PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008

(This page intentionally left blank.)

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008

INDEX

Contents	**Page**

(This page intentionally left blank.)

KPMG Cárdenas Dosal
Boulevard Manuel Ávila Camacho 176
Col. Reforma Social
11650 México, D.F.

Teléfono: + 01(55) 52 46 83 00
Fax: + 01(55) 55 96 80 60
www.kpmg.com.mx

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, the Subsidiary Entities and the Subsidiary Companies (collectively, "PEMEX") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity and cash flows for each of the years in the three year period ended December 31, 2010. 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 reporting standards 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(z), during 2010, accounting changes and reclassifications were made to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies as of December 31, 2010 and 2009, and the results of their operations and changes in their equity and cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with Mexican Financial Reporting Standards.

KPMG Cárdenas Dosal, S.C.

C.P. Eduardo Palomino
Mexico City, Mexico
April 8, 2011.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Figures stated in thousands of Mexican pesos, except as noted)

		2010		2009
ASSETS:				
Current assets:				
Cash and cash equivalents (Note 5 and Note 3(z))	**Ps.**	**133,587,079**	Ps.	159,760,316
Accounts, notes receivable and other—Net (Note 6)		**120,887,383**		126,755,377
Inventories—Net (Note 7)		**38,037,560**		36,903,080
Derivative financial instruments (Note 11)		**20,917,211**		26,277,917
		179,842,154		189,936,374
Total current assets		**313,429,233**		349,696,690
Investments in shares of non-consolidated subsidiaries, affiliates and others (Note 8)		**11,116,080**		9,762,401
Wells, pipelines, properties, plant and equipment—Net (Note 9)		**1,061,387,901**		967,591,500
Other assets—Net		**6,782,060**		4,986,588
Total assets	**Ps.**	**1,392,715,274**	Ps.	1,332,037,179
LIABILITIES:				
Current liabilities:				
Current portion of long-term debt (Note 10)	**Ps.**	**89,554,617**	Ps.	102,600,324
Suppliers		**43,474,439**		63,277,711
Accounts and accrued expenses payable		**9,602,215**		11,590,917
Taxes and duties payable		**52,565,900**		48,453,301
Derivative financial instruments (Note 11)		**12,056,457**		17,038,139
Total current liabilities		**207,253,628**		242,960,392
Long-term liabilities:				
Long-term debt (Note 10)		**575,170,797**		529,258,434
Reserve for sundry creditors and others		**55,493,441**		43,524,319
Reserve for employee benefits (Note 12)		**661,365,065**		576,200,934
Deferred taxes (Note 19(k) and (m))		**7,215,760**		6,933,120
Total liabilities		**1,506,498,691**		1,398,877,199
EQUITY (Note 14):				
Certificates of Contribution “A”		**96,957,993**		96,957,993
Mexican Government contributions to Petróleos Mexicanos		**180,382,423**		180,382,301
Legal reserve		**987,535**		987,535
Donation surplus		**3,446,743**		1,004,346
Comprehensive result		**4,396,294**		6,319,602
		286,170,988		285,651,777
Accumulated losses:				
From prior years		**(352,491,797)**		(257,829,779)
Net loss for the year		**(47,462,608)**		(94,662,018)
		(399,954,405)		(352,491,797)
Total equity		**(113,783,417)**		(66,840,020)
Commitments and contingencies (Notes 15 and 16)		**-**		-
Subsequent events (Note 21)		**-**		-
Total liabilities and equity	**Ps.**	**1,392,715,274**	Ps.	1,332,037,179

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Figures stated in thousands of Mexican pesos, except as noted)

