

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

**(With the Report of the Independent Registered
Public Accounting Firm)**



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Independent Auditors' Report

(Translation from Spanish Language Original)

To the Board of Directors of
Petróleos Mexicanos:

We have audited the accompanying consolidated balance sheets of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies ("PEMEX") as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of PEMEX. Our responsibility is to express an opinion on these consolidated 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 financial statements are free of material misstatement and are prepared in accordance with Mexican Financial Reporting Standards (FRS). An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in note 3 (y) to the consolidated financial statements, during 2009 several new Mexican Financial Reporting Standards were adopted.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies as of December 31, 2009 and 2008, and the results of their operations and the changes in their equity for each of the three years ended December 31, 2009 and their cash flows for the years then ended, in conformity with Mexican Financial Reporting Standards.

KPMG Cárdenas Dosal, S.C.

Eduardo Palomino
Mexico City, April 14, 2010.

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2009, AND 2008**
(Figures stated in thousands of Mexican pesos, except as noted)

	2009 (Unaudited; in thousands of U.S. dollars)	2009	2008
ASSETS:			
Current assets:			
Cash and cash equivalents (Note 5).....	U.S. \$ 9,815,650	Ps. 128,179,628	Ps. 114,224,395
Accounts, notes receivable and other—Net (Note 6).....	12,124,949	158,336,065	162,309,939
Inventories—Net (Note 7).....	2,825,938	36,903,080	65,471,577
Financial instruments (Note 11).....	2,012,292	26,277,917	22,285,896
	<u>16,963,179</u>	<u>221,517,062</u>	<u>250,067,412</u>
Total current assets.....	<u>26,778,829</u>	<u>349,696,690</u>	<u>364,291,807</u>
Investments in shares of non-consolidated subsidiaries, affiliates and others (Note 8).....	747,578	9,762,401	11,177,184
Wells, pipelines, properties, plant and equipment—Net (Note 9).....	74,095,545	967,591,500	845,062,005
Other assets—Net.....	381,859	4,986,588	16,306,408
Total assets.....	<u>U.S. \$ 102,003,811</u>	<u>Ps. 1,332,037,179</u>	<u>Ps. 1,236,837,404</u>
LIABILITIES:			
Current liabilities:			
Current portion of long-term debt (Note 10).....	U.S. \$ 7,856,856	Ps. 102,600,324	Ps. 91,223,879
Suppliers.....	4,845,636	63,277,711	35,381,771
Accounts and accrued expenses payable.....	887,601	11,590,917	7,970,593
Taxes and duties payable.....	3,710,423	48,453,301	16,672,511
Financial instruments (Note 11).....	1,304,735	17,038,139	24,715,832
Total current liabilities.....	<u>18,605,251</u>	<u>242,960,392</u>	<u>175,964,586</u>
Long-term liabilities:			
Long-term debt (Note 10).....	40,529,182	529,258,434	495,486,625
Reserve for sundry creditors and others.....	3,332,975	43,524,319	36,377,238
Reserve for employee benefits (Note 12).....	44,123,912	576,200,934	495,083,543
Deferred taxes (Notes 19(k) and (m)).....	530,920	6,933,120	7,039,978
	<u>88,516,989</u>	<u>1,155,916,807</u>	<u>1,033,987,384</u>
Total liabilities.....	<u>107,122,240</u>	<u>1,398,877,199</u>	<u>1,209,951,970</u>
EQUITY (Note 14):			
Certificates of Contribution “A”.....	7,424,781	96,957,993	96,957,993
Mexican Government increase in equity of Subsidiary Entities.....	13,813,190	180,382,301	179,915,091
Equity.....	271,555	3,546,159	3,546,159
Legal reserve.....	75,623	987,535	987,535
Donation surplus.....	76,910	1,004,346	884,462
Comprehensive result.....	519,473	6,783,643	6,434,173
	<u>22,181,532</u>	<u>289,661,977</u>	<u>288,725,413</u>
Accumulated losses:			
From prior years.....	(20,050,999)	(261,839,979)	(149,763,535)
Net loss for the year.....	(7,248,962)	(94,662,018)	(112,076,444)
	<u>(27,299,961)</u>	<u>(356,501,997)</u>	<u>(261,839,979)</u>
Total equity.....	<u>(5,118,429)</u>	<u>(66,840,020)</u>	<u>26,885,434</u>
Commitments and contingencies (Notes 15 and 16).....	-	-	-
Subsequent events (Note 21).....	-	-	-
Total liabilities and equity.....	<u>U.S. \$ 102,003,811</u>	<u>Ps. 1,332,037,179</u>	<u>Ps. 1,236,837,404</u>

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2009, AND 2008
(Figures stated in thousands of Mexican pesos, except as noted)**

	2009	2009	2008	2007
	(Unaudited; in thousands of U.S. dollars)			
Net sales:				
Domestic	U.S. \$ 45,668,368	Ps. 596,369,519	Ps. 679,754,126	Ps. 592,047,961
Export.....	37,389,656	488,260,296	644,418,238	542,926,858
Services income.....	405,210	5,291,516	4,777,588	4,281,799
Total revenues.....	<u>83,463,234</u>	<u>1,089,921,331</u>	<u>1,328,949,952</u>	<u>1,139,256,618</u>
Cost of sales (Note 3(e)).....	42,970,200	561,134,955	654,032,459	460,665,742
Gross income.....	<u>40,493,034</u>	<u>528,786,376</u>	<u>674,917,493</u>	<u>678,590,876</u>
General expenses:				
Transportation and distribution expenses.....	2,439,462	31,856,197	33,961,895	24,798,539
Administrative expenses.....	5,257,247	68,652,803	69,844,149	60,140,465
Total general expenses.....	<u>7,696,709</u>	<u>100,509,000</u>	<u>103,806,044</u>	<u>84,939,004</u>
Operating income.....	<u>32,796,325</u>	<u>428,277,376</u>	<u>571,111,449</u>	<u>593,651,872</u>
Other revenues (principally IEPS benefit)—Net (Note 19(j)).....	<u>3,085,531</u>	<u>40,293,018</u>	<u>197,990,840</u>	<u>79,797,820</u>
Comprehensive financing result:				
Interest paid—Net (includes valuation effects of financial instruments (Note 11(vii)) and (Note 3 (v)).....	(2,296,742)	(29,992,464)	(36,449,189)	(31,478,006)
Exchange gain (loss)—Net (Note 3 (v)).....	1,124,507	14,684,597	(71,062,527)	(1,434,868)
Gain on monetary position (Note 3 (v)).....	-	-	-	12,866,287
	<u>(1,172,235)</u>	<u>(15,307,867)</u>	<u>(107,511,716)</u>	<u>(20,046,587)</u>
(Loss)profit sharing in non-consolidated subsidiaries, affiliates and others (Note 8).....	<u>(98,899)</u>	<u>(1,291,487)</u>	<u>(1,965,213)</u>	<u>5,545,054</u>
Income before taxes and duties.....	<u>34,610,722</u>	<u>451,971,040</u>	<u>659,625,360</u>	<u>658,948,159</u>
Hydrocarbon extraction duties and others (Note 19).....	41,533,580	542,374,559	767,521,945	667,999,120
Hydrocarbon income tax (Note 19(k)).....	191,646	2,502,651	1,582,910	6,030,367
Income tax (Note 19(m)).....	134,458	1,755,848	2,596,949	3,226,241
	<u>41,859,684</u>	<u>546,633,058</u>	<u>771,701,804</u>	<u>677,255,728</u>
Net loss for the year.....	<u>(U.S. \$ 7,248,962)</u>	<u>(Ps. 94,662,018)</u>	<u>(Ps. 112,076,444)</u>	<u>(Ps. 18,307,569)</u>

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Figures stated in thousands of Mexican pesos, except as noted)

	Certificates of Contribution "A"	Mexican Government increase in equity of Subsidiary Entities	Equity	Legal reserve	Surplus donation	Surplus in restatement of equity	Effect on equity from employee benefit	Financial instruments	Deferred income tax effect	Cumulative currency translation effect	Retained earnings (Accumulated losses)		
											From prior years	For the year	Total
Balances as of January 1, 2007	96,957,993	133,296,805	4,010,200	857,100	193,129	152,371,341	(48,326,747)	(1,762,328)	3,636	2,457,987	(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
Increase in equity	-	-	34,978	-	-	-	-	-	-	-	-	-	34,978
Decrease in legal reserve	-	-	-	(24,482)	-	-	-	-	-	-	-	-	(24,482)
Increase in surplus donation	-	-	-	-	300,939	-	-	-	-	-	-	-	300,939
Comprehensive loss for the year (Note 13)	-	-	-	-	-	19,309,736	(3,432,792)	656,699	(40)	(982,729)	-	(18,307,569)	(2,756,695)
Balances as of December 31, 2007	96,957,993	144,457,629	4,045,178	832,618	494,068	171,681,077	(51,759,539)	(1,105,629)	3,596	1,475,258	(298,866,819)	(18,307,569)	49,907,861
Transfer to prior years' accumulated losses approved by board of directors	-	-	-	-	-	-	-	-	-	-	(18,307,569)	18,307,569	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on August 20, 2008 (Note 14)	-	-	-	-	-	-	-	-	-	-	(4,270,224)	-	(4,270,224)
Increase in equity of the Subsidiary Entities made by the Mexican Government (Note 14)	-	35,457,462	-	-	-	-	-	-	-	-	-	-	35,457,462
Decrease in equity	-	-	(499,019)	-	-	-	-	-	-	-	-	-	(499,019)
Increase in legal reserve	-	-	-	154,917	-	-	-	-	-	-	-	-	154,917
Increase in surplus donation	-	-	-	-	390,394	-	-	-	-	-	-	-	390,394
Comprehensive loss for the year (Note 13)	-	-	-	-	-	(171,681,077)	51,759,539	(1,268,722)	(3,596)	7,333,266	171,681,077	(112,076,444)	(54,255,957)
Balances as of December 31, 2008	96,957,993	179,915,091	3,546,159	987,535	884,462	-	-	(2,374,351)	-	8,808,524	(149,763,535)	(112,076,444)	26,885,434
Transfer to prior years' accumulated losses approved by board of directors	-	-	-	-	-	-	-	-	-	-	(112,076,444)	112,076,444	-
Increase in equity of the Subsidiary Entities made by the Mexican Government (Note 14)	-	467,210	-	-	-	-	-	-	-	-	-	-	467,210
Increase in surplus donation	-	-	-	-	119,884	-	-	-	-	-	-	-	119,884
Comprehensive loss for the year (Note 13)	-	-	-	-	-	-	-	2,532,882	-	(2,183,412)	-	(94,662,018)	(94,312,548)
Balances as of December 31, 2009	Ps.96,957,993.	Ps.180,382,301	Ps. 3,546,159	Ps. 987,535	Ps.1,004,346	Ps. -	Ps. -	Ps. 158,531	Ps. -	Ps. 6,625,112	(Ps. 261,839,979)	(Ps. 94,662,018)	(Ps. 66,840,020)
Unaudited (in thousands of U.S. dollars)	U.S.\$7,424,781	U.S.\$13,813,190	U.S.\$ 271,555	U.S.\$75,623	U.S.\$76,910	U.S.\$ -	U.S.\$ -	U.S.\$ 12,140	U.S\$ -	U.S.\$507,333	(U.S.\$20,050,999)	(U.S.\$7,248,962)	(U.S.\$ 5,118,429)

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Figures stated in thousands of Mexican pesos, except as noted)**

	2009		2009		2008	
	(Unaudited; in thousands of U.S. dollars)					
	U.S. \$		Ps.		Ps.	
Operating activities:						
Net income before taxes and duties	35,105,202			458,428,302		536,298,843
Items with no effect on cash:						
Net periodic cost of employee benefits		8,090,537		105,651,891		112,643,677
Activities related to investing activities:						
Depreciation and amortization		5,888,081		76,890,687		89,840,495
Impairment of properties, plant and equipment		132,573		1,731,229		107,203
Profit sharing in non-consolidated subsidiaries and affiliates—Net		98,899		1,291,487		1,965,213
Unsuccessful wells		1,067,068		13,934,521		-
Activities related to financing activities:						
Deferred income taxes		(8,183)		(106,858)		(273,980)
Income (loss) from foreign exchange fluctuations		(1,036,357)		(13,533,476)		94,227,572
Interest income (loss)		99,969		1,305,465		(2,800,590)
		49,437,789		645,593,248		832,008,433
Funds (used in) provided by operating activities:						
Financial instruments		(699,674)		(9,136,831)		(4,346,951)
Accounts and notes receivable		304,309		3,973,873		(9,205,412)
Inventories		2,187,698		28,568,497		27,671,560
Other assets		866,841		11,319,820		(13,504,232)
Accounts payable and accrued expenses		277,235		3,620,325		(4,172,038)
Taxes payable		(39,920,477)		(521,309,530)		(778,296,131)
Suppliers		2,136,196		27,895,940		243,426
Reserve for sundry creditors and others		547,304		7,147,081		4,909,986
Contributions and payments for employee benefits		(1,878,786)		(24,534,500)		(21,993,032)
Deferred income taxes		-		-		902,061
Net cash flow from operating activities		13,258,435		173,137,923		34,217,670
Investing activities:						
Acquisition of fixed assets		(16,534,171)		(215,914,773)		(141,091,050)
Disposal of fixed assets		72,651		948,725		317,194
Net cash flows from investing activities		(16,461,520)		(214,966,048)		(140,773,856)
Cash flow to be obtained from financing activities		(3,203,085)		(41,828,125)		(106,556,186)
Financing activities:						
Increase in equity from the Mexican Government		35,778		467,210		35,457,462
Loans obtained from financial institutions		8,473,828		110,657,181		146,933,588
Debt payments, principal only		(4,237,867)		(55,341,033)		(132,607,709)
Net cash flows from financing activities		4,271,739		55,783,358		49,783,341
Net increase (decrease) in cash and cash equivalents		1,068,654		13,955,233		(56,772,845)
Cash and cash equivalents at the beginning of the year		8,746,996		114,224,395		170,997,240
Cash and cash equivalents at the end of the year	U.S. \$	9,815,650	Ps.	128,179,628	Ps.	114,224,395

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

**PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Figures stated in thousands of Mexican pesos)

	2007
Operating activities:	
Net loss for the year	(Ps. 18,307,569)
Charges to operations not requiring the use of funds:	
Depreciation and amortization	72,591,718
Reserve for employee benefits cost	85,306,866
Profit sharing in non-consolidated subsidiaries and affiliates	5,545,054
Deferred taxes	1,927,847
	147,063,916
Funds (used in) provided by operating activities:	
Accounts, notes receivable and other	(14,347,438)
Inventories	(12,554,059)
Other assets	1,373,515
Suppliers	(1,964,639)
Accounts payable and accrued expenses	3,974,633
Taxes payable	101,586,711
Reserve for sundry creditors and others	(45,820)
Financial instruments	(8,120,165)
Funds provided by operating activities	216,966,654
Financing activities:	
Minimum guaranteed dividends paid to the Mexican Government	(263,329)
Decrease in Debt—Net	(89,836,920)
Increase in equity of Subsidiary Entities paid by the Mexican Government	11,160,824
Retirement, seniority premiums and other post-retirement benefits payments.	(27,717,270)
Funds used in financing activities	(106,656,695)
Investing activities:	
Investment in shares	(5,847,462)
Increase in fixed assets—Net	(129,241,714)
Funds used in investing activities	(135,089,176)
Net decrease in cash and cash equivalents	(24,779,217)
Cash and cash equivalents at the beginning of the year	195,776,457
Cash and cash equivalents at the end of the year	Ps. 170,997,240

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Figures stated in thousands of Mexican pesos, except as noted)

NOTE 1—APPROVAL:

On April 14, 2010, 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 (the “Board”), in a meeting, where it is expected that the Board will approve such statements pursuant to the terms of Article 104 Fraction III, paragraph a, of the Mexican *Ley del Mercado de Valores* (Securities Market Law), and of Article 33 Fraction I, paragraph a section 3 and Article 78 of the general provisions applicable to Mexican securities issuers and other participants in the Mexican 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 in accordance with a decree of the Mexican Congress stating that all foreign-owned oil companies in operation at that time in the United Mexican States (“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 oil and gas industry.

The operations of Petróleos Mexicanos and its Subsidiary Entities are regulated by the *Constitución Política de los Estados Unidos Mexicanos* (Political Constitution of the United Mexican States, or the “Mexican Constitution”), the *Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (Regulatory Law to Article 27 of the Political Constitution of the United Mexican States concerning Petroleum Affairs, or the “Regulatory Law”), effective on November 29, 2008 which establishes the State will be exclusively entrusted with the activities in the strategic areas of petroleum, hydrocarbons and basic petrochemicals through Petróleos Mexicanos and its Subsidiary Entities in accordance with the Regulatory Law and its regulations pursuant to which Petróleos Mexicanos is entitled to exercise control over the management and strategic direction of the business .

