PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007, 2006 AND 2005

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INDEPENDENT AUDITOR'S REPORT

Mexico City, Mexico, April 11, 2008

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

We have audited the accompanying consolidated balance sheet of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies ("PEMEX") as of December 31, 2007, and the related consolidated statements of operations, changes in equity and changes in financial position for the year ended December 31, 2007. These financial statements are the responsibility of the management of PEMEX. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of PEMEX as of December 31, 2006 and 2005, and for the years then ended, were audited by other independent accountants whose report dated April 20, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are prepared according with Mexican Financial Reporting Standards. 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 standards of financials information used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PEMEX at December 31, 2007 and the consolidated results of their operations, changes in equity and changes in financial position for the year ended December 31, 2007, in conformity with Mexican Financial Reporting Standards.

Our audit was made for the purpose of forming an opinion expressed in the paragraph above. The supplementary information related to the conversion of Mexican pesos to U.S. dollars, included in the financial statements as described in Note 3(z) and prepared under the responsibility of the PEMEX's management, is presented only for convenience of the reader, and is not required for the interpretation of the financial statements. In our opinion such additional information is fairly stated in all material respects.

KPMG Cárdenas Dosal, S. C.

/s/ Eduardo Palomino
Eduardo Palomino
Certified Public Accountant

REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

Mexico City, Mexico, June 29, 2007

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, 2006 and 2005, and the related consolidated statements of operations, changes in equity and changes in financial position for each of the two years in the period ended December 31, 2006. These financial statements are the responsibility of the management of PEMEX. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. 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 standards of financials information 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 3l. 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. 1,427,872,000, which is presented in the consolidated statement of operations as a cumulative effect of adoption of new accounting standards.

As described in Note 3m. 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 provisions resulted in the recognition of an initial cumulative charge of Ps. 477,996,000, recognized in the consolidated statement 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, 2006 and the consolidated results of their operations, changes in equity and changes in financial position for each of the two years in the period ended December 31, 2006, in conformity with Mexican Financial Reporting Standards.

PricewaterhouseCoopers

/s/ Ariadna L. Muñiz Patiño
Ariadna L. Muñiz Patiño
Public Accountant

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS

(In thousands of Mexican pesos as of December 31, 2007, purchasing power and in thousands of U.S. dollars)

	2007 (Unaudited)	2007	2006
ASSETS:			
Current assets:			
Cash and cash equivalents (Note 5)	**US$ 15,736,617**	**Ps. 170,997,240**	Ps. 195,776,457
Accounts, notes receivable and other—Net (Note 6)	**13,943,286**	**151,510,543**	137,163,105
Inventories—Net (Note 7)	**8,571,822**	**93,143,136**	62,063,798
Derivative financial instruments (Note 11)	**1,188,075**	**12,909,868**	4,389,836
	23,703,183	**257,563,547**	203,616,739
Total current assets	**39,439,800**	**428,560,787**	399,393,196
Investments in shares of non consolidated subsidiaries and affiliates (Note 8)	**3,042,770**	**33,063,354**	32,760,946
Properties, plant and equipment—Net (Note 9)	**73,056,399**	**793,845,453**	737,195,457
Intangible asset derived from the actuarial computation of labor obligations (Note 12)	**6,626,864**	**72,008,835**	76,495,133
Other assets—Net	**257,880**	**2,802,177**	4,175,692
Total assets	**US$ 122,423,713**	**Ps. 1,330,280,606**	Ps. 1,250,020,424
LIABILITIES:			
Current liabilities:			
Current portion of long-term debt (Note 10)	**US$ 6,998,778**	**Ps. 76,050,128**	Ps. 66,240,278
Suppliers	**3,233,728**	**35,138,344**	37,102,983
Accounts and accrued expenses payable	**1,665,488**	**18,097,530**	14,592,081
Taxes payable	**13,490,765**	**146,593,355**	45,006,644
Derivative financial instruments (Note 11)	**1,250,160**	**13,584,495**	13,372,143
Total current liabilities	**26,638,919**	**289,463,852**	176,314,129
Long-term liabilities:			
Long-term debt (Note 10)	**39,096,323**	**424,828,472**	524,475,242
Reserve for sundry creditors and others	**2,895,883**	**31,467,252**	31,513,072
Reserve for labor obligations (Note 12)	**48,609,566**	**528,201,272**	471,665,183
Deferred taxes (Note 19i.)	**590,077**	**6,411,897**	4,597,172
Total liabilities	**117,830,768**	**1,280,372,745**	1,208,564,798
EQUITY (Note 14):			
Certificates of Contribution “A”	**8,922,897**	**96,957,993**	96,957,993
Mexican Government increase in equity of Subsidiary Entities	**13,294,217**	**144,457,629**	133,296,805
Surplus in the restatement of equity	**16,430,011**	**178,531,795**	159,893,393
Effect on equity from labor obligations (Note 12)	**(4,763,352)**	**(51,759,539)**	(48,326,747)
Derivative financial instruments (Note 11)	**(101,749)**	**(1,105,629)**	(1,762,328)
	33,782,024	**367,082,249**	340,059,116
Accumulated losses:			
From prior years	**(27,504,262)**	**(298,866,819)**	(345,556,695)
Net income (loss) for the year	**(1,684,817)**	**(18,307,569)**	46,953,205
	(29,189,079)	**(317,174,388)**	(298,603,490)
Total equity	**4,592,945**	**49,907,861**	41,455,626
Commitments and contingencies (Notes 15 and 16)	-	-	-
Total liabilities and equity	**US$ 122,423,713**	**Ps. 1,330,280,606**	Ps. 1,250,020,424

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands of Mexican pesos as of December 31, 2007, purchasing power and in thousands of U.S. dollars)

	2007 (Unaudited)	2007	2006	2005
Net sales:				
Domestic	**US$ 54,485,281**	**Ps. 592,047,961**	Ps. 567,289,873	Ps. 545,339,433
Export	**49,964,740**	**542,926,858**	535,144,048	457,266,832
Services income	**97,606**	**1,060,609**	1,075,947	1,224,808
Total revenues	**104,547,627**	**1,136,035,428**	1,103,509,868	1,003,831,073
Cost of sales	**42,394,374**	**460,665,742**	418,258,210	389,943,899
Gross income	**62,153,253**	**675,369,686**	685,251,658	613,887,174
General expenses:				
Transportation and distribution expenses	**2,282,172**	**24,798,539**	24,921,656	23,655,910
Administrative expenses	**5,534,636**	**60,140,465**	56,052,773	50,527,884
Total general expenses	**7,816,808**	**84,939,004**	80,974,429	74,183,794
Operating income	**54,336,446**	**590,430,682**	604,277,229	539,703,380
Other revenues (principally IEPS benefit)—Net (Note 19h.)	**7,640,114**	**83,019,010**	61,213,533	2,896,394
Comprehensive financing result:				
Interest—Net	**(2,896,873)**	**(31,478,006)**	(36,195,263)	(41,500,949)
Exchange (loss) gain—Net	**(132,048)**	**(1,434,868)**	(2,470,584)	19,031,585
Gain on monetary position	**1,184,064**	**12,866,287**	14,819,222	17,633,273
	(1,844,857)	**(20,046,587)**	(23,846,625)	(4,836,091)
Profit sharing in non-consolidated subsidiaries and affiliates (Note 8)	**510,303**	**5,545,054**	10,073,577	8,658,665
Income before taxes and duties	**60,642,006**	**658,948,159**	651,717,714	546,422,348
Hydrocarbon extraction duties and others (Note 19)	**61,474,951**	**667,999,120**	587,020,786	538,063,741
Excess gain duties (Note 19d.)	**-**	**-**	8,223,820	60,869,738
Hydrocarbon income tax (Note 19i.)	**554,965**	**6,030,367**	4,914,859	2,135,245
Income tax (Note 19k.)	**296,906**	**3,226,241**	4,605,044	3,981,678
Special tax on production and services (IEPS Tax) (Note 19h.)	**-**	**-**	-	21,824,060
	62,326,822	**677,255,728**	604,764,509	626,874,462
Cumulative effect of adoption of new accounting standards (Notes 3l. and 3m.)	**-**	**-**	-	(1,905,868)
Net (loss) income for the year	**US$ (1,684,816)**	**Ps. (18,307,569)**	Ps. 46,953,205	Ps. (82,357,982)

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, 2007, 2006 AND 2005

(In thousands of Mexican pesos as of December 31, 2007, purchasing power and in thousands of U.S. dollars)

						Retained earnings (Accumulated losses)		
	Certificates of Contribution "A"	Mexican Government increase in equity of Subsidiary Entities	Surplus in the restatement of equity	Derivative financial instruments	Effect on equity from labor obligations	From prior years	For the year	Total
Balances as of December 31, 2004	Ps. 96,957,993	Ps. 36,411,340	Ps. 147,644,457	Ps. -	Ps. (7,782,166)	Ps. (207,589,715)	Ps. (28,443,617)	Ps. 37,198,292
Transfer to prior years' accumulated losses	-	-	-		-	(28,443,617)	28,443,617	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on June 10, 2006 (Note 14)	-	-	-	-	-	(11,482,869)	-	(11,482,869)
Increase in equity of the Subsidiary Entities made by the Mexican Government (Note 14)		48,157,553						48,157,553
Comprehensive loss for the year (Note 13)			8,184,288	(7,036,437)	(21,672,659)	-	(82,357,982)	(102,882,790)
Balances at of December 31, 2005	96,957,993	84,568,893	155,828,745	(7,036,437)	(29,454,825)	(247,516,201)	(82,357,982)	(29,009,814)
Transfer to prior years' accumulated losses	-	-	-	-	-	(82,357,982)	82,357,982	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 18th,, 2005 (Note 14)	-	-	-	-	-	(16,392,606)	-	(16,392,606)
Increase in equity of the Subsidiary Entities made by the Mexican Government		48,727,912						48,727,912
Comprehensive income for the year (Note 13)			4,064,648	5,274,109	(18,871,922)	710,094	46,953,205	38,130,134
Balances at December 31, 2006	96,957,993	133,296,805	159,893,393	(1,762,328)	(48,326,747)	(345,556,695)	46,953,205	41,455,626
Transfer to prior years' accumulated losses	-	-	-	-	-	46,953,205	(46,953,205)	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on August 29, 2007 (Note 14)	-	-	-	-	-	(263,329)	-	(263,329}
Increase in equity of the Subsidiary Entities made by the Mexican Government (Note 14)	-	11,160,824	-	-	-	-	-	11,160,824
Comprehensive loss for the year (Note 13)	-	-	18,638,402	656,699	(3,432,792)	-	(18,307,569)	(2,445,260)
Balances at December 31, 2007	**Ps. 96,957,993**	**Ps. 144,457,629**	**Ps. 178,531,795**	**(Ps. 1,105,629)**	**(Ps. 51,759,539)**	**(Ps. 298,866,819)**	**(Ps 18,307,569)**	**Ps. 49,907,861**
Unaudited	**US$ 8,922,897**	**US$ 13,294,217**	**US$ 16,430,011**	**US$ (101,749)**	**US$ 4,763,352**	**US$ (27,504,262)**	**US$ (1,684,817)**	**US$ 4,592,945**

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

(In thousands of Mexican pesos as of December 31, 2007, purchasing power and in thousands of U.S. dollars)

	2007 (Unaudited)	2007	2006	2005
Operating activities:				
Net (loss) income for the year	**US$ (1,684,817)**	**Ps. (18,307,569)**	Ps. 46,953,205	Ps. (82,357,982)
Charges to operations not requiring the use of funds:				
Depreciation and amortization	**6,680,506**	**72,591,718**	65,672,189	56,995,357
Reserve for labor obligations cost	**7,850,662**	**85,306,866**	74,493,349	63,787,616
Profit sharing in non-consolidated subsidiaries and affiliates	**510,302**	**5,545,054**	10,073,577	8,658,665
Deferred taxes	**177,417**	**1,927,847**	904,162	2,135,247
Impairment on fixed assets	**-**	**-**	703,247	1,432,691
	13,534,070	**147,063,916**	198,799,729	
Funds generated (used) in operation activities:				
Accounts, notes receivable and other	**(1,320,373)**	**(14,347,438)**	(37,177,837)	9,930,406
Inventories	**(1,155,331)**	**(12,554,059)**	(2,678,038)	(6,527,714)
Intangible asset derived from the actuarial computation of labor obligations	**-**	**-**	23,316,114	(14,672,035)
Other assets	**126,403**	**1,373,515**	(576,898)	-
Suppliers	**(180,803)**	**(1,964,639)**	3,676,529	6,291,447
Accounts payable and accrued expenses	**365,779**	**3,974,633**	3,382,644	(14,317,686)
Taxes payable	**9,348,872**	**101,586,711**	(26,857,283)	24,181,434
Reserve for sundry creditors and others	**(4,217)**	**(45,820)**	3,744,807	(1,203,805)
Derivative financial instruments	**(747,287)**	**(8,120,165)**	(2,541,921)	16,798,338
Funds provided by operating activities	**19,967,113**	**216,966,654**	163,087,846	71,131,979
Financing activities:				
Minimum guaranteed dividends paid to the Mexican Government	**(24,234)**	**(263,329)**	(16,392,606)	(11,482,869)
(Decrease) Increase in Debt—Net	**(8,267,556)**	**(89,836,920)**	10,202,873	65,892,138
Increase in equity of Subsidiary Entities	**1,027,114**	**11,160,824**	48,727,912	48,157,553
Retirement, seniority premiums and other post retirements benefits payments.	**(2,550,779)**	**(27,717,270)**	(17,042,349)	-
Sale of future accounts receivable	**-**	**-**	-	(40,871,801)
Funds (used in) provided by financing activities	**(9,815,455)**	**(106,656,695)**	25,495,830	61,695,021
Investing activities:				
Investment in shares	**(538,133)**	**(5,847,462)**	(14,153,450)	(7,485,420)
Increase in fixed assets—Net	**(11,893,920)**	**(129,241,714)**	(109,103,789)	(89,577,399)
Funds used in investing activities	**(12,432,053)**	**(135,089,176)**	(123,257,239)	(97,062,819)
Net (decrease) increase in cash and cash equivalents	**(2,280,395)**	**(24,779,217)**	65,326,437	35,764,181
Cash and cash equivalents at beginning of the year	**18,017,012**	**195,776,457**	130,450,020	94,685,839
Cash and cash equivalents at end of the year	**US$ 15,736,617**	**Ps. 170,997,240**	Ps. 195,776,457	Ps. 130,450,020

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

These financial statements have been translated from the Spanish language for the convenience of the reader.