	2010	2009	2008
Net sales:			
Domestic	**Ps. 683,853,335**	Ps. 596,369,519	Ps. 679,754,126
Export	**592,907,683**	488,260,296	644,418,238
Services income	**5,303,292**	5,291,516	4,777,588
	1,282,064,310	1,089,921,331	1,328,949,952
Cost of sales (Note 3(f))	**632,290,416**	561,134,955	654,032,459
Gross income	**649,773,894**	528,786,376	674,917,493
General expenses:			
Transportation and distribution expenses	**33,274,186**	31,856,197	33,961,895
Administrative expenses	**70,978,545**	68,652,803	69,844,149
Total general expenses	**104,252,731**	100,509,000	103,806,044
Operating income	**545,521,163**	428,277,376	571,111,449
Other revenues (principally IEPS benefit)—Net (Note 19(j))	**72,008,040**	40,293,018	197,990,840
Comprehensive financing result:			
Interest paid—Net (includes valuation effects of derivative financial instruments (Note 11(viii) and Note 3(w))	**(32,136,672)**	(29,992,464)	(36,449,189)
Exchange gain (loss)—Net (Note 3(w))	**20,167,334**	14,684,597	(71,062,527)
	(11,969,338)	(15,307,867)	(107,511,716)
Profit / (loss) sharing in non-consolidated subsidiaries, affiliates and others (Note 8)	**1,118,176**	(1,291,487)	(1,965,213)
Income before taxes and duties	**606,678,041**	451,971,040	659,625,360
Hydrocarbon extraction duties and others (Note 19)	**649,956,286**	542,374,559	767,521,945
Hydrocarbon income tax (Note 19(k))	**2,459,557**	2,502,651	1,582,910
Income tax (Note 19(m))	**1,724,806**	1,755,848	2,596,949
	654,140,649	546,633,058	771,701,804
Net loss for the year	**Ps. (47,462,608)**	Ps. (94,662,018)	Ps. (112,076,444)

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, 2010, 2009 AND 2008
(Figures stated in thousands of Mexican pesos, except as noted)

					Other comprehensive losses					(Accumulated losses) retained earnings		
	Certificates of Contribution "A"	Mexican Government contributions to Petróleos Mexicanos	Legal reserve	Donation surplus	Surplus in restatement of equity	Effect on equity from employee benefits	Deferred income tax effect	Derivative financial instruments	Cumulative currency translation effect	For the year	From prior years	Total
Balances as of January 1, 2008	Ps. 96,957,993	Ps. 144,457,629	Ps. 832,618	Ps. 494,068	Ps. 171,681,077	Ps. (51,759,539)	Ps. 3,596	Ps. (1,105,629)	Ps. 1,510,236	Ps. (18,307,569)	Ps. (294,856,619)	Ps. 49,907,861
Transfer to prior years' accumulated losses approved by the 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)
Mexican Government contributions to Petróleos Mexicanos (Note 14)	-	35,457,462	-	-	-	-	-	-	-	-	-	35,457,462
Increase in legal reserve	-	-	154,917	-	-	-	-	-	-	-	-	154,917
Increase in donation surplus.....................	-	-	-	390,394	-	-	-	-	-	-	-	390,394
Comprehensive loss for the year (Note 13)..	-	-	-	-	(171,681,077)	51,759,539	(3,596)	(1,268,722)	6,834,247	(112,076,444)	171,681,077	(54,754,976)
Balances as of December 31, 2008	96,957,993	179,915,091	987,535	884,462	-	-	-	(2,374,351)	8,344,483	(112,076,444)	(145,753,335)	26,885,434
Transfer to prior years' accumulated losses approved by the Board of Directors	-	-	-	-	-	-	-	-	-	112,076,444	(112,076,444)	-
Mexican Government contributions to Petróleos Mexicanos (Note 14)	-	467,210	-	-	-	-	-	-	-	-	-	467,210
Increase in donation surplus.....................	-	-	-	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	96,957,993	180,382,301	987,535	1,004,346	-	-	-	158,531	6,161,071	(94,662,018)	(257,829,779)	(66,840,020)
Transfer to prior years' accumulated losses approved by the Board of Directors	-	-	-	-	-	-	-	-	-	94,662,018	(94,662,018)	-
Mexican Government contributions to Petróleos Mexicanos (Note 14)	-	122	-	-	-	-	-	-	-	-	-	122
Increase in donation surplus.....................	-	-	-	2,442,397	-	-	-	-	-	-	-	2,442,397
Comprehensive loss for the year (Note 13)..	-	-	-	-	-	-	-	(390,909)	(1,532,399)	(47,462,608)	-	(49,385,916)
Balances as of December 31, 2010.........	**Ps. 96,957,993**	**Ps. 180,382,423**	**Ps. 987,535**	**Ps. 3,446,743**	**Ps. -**	**Ps. -**	**Ps. -**	**Ps. (232,378)**	**Ps. 4,628,672**	**Ps. (47,462,608)**	**Ps. (352,491,797)**	**Ps. (113,783,417)**