On November 28, 2008, amendments to the following laws were published in the *Diario Oficial de la Federación* (Official Gazette of the Federation):

- The Regulatory Law;
- the *Ley Orgánica de la Administración Pública Federal* (Federal Public Administration Organic Law);
- the *Ley de la Comisión Reguladora de Energía* (Energy Regulatory Commission Law); and

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Figures stated in thousands of Mexican pesos, except as noted)

- the *Ley Federal de las Entidades Paraestatales* (Federal Law of Decentralized Public Entities).

On that same date, the following new laws were issued:

- the *Petróleos Mexicanos Law*, which replaced the *Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (Organic Law of *Petróleos Mexicanos* and the *Subsidiary Entities*);
- the *Ley de la Comisión Nacional de Hidrocarburos* (National Hydrocarbons Commission Law);
- the *Ley para el Aprovechamiento de Energías Renovables y el Financiamiento de la Transición Energética* (Law of Use of Renewable Energy and Financing of the Energy Transition); and
- the *Ley para el Aprovechamiento Sustentable de la Energía* (Sustainable Use of Energy Law).

This new legal framework, among other aspects, includes changes in the structure of the Board, the development of specific contracting procedures for substantive production activities, increased flexibility to invest excess funds generated through surplus income, a differentiated fiscal regime that takes into consideration the complexity of crude oil and natural gas fields and the ability to issue *bonos ciudadanos* (Citizen Bonds).

In addition, on November 13, 2008, amendments to the Federal Law of Budget and Fiscal Accountability were published in the Official Gazette of the Federation. The principal effects of these amendments were the following:

- Elimination of the *Proyectos de Infraestructura Productiva de Largo Plazo* (long-term productive infrastructure projects, or “PIDIREGAS”) legal framework. On January 1, 2009, *Norma Específica de Información Financiera Gubernamental para el Sector Paraestatal* (Specific Standard for Governmental Financial Information of the State-owned Sector, or “NEIFGSP”) 009 (“NEIFGSP 009”) was declared ineffective, pursuant to which, PEMEX (as defined below) immediately was required to recognize the investments and related liabilities for which it had contracted, thereby eliminating one of the principal difference between NEIFGSP and *Normas de Información Financiera Mexicanas* (Mexican Financial Reporting Standards, or “Mexican FRS” or “NIFs”).
- As of January 31, 2009, PEMEX recognized as direct public debt, for accounting and budgeting purposes, all financings relating to PIDIREGAS.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Figures stated in thousands of Mexican pesos, except as noted)

As of December 31, 2009, PEMEX formally recognized, as direct public debt, all obligations derived from PIDIREGAS-related financings that had been entered into by the Pemex Project Funding Master Trust (the “Master Trust”) and Fideicomiso Irrevocable de Administración F/163 (“Fideicomiso F/163”).

In September 2009, new regulations to the *Reglamento de la Ley de Petróleos Mexicanos* (Regulations to the Petróleos Mexicanos Law) and to the *Reglamento de la Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (Regulations to the Regulatory Law to Article 27 of the Political Constitution of the United Mexican States Concerning Petroleum Affairs, or the “Regulations”) were published. These new regulations regulate the application of the Petróleos Mexicanos Law and relate to the oversight of Petróleos Mexicanos and its Subsidiary Entities, as well as their relationship with the Mexican Government, respectively.

In addition, on September 4, 2009, the Board approved the *Estatuto Orgánico de Petróleos Mexicanos* (Organic Statute of Petróleos Mexicanos), which establishes the structure, organizational basis and functions of the administrative units of Petróleos Mexicanos, and also delineates the internal regulations and powers of the Board. The Organic Statute of Petróleos Mexicanos became effective as of September 25, 2009.

Petróleos Mexicanos’s purpose is the exploration, exploitation and other activities mentioned above, as well as the central business management and strategic direction of Mexico’s petroleum industry, in accordance with the Petróleos Mexicanos Law.

Petróleos Mexicanos may rely on decentralized Subsidiary Entities to carry out the activities that constitute the petroleum industry. The Petróleos Mexicanos Law establishes that the four Subsidiary Entities (as listed below) will continue carrying out their activities in accordance with their objectives, guaranteeing the commitments they have already assumed in Mexico and abroad, until the Mexican Government issues the corresponding decrees of reorganization based on a proposal by the Board.

The Subsidiary Entities are decentralized public 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 the 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”).

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The strategic activities entrusted to Petróleos Mexicanos and the Subsidiary Entities, 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 of its entrusted 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 of which products that do not form part of the basic petrochemicals industry as well as stores, distributes and markets these products.

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.

For purposes of these consolidated financial statements, any capitalized word that is not defined herein, will have the meaning attributed to it in the Regulatory Law or in the Petróleos Mexicanos Law.

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 the Organic Law of Petróleos Mexicanos and the Subsidiary Entities, whereas the Subsidiary Companies are companies that have been formed in accordance with the applicable laws of each of the respective jurisdictions in which they have been incorporated, and are managed in the same way as any other private corporations subject to the laws and regulations of their respective jurisdictions.

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As used herein, the “Subsidiary Companies” are defined as (a) those companies which are not the Subsidiary Entities but in which Petróleos Mexicanos has more than 50% ownership investment and effective control, (b) the Master Trust, a Delaware statutory trust, (c) 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. (“RepCon Lux”), a Luxembourg finance vehicle whose debt is guaranteed by Petróleos Mexicanos, and (e) Pemex Finance, Ltd. (see Note 3(b)).

“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 (as defined below) has 50% or less ownership investment and does not have effective control.

Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies are referred to collectively herein as “PEMEX.”

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 of the date of the consolidated financial statements, as well as the recorded amounts of income and expenses during the year. The important items subject to such estimates and assumptions include the carrying value of wells, pipelines, properties, plant and equipment, the valuation of the allowance for doubtful accounts, inventories, work in progress, deferred tax assets and liabilities, and the valuation of financial instruments and liabilities related to employee benefits. Actual results could differ from those estimates and assumptions.

In these consolidated financial statements and the related notes “pesos” or “Ps.” refers to thousand of Mexican pesos, “U.S. dollars” or “U.S. \$” refers to thousand of dollars of the United States of America, “yen” or “¥” refers to thousand of Japanese yen, “euro” or “€” refers to thousand of the legal currency of the European Economic and Monetary Union, “Pounds sterling” or “£” refers to thousand of the legal currency of the United Kingdom and “Swiss francs” or “CHF” refers to thousand of Swiss francs. Figures in all currencies are presented in thousands of the relevant currency unit, except exchange rates and product prices.

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:

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(a) *Effects of inflation on the financial information*

PEMEX recognizes the effects of inflation on its financial information in accordance with FRS B-10 “Effects of Inflation” (“FRS B-10”).

These consolidated financial statements include recognition of the effects of inflation on the financial information until December 31, 2007, based on the Mexican National Consumer Price Index (“NCPI”) issued by Banco de México. In accordance with FRS B-10, in 2008 and 2009, effects of inflation were not recognized in the financial statements because the accumulated inflation over the three-year periods ended December 31, 2008 and 2009 was less than 26%, and the economic environment therefore did not qualify as “inflationary.”

If at the end of the year in future years the accumulated inflation over the most recent three-year period were to be equal to or higher than 26%, the economic environment would be considered “inflationary” and PEMEX would therefore be required to retroactively recognize the effects of inflation not previously included in its financial statements while the economic environment was considered non-inflationary.

The indexes used for the recognition of inflation were as follows:

<u>December 31,</u>	<u>Inflation</u>		
	<u>NCPI</u>	<u>For the year</u>	<u>Accumulated</u>
2009	138.5410	3.57%	14.48%
2008	133.7610	6.52%	15.01%
2007	125.5640	3.76%	11.56%

(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, and the consolidation has been made based on the audited financial statements of the Subsidiary Companies as of December 31, 2009 and 2008.

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, S.L. (“PMI 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 (i); Fideicomiso F/163 (i); RepCon Lux (ii) and Pemex Finance, Ltd.

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- i. The principal function of the Master Trust and Fideicomiso F/163 (the “Trusts”) consisted of issuing bonds and entering into other financings for the purpose of funding PIDIREGAS. As discussed in Note 2, amendments to the Law of Budget and Fiscal Accountability published in the Official Gazette of the Federation on November 13, 2008 prohibited PEMEX from continuing to apply the PIDIREGAS framework. Therefore, during 2009, the Trusts transferred all of the rights and obligations derived from PIDIREGAS financings to PEMEX, which recognized them as direct public debt, while the Trusts ceased to act as financing vehicles. Consequently, the continued existence of the Trusts will depend on decisions taken by PEMEX’s management. The changes described here have had no impact on the financial information, since the Trusts have been consolidated in the financial statements of PEMEX.
- ii. Historically, PEMEX has consolidated the financial information of RepCon Lux pursuant to an administration contract with that company. Under the terms of that contract, PEMEX had the right to veto resolutions adopted by RepCon Lux’s board of directors if such resolutions were against PEMEX’s interest, or related to the issuance of bonds exchangeable for shares of Repsol (see Note 8). The contract provided for termination if RepCon Lux were to dissolve, and on July 28, 2009, RepCon Lux was formally liquidated. Therefore, as of such date, RepCon Lux has no longer been consolidated in the financial statements of PEMEX.

(c) *Translation of foreign currency financial statements,*

Effective January 1, 2008 the financial statements of consolidated foreign subsidiaries are translated into the reporting currency by initially determining if the functional currency and the currency for recording the foreign operations are different and then translating the functional currency to the reporting currency, using the historical exchange rate or the exchange rate at year end and the inflation index of the country of origin, depending on whether the inflation derives from a non-inflationary or an inflationary economy.

(d) *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.

(e) *Inventories and cost of sales*

Inventories are valued as follows:

- I. Crude oil, refined products, derivatives and petrochemicals are valued at the lowest of their production, acquisition or market costs.

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- II. Materials, spare parts and fixtures are valued at their average acquisition cost and are presented net of an allowance for slow-moving and obsolete materials.
- III. Materials in transit are valued at their acquisition cost.

PEMEX records the necessary allowance 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) and the purchase cost of refined and other products, then deducting the value of inventories at the end of the year. Until December 31, 2007, the result of this calculation was 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.

(f) Investment in shares of non- consolidated subsidiary companies and affiliates

Investments in shares of non-consolidated subsidiary companies are valued by the equity method, based on the unaudited financial statements of the issuing companies as of December 31, 2009 and 2008. Other non-consolidated affiliates and subsidiary companies were recorded at their acquisition cost, and based on their insignificance relative to the total assets and revenues of PEMEX, have been neither consolidated nor valued by the equity method. Until December 31, 2007, these companies were adjusted for inflation using factors derived from the NCPI.

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

Until December 31, 2008, PIDIREGAS investments and related liabilities were recorded for accounting purposes in accordance with NEIFGSP 009 applicable to *Entidades Paraestatales de la Administración Pública Federal* (“State-owned entities of the Federal Public Administration”), which provided that only liabilities maturing within two years should be recognized. In addition to establishing specific accounting treatment, NEIFGSP 009 identified specific legal and budgetary requirements relating to PIDIREGAS.

As of January 1, 2009, the provisions of NEIFGSP 009 were declared ineffective (see Note 2). Therefore, all PIDIREGAS-related accounting items have since such date been incorporated into the NEIFGSP consolidated financial statements. For Mexican FRS purposes, there has been no effect on the financial information.

(h) Wells, pipelines, properties, plant and equipment

Investments in properties, wells, pipelines, furniture and equipment are recorded at the cost of acquisition or construction, using—in the case of wells—the successful efforts method. Until December 31, 2007, these costs were adjusted for inflation using factors derived from the NCPI.

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During the construction period, the comprehensive financing result directly related to these assets is capitalized as part of their construction cost of these assets.

Depreciation is calculated from the month following the date when the asset was placed in service, using the straight-line method of accounting based on the expected useful lives of the assets, based on appraisals prepared by independent appraisers. The annual depreciation rates used by PEMEX are as follows:

	<u>%</u>	<u>Years</u>
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

The gains or losses generated by the sale or disposal of fixed assets are recognized in income for the period in which they are incurred.

The amortization of wells is determined based on the estimated commercial life of the field in which they are located, considering the ratio of the production of barrels of crude oil equivalent for the period to proved developed reserves of the field, as determined at the beginning of the year.

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

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

Long-lived assets are subject to an annual study to determine their value of use and whether there is any impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to future net revenues expected to be generated by the asset. If the carrying value of an asset exceeds its estimated net revenues, an impairment charge is recognized in the amount by which the asset's carrying value exceeds its fair value. During 2009 and 2008, an impairment was recorded of Ps. 1,731,229 and Ps. 807,050, respectively. Additionally in 2008, a reversal of impairment in the amount of Ps.699,847 was recorded. Therefore, for the year ended December 31, 2008, the net effect of the impairment of the value of long-lived assets represented an expense of Ps. 107,203, which was recognized directly in the statement of operations. For the year ended December 31, 2007, no impairment of assets was recognized.

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(j) *Exploration and drilling costs and specific oil-field exploration and depletion of fields reserve*

PEMEX uses the successful efforts method of accounting for the recording of oil and gas exploration and drilling costs. Exploration costs are charged to income when incurred, while expenditures for exploratory drilling costs are included in fixed assets while 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 underway or firmly planned for the near future; or (b) proved reserves are recorded within 12 months following the completion of exploratory drilling. The costs for the drilling of development wells are capitalized, whether or not successful.

PEMEX's 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.

(k) *Reserve for abandonment cost of wells*

The *Reglamento de Trabajos Petroleros* (Petroleum Works Law) provides that once a well turns out to be dry, is invaded with salt water or 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, to ensure that hydrocarbons do not seep to the surface. This law also requires that PEMEX obtain approval from the *Secretaría de Energía* (Ministry of Energy) for the dismantlement of hydrocarbon installations, either for the purpose of replacing them with new installations or for permanent retirement.

The abandonment costs related to wells currently in production and wells temporary closed are recorded based on the units of production method. In the case of non-producing wells subject to abandonment and dismantlement the full cost is recognized at the end of each period. All estimates are based on the useful life of the wells, considering their present value (discounted). Salvage values are not considered as these values commonly have not existed. These costs are initially capitalized as part of the well value, and amortized according to its useful life.

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The reserve for abandonment costs of wells (plugging and dismantling), as of December 31, 2009 and 2008 was Ps. 24,488,953 and Ps. 18,775,600, respectively, and is included in long-term liabilities.

(l) 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.

(m) Employee Benefits

Effective January 1, 2008, PEMEX adopted the provisions of FRS D-3 “Employee Benefits,” as issued by the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C.* (Mexican Financial Reporting Standards Board, or “CINIF”), which has the principal objective of anticipating the recognition of the liabilities generated with respect to the benefits provided to employees.

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 statement of operations of each year based on actuarial valuations performed by independent experts, using the projected unit-credit method (see Note 12).

The amortization periods of the unamortized items are as follows:

- Retirement benefits:
 - i. Initial transition liability and salary increases due to promotions, over a maximum of five years.
 - ii. Plan amendments and actuarial gains and losses for the period, over the employees’ average remaining labor life.
- Termination benefits:
 - i. Initial transition liability and plan amendments, over a maximum of five years.
 - ii. Salary increases due to promotions, over a maximum of one year.
 - iii. Actuarial gains and losses, immediate recognition.

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As of December 31, 2009, the employees' average remaining labor life for those employees entitled to benefits in the plan was approximately nine years. PEMEX has incorporated the effect of its labor obligations into these consolidated financial statements.

The plan for other post-retirement benefits includes medical services for retired personnel and their dependents, as well as benefits payable in cash for gas, gasoline and basic necessities.

(n) *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"), as issued by the Mexican Institute of Public Accountants, A.C., which details the criteria for the recognition, valuation, registration, disclosure, presentation and, where appropriate, bifurcation from the host contract, that are applicable to derivative financial instruments ("DFIs") for trading and hedging purposes, and to embedded derivatives.

As of December 31, 2009 and 2008, the DFIs recognized in the balance sheet were valued at their fair value, in accordance with the provisions of Bulletin C-10 (see Note 11). Changes in the fair value of DFIs held for trading purposes are recorded in the comprehensive financing result. DFIs that are designated as hedges are recorded using cash flow or fair value hedge accounting, as is established in Bulletin C-10.

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

Financial instruments issued by PEMEX with characteristics of liability, equity or both, are recorded at the time of issuance as a liability, equity or both, depending on their components, in accordance with FRS C-12, "Financial Instruments with characteristics of Liability, Equity or both."

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 in the comprehensive financing result. The distribution of profits to the owners of the components of financial instruments classified as equity is charged to equity.