NOTE 1—APPROVAL:

On April 11, 2008, the attached consolidated financial statements and the notes thereto were authorized by the following officers: Public Accountant Víctor M. Cámara Peón, Deputy Director of Financial Information Systems and Public Accountant Enrique Díaz Escalante, Associate Managing Director of Accounting.

These consolidated financial statements and the notes thereto will be submitted for approval to the Board of Directors of Petróleos Mexicanos in a meeting scheduled for April 29, 2008, where it is expected that the Board will approve such statements pursuant to the terms Article 104 Fraction III, paragraph a, of the Mexican Securities Market Law, of Article 33 Fraction I, paragraph a section 3 and of Article 78 of the general provisions applicable to Mexican securities issuers and other participants of the securities market.

NOTE 2—STRUCTURE AND BUSINESS OPERATIONS OF PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES:

Petróleos Mexicanos was created on June 7, 1938, and began operations on July 20, 1938. A decree of the Mexican Congress stated the foreign-owned oil companies in operation at that time in the United States of Mexico (Mexico) were thereby nationalized. 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 the 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* (Regulatory Law to Article 27 of the Political Constitution of the United Mexican States concerning Petroleum affairs, or the "Regulatory Law"), effective on November 30, 1958, as amended effective on 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 on July 17, 1992, as amended effective on 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 the Subsidiary Entities by the Organic Law, other than those entrusted to Pemex-Petrochemicals, can be performed only by Petróleos Mexicanos and the Subsidiary Entities and cannot be delegated or subcontracted. Pemex-Petrochemicals is an exception and may delegate and/or subcontract certain activities.

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 were no changes 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" are defined as (a) those companies which are not Subsidiary Entities but in which Petróleos Mexicanos has more than 50% ownership investment and effective control, (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) (d) RepCon Lux, S.A., a Luxembourg finance vehicle whose debt is guaranteed by Petróleos Mexicanos ("RepCon Lux") and (e) Pemex Finance, Ltd.

"Non-consolidated subsidiary companies," as used herein, means (a) those non-material subsidiary companies which are not Subsidiary Entities or Subsidiary Companies, as defined above in this note and (b) those companies in which PEMEX has 50% or less does ownership investment and not have effective control.

Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies are referred to as "PEMEX."

On September 14, 2004, the authorities authorized the procedures to merge Pemex-Petrochemicals and its subsidiaries. At the extraordinary Board of Directors' meeting held on February 9, 2006, the merger was formalized with Pemex-Petrochemicals as the surviving company, which acquired the rights and obligations of its merged subsidiaries on April 30, 2006, while the subsidiary companies became petrochemical complexes operating as part of the surviving entity. The foregoing had no effect on the preparation of these consolidated financial statements.

NOTE 3—SIGNIFICANT ACCOUNTING POLICIES:

The preparation of the financial statements requires the use of estimates and assumptions made by PEMEX's management that affect the recorded amounts of assets and liabilities and the disclosures of contingent assets and liabilities as well as the recorded amounts of income and expenses during the year. The important items subject to such estimates and assumptions include the book value of properties, plant and equipment; the valuation of the allowance for doubtful accounts, inventories and work in progress and the valuation of financial instruments and of the assets and liabilities related to labor obligations. Actual results could differ from those estimates.

References in these financial statements and related notes to "pesos" or "Ps." refers to Mexican pesos and "dollars" or "US$" refers to dollars of the United States of America.

For accounting purposes the functional currency of PEMEX is the Mexican peso.

Below is a summary of 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. *Effects of inflation on the financial information*

PEMEX recognizes the effects of inflation in accordance with Bulletin B-10 of *Normas de Información Financiera* (Mexican Financial Reporting Standards or "Mexican FRS" or "NIF's"), "Effects of Inflation" ("Bulletin B-10"). All periods presented herein are presented in accordance with Bulletin B-10.

The amounts shown in the accompanying consolidated financial statements include the effects of inflation in the financial information and are expressed in thousands of constant Mexican pesos as of December 31, 2007, based on the Mexican National Consumer Price Index ("NCPI"). The indexes used for the recognition of inflation were as follows:

December 31,	NCPI	Inflation for the year
2007	125.5640	3.76%
2006	121.0150	4.05%
2005	116.3010	3.33%

b. *Consolidation*

The consolidated financial statements include the accounts of Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies. All significant intercompany balances and 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 CIM"); P.M.I. Trading Ltd. ("PMI Trading"); P.M.I. Holdings North America, Inc. ("PMI HNA"); P.M.I. Holdings Petróleos España ("HPE"); P.M.I. Holdings B.V. ("PMI HBV"); P.M.I. Norteamérica, S.A. de C.V. ("PMI NASA"); Kot Insurance Company AG ("KOT"); Integrated Trade Systems, Inc. ("ITS"); P.M.I. Marine Ltd ("PMI Mar"); P.M.I. Services, B.V. ("PMI-SHO"); Pemex Internacional España, S.A. ("PMI-SES"); Pemex Services Europe Ltd. ("PMI-SUK"); P.M.I. Services North America, Inc. ("PMI-SUS"); Mex Gas International, Ltd. ("MGAS"); the Master Trust; Fideicomiso F/163; RepCon Lux and Pemex Finance, Ltd..

The financial statements of foreign Subsidiary Companies classified as integrated foreign operations, as defined by Mexican FRS, are translated into Mexican pesos on the following basis: a) monetary items, at the rate of exchange in effect at the end of the period;

b) non-monetary items, at the historical exchange rate; c) income and expense items, at the average exchange rate for each month in the year; and d) the effect of changes in exchange rates is recorded in equity. The financial statements in pesos are restated at the close of the period in accordance with the provisions of Bulletin B-10.

The financial statements of other foreign Subsidiary Companies are translated using the exchange rate effective at year end for monetary assets and liabilities, the historical exchange rate for non-monetary items and the average exchange rate for the statements of operations items. The effects of changes in the applicable exchange rates are included directly in stockholders' equity as "Surplus in restatement of equity."

Investment in non-consolidated subsidiary companies and affiliates are accounted for in accordance with paragraph (h) of this note. Other non-material subsidiary companies and affiliates are valued at cost and, based upon their relative importance to the total assets and income of PEMEX, were not consolidated and are accounted for under the equity method.

c. *Long-term productive infrastructure projects (PIDIREGAS)*

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

For the purposes of these consolidated financial statements and in accordance with Mexican FRS, all accounts related to PIDIREGAS were incorporated into the consolidated financial statements for the years ended December 31, 2007, 2006 and 2005. All effects of NG-09-B are therefore eliminated.

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

d. *Exploration and drilling costs and specific oil-field exploration and depletion reserve*

PEMEX uses 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 semi-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 scrutiny 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.

e. *Reserve for abandonment cost of wells*

The reserve for abandonment cost of wells (plugging and dismantling), as of December 31, 2007 and 2006 was Ps.17,148,400 and Ps.16,027,307, respectively, and is included as operative reserve in long-term liabilities.

The carrying value of these assets is subject to an annual impairment assessment. (see Note 9).

f. *Cash and cash equivalents*

Cash and cash equivalents consist of checking accounts, foreign currency and other highly liquid instruments. As of the date of these consolidated financial statements, earned interest income and foreign exchange gains or losses are included in the results of operations, under comprehensive financing result.

g. *Inventory and cost of sales*

Inventories are valued as follows:

I. Crude oil and its derivatives for export: at realizable value, determined on the basis of average export prices at year end.

II. Crude oil, natural gas and their derivatives for domestic sale: at realizable value, in accordance with international market prices at year end.

III. The refined products inventories: at their acquisition or production cost calculated in accordance with crude oil costs and auxiliary materials.

IV. Gas and petrochemicals: at direct standard cost of such products without exceeding their market value.

V. Materials spare parts fittings: at the last purchase price without exceeding their market value.

VI. Materials in transit: at acquisition cost.

(Figures stated in thousands of Mexican pesos as of December 31, 2007 at purchasing power and in thousands of U.S. dollars or other currency units, except exchange rates and oil prices per barrel)

PEMEX records the necessary allowances for inventory impairment arising from obsolescence, slow moving inventory and other factors that may indicate that the realization value of inventory may be lower than the recorded value.

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 cost of refined and other products, and deducting the value of inventories at the end of the year. The resulting amount is adjusted for inflation based on factors derived from the NCPI. 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 abandonment cost of wells.

h. *Investment in shares of non-consolidated subsidiary companies affiliates companies*

Certain non-material non-consolidated subsidiary companies are accounted for under the equity method (see Note 2)

Investments in shares in which PEMEX holds 50% or less of the issuer's capital stock are recorded at cost and adjusted for inflation using factors derived from the NCPI.

i. *Properties, plant and equipment*

Properties, plant and equipment are initially recorded at acquisition cost and adjusted using factors derived from the NCPI. The restated amounts must not exceed the asset market value or replacement cost (see Note 9).

Beginning January 1, 2007, assets acquired during the construction or installation phase of a project include the comprehensive financing result associated with assets as part of the value of assets. Until 2006, interest and foreign exchange losses or gains associated with these assets were also included. (see paragraph (y) of this Note).

Depreciation is calculated using the straight-line method of accounting based on the expected useful lives of the assets, based on calculations from independent appraisals. The depreciation rates used by PEMEX are as follows:

	%	Years
Buildings	3	33
Plants and drilling equipment	3-5	20-33
Furniture and fixtures	10-25	4-10
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 developed reserves.

The *Reglamento de Trabajos Petroleros* ("Petroleum Works Law") provides that once a well turns out to be dry, is invaded with salt water, is 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.

The costs related to wells subject to abandonment and dismantlement are recorded at their present values as liabilities on a discounted basis when incurred, which is typically at the time the wells first start drilling. 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 non-producing wells subject to abandonment and dismantlement, the full dismantlement and abandonment cost is recognized at the end of each period.

The carrying value of these long-lived assets is subject to an annual impairment assessment (see Notes 3j. and 9).

j. *Impairment of the value of long-lived assets*

PEMEX evaluates periodically the values of long-lived assets to determine whether there is any indication of potential impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated net revenues, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. During 2007, no impairment charge was recognized by PEMEX. At December 31, 2006 and 2005, PEMEX recorded an impairment charge related to long-lived assets of Ps. 703,247 and Ps. 1,432,691, respectively. (see Note 9d.).

k. *Accruals*

PEMEX recognizes, based on management estimates, accruals for those present obligations for which the transfer of assets or the rendering of services is probable and arises as a consequence of past events, primarily the payment of salaries and other employee payments as well as environmental liabilities, in certain cases, such amounts are recorded at their present value.

l. *Labor obligations*

The accumulated benefits related to pensions, seniority premiums, other post-retirement benefits, and employment termination for causes other than restructuring, to which all employees are entitled are recorded in the income statement for the year in which employees rendered services in accordance with actuarial valuations, using the projected unit-credit method (see Note 12). The amortization of the prior service cost of such services, which has not been recognized, is based on the employees' remaining average years of services. As of December 31, 2007, the remaining average years of services of PEMEX's employees participating in the plan was approximately 11 years.

The plan for other post-retirement benefits includes cash to retired personnel and their dependents for gas, gasoline and necessities, as well as medical services that are provided using PEMEX's infrastructure. (See Note 12).

Effective on January 1, 2005, PEMEX adopted the amendments of Bulletin D-3, which provide 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 in the amount of Ps. 1,427,872 and a charge to income upon adoption in the same amount, which is presented in the consolidated statement of operations as part of the cumulative effect of adoption of new accounting standards.

m. *Derivative financial instruments and hedging operations*

As of January 1, 2005, PEMEX adopted the provisions of Bulletin C-10, "Derivative Financial Instruments and Hedging Operations" ("Bulletin C-10") issued by the Mexican Institute of Public Accountants, 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 to the comprehensive loss in equity of Ps. 6,824,799 and a charge to income for the year of Ps. 477,996, which is presented in the consolidated statement of operations as part of the cumulative effect of adoption of new accounting standards (see Note 11).

