June 7, 1938 and effective July 20, 1938. Petróleos Mexicanos and its four Subsidiary Entities (as defined below) are decentralized public entities of the Federal Government of Mexico (the "Mexican Government") and together comprise the Mexican state oil and gas company.

The operations of Petróleos Mexicanos and Subsidiary Entities are regulated by the *Constitución Politica de los Estados Unidos Mexicanos* (Political Constitution of the United Mexican States, or the "Mexican Constitution"), the *Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (Regulation Law to Article 27 of the Political Constitution of the United Mexican States concerning Petroleum affairs, or the "Regulatory Law"), effective November 30, 1958, as amended effective May 12, 1995, November 14, 1996 and January 13, 2006, 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, January 16, 2002 and January 13, 2006. 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 its formation, Petróleos Mexicanos assigned to the Subsidiary Entities all the assets and liabilities needed to carry out these activities; these 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 2c. 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.

This 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

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. Consequently, the amounts shown in the accompanying financial statements and these notes are expressed in thousands of constant Mexican pesos as of December 31, 2005. The December 31, 2005 restatement factors applied to the consolidated financial statements at December 31, 2004 and 2003 were 3.33% and 8.70%, which correspond to inflation from January 1, 2005 and 2004 through December 31, 2005, 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. ("PMI Trading"); 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 Company AG; 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; RepCon Lux and, effective July 1, 2005, Pemex Finance, Ltd. ("Pemex Finance").

Effective July 1, 2005, Petróleos Mexicanos entered into an option agreement with BNP Paribas Private Bank and Trust Cayman Limited to acquire 100% of the shares of Pemex Finance. As a result, the financial results of Pemex Finance have been consolidated into these financial statements of Petróleos Mexicanos since that date. Consequently, sales of accounts receivable by Pemex Finance have been reclassified as documented debt (see Note 10). The consolidation of Pemex Finance has not had a material effect on the consolidated financial statements of PEMEX as at December 31, 2005. The debt issued by Pemex Finance is included in PEMEX's debt as of December 31, 2005, while at December 31, 2004, the balances between PEMEX and Pemex Finance were presented with the line item "Sale of future accounts receivable".

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, 2005, 2004 and 2003. 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 expenses 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 11):

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 in statement of operations 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, 2005 and 2004, 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, plant 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, 2005 and 2004, these assets are expressed at their inflation restated value, determined by applying factors computed from the NCPI.

Depreciation is calculated using the straight-line method based on the expected useful lives of the assets, based on calculations from independent appraisals. Depreciation rates are applied to the inflation restated value of the assets. 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 proved reserves.

The *Reglamento de Trabajos Petroleros* ("Petroleum Works Law") provides that once a well turns out to be dry, invaded with salt water, 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 purpose of replacing them with new installations or for permanent retirement.

Effective January 1, 2003, PEMEX adopted Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" issued by the MIPA ("Bulletin C-9"), which 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. 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. 2,187,823 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 2i. and 7.

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. 2,091,590 and Ps. 1,707,645, respectively. The initial adoption effect was presented in the consolidated statement of operations of 2004 as a cumulative effect of adoption of a new accounting standard, and the impairment of 2005 is also presented in the consolidated statement of operations within costs and operating expenses (see Note 7).

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.

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 gains (losses) credited (charged) to income of Ps. 17,627,605, Ps. (3,586,417) and Ps. (27,724,518) in 2005, 2004 and 2003, respectively.

l. Retirement benefits, pensions and seniority premiums

In accordance with the *Ley Federal del Trabajo* ("Federal Labor Law") and pursuant to collective bargaining agreements, seniority premium benefits to which every employee is entitled upon termination of employment, and the pension obligations arising from the employee retirement plans, to which employees do not contribute, are recorded at the cost of years in which employees rendered services in accordance with actuarial valuations that use the projected unit-credit method. PEMEX includes the effect of its labor obligations in these consolidated financial statements in accordance with the standards established by Bulletin D-3 "Labor Obligations" ("*Obligaciones Laborales*") of Mexican GAAP issued by the MIPA ("Bulletin D-3").

Beginning on January 1, 2005, PEMEX adopted the amendments of Bulletin D-3, "Labor Obligations", which provides additional valuation and disclosure requirements for recognizing severance payments paid to employees upon dismissal. The adoption of these provisions resulted in the recognition of an initial liability related to prior service costs for an amount of Ps. 1,322,540 and a charge to income upon adoption for the same amount, which is presented in the consolidated statement of operations as part of the cumulative effect of adoption of new accounting standards.

Effective January 1, 2004, PEMEX adopted the amendments to Bulletin D-3, specifically related to valuation, presentation and recording for the recognition of remuneration for other post-retirement benefits. The adoption of these provisions resulted in the recognition of an initial cumulative effect for the recognition of prior services remuneration for other post-retirement benefits as of January 1, 2004, in an amount equal to Ps. 8,726,434, which was recorded as a charge to income and presented in the consolidated statement of operations as part of the cumulative effect of adoption of new accounting standards.

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 12).

m. Equity

Certificates of Contribution "A", the Mexican Government increase in equity of Petróleos Mexicanos and the Subsidiary Entities, accumulated losses and other equity accounts represent the value of these items stated in terms of purchasing power at 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, 2005 and 2004 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 result on monetary position represents the gain or loss, measured in terms of the NCPI, on net monthly monetary assets and liabilities for the year, expressed in Mexican pesos of purchasing power as of the most recent balance sheet date. The inflation rates were 3.33%, 5.19% and 3.98%, in 2005, 2004 and 2003, respectively.

p. 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).

q. Taxes and federal duties

Petróleos Mexicanos and the Subsidiary Entities are subject to special tax laws, which are based upon petroleum revenues and do not generate temporary differences or deferred income taxes. Petróleos Mexicanos and the Subsidiary Entities are not subject to the *Ley del Impuesto Sobre la Renta* ("Income Tax Law") or the *Ley del Impuesto al Activo* ("Asset Tax Law"). Some of the Subsidiary Companies are subject to the Income Tax Law and Asset Tax Law; however, such Subsidiary Companies do not generate significant deferred income taxes.

Petróleos Mexicanos and the Subsidiary Entities are subject to the following duties and taxes: Hydrocarbon Extraction Duties, Hydrocarbon Income Tax, Excess Gains Duty 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 23.00, 20.00 and 18.35 U.S. dollars per barrel for 2005, 2004 and 2003, respectively. Therefore, to the extent that the sum of hydrocarbon extraction duties is less than 60.8% of sales to third parties, additional taxes are paid to reach that level.

r. Special Tax on Production and Services (IEPS Tax)

The 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".

s. Revenue recognition

For all export products, risk of loss and ownership title is transferred upon shipment, and thus PEMEX records sales revenue upon shipment to customers abroad. In the case of certain domestic sales in which the customer takes product delivery at a PEMEX facility, sales revenues are recorded 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.

t. Derivative financial instruments and hedging operations

Effective on January 1, 2005, PEMEX adopted the provisions of Bulletin C-10, "Derivative Financial Instruments and Hedging Operations" ("Bulletin C-10") issued by the MIPA, which provide expanded guidance for the recognition, valuation and disclosure applicable to derivative financial instruments designed as hedges and embedded derivatives. The adoption of these provisions resulted in the recognition of an initial cumulative effect of a charge to comprehensive loss in the equity of Ps. 6,558,945 and a charge to income for the year of Ps. 442,730, which is presented in the consolidated statement of operations as part of the cumulative effect of adoption of new accounting standards.