(p) *Restatement of equity, other contributions and retained earnings*

Until December 31, 2007, the restatement of equity, other contributions and accumulated losses was determined by applying factors derived from the NCPI measuring accumulated inflation from the dates when the contributions were made; accumulated losses were generated to the 2007 year-end. As discussed above, as of December 31, 2007, the economic environment became non-inflationary, as defined by FRS B-10.

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(q) *Surplus in the restatement of equity*

Until December 31, 2007, the surplus in the restatement of equity represented 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. In 2008, the surplus in the restatement of equity was reclassified to accumulated results.

(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) or the *Ley del Impuesto Empresarial a Tasa Única* (Flat Rate Business Tax, or “IETU”) (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. PEMEX therefore 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 of delivery. 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, and the accumulated translation effect plus the effect of valuation of financial instruments designated as cash flow hedges; until December 31, 2007 comprehensive result included the effects of inflation restatement, the equity effect of the employee benefits provision and items required by specific accounting standards to be reflected in equity but which do not constitute equity contributions, reductions or distributions, and, until December 31, 2007, comprehensive result were adjusted for inflation using factors derived from the NCPI.

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(v) *Comprehensive financing result (“CFR”)*

Comprehensive financing result includes interest income and expense, foreign exchange gains and losses, the valuation effects of financial instruments and, until December 31, 2007, the gain or loss attributable to the effects of inflation on monetary assets and liabilities, minus any portion of the comprehensive financing result capitalized (see Notes 9 and 11).

Transactions in foreign currencies are recorded at the exchange rate in effect 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. Foreign exchange differences arising from assets and liabilities denominated in foreign currencies are recorded in income for the year.

Until December 31, 2007, the monetary position presented was 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 represented the monetary gain or loss for the year arising from inflation, which was reported in the statement of 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 method, which consists of the recognition of deferred taxes by applying the rate of the tax on hydrocarbon income to the temporary differences between the book and the tax values of assets and liabilities at the date of the consolidated financial statements. One Subsidiary Entity generated deferred hydrocarbon taxes, derived mainly from customer advances, accruals and fixed assets (see Note 19).

(y) *Accounting changes*

The CINIF issued the following FRS effective for fiscal years beginning January 1, 2009 and thereafter.

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(a) **FRS B-7 “Business acquisitions”**—FRS B-7 supersedes Bulletin B-7 and establishes, among other things, the general rules for the initial valuation and recognition at the acquisition date of net assets, emphasizing that business acquisitions must be recognized using the purchase method. The provisions of this FRS took effect for acquisitions with an effective date on or after January 1, 2009, and any accounting changes generated by this FRS must be applied prospectively. The application of this standard produced no accounting effects on PEMEX.

(b) **FRS B-8 “Consolidated and combined financial statements”**—FRS B-8 supersedes Bulletin B-8 “Consolidated and combined financial statements and valuation of long-term investments in shares” and establishes the general rules for the preparation and presentation of consolidated and combined financial statements and related disclosures. The principal changes under this FRS include:

- (i) The obligation to consolidate special purpose entities (“SPEs”) when these are controlled by the parent.
- (ii) The possibility, under certain rules and in certain circumstances, of presenting unconsolidated financial statements.
- (iii) Consideration is given to the existence of potential voting rights that might be exercised or converted in favor of the entity in its capacity as parent and that may change its involvement in decision making when assessing the existence of control.

The application of this standard produced no accounting effects on PEMEX.

(c) **FRS C-7 “Investments in affiliates and other long-term investments”**—FRS C-7 establishes the rules for accounting recognition of investments in affiliates, as well as other long-term investments in which there is no control, joint control or significant influence. The principal changes with respect to the former standards are the following:

- (i) The equity method of accounting is required for SPEs where significant influence is exercised.
- (ii) Consideration is given to the existence of potential voting rights that might be exercised or converted in favor of the entity in its capacity as parent and that may change its involvement in decision making when assessing the existence of significant influence.
- (iii) A specific procedure and a limit for recognizing the affiliated entity's losses are provided.

The initial application of this standard produced no accounting effects on PEMEX.

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(d) **FRS C-8 “Intangible assets”**—FRS C-8 supersedes Bulletin C-8 and establishes general rules for the initial and subsequent recognition of intangible assets. The principal changes under this FRS include:

- (i) The concept of intangible assets is redefined to establish that separability is not the only condition necessary for the intangible asset to be identifiable.
- (ii) It is established that initial valuation must consider the acquisition cost and identify when intangible assets have been acquired individually, through the acquisition of a business, or have arisen internally during the normal course of the entity's operations; additionally, it must be probable that future economic benefits will flow to the entity from such assets.
- (iii) Subsequent outlays for research and development projects in progress must be recognized as expenses when they are incurred if they are part of the research phase, or as intangible assets if they meet the criteria to be recognized as such.
- (iv) The presumption that an intangible asset may not have a useful life exceeding twenty years is eliminated.

The application of this standard produced no accounting effects on PEMEX.

(z) **Reclassifications**

PEMEX's consolidated financial statements as of December 31, 2008 and 2007 have been reclassified in certain accounts with the purpose of making them comparable with the consolidated financial statements as of December 31, 2009.

NOTE 4—FOREIGN CURRENCY EXPOSURE:

As of December 31, 2009 and 2008, the consolidated financial statements of PEMEX included the following assets and liabilities denominated in foreign currencies:

	Amounts in foreign currency (Thousands)			Year-end exchange rate	Amounts in pesos
	Assets	Liabilities	Net liability position		
2009: ⁽¹⁾					
U.S. dollars	9,906,510	(28,261,566)	(18,355,056)	13.0587	(Ps. 239,693,170)
Japanese yen	10,424	(217,419,399)	(217,408,975)	0.1404	(30,524,220)
Pounds sterling.....	7,294	(773,764)	(766,470)	21.0859	(16,161,710)
Euro.....	29,152	(4,464,617)	(4,435,465)	18.7353	(83,099,767)
Swiss francs	356,632	(707,705)	(351,073)	12.6378	(4,436,790)
Canadian dollars	-	(14,418)	(14,418)	12.4665	(179,742)
Total liability position, before foreign currency hedging.....					<u>(Ps. 374,095,399)</u>

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	Amounts in foreign currency (Thousands)			Year-end exchange rate	Amounts in pesos
	Assets	Liabilities	Net liability position		
2008: ⁽¹⁾					
U.S. dollars.....	12,303,708	(32,368,723)	(20,065,015)	13.5383	(Ps. 271,646,192)
Japanese yen.....	3,029,369	(246,581,546)	(243,552,177)	0.1501	(36,557,182)
Pounds sterling.....	528	(401,509)	(400,981)	19.5304	(7,831,319)
Euro.....	23,055	(3,244,916)	(3,221,861)	19.1432	(61,676,729)
Swedish crowns.....	-	(12,931)	(12,931)	1.7413	(22,517)
Canadian dollars.....	79	-	79	11.0463	873
Total liability position, before foreign currency hedging.....					<u>(Ps. 377,733,066)</u>

(1) As of December 31, 2009 and 2008, PEMEX had foreign exchange hedging instruments, which are discussed in Note 11.

NOTE 5—CASH AND CASH EQUIVALENTS:

As of December 31, 2009 and 2008, cash and cash equivalents were as follows:

	2009	2008
Cash on hand and in banks.....	Ps. 97,387,736	Ps. 60,704,660
Marketable securities.....	30,791,892	53,519,735
	<u>Ps. 128,179,628</u>	<u>Ps. 114,224,395</u>

NOTE 6—ACCOUNTS, NOTES RECEIVABLE AND OTHER:

As of December 31, 2009 and 2008, accounts, notes receivable and other receivables were as follows:

	2009	2008
Domestic customers.....	Ps. 38,142,868	Ps. 37,036,622
Export customers.....	39,082,063	5,881,394
Negative IEPS Tax pending to be credited (Note 19).....	10,711,206	6,816,821
Specific funds (Note 14).....	31,580,688	44,656,862
Employees and officers.....	4,476,052	4,067,658
Tax receivable.....	9,478,236	41,206,169
Other accounts receivable.....	26,219,801	24,382,512
	<u>159,690,914</u>	<u>164,048,038</u>
Less allowance for doubtful accounts.....	1,354,849	1,738,099
	<u>Ps. 158,336,065</u>	<u>Ps. 162,309,939</u>

NOTE 7—INVENTORIES:

As of December 31, 2009 and 2008, inventories were as follows:

	2009	2008
Crude oil, refined products, derivatives and petrochemical products.....	Ps. 31,878,174	Ps. 60,366,216
Materials and supplies in stock.....	6,382,505	6,765,361
Materials and products in transit.....	107,735	136,458
	<u>38,368,414</u>	<u>67,268,035</u>
Less allowance for slow-moving and obsolete inventory.....	1,465,334	1,796,458
	<u>Ps. 36,903,080</u>	<u>Ps. 65,471,577</u>

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NOTE 8—INVESTMENT IN SHARES OF NON-CONSOLIDATED SUBSIDIARIES, AFFILIATES AND OTHERS:

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

<u>Subsidiaries and affiliates shares:</u>	<u>Percentage of Investment</u>	<u>Carrying value as of December 31,</u>	
		<u>2009</u>	<u>2008</u>
Repsol YPF, S.A. ⁽¹⁾	0.00%	Ps. -	Ps. -
Deer Park Refining Limited ⁽²⁾	50.00%	6,081,339	7,547,905
Instalaciones Inmobiliarias para Industrias, S.A. de C.V.	100.00%	1,384,753	1,312,439
Servicios Aéreos Especializados Mexicanos, S.A. de C.V.	49.00%	5,147	5,147
Other—Net	Various	2,291,162	2,311,693
Total investments		Ps. 9,762,401	Ps. 11,177,184

<u>Profit sharing in subsidiaries and affiliates:</u>	<u>For the year ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Repsol YPF, S.A. ⁽¹⁾	Ps. -	(Ps. 3,780,783)	Ps. 588,729
Deer Park Refining Limited ⁽²⁾	(1,363,510)	1,748,582	4,944,329
Instalaciones Inmobiliarias para Industrias, S.A. de C.V.	72,023	66,988	11,996
Total profit sharing	(Ps. 1,291,487)	(Ps. 1,965,213)	Ps. 5,545,054

- (1) As of December 31, 2007, the investment in Repsol YPF, S.A. (“Repsol”) consisted of 59,884,453 shares. On September 24, 2008, RepCon Lux announced the early redemption of its bonds exchangeable for Repsol shares, exercising its right of redemption in cash to certain holders. For such purpose, the equivalent shares were sold in the market through financial institutions. The settlement was realized and carried out in its entirety on October 24, 2008. However, the majority of the holders chose to exchange their bonds for shares prior to the date of the settlement. Considering that the holders had the right to exchange their bonds for Repsol shares prior to redemption, the intrinsic value of the bonds at the time of the redemption proved substantially equivalent to the value of the Repsol shares.

In order to retain the economic and voting rights in respect of 58,679,800 Repsol shares, or approximately 4.81% of Repsol’s share capital, PEMEX entered into four equity swaps with financial institutions thereby obtaining the economic and voting rights in respect of 58,679,799 Repsol shares; PEMEX holds the remaining Repsol share through PMI-SES (see Note 11(v)).

- (2) PMI NASA has a 50% joint venture with Shell Oil Company for the operation of a refinery located in Deer Park, Texas. The investment is accounted for under the equity method. During 2009, 2008 and 2007, PEMEX recorded (Ps. 1,363,510), Ps. 1,748,582 and Ps. 4,944,329 of (loss) and profit, respectively, related to its equity in the results of the joint venture, which has been recorded under “profit sharing in non-consolidated subsidiaries, affiliates and others” in the statement of operations.

NOTE 9—WELLS, PIPELINES, PROPERTIES, PLANT AND EQUIPMENT:

As of December 31, 2009 and 2008, the components of wells, pipelines, properties, plant and equipment is show on next page:

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	2009	2008
Plants	Ps. 423,699,655	Ps. 399,769,820
Drilling equipment	25,713,299	23,370,046
Pipelines	308,025,098	296,436,602
Wells	678,534,523	568,274,197
Buildings.....	55,713,561	51,611,161
Offshore platforms	189,729,704	169,308,888
Furniture and equipment	39,587,111	37,387,996
Transportation equipment	18,437,580	17,771,354
	1,739,440,531	1,563,930,064
Less:		
Accumulated depreciation and amortization	924,133,494	843,858,575
Net value.....	815,307,037	720,071,489
Land	39,696,349	39,144,853
Construction in progress.....	111,552,872	85,148,023
Fixed assets to be disposed of	1,035,242	697,640
Total.....	Ps. 967,591,500	Ps. 845,062,005

- a. As of December 31, 2009 and 2008, the CFR identified with fixed assets in the construction or installation stage, capitalized as part of the value of such fixed assets, was Ps. 2,054,190 and Ps. 1,057,440, respectively.
- b. The combined depreciation of fixed assets and amortization of wells for the fiscal years ended December 31, 2009, 2008 and 2007, recognized in operating costs, was Ps. 76,890,687, Ps. 89,840,495 and Ps. 72,591,718, respectively, which includes amortization costs related to dismantlement and abandonment of wells for the years ended December 31, 2009, 2008 and 2007 of Ps. 1,648,884, Ps. 2,144,911 and Ps. 2,554,062, respectively.
- c. As of December 31, 2009 and 2008, 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. 24,488,953 and Ps. 18,775,600, respectively.
- d. As of December 31, 2009 and 2008, an impairment of Ps. 1,731,229 and Ps. 807,050, respectively, was recorded. Additionally, in 2008, there was a reversal of impairment of Ps. 699,847 related to the Cosoleacaque petrochemical complex due to the recovery of the markets where that complex's main product is sold. Therefore, for the year ended December 31 2008, the net impairment of long-lived assets under FRS C-15 was Ps. 107,203, which was recorded in the statement of operations. As of December 31, 2009 and 2008, PEMEX recognized cumulative impairment charges in the value of long-lived assets amounting to Ps. 16,217,180 and Ps. 14,485,951, respectively.

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NOTE 10—DEBT:

Under the *Ley General de Deuda Pública* (General Law of Public Debt), the SHCP authorizes Mexican Government entities, including Petróleos Mexicanos and the Subsidiary Entities, to negotiate and execute external financing agreements, defining the requirements that must be observed in each case.

Pursuant to the amendments to the Federal Law of Budget and Fiscal Accountability discussed in Note 2, Petróleos Mexicanos assumed during 2009, as primary obligor, all payment obligations under PIDIREGAS financings entered into by the Master Trust and Fideicomiso F/163, which had been guaranteed by Petróleos Mexicanos.

During 2009, the significant financing activities of Petróleos Mexicanos were as follows:

- a. During the period from January 1 to December 31, 2009, Petróleos Mexicanos obtained U.S. \$1,350,000 in nominal terms in loans made or guaranteed by export credit agencies for use in financing its investment program.
- b. On January 21, 2009, Petróleos Mexicanos borrowed U.S. \$984,000 under a revolving credit line, which it entered into on September 7, 2007.
- c. On February 3, 2009, Petróleos Mexicanos issued U.S. \$2,000,000 of its 8.00% Notes due 2019; the notes were issued under Petróleos Mexicanos' Medium-Term Notes Program, Series C. Notes are guaranteed.
- d. On March 26, 2009, Petróleos Mexicanos obtained, in the domestic Mexican market, a bank loan for a total of Ps. 2,500,000 at the a Tasa de Interés Interbancaria de Equilibrio (Mexican Interbank Interest Rate, or "TIIE"), plus 200 basis points; the loan matures in March 2010.
- e. On April 3, 2009, Petróleos Mexicanos issued, in the domestic Mexican market, Ps. 10,000,000 of publicly traded notes in two tranches; one at a variable rate for Ps. 6,000,000 and three-year maturity and the other at a fixed rate for Ps. 4,000,000 and seven-year maturity. These notes were issued under Petróleos Mexicanos' Ps. 70,000,000 Notes Program.
- f. On May 22, 2009, Petróleos Mexicanos issued, in the domestic Mexican market, Ps. 10,000,000 of publicly traded notes in two tranches; one at a variable rate for Ps. 6,500,000 and three-year maturity and the other at a fixed rate for Ps. 3,500,000 and seven-year maturity. These notes were issued under Petróleos Mexicanos' Ps. 70,000,000 Notes Program.