As of December 31, 2007 and 2006, derivative financial instruments shown in the balance sheet are recorded at their fair value in accordance with the provisions of Bulletin C-10 (see Note 11).

n. *Financial instruments with characteristics of liability, equity or both*

Financial instruments issued by PEMEX with characteristics of equity or liabilities, or both, are recorded at the time of issuance as a liability, equity or 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 related to the components of financial instruments classified as liabilities are recorded as part of comprehensive financing result. The distribution of profits to the owners of the components of financial instruments classified as equity is charged to equity.

o. *Restatement of equity, other contributions and retained earnings*

The restatement of equity, other contributions and accumulated losses is determined by applying factors derived from the NCPI from the dates of contributions to the most recent year end.

p. *Cumulative effect of the Hydrocarbon tax*

The cumulative effect from the hydrocarbon reserve tax represents the effect from the initial recognition of cumulative deferred taxes.

q. *Surplus in the restatement of equity*

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

r. *Taxes and federal duties*

Petróleos Mexicanos and the Subsidiary Entities are subject to special tax laws, which are based mainly on petroleum production, price forecasts and revenues from oil and refined products. Petróleos Mexicanos and the Subsidiary Entities are not subject to the *Ley del Impuesto Sobre la Renta* ("Income Tax Law"), the *Ley del Impuesto al Activo* ("Asset Tax Law") or the *Ley del Impuesto Empresarial a Tasa Única* ("Flat Rate Business Tax") (see Note 19).

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

The IEPS Tax charged to customers is a tax on 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.

t. *Revenue recognition*

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

u. *Comprehensive result*

Comprehensive result represents the sum of net income (loss) for the period plus the effect of inflation restatement, the net effect of exchange rate fluctuations, the effect of valuation of financial instruments designated as cash flow hedges, the equity effect of labor reserve 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 13).

v. *Comprehensive financing result*

Comprehensive financing result includes interest income and expense, foreign exchange gains and losses, monetary position gains and losses and valuation effects of financial instruments, reduced by the amounts capitalized.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of execution or settlement. Foreign currency assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Exchange differences arising from assets and liabilities denominated in foreign currencies are recorded in operations for the year.

Monetary position gains and losses are determined by multiplying the difference between monetary assets and liabilities at the beginning of each month, including deferred taxes, by inflation rates through year end. The aggregate of these results represents the monetary gain or loss for the year arising from inflation, which is reported in operations for the year.

w. *Contingencies*

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured (see Note 16).

x. *Deferred taxes*

Deferred taxes are recorded based on the assets and liabilities comprehensive approach method, which consists of the recognition of deferred taxes by applying the tax rate to the temporary differences between accounting and the tax basis of assets and liabilities. Based on the new fiscal regime enacted in 2005 and applicable to Petróleos Mexicanos and the Subsidiary Entities effective January 1, 2006, Pemex-Gas and Basic Petrochemicals established a deferred tax liability primarily as the result of temporary differences related to advances from customers, accruals and fixed assets. In addition, certain Subsidiary Companies have historically recorded deferred tax liabilities based on concepts similar to those discussed above (see Note 19).

y. *Accounting changes*

The FRS B-3, *Statement of Income*, issued by the Mexican Board for Research and Development of Financial Reporting Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* or "CINIF") became effective beginning January 1, 2007. Accordingly, the accompanying statement of income for 2006, has been modified for reporting as provided under this FRS, which, together with the *Interpretación a las Normas de Información Financiera* (Interpretation of Financial Reporting Standards *or* "INIF") 4, modified the general guidelines for the presentation and structure of the statement of income, eliminating the special and extraordinary items classifications.

In addition, this FRS requires that ordinary costs and expenses be classified based on their purpose, function, or a combination of both. Since PEMEX is an industrial entity, ordinary costs and expenses are classified in order to present the gross income margin.

- FRS D-6, *Capitalization of Comprehensive Financial Results* ("CFR") issued by the CINIF, became effective beginning January 1, 2007. This FRS establishes the requirement to capitalize CFR attributable to certain assets having an extended acquisition period prior to being put into use (see Note 9a.)

Certain line items in the consolidated financial statements as of December 31, 2006 have been reclassified in order to make the presentation comparable to the corresponding line items in the consolidated financial statements as of December 31, 2007.

In addition certain reclassifications have been made to 2006 and 2005 amounts presented in the consolidated financial statements and related notes to conform such amounts and disclosures to the December 31, 2007 consolidated financial statement presentation.

z. *Convenience translation*

U.S. dollars shown in the balance sheets, the statements of operations, the statements of changes in equity and statements of changes in financial position have been included solely for the convenience of the reader. Such amounts are translated from pesos, as a matter of arithmetic computation only, at the exchange rate for the settlement of obligations in foreign currencies provided by *Banco de México* and the SHCP at December 31, 2007 of 10.8662 pesos per one U.S. dollar. Translations herein should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at the foregoing rate or any other rate.

NOTE 4—FOREIGN CURRENCY EXPOSURE:

As of December 31, 2007 and 2006, the consolidated financial statements of PEMEX included the following assets and liabilities denominated in foreign currencies were as follow:

	Amounts in foreign currency (Thousands)				
	Assets	**Liabilities**	**Net liability position**	**Year-end Exchange rate**	**Amounts in pesos**
2007:					
U.S. dollars	16,950,060	(30,083,877)	(13,133,817)	10.8662	(Ps. 142,714,682)
Japanese yen	-	(142,217,370)	(142,217,370)	0.0973	(13,837,750)
Pounds sterling	230	(402,411)	(402,181)	21.6074	(8,690,086)
Euros	9,371	(5,932,198)	(5,922,827)	15.8766	(94,034,355)
Swiss francs	-	(260)	(260)	9.5957	(2,495)
Currency Danish crowns	-	(250)	(250)	2.0075	(502)
Total liability position, before foreign currency hedging					(Ps. 259,279,870)

	Amounts in foreign currency (Thousands)				
	Assets	**Liabilities**	**Net liability position**	**Year-end Exchange rate**	**Amounts in nominal pesos**
2006:[1]					
U.S. dollars	20,872,208	(46,944,810)	(26,072,603)	10.8810	(Ps. 283,695,982)
Japanese yen	-	(150,040,948)	(150,040,948)	0.0913	(13,698,739)
Pounds sterling	711	(401,812)	(401,101)	21.3061	(8,545,898)
Euros	23,635	(4,201,854)	(4,178,219)	14.3248	(59,852,152)
Swiss francs	562,443	(443,338)	119,105	8.9064	1,060,797
Total liability position, before foreign currency hedging					(Ps. 364,731,974)

[1] The figures of December 31, 2006 in pesos are stated in thousands of Mexican pesos as of December 31, 2006 purchasing power (nominal value). Furthermore, as of December 31, 2007 and 2006, PEMEX had foreign exchange hedging instruments, which are discussed in Note 11.

NOTE 5—CASH AND CASH EQUIVALENTS:

At December 31, cash and cash equivalents were as follows:

	2007	2006
Cash on hand and in banks	**Ps. 64,578,352**	Ps. 95,760,432
Marketable securities	**106,418,888**	100,016,025
	Ps. 170,997,240	Ps. 195,776,457

(Figures stated in thousands of Mexican pesos as of December 31, 2007 at purchasing power
and in thousands of U.S. dollars or other currency units, except exchange rates and oil prices per barrel)

NOTE 6—ACCOUNTS, NOTES RECEIVABLE AND OTHER:

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

	2007	2006
Domestic customers	**Ps. 40,506,098**	Ps. 34,729,334
Export customers	**25,430,178**	19,625,463
Negative IEPS Tax pending to be credited (Note 19)	**32,943,613**	13,372,968
Advance payments to Mexican Government of minimum guaranteed dividends (Note 14)	**4,270,225**	268,990
Specific funds (Note 14)	**11,858,575**	35,589,790
Employees and officers	**3,648,372**	3,174,902
Tax credits	**4,035,632**	1,505,183
Other accounts receivable	**30,308,784**	31,570,645
	153,001,477	139,837,275
Less allowance for doubtful accounts	**(1,490,934)**	(2,674,170)
	Ps. 151,510,543	**Ps. 137,163,105**

NOTE 7—INVENTORIES:

At December 31, inventories were as follows:

	2007	2006
Crude oil, refined products, derivatives and petrochemical products	**Ps. 87,971,050**	Ps. 56,796,075
Materials and supplies in stock	**6,370,017**	6,673,156
Materials and products in transit	**148,376**	300,123
	94,489,443	63,769,354
Less allowance for slow-moving and obsolete inventory	**(1,346,307)**	(1,705,556)
	Ps. 93,143,136	**Ps. 62,063,798**

(Figures stated in thousands of Mexican pesos as of December 31, 2007 at purchasing power and in thousands of U.S. dollars or other currency units, except exchange rates and oil prices per barrel)

NOTE 8—INVESTMENT IN SHARES OF NON-CONSOLIDATED SUBSIDIARIES AND ASOCCIATED:

The investments in shares of non-consolidated subsidiaries affiliates and others were as follows:

Subsidiaries and affiliates shares:	Percentage of Investment	Carrying value at December 31, 2007		Carrying value at December 31, 2006	
Repsol YPF, S.A.[1]	5.00%	**Ps.**	**23,146,258**	**Ps.**	23,192,819
Deer Park Refining Limited[2]	50.00%		**7,113,824**		5,924,890
Instalaciones Inmobiliarias para Industrias, S.A. de C.V.	100.00%		**1,122,215**		1,110,643
Servicios Aéreos Especializados Mexicanos, S.A. de C.V.	49.00%		**5,147**		5,147
Other- net			**1,675,910**		2,527,447
Total investments		**Ps.**	**33,063,354**	Ps.	32,760,946

Profit sharing in non-subsidiaries and affiliates:	For the year ended December 31, 2007		2006		2005	
Repsol YPF, S.A.[1]	**Ps.**	**588,729**	Ps.	3,621,872	Ps.	2,610,657
Deer Park Refining Limited[2]		**4,944,329**		6,419,178		6,004,199
Instalaciones Inmobiliarias para Industrias, S.A. de C.V.		**11,996**		32,527		43,809
Total profit sharing	**Ps.**	**5,545,054**	Ps.	10,073,577	Ps.	8,658,665

(1) PEMEX owned 59,884,453 and 59,404,128 shares of Repsol YPF, S.A. at December 31, 2007 and 2006, respectively.

(2) PMI NASA has a 50% joint venture with Shell Oil Company, through 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 2007, 2006 and 2005, PEMEX recorded Ps. 4,944,329, Ps. 6,419,178 and Ps. 6,004,199 of profits, respectively, related to its equity in the results of the joint venture, which has been recorded under "profit sharing in non-consolidated subsidiaries and affiliates" in the statement of operations. In 2006 and 2005, PEMEX paid the joint venture Ps. 11,078,973 and Ps. 10,742,295, respectively, for the processing of crude oil. As of December 31, 2006 the contract between PMI NASA and Pemex-Refining, was concluded and it was not renewed.

(Figures stated in thousands of Mexican pesos as of December 31, 2007 at purchasing power
and in thousands of U.S. dollars or other currency units, except exchange rates and oil prices per barrel)

NOTE 9—PROPERTIES, PLANT AND EQUIPMENT:

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

		2007		2006
Plants	Ps.	**379,268,733**	Ps.	357,366,268
Pipelines		**296,304,941**		278,873,434
Wells		**466,157,259**		412,518,087
Drilling equipment		**22,226,019**		22,363,980
Buildings		**47,681,968**		42,210,278
Offshore platforms		**160,543,843**		139,223,391
Furniture and equipment		**36,440,294**		34,809,700
Transportation equipment		**14,146,501**		14,008,239
		1,422,769,558		1,301,373,377
Less:				
Accumulated depreciation and amortization		**(760,177,709)**		(693,295,137)
Net value		**662,591,849**		608,078,240
Land		**39,842,669**		42,164,885
Construction in progress		**90,720,481**		86,150,194
Fixed assets to be disposed of		**690,454**		802,138
Total	Ps.	**793,845,453**	Ps.	737,195,457

a) PEMEX capitalized interest associated with the construction or installation of property, plant and equipment, totaling Ps. 6,996,305 and Ps. 5,541,036, as of December 31, 2007 and 2006, respectively. Starting in 2007, as part of the adoption of NIF-6, PEMEX capitalized Ps 5,350,849 of comprehensive financing costs related to qualified fixed assets, as these costs were directly related to investments during the acquisition phase of a project.

b) Total depreciation of fixed assets and amortization of wells for the years ended December 31, 2007, 2006 and 2005 were Ps. 72,591,718, Ps. 65,672,189 and Ps.56,995,357, respectively, which includes amortization costs related to dismantlement and abandonment cost for the years ended December 31, 2007, 2006 and 2005 of Ps. 2,554,062, Ps. 508,361 and Ps. 1,370,730, respectively.

c) As of December 31, 2007 and 2006, the capitalized portion related to dismantlement and abandonment costs, net of accumulated amortization, and determined based on the present value (discounted) of the project cost, was Ps. 17,148,400 and Ps. 16,027,307, respectively.

d) During 2007 PEMEX performed its impairment review of the value of long-live assets and concluded that there was no impairment for the year. As of December 31, 2006 and 2005, PEMEX recognized cumulative impairment charges in the value of the long-lived assets amounting to Ps. 14,593,955 and Ps. 13,890,780, respectively. (see Note 3j.).

NOTE 10—DEBT:

Under the *Ley General de Deuda Pública* ("General Law of Public Debt"), the *Secretaría de Hacienda y Crédito Público (* Ministry of Finance and Public Credit or "SHCP" authorizes the Mexican Government entities, in this case Petróleos Mexicanos and the Subsidiary Entities, to negotiate and execute external financing agreements, defining the requirements that must observed in each case.