As of December 31, 2005, derivative financial instruments shown in the balance sheet are valued at fair value, in accordance with the rules established by Bulletin C-10 (see Note 11).

u. Financial instruments with characteristics of liability, equity or both

Financial instruments issued by PEMEX with characteristics of equity, liabilities or of both, are recorded at the time of issuance as a liability, 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 16).

x. Comprehensive financing cost

Comprehensive financing cost includes all types of financial gains or losses resulting from the real cost of financing in an inflationary environment, such as net interest income and expense, net foreign exchange gains or losses, the effects of valuation on financial instruments, and net gains or losses on monetary positions.

y. Reclassifications

Certain reclassifications have been made to 2004 and 2003 amounts presented in the consolidated financial statements and related notes to conform such amounts and disclosures to the current year presentation.

z. Deferred taxes

Deferred taxes are recorded based on the assets and liabilities method with comprehensive focus, which consists of the recognition of deferred taxes for the temporary differences between accounting and tax basis of assets and liabilities. Based on the new fiscal regime enacted in 2005, Petróleos Mexicanos and Subsidiary Entities, effective January 1, 2006, a Subsidiary

Entity established a deferred tax liability for Ps. 1,977,728, as the result mainly of temporary differences related to customer advance payments, liability provisions and fixed assets.

NOTE 3 - FOREIGN CURRENCY POSITION:

At December 31, 2005 and 2004, the consolidated financial statements of PEMEX include the following assets and liabilities denominated in foreign currencies (which are translated into Mexican pesos at the 2005 and 2004 year-end exchange rates listed below):

	Amounts in foreign currency (Thousands)				
	Assets	Liabilities	Asset (liability) position	Year-end Exchange rate	Amounts in pesos
2005:					
U.S. dollars	14,621,145	(37,879,912)	(23,258,767)	10.7777	(Ps. 250,676,014)
Japanese yen	–	(144,171,281)	(144,171,281)	0.0914	(13,177,255)
Pounds sterling	262	(453,455)	(453,193)	18.5247	(8,395,272)
Euros	4,732	(4,240,207)	(4,235,475)	12.7080	(53,824,414)
Austrian shillings	–	(86)	(86)	8.1744	(703)
Swiss Francs	–	(41)	(41)	8.1779	(335)
Canadian dollar	2	–	2	9.2330	17
Total liability position, before foreign currency hedging (Note 11)					(Ps. 326,073,976)
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 11)					(Ps. 429,763,322)

NOTE 4 - CASH AND CASH EQUIVALENTS:

At December 31, cash and cash equivalents are as follows:	2005	2004
Cash on hand and in banks	Ps. 44,573,707	Ps. 23,798,276
Marketable securities	76,252,882	63,902,492
	Ps. 120,826,589	Ps. 87,700,768

NOTE 5 - ACCOUNTS, NOTES RECEIVABLE AND OTHER:

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

	2005	2004
Sales-domestic	Ps. 35,036,762	Ps. 31,656,433
Sales-export	12,898,443	9,561,989
Pemex Finance, Ltd.	–	8,319,848
Mexican Government advance payments on minimum guaranteed dividends (Note 15)	15,283,418	10,734,035
Specific funds - Trade Commission (Note 15)	26,851,269	33,795,613
Employees and officers	2,726,278	2,532,442
Other accounts receivable	27,593,749	32,461,745
	120,389,919	129,062,105
Less allowance for doubtful accounts	(2,509,579)	(1,983,935)
	Ps. 117,880,340	Ps. 127,078,170

NOTE 6 - INVENTORIES:

At December 31, inventories are as follows:

	2005	2004
Crude oil, refined products, derivatives and petrochemical products	Ps. 44,097,526	Ps. 31,610,266
Materials and supplies in stock	5,527,051	4,384,363
Materials and products in transit	2,650,818	2,674,109
	52,275,395	38,668,738
Less allowance for slow-moving and obsolete inventories	(1,693,087)	(1,713,112)
	Ps. 50,582,308	Ps. 36,955,626

NOTE 7 - PROPERTIES, FURNITURE AND EQUIPMENT:

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

	2005	2004
Plants	Ps. 319,382,549	Ps. 312,232,252
Pipelines	242,724,338	235,926,238
Wells	336,370,213	272,011,517
Drilling equipment	21,089,597	20,608,841
Buildings	38,876,413	38,918,653
Offshore platforms	114,736,613	100,300,550
Furniture and equipment	31,114,875	28,076,713
Transportation equipment	13,039,055	13,206,742
	1,117,333,653	1,021,281,506
Less:		
Accumulated depreciation and amortization	(584,994,136)	(532,897,658)
	532,339,517	488,383,848
Land	39,627,318	39,314,560
Construction in progress	70,607,772	85,323,704
Fixed assets to be disposed of	660,949	1,362,012
Total	Ps. 643,235,556	Ps. 614,384,124

a) For the years ended December 31, 2005, 2004 and 2003, interest costs associated with fixed assets in the construction or installation phase that were capitalized as part of those assets totaled Ps. 5,132,219, Ps. 4,484,570 and Ps. 7,876,482, respectively.

b) Depreciation of assets and amortization of wells for the periods ended December 31, 2005, 2004 and 2003 recorded in operating costs and expenses were Ps. 52,790,751, Ps. 43,296,481 and Ps. 44,070,114, respectively, which included Ps. 1,269,610, Ps. 324,751 and Ps. 495,579, respectively, related to dismantlement and abandonment costs.

c) As of December 31, 2005 and 2004, the provision related to dismantlement and abandonment costs, determined based on the present value (discounted) of the projected cost, was Ps. 13,696,270 and Ps. 14,102,811, respectively.

d) As of December 31, 2005 and 2004, PEMEX has recognized cumulative impairment charges in the value of the long-lived assets amounting to Ps. 12,865,846 and Ps. 11,538,846, respectively. The impairment recorded through December 31, 2003 was determined using the value-in-use concept in accordance with Bulletin B-10.

NOTE 8 - INVESTMENT IN SHARES:

The investments in affiliated and other companies' shares, which are unconsolidated, are as follows:

	Percentage of Investment	Carrying value at December 31, 2005	2004
Repsol YPF, S. A.	5.00	Ps. 18,567,473	Ps. 17,798,537
Deer Park Refining Limited[1]	50.00	5,350,035	5,355,432
Instalaciones Inmobiliarias para Industrias, S. A. de C. V. [1]	100.00	1,022,682	1,088,442
Nacional Financiera, commercial paper	–	–	1,080,531
Servicios Aéreos Especializados Mexicanos, S. A. de C. V	49.00	19,548	33,616
Other - Net		1,605,502	1,403,531
Total investments		Ps. 26,565,240	Ps. 26,760,089

(1) Valued using equity method.

PEMEX owns 58,956,005 and 58,679,800 shares of Repsol YPF, S.A. at December 31, 2005 and 2004, respectively, which are valued at market price.

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. During 2005, 2004 and 2003, PEMEX recorded Ps. 5,561,262, Ps. 3,339,789 and Ps. 967,101 of profits, respectively, related to its interest in the joint venture, which has been recorded in the line item "Other revenues" in the statements of operations. In 2005, 2004 and 2003, PEMEX paid the joint venture Ps. 9,950,113, Ps. 7,893,026 and Ps. 5,066,867, respectively, for the processing of crude oil.

NOTE 9 - DEBT:

In 2005, significant financing activities were as follows:

a. Petróleos Mexicanos obtained U.S. $59,882 (Ps. 645,390) in purchasing loans and project financing, granted by export credit agencies. These loans bear interest at fixed and variable rates with various maturity dates through 2013.

b. Petróleos Mexicanos issued short-term certificates totaling Ps. 16,000,000 (in nominal terms). All of these short-term certificates, as well as the balance as of December 31, 2004, of Ps. 2,000,000, were repaid during 2005.

c. Petróleos Mexicanos executed a draw down of U.S. $800,000 from its syndicated revolving facility of U.S. $1,250,000, on October 26, 2005 in two tranches, each in the amount of U.S. $400,000; these funds were repaid on December 28, 2005.