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- g. On June 2, 2009, Petróleos Mexicanos issued £350,000 of its 8.25% Notes due 2022; the notes were issued under Petróleos Mexicanos' Medium-Term Notes Program, Series C. Notes are guaranteed.
- h. On June 18, 2009, Petróleos Mexicanos obtained, in the domestic Mexican market, a bank loan for a total of Ps. 6,750,000 at a floating rate; the loan matures in June 2011.
- i. On June 26, 2009, Petróleos Mexicanos borrowed U.S. \$6,000 under the revolving credit facility established on September 7, 2007.
- j. On July 29, 2009, Petróleos Mexicanos obtained, in the domestic Mexican market, a bank loan for Ps. 6,700,000, bearing interest at a variable rate which matures in January 2011.
- k. On August 17, 2009, Petróleos Mexicanos obtained, in the domestic Mexican market, a bank loan for Ps. 5,000,000, bearing interest at a variable rate which matures in July 2014.
- l. On August 18, 2009, Petróleos Mexicanos issued €200,000 of its 5.779% Notes due 2017; the notes were issued under Petróleos Mexicanos' Medium-Term Notes Program, Series C. Notes are guaranteed.
- m. On September 18, 2009, Petróleos Mexicanos issued U.S. \$1,500,000 of its 4.875% Notes due 2015; the notes were issued under Petróleos Mexicanos' Medium-Term Notes Program, Series C. Notes are guaranteed.
- n. On September 30, 2009, Petróleos Mexicanos obtained, in the domestic Mexican market, a bank loan for Ps. 3,750,000, bearing interest at a variable rate which matures in September 2011. The payment was advanced on December 30, 2009.
- o. On October 8, 2009, Petróleos Mexicanos issued €1,000,000 of its 5.5% Notes due 2017; the notes were issued under Petróleos Mexicanos' Medium-Term Notes Program, Series C. Notes are guaranteed.
- p. On October 13, 2009, Petróleos Mexicanos issued CHF 350,000 of its 3.500% Notes due 2014; the notes were issued under Petróleos Mexicanos' Medium-Term Notes Program, Series C. Notes are guaranteed.

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During 2008, the significant financing activities of Petróleos Mexicanos were as follows:

- a. On February 29, 2008, Petróleos Mexicanos drew down U.S. \$1,000,000 from the syndicated revolving credit facility established on September 7, 2007. This credit line can be used by Petróleos Mexicanos. All drawdowns by the Master Trust were guaranteed by Petróleos Mexicanos, and drawdowns by either borrower were guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.
- b. On March 28, 2008, Petróleos Mexicanos entered into a Ps. 10,000,000 credit line with a banking institution in the domestic market, bearing interest at the 28-day TIIE, plus 12 basis points, maturing on December 31, 2008; borrowings through this credit line were guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.
- c. On March 28, 2008, Petróleos Mexicanos entered into a Ps. 4,000,000 credit line with a banking institution in the domestic market, bearing interest at the 28-day TIIE, maturing on June 20, 2008; borrowings through this credit line were guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.
- d. On March 28, 2008, Petróleos Mexicanos entered into a Ps. 3,500,000 credit line with a banking institution in the domestic market, bearing interest at the 28-day TIIE plus 7.5 basis points, maturing on December 31, 2008; borrowings through this credit line were guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

During 2008, the Master Trust undertook the following significant financing activities:

- a. The Master Trust obtained U.S. \$1,471,126 in nominal terms in loans made or guaranteed by export credit agencies for PIDIREGAS financings.
- b. On June 2, 2008, the Master Trust obtained from a financial institution a credit in an amount of ¥41,900,000—equivalent to U.S. \$400,000—distributed in two tranches of ¥20,950,000 each, with maturities in 2011 and 2014 respectively, both bearing interest at the three-month LIBOR rate. This credit was guaranteed by Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals. The Master Trust's obligations in respect of its indebtedness thereunder were legally assumed by Petróleos Mexicanos, as primary obligor, during the second half of 2009.

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- c. On June 4, 2008, the Master Trust issued notes in the amount of U.S. \$1,500,000, of which U.S. \$1,000,000 consisted of notes due in 2018 with an interest rate of 5.75% and U.S. \$500,000 consisted of bonds due in 2038 with an interest rate of 6.625%. The issuance of the 5.75% notes was a reopening of the Master Trust's October 22, 2007 note issuance. These notes and bonds are guaranteed by Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals. The Master Trust's obligations in respect of its indebtedness thereunder were legally assumed by Petróleos Mexicanos, as primary obligor, during the second half of 2009.
- d. On September 29, 2008, the Master Trust issued ¥64,000,000 of its Floating Rate Bonds due 2020, which were insured by Nippon Export and Investment Insurance and guaranteed by Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals. The Master Trust's obligations in respect of its indebtedness thereunder were legally assumed by Petróleos Mexicanos, as primary obligor, during the second half of 2009.

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

- the sale of substantial assets essential for the continued operations of its business;
- the incurrence of liens against its assets; and
- transfers, sales or assignments of rights to payment not yet earned under contracts for the sale of crude oil or natural gas, accounts receivable or other negotiable instruments.

As of December 31, 2009 and 2008, PEMEX was in compliance with the operating covenants described above.

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As of December 31, 2009 and 2008, long-term debt was as follows

	Rate of Interest ⁽²⁾	Maturity	December 31, 2009		December 31, 2008	
			Pesos (thousands)	Foreign currency (thousands)	Pesos (thousands)	Foreign currency (thousands)
U.S. dollars:						
Bonds	Fixed from 4.875 to 9.5% and LIBOR plus 0.6% to 1.3%	Various to 2038	Ps. 196,358,358	15,036,593	Ps. 177,500,544	13,110,942
Purchasing loans and project financing	Fixed from 3.27% to 6.64% and LIBOR plus 2.25%	Various to 2019	96,418,120	7,383,439	98,010,575	7,239,503
Credit lines	LIBOR plus 0.20% and 0.25%	Various to 2012	-	-	20,307,450	1,500,000
Direct loans	Fixed from 5.44% to 8.3077% and LIBOR plus 1.9%	Various to 2014	4,261,246	326,315	-	-
External trade loans and syndicated loans	LIBOR plus 0.325% to 0.475%	Various to 2013	55,499,475	4,250,000	57,537,775	4,250,000
Bank loans	Fixed at 5.44% and LIBOR plus 1.9%	Various to 2018	2,611,740	200,000	9,169,191	677,278
Financial leases ⁽⁴⁾	Fixed 1.99%	Various to 2019	3,826,822	293,048	5,892,346	435,235
Total financing in U.S. dollars			358,975,761	27,489,395	368,417,881	27,212,958
Euro:						
Bonds	Fixed from 5.5% to 6.625%	Various to 2025	80,561,790	4,300,000	59,343,920	3,100,000
Unsecured loans, banks and project financing	Fixed at 2%	2016	4,559	243	5,671	296
Total financing in euro			80,566,349	4,300,243	59,349,591	3,100,296
Pesos:						
Certificados bursátiles (debt securities)	TIIE less 0.07%, <i>Cetes</i> plus 0.35% to 0.57% and Fixed from 8.33% to 9.91%	Various to 2019	76,172,000		69,672,000	
Project financing and syndicated bank loans	Fixed at 11% and TIIE plus 0.4% to 0.48%	Various to 2012	-		11,444,444	
Direct loans	Fixed at 11% and TIIE plus 0.225% to 2.4%	Various to 2014	31,950,000		-	
Total financing in pesos			108,122,000		81,116,444	

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	Rate of Interest ⁽²⁾	Maturity	December 31, 2009		December 31, 2008			
			Pesos (thousands)	Foreign currency (thousands)	Pesos (thousands)	Foreign currency (thousands)		
Japanese yen:								
Direct loans	LIBOR yen plus 0.5% to 0.71%	Various to 2014	5,882,760	41,900,000	6,650,233	44,305,348		
Bonds	Fixed from 3.5% and LIBOR yen plus 0.75%	Various to 2023	13,197,600	94,000,000	14,113,049	94,000,000		
Project financing	Fixed from 2.9079% and Prime yen from 1% to 2.4%	Various to 2017	9,843,306	70,109,017	13,983,565	93,137,574		
Bank loans			1,503,947	10,711,873	-	-		
Total financing in yen			<u>30,427,613</u>	<u>216,720,890</u>	<u>34,746,847</u>	<u>231,442,922</u>		
"Unidades de Inversión Certificados Bursátiles"	Rate zero	2019	13,512,998		13,027,763			
Other currency:								
Bonds	Fixed 3.5% to 8.25%	Various to 2022	20,237,655		7,812,160			
Total principal in pesos ⁽¹⁾			<u>611,842,376</u>		<u>564,470,686</u>			
Plus: Accrued interest			6,728,300		7,073,181			
Notes payable to contractors ⁽³⁾			<u>13,288,082</u>		<u>15,166,637</u>			
Total principal and interest			<u>631,858,758</u>		<u>586,710,504</u>			
Less: Short-term maturities			<u>90,550,672</u>		<u>91,198,944</u>			
Current portion of notes payable to contractors			5,321,352		24,935			
Accrued interest			<u>6,728,300</u>		<u>-</u>			
Total short-term debt			<u>102,600,324</u>		<u>91,223,879</u>			
Long-term debt			<u>Ps. 529,258,434</u>		<u>Ps. 495,486,625</u>			
Maturity of the principal outstanding including accrued interest for each of the years ending December 31,			<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 and thereafter</u>	<u>Total</u>
	Ps.		102,600,324	Ps. 72,221,743	Ps. 65,489,080	Ps. 67,383,489	Ps. 324,164,122	Ps. 631,858,758

Notes to table:

(1) Includes financing from foreign banks of Ps. 467,885,124 and Ps. 472,130,204 as of December 31, 2009 and 2008, respectively.

(2) As of December 31, 2009 and 2008 the rates were as follows: LIBOR, 0.42969% and 1.75%, respectively; the prime rate in Japanese yen, 1.475% and 1.675%, respectively; the *Cetes* rate, 4.61% for 91 days and 8.15% for 182 days and 4.86% for 91 days and 7.20% for 182 days, respectively; TIIE, 5.1121% and 8.7018%, respectively.

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(3) The total amounts of notes payable to contractors as of December 31, 2009 and 2008, current and long-term, are as follows:

	<u>2009</u>	<u>2008</u>
Total notes payable to contractors ^{(a)(b)(c)}	Ps. 13,288,082	Ps. 15,166,637
Less: Current portion of notes payable to contractors	5,321,352	24,935
Notes payable to contractors (long-term)	<u>Ps. 7,966,730</u>	<u>Ps. 15,141,702</u>

- (a) On November 26, 1997, Petróleos Mexicanos and Pemex-Refining entered into a financed public works contract and a unit-price public works contract with Consorcio Proyecto Cadereyta Conproca, S.A. de C.V. The related contracts are for the reconfiguration and modernization of the Ing. Héctor R. Lara Sosa refinery in Cadereyta, N.L. The original amount of the financed public works contract was U.S. \$1,618,352, plus a financing cost of U.S. \$805,648, due in twenty semi-annual payments of U.S. \$121,200. The original amount of the unit-price public works contract was U.S. \$80,000, including a financing cost of U.S. \$47,600 payable monthly based on the percentage of completion. As of December 31, 2009 and 2008, the outstanding balances of the respective contracts were Ps. 1,447,779 and Ps. 4,561,189, respectively. Pursuant to the amendments discussed above to the Federal Law of Budget and Fiscal Accountability, as of January 1, 2009 these outstanding balances have been recognized as direct public debt.
- (b) 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, 2009 and 2008, PEMEX had an outstanding payable amount of Ps. 9,053,727 and Ps. 5,930,523, respectively.
- (c) During 2007, a Floating Production Storage and Offloading (“FPSO”) vessel was purchased. The investment in the vessel totaled U.S. \$723,575. As of December 31, 2009 and 2008, the outstanding balances were Ps. 4,234,356 (U.S. \$324,255) and Ps. 4,674,925 (U.S. \$345,311), respectively.
- 4) During 2008, PEMEX entered into certain capital lease arrangements for tankers. These leases expire on various dates over the next 10 years. As of December 31, 2009, assets acquired through these capital leases were as follows:

Investment in tankers	Ps 3,075,142
Less accumulated depreciation	<u>144,105</u>
	<u>Ps 2,931,037</u>

The liabilities relating to the assets listed above are payable in each of the following years ending December 31, as presented below:

<u>Year</u>	<u>Pesos</u>	<u>U.S. dollars</u>
2010.....	Ps. 575,277	44,053
2011.....	575,276	44,053
2012.....	575,276	44,053
2013.....	575,276	44,053
2014.....	575,276	44,053
2015 and later.....	<u>2,231,950</u>	<u>170,917</u>
	5,108,331	391,182
Less: Short-term unaccrued interest.....	244,718	25,313
Less: Long-term unaccrued interest.....	1,036,791	79,395
Less: Current portion of lease.....	<u>330,559</u>	<u>18,740</u>
Total long-term capital lease.....	<u>Ps.3,496,263</u>	<u>267,734</u>

The capital lease interest expense during the year ended December 31, 2009 was Ps. 292,791.

NOTE 11— FINANCIAL INSTRUMENTS (DFI):

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

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In order to monitor and manage these risks, PEMEX has developed regulations relating to market risk management, which are comprised of policies and guidelines applicable to PEMEX that promote a comprehensive approach to managing such risk, regulate the use of DFIs, guide the development of hedging strategies and provide strategies for the formulation of risk limits estimates.

PEMEX's risk management regulations provide that DFIs should generally be used only for the purpose of hedging. The use of DFIs for any other purpose must be approved in accordance with current internal regulations.

PEMEX has a policy of reducing the potential impact of market risk factors on its financial results by promoting a balance between expected incoming cash flows from operations and those outgoing, which relate to its liabilities.

(i) Counterparty and Credit Risk associated with DFIs

When the fair value of DFIs is favorable to PEMEX, it faces the risk that counterparties will not be able to meet their obligations. To reduce that risk, PEMEX monitors the creditworthiness of its counterparties and the credit risk exposure of the DFIs. PEMEX enters into transactions primarily with major financial institutions and hydrocarbon intermediaries with appropriate credit ratings, which ratings are issued and revised periodically by risk rating agencies. Additionally, PEMEX maintains a diversified portfolio of counterparties.

Pemex-Gas and Basic Petrochemicals faces additional credit risk due to its offering DFIs to its domestic customers to help them mitigate the volatility in the price of natural gas (see section (iv)). In order to qualify for these DFIs, Pemex-Gas and Basic Petrochemicals's customers must be party to a current natural gas supply contract and sign a master hedging agreement, which is ancillary to such supply contract. These circumstances mean that the credit risk treatment of the DFIs is the same as that for the supply contracts.

Certain of Pemex-Gas and Basic Petrochemicals's customers are exempt from presenting guarantees, while others make purchases on credit and are required to provide guarantees. In the event of nonpayment, supply is suspended and any open DFIs are liquidated. In 2009, the overdue accounts for natural gas of customers in the industrial and distribution sectors accounted for less than 1.00% of the total sales of Pemex-Gas and Basic Petrochemicals.

As of December 31, 2009, Pemex-Gas and Basic Petrochemicals had entered into DFIs with 186 of its customers, of which 174 (94%) were industrial customers and 12 were distributors (6%). Of the total traded volume of DFIs, industrial customers represented 44% while distributors represented 56%.

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As of December 31, 2009, MGI Supply, Ltd., a subsidiary of Pemex-Gas and Basic Petrochemicals, had provided U.S. \$17,325 in collateral, as compared to no collateral having been provided for such DFIs at December 31, 2008.

(ii) Interest Rate Risk.

PEMEX constantly monitors its exposure to the risk generated by volatility in the various reference interest rates applicable to its debt portfolio, as recognized in the balance sheet. To establish an appropriate proportion of fixed rate instruments in its portfolio, thus reducing its exposure to adverse movements in floating interest rates, PEMEX contracts for interest rate swaps associated with its variable-rate debt instruments. Under these swaps, PEMEX makes payments based on a fixed interest rate and receives payments based on a floating rate. LIBOR is the underlying floating rate for U.S. dollar-denominated swaps of PEMEX's debt.

(iii) Foreign Exchange Rate Risk

Most of PEMEX's debt is denominated in U.S. dollars and Mexican pesos. Debt denominated in other currencies generates foreign exchange rate exposure that can increase PEMEX's financing costs. Therefore, PEMEX regularly enters into cross-currency swaps to mitigate the exposure caused by the volatility in the exchange rates of currencies other than the U.S. dollar and the Mexican peso. The parity currencies underlying these swaps are the euro, Japanese yen, pound sterling and Swiss franc, which are swapped against the U.S. dollar.

(iv) Hydrocarbon Price Risk

PEMEX's tax structure permits it to transfer most hydrocarbon price risk to the Mexican Government. Therefore, PEMEX does not enter into long-term strategic hedging arrangements relating to the prices of the hydrocarbons that it trades.

However, PEMEX does periodically evaluate its exposure to international hydrocarbon prices and uses DFIs as a mechanism to mitigate identified potential sources of risk.

In addition to supplying natural gas, Pemex-Gas and Basic Petrochemicals enters as a counterparty into DFIs for natural gas with its domestic customers, in order to help those customers mitigate the risk of volatility in the prices of natural gas. In providing this service, Pemex-Gas and Basic Petrochemicals enters into corresponding DFIs through its subsidiary MGI Supply, Ltd., taking the positions opposite to those in its DFIs with customers—thereby mitigating the market risk generated by those DFIs offered to customers. In turn, MGI Supply, Ltd. enters into opposite position DFIs with international counterparties in order to transfer the related price risk. This system allows Pemex-Gas and Basic Petrochemicals to maintain overall its natural risk profile.