In addition, PEMEX is authorized to enter into and manage public debt of the Mexican Government and to guarantee these transactions to international organizations of which Mexico is part of and to national and international public and private entities

In 2007, significant financing activities of Petróleos Mexicanos were as follows:

Petróleos Mexicanos obtained US$ 7,310 under lines of credit granted by export credit agencies. These loans bear interest at fixed and variable rates with various maturity dates through 2012.

During 2007, the Master Trust undertook the following financing activities for PIDIREGAS:

a. The Master Trust obtained credit lines from export credit agencies totaling US$ 1,002,629.

b. During the second quarter of 2007, the Master Trust repurchased, in the open market certain amount of its outstanding U.S. dollar-denominated debt securities with maturities between 2008 and 2027. The total principal amount repurchased in this program was equal to US$ 1,139,696. These securities were cancelled after their repurchase.

c. On October 18, 2007, the Master Trust utilized the full amount of its syndicated revolving credit facility in the amount of US$ 2,500,000. This credit line was signed on September 14, 2007; it may be used either by Petróleos Mexicanos or the Master Trust; the credit line consists of two tranches, A and B, with terms of three and five years, respectively and bears interest at rates of LIBOR plus 20 basis points for tranche A and 25 basis points for tranche B; and matures in 2010 and 2012, respectively; and each of the tranches may be extended twice, by one year. This credit line replaces the two previously syndicated revolving credit lines, each in the amount of US$ 1,250,000.

d. On October 22, 2007, the Master Trust issued notes for the amount of US$ 2,000,000, of which US$ 1,500,000 notes were issued at a coupon rate of 5.75% due in 2018 and US$ 500,000 bonds at a coupon rate of 6.625%, due in

(Figures stated in thousands of Mexican pesos as of December 31, 2007 at purchasing power and in thousands of U.S. dollars or other currency units, except exchange rates and oil prices per barrel)

2035. This issuance was a second reopening of an issuance which took place on June 8, 2005.

e. During the fourth quarter of 2007, the Master Trust repurchased in the open market US$ 5,763,333, of notes, which represent a part of its own debt in notes with maturities between 2008 and 2027, as well as certain amount of its U.S. dollar-denominated perpetual notes. These securities were cancelled after their repurchase.

In 2006, significant financing activities of Petróleos Mexicanos were as follows:

a. Petróleos Mexicanos obtained credit lines from export credit agencies totaling US$ 56,241. These loans bear interest at fixed and variable rates with various maturity dates through 2012.

b. Petróleos Mexicanos drew a total amount of US$ 3,300,000 of under its revolving credit lines. These credit lines may be utilized by Petróleos Mexicanos and the Master Trust.

c. On February 13, 2006, the Master Trust completed an exchange offer pursuant to which the Master Trust issued notes with a principal amount totaling US$ 185,310 in exchange for an equal principal amount of notes previously issued by Petróleos Mexicanos, through a reopening of an original exchange offer made in December 2004. As a result of this second exchange, the Master Trust issued new notes and subsequently received cash payments from Petróleos Mexicanos upon the cancellation of the Petróleos Mexicanos notes acquired by the Master Trust.

Cash payments were made on the following dates and in the following amounts:

June 1, 2006	US$	41,254
June 2, 2006		54,011
August 3, 2006		90,045
Total	US$	185,310

During 2006, the Master Trust undertook the following financing activities for PIDIREGAS:

a. The Master Trust obtained credit lines from export credit agencies totaling US$ 1,914,184 and US$ 4,250,000 by refinancing a syndicated loan in two tranches of US$ 1,500,000 and US$ 2,750,000 due in five and seven years, respectively.

b. On February 2, 2006, the Master Trust reopened two series of notes issued on June 8, 2005 under its Medium-Term Notes Program Series A in two tranches: US$ 750,000 of 5.75% Notes due in 2015, and US$ 750,000 of 6.625% Notes due in 2035, both of which are guaranteed by Petróleos Mexicanos.

c. The Master Trust drew a total aggregate amount of US$ 2,250,000 of its revolving credit lines guaranteed by Petróleos Mexicanos. These credit lines may be utilized by Petróleos Mexicanos and the Master Trust.

During 2006, the Fideicomiso F/163 undertook the following financing activity:

On June 16, 2006, the Fideicomiso F/163 issued publicly-traded notes (*certificados bursatiles*) in the amount of Ps. 10,000,000 (in nominal terms), due in seven years, with a monthly interest rate of *Tasa de Interés Interbancaria de Equilibrio* (the Mexican Interbank Interest Rate or “TIIE”) less 0.07% and guaranteed by Petróleos Mexicanos.

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, 2007 and 2006, PEMEX was in compliance with the operating covenants described above.

(Figures stated in thousands of Mexican pesos as of December 31, 2007 at purchasing power
and in thousands of U.S. dollars or other currency units, except exchange rates and oil prices per barrel)

As of December 31, 2007 and 2006, long-term debt was as follows:

			December 31, 2007		December 31, 2006	
	Rate of Interest[(2)]	Maturity	Pesos (thousands)	Foreign currency (thousands)	Pesos (thousands)	Foreign currency (thousands)
U.S. dollars:						
Bonds	Fixed from 4.75% to 9.5% and LIBOR plus 0.425% to 1.8%	Various to 2035	**Ps. 163,225,526**	12,119,761	Ps. 238,931,860	21,163,109
Financing assigned to PIDIREGAS	Fixed from 3.23% to 7.69% and LIBOR plus 0.02% to 2.25%	Various to 2017	**72,163,251**	6,641,075	76,624,927	6,786,963
Purchasing loans and project financing	Fixed from 3.32% to 5.04% and LIBOR plus 0.0625% to 2%	Various to 2014	**2,108,662**	194,057	3,229,236	286,026
Leasing contracts	Fixed from 8.05% to 9.91%	Various to 2012	-	-	793,645	70,296
Credit lines	LIBOR plus 0.20% and 0.25%	Various to 2023	**27,165,500**	2,500,000	-	-
External trade loans	LIBOR plus 0.325% to 0.475%	Various to 2013	**46,181,350**	4,250,000	48,659,972	4,310,000
Bank loans	Fixed from 5.44% to 5.58% and LIBOR plus 0.7% to 1.9%	Various to 2013	**5,107,114**	470,000	7,056,260	625,000
Total financing in U.S. dollars			**315,951,403**	26,174,893	375,295,900	33,241,394
Euros:						
Bonds	Fixed from 5.5% to 6.62%, and floating of 8.21467%	Various to 2025	**50,857,376**	3,203,291	60,800,196	4,090,634
Unsecured loans, banks and project financing	Fixed from 2%	2016	**5,544**	349	5,977	402
Total financing in Euros			**50,862,920**	3,203,640	60,806,173	4,091,036
Japanese yen:						
Direct loans	Fixed from 4.2%	2009	**468,081**	4,810,695	683,590	7,216,043
Bonds	Fixed from 3.5%	2023	**2,919,000**	30,000,000	2,841,959	30,000,000
Project financing	Prime 2.9081% and Fixed from 1% to 2.4%	Various to 2017	**10,871,232**	111,729,003	9,772,409	103,158,512
Total financing in Yen			**14,258,313**	146,539,698	13,297,958	140,374,555
Sterling pound:						
Bonds	Fixed 7.5%	2013	**8,642,960**	400,000	8,842,798	Various
Pesos:						

			December 31, 2007		December 31, 2006	
	Rate of Interest[2]	Maturity	Pesos (thousands)	Foreign currency (thousands)	Pesos (thousands)	Foreign currency (thousands)
Certificates	TIIE less 0.07% and CETES plus 0.35% to 0.65%	Various to 2019	**81,918,416**		98,019,896	
Syndicated bank loans	TIIE plus 0.35% and fixed from 8.4%	2008	**3,500,000**		7,263,130	
Project financing and syndicated bank loans	Fixed from 11% and TIIE plus 0.4% to 0.48%	Various to 2012	**12,333,333**		14,872,123	
Total financing in pesos			**97,751,749**		120,155,149	
Total principal in pesos[1]			**487,467,345**		578,397,978	
Plus: Accrued interest			**58,565**		1,563,831	
Notes payable to contractors			**13,352,690**		10,753,711	
Total principal and interest			**500,878,600**		590,715,520	
Less: Short-term maturities			**71,499,353**		62,745,288	
Current portion of notes payable to contractors			**4,550,775**		3,494,990	
Total short-term debt			**76,050,128**		66,240,278	
Long-term debt			**Ps. 424,828,472**		Ps. 524,475,242	

	2008	2009	2010	2011	2012	2013 and thereafter	Total
Maturity of the principal outstanding for each of the years ending December 31,	Ps. 76,050,128	Ps. 67,453,662	Ps. 70,150,790	Ps. 56,261,413	Ps. 38,928,853	Ps. 192,033,754	Ps. 500,878,600

Notes to table:

(1) Includes financing from foreign banks of Ps. 355,682,481 and Ps. 418,347,126 as of December 31, 2007 and 2006, respectively.

(2) As of December 31, 2007 and 2006 the rates were as follows: LIBOR, 4.59625% and 5.37%, respectively; the Prime rate in Japanese yen, 1.875% and 1.625%, respectively; the *Cetes* rate, 7.62% for 91 days and 7.71% for 182 days and 7.17% for 91 days and 7.20% for 182 days, respectively; TIIE 7.37% and 8.95%, respectively.

(Figures stated in thousands of Mexican pesos as of December 31, 2007 at purchasing power and in thousands of U.S. dollars or other currency units, except exchange rates and oil prices per barrel)

The total amount of notes payable to contractors at December 31, 2007 and December 31, 2006 are as follows:

		2007		2006
Total notes payable to contractors[(1)(2)(3)(4)]	**Ps.**	**13,352,690**	Ps.	10,753,711
Less: Current portion of notes payable to contractors		**4,550,775**		3,494,990
Notes payable to contractors (long-term)	**Ps.**	**8,801,915**	Ps.	7,258,721

(1) 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 US$ 1,618,352 , plus a financing cost of US$ 805,648 , due in twenty semi-annual payments of US$ 121,200. The original amount of the unit-price public works contract was US$ 80,000, including a financing cost of US$ 47,600 payable monthly based on the percentage of completion. At December 31, 2007 and 2006, the outstanding balances of the respective contracts were Ps. 5,854,295 and Ps. 8,186,797, respectively.

(2) On June 25, 1997, PEMEX entered into a 10-year service agreement with a contractor for a daily fee of US$ 82.50 for the storage and loading of stabilized petroleum by means of a floating system (“FSO”). At December 31, 2007 and 2006, the outstanding balances were Ps. 242,888 and Ps. 531,296, respectively.

(3) PEMEX has Financed Public Works Contracts (“FPWC”) (formerly known as Multiple Services Contracts or “MSCs”) pursuant to which the hydrocarbons and construction in progress are property of PEMEX. Pursuant to the FPWC, the contractors manage the work in progress, classified as development, infrastructure and maintenance. As of December 31, 2007 and 2006, PEMEX has an outstanding payable amount of Ps. 3,228,735 and Ps. 2,035,618, respectively.

(4) During 2007, a Floating Production Storage and Offloading (“FPSO”) vessel was purchased. The investment in the vessel totaled US$ 723,575, of which US$ 352,996 were paid in 2007 and the remaining amount of US$ 370,579 (Ps.4,026,772) as of December 31, 2007, will be paid over a period of 15 years.

NOTE 11—FINANCIAL INSTRUMENTS:

PEMEX’s cash flows arising from its commercial and financial activities are exposed to the volatility of interest rates, currency exchange rates and hydrocarbon prices in the national and international markets.

In order to supervise and mitigate the potential deviations of its cash flows, PEMEX has adopted a General Risk Management framework, which includes the regulation of derivative financial instruments.

Within this framework, the General Risk Management Policies and Guidelines are proposed by the Risk Management Committee and approved by the Board of Directors.

Functions for the Risk Management Committee (the “Committee”) include the authorization of the general strategies of risk management. The committee is comprised of representatives of PEMEX, the Central Bank of Mexico, the SHCP and PMI CIM.

Additionally the Risk Management Deputy Director designs and proposes to the Committee the institutional regulations and risk management strategies for managing financial market risk.

(i) Counterparty risk from the use of derivative financial instruments

PEMEX is exposed to credit risk (or repayment risk) when the market value of these instruments is positive (favorable for PEMEX) since it faces a repayment risk if the counterparty fails to fulfill its performance obligations. When the fair value of a derivative contract is negative, the risk belongs to the counterparty.

In order to minimize this risk, PEMEX only enters into transactions with high credit quality counterparties based on credit ratings from rating agencies such as Standard & Poors and Moodys.

PEMEX's derivative transactions are generally executed on the basis of standard agreements and in general, collateral for financial derivative transactions is neither provided nor received.

(ii) *Interest rate risk management*

PEMEX is exposed to fluctuations in the interest rates applicable to different currencies. The predominant exposure is to LIBOR in U.S. dollars, due to the fact that most of its debt is denominated in U.S. dollars or hedged to U.S. dollars through currency swaps. The use of derivative financial instruments allows PEMEX to obtain an acceptable composition of fixed and variable rates in the debt portfolio.