During 2005, the Master Trust undertook the following financing activities for PIDIREGAS:

a. The Master Trust obtained credit lines from export credit agencies totaling U.S. $1,617,500 (Ps. 17,432,930) and U.S. $4,250,000 (Ps. 45,805,225) from a syndicated loan.

b. On February 24, 2005, the Master Trust issued €1,000,000 (Ps. 12,708,000) of 5.50% Notes due 2025, guaranteed by Petróleos Mexicanos, under its Medium-Term Notes Program, Series A;

c. On June 8, 2005, the Master Trust issued U.S.$ 1,500,000 (Ps. 16,166,550) under its Medium-Term Note Program, Series A, in two tranches: U.S.$ 1,000,000 (Ps. 10,777,700) of 5.75% Notes due in 2015 and U.S.$ 500,000 (Ps. 5,388,850) of 6.625% Notes due in 2035, both of which are guaranteed by Petróleos Mexicanos.

d. On August 31, 2005, the Master Trust issued U.S. $175,000 (Ps. 1,886,098) of Floating Rate Notes due 2008, which bear interest at a rate per annum equal to LIBOR for a period of one, two, three or six months (at the election of the Master Trust), plus 42.5 basis points, and are guaranteed by Petróleos Mexicanos.

e. On December 1, 2005, the Master Trust issued U.S. $750,000 (Ps. 8,083,275) of Floating Rate Notes due 2012 under its Medium-Term Note Program, Series A, at a rate of three month LIBOR plus 60 basis points, and are guaranteed by Petróleos Mexicanos.

In addition, the following financing activities were undertaken during 2005:

a. During 2005, the Master Trust delivered to Petróleos Mexicanos certain of the debt securities of Petróleos Mexicanos in exchange for cash payments, a portion of which will be made over time, equal to the market value of the relevant debt securities at the time of such delivery. The Master Trust had acquired these debt securities in its November 2004 exchange offer. The cash payments made by Petróleos Mexicanos at the time of acquisition of the debt securities was equal to the par value of such debt securities, plus accrued interest. Set forth below is the date of acquisition of the debt securities, as well as the cash payments made on such date:

Date of acquisition	Par value of debt securities
April 29, 2005	U.S.$ 803,365
May 20, 2005	678,697
July 6, 2005	826,099
Total	U.S.$ 2,308,161

The portion of the cash payments to be made over time is equal to the difference between the market value of the debt securities and the par value (such amount, the "Premium") and is payable in five equal annual installments. Interest on the unpaid amount of the Premium accrues from the date of purchase at a rate per annum equal to three-month U.S. dollar LIBOR plus 0.35% and is payable quarterly in arrears. The total amount of interest paid by Petróleos Mexicanos on the Premium in 2005 is equal to U.S. $7,224.

b. In March 2005, the Master Trust obtained a syndicated loan in the amount of U.S. $4,250,000. U.S. $2,020,800 related to new indebtedness, and the remaining U.S. $2,229,200 was used to refinance other syndicated credits.

c. Of the U.S. $1,500,000 issued by the Master Trust on June 8, 2005, only U.S. $529,800 is considered new indebtedness, as the remaining U.S. $970,200 was used to refinance the prepaid amount from the Funds Derivative Agreement between Pemex Exploration and Production and the Master Trust.

During 2005, the Fideicomiso F/163 undertook the following financing activities:

a. On February 1, 2005, Fideicomiso F/163 issued, under its expanded Ps. 70,000,000 peso-denominated publicly-traded notes (*certificados bursatiles*) program, approved by the *Comisión Nacional Bancaria y de Valores* (the Banking and Securities National Commission or the "CNBV"), a denominated in *Unidades de Inversión* (Units of Investment, or "UDI's") in the amount of UDI's 1,697.6 million (Ps. 6,000,000) (in nominal terms) in the Mexican domestic market, with maturity in 2019 guaranteed by Petróleos Mexicanos.

b. On February 11, 2005, Fideicomiso F/163 issued, under its expanded Ps. 70,000,000 peso-denominated publicly-traded notes (*certificados bursatiles*) program, approved by the CNBV, a total of Ps. 15,000,000 of notes in the Mexican domestic market, guaranteed by Petróleos Mexicanos, consisting of two tranches: one of Ps. 7,500,000 of its notes due February 11, 2010, bearing interest at the 91-day *Certificados de la Tesorería de la Federación* (Mexican Government Treasury Bonds "CETES") rate plus 51 basis points; and the other one of Ps. 7,500,000 of its notes due February 11, 2013, bearing interest at the 182-day *Cetes* rate plus 57 basis points.

c. On May 13, 2005, Fideicomiso F/163 issued, under its expanded Ps. 110,000,000 peso-denominated publicly-traded notes (*certificados bursatiles*) program, approved by the CNBV, a total of Ps. 10,000,000 of notes in the Mexican domestic market, guaranteed by Petróleos Mexicanos, consisting of two tranches: one of Ps. 5,012,600 of its notes due February 4, 2010, bearing interest at the 91-day CETES rate plus 51 basis points; and the other one of Ps. 4,987,400 of its notes due January 31, 2013, bearing interest at the 182-day CETES rate plus 57 basis points.

d. On July 29, 2005, Fideicomiso F/163 issued, under its Ps. 110,000,000 peso-denominated publicly-traded notes (*certificados bursatiles*) program, approved by the CNBV, a total of Ps. 5,000,000 of notes due 2015 in the Mexican domestic market, guaranteed by Petróleos Mexicanos, bearing interest at a fixed rate of 9.91%.

e. On October 21, 2005, Fideicomiso F/163 issued, under its Ps. 110,000,000 Publicly Traded Notes Program, approved by CNBV, a total of Ps. 4,500,000 of notes due 2015 in the Mexican domestic market, guaranteed by Petróleos Mexicanos, bearing interest at a fixed rate of 9.91%.

f. On October 21, 2005, Fideicomiso F/163 issued, under its Ps. 110,000,000 Publicly Traded Notes Program, approved by CNBV, a total of Ps. 5,500,000 of notes due 2011 in the Mexican domestic market, guaranteed by Petróleos Mexicanos, bearing interest at the 91-day CETES rate plus 35 basis points.

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. 1,505,101, 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 to 2009.

c. Petróleos Mexicanos obtained U.S. $93,666 (Ps. 1,090,293) 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. 16,285,473) to finance foreign trade operations. These loans are repayable on various maturity dates through 2007 and are subject to interest at LIBOR plus 0.6% and 1.125%.

b. On June 15, 2004, the Master Trust issued U.S. $1,500,000 (Ps. 17,460,333) 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. 13,456,072) 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. 20,370,388), 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. 26,867,506) 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. 291,006), 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 CNBV, the Fideicomiso F/163, issued Ps. 11,500,000 (in nominal terms) of notes in 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 CETES rate 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), approved by the CNBV, the Fideicomiso F/163 issued Ps. 14,672,000 (in nominal terms) of the foregoing notes in a further reopening, also in three tranches, of Ps. 6,00,000 at the CETES rate plus 0.65%, maturing in 2007; Ps. 6,000,000 at the CETES rate plus 0.67% maturing in 2009; and Ps. 2,672,000 at a fixed rate of 8.38%, maturing in 2010.

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

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

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

f. On December 23, 2004, Fideicomiso F/163 issued zero coupon notes denominated in 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. 15,990,615) of 4.5% guaranteed exchangeable bonds due 2011, bearing interest at the fixed rate of 4.5% (the "Exchangeable Bonds"). The Exchangeable 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 2).

b. As of December 31, 2004, PMI Trading had 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. 291,006) at a fixed interest rate of 3.45%, payable in 2005.