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Since 2003, Pemex-Gas and Basic Petrochemicals has been required to trade Liquefied Petroleum Gas (“LPG”) under a price system imposed by the Mexican Government. This system fixes the sale price of LPG throughout Mexico, generating risk exposure in the geographic areas where Pemex-Gas and Basic Petrochemicals sells imported LPG. During 2009, Pemex-Gas and Basic Petrochemicals mitigated the market risk generated by that exposure by employing a hedging strategy consisting of propane swaps. Propane is the primary component of LPG.

(v) Risk Relating to the Portfolio of Third-Party Shares

PEMEX retains a synthetic long position (holding) on 58,679,799 shares of Repsol YPF, with the objective of maintaining corporate rights over those shares. This is accomplished by using four total return swaps under which PEMEX has the right to receive the total return on the Repsol YPF shares with respect to an exercise price in USD, as well as the dividends and corporate rights relating to those shares. Under these DFIs, PEMEX agrees to cover its financial counterparties for any capital losses that the Repsol YPF shares may experience in reference to an exercise price, as well as to make payments at a fixed interest rate. Additionally, two of these DFIs include structures composed of combinations of options, consisting in each case of one short call and one long put spread. The aforementioned DFIs have maturities between October 2010 and the first six months of 2011. As of December 31, 2009 and 2008, the share price for the related Repsol YPF shares was U.S. \$26.66 and U.S. \$21.10, respectively.

(vi) Fair Value of DFIs

PEMEX monitors the fair value of its DFIs portfolio on a periodic basis. Fair value represents the price at which one party would assume the rights and obligations of the other, and is calculated for DFIs through models used commonly in the international financial markets, based on inputs obtained from major market information systems and price providers.

PEMEX’s DFIs portfolio is composed primarily of swaps whose prices can be estimated by discounting flows using appropriate factors, and contains no exotic instruments that require numerical methods for their valuation.

The options contained in PEMEX’s DFIs portfolio are European-style, consisting of plain or digital calls or puts, and are valued internally based on the traditional Black-Scholes model or certain specialized variations thereof.

The inputs used in valuing PEMEX's DFIs portfolio come from widely recognized price providers and do not require special adjustments or conversions.

(vii) Embedded Derivatives due to a non-functional currency component

As of December 31, 2009 and 2008, in accordance with Bulletin C-10, PEMEX recognized several agreements relating to, among other things, services in connection with works projects, acquisitions, leases and insurance commitments. These agreements were entered into by PEMEX in foreign currencies, and in accordance with their terms, the related foreign currency components do not meet the criteria to generate an embedded derivative.

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PEMEX enters into derivatives transactions with the sole purpose of hedging financial risks related to its operations, assets or liabilities recorded within its balance sheet. Nonetheless, some of these transactions do not qualify for hedge accounting treatment because they do not meet the strict requirements of Bulletin C-10 for being designated as hedges. They are therefore recorded in the financial statements as non-hedge instruments or as instruments entered into for trading purposes, despite the fact that their cash flows are offset by the cash flows of the positions to which they relate. As a result, the changes in their fair value affect the CFR.

As of December 31, 2009 and 2008, the fair value of PEMEX's DFIs was Ps. 9,239,778 and (Ps. 2,429,936), respectively. These amounts include the DFIs designated as cash flow hedges and their net fair value of (Ps. 64,711) and (Ps. 2,374,351), respectively, which was recognized under other comprehensive loss.

The following table shows the fair values and the notional amounts of PEMEX's over-the-counter derivative instruments that are designated as cash flow hedges outstanding as of December 31, 2009 and 2008:

DFI	Position	2009		2008	
		Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Swaps	PEMEX pays fixed in U.S. \$ and receives floating in 6-month U.S. \$ LIBOR.	Ps. 496,328	(Ps. 15,097)	Ps. 1,029,112	(Ps. 34,390)
Interest Rate Swaps	PEMEX pays fixed in pesos and receives the 28-day THIE + spread in pesos.	-	-	3,000,000	(183,949)
Interest Rate Swaps	PEMEX pays fixed in pesos and receives the 182-day swap interest rate provided by Proveedor Integral de Precios, S.A. de C.V. ("PIP IRS") in pesos.	-	-	7,500,000	(952,485)
Cross-Currency Swaps	PEMEX pays fixed in pesos and receives notional in <i>Unidades de Inversión</i> ("UDI").	-	-	11,901,650	572,670
Cross-Currency Swaps	PEMEX pays fixed in U.S. \$ and receives fixed in ¥.	-	-	7,096,331	1,422,444
Cross-Currency Swaps	PEMEX pays floating in 3-month U.S. \$ LIBOR + spread and receives floating in 3-month ¥ LIBOR + spread.	-	-	5,415,320	869,931
Cross-Currency Swaps	PEMEX pays floating in 6-month U.S. \$ LIBOR + spread and receives floating in 6-month ¥ LIBOR + spread.	-	-	8,189,133	1,324,013
Cross-Currency Swaps	PEMEX pays fixed in U.S. \$ and receives fixed in euro.	-	-	22,026,814	842,046
Cross-Currency Swaps	PEMEX pays fixed in U.S. \$ and receives fixed in £.	-	-	9,241,108	(1,901,494)

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DFIs designated as cash flow hedges that have the same critical characteristics as the item being hedged are considered highly effective.

In light of the foregoing, these instruments do not have an impact on earnings that is due to hedge inefficiency, and the change in 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.

As of December 31, 2009, 2008 and 2007, net (loss) income of (Ps. 62,375), Ps. 1,062,359 and (Ps. 1,479,284), respectively, was reclassified from other comprehensive income into earnings in the CFR. It is estimated that, in 2010, net income of Ps. 185,622 will be reclassified from other comprehensive income into earnings.

The following table shows the fair values and the notional amounts as of December 31, 2009 and 2008 of PEMEX's over-the-counter derivative instruments that were treated for accounting purposes as non-hedges:

DFI	Position	2009		2008	
		Notional Amount	Fair Value	Notional Amount	Fair Value
Equity Swaps (including options)	PEMEX pays fixed in U.S. \$ and receives total return on Repsol YPF shares.	Ps. 19,700,551	Ps. 120,391	Ps. 19,679,112	(Ps. 2,761,533)
Interest Rate Swaps	PEMEX pays fixed in pesos and receives the 182-day swap interest rate 6x1 provided by PIP IRS	-	-	5,000,000	(97,841)
Interest Rate Swaps	PEMEX pays fixed in pesos and receives the 28-day THIE + spread in pesos.	3,000,000	(218,268)	-	-
Interest Rate Swaps	PEMEX pays fixed in pesos and receives the PIP IRS in pesos.	7,500,000	(1,161,596)	-	-
Cross-Currency Swaps	PEMEX pays fixed in pesos and receives notional in UDI.	13,464,756	607,198	-	-
Cross-Currency Swaps	PEMEX pays fixed in U.S. \$ and receives fixed in ¥.	12,609,031	2,066,422	8,835,701	605,619
Cross-Currency Swaps	PEMEX pays floating in 3-month U.S. \$ LIBOR + spread and receives floating in 3-month ¥ LIBOR + spread.	5,223,480	711,643	-	-
Cross-Currency Swaps	PEMEX pays floating in 6-month U.S. \$ LIBOR + spread and receives floating in 6-month ¥ LIBOR + spread.	7,899,029	1,326,331	-	-
Cross-Currency Swaps	PEMEX pays fixed in U.S. \$ and receives fixed in euro.	74,854,127	5,734,924	31,832,605	(1,721,125)

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DFI	Position	2009		2008	
		Notional Amount	Fair Value	Notional Amount	Fair Value
Cross-Currency Swaps	PEMEX pays fixed in U.S. \$ and receives fixed in £.	Ps. 8,913,738	(Ps. 573,689)	Ps. -	Ps. -
Cross-Currency Swaps	PEMEX pays floating in 6-month U.S. \$ LIBOR + spread and receives fixed in £.	7,509,405	101,171	-	-
Cross-Currency Swaps	PEMEX pays fixed in U.S. \$ and receives fixed in CHF.	4,424,107	(972)	-	-
Natural Gas Swaps	PEMEX receives floating	Ps. 14,573,778	(Ps. 4,840,626)	(Ps. 20,070,124)	(Ps. 8,881,396)
Natural Gas Swaps	PEMEX receives fixed	(14,780,574)	5,038,005	20,067,822	9,038,846
Natural Gas Options	PEMEX Long Put	525,228	149,213	1,900,058	611,534
Natural Gas Options	PEMEX Short Put	(523,818)	(148,996)	(1,899,512)	(611,620)
Natural Gas Options	PEMEX Long Call	2,350,803	127,432	6,200,409	186,253
Natural Gas Options	PEMEX Short Call	(2,351,140)	(127,244)	(6,200,961)	(185,991)
Natural Gas Digital Options	PEMEX Long Put	340,149	37,441	-	-
Natural Gas Digital Options	PEMEX Short Put	(340,149)	(37,472)	-	(112)
Natural Gas Digital Options	PEMEX Long Call	929,201	3,794	-	-
Natural Gas Digital Options	PEMEX Short Call	(932,490)	(3,825)	(4,971)	(97)

The exchange rates as of December 31, 2009 and 2008 were Ps. 13.0587 and Ps. 13.5383 per U.S. dollar, respectively.

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For the years ended December 31, 2009, 2008 and 2007, PEMEX recognized a net income (loss) of Ps. 9,963,741, (Ps. 2,319,164) and (Ps. 514,893), respectively, in the CFR with respect to DFIs treated as non-hedges. Additionally, for the year ended December 31, 2007, PEMEX recognized a loss of Ps. 702,173 in other revenues related to operations with DFIs treated for accounting purposes as non-hedges. For the years ended December 31, 2009 and 2008, PEMEX did not recognize any impact in other revenues related to operations with DFIs treated for accounting purposes as non-hedges.

NOTE 12—EMPLOYEE BENEFITS:

a. Pensions, seniority premiums and other post-retirement benefits

PEMEX has established employee non-contributory retirement plans, under which benefits are determined based on employees' years of service and final salary at their retirement date. 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 employee benefits 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 medical services and cash provided to retired personnel and their dependents for basic necessities.

b. Benefits for employment termination for causes other than restructuring

PEMEX has established defined benefit plans to cover the payments that must be made when terminating employment, for causes other than restructuring, before the employee's retirement age. These benefits are calculated based on years of service and the employee's compensation at the time employment ends. The obligations and costs corresponding to these plans are recorded in accordance with actuarial valuations performed by independent actuaries.

Cash Flows:

Plan contributions and benefits paid were as follows:

		Retirement benefits	
		2009	2008
Contribution to the pension plan assets	Ps.	20,331,433	Ps. 17,948,524
Payments charged to the plan assets		22,620,838	20,662,053

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Payments charged to the reserve for medical and hospital services for retired personnel and pension recipients in 2009 and 2008 were Ps. 4,260,829 and Ps. 4,039,137, respectively. Payments for employment termination before the employee's retirement age were Ps. 26,525 in 2009. Such payments were not required in 2008.

The cost, obligations and other elements of the pension plan, seniority premium and other post-retirement benefits plans for termination for causes other than restructuring, mentioned in Note 3(m), were determined based on calculations prepared by independent actuaries as of December 31, 2009 and 2008.

The components of net periodic cost for the years ended December 31, 2009 and 2008 are as follows:

	Termination benefits 2009	Retirement benefits 2009	Total 2009
Net periodic cost:			
Service cost.....	Ps. 1,271,683	Ps.11,649,536	Ps. 12,921,219
Financial cost.....	1,675,982	51,404,121	53,080,103
Return on plan assets	-	(566,935)	(566,935)
Prior services cost:			
Prior services costs and plan amendments.....	46,365	5,074,381	5,120,746
Amortization of transition liability	134,220	27,337,019	27,471,239
Actuarial gain (loss)	9,086,387	(2,721,667)	6,364,720
Compensation increase.....	-	1,260,799	1,260,799
Net periodic cost.....	<u>Ps. 12,214,637</u>	<u>Ps.93,437,254</u>	<u>Ps. 105,651,891</u>

	Termination benefits 2008	Retirement benefits 2008	Total 2008
Net periodic cost:			
Service cost.....	Ps. 1,782,851	Ps. 13,693,537	Ps. 15,476,388
Financial cost.....	1,691,923	52,042,518	53,734,441
Return on plan assets	-	(933,360)	(933,360)
Prior services cost:			
Prior services costs and plan amendments.....	46,934	5,068,576	5,115,510
Amortization of transition liability	138,675	27,337,017	27,475,692
Actuarial losses	7,961,507	2,034,043	9,995,550
Compensation increase.....	518,657	1,260,799	1,779,456
Net periodic cost.....	<u>Ps. 12,140,547</u>	<u>Ps. 100,503,130</u>	<u>Ps. 112,643,677</u>

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The actuarial present value of benefit obligations is as follows:

	Termination benefits 2009	Retirement benefits 2009	Total 2009
Vested benefit obligation value:			
Vested benefit obligation acquired.....	Ps.32,183,020	Ps.624,808,332	Ps.656,991,352
Accumulated defined benefit obligations (“OBD”).....	32,183,020	888,542,099	920,725,119
Plan assets at fair value	-	(4,075,779)	(4,075,779)
Defined benefit obligations (“OBD”) fund excess	32,183,020	884,466,320	916,649,340
Prior services not recognized:			
Transition liability	(402,668)	(82,011,048)	(82,413,716)
Plan amendments.....	(159,495)	(54,673,054)	(54,832,549)
Actuarial losses and variances in assumptions	-	(199,419,745)	(199,419,745)
Compensation increase.....	-	(3,782,396)	(3,782,396)
Total liability recognized in the balance sheet.....	Ps. 31,620,857	Ps. 544,580,077	Ps. 576,200,934
	Termination benefits 2008	Retirement benefits 2008	Total 2008
Vested benefit obligation value:			
Vested benefit obligation acquired.....	Ps. 19,973,037	Ps. 427,908,459	Ps. 447,881,496
Accumulated defined benefit obligations (“OBD”).....	20,158,345	619,642,382	639,800,727
Plan assets at fair value	-	(5,761,615)	(5,761,615)
Defined benefit obligations (“OBD”) fund excess	20,158,345	613,880,767	634,039,112
Prior services not recognized:			
Transition liability.....	(536,889)	(109,348,066)	(109,884,955)
Plan amendments	(185,455)	(59,747,435)	(59,932,890)
Actuarial gains and variances in assumptions	-	35,905,470	35,905,470
Compensation increase.....	-	(5,043,194)	(5,043,194)
Total liability recognized in the balance sheet.....	Ps. 19,436,001	Ps. 475,647,542	Ps. 495,083,543

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PEMEX provides medical services directly through its own infrastructure. The effects of an increase or decrease of one percentage point in the assumed variation rate with respect to the cost and obligations related to medical services (“Medical Inflation”) are as follows:

<u>Effect</u>	<u>Termination</u>		<u>Retirement</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Increase of one point in Medical Inflation:				
a) Labor cost of current services.....	1,095,522	510,705	3,361,428	2,798,567
b) Financial cost.....	1,275,829	341,316	18,874,905	10,403,186
c) Total.....	2,371,351	852,021	22,236,333	13,201,753
Variation.....	33.19%	8.72%	23.74%	27.00%
d) Defined benefit obligations (“OBD”).....	15,175,717	3,250,253	223,285,402	95,782,246
Variation.....	37.30%	8.73%	21.95%	10.00%
Decrease of one point in Medical Inflation:				
a) Labor cost of current services.....	667,525	433,224	1,877,464	2,304,750
b) Financial cost.....	690,807	289,490	12,800,467	8,679,416
c) Total.....	1,358,332	722,714	14,677,931	10,984,166
Variation.....	(23.71%)	(7.78%)	(18.32%)	6.00%
d) Defined benefit obligations (“OBD”).....	8,260,009	2,756,368	152,492,471	79,880,493
Variation.....	(25.27%)	(7.79%)	(16.72%)	(8.00%)

Significant assumptions used in determining the net periodic cost of plans are as follows, and are expressed in nominal rates:

	<u>Termination benefits</u>		<u>Retirement benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Discount rate used to show the present value obligations	8.75%	8.75%	8.75%	8.75%
Rate of compensation increase ^(*)	5.50%	5.00%	5.50%	5.00%
Expected long-term rate of return on plan assets	8.75%	8.50%	8.75%	8.50%
Employees’ average remaining labor life over which pending amortization items are amortized	9 years	10 years	9 years	10 years

(*) Includes salary increases due to promotions.