The derivative financial instruments used in PEMEX's hedging transactions consist principally of fixed-floating interest rate swaps, and under these instruments PEMEX has the right to receive payments based on LIBOR or Mexican interest rates (TIIE) and is entitled to pay a fixed rate.

(iii) *Exchange rate risk management*

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 borrows in currencies other than U.S. dollar in order to take advantage of existing financing conditions of these foreign currencies.

PEMEX has entered into currency swaps transactions as a hedging strategy against exchange fluctuations of debt issued in currencies other than U.S. dollars.

(iv) *Commodity price risk management*

Natural gas:

PEMEX offers to its customers derivative 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 themselves against fluctuations in the price of its products. The risk that PEMEX acquires under these contracts is transferred to financial counterparties through its MGI Supply Ltd. Subsidiary.

Crude oil:

Due to its fiscal regime, PEMEX transfers most of its risk related to crude oil prices to the Mexican Government. As a consequence, PEMEX generally does not enter into long-term hedging transactions against fluctuations in crude oil prices. During 2007 and 2006, PEMEX did not enter into any crude oil price hedging transactions.

(v) *Fair value of derivative financial instruments*

The fair value of derivative financial 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, and represent 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 fair value for interest rate, exchange rate and hydrocarbon derivative instruments is determined by discounting future cash flows as of the balance sheet date, using market quotations for the instrument's 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.

(vi) *Embedded derivatives*

As of December 31, 2007, PEMEX recognized a net gain of Ps. 5,990,399 recorded in comprehensive financial result, as a result of the foreign currency embedded derivatives detected from contracts denominated in currencies other than the functional currency of PEMEX and its counterparties. These embedded derivatives have been modeled and valued as multiple currency forwards, by using models and inputs commonly used in the market and based on the expected exchange rates between Mexican pesos and the currency of each contract. If expected exchange rates as of the balance sheet date appreciate with respect to those observed at the signing date of each contract, the positive effects will increase.

(vii) *Operations with derivative financial instruments*

PEMEX enters into derivative financials 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 non-hedges, despite the fact that their cash flows are offset by the cash flows of the positions to which they relate.

PEMEX seeks to mitigate the impact of market risk in its financials statements, through the establishment of a liability structure consistent with its expected operative cash flows.

As a result, PEMEX seeks to eliminate exchange rate risk of the debt issued in currencies other than pesos or U.S. dollars by entering derivative financial instruments contracts.

Likewise, the applicable accounting rules for derivative financial instruments, establish that a derivative cannot be designated as a hedge of another derivative; therefore, the derivatives offered by PEMEX to its clients, as a value added service, as well as those entered into with the opposite position in order to offset that effect, are treated for accounting purposes as non-hedges.

As of December 31, 2007 and 2006, the fair value of the derivative instruments was (Ps. 6,665,027) and (Ps. 8,982,308), respectively. These amounts include the derivative instruments designated as cash flow hedges and their fair value of (Ps. 977,664) and (Ps. 1,705,290), respectively, that were recorded under other comprehensive loss.

The following table shows the fair value and the notional amount of the over-the-counter derivative instruments, outstanding as of December 31, 2007 and 2006, which are designated as cash flow hedges:

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

	2007		2006	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Interest rate swaps:				
Pay fixed/ receive variable.........	**Ps. 14,211,489**	**Ps. (1,267,432)**	Ps. 17,741,995	Ps. (1,877,925)
Cross-currency swaps:				
Pay Mexican Peso / receive UDI	**Ps. 11,901,650**	**Ps. 221,101**	Ps. -	Ps. -

Derivative instruments designated as cash flow hedges that have the same critical characteristics as the item being hedged are considered to be highly 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 flows affect earnings.

If a derivative instrument designated as a cash flow hedge is not effective, the ineffectiveness portion of its fair value has an impact on earnings and the effective portion is recorded as part of equity through other comprehensive income and is reclassified into earnings, while the hedged items cash flows affect earnings

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. As of December 31, 2007, only one interest rate swap designated as a cash flow hedge had lost its effectiveness.

As of December 31, 2007, a net loss of Ps. 1,479,284 was reclassified from other comprehensive income into earnings and it is estimated that in 2008 a net loss of Ps. 812,620 will be reclassified from other comprehensive income into earnings.

The following table shows the fair value and the notional amount of over-the-counter derivative instruments as of December 31, 2007 and 2006 that were treated for accounting purposes as non-hedges:

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

	2007		2006	
	Notional Value	**Fair Value**	Notional Value	Fair Value
Interest rate swaps pay fixed / receive variable	**Ps. 5,000,000**	**Ps. (185,719)**	Ps. 5,187,950	Ps. (381,586)
Cross-currency swaps:				
Pay U.S. Dollar / receive Euros	**44,730,188**	**3,549,308**	59,713,915	1,796,741
Pay U.S. Dollar / receive Japanese Yen.	**13,549,835**	**(355,956)**	13,310,235	(968,825)
Pay U.S. Dollar / receive Ponds Sterling	**7,417,159**	**1,120,775**	7,706,453	1,294,656
Natural gas swaps:				
Pay fixed / receive variable	**Ps. 5,163,787**	**Ps. 202**	Ps. 5,683,033	Ps. 11,916,029
Pay variable / receive fixed	**5,185,476**	**16,882**	6,668,063	(11,883,888)
Pay variable / receive variable	**472**	**470**	2,493	(3,747)
Natural gas options:				
Put				
Purchase		**Ps. 73,261**		Ps. 31,953
Sale		**(74,064)**		384
Call				
Purchase		**361,510**		117,280
Sale		**(361,300)**		(116,576)

Note: The exchange rates as of December 31, 2007 and 2006 were Ps. 10.8662 and 10.8810 per U.S. dollar, respectively.

As of December 31, 2007 and 2006, PEMEX recognized a net (loss) and a net profit of (Ps. 514,893) and Ps. 916,790, respectively, in the comprehensive financing cost related to operations with derivative financial instruments treated for accounting purposes as non-hedges.

As of December 31, 2007, PEMEX recognized a net loss of Ps. 702,173, in other revenues related to operations with derivative financial instruments treated for accounting purposes as non-hedges.

The estimated fair value of financial instruments other than derivatives for which it is practicable to estimate their value, as of December 31, 2007 and 2006, in nominal terms, is as follows:

	2007		2006	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets:				
Cash and cash equivalents	**Ps. 170,997,240**	**Ps. 170,997,240**	Ps. 195,776,457	Ps. 195,776,457
Accounts receivable, notes and other	**151,510,543**	**151,510,543**	137,163,105	137,163,105
Derivative financial instruments	**12,909,868**	**12,909,868**	4,389,836	4,389,836
Liabilities:				
Suppliers	**35,138,344**	**35,138,344**	37,102,983	37,102,983
Accounts and accumulated expenses payable	**18,097,530**	**18,097,530**	14,592,081	14,592,081
Taxes payable	**146,593,355**	**146,593,355**	45,006,644	45,006,644
Derivative financial instruments	**13,584,495**	**13,584,495**	13,372,143	13,372,143
Current portion of long-term debt	**76,050,128**	**76,050,128**	66,240,278	66,240,278
Long-term debt	**424,828,472**	**442,731,344**	524,475,242	556,153,282

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

The fair value of the financial instruments presented in the previous table appears for informative purposes.

The nominal value of financial instruments such as cash equivalents, accounts receivable and payable, taxes payable and current portion of long-term debt approximate their 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 based 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 actuarial valuations performed by independent actuaries.

PEMEX partially funds its labor obligations through a Mexican trust structure, the resources of which come from the seniority premium item of the Governmental Budget, or any other item that substitutes or could be connected to this item, or that is associated to the same item and the interests, dividends and capital gains obtained from the investments of the trusts.

PEMEX has also established plans for other post-retirement benefit obligations whose actuarial amounts are determined by independent actuaries. Such plans include the following benefits: cash provided to the retired personnel and their dependents for gas consumption, gasoline and other basic necessities, as well as, medical services which are provided using PEMEX's infrastructure.

Cash Flow:

Plan contributions and benefit paid were as follows:

	Retirement remunerations, seniority premiums, pension and indemnity				**Other post-retirement benefits**			
	2007		**2006**		**2007**		**2006**	
Contribution to the pension plan assets	**Ps.**	**19,357,177**	Ps.	13,221,734	**Ps.**	**5,750,386**	Ps.	5,207,690
Payments charged to the plan assets		**13,449,831**		11,839,880		**5,750,386**		5,207,690

Payments related to medical services provided to retired personnel were Ps. 2,609,707 and Ps. 2,574,209, during 2007 and 2006, respectively.

The cost, obligations and other elements of the pension plan, seniority premium plan and other post-retirement benefits plans different from restructuring, mentioned in Note 3l.

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

of these financial statements, were determined, based on calculations prepared by independent actuaries as of December 31, 2007, 2006 and 2005.

The components of net periodic cost for the years ended December 31, 2007, 2006 and 2005 are as follows:

	Retirement remunerations, seniority premiums, pension and indemnity			Other post-retirement benefits		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Net periodic cost:						
Service cost	**Ps. 9,167,594**	Ps. 7,507,356	Ps. 6,513,609	**Ps. 6,405,902**	Ps. 5,881,745	Ps. 4,163,849
Financial cost	**27,246,555**	24,571,208	20,983,951	**21,795,906**	18,562,492	15,479,140
Return on plan assets	**(26,007)**	(51,860)	(185,989)	-	-	
Amortization of prior services cost and plan amendments	**677,353**	663,036	364,519	**4,483,931**	4,447,357	4,478,314
Variances in assumptions and experience adjustments	**1,319,028**	671,355	(168,555)	**(1,352,970)**	(3,131,317)	(3,811,680)
Amortization of transition liability	**6,133,654**	6,114,252	6,157,546	**6,407,047**	6,357,929	6,402,163
Inflation adjustment	**1,650,858**	1,598,629	1,118,730	**1,398,004**	1,301,166	889,879
Total periodic cost	**46,169,035**	41,073,976	34,783,811	**39,137,820**	33,419,372	27,601,665
Recognition of severance payments	-	-	1,402,142	-	-	-
Net periodic cost	**Ps. 46,169,035**	Ps. 41,073,976	Ps. 36,185,953	**Ps. 39,137,820**	Ps. 33,419,372	Ps. 27,601,665

The actuarial present value of benefit obligations is as follows:

	Retirement remunerations, seniority premiums, pension and indemnity		Other post retirement benefits	
	2007	**2006**	**2007**	**2006**
Vested benefit obligation value:				
Vested benefit obligation	**Ps. 206,364,293**	Ps. 191,557,538	**Ps. -**	Ps. -
Accumulated benefit obligation (ABO)/ obligation	**Ps. 357,768,687**	Ps. 330,616,544	**Ps -**	Ps. -
Projected benefit obligation (PBO)/	**Ps. 367,485,744**	Ps. 336,758,891	**Ps. 300,396,198**	266,481,493
Plan assets at fair value	**(7,664,407)**	(2,118,402)	-	-
Projected benefit obligation over plan assets	**359,821,337**	334,640,489	**300,396,198**	266,481,493
Items to be amortized:				
Prior services cost and plan amendments	**(6,449,919)**	(7,080,185)	**(58,102,534)**	(62,590,753)
Variances in assumptions and experience adjustments	**(54,196,339)**	(49,016,755)	**743,034**	14,811,311
Unamortized transition liability	**(66,631,947)**	(72,807,858)	**(71,146,932)**	(77,594,439)
Project liability net	**232,543,132**	205,735,691	**171,889,766**	141,107,612
Additional liability	**123,768,374**	124,821,880	**-**	-
Total liability	**Ps. 356,311,506**	Ps. 330,557,571	**Ps. 171,889,766**	Ps. 141,107,612

Significant assumptions used in determining the net periodic cost of plans are as follows:

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

	Retirement remunerations, seniority premiums, pension and indemnity		Other post-retirement benefits	
	2007	2006	2007	2006
Discount rate	**4.25%**	4.25%	**4.25%**	4.25%
Rate of compensation increase	**0.50%**	0.50%	**0.50%**	0.50%
Expected long term rate of the return on plan assets	**4.25%**	4.25%	-	-
Employees' average remaining labor life over which pending amortization items are amortized	**11 years**	12 years	**11 years**	12 years

Plan assets

The Plan assets are included into two trusts, *Fondo Laboral Pemex* ("FOLAPE") and *Fideicomiso de Cobertura Laboral y de Vivienda* ("FICOLAVI"), which are managed by BBVA Bancomer, S. A. and a Technical Committee, which is composed of personnel from Petróleos Mexicanos and the trusts.