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 and Public Credit 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, 2005 and 2004, long-term debt was as follows:

			December 31, 2005		December 31, 2004	
	Rate of Interest[3]	Maturity	Pesos (thousands)	Foreign currency (thousands)	Pesos (thousands)	Foreign currency (thousands)
U.S. dollars:						
Unsecured loans	Variable and LIBOR plus 0.8125%	2006	Ps. 1,154,973	107,163	Ps. 2,852,141	245,025
Unsecured loans	Variable and LIBOR plus 0.8125%	2006	365,176	33,883	788,800	67,765
Bonds	Fixed from 4.5% to 10.61% and LIBOR plus 0.425% to 8.875%	Various to 2035	216,415,572	20,079,940	195,229,547	16,771,978
Financing assigned to PIDIREGAS	Fixed from 3.23% to 7.69% and LIBOR plus 0.03% to 2.25%	Various to 2017	61,513,370	5,707,467	53,846,435	4,625,894
Purchasing loans and project financing	Fixed from 3.32% to 7.28% and LIBOR plus 0.0625% to 2%	Various to 2014	3,722,971	345,433	4,755,681	408,556
Leasing contracts	Fixed of 8.05% to 9.91%	Various to 2012	1,644,183	152,554	2,293,458	197,029
External trade loans	LIBOR plus 0.5% to 0.9%	Various to 2012	47,098,549	4,370,000	28,043,235	2,409,167
Bank loans	Fixed from 5.44% to 5.58% LIBOR plus 0.55% to 1.9%	Various to 2018	11,154,920	1,035,000	17,460,333	1,500,000
Total financing in U.S. dollars			343,069,714	31,831,440	305,269,630	26,225,414
Euros:						
Bonds	Fixed from 5.5% to 7.75%, and floating of 9.1045%	Various to 2025	51,983,778	4,090,634	48,926,817	3,090,634
Unsecured loans, banks and project financing	Fixed of 2% LIBOR plus 0.8125%	2006 and 2014	18,096	1,424	41,644	2,631
Total financing in Euros			52,001,874	4,092,058	48,968,461	3,093,265
Pesos:						
Certificates	Fixed from 8.38% to 9.91% and CETES plus 0.35% to 0.67%	Various to 2019	83,672,000		40,994,149	
Project financing and syndicated bank loans	Fixed from 8.4% to 11%, TIIE plus 0.2% to 0.48%	Various to 2012	25,277,778		30,196,111	
Total financing in pesos			108,949,778		71,190,260	
Japanese yen:						
Direct loans	Fixed of 4.2%	2009	879,395	9,621,390	1,368,275	12,016,738
Bonds	Fixed of 3.5%	2023	2,742,000	30,000,000	3,413,079	30,000,000
Project financing	Fixed from 2.9% to 2.9081% and PRIME in yen	Various to 2017	9,166,128	100,285,864	13,360,217	129,502,885
Total financing in Yen			12,787,523	139,907,254	18,141,571	171,519,623
Other currencies[1]	Fixed rate from 7.5% to 14.5% and LIBOR plus 0.8125%	Various to 2013	8,337,048	Various	10,071,015	Various
Total principal in pesos[2]			525,145,937		453,640,937	
Plus: Accrued interest			1,028,055		2,691,164	
Notes payable to contractors			11,513,644		13,806,975	
Total principal and interest			537,687,636		470,139,076	
Less: Short-term maturities			33,470,716		48,633,627	
Current portion of notes payable to contractors			2,624,301		2,145,798	
			36,095,017		50,779,425	
Long-term debt			Ps. 501,592,619		Ps. 419,359,651	

	2006	2007	2008	2009	2010	2011 and thereafter	Total
Maturity of the principal	Ps. 32,442,661	Ps. 55,958,581	Ps. 50,377,132	Ps. 50,617,204	Ps.187,404,428	Ps. 148,345,931	Ps. 525,145,937

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. 377,935,400 and Ps. 349,697,339 as of December 31, 2005 and 2004, respectively.

(3) As of December 31, 2005 and 2004 the rates were as follows: LIBOR, 4.70% and 2.78%, respectively; the Prime rate in Japanese yen, 1.375% and 1.375%, 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.

Beginning in 2005, the notes payable to contractors are included within long-term debt. The total amounts payable to contractors at December 31, 2005 and December 31, 2004 are set forth below:

		2005		2004
Total notes payable to contractors (a) (b) (c)............	Ps.	11,513,644	Ps.	3,806,975
Less: Current portion of notes payable to contractors..		(2,624,301)		(2,145,798)
Notes payable to contractors (long-term)	Ps.	8,889,343	Ps.	11,661,177

(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 (Ps. 17,442,112), plus a financing cost of U.S. $805,648 (Ps. 8,683,032), due in twenty semi-annual payments of U.S. $121,200 (Ps. 1,306,257). The original amount of the unit-price public works contract was U.S. $80,000 (Ps. 862,216), including a financing cost of U.S. $47,600 (Ps. 513,019) payable monthly based on the percentage of completion. At December 31, 2005 and 2004, the outstanding balances of the respective contracts were Ps. 9,662,755 and Ps. 12,226,964, 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, 2005 and 2004, the outstanding balances were Ps. 736,589 and Ps. 1,008,984, respectively

(c) PEMEX has Multiple Services Contracts (MSCs) pursuant to which the hydrocarbons and construction in progress are property of PEMEX. Pursuant to the MSCs, the contractors manage the work-in progress, which are classified as development, infrastructure and maintenance. As of December 31, 2005 and 2004, PEMEX has an outstanding payable amount of Ps 1,114,300 and Ps 571,027, respectively.

NOTE 10 - 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 2d.). For the year ended December 31, 2005, 2004 and 2003, the sales under these agreements were Ps. 182,777,061, Ps. 171,688,689 and Ps. 132,617,158, respectively.

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.

Until 2004, the amount of the "sale of future accounts receivable" was shown as a long-term liability in the consolidated financial statements (see Note 2c.).

NOTE 11 - FINANCIAL INSTRUMENTS:

During the normal course of business, PEMEX is exposed to foreign currency risk, interest rate risk, hydrocarbon price risk and credit risk. These risks create volatility in earnings, equity, and cash flows from period to period. PEMEX uses derivative instruments to eliminate or limit many of these risks.

PEMEX has established general risk management guidelines for the use of derivative instruments.

Each Subsidiary Entity using derivative 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 Public Credit, 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 default) risk through the use of derivative 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 PEMEX's operating cash flows for long-term debt commitments. 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 LIBOR and Mexican interest rates.

(iv) Exchange rate risk management

As a currency exchange rate risk hedging policy, PEMEX utilizes cross-currency swaps to hedge against adverse changes in currency exchange rates for loans issued in currencies other than the U.S. dollar or Mexican Peso. Since a significant amount of PEMEX's revenues is denominated in U.S. dollars, PEMEX generally obtains loans in U.S. dollars. However, PEMEX also carries 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 of the debt issued in currencies other than 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.

(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-Gas and Basic Petrochemicals offers its customers financial instruments as a value added service and PEMEX provides various hedging contracts to its customers in order to give them the option of protecting against fluctuations in the price of its products.

As part of the policies of the Federal Government for promoting economic growth, during the fourth quarter of 2003, the Ministry of Energy announced a new program for hedging natural gas prices that PEMEX could offer to domestic customers for the years 2004 through 2006. Sales under this program represent approximately 20% of all of PEMEX's domestic industrial natural gas sales.

PEMEX decided to modify its traditional risk profile for natural gas in order to mitigate the volatility of income arising from natural gas sales. This strategy represents approximately 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 does not generally enter into any long-term hedges against fluctuations in crude oil prices due to the fiscal regime, through which it transfers, via taxes and duties, most of the risk in the price of this commodity to the federal government. However, during 2005, PEMEX entered into a short-term oil price hedging strategy by purchasing options that would guarantee a minimum price for approximately 7% of the total crude oil production for that year. These instruments were acquired in February and March. These options expired on December 31, 2005, and were not exercised due to the high price of crude oil.

(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 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 the derivative financial instruments that PEMEX utilizes:

- The fair value for interest rate, exchange rate and hydrocarbon derivative instruments is determined by discounting future cash flows at fair value as of the balance sheet date, using market quotations for the instruments' remaining life.

- Prices for options are calculated using standard option-pricing models commonly used in the international financial market.

- Exchange-traded energy futures contracts are valued individually at daily settlement prices quoted on the futures markets.

(viii) Embedded derivatives

With respect to the Exchangeable Bonds issued by RepCon Lux, S.A., PEMEX has determined that the option holders' right to request to exchange their Exchangeable Bonds for shares of Repsol YPF, S.A., was an embedded derivative. Accordingly, this embedded derivative had to be separated from the underlying debt instrument, recorded at fair value and accounted for separately within the balance sheet.

(ix) Operations with derivative financial instruments

PEMEX enters into derivative transactions with the sole purpose of hedging financial risks related to its operations, assets, or liabilities. Nonetheless, some of these transactions do not qualify for hedge accounting and therefore are recorded in the financial statements as entered into for trading purposes, despite the fact that their profits or losses are offset by the profits or losses of the positions to which they relate.