PEMEX’s plan assets are held in two trusts, the *Fondo Laboral Pemex* (“FOLAPE”) and the *Fideicomiso de Cobertura Laboral y de Vivienda* (“FICOLAVI”), which are managed by BBVA Bancomer, S.A. and a technical committee that is comprised of personnel from Petróleos Mexicanos and the trusts.

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

	Retirement benefits	
	2009	2008
Type of investment:		
Governmental securities.....	69.3%	49.0%
Fixed rate securities.....	30.7%	51.0%
Total	100%	100%

NOTE 13—COMPREHENSIVE (LOSS) INCOME:

Comprehensive loss, presented in the consolidated statement of changes in equity, presents the overall result of PEMEX’s activity during the year and includes the following items that—in accordance with the applicable FRS and with the exception of net (loss) income for the period—are recognized directly in equity:

	2009	2008	2007
Net loss.....	(Ps. 94,662,018)	(Ps. 112,076,444)	(Ps. 18,307,569)
Surplus in restatement of equity.....	-	-	19,309,736
Derivative financial instruments.....	2,532,882	(1,268,722)	656,699
Conversion effect.....	(2,183,412)	7,333,266	(982,729)
Deferred income tax effect.....	-	(3,596)	(40)
Effect on equity from employee benefits.....	-	51,759,539	(3,432,792)
Comprehensive loss for the year.....	(Ps. 94,312,548)	(Ps. 54,255,957)	(Ps. 2,756,695)

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 (U.S. \$7,577,000) and was authorized by the Board.

In December 1997, the Board and the Mexican Government agreed to a reduction in equity of the Certificates of Contribution “A” in exchange for a payment in cash to the Mexican Government of Ps. 12,118,050 (U.S. \$1,500,000). As of December 31, 2009, the value of the Certificates of Contribution “A” was Ps. 10,222,463 (historical value of Ps. 10,216,145 plus an adjustment of Ps. 6,318).

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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:

	Amount
Certificates of Contribution “A”	Ps. 10,222,463
Inflation restatement increase through December 31, 2007.....	86,735,530
Certificates of Contribution “A” in pesos of December 31, 2007 purchasing power	Ps. 96,957,993

During January 2007, Petróleos Mexicanos paid Ps. 4,270,224 to the Mexican Government in advance for a minimum guaranteed dividend to be paid as a condition of this capitalization. Through the CA-122/2008 agreement of August 20, 2008, the Board approved the application of this minimum guaranteed dividend, which was recognized in September 2008, as accumulated loss.

During 2007, the Mexican Government assigned to Petróleos Mexicanos excess revenues in accordance with the Federal Law of Budget and Fiscal Accountability, article 19, fraction IV, clauses b) and c) in the amount of Ps. 13,938,000. As of December 31, 2007, Petróleos Mexicanos had received Ps. 11,131,800 that it capitalized in equity. The other Ps. 2,806,200 was recognized as uncalled capital until it was received by Petróleos Mexicanos in February 2008. Additionally, Petróleos Mexicanos received Ps. 19,700 from the *Fondo sobre Ingresos Excedentes* (“FIEX”).

During 2008, the Mexican Government assigned to Petróleos Mexicanos excess revenues in accordance with the Federal Law of Budget and Fiscal Accountability, article 19, fraction IV, clauses b) and c) in the amount of Ps. 32,639,044. In addition, interest in the amount of Ps. 12,218 related to these payments by the Mexican Government was capitalized.

During 2009, due to certain changes in the fiscal regime of Petróleos Mexicanos, the SHCP requested the return of Ps. 40,104 as reimbursement of funds that had been received by Petróleos Mexicanos in 2008 under article 19, fraction IV, clause c) of the Federal Law of Budget and Fiscal Accountability. Additionally, PEMEX received under the terms of the same provision a payment in the amount of Ps. 12,600 corresponding to excess income from the 2008 fiscal year. The SHCP authorized application of this payment toward implementation of programs and investments in infrastructure projects. In addition, PEMEX capitalized an amount of Ps. 494,714, corresponding to interest earned at the end of 2009 on funds provided by the Mexican Government for use in infrastructure works, resulting in an overall increase in equity of Ps. 467,210 for the year.

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In 2004, Petróleos Mexicanos signed an agency agreement establishing the Funds for Specific Purposes—Trade Commission (the “Trade Commission Funds”) with Banco Santander, S.A. as an agent in order to manage the funds transferred by the Mexican Government to Petróleos Mexicanos and the Subsidiary Entities. In accordance with the *Ley de Ingresos de la Federación* (Federal Revenues 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 Trade Commission Funds.

As of December 31, 2009 and 2008, the outstanding balances of the Trade Commission Funds were as follows:

	<u>2009</u>	<u>2008</u>
Trade Commission “FEIP”	Ps. 30,590,241	Ps. 29,023,651
Trade Commission “FEX”	982,967	15,179,213
Trade Commission “AOP”	305	44,316
Trade Commission “FIEX”	7,175	409,682
Total funds for specific purposes.....	<u>Ps. 31,580,688</u>	<u>Ps. 44,656,862</u>

During recent years, PEMEX has recorded negative earnings. However, under the Commercial Bankruptcy Law, decentralized public entities are permitted to operate with negative equity. Furthermore, the financing agreements to which PEMEX currently is a party do not provide for financial covenants that would be breached or events of default that would be triggered as a consequence of negative equity. The Mexican Government has focused its recent efforts on consolidating PEMEX’s institutional strategy, including one through the adoption of November 2008 amendments to PEMEX’s legal framework, which will permit it greater autonomy in decision making and enhanced operational viability.

NOTE 15—COMMITMENTS

(a) PEMEX, through Pemex-Exploration and Production, is party to an evergreen contract to sell to PMI CIM crude oil destined for sale in the international market. Pursuant to this contract, PEMEX is required to sell to PMI CIM the volumes of crude oil that the latter needs to meet its commitments to its clients. The relative sale prices are fixed in accordance with those prevailing in the international market at the time of sale. PMI CIM’s hydrocarbons sales commitments to its clients are backed by PEMEX.

PMI has entered into several contracts for the sale of crude oil on the international market to foreign companies. The terms and conditions of these contracts are specific to each client, and their durations may be indefinite (evergreen contracts), in some cases with a minimum obligatory period (long-term contracts).

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(b) PEMEX has entered into a nitrogen supply contract for the pressure maintenance program at the Cantarell complex. During 2007, an additional contract was entered into with the purpose of supplying nitrogen to the Ku-Maloob-Zap complex and extending the original contract until 2027. As of December 31, 2009 and 2008, the value of the nitrogen to be supplied during the term of the contract was approximately Ps. 17,309,316 and Ps. 19,972,377, respectively. In the event of the annulment of the contract and depending on the circumstances, PEMEX has the right and obligation to acquire the vendor's nitrogen plant under the terms of the contract.

Estimated future payments under this contract for upcoming fiscal years are as follows:

2010.....	Ps. 2,007,406
2011.....	2,022,583
2012.....	2,055,395
2013.....	1,392,635
2014.....	1,409,580
More than 5 years.....	8,421,717
Total	<u>Ps. 17,309,316</u>

(c) During 2008, PEMEX entered into a nitrogen supply contract for pressure maintenance at the Jujo Tecominoacán complex in the Southern Region. The term of this contract runs until 2017.

As of December 31, 2009 and 2008, the value of the nitrogen to be supplied during the term of the contract was approximately Ps. 2,443,574 and Ps. 2,661,262, respectively.

In the event of early termination of contract, under its terms, PEMEX would be required to pay for services received and for unrecoverable expenses of the counterparty.

Estimated future payments under this contract for upcoming fiscal years are as follows:

2010.....	Ps. 838,404
2011.....	530,184
2012.....	530,184
2013.....	109,544
2014 to 2017.....	435,258
Total	<u>Ps. 2,443,574</u>

(d) As of December 31, 2009 and 2008, PEMEX had entered into contracts with several contractors for the development of various infrastructure works, at an estimated total amount of Ps. 195,096,931 and Ps. 483,256,449, respectively.

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. Other than as described in this note, there are no pending lawsuits to which PEMEX is a party in which it anticipates a significant contrary decision, and for which it has accrued related reserves.

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- (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, 2009 and 2008, the reserve for environmental remediation expenses totaled Ps. 6,032,931 and Ps. 1,751,453, respectively. This reserve is included in the reserve for sundry creditors and others as a long-term liability in the balance sheet.

- (b) PEMEX is involved in various civil, tax, criminal, administrative, labor, commercial lawsuits and arbitration proceedings. The result of these proceedings is uncertain as of this date. Based on the information available, the amount claimed in connection with these lawsuits as of December 31, 2009 totaled approximately Ps. 44,291,614. As of December 31, 2009, PEMEX had accrued a reserve of Ps. 9,918,378 for these contingent liabilities. The current status of the principal lawsuits in which PEMEX is involved is as follows:

In September 2001, Conproca, S.A. de C.V. ("CONPROCA"), the construction company performing construction and maintenance services for Pemex-Refining's Cadereyta refinery, filed a claim for arbitration before the International Court of Arbitration of the International Chamber of Commerce (the "ICA") against Pemex-Refining and Petróleos Mexicanos (No. 11760/KGA) related to expenses incurred by CONPROCA for, among other things, additional work performed and value added. On December 17, 2008, the ICA issued a general liability award in favor of CONPROCA (of which Pemex-Refining was notified on December 22, 2008), without specifying an amount to be paid by Pemex-Refining or Petróleos Mexicanos. On November 30, 2009, the parties submitted briefs and evidence in support of the respective amounts of their claimed liability. Petróleos Mexicanos and Pemex-Refining are reviewing the brief filed by CONPROCA in order to file a reply before May 2010. CONPROCA is seeking a total amount of U.S. \$424,890 and Petróleos Mexicanos and Pemex-Refining are seeking U.S. \$116,025.

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As of the date of this report, only one of the several claims filed by a group of Congressmen from the LIXth Legislature related to the FPWC program remains pending. Pemex-Exploration and Production has obtained favorable judgments in the other similar claims filed by these plaintiffs. This remaining claim (No. 226/2004-IV) is related to the FPWC entered into between Pemex-Exploration and Production and PTD Servicios Múltiples, S. de R.L. de C.V. for the Cuervito natural gas production block, and was filed before the Juzgado Noveno de Distrito en Materia Civil del Distrito Federal (Ninth Civil District Court of the Federal District). The claim does not seek monetary relief, but instead to prevent the performance of this FPWC through a declaration that it is void based on the alleged violation of Article 27 of the Mexican Constitution. On June 7, 2008, Pemex-Exploration and Production responded to this claim. As of the date of this report, the evidentiary stage is still pending due to the filing of several motions by PTD Servicios Múltiples, S. de R.L. de C.V.

In December 2004, Corporación Mexicana de Mantenimiento Integral, S. de R.L. de C.V. (“COMMISA”) filed an arbitration claim before the ICA against Pemex-Exploration and Production (arbitration related to project No. IPC-01) for, among other things, a breach of a construction agreement in connection with two platforms in the Cantarell complex. The detailed claim filed by COMMISA seeks damages of U.S. \$319,920 and Ps. 37,209. Pemex-Exploration and Production responded to the claim and filed a counterclaim against COMMISA, seeking U.S. \$125,897 and Ps. 41,513. On January 13, 2010, the ICA notified Pemex-Exploration and Production that it had rendered a decision, dated December 16, 2009, requiring Pemex-Exploration and Production to pay COMMISA sums of approximately U.S. \$293,600 and Ps. 34,400, plus interest, but also requiring COMMISA to pay Pemex-Exploration and Production a sum of approximately U.S. \$5,700, plus interest. On January 11, 2010, Pemex-Exploration and Production had been notified that COMMISA had filed a motion in a U.S. court requesting the enforcement of the ICA award in its favor. As of the date of this report, Pemex-Exploration and Production is seeking to have this action dismissed and the award against it declared null and void.

In January 2006, Tejas Gas de Toluca, S. de R.L. de C.V. (“TGT”) commenced an arbitration proceeding against Gas Natural México, S.A. de C.V. (“GNM”) and Pemex-Gas and Basic Petrochemicals, seeking, among other things, to enforce compliance with a transportation agreement and its amendments dated February 2001 and November 2001. This agreement was entered into for the operation of the Palmillas-Toluca pipeline. On February 15, 2010, GNM and Pemex-Gas and Basic Petrochemicals filed a reply to additional claims that had been submitted by TGT. GNM filed a motion requesting that TGT execute certain agreements pending among the parties. The ICA modified the procedural schedule for this matter stating that it would now render a decision on April 5, 2010 regarding the additional claims filed by each of the parties and on April 9, 2010 regarding the appointment of experts. If these additional claims were accepted, the procedural record would be modified on May 10, 2010.

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On December 16, 2005, Asociación de Transportistas al Servicio de Petróleos Mexicanos, Clientes o Empresas Sustitutos, A.C. (“Asociación de Transportistas”) filed a claim (No. 271/2005-I) before the Juzgado Quinto de Distrito en Materia Civil (Fifth Civil District Court) in the Federal District. On October 31, 2007, Asociación de Transportistas filed an additional claim (No. 295/2007) before the same court. In both claims, Asociación de Transportistas is seeking a declaration that Pemex-Refining was in breach of a transportation agreement dated March 26, 1993, as well as the payment of related damages. Asociación de Transportistas is also seeking that Pemex-Refining authorize the plaintiff to replace tank trucks older than ten years, register these new tank trucks and assign them a cargo. As of the date of this report, a final resolution is still pending in connection with several amparos (a form of constitutional relief) filed by the plaintiff against a judgment rendered in favor of Pemex-Refining. In a separate claim filed by Asociación de Transportistas against Pemex-Refining, in connection with which the plaintiff was seeking the payment of Ps. 1,647,629, a judgment in favor of Pemex-Refining has been granted.

On August 20, 2007, Petróleos Mexicanos and Pemex-Refining were summoned before the Juzgado Decimocuarto de Distrito del Décimo Circuito (Fourteenth District Court of the Tenth Circuit) in Coatzacoalcos, Veracruz in connection with a civil claim (No. 12/2007) filed by Leoba Rueda Nava, seeking approximately Ps. 2,896,927 for, among other things, civil liability and damages resulting from the pollution of land used to store oil waste. On March 18, 2010, the evidentiary stages were completed. A final judgment is still pending.

In December 2003, Unión de Sistemas Industriales, S.A. de C.V. filed a claim (No. 202/2003) before the Juzgado Tercero de Distrito en Materia Civil (Third Civil District Court) in the Federal District against Pemex-Refining, seeking approximately Ps. 393,000 for, among other things, work performed and not paid for under a construction agreement. A final judgment was issued against Pemex-Refining in which it was ordered to pay Ps. 89,000. On May 13, 2009, Pemex-Refining filed an amparo against this judgment. A final resolution is still pending.

On August 16, 2006, two separate amparos (No. 723/2006 and No. 724/2006) were filed by Minera Carbonífera Río Escondido, S.A. de C.V. and Minerales Monclova, S.A. de C.V. before the Juzgado Cuarto de Distrito en Materia Administrativa (Fourth Administrative District Court) in the Federal District, alleging that the Regulatory Law was unconstitutional and that Pemex-Exploration and Production had violated each entity’s constitutional rights through the execution of development, infrastructure and maintenance works in non-associated gas fields under a public works contract. An expert’s opinion on geology to be filed by Pemex-Exploration and Production is still pending. A constitutional hearing was to be held on April 13, 2010.

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In January 1993, Pemex-Refining entered into a joint venture with Impulsora Jalisciense, S.A. de C.V. (“Impulsora”) to establish a new company called Mexicana de Lubricantes, S.A. de C.V. (“Mexicana de Lubricantes”), which manufactures, bottles and distributes automotive and industrial lubricants and greases. Currently, Pemex-Refining is involved in certain litigation and administrative proceedings in connection with this joint venture, including the following:

- On December 5, 2005, Impulsora filed an *amparo* (No. 1519/2005) before the *Juzgado Quinto de Distrito en Materia Administrativa* (Fifth Administrative District Court) in the state of Jalisco, in connection with a constitutional claim against the *Ley Federal de Procedimiento Administrativo* (Federal Law of Administrative Procedure) and a resolution (Acuerdo No. PMREF-00-002) published in the Official Gazette of the Federation on November 21, 2005. This proceeding has been joined with a pending claim filed by Bardahl de México, S.A. de C.V. (“Bardahl”), a competitor in the lubricants market, in which Bardahl asserts that it is the owner of the “Mexlub” trademark. As described further below, Bardahl seeks a ruling under which it would be permitted to sell its products to the service stations of Mexico, thereby eliminating Mexicana de Lubricantes’ exclusive right to sell its lubricants in these service stations. A constitutional hearing was to be held on April 12, 2010.
- On December 20, 2005, Pemex-Refining filed a commercial claim (No. 127/2005) against Mexicana de Lubricantes before the *Juzgado Segundo de Distrito en Materia Civil* (Second Civil District Court) in the state of Jalisco, to compel Impulsora to convene a general shareholders’ meeting to discuss Mexicana de Lubricantes’ financial information, as well as the appointment of its new board members and comptroller. On June 29, 2007, a judgment was issued in favor of Pemex-Refining, and Mexicana de Lubricantes was ordered to convene a general shareholders’ meeting. As of the date of this report, the execution of the final resolution is still pending.
- On June 7, 2006, Pemex-Refining filed a criminal complaint before the *Procuraduría General de la República* (Federal Attorney General’s Office) for fraud allegedly committed by members of the board of directors of Mexicana de Lubricantes. On July 17, 2009, Pemex-Refining filed an accounting report stating that it had suffered up to Ps. 25,828 in damages as a result of this alleged fraud. As of the date of this report, an expert’s opinion to be provided by the Federal Attorney General’s Office is still pending.