The weighted-average asset allocation of retirement benefits, for seniority premiums, pensions and other benefits are as follows:

Type of investment	Retirement remunerations, Seniority premiums, Pension and indemnity		Other post-retirement benefits	
	2007	2006	2007	2006
Governmental securities	**84.2%**	71.0%	**84.2%**	71.0%
Fixed rate securities	**15.8%**	29.0%	**15.8%**	29.0%
Total	**100.0%**	100.0%	**100.0%**	100.0%

NOTE 13—COMPREHENSIVE (LOSS) INCOME:

Comprehensive (loss) income for the years ended December 31, 2007, 2006 and 2005 was as follows:

	2007	2006	2005
Net (loss) income	**Ps. (18,307,569)**	Ps. 46,953,205	Ps. (82,357,982)
Surplus in restatement of equity	**18,638,402**	4,064,648	8,184,288
Derivative financial instruments	**656,699**	5,274,109	(7,036,437)
Effect on equity from labor obligations	**(3,432,792)**	(18,871,922)	(21,672,659)
Other	-	710,094	-
Comprehensive (loss) income for the year	**Ps. (2,445,260)**	**Ps. 38,130,134**	**Ps. (102,882,790)**

NOTE 14—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 (US$ 7,577,000) and was authorized by the Board of Directors. The capitalization agreement between Petróleos Mexicanos and the Mexican Government states that the Certificates of Contribution "A" constitute permanent capital. As a result, the Certificates of Contribution "A" are as follows:

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

		Amount
Certificates of Contribution "A" (nominal value).......................................	**Ps.**	**10,222,463**
Inflation restatement increase		**86,735,530**
Certificates of Contribution "A" in Mexican pesos of December 31, 2007 purchasing power	**Ps.**	**96,957,993**

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 in December 1990. The minimum guaranteed dividend consisted of the payment of principal and interest on the same terms and conditions as those originally agreed upon with international creditors through 2006, at the exchange rates on the date that such payments are made. Such payments must be approved annually by the Board of Directors. This minimum guaranteed dividend was extended until 2007, by the CA-164/2007 agreement.

During 2007 and 2006, Petróleos Mexicanos paid Ps. 4,270,225 and Ps. 268,990, (Ps. 263,329 nominal value) respectively, to the Mexican Government in advance for the minimum guaranteed dividend. These payments will be applied to final amount that the Board of Directors approves as the total annual dividend, which usually occurs in the following fiscal year.

In 2006, Board of Directors of Petróleos Mexicanos approved the capitalization (*i.e.*, transfer to equity) of Ps. 621,009 (Ps. 594,987 nominal value) for infrastructure works, corresponding to resources from the Mexican Government in accordance with the Federal Revenue Law for 2004.

During 2006, in compliance with the agreement CA399/2004, the Board of Directors of Petróleos Mexicanos approved the capitalization of Ps. 652,310 (Ps. 608,068 nominal terms) of revenues at December 31, 2005, from the Mexican Government for infrastructure works in accordance with the Federal Income Law for 2004.

In December 2006, the Mexican Government made a payment in the amount of Ps. 47,454,593 (Ps. 45,735,400 nominal value) to Petróleos Mexicanos derived from excess revenues that were paid in accordance with the Federal Expenditure Budget for the 2006 fiscal year. This payment increased the equity of Petróleos Mexicanos and the Subsidiary Entities.

In December 2007, the Mexican Government made payments in the amount of Ps. 11,160,824, to Petróleos Mexicanos, which was capitalized in equity. This total includes two payments in the amount of Ps. 11,131,800 and Ps. 19,700, which were additionally received from the *Fondo sobre Ingresos Excedentes* ("FIEX"). PEMEX also capitalized interest in the amount of Ps. 9,324 which was related to these payments. This payment derived from excess revenues that were paid in accordance with the *Ley de Presupuesto y Responsabilidad Hacendaria*, ("Federal Budget and Fiscal Responsibility Law") article 19, fraction IV, clauses b) and c).

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

Additionally, in February 2008, the Mexican Government made another payment in the amount of Ps. 2,806,200, to Petróleos Mexicanos.

In 2004, Petróleos Mexicanos signed an agency agreement (Funds for Specific Purposes–Trade Commission) with Banco Santader Serfin, S.A. as an agent in order to manage the funds transferred by the Mexican Government to Petróleos Mexicanos and Subsidiary Entities. According to the *Ley de Ingresos de la Federación* ("Federal Revenue Law"), these funds are to be utilized only for infrastructure works related to exploration, refining, gas and petrochemicals. Payments made by the Mexican Government that increase the equity of Petróleos Mexicanos and the Subsidiary Entities are deposited into the Fund for Specific Purposes – Trade Commission. As of December 31, 2007 and 2006, the balance of this account was Ps. 11,858,575 and Ps. 35,589,790, respectively (see Note 6).

NOTE 15—COMMITMENTS:

a. During 2007, PEMEX purchased a Floating Production Storage and Offloading ("FPSO") vessel. The basic function of this new vessel is the reception and processing of crude oil from marine wells. The tanker treats and separates oil and gas, in order to meet international API guidelines for exploration. Upon completion of this process, the tanker stores the product and distributes it to foreign clients' shiPs. The tanker has a storage capacity of 2 million barrels and a distribution capacity of 1.2 million barrels per day.

   Total investment in the vessel was US$ 723,575, of which US$ 352,996 was paid in 2007 and the balance will be due over a period of 15 years.

   Future estimated payments are as follows:

2008	US$	25,267
2009		25,267
2010		25,267
2011		25,267
2012		25,267
2013 and thereafter		244,244
Total	US$	370,579

b. PEMEX has entered into a nitrogen supply contract for the pressure maintenance program at the Cantarell field. During 2007, an additional contract was incorporated, also with the purpose of supplying nitrogen to the Ku-Maloob-Zap field, extending the original contract until 2027. At December 31, 2007 and 2006, the value of the nitrogen to be supplied during the term of the contract was approximately Ps. 18,314,382 and Ps. 13,377,497, respectively. In the event of the annulment of the contract and depending on the circumstances, PEMEX has the right and obligation to acquiring the vendor's nitrogen plant, under the terms of the contract.

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

Future estimated payments are as follows:

2008	Ps.	1,969,805
2009		1,695,836
2010		1,717,418
2011		1,721,866
2012		1,742,658
More than 5 years		9,466,799
Total	Ps.	18,314,382

c. During 2003, 2004 and 2005, PEMEX entered into Financed Public Work Contracts ("FPWCs") (formerly known as Multiple Services Contracts or "MSCs"). In connection with these contracts, the contractor, at its own cost, has to administer and support the execution of the works in connection with the FPWCs, which are classified into categories of development, infrastructure and maintenance. The estimated value of the FPWCs as of December 31, is as follows:

Date of contract	Block	2007		2006	
February 9, 2004	Olmos	**US$**	**343,574**	US$	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**		900,392
March 23, 2005	Pirineo		**645,295**		645,295
April 3, 2007	Nejo		**911,509**		-
April 20, 2007	Monclava		**433,501**		-
Total		**US$**	**7,232,096**	US$	5,887,086

d. PEMEX, through PMI, enters into sale contracts for crude oil with foreign companies in international markets. The terms and conditions of these contracts are specific to each customer, and the contract durations vary, including evergreen contracts and long term contracts.

NOTE 16 - CONTINGENCIES:

In the ordinary 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. Such contingent liabilities are discussed below.

(a) PEMEX is subject to the provisions of the *Ley General del Equilibrio Ecológico y la Protección al Ambiente* ("General Law on Ecological Equilibrium and Environmental Protection"). To comply with this law, environmental audits of PEMEX's larger operating, storage and transportation facilities have been or are being conducted. Following the completion of such audits, PEMEX has signed various agreements with the *Procuraduría Federal de Protección al Ambiente* (Federal Attorney of Environmental Protection, or "PROFEPA") to implement environmental remediation and improve environmental plans. Such plans contemplate remediation for environmental damages, as well as related investments for the improvement of equipment, maintenance, labor and materials.

As of December 31, 2007 and 2006, the reserve for environmental remediation expenses totaled Ps. 2,093,440 and Ps. 2,398,258, respectively. This reserve is included in long-term liabilities in the balance sheet.

(b) As of December 31, 2007, PEMEX was involved in various civil, commercial, tax, criminal, administrative, labor and arbitration lawsuits. Based on the information available, the amount claimed in connection with these lawsuits totaled approximately Ps. 39,209,855. At December 31, 2007, PEMEX had accrued a reserve of Ps. 10,453,830 for these contingent liabilities. Among these lawsuits, are the following:

i. Pemex-Refining is a party to an arbitration proceeding (No. 11760/KGA) filed by CONPROCA, S.A. de C.V. ("CONPROCA") before the International Chamber of Commerce, in which CONPROCA is seeking payment of US$ 633,100 related to construction and maintenance services in the Cadereyta refinery. Pemex-Refining filed a counterclaim against CONPROCA in the amount of US$ 907,000 (which includes the value added tax).

The arbitration panel notified the parties that it will issue an award on this matter on March 31, 2008. As of the date of these financial statements, such award has not been issued. Once it is issued, a hearing on damages will be held.

ii. In April 2004, Construcciones Industriales del Golfo, S.A. de C.V. filed a civil claim against Pemex-Exploration and Production, (exp. 40/2004-VII), for a total amount of Ps. 15,237 plus US$ 219,584 for the removal of deposits in the Salamanca refinery. On September 28, 2007, a judgment was issued in favor of Pemex-Exploration and Production. The plaintiff filed an appeal against this judgment, which was denied on January 21, 2008. The plaintiff then filed a constitutional relief known as *amparo*, which is still pending.

iii. In December 2003, Unión de Sistemas Industriales, S. A. filed a civil claim against Pemex-Refining (exp. 202/2003), seeking Ps. 393,095. The trial is in the evidentiary stages; expert evidence is still pending.

iv. In December 2004, Corporación Mexicana de Mantenimiento Integral S. de R. L. de C. V. ("COMMISA") filed an arbitration claim before the International Court of Arbitration of the International Chamber of Commerce (the "ICA") against

Pemex-Exploration and Production (IPC-01) for breach of a construction agreement in connection with two platforms in the Cantarell complex.

On January 26, 2007, COMMISA filed a claim seeking US$ 292,043 and Ps. 37,537; and Pemex-Exploration and Production filed a counterclaim seeking US$ 125,897 and Ps. 41,513. On August 10, 2007, each party filed their responses to the claim and counterclaim, respectively. On September 10, 2007, both parties filed their replies, in which COMMISA modified its claim and is, as of the date of these financial statements, seeking US$ 319,900 and Ps. 37,200 in damages. On October 10, 2007, the parties filed their rejoinders. A hearing was held during which each party presented its case to the panel and filed its evidence. On February 15, 2008, the parties filed their pleadings.

The final award is expected to be issued before May 31, 2008 in accordance with a resolution issued by the ICA on February 14, 2008.

v. An arbitration proceeding before the ICA was filed by COMBISA, S. de R. L. de C. V. ("COMBISA") against Pemex-Exploration and Production (IPC-22) seeking US$ 235,770 for the alleged breach of a construction agreement in connection with three platforms in the Cantarell complex. Pemex-Exploration and Production responded to the claim and filed a counterclaim against COMBISA. On July 23, 2007, a final award was granted, pursuant to which COMBISA was ordered to pay US$ 4,600 and Pemex-Exploration and Production was ordered to pay US$ 61,300 as well as financial expenses and the corresponding value added tax. Both parties requested an additional decision to clarify this final award on November 16, 2007. The FCA modified the award such that total amount owed to COMBISA was corrected and Pemex-Exploration and Production was ordered to pay US$ 61,600 as well as financial expenses and the corresponding value added tax. The total amount owed to Pemex-Exploration and Production was ratified.

On January 30, 2008, Pemex-Exploration and Production and COMBISA executed a settlement agreement under which Pemex-Exploration and Production agreed to pay US$ 84,579 (plus the value added tax) and COMBISA agreed to pay US$ 4,594 plus the value added tax). This claim, which was initially for a total amount of US$ 235,770, concluded with a payment of US$ 91,983 to COMBISA.

vi. COMMISA filed a claim before the ICA against Pemex-Exploration and Production (IPC-28) seeking approximately US$ 142,400 and Ps. 40,199 for, among other things, the alleged breach of a contract (PEP-O-IT-136/08) related to two vessels, the Bar Protector and Castoro 10, both of which are located in the Cantarell complex. Pemex-Exploration and Production filed a counterclaim. On February 11, 2008, Pemex-Exploration and Production was notified of an award pursuant which Pemex-Exploration and Production was ordered to pay Ps. 10,928 and US$ 75,075, plus the value added tax and US$ 200 related to arbitration expenses.

COMMISA filed a request to execute this award, which was notified to Pemex-Exploration and Production on March 24, 2008. As of the date of these financial statements, an answer to this request will be filed by Pemex-Exploration and Production.

vii. A civil claim was filed by Asociación de Transportistas al Servicio de Petróleos Mexicanos Clientes o Empresas Sustitutos, A. C. against Pemex-Refining (exp. 262/2005-II) seeking approximately Ps. 1,647,629 for damages in connection with the alleged breach of a tank truck transportation agreement. On March 7, 2008 a final hearing was held in which both parites filed their allegations. A final judgement is still pending.

viii. A civil claim was filed by Asociación de Transportistas al Servicio de Petróleos Mexicanos, Clientes o Empresas Sustitutos, A. C. against Pemex-Refining (exp. 271/2005-I) asserting that Pemex-Refining should authorize the plaintiff to replace tank trucks older than ten years in accordance with the tank truck transportation agreement mentioned in paragraph vii above. On January 23, 2008, a final hearing was held in which both parites filed their allegations. A final judgement is still pending.

ix. A civil claim was filed by Asociación de Transportistas al Servicio de Petróleos Mexicanos, Clientes o Empresas Sustitutos, A. C. against Pemex-Refining, (295/2007), seeking a judicial judgment declaring the breach of a services agreement dated March 26, 1993 and damages, among other expenses.