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Figures stated in thousands of Mexican pesos, except as noted)

	2010	2009	2008
Operating activities:			
Income before taxes and duties (Note 3(z))	**Ps. 606,678,041**	Ps. 451,971,040	Ps. 659,625,360
Activities related to investing activities:			
Depreciation and amortization	**96,481,781**	76,890,687	89,840,495
Impairment of properties, plant and equipment	**9,958,603**	1,731,229	107,203
Unsuccessful wells	**5,276,181**	13,934,521	-
Properties, plant and equipment	**3,074,468**	948,725	317,194
Profit (loss) sharing in non-consolidated subsidiaries and affiliates	**(1,118,176)**	1,291,487	1,965,213
Activities related to financing activities:			
(Loss) income from foreign exchange fluctuations	**(28,458,699)**	(18,449,352)	94,227,572
Derivative financial instrument valuation effect	**1,895,731**	(9,963,741)	(9,963,741)
Interest income	**39,703,900**	49,417,938	52,116,039
	733,491,830	567,772,534	888,235,335
Funds (used in) provided by operating activities:			
Derivative financial instruments	**(1,907,617)**	826,910	4,348,068
Accounts and notes receivable	**5,867,995**	(9,102,301)	17,876,029
Inventories	**(1,134,480)**	28,568,496	27,671,560
Other assets	**(1,795,472)**	11,319,820	(13,504,232)
Accounts payable and accrued expenses	**(1,988,703)**	3,620,326	(4,172,038)
Taxes paid	**(650,028,049)**	(514,852,268)	(901,622,648)
Suppliers	**(19,803,272)**	27,895,940	243,426
Reserve for sundry creditors and others	**11,969,122**	7,147,081	4,909,986
Reserve for employee benefits	**85,164,131**	81,117,391	90,650,645
Deferred taxes	**282,641**	(106,858)	624,485
Net cash flows from operating activities	**160,118,126**	204,207,071	115,260,616
Investing activities:			
Acquisition of property, plant and equipment	**(184,584,476)**	(213,232,138)	(132,091,650)
Net cash flows from investing activities	**(184,584,476)**	(213,232,138)	(132,091,650)
Cash flow to be obtained from financing activities	**(24,466,350)**	(9,025,067)	(16,831,034)
Financing activities:			
Increase in equity from the Mexican Government	**122**	467,210	35,457,462
Loans obtained from financial institutions	**235,881,933**	160,177,586	82,250,821
Debt payments, principal only	**(197,098,458)**	(99,607,497)	(76,924,342)
Interest paid	**(38,722,581)**	(49,073,057)	(54,916,629)
Net cash flows from financing activities	**61,016**	11,964,242	(14,132,688)
Net (decrease) increase in cash and cash equivalents	**(24,405,334)**	2,939,175	(30,963,722)
Effects of change in cash value	**(1,767,903)**	(2,060,116)	6,989,164
Cash and cash equivalents at the beginning of the year	**159,760,316**	158,881,257	182,855,815
Cash and cash equivalents at the end of the year (Note 3(z))	**Ps. 133,587,079**	Ps. 159,760,316	Ps. 158,881,257

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

NOTE 1—APPROVAL:

On April 8, 2011, the attached consolidated financial statements and the notes thereto were authorized by the following officers: Public Accountant Víctor M. Cámara Peón, Deputy Director of Accounting, Fiscal and Financial Control and C. Francisco J. Torres Suárez, 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"), 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.