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- On October 17, 2006, Pemex-Refining filed a commercial claim (No. 222/2006) against Impulsora before the *Juzgado Octavo de Distrito en Materia Civil* (Eight Civil District Court) in Mexico City, seeking to enforce its contractual right to exercise an option to purchase those shares of Mexicana de Lubricantes owned by Impulsora. On November 30, 2009, a judgment was issued in favor of Impulsora on the basis of Mexicana de Lubricantes' financial statements not yet having been approved—which would be necessary in determining whether it had realized any profit. Pemex-Refining filed an appeal against this resolution, which is still pending.
- On February 2, 2007, Mexicana de Lubricantes filed a commercial claim (No. 28/2007) against Pemex-Refining before the *Juzgado Primero de Distrito en Materia Civil* (First Civil District Court) in the Federal District seeking, among other things, a judgment declaring null and void any advance termination or cancellation of the following agreements executed between Mexicana de Lubricantes and Pemex-Refining: (i) a license and trademark contract; (ii) a basic greases supply contract; and (iii) a contract for the manufacture of lubricants and greases for Petróleos Mexicanos and the subsidiary entities. On March 16, 2010, a judgment was issued in favor of Pemex-Refining. However, Mexicana de Lubricantes may appeal this judgment.
- On May 2, 2007, Bardahl filed a commercial claim (No. 95/2007) against Mexicana de Lubricantes and Pemex-Refining before the *Juzgado Quinto de Distrito en Materia Civil del Tercer Circuito* (Fifth Civil District Court of the Third Circuit) in Guadalajara, Jalisco, seeking that a trademark license agreement between Pemex-Refining and Mexicana de Lubricantes and its amendments be declared invalid because of an exclusivity clause that prevents the sale of Bardahl's products in the service stations of Mexico, as well as the related damages. The plaintiff's expert claims damage totaling up to Ps. 18,008,068, while the defendants' expert claims that there are no damages. The trial is in the evidentiary stage, with the opinion of an independent expert still pending.

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On November 3, 1997, the Comisión Federal de Competencia (Federal Competition Commission) issued a resolution relating to an investigation into Pemex-Refining's business practices in connection with an exclusivity clause included in its license and trademark contracts executed with service stations in Mexico, which provided that those service stations could only sell lubricants and greases bearing PEMEX or Mexicana de Lubricantes trademarks. On July 10, 2003, the Federal Competition Commission issued a resolution in accordance with article 10, section I of the Ley Federal de Competencia Económica (Federal Law of Economic Competition), prohibiting Pemex-Refining from engaging in anti-competitive practices in relation to that exclusivity clause, requiring amendment of the related contracts within a period of six months to remove the clause and imposing a fine of 1,500 daily minimum wage units per day until such contracts were brought into compliance. However, this six-month deadline was suspended due to a motion filed by Impulsora. On January 23, 2008, the Federal Competition Commission notified Pemex-Refining that it would require compliance with the resolution described above within a period of no more than 15 business days, except for the requirement to amend the relevant contracts. On February 12, 2008, Pemex-Refining filed a response stating that it would be unable to comply with the resolution due to a definitive suspension granted to Bardhal in a related amparo (No. 373/2006, which is currently joined with amparo No. 1519/2005). On April 10, 2008, the Federal Competition Commission rejected this response and Pemex-Refining filed a subsequent motion to suspend the Federal Competition Commission's resolution. That motion was granted on May 6, 2008. In the meantime, the Federal Competition Commission had filed a revised motion against the resolution granting the definitive suspension and an amparo had been granted on April 30, 2008 in favor of Pemex-Refining, declaring unconstitutional the resolution originally issued by the Federal Competition Commission. The Federal Competition Commission filed a revised motion (No. R.A. 246/2008) before the Décimo Tribunal Colegiado del Primer Circuito (Tenth Joint Court of the First Circuit) objecting to the amparo, but that motion was denied. The Federal Competition Commission, Impulsora and Mexicana de Lubricantes filed revised motions against this resolution, and on January 28, 2009, Pemex-Refining filed its pleadings. On July 7, 2009, the Décimo Primer Tribunal Colegiado en Materia Administrativa (Eleventh Administrative Joint Court) in the Federal District confirmed the resolution in favor of Pemex-Refining. On August 20, 2009, and as was notified on September 28, 2009, the Federal Competition Commission reviewed the evidence filed by Pemex-Refining and ratified its initial resolution. On October 20, 2009, Pemex-Refining filed a new amparo (No. 1691/2009) before the Juzgado Décimo Tercero de Distrito en Materia Administrativa (Thirteenth Administrative District Court) in the Federal District, which was granted. Pemex-Refining thereafter filed a motion requesting that this proceeding be joined with two pending before the Juzgado Décimo Sexto de Distrito en Materia Administrativa (Sixteenth Administrative District Court) in the Federal District, which had been filed by Mexicana de Lubricantes and Impulsora against the new resolution issued by the Federal Competition Commission. On December 18, 2009, Pemex-Refining's motion to join these proceedings was denied. A constitutional hearing was to be held on April 15, 2010.

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The results of these proceedings are uncertain until final resolutions are issued by the appropriate authorities.

NOTE 17—OIL RESERVES (UNAUDITED)

Under the Mexican Constitution and the Petróleos Mexicanos Law, all oil and other hydrocarbons reserves in Mexico are the property of the Mexican nation. PEMEX is entrusted through Pemex-Exploration and Production with the exclusive rights to extract and exploit Mexico's petroleum reserves. However, because such reserves are not PEMEX's property, they are not recorded on its books. Beginning in 1997, Pemex-Exploration and Production reformed its procedures for calculating such reserves in accordance with the regulations of the United States Securities and Exchange Commission (the "SEC"), as provided in Rule 4-10(a) of Regulation S-X of the SEC. Estimates of such reserves may vary from one engineer to another. In addition, the results of drilling, testing and production performed subsequent to the date of an estimate are used in conducting future reviews of the same reserves.

NOTE 18—SEGMENT FINANCIAL INFORMATION:

PEMEX's primary business is the exploration and production of crude oil and natural gas and the refining and marketing of petroleum products, conducted through four business segments: Pemex-Exploration and Production, Pemex-Refining, Pemex-Gas and Basic Petrochemicals and Pemex-Petrochemicals. Management makes decisions related to the operations of the consolidated business along these four strategic lines.

The primary sources of revenue for the segments are as described below:

- Pemex-Exploration and Production earns revenues from domestic crude oil sales, as well as from the exporting of crude oil, through the PMI Group, to international markets. Export sales are made through the PMI Group to approximately 25 major customers in various foreign markets. Less than half of PEMEX's 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-Petrochemicals is engaged in the sale of petrochemical products to the domestic market. Pemex-Petrochemicals offers a wide range of products. The majority of Pemex-Petrochemicals' revenues comes from methane derivatives, ethane derivatives and aromatics and derivatives.

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In making performance analyses for the entities, PEMEX's management focuses on sales volumes and gross revenues as primary performance indicators.

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.

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	
<u>Year ended December 31, 2009</u>														
Sales -														
Trade.....	Ps.	-	Ps.	466,238,279	Ps.	111,245,384	Ps.	18,885,357	Ps.	488,260,795	Ps.	-	Ps.	1,084,629,815
Intersegment		827,653,321		61,000,823		60,722,516		31,068,976		255,738,182		(1,236,183,818)		-
Services income.....		-		3,376,277		-		-		3,027,320		(1,112,081)		5,291,516
Total net sales.....		827,653,321		530,615,379		171,967,900		49,954,333		747,026,297		(1,237,295,899)		1,089,921,331
Gross income.....		607,234,367		(85,483,482)		7,652,595		(8,973,710)		50,044,324		(41,687,718)		528,786,376
Operating income (loss).....		576,366,159		(129,814,425)		(4,789,179)		(20,370,049)		7,618,478		(733,608)		428,277,376
Comprehensive financing result (cost).....		(27,778,181)		(157,022)		2,748,591		100,489		9,778,256		-		(15,307,867)
Net income (loss).....		5,436,454		(92,455,034)		(1,190,256)		(19,997,884)		(88,682,514)		102,227,216		(94,662,018)
Depreciation and amortization		62,374,663		9,023,359		3,676,317		1,142,709		673,639		-		76,890,687
Labor cost reserve		34,995,298		35,426,353		7,961,731		9,900,426		17,368,083		-		105,651,891
Taxes and duties		538,596,544		3,309,822		692,647		290,507		3,743,538		-		546,633,058
Acquisition of fixed assets		173,104,870		24,950,814		2,120,178		2,198,130		1,368,691		-		203,742,683
Total assets.....		2,983,699,608		496,044,407		133,497,604		86,943,440		1,802,500,251		(4,170,648,131)		1,332,037,179
Current assets		2,269,247,725		308,544,174		89,660,926		69,107,983		904,063,806		(3,290,927,924)		349,696,690
Investments in shares.....		610,032		157,094		1,503,374		-		375,193,677		(367,701,776)		9,762,401
Wells, pipelines, properties, plant and equipment.....		711,503,482		186,970,987		42,128,005		17,488,295		9,500,731		-		967,591,500
Current liabilities.....		2,004,499,026		248,243,821		32,420,053		9,493,321		1,228,678,446		(3,280,374,275)		242,960,392
Reserve for employee benefits		198,641,039		195,906,527		49,111,151		53,968,743		78,573,474		-		576,200,934
Total liability.....		2,728,866,519		484,186,579		89,416,127		64,252,478		1,835,102,671		(3,802,947,175)		1,398,877,199
Equity.....		254,833,089		11,857,828		44,081,477		22,690,962		(32,602,420)		(367,700,956)		(66,840,020)
<u>Year ended December 31, 2008</u>														
Sales -														
Trade.....	Ps.	-	Ps.	487,070,405	Ps.	167,107,867	Ps.	25,575,854	Ps.	644,418,238	Ps.	-	Ps.	1,324,172,364
Intersegment		1,137,807,483		56,992,301		104,027,712		54,481,528		330,042,792		(1,683,351,816)		-
Services income.....		-		3,485,588		-		-		2,375,188		(1,083,188)		4,777,588
Total net sales.....		1,137,807,483		547,548,294		271,135,579		80,057,382		976,836,218		(1,684,435,004)		1,328,949,952
Gross income.....		902,305,112		(236,863,752)		13,004,111		(8,722,223)		42,447,800		(37,253,555)		674,917,493
Operating income (loss).....		871,180,460		(280,318,220)		(259,550)		(19,336,132)		(143,856)		(11,253)		571,111,449
Comprehensive financing result (cost).....		(87,731,727)		(25,488,043)		3,199,974		624,199		4,032,478		(2,148,597)		(107,511,716)
Net income (loss).....		23,473,089		(119,474,506)		2,263,955		(18,670,810)		(110,724,131)		111,055,959		(112,076,444)
Depreciation and amortization		74,475,554		9,978,606		3,688,137		1,093,894		604,304		-		89,840,495
Labor cost reserve		38,146,689		37,599,695		9,850,665		9,111,632		17,934,996		-		112,643,677
Taxes and duties		761,683,140		5,348,879		1,771,024		274,084		2,624,677		-		771,701,804
Acquisition of fixed assets		113,321,706		24,155,484		5,405,305		3,507,099		2,922,006		-		149,311,600
Total assets.....		1,402,388,519		380,061,361		143,791,980		78,498,657		3,059,645,158		(3,827,548,271)		1,236,837,404
Current assets		779,192,962		206,142,588		98,032,197		61,787,281		559,007,033		(1,339,870,254)		364,291,807
Investments in shares.....		402,563		157,094		1,667,006		-		735,301,521		(726,351,000)		11,177,184
Wells, pipelines, roperties, plant and equipment.....		606,668,876		171,844,781		43,831,789		16,547,828		6,168,731		-		845,062,005
Current liabilities.....		94,754,683		158,066,528		39,420,210		7,719,939		1,126,494,021		(1,250,490,795)		175,964,586
Reserve for employee benefits		172,980,782		168,326,666		41,601,685		45,590,405		66,584,005		-		495,083,543
Total liability.....		1,144,606,751		395,713,962		96,035,524		54,480,917		2,988,056,375		(3,468,941,559)		1,209,951,970
Equity.....		257,781,768		(15,652,601)		47,756,456		24,017,740		71,588,783		(358,606,712)		26,885,434

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	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Corporate and Subsidiary Companies	Intersegment Eliminations	Total
<u>Year ended December 31, 2007</u>							
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.....	-	3,221,190	-	-	1,880,032	(819,423)	4,281,799
Total net sales.....	912,295,482	475,833,648	222,904,013	57,643,803	792,800,663	(1,322,220,991)	1,139,256,618
Gross income.....	740,811,644	(77,803,300)	15,816,747	(6,559,693)	41,180,126	(34,854,648)	678,590,876
Operating income (loss)	707,401,828	(111,085,600)	7,335,910	(14,115,424)	5,850,048	(1,734,890)	593,651,872
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
Wells, pipelines, properties, plant and equipment	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
Reserve for employee benefits	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.....	239,254,645	40,085,111	48,518,068	20,596,562	69,257,475	(367,804,000)	49,907,861

For certain of the above items to agree with the individual financial statements, they must be reconciled. The reconciliation of those items by segment, before intersegment eliminations, is as follows:

	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Corporate and Subsidiary Companies
Total net sales	Ps. 828,692,752	Ps. 532,690,163	Ps. 172,346,851	Ps. 49,974,377	Ps. 747,746,227
Less intersegment revenue	(1,039,431)	(2,074,784)	(378,951)	(20,044)	(719,930)
Total consolidated net sales	<u>827,653,321</u>	<u>530,615,379</u>	<u>171,967,900</u>	<u>49,954,333</u>	<u>747,026,297</u>
Operating income (loss)	577,250,611	(85,908,835)	(3,046,960)	(18,982,260)	8,231,067
Less intersegment revenue	(1,039,431)	(2,074,784)	(378,951)	(20,044)	(719,930)
Less intersegment sales	154,979	309,350	56,502	2,988	107,341
Less unrealized profit on inventory	-	(42,140,156)	(1,419,770)	(1,370,733)	-
Operating income (loss)	<u>Ps. 576,366,159</u>	<u>(Ps. 129,814,425)</u>	<u>(Ps. 4,789,179)</u>	<u>(Ps. 20,370,049)</u>	<u>Ps. 7,618,478</u>

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	<u>Exploration and Production</u>	<u>Refining</u>	<u>Gas and Basic Petrochemicals</u>	<u>Petrochemicals</u>	<u>Corporate and Subsidiary Companies</u>
Total assets	2,987,558,593	539,949,997	135,239,823	88,331,228	1,853,404,840
Less intersegment revenue	(1,039,431)	(2,074,784)	(378,951)	(20,044)	(2,479,292)
Less intersegment sales	154,979	309,350	56,502	2,989	107,342
Less unrealized profit on inventory	-	(42,140,156)	(1,419,770)	(1,370,733)	-
Less intersegment capitalized interest	(2,974,533)	-	-	-	-
Less participation method for unrealized profits from intersegment operations	-	-	-	-	(48,532,639)
Total assets	<u>Ps. 2,983,699,608</u>	<u>Ps. 496,044,407</u>	<u>Ps. 133,497,604</u>	<u>Ps. 86,943,440</u>	<u>Ps. 1,802,500,251</u>
Equity	252,743,008	55,763,418	45,823,696	24,078,750	19,517,340
Less intersegment revenue	(1,039,431)	(2,074,784)	(378,951)	(20,044)	(719,930)
Less intersegment sales	154,979	309,350	56,502	2,989	107,342
Less unrealized profit on inventory	-	(42,140,156)	(1,419,770)	(1,370,733)	-
Less intersegment capitalized interest	2,974,533	-	-	-	-
Less participation method for unrealized profits from intersegment operations	-	-	-	-	(51,507,172)
Consolidated equity	<u>Ps. 254,833,089</u>	<u>Ps. 11,857,828</u>	<u>Ps. 44,081,477</u>	<u>Ps. 22,690,962</u>	<u>(Ps. 32,602,420)</u>

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NOTE 19—FISCAL REGIME:

On December 21, 2005, the Mexican Congress approved a new fiscal regime for Petróleos Mexicanos and the Subsidiaries Entities, which was published in the Official Gazette of the Federation, effective January 1, 2006. This regime was modified on October 1, 2007 and again on November 13, 2008.