On October 31, 2007, Pemex-Refining was summoned and a precautionary measure was granted to the plaintiff requesting Pemex-Refining to replace tank trucks and grant the appropiate authorizations. On November 5, 2007, Pemex-Refining filed a motion stating that the judge lacked jurisdiction, which was granted and the trial suspended. The resolution of this motion is still pending. A request for constitutional relief known as an *amparo* was filed by Pemex-Refining against the precautionary measure, which was accepted by the *Juzgado Quinto de Distrito en Materia Civil* ("Fifth Civil District Court").

x. A request for Constitutional relief known as an *amparo* was filed by Minera Carbonífera Río Escondido, S.A. de C.V. and Minerales Monclova, S.A. de C.V. for alleged violation of its mining concesions and for the excecution of development, infrastructure and manteinance works in non-associated gas fields under a public works contract (No. 414105826) and a modification of the *Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* ("Regulatory Law to Article 27 of the Political Constitution Concerning

Petroleum Affairs”). The purpose of this contract was to explore non-associated gas in the same fields where the plaintiffs have their mining concessions.

The plaintiffs argue they have a right to exploit gas found in the fields located under their mining concessions. As of the date of these financial statements, a final judgment is still pending. A third arbitrator expert’s opinion on Geology and a constitutional hearing are still pending.

xi. An arbitration proceeding before the ICA was filed by Tejas Gas de Toluca, S. de R.L. de C.V. against Gas Natural México S.A. de C.V. (“GNM”) and Pemex-Gas and Basic Petrochemicals seeking, among other things, compliance with a transportation agreement and its amendments as agreed in February, 2001 and November, 2001. This agreement was executed for the operation of the Palmillas-Toluca pipeline.

In February 2008, several hearings were held with the arbitration panel and the part involved, during which a summary of claims and counterclaims were presented. On February 26, 2008, the initial arbitration report was executed and a provisional arbitration calendar was agreed.

xii. In connection with the claims filed by a group of Congressmen from the LIXth Legislature against Pemex-Exploration and Production related to the Financed Public Works Contracts program (“FPWC”), as of the date of these financial statemets only one claim remains open since Pemex-Exploration and Production obtained a favorable judgement in the other similar claims filed by these plaintiffs.

The remaining claim relates to the FPWC entered into between Pemex-Exploration and Production and PTD Servicios Múltiples, S. de R.L. de C.V. (“PTD”) for the Cuervito natural gas production block before the *Juzgado Noveno de Distrito en Materia Civil del Distrito Federal* (“Ninth Civil District Court”) in Mexico City. On December 12, 2007, Pemex-Exploration and Production was summoned after an appeal filed by PTD was denied. Pemex-Exploration and Production filed a motion arguing the lack of capacity of the plaintiffs due to the termination of their positions as Congressmen. the trial is in the evidenciary stage.

xiii. In August 2007, a civil claim (12/2007) was filed by Leoba Rueda Nava against Petróleos Mexicanos and Pemex-Refining. This claim was presented to the *Juzgado Decimocuarto de Distrito del Décimo Circuito* (“Fourteenth District Court of the Tenth Circuit”) in Coatzacoalcos, Veracruz. Plainiffs seek, among other things, civil liability and damages resulting from the pollution of land used to store oil waste in accordance with an agreement entered into by and among Leoba Rueda Nava, Petróleos Mexicanos and Pemex-Refining. The trial is in the evidenciary stage. Judicial inspection, confesional and testimonial evidences have been filed. As of the date of these financial statemets expert opinions are still pending.

xiv. Administrative proceedings were initiated by the Federal Competition Commission (the "Commission"). On December 7, 2007, the Commission issued a resolution prohibiting Pemex-Refining from engaging in anti-competitive practices in trading and distributing greases and lubricants in service stations, without specifically requesting a modification or termination of a license agreement. Pemex-Refining filed an *amparo* against this resolution, which is still pending.

In January 2008, the Commission requested Pemex-Refining to provide evidence related to the compliance of a resolution issued by the Commission in 2003 in connection with this same subject. Pemex-Refining informed the Commission that a suspension was granted to Bardahl de México, S. A. de C. V. ("Bardahl") in several *amparos* to maintain the exclusivity right of the Mexlub trademark until a final resolution was issued.

xv. Several claims have been filed by Impulsora Jalisciense, S. A. de C. V. and Mexicana de Lubricantes, S. A. de C. V.

An *amparo* (1519/2005) was filed by Impulsora Jalisciense, S.A. de C.V., before the *Juzgado Quinto de Distrito en Materia Administrativa* ("Fifth Administrative District Court") in the State of Jalisco. This proceeding has been joined with a pending proceeding filed by Bardahl against the execution of any resolutions lubricants manufactured by Bardahl.

These *amparos* are suspended due to several objections filed by Bardahl. A constitutional hearing is still pending.

xvi. A civil claim (28/2007) was filed by Mexicana de Lubricantes, S. A. de C. V. against Pemex-Refining seeking, among other things, a judicial judgment declaring null and void any advance termination or cancellation of the following agreements executed between Mexicana de Lubricantes, S. A. de C. V. and Pemex-Refining: 1) License and Trademark contract; 2) Basic greases supply contract; and 3) Manufacture contract of lubricants and greases for Petróleos Mexicanos and the Subsidiary Entities. The claim was summoned and Pemex-Refining was required to file its response in April.

The result of these proceedings is uncertain since their final resolution will be issued by the appropriate authorities.

NOTE 17— HYDROCARBON RESERVES (Unaudited)

Under the Mexican Constitution and the Organic Law of Petróleos Mexicanos and the Subsidiary Entities, all oil and other hydrocarbons reserves are property of the Mexican Nation. Under the Organic Law, PEMEX has the exclusive rights to extract and exploit Mexico's petroleum reserves. However, given that such reserves are not PEMEX's property, they are not recorded on PEMEX's accounting records. Beginning in 1997, PEMEX reviewed the procedures to calculate such reserves in accordance with the regulations of the U.S. Securities and Exchange Commission, established in Rule 4-10(a) of Regulation S-X of the United States Securities Act of 1934 ("Rule 4-10(a)"). Based on technical studies internally performed in accordance with Rule 4-10(a), the estimated crude oil and gas reserves were 14.7 billion of barrels of crude oil as of December 31, 2007 and 15.5 billions as of December 31, 2006. These reserves may be increased based on adjustment by reviewing engineers, increases and developments and decreased based on production of the year. The estimate of such reserves could vary from one analyst to another. In addition, the results of drilling, testing and production subsequent to the date of the estimate are used for future reviews of these reserves.

NOTE 18—SEGMENT FINANCIAL INFORMATION:

PEMEX's primary business is the exploration and production of crude oil and natural gas and 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 Group, to international markets. Export sales are made through PMI Group to approximately 25 major customers in various foreign markets. Less than half of PEMEX crude oil 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 Pemex-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 important products are 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 of this entity are obtained from the sale of ethane and butane gas.

- Pemex-Petrochemical is engaged in the sale of petrochemical products to the domestic market. Pemex-Petrochemicals offers a wide range of products that generate large revenues, the majority of which come from 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 primary indicators of the performance analyses.

Income (loss) and identifiable assets for each segment have been determined before intersegment adjustments. Sales between segments are made at internal transfer prices established by PEMEX, which reflect international market prices.

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

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, 2007							
Sales -							
Trade	Ps. -	Ps. 430,382,930	Ps. 139,963,302	Ps. 21,701,729	Ps. 542,926,858	Ps. -	Ps. 1,134,974,819
Intersegment	912,295,482	42,229,528	82,940,711	35,942,074	247,993,773	(1,321,401,568)	-
Services income	-	-	-	-	1,880,032	(819,423)	1,060,609
Total net sales	912,295,482	472,612,458	222,904,013	57,643,803	792,800,663	(1,322,220,991)	1,136,035,428
Gross income	740,811,644	(81,024,508)	15,816,747	(6,559,693)	41,180,144	(34,854,648)	675,369,686
Operating income (loss)	707,401,828	(114,306,785)	7,335,910	(14,115,424)	5,850,043	(1,734,890)	590,430,682
Comprehensive financing cost	(25,561,647)	(5,764,552)	1,071,281	(1,181,167)	10,097,224	1,292,274	(20,046,587)
Net income (loss)	19,966,387	(45,653,619)	4,958,173	(16,085,945)	(11,473,248)	29,980,683	(18,307,569)
Depreciation and amortization	57,262,960	10,159,674	3,437,370	1,091,848	639,866	-	72,591,718
Labor cost reserve	29,124,816	28,579,131	6,491,464	8,215,002	12,896,453	-	85,306,866
Taxes and duties	663,549,438	3,846,738	5,537,391	257,203	4,064,958	-	677,255,728
Acquisition of fixed assets	99,252,970	22,912,301	5,871,320	998,725	324,582	-	129,359,898
Total assets	1,237,968,403	417,393,498	133,970,702	79,872,062	2,331,376,672	(2,870,300,731)	1,330,280,606
Current assets	630,760,334	229,536,695	85,311,492	58,650,943	495,164,854	(1,070,863,531)	428,560,787
Investments in shares	342,538	157,094	1,095,666	-	612,696,004	(581,227,948)	33,063,354
Fixed assets	565,433,958	162,585,821	42,005,574	15,569,956	8,250,144	-	793,845,453
Current liabilities	191,867,210	148,709,748	33,463,623	8,896,698	929,478,616	(1,022,952,043)	289,463,852
Labor reserve	180,931,471	178,386,606	40,791,915	49,058,100	79,033,180	-	528,201,272
Total liability	998,713,758	377,308,387	85,452,634	59,275,500	2,262,119,197	(2,502,496,731)	1,280,372,745
Equity	239,254,644	40,085,112	48,518,068	20,596,562	69,257,475	(367,804,000)	49,907,861
Year ended December 31, 2006							
Sales -							
Trade	Ps. -	Ps. 406,963,236	Ps. 138,687,862	Ps. 21,638,776	Ps. 535,144,047	Ps. -	Ps. 1,102,433,921
Intersegment	890,012,141	46,242,429	83,058,212	9,654,394	171,981,054	(1,200,948,230)	-
Services income	-	-	-	-	1,707,386	(631,439)	1,075,947
Total net sales	890,012,141	453,205,665	221,746,074	31,293,170	708,832,487	(1,201,579,669)	1,103,509,868
Gross income	718,463,139	(52,193,884)	18,030,329	(4,925,440)	31,717,998	(25,840,484)	685,251,658
Operating income (loss)	690,607,335	(82,910,431)	10,720,768	(11,854,541)	(1,720,065)	(565,837)	604,277,229
Comprehensive financing cost	(24,174,018)	(9,026,219)	1,134,603	(4,173,330)	12,659,001	(266,662)	(23,846,625)
Net income (loss)	75,888,386	(35,325,390)	6,311,661	(18,029,704)	54,656,089	(36,547,837)	46,953,205
Depreciation and amortization	51,819,623	8,723,393	3,529,726	902,845	696,602	-	65,672,189
Labor cost reserve	25,562,500	24,775,200	5,637,100	6,972,400	11,546,149	-	74,493,349
Taxes and duties	591,866,238	3,165,413	4,703,707	394,529	4,634,622	-	604,764,509
Acquisition of fixed assets	61,906,641	13,231,096	5,132,529	1,712,598	15,667,903	-	97,650,767
Total assets	1,096,349,650	356,909,402	133,753,202	72,279,723	2,038,713,342	(2,447,984,895)	1,250,020,424
Current assets	533,417,998	173,292,736	84,553,543	50,300,628	457,242,716	(899,414,425)	399,393,196
Investments in shares	330,752	157,094	1,967,913	-	491,078,954	(460,773,767)	32,760,946
Fixed assets	514,467,528	156,937,920	41,253,162	15,908,016	8,628,831	-	737,195,457
Current liabilities	84,578,731	113,869,248	38,595,497	11,677,253	787,977,256	(860,383,856)	176,314,129
Labor reserve	162,516,165	160,501,772	36,305,067	43,602,148	68,740,031	-	471,665,183
Total liability	805,563,141	322,204,631	84,445,277	55,768,854	1,984,483,183	(2,043,900,288)	1,208,564,798
Equity	290,786,509	34,704,770	49,307,958	16,510,869	54,230,161	(404,084,641)	41,455,626
Year ended December 31, 2005							
Sales -							
Trade	Ps. -	Ps. 381,355,382	Ps. 144,987,328	Ps. 21,826,900	Ps. 454,436,655	Ps. -	Ps. 1,002,606,265
Intersegment	773,336,701	41,307,675	89,170,404	9,518,438	131,997,076	(1,045,330,294)	-
Services income	-	-	-	-	1,875,001	(650,193)	1,224,808
Total net sales	773,336,701	422,663,057	234,157,732	31,345,338	588,308,732	(1,045,980,487)	1,003,831,073
Gross income	594,226,368	3,088,433	20,740,515	(5,601,679)	7,885,280	(6,451,743)	613,887,174
Operating income (loss)	567,556,903	(28,902,246)	10,678,648	(9,781,605)	(20,166,208)	20,317,888	539,703,380
Comprehensive financing cost	8,683,177	(3,859,422)	2,598,710	(3,550,361)	(13,145,650)	4,437,455	(4,836,091)
Net income (loss)	(19,701,797)	(57,508,914)	7,213,898	(17,851,654)	(76,533,529)	82,024,014	(82,357,982)
Depreciation and amortization	42,648,709	8,662,918	3,857,966	1,075,044	750,720	-	56,995,357
Labor cost reserve	22,739,043	21,067,212	4,782,355	5,742,055	9,336,373	-	63,667,038
Taxes and duties	595,838,203	24,443,717	2,412,419	262,157	3,917,966	-	626,874,462
Acquisition of fixed assets	29,498,613	6,537,813	1,936,748	2,511,707	43,829,686	-	84,314,567
Total assets	910,762,474	320,419,181	104,721,683	55,842,991	1,624,736,468	(1,890,886,536)	1,125,596,261
Current assets	379,304,272	138,951,636	56,041,394	33,282,845	429,691,461	(721,191,173)	316,080,435

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Corporate and Subsidiary Companies	Intersegment Eliminations	Total
Investments in shares	227,313	157,094	1,276,801	-	231,359,791	(204,339,923)	28,681,076
Fixed assets	475,493,308	152,858,631	40,924,037	15,850,726	9,340,494	-	694,467,196
Current liabilities	123,657,961	114,490,526	21,971,433	53,748,694	554,475,788	(690,761,619)	177,582,783
Labor reserve	142,000,010	137,607,036	30,508,286	36,672,374	58,796,102	-	405,583,808
Total liability	747,717,710	303,672,915	59,003,711	90,957,975	1,639,794,045	(1,686,540,129)	1,154,606,227
Equity	163,044,885	16,746,308	45,717,987	(35,114,975)	(15,057,361)	(204,346,661)	(29,009,817)

NOTE 19—FISCAL REGIME:

On December 21, 2005, the Mexican Congress approved a new fiscal regime for PEMEX, which was published in the Official Gazette of the Federation, effective January 1, 2006.