As part of Pemex's client-based approach, it offers natural gas derivatives to its clients. As mentioned above, its benchmark is the market price; therefore, Pemex enters into derivative transactions with the opposite position in order to offset the effect of the derivatives offered to its clients. Bulletin C-10 does not allow derivative positions to serve as hedges for other derivatives. Therefore, these operations are treated for accounting purposes as entered into for trading purposes. However, given that they have offsetting effects, PEMEX is only exposed to the basis risk arising from the difference between the index offered to clients and the underlying index related to the offsetting position.

As of December 31, 2005, the fair value of the derivative instruments was Ps. (15,559,108). This amount includes the derivative instruments designated as cash flow hedges and their fair value of Ps. (6,517,352) was recorded under comprehensive loss.

The following table shows the fair value and the notional value of the amounts of the over-the-counter derivative instruments, outstanding as of December 31, 2005, which are designated as cash flow hedges:

	Notional	Fair Value
Interest rate swaps:		
Pay fixed / receive variable	Ps. 17,493,163	(Ps. 1,428,493)
Natural gas swaps:		
Pay variable / receive fixed	Ps. 4,455,088	(Ps. 4,916,858)

Derivative instruments designated as cash flow hedges having the same critical characteristics as the item being hedged are considered to be fully effective.

In light of the foregoing, these instruments do not have an impact in earnings due to hedge inefficiency, and their fair value is recognized in its entirety as part of equity through other comprehensive income. The fair value of these instruments is reclassified into earnings at the same time as the hedged item cash flow affect earnings.

When the derivative instruments designated as cash flow hedges do not present the same critical characteristics as the hedged item, the inefficient portion of the fair value is recognized in earnings, and the efficient portion is recognized as part of equity through other comprehensive income.

When a cash flow hedge is no longer effective, the accumulated gains or losses that were recorded in other comprehensive income have to remain in this account and be reclassified into earnings at the same time as the hedge item cash flows affect earnings; however, from that date forward the derivative instrument will lose the hedge accounting treatment.

On December 31, 2005, only an interest-rate swap designated as a cash flow hedge had lost the hedge accounting treatment.

During 2005, a net loss of Ps. 3,778,772 was reclassified from other comprehensive income into earnings and it is estimated that in 2006, a net loss of Ps. 5,480,522 will be reclassified from other comprehensive income into earnings.

The following table shows the fair value of the notional amounts of the exchange-traded derivative instruments as of December 31, 2005, treated for accounting purposes as entered into for trading purposes:

	Notional Value	Fair Value
Natural gas futures:		
Purchase	Ps. 608	Ps. 37
Sale	630	184

The following table shows the fair value and the notional amounts of the over-the-counter derivative instruments as of December 31, 2005, treated for accounting purposes as entered into for trading purposes:

	Notional Amount	Fair Value
Cross-currency swaps:		
Pay U.S. Dollar / Receive Pounds sterling	Ps. 8,393,834	Ps. 268,489
Pay U.S. Dollar / Receive Japanese Yen	12,585,088	(869,740)
Pay U.S. Dollar / Receive Euros	57,004,225	(3,476,905)
Natural gas swaps:		
Pay fixed / receive variable	Ps. 8,079,264	Ps. 984,065
Pay variable / receive fixed	5,281,234	(915,135)
Pay variable / receive variable	2,240,019	(68,093)
Natural gas options:		
Pay fixed / receive variable		Ps. (2,272)
Pay variable / receive fixed		891
Pay variable / receive variable		8,684

Note: The exchange rate is equal to Ps. 10.7777 per Dollar.

During 2005, PEMEX recognized a net loss of Ps. 5,195,270 in comprehensive financing cost and a decrease in the cost of sales of Ps. 65,202, related to the operations with derivative instruments treated for accounting purposes as entered into for trading purposes.

The following table shows the interest rate swaps' notional amount and fair value at December 31, 2004:

	2004	
	Notional Amount	Fair Value
Interest rate swaps	Ps. 12,513,876	Ps. (131,693)

The following table shows the notional amounts of cross-currency swaps and their respective fair values at December 31, 2004:

	2004	
	Notional Amount	Fair Value
Pounds sterling to U.S. dollars	Ps. 8,497,208	Ps. 1,289,069
Japanese yen to U.S. dollars	13,405,145	2,292,394
Euros to U.S. dollars	43,154,825	4,651,255

The following table indicates the natural gas derivative instrument, and their fair value at December 31 2004:

	2004
	Fair Value
Swaps	(Ps. 3,122,776)
Options	4,839
Futures	62,193

The estimated fair value of financial instruments other than derivatives for which it is practicable to estimate their value, as of December 31, 2005 and 2004, is as follows:

	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents	Ps. 120,826,589	Ps. 120,826,589	Ps. 84,872,231	Ps. 84,872,231
Accounts receivable, notes and other	117,880,340	117,880,340	90,273,995	90,273,995
Financial instruments	3,473,583	3,473,583		
Liabilities:				
Suppliers	30,960,550	30,960,550	24,322,630	24,322,630
Accounts and accumulated expenses payable	10,382,503	10,382,503	22,881,389	22,881,389
Sale of future accounts receivable	–		36,685,689	36,685,689
Taxes payable	68,005,297	68,005,297	44,136,805	44,136,805
Derivative financial instruments	19,032,691	19,032,691	–	–
Current portion of long-term debt	36,095,017	36,095,017	49,141,680	49,141,680
Long-term debt	501,592,619	556,513,249	405,834,318	439,292,228

The information of the fair value of the financial instruments presented in these tables is shown for informational purposes only.

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 12 - 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.

Beginning January 1, 2005, PEMEX adopted the revised Bulletin D-3 and now recognizes its obligations related to severance payments paid to employees upon dismissal.

For the years ended December 31, 2005 and 2004, PEMEX contributed Ps. 14,038,276 and Ps. 1,866,856, respectively, to the pension plan, seniority premium plan and other post retirement benefits plan.

The 2005 pension plan and seniority premium liabilities are as follows:

	December 31, 2005			
	Pension	Seniority premium	Indemnity	Total
Vested benefit obligation	Ps. 145,084,985	Ps. 13,102,013	Ps. 1,201,840	Ps. 159,388,838
Nonvested benefit obligation	107,526,530	54,044	17,817	107,598,391
Current benefit obligation	252,611,515	13,156,057	1,219,657	266,987,229
Less: Plan assets	(1,397,806)	(16,266)	–	(1,414,072)
Net current liability	251,213,709	13,139,791	1,219,657	265,573,157
Net projected liability	(147,354,600)	(16,015,924)	(1,518,327)	(164,888,851)
Additional liability	Ps. 103,859,109	Ps. 67,937	Ps. 17,817	Ps. 103,944,863
Projected benefit obligation	Ps. 256,535,529	Ps. 13,552,494	Ps. 1,235,593	Ps. 271,323,616
Less: Plan assets	(1,397,806)	(16,266)	–	(1,414,072)
Items to be amortized over the next 13 and 14 years:				
Transition obligations	(69,812,839)	(3,497,599)	(17,818)	(73,328,256)
Prior service costs and plan amendments	(6,895,338)	(270,452)	–	(7,165,790)
Variations in assumptions and adjustments for experience	(31,074,946)	6,247,747	300,552	(24,526,647)
Total of unamortized items	(107,783,123)	2,479,696	282,734	(105,020,693)
Net projected liability	Ps. 147,354,600	Ps. 16,015,924	Ps. 1,518,327	Ps. 164,888,851

	December 31, 2005			
	Pension	Seniority premium	Indemnity	Total
Net cost for the period for seniority premium, pension plan and indemnities:				
Service cost	Ps. 5,183,958	Ps. 745,332	Ps. 103,804	Ps. 6,033,094
Financial cost	18,265,810	1,061,056	109,078	19,435,944
Return on plan assets	(171,618)	(651)	–	(172,269)
Transition obligation	5,335,518	366,502	1,277	5,703,297
Prior services and plan amendments	302,997	34,631	–	337,628
Variations in assumptions and adjustments for experience	175,084	(331,205)	–	(156,121)
Inflation adjustment	967,020	62,150	7,030	1,036,200
Total net cost for the year	30,058,769	1,937,815	221,189	32,217,773
Recognition of severance payments	–	–	1,298,705	1,298,705
Net cost of the period and recognition of severance payments	Ps. 30,058,769	Ps. 1,937,815	Ps. 1,519,894	Ps. 33,516,478