Under this new fiscal regime, PEMEX's contribution scheme continues to be established by the *Ley Federal de Derechos* (Federal Duties Law) and the *Ley de Ingresos de la Federación* (Federal Income Law). The fiscal regime for PEMEX for 2009 contemplates the following duties:

(a) *Ordinary Hydrocarbons Duty ("DOSH")*—During 2009 and 2008, the applicable rates of this duty were 73.50% and 74%, respectively. The computation of this duty is based on the value of the extracted total production of crude oil and natural gas during the year, minus certain permitted deductions established in the Federal Duties Law (including certain investments, costs, expenses and duties).

During 2009, Pemex-Exploration and Production made daily, weekly and monthly advance payments in the amounts of Ps. 160,630,027, Ps. 162,686,276, and Ps. 120,532,240, respectively, totaling Ps. 443,848,543, which amount was credited to the annual payment of the DOSH. During 2008, Pemex-Exploration and Production made daily, weekly and monthly advance payments in the amounts of Ps. 175,359,039, Ps. 183,755,212 and Ps. 340,347,198, respectively, totaling Ps. 699,461,449, which amount was credited to the annual payment of the DOSH.

In computing this duty, deductions derived from the residual value of investments made before the current fiscal regime took effect may be applied as a deferred deduction, referred to as a "temporary difference," in accordance with FRS D-4. These deductions may be made in a maximum remaining period of ten years, the effect of which, if applied, can have a favorable effect in an amount up to approximately Ps. 271,226,118, depending on certain conditions established in the Federal Duties Law. To date, PEMEX has not recognized such effect from these deferred deductions because they are considered unlikely to materialize.

(b) *Hydrocarbons Duty for the Stabilization Fund*—Pemex-Exploration and Production must pay this duty when, during the applicable year, the weighted average Mexican crude oil export price exceeds U.S. \$22.00. The applicable rate will be between 1% and 10%, depending on the weighted average price of crude oil exports, with the maximum rate of 10% applying when the price exceeds U.S. \$31.00 per barrel. Collections of this duty are deposited in the Oil Revenues Stabilization Fund.

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(c) *Extraordinary Duty on Crude Oil Exports*—This duty is calculated by applying a rate of 13.1% to the value resulting from multiplication of (i) the difference between the annual weighted average Mexican crude oil export price and the budgeted crude oil price as provided for in the Federal Income Law (U.S. \$70.00 and U.S. \$49.00 during 2009 and 2008, respectively), times (ii) the annual export volume. The duty actually paid may be credited against the Hydrocarbons Duty for the Stabilization Fund. Collections of this duty are directed to the Federative Entities through the Stabilization Fund for the Income of Federative Entities.

(d) *Duty for Scientific and Technological Research on Energy*—This duty is applied at a rate of 0.30% to the value of the extracted production of crude oil and natural gas for the year. The collections from this tax are directed as follows:

- 65% to the Sectorial Fund CONACYT of the Ministry of Energy for Hydrocarbons;
- 20% to the Scientific Research and Technological Development Fund of the *Instituto Mexicano del Petróleo* (Mexican Petroleum Institute, or “IMP”); and
- 15% to the Sectorial Fund CONACYT of the Ministry of Energy for Energy Sustainability.

(e) *Duty for Oil Monitoring*—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 Expenditures Budget.

(f) *Sole Hydrocarbons Duty*—This duty is applied to the value of the extracted crude oil and natural gas from abandoned fields or fields that are in the process of being abandoned. The rate fluctuates between 37% and 57%, depending on the weighted average Mexican crude oil export price.

(g) *Extraction of Hydrocarbons Duty*—Effective November 14, 2008, this duty is applied to the value of the crude oil and natural gas extracted from the fields in Paleocanal de Chicontepec and in deep waters, at a floating rate between 10% and 20%, depending on the weighted average price per barrel of Mexican crude oil exports. Collections of this duty are deposited in the Oil Revenues Stabilization Fund.

(h) *Special Hydrocarbons Duty for Paleocanal de Chicontepec fields* (“*Paleocanal de Chicontepec Duty*”)—Effective November 14, 2008, this duty is applied at a rate of 71.5% to the value of the crude oil and natural gas extracted from the fields in the Paleocanal de Chicontepec, less certain deductions, which may not exceed the cost limit established in article 257 of the Federal Duties Law.

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(i) *Special Hydrocarbons Duty for Deep Water fields*—Effective November 14, 2008, this duty is applied to the value of the crude oil and natural gas extracted from the fields in deep waters, less certain deductions, which may not exceed the cost limit established in article 257 of the Federal Duties Law. The applicable rate will be between 60% and 71.5%, depending on the weighted average price per barrel of Mexican crude oil exports.

(j) *IEPS Tax*—In accordance with current regulations, PEMEX is subject to the IEPS Tax, which applies to the importing and sale of gasoline and diesel. The IEPS is paid to the SHCP monthly, after deducting daily advance payments made in accordance with applicable rules. The effective rate of this tax depends on factors such as the type of product, reference price, the region where the product is sold, additional freight costs and applicable commissions.

In 2009, 2008 and 2007, increases in international prices of hydrocarbons and petroleum products caused the rate of the IEPS Tax to be negative. Effective January 1, 2006, the Federal Revenues Law was amended, allowing PEMEX to credit the negative IEPS Tax against other taxes and payments to which PEMEX is also subject. As a result of this credit, PEMEX recognized benefit during 2009, 2008 and 2007 in other revenues of approximately Ps. 37,247,260, Ps. 194,575,700 and Ps. 72,137,000, respectively.

(k) *Hydrocarbon Income Tax (“IRP”)*—This tax is applicable to Petróleos Mexicanos and the Subsidiary Entities other than Pemex-Exploration and Production, and is calculated by applying a 30% rate on the excess of total revenues minus authorized deductions, pursuant to the specific rules provided by the SHCP in accordance with the Federal Income Law.

For the years ended December 31, 2009, 2008 and 2007, PEMEX generated an IRP as follows:

	2009	2008	2007
Current IRP.....	Ps. 2,464,890	Ps. 1,453,626	Ps. 4,070,364
Deferred IRP.....	37,761	129,284	1,867,292
	2,502,651	1,582,910	5,937,656
Inflation effect.....	-	-	92,711
Total IRP.....	Ps. 2,502,651	Ps. 1,582,910	Ps. 6,030,367

During 2009, Petróleos Mexicanos and the Subsidiary Entities other than Pemex-Exploration and Production made daily and weekly payments of Ps. 1,190,700, and Ps. 1,170,141, respectively as determined by the SHCP, for an overall total of Ps. 2,360,841 credited to the annual payment of the IRP. During 2008, the total daily and weekly payments determined by the SHCP were Ps. 1,399,383 and Ps. 1,413,548, respectively, for an overall total of Ps. 2,812,931 credited to the annual payment.

This tax will be declared through a tax form filed with the Federal Treasury no later than the last business day of March 2010, and the daily and weekly advance payments made during the fiscal year will be credited against that amount.

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Petróleos Mexicanos will comply for its own account, and for the account of the Subsidiary Entities, with all obligations under the Federal Income Law and other fiscal laws, except as explicitly provided for in relation to the making of daily and weekly payments. As such, Petróleos Mexicanos will be solely responsible for the payment of contributions and duties owed by the Subsidiary Entities to the Mexican Government.

The principal factors generating the deferred IRP are the following:

	<u>2009</u>	<u>2008</u>
Deferred asset IRP:		
Advances from customers	Ps. 475,471	Ps. 482,417
Provision for insurance	168,605	106,224
Provision for contingencies	37,369	31,043
Environmental reserve	6,721	32,259
Allowance for doubtful accounts	29,362	10,601
	<u>717,528</u>	<u>662,544</u>
Deferred liability IRP:		
Advance insurance	(10,910)	(6,532)
Wells, pipelines, properties, plant and equipment	(5,750,302)	(5,661,935)
	<u>(5,761,212)</u>	<u>(5,668,467)</u>
Long-term liability	<u>(Ps. 5,043,684)</u>	<u>(Ps. 5,005,923)</u>

The expense (benefit) attributable to the profit (loss) from continuing operations before tax on oil production was different from what would result from applying the rate of 28% to profit, as a result of the items listed below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Expected (benefit) expense	(Ps. 129,178,136)	Ps. 1,501,210	Ps. 3,100,279
Tax effect of inflation, net	(915,759)	(280,619)	165,038
Difference between book depreciation and tax depreciation	(1,104,432)	320,018	2,487,354
Equity interest in investments	131,627,990	-	-
Non-deductible expenses	2,066,042	19,570	44,900
Customer advances	6,946	-	-
Other, net	-	22,731	232,796
Expense for tax on earnings	Ps. <u>2,502,651</u>	Ps. <u>1,582,910</u>	Ps. <u>6,030,367</u>

(1) *Value Added Tax ("VAT")*—For VAT purposes, final monthly payments are determined in cash flow, in accordance with the provisions of the Value Added Tax Law, which is applicable to payers of this tax.

On November 25, 2009, the Federal Income Law it was published in the Official Gazette, Article 7, section III, provide an additional procedure that applies exclusively to PEMEX, regarding treatment of the VAT in respect of imports of tangible goods. To be in compliance with this law, PEMEX recognized on December 31, 2009 a provision in the amount of Ps. 8,000,000.

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(m) *Income Tax*—Certain of the Subsidiary Companies are subject to the Income Tax Law and to the IETU, and are therefore required to pay the greater of their IETU or Income Tax.

For the years ended December 31, 2009, 2008 and 2007, the Subsidiary Companies incurred the following income tax:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current income tax	Ps. 1,900,467	Ps. 2,540,703	Ps. 3,253,655
Deferred income tax	(144,619)	56,246	(27,414)
	<u>Ps. 1,755,848</u>	<u>Ps. 2,596,949</u>	<u>Ps. 3,226,241</u>

The principal factors generating deferred Income Tax are the following:

	<u>2009</u>	<u>2008</u>
Deferred asset income taxes:		
Advance from customers.....	Ps. -	Ps. 6,613
	<u>530</u>	<u>55,818</u>
Total deferred asset income tax	<u>530</u>	62,431
Deferred liability income taxes:		
Advance payments	-	(7,635)
Gain unrealizable from financial transactions.....	(34,204)	(82,709)
Properties, plant and equipment.....	(1,855,762)	(2,006,142)
Total deferred liability income tax.....	<u>(1,889,966)</u>	<u>(2,096,486)</u>
Long term liability.....	<u>(Ps. 1,889,436)</u>	<u>(Ps. 2,034,055)</u>

Expense (benefit) attributable to the profit (loss) from continuing operations before income taxes was different from what would result from applying the rate of 30% to profit, as a result of the items listed below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Expected (benefit) expense	Ps. 1,837,132	Ps. 2,463,151	Ps. 3,371,320
Tax effect of inflation, net	(80,936)	(96,070)	(27,877)
Non-deductible expenses	-	110,279	21,823
Others, net	<u>(348)</u>	<u>119,589</u>	<u>(139,025)</u>
Income tax expense	<u>Ps. 1,755,848</u>	<u>Ps. 2,596,949</u>	<u>Ps. 3,226,241</u>

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NOTE 20—NEW ACCOUNTING PRONOUNCEMENTS:

The CINIF has issued the following Mexican FRS that will take effect for fiscal years beginning as of January 1, 2010 or 2011, as indicated below:

(a) FRS B-5 “Financial Information by Segments”—This FRS will take effect as of January 1, 2011, and establishes the following principal changes as compared to Bulletin B-5 “Financial Information by Segment,” which it supersedes:

- It requires that information to be disclosed by operating segment be that which is regularly used by upper management, and establishes that such information need not be segregated into primary and secondary categories, nor refer to segments identified on the basis of particular goods or services (economic segments), geographic areas or homogeneous groups of customers. Additionally, it requires that the entity disclose aggregate information about its goods or services, geographical areas and main customers and suppliers.
- It does not require that, in order to qualify as operating segments, the entity’s business areas be subject to distinct types of risks.
- It permits the business areas to be classified as operating segments during the pre-operations phase.
- It requires the disclosure, by segment and separately, of interest income and expenses, as well as other components of the CFR. In certain situations, it permits disclosure of net interest income.
- It requires disclosure of the amounts of the liabilities included in the operating segment regularly used by upper management in making the entity’s operating decisions.

PEMEX’s management believes that the adoption of this new FRS will not have any material effects.

(b) FRS B-9 “Financial Information at Interim Dates”—This FRS will take effect as of January 1, 2011, and establishes the following principal changes as compared to Bulletin B-9 “Financial Information at Interim Dates,” which it supersedes:

- It requires that financial information at interim dates include, in condensed and comparative form, in addition to the statements of financial condition and of income, the statement of changes in shareholders’ equity and the statement of cash flows, as well as—in the case of non-profit entities—presentation of the statement of activities.

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- It establishes that the financial information presented at the close of an interim period be presented comparatively with its equivalent interim period from the prior year, and, in the case of the balance sheet, that it also be compared with such financial statement as at year-end for the immediately preceding period.
- It incorporates and defines new terminology.

PEMEX's management believes that the adoption of this new FRS will not have any material effects.

(c) FRS B-16 "Financial Statements of Non-Profit Entities"—This FRS will take effect as of January 1, 2010, and establishes the following principal changes as compared to Bulletin B-16 "Financial Statements of Non-Profit Entities," which it supersedes:

- It incorporates definitions applicable to non-profit entities.
- It establishes the classification of assets, liabilities and shareholders' equity in accordance with FRS A-5 "Basic Elements of Financial Statements" and with FRS A-7 "Disclosure and Presentation."
- It establishes that donations received must be recorded as income.
- It defines the principal levels and classifications that must be presented on the statement of activities.
- It permits the presentation of costs and expenses in accordance with the particular nature of such information.

PEMEX's management believes that the adoption of this new FRS will not have any material effects.

(d) FRS C-1 "Cash and Cash Equivalents"—This FRS will take effect as of January 1, 2010, and establishes the following principal changes as compared to Bulletin C-1, "Cash," which it supersedes:

- It requires that cash and restricted cash equivalents be presented on the balance sheet under the heading "Cash and cash equivalents."
- The term "temporary investments on demand" is replaced by the term "investments available on demand."

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- It includes, as a criterion for identifying investments available on demand, that they must be immediately available securities, such as investments with a maturity of no more than three months as of their acquisition date.
- It includes definitions of the following terms: “acquisition cost,” “cash equivalents,” “cash and restricted cash equivalents,” “investments available on demand,” “net realization value,” “par value” and “fair value.”

PEMEX’s management believes that the adoption of this FRS will not have any material effects.

(e) FRS E-2 “Donations Received or Given by Non-Profit Entities”—This FRS will take effect on January 1, 2010, and establishes the following principal changes as compared to Bulletin E-2 “Income and contributions received as well as made by non-profit entities,” which it supersedes:

- It uses the term “donation” in place of the term “contribution,” and the name of the standard is changed accordingly.
- It states that donations received are considered income.
- It uses, in the valuation of donations, the concepts of value established in FRS A-6 “Recognition and Valuation.”
- It establishes that collectibles (works of art, historical artifacts and similar assets) are not depreciated, but are subject to impairment.
- It establishes the classification of income from sale of goods or provision of services independently of whether their prices are below market prices.
- It eliminates the requirement of recognizing donations received in the form of services.
- It requires that, for purposes of recognizing unconditional promises to donate, they be accrued and be payable. It also requires estimation of the probable breach of unconditional promises that have been recognized and, if applicable, the cancellation of the related recognition of income.
- It requires that collectibles that have been acquired for purposes of being sold and obtaining funds be recognized at their cost or net realization value, whichever is less.
- Collectibles that the entity has acquired and plans to keep must be recognized, initially and subsequently, at their acquisition cost, and it is not permissible to make adjustments due to changes in their fair value, except in cases of impairment.

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- The expense for donations made in the form of non-monetary assets must be recognized at the net book value of the donated asset.

PEMEX's management believes that the adoption of this FRS will not have any material effects.

NOTE 21—SUBSEQUENT EVENTS:

On April 14, 2010, the weighted average price of the crude oil exported by PEMEX was U.S. \$76.13 per barrel; this price increased by approximately 3.67% as compared to the average price as of December 31, 2009, which was U.S. \$73.43 per barrel.

On April 14, 2010, the peso-dollar exchange rate was Ps.12.2122 per dollar, which represents a 6.48% appreciation in dollar terms as compared to the exchange rate as of December 31, 2009, which was Ps. 13.0587 per dollar.