Under this new fiscal regime, PEMEX's contributions remain established by the *Ley Federal de Derechos* ("Federal Duties Law"), except for the Excess Gain Duties (Crude Oil Gain Tax), which is established by the Federal Income Law. The fiscal regime for PEMEX applicable for 2006 and 2007 contemplated the following duties:

a. The Ordinary Hydrocarbons Duty - In 2006 and 2007, this duty applied a variable rate that depended on the price of Mexican crude oil for export. In 2006 and 2007, the rate ranged from 78.68% to 87.81% (depending on the price of Mexican crude oil).

The method of calculating this duty is the value of the extracted total production of crude oil and natural gas during the year minus certain permitted deductions (including investments, plus some costs, expenses and duties). During 2007, PEMEX made daily and weekly advance payments to the account of this duty, in the amount of Ps. 464,837,848 (Ps. 231,326,765 daily and Ps. 233,511,083 weekly). During 2006, PEMEX made daily and weekly advance payments to the account of this duty, in the amount of Ps. 541,916,001 (Ps. 269,596,338 daily and Ps. 272,319,663 weekly).

b. Hydrocarbon Duty for the Oil Revenues Stabilization Fund – This duty was applied at a rate between 1% and 10% of the value of the extracted crude oil production where the yearly weighted average crude oil export price for a certain year exceeds between US$ 22.00 and US$ 30.00 per barrel.

c. Extraordinary Duty on Crude Oil Exports – This duty was applied at a rate of 13.1% on the difference between the value realized for crude oil exports and the budgeted crude oil price of US$ 42.80, times the annual export volume. This duty is to be credited against the Hydrocarbon Duty for the Oil Revenues Stabilization Fund. The income from this duty is designated to the states of Mexico via the Income of the Federative Entities Stabilization Fund.

d. Excess Gains Renevue Duty- This duty was derogated in 2007, however during 2006, applied a rate of 6.5% to the difference between the realized value and the budgeted value of crude oil exports of US$ 36.50. This duty is to be credited against the Hydrocarbon Duty to Fund Stabilization and, where necessary, against the Ordinary Hydrocarbon Duty.

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

e. Duty for the Fund for Scientific and Technological Research on Energy – This duty was applied at a rate of 0.05% to the value of the extracted production of crude oil and natural gas for the year. The revenues from this tax are designated for the *Instituto Mexicano del Petróleo* (“Mexican Petroleum Institute”) in accordance with the *Presupuesto de Egresos de la* Federación (“Federal Expenditure Budget”).

f. Duty for the Fiscal Monitoring of Oil Activities – This duty was applied at a rate of 0.003% to the value of extracted production of crude oil and natural gas for the year. The revenues from this tax are designated for the *Auditoria Superior de la Federación* (“Supreme Federal Audit”) in accordance with the Federal Expenditure Budget.

g. Additional Duty – This duty is applied if the actual production of crude oil in the years 2006, 2007 and 2008 is less than the target production, but only when the shortfall is not by reason of force majeure, act of god or energy policy.

h. Special Tax on Production and Services – In accordance with the regulations in effect, PEMEX is subject to the Special Tax on Production and Services (“IEPS”), which applies to the import and sale of gasoline and diesel. The IEPS is paid to SHCP monthly, after deducting the daily advance payments. The rates applicable to this tax depend on factors such as the type of product, price of reference, the region where one sells, additional freight and applicable commissions.

In 2005, increase in international prices of hydrocarbons and petroleum products caused the rate of the IEPS tax to be negative, which was absorbed by PEMEX. On January 1, 2006, the Federal Revenue Law was amended, allowing to PEMEX to credit the negative IEPS against other taxes and payments to which PEMEX is also subject. As a result of this PEMEX recognized in 2007 and 2006 revenue of approximately Ps. 72,137,000 and Ps. 57,330,998 (Ps. 55,256,000 nominal value), respectively, presented in the consolidated statement of operations within “Other revenues”. As of December 31, 2007, there was a negative balance of IEPS tax credit of Ps. 32,943,613 (see Note 6).

i. Hydrocarbon Income Tax (“IRP”) – This tax is calculated by applying a 30% rate on the excess of the total revenues minus the authorized deductions pursuant to the specific rules expressed by the SHCP.

For the years ended December 31, 2007 and 2006 PEMEX generated an IRP as follows:

	2007	**2006**
Current IRP	**Ps. 4,070,364**	Ps. 3,705,184
Deferred IRP	**1,867,292**	1,031,619
	5,937,656	4,736,803

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

Inflation effect		**92,711**		178,056
Total IRP	**Ps.**	**6,030,367**	Ps.	4,914,859

In accordance with Article 7 of the Federal Revenue Law from January l, 2007, Petróleos Mexicanos and the Subsidiary Entities, except Pemex-Exploration and Production, were required to make daily payments (including non-working days) of Ps. 3,314 to the account of the IRP during the fiscal year. On the first working day of every week of the fiscal year, PEMEX would have to pay Ps. 23,262. Through December 31, 2007, the daily and weekly payments made to the Federal Treasury totaled Ps. 2,442,496. As of December 31, 2007, Pemex has caused Ps. 3,431,142 of IRP.

The principal concepts that cause the deferred IRP are the following:

		2007		**2006**
Deferred asset IRP:				
Advance from customers	**Ps.**	**491,424**	Ps.	518,388
Provision for insurance		**94,892**		115,176
Provision for contingencies		**19,918**		11,831
Environmental reserve		**63,508**		85,255
Allowance for uncollectible		**8,899**		9,870
		678,641		740,520
Deferred liability IRP:				
Advance insurance		**(2,692)**		(7,314)
Properties, plants and properties		**(5,552,588)**		(3,855,675)
		(5,555,280)		(3,862,989)
Long term liability	**Ps.**	**(4,876,639)**	Ps.	(3,122,469)

j. Value Added Tax – For purposes of determining the Value Added Tax ("VAT"), PEMEX follows the criterion for excluding only the interests paid for institutions of credit and credit unions in accordance with the fraction V of the article 15 of the Regulation of Value Added Tax.

k. Income and Assets Taxes - Certain Subsidiary Companies are subject to the income tax law and the assets tax law.

For the years ended December 31, 2007, 2006 and 2005, the Subsidiary Companies incurred the following income tax:

		2007		**2006**		**2005**
Current income tax	**Ps.**	**3,253,655**	Ps.	4,771,281	Ps.	3,487,273
Deferred income tax		**(27,414)**		(166,237)		494,405
	Ps.	**3,226,241**	Ps.	4,605,044	Ps.	3,981,678

(Figures stated in thousands of Mexican pesos and in the case of March 31, 2007 at purchasing power as of December 31, 2007 and in thousands of U.S. dollars)

The principal concepts that cause the Deferred Income Taxes are the following:

		2007		2006
Deferred asset income taxes:				
Losses of prior years	**Ps.**	**653**	Ps.	8,359
Deferred liability income taxes:				
Properties, plants and equipment		**(1,535,911)**		(1,483,062)
Long term liability	**Ps.**	**(1,535,258)**	Ps.	(1,474,703)

On October 1, 2007, a modification to the Federal Duties Law was published in the Official Gazette of the Federation. Effective January 1, 2008, the fiscal regime applicable to Pemex-Exploration and Production was modified.

NOTE 20—NEW ACCOUNTING PRONOUNCEMENTS

The CINIF has issued the following FRS, effective for years beginning after December 31, 2007, and which do not provide for earlier application:

(a) **FRS B-10 *"Effects of inflation"***- FRS B-10 supersedes Bulletin B-10 and its five amendments, as well as the related circulars and INIF. The principal guidelines established by this FRS are: (i) The use of *unidades de inversión* ("UDIs") to determine the inflation for a given period; (ii) the elimination of inventory replacement costs as well as specific indexation for fixed assets, (iii) the requirement to recognize the effects of inflation only when operating in an inflationary economic environment (accumulated inflation equal to or higher than 26% in the most recent three-year period); and (iv) reclassification of the accounts of gain or loss from holding non-monetary assets ("RETANM"), monetary position gains or losses ("REPOMO"), and deficit/excess in equity restatement, to retained earnings, when the unrealized portion is not identified.

Management estimates that the initial effects of this new FRS will be a charge to retained earnings and a credit to surplus in the restatement of equity in the amount of Ps. 178,171,999, and will have no effect on assets, liabilities, equity or net income.

(b) **FRS D-3 *"Employee benefits"***- FRS supersedes Bulletin D-3, the portion applicable to Employee Statutory Profit Sharing ("ESPS") of Bulletin D-4 and INIF The principal guidelines established by this FRS are: (i) a maximum of five years for amortizing unrecognized/unamortized items, with the option to recognize immediately actuarial gains or losses in results of operations; (ii) the elimination of the recognition of an additional liability and related intangible asset and any related item as a separate element of equity; (iii) the inclusion severance benefits in results of operations; and (iv) the presentation of ESPS, including deferred ESPS, in the statement of income as ordinary operations. Additionally, FRS D-3 establishes that the asset and liability method required by FRS D-4 should be used for determining deferred ESPS, and that any effects arising from the change are to be recognized in retained earnings, with no restatement of prior years' financial statements.

As of date of these financial statements, management is still in the process of determining the initial effects of this new FRS.

(c) FRS D-4 *"Tax on earnings"*- FRS supersedes Bulletin D-4 and Circulars 53 and 54. The principal guidelines established by this FRS are: (i) the reclassification of the cumulative income taxes effects resulting from the initial adoption of Bulletin D-4 in 2000 to retained earnings; (ii) the recognition of the *Impuesto al Activo* ("IMPAC") as a tax credit (benefit), rather than as a tax prepayment; and (iii) the transfer of accounting treatment of ESPS incurred and deferred to FRS D-3, as discussed in paragraph (b) above.

Management estimates that the initial effects of this new FRS will not be material.

(d) FRS B-2 "***Statement of cash flows"*-** FRS supersedes Bulletin B-12 and paragraph 33 of Bulletin B-16. The principal guidelines established by this FRS are: (i) the replacement of the statement of changes in financial position with the statement of cash flows; (ii) the reporting of cash inflows and cash outflows in nominal currency units *i.e.* the effects of inflation are not included; (iii) the establishment of two alternative preparation methods (direct and indirect), without stating preference for either method. In addition, cash flows from operating activities are to be reported first, followed by cash flows from investing activities and finally, cash flows from financing activities; (iv) the reporting of captions of principal items as gross; and (v) the requirement of disclosure of the composition of those items considered cash equivalents.

(e) FRS B-15 "***Translation of foreign currencies"*-** FRS B-15 supersedes Bulletin B-15. The principal guidelines established by this FRS are: (i) the substitution of the integrated foreign operation and foreign entity concepts for determining recording currency, functional currency and reporting currency, requiring that translation be made based on the economic environment in which the entity operates, regardless of its dependency on the holding company; and (ii) the inclusion of translation procedures for those instances where the reporting currency is different from the functional currency.

NOTE 21 - SUBSEQUENT EVENTS:

On April 11, 2008, the average price of the crude oil for exportation was of US$ 91.84 per barrel; this price increased by approximately 11.4 % as compared to the average price as of December 28, 2007 which was US$ 82.44 per barrel.

On April 11, 2008, the exchange rate was Ps. 10.5503 per dollar, which is 2.1 % less than the exchange rate as of December 31, 2007, which was Ps.10.8662.

On April 8, 2008, the Mexican President sent to the Mexican Congress an Energy Reform Initiative.

The Energy Reform includes five fundamental initiatives:

- A new Organic Law for Petróleos Mexicanos.
- Modifications to the Organic Law of the Public Federal Administration.
- Creation of an oil commission, which would be decentralized entity under the *Secretaría de Energía* (Energy Ministry or "SENER"), with technical and operative autonomy.
- Extensive modifications to the *Ley Reglamentaria*, ("Regulatory Law").
- Extensive modifications to the *Ley de la Comisión Reguladora de Energía* ("Law of the Regulatory Commission of Energy")**.**