2004 and 2003 liabilities are as follows:

	December 31, 2004			December 31, 2003
	Pension	Seniority premium	Total	Total
Vested benefit obligation	Ps. 131,659,246	Ps. 2,734,925	Ps. 134,394,171	Ps. 119,509,593
Nonvested benefit obligation	88,590,162	9,167,395	97,757,557	104,295,844
Current benefit obligation	220,249,408	11,902,320	232,151,728	223,805,437
Less: Plan assets	(2,567,683)	(10,827)	(2,578,510)	(14,292,130)
Net current liability	217,681,725	11,891,493	229,573,218	209,513,307
Net projected liability	(131,487,350)	(14,218,992)	(145,706,342)	(118,131,995)
Additional liability	Ps. 86,194,375	Ps. –	Ps. 86,194,375	Ps. 129,684,938
Projected benefit obligation	Ps. 226,830,068	Ps. 12,776,647	Ps. 239,606,715	Ps. 238,152,008
Less: Plan assets	(2,567,683)	(10,827)	(2,578,510)	(14,292,130)
Items to be amortized over the next 14 and 15 years:				
Transition obligations	(75,324,750)	(3,876,164)	(79,200,914)	(88,138,493)
Prior service costs and plan amendments	(4,272,154)	(301,379)	(4,573,533)	(3,613,349)
Variations in assumptions and adjustments for experience	(13,178,131)	5,630,715	(7,547,416)	(13,976,041)
Total of unamortized items	(92,775,035)	1,453,172	(91,321,863)	(105,727,883)
Net projected liability	Ps. 131,487,350	Ps. 14,218,992	Ps. 145,706,342	Ps. 118,131,995

	December 31, 2004			December 31,2003
	Pension	Seniority premium	Total	Total
Net cost for the period for seniority premium and pension plan:				
Service cost	Ps. 5,753,573	Ps. 821,168	Ps. 6,574,741	Ps. 5,851,977
Financial cost	17,350,478	1,152,254	18,502,732	17,113,232
Return on plan assets.........................	(645,768)		(645,768)	(1,119,063)
Transition obligation	5,238,983	356,839	5,595,822	5,655,032
Prior services and plan amendments ..	249,010	29,314	278,324	155,566
Variations in assumptions and adjustments for experience................	183,798	(46,818)	136,980	55,447
Inflation adjustment...........................	1,454,995	120,050	1,575,045	1,099,559
Total net cost for the year..................	Ps. 29,585,069	Ps. 2,432,807	Ps. 32,017,876	Ps. 28,811,750

	December 31		
	2005	2004	2003
Rates used in calculating benefit obligations and plan benefits:			
Discount rate..	4.50%	4.59%	4.59%
Rate of increase in compensation levels...................	0.50%	0.92%	0.92%
Rate of increase in costs of other post-retirement benefits	0.50%	0.92%	0.92%
Expected long term rate of the return on plan assets..	5.00%	5.50%	5.50%

	December 31		
	2005	2004	2003
Other post-retirement benefits plan:			
Obligations for other post-retirement benefits......	Ps. 200,973,749	Ps. 173,439,732	Ps. 102,461,642
Less:			
Pending items of amortization relative to those benefits	(94,144,046)	(89,904,451)	(39,657,173)
Net liability for other post-retirement benefits	Ps. 106,829,703	Ps. 83,535,281	Ps. 62,804,469

	December 31		
	2005	2004	2003
Net cost for other post-retirement benefits			
Service cost..	Ps. 3,856,677	Ps. 3,642,338	Ps. 2,293,719
Financial cost..	14,337,228	12,113,374	7,951,267
Transition obligation	5,929,869	5,820,593	2,648,425
Prior services and plan amendments cost	4,147,944	209,655	219,325
Variations in assumptions and adjustments for experience ..	(3,530,489)	(108,553)	(115,178)
Inflation adjustment..	824,232	1,125,241	516,846
Total net cost for the year	Ps. 25,565,461	Ps. 22,802,648	Ps. 13,514,404

	December 31,	
	2005	2004
Expected obligations for other post-retirement benefits related to retired employees and active employees that have become vested	Ps. 120,154,237	Ps. 107,307,357
Portion of the post-retirement benefits for other employees based on years of service	80,819,512	66,132,375
Total accumulated obligation for other post-retirement benefits	Ps. 200,973,749	Ps. 173,439,732
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. 17,953,025	Ps. 5,487,463
Accumulated post-retirement benefit obligation	Ps. 243,780,967	Ps. 50,768,634

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 revised 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 do not require that an additional liability be established for other post-retirement benefits.

NOTE 13 - COMMITMENTS:

a. Petróleos Mexicanos is jointly responsible for all the liabilities that the Master Trust (constituted on November 10, 1998 with The Bank of New York and The Bank of New York (Delaware)) contracts. The principal propose of the Master Trust is the administration of financial resources to finance projects designated by Petróleos Mexicanos. The unpaid balance of the liabilities of the Master Trust, which are guaranteed by Petróleos Mexicanos, derive from the resources that it obtains for the development of the PIDIREGAS projects, on December 31, 2005, is Ps. 378,929,073 (U.S. $35,158,621), which is allocated as follows: resources obtained under the protection of the agreement of derivation of funds is equal to Ps. 24,217,486 (U.S. $2,246,999) and resources obtained from financial institutions is equal to Ps. 354,711,587 (U.S. $32,911,622). The outstanding balance on December 31, 2004, was equal to Ps. 370,720,009 (U.S. $31,848,191), which is allocated as follows: the resources obtained under the protection of the agreement of derivation of funds Ps. 40,917,207 (U.S. $3,515,157), and the resources obtained of financial institutions Ps. 329,802,802 (U.S. $28,333,034).

b. Petróleos Mexicanos is jointly responsible as guarantor for all the liabilities of the Fideicomiso F/163 (constituted on October 17, 2003 and administered until July 31, 2004, by Bank Boston S.A. and from August 1, 2004 until the date of issuance of these financial statements by JP Morgan Bank), which issues *certificados bursatiles* and enters into other financings, in accordance with instructions provided by Petróleos Mexicanos. The resources that are obtained from these financings are destined to cover peso-denominated payment obligations incurred by PIDIREGAS projects. The outstanding balance of the Fideicomiso F/163 on December 31, 2005 and 2004, is Ps. 106,449,777 and Ps. 63,956,971, respectively.

c. PEMEX has entered into a nitrogen supply contract for the pressure maintenance program at the Cantarell field that expires in 2015. At December 31, 2005 and 2004, the value of the nitrogen to be supplied during the term of the contract is approximately Ps. 15,141,829 and Ps. 19,096,059, respectively. In the event of the annulment of the contract and depending on the circumstances, PEMEX would be required to purchase the nitrogen production plant in accordance with the terms of the contract.

The future payments in connection with this contract are estimated as follows:

2006	Ps.	2,371,373
2007		2,310,159
2008		1,592,950
2009		1,242,335
2010		1,242,335
2011 and thereafter		6,382,677
Total	Ps.	15,141,829

d. During 2005 and 2004, PEMEX, has implemented MSCs. In connection with these contracts the contractor, on his own cost, has to administer and support the execution of the works of the MSCs, which are grouped in the categories of development, infrastructure and maintenance. The estimated value of the MSCs, on December 31 is as follows:

Date of contracting	Block	2005	2004
February 9, 2004	Olmos	U.S. $ 343,574	U.S. $ 343,574
November 21, 2003	Cuervito	260,072	260,072
November 28, 2003	Misión	1,035,580	1,035,580
November 14, 2003	Reynosa-Monterrey	2,437,196	2,437,196
December 8, 2003	Fronterizo	264,977	264,977
December 9, 2004	Pandura-Anáhuac	900,392	–
March 23, 2005	Pirineo	645,295	–
Total		U.S. $ 5,887,086	U.S. $ 4,341,399

e. 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 particular for each customer. Certain contracts have no expiration date, while other contracts contain minimum mandatory periods.

f. At December 31, 2005 and 2004, PEMEX had entered into contracts with various contractors for an approximate amount of Ps. 226,792,349 and Ps. 155,239,285. These contracts are for the development of PIDIREGAS.

NOTE 14 - 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. Unless specifically mentioned in this Note, 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 Ecological Equilibrium 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. 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 contemplate remediation for environmental damages, 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, 2005 and 2004 of Ps. 1,418,714 and Ps. 1,594,677, respectively. That reserve is included in long-term liabilities in the balance sheet.

c. At December 31, 2005, PEMEX is involved in various civil, tax, criminal administrative and labor lawsuits for a total amount of Ps. 13,767,793, which is similar to the amounts as of December 31, 2004. At December 31, 2005 and 2004, PEMEX has accrued a reserve of Ps. 1,578,659 and Ps. 1,631,271, respectively, related to those contingencies, although final resolutions are still pending.

d. PEMEX is currently involved in an arbitration with Conproca, S. A. de C. V. ("Conproca") arising out of public works contracts. Based on the latest filings made before the International Arbitration Court, the claim filed by Conproca is for U.S. $623,801 and the counterclaim filed by PEMEX is for the amount of U.S. $907,600.

Currently, the arbitration is in its evidentiary stages. The first liability hearing was held during the first week of February 2006. Pursuant to the procedural schedule the next steps of the arbitration are: 1) the filing of allegation writs related to the first liability hearing have to be made by the parties; 2) the International Arbitration Court will issue an opinion with its conclusions of the first liability hearing: and 3) a final liability hearing will be held in January 2007.

e. The *Comisión Federal de Competencia* (Federal Competition Commission) issued a resolution against PEMEX for alleged monopolistic practices in connection with exclusivity clauses contained in various agreements related to the sale of lubricants and automotive oil. The resolution requires the following measures to be taken:

- amend the joint venture agreements, trademark license agreements, supply franchise agreements and any documents with an exclusivity clause;

- execute amendments with the franchised retail services stations to adjust franchise and supply contracts; and

- inform the legal representatives of retail service stations of the resolution issued by the Federal Competition Commission.

As of this date, PEMEX has filed two appeals for constitutional relief, referred to as an *amparo*, against this resolution. One appeal was granted favorably in the first instance, but was challenged through an appeal for review and a resolution is still pending. PEMEX has not accrued any reserve for this claim.

f. Mecánica de la Peña, S.A. de C.V. and Mecapeña, S. A. de C. V has filed several claims related to certain contracts entered into with a Subsidiary Entity. As of this date, no judgment has been pronounced against the Subsidiary Entity in connection with such claims. Although a final judgment has not been pronounced, several resolutions have been pronounced in favor of the Subsidiary Entity in connection with the claims filed by the Subsidary Entity against Mecánica de la Peña, S. A. de C. V., Afianzadora Sofimex, S. A. and the Mexican Petroleum Institute. As of this date, the resolution of an *amparo* filed by the Subsidiary Entity is still pending. The amounts of U.S. $2,240 and U.S. $2,550, the object of two claims, have not been recovered by the Subsidiary Entity.

g. The Federal Commission of Competition has implemented certain administrative procedures against a Subsidiary Entity. As of this date, two resolutions have been issued under the administrative procedures (No. IO-62-97, dated July 10, 2003 and IO-14-99 dated November 27, 2003). An *amparo* against such resolutions filed by Impulsora Jalisciense, S. A. de C. V. was denied. Consequently, we are waiting for a notification from the Federal Commission of Competition notifying the Subsidiary Entity that the six-month term to comply with these resolutions has been renewed. A fine for an amount of 1,500 times the prevailing minimum wage (*Salario Mínimo Vigente*) in the Federal District for every day elapsed without compliance with these resolutions has not been ordered.

h. Combustibles de Oriente, S. A. de C. V. filed a commercial claim (No. 75/99) against a Subsidiary Entity. On August 16, 2004, a resolution was issued in which the Subsidiary Entity was ordered to pay Ps. 221,158 to this distributor, and the distributor was ordered to pay Ps. 31,143 for unpaid invoices. After the amounts were compensated, PEMEX paid Ps. 190,015 to the distributor on January 28, 2005, and the total amount was liquidated. The distributor filed a new motion for expenses, court costs and interest in the amount of Ps. 21,267 and Ps. 44,677, respectively. As of this date, a resolution is still pending.

i. Construcciones Industriales del Golfo, S. A. de C. V. filed a commercial claim (No. 30/2000) against Petróleos Mexicanos and a Subsidiary Entity in connection with public work contract no. STI-CEPE-06/92. The Subsidiary Entity was ordered to pay U.S.$ 4,358,730 for additional works performed and not paid and U.S.$ 229,950 for financial expenses plus 6 % in interest. These amounts were ordered by the Third District Civil Court in the Federal District on August 25, 2005. The final judgment is still pending due to an *amparo* filed by the contractor.

NOTE 15 - 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.

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 and Public Credit 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:

	Amount
Certificates of Contribution "A"(nominal value)	Ps. 10,222,463
Inflation restatement increase	79,582,840
Certificates of Contribution "A" in Mexican pesos of December 31, 2005 purchasing power	Ps. 89,805,303

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 on December 1990. 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.

During 2005 and 2004, Petróleos Mexicanos paid Ps. 15,283,418 and Ps. 10,734,035, respectively, 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.

The balance in favor of the Mexican Government, on December 31, 2005, was U.S$ 873,647 (Ps. 9,418,069).

On various dates during 2004, the Mexican Government transferred amounts to Petróleos Mexicanos totaling Ps. 34,099,791 in respect of the duty for infrastructure paid by PEMEX during the year. On November 4, 2004, the Board of Directors of Petróleos Mexicanos approved the increase in equity of the Subsidiary Entities in that amount. According to the *Ley de Ingresos de la Federación* ("Federal Income Law"), these amounts are to 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, PEMEX transferred cash totaling Ps. 33,725,238, which was reflected as an increase to the equity of the Subsidiary Entities.

On March 2, 2005, the Board of Directors of Petróleos Mexicanos approved the transfer by Petróleos Mexicanos to the agency agreement of Ps. 374,550 for infrastructure works, which increased Pemex-Exploration and Production's equity. The remaining amount in the agency agreement is Ps. 1,122,091.

According to the Federal Income Law for the fiscal year ended December 31, 2004, and to the Federal Budget of Expenses Decree for 2005, the Mexican Government transferred amounts to Petróleos Mexicanos for infrastructure that increased the Subsidiary Entities' equity as follows:

"Aprovechamiento para Obras de Infraestructura" (Infrastructure duty) ("AOI"), in accordance with Federal Income Law for 2004 (1)	Ps. 594,987
"*Aprovechamiento sobre Rendimientos Excedentes*" (Excess Gain Duty) ("ARE"), Federal Budget of Expenses Decree for 2005	22,067,471
Federal Budget of Expenses Decree for 2005...	22,162,900
	44,825,358
Not paid..	(594,987)
Total	Ps. 44,230,371

(1) Funds for Ps. 594,987 received for the AOI will be capitalized in the Subsidiary Entities in 2006.

Funds received for the ARE and those received in accordance with the Federal Budget of Expenses Decree were capitalized in the Subsidiary Entities and in Petróleos Mexicanos in 2005.

As of December 31, 2005, PEMEX has negative equity; however, it has not stopped complying with its contractual obligations.

NOTE 16 - COMPREHENSIVE LOSS:

Comprehensive loss for the years ended December 31, 2005, 2004 and 2003 is as follows:

	2005	2004	2003
Net loss for the year	(Ps. 76,282,350)	(Ps. 26,345,302)	(Ps. 44,178,998)
Effect of restatement of the year, net	7,580,524	(4,832,792)	6,125,448
(Application) increase in specific oil-field exploration and depletion reserve, net	–	–	(14,189,051)
Other	(26,591,197)	(7,208,067)	–
Comprehensive loss for the year	(Ps. 95,293,023)	(Ps. 38,386,161)	(Ps. 52,242,601)

NOTE 17 - 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, 2005:							
Sales -							
Trade	Ps. –	Ps. 353,222,406	Ps. 134,291,465	Ps. 20,216,707	Ps. 420,912,398	Ps. –	Ps. 928,642,976
Intersegment	716,286,862	38,260,366	82,592,212	8,816,253	122,259,517	(968,215,210)	–
Total net sales	716,286,862	391,482,772	216,883,677	29,032,960	543,171,915	(968,215,210)	928,642,976
Operating income (loss)	525,687,650	(26,770,098)	9,890,873	(9,060,006)	(20,415,278)	19,421,316	498,754,457
Comprehensive financing cost	(8,042,610)	3,574,708	(2,407,000)	3,288,447	12,175,880	(4,110,097)	4,479,328
Net income (loss)	(18,248,376)	(53,266,423)	6,681,722	(16,534,719)	(70,887,572)	75,973,018	(76,282,350)
Depreciation and amortization	39,502,470	8,023,845	3,573,360	995,737	695,339	–	52,790,751
Acquisition of fixed assets	27,322,470	6,055,512	1,793,872	2,326,415	40,596,326	–	78,094,595
Total assets	843,574,596	296,781,530	96,996,258	51,723,397	1,504,877,998	(1,751,393,904)	1,042,559,875
Year ended December 31, 2004:							
Sales -							
Trade	Ps. –	Ps. 326,675,570	Ps. 119,916,880	Ps. 17,384,538	Ps. 335,391,475	Ps. –	Ps. 799,368,463
Intersegment	579,693,486	27,921,845	69,426,501	7,611,461	96,172,451	(780,825,744)	–
Total net sales	579,693,486	354,597,415	189,343,381	24,995,999	431,563,926	(780,825,744)	799,368,463
Operating income (loss)	426,167,164	41,206,810	13,741,342	(8,168,863)	(649,581)	(1,925,083)	470,371,789
Comprehensive financing cost	7,842,819	5,473,295	(162,081)	1,393,069	3,344,345	(10,608,400)	7,283,047
Net income (loss)	(14,125,507)	(22,795,672)	12,040,606	(12,725,525)	(22,754,270)	34,015,066	(26,345,302)
Depreciation and amortization	29,865,992	7,750,718	3,514,142	1,332,077	833,552	–	43,296,481
Acquisition of fixed assets	69,077,201	4,808,231	1,690,885	1,645,756	342,000	–	77,564,073
Total assets	751,292,856	283,849,068	107,654,194	89,311,307	1,064,099,594	(1,317,101,438)	979,105,581
Year ended December 31, 2003:							
Sales -							
Trade	Ps. –	Ps. 309,534,588	Ps. 99,522,640	Ps. 11,855,353	Ps. 258,906,437	Ps. –	Ps. 679,819,018
Intersegment	463,735,986	25,478,801	55,223,506	6,587,592	72,190,733	(623,216,618)	–
Total net sales	463,735,986	335,013,389	154,746,146	18,442,945	331,097,170	(623,216,618)	679,819,018
Operating income (loss)	330,641,698	77,448,345	4,315,934	(10,637,472)	(22,076,414)	19,840,088	399,532,179
Comprehensive financing cost	23,133,311	13,363,208	(719,452)	1,118,276	12,198,284	(15,677,700)	33,415,927
Net income (loss)	1,219,825	(39,368,450)	8,351,781	(15,890,827)	(40,297,239)	41,805,912	(44,178,998)
Depreciation and amortization	30,149,783	8,276,742	3,630,639	1,091,913	921,037	–	44,070,114
Acquisition of fixed assets	53,322,244	14,252,231	3,840,131	1,767,844	583,457	–	73,765,907
Total assets	640,256,509	223,574,767	91,913,694	64,662,197	877,972,914	(979,381,873)	918,998,208

NOTE 18 - NEW FISCAL REGIME:

The Mexican Congress approved a new fiscal regime for Petróleos Mexicanos and its Subsidiary Entities, effective January 1, 2006. The new fiscal regime contemplates a gradual transition over four years from the prior fiscal regime to a less onerous regime under which PEMEX will be able to operate as an efficient oil and gas company and deduct costs of oil and gas exploration from the payment of taxes, which will have the effect of promoting greater exploration and production activities.

PEMEX believes that the new fiscal regime will contribute to an improvement of its financial position since the debt incurred for financing investment projects will decrease at a similar level as the savings in taxes between the new and old regime.

The new fiscal regime consists of the following taxes:

The Ordinary Hydrocarbons Duty is applied to the annual value of extracted production of crude oil and natural gas minus certain permitted deductions; for the first four years, the rate will depend upon the observed price and the year. After this transition period, the applicable rate will be 79%.

The Extraordinary Duty on Crude Oil Exports applies a rate of 13.1% to the price differential between the annual weighted average price of the Mexican barrel of crude oil and the price established by the Income Law multiplied by the exported volume. This duty is to be deducted from the Hydrocarbon Duty for the Oil Revenues Stabilization Fund. The proceeds from this duty will be destined to the states through the Oil Revenues Stabilization Fund.

In addition, with the new tax regime Petróleos Mexicanos and the industrial Subsidiary Entities (Pemex Refining, Pemex-Gas and Basic Petrochemicals and Pemex Petrochemicals) will pay the Hydrocarbon Income Tax on the difference between revenues, costs and expenses. This tax treatment is equivalent to the regular income tax applied to all Mexican Corporations.

As a result of the new fiscal regime to be effective as of January 1, 2006, PEMEX will generate deferred taxes.

NOTE 19 - NEW ACCOUNTING PRONUNCEMENTS:

As of May 31, 2004, MIPA formally transferred the function of establishing and issuing financial reporting standards to the Mexican Board for Research and Development of Financial Reporting Standards, or CINIF, consistent with the international trend of requiring this function be performed by an independent entity.

Accordingly, MIPA’s task of issuing bulletins and circulars of Mexican GAAP was transferred to CINIF, which subsequently renamed standards of Mexican GAAP as *Normas de Información Financiera* (Financial Reporting Standards, or “NIFs”), and determined that NIFs encompass (1) new bulletins established under the new function; (2) any interpretations issued thereof; (3) any Mexican GAAP bulletins that have not been amended, replaced or revoked by the new NIFs; and (4) International Financial Reporting Standards, or IFRS, that are supplementary guidance to be used when Mexican GAAP does not provide primary guidance.

One of the main objectives of CINIF is to attain greater concurrence with IFRS. To this end, it started by reviewing the theoretical concepts contained in Mexican GAAP and establishing a Conceptual Framework to support the development of financial reporting standards and to serve as a reference in solving issues arising in the accounting practice. The Conceptual Framework is formed by eight financial reporting standards, which comprise the NIF-A series. The NIF-A series, together with NIF B-1, were issued on October 31, 2005. Their provisions are effective for years beginning January 1, 2006, superseding all existing Mexican GAAP series A bulletins.

The most significant changes established by these standards are as follows:

- In addition to the statement of changes in financial position, NIF A-3 includes the statement of cash flows, which should be issued when required by a particular standard.

- NIF A-5 includes a new classification for revenues and expenses: ordinary and extraordinary. Ordinary revenues and expenses are derived from transactions or events that are within the normal course of business or that are inherent in the entity’s activities, whether frequent or not; extraordinary revenues and expenses refer to unusual transactions and events, whether frequent or not.

- NIF A-7 requires the presentation of comparative financial statements for at least with the preceding period. Through December 31, 2004, the presentation of prior years’ financial statements was optional. The financial statements must disclose the authorized date for their issuance, and the names of the officers or administrative bodies authorizing the related issuance.

- NIF B-1 establishes that changes in particular standards, reclassifications and correction of errors must be recognized retroactively. Consequently, basic financial statements presented on a comparative basis with the current year that might be affected by the change, must be adjusted as of the beginning of the earliest period presented.

At the date of issuance of these financial statements, we have not fully assessed the effects of adopting these new standards on its financial information.