Petróleos Mexicanos, the Subsidiary Entities (as defined below) and the Subsidiary Companies (as defined below) are referred to collectively herein as "PEMEX."

The accompanying consolidated financial statements have been prepared in accordance with *Normas de Información Financiera Mexicanas* (Mexican Financial Reporting Standards, or "Mexican FRS" or "NIFS") in effect as of the balance sheet date. In addition, these financial statements have been translated from the Spanish language for the convenience of the reader.

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 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"), and the *Ley de Petróleos Mexicanos* (Petróleos Mexicanos Law) and the *Reglamento de la Ley de Petróleos Mexicanos* (Regulations to the Petróleos Mexicanos Law), 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.

The Petróleos Mexicanos Law establishes that the four Subsidiary Entities (as listed below) will continue carrying out their activities in accordance with their objectives, fulfilling the commitments they have already assumed in Mexico and abroad, unless and until the Mexican Government issues a decree or decrees of reorganization based on a proposal by the Board.

Petróleos Mexicanos' 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.

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").

The strategic activities entrusted to Petróleos Mexicanos and the Subsidiary Entities can be performed only by Petróleos Mexicanos and these Entities and cannot be delegated or subcontracted, with the exception of those performed by Pemex-Petrochemicals.

The principal objectives of the Subsidiary Entities are as follows:

I. Pemex-Exploration and Production explores for and produces crude oil and natural gas; additionally, this entity transports, stores and markets such products;

II. Pemex-Refining refines petroleum products and derivatives thereof that may be used as basic industrial raw materials; additionally, this entity stores, transports, distributes and markets such products and derivatives;

III. Pemex-Gas and Basic Petrochemicals processes natural gas, natural gas liquids and derivatives thereof that may be used as basic industrial raw materials, and stores, transports, distributes and markets such products; additionally, this entity stores, transports, distributes and markets basic petrochemicals; and

IV. Pemex-Petrochemicals engages in industrial petrochemical processing and stores, distributes and markets secondary petrochemicals.

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 name or term that is not defined herein, will have the meaning attributed to it in the Regulatory Law or in the Petróleos Mexicanos Law.

On November 28, 2008, amendments to the following laws were published in the *Diario Oficial de la Federación* (Official Gazette of the Federation), which amendments did not affect the financial information presented in accordance with Mexican FRS:

- Changes in the structure of the Board of Directors, 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 considers the complexity of crude oil and natural gas fields and the ability to issue *bonos ciudadanos* (Citizen Bonds).

- Amendments to the Federal Law of Budget and Fiscal Accountability, the main implications of which were the following:

  a) Elimination of the *Proyectos de Infraestructura Productiva de Largo Plazo* (long-term productive infrastructure projects, or "PIDIREGAS") legal framework. Since 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. As a result, PEMEX was required to recognize immediately the investments and related liabilities for PIDIREGAS, thereby eliminating one of the principal differences between NEIFGSP and Mexican FRS.

  b) As of January 31, 2009, PEMEX recognized as direct public debt, for accounting and budgeting purposes, all financings relating to PIDIREGAS.

As of December 31, 2009, only for NEIFGSP purposes, 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 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. They regulate the application of the Petróleos Mexicanos Law and 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 and was updated on August 9, 2010.

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 predecessor statute to the Organic Law of Petróleos Mexicanos, 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.

The "Subsidiary Companies" are defined as (a) those companies which are not the Subsidiary Entities but in which Petróleos Mexicanos has more than a 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) until 2009, RepCon Lux, S.A. ("RepCon Lux"), a Luxembourg finance vehicle whose debt was 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 has 50% or less ownership investment and does not have effective control.

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 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.

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

(Figures stated in thousands of Mexican pesos, except as noted)

These financial statements are presented in Mexican pesos (reporting currency), which is the same as the recording currency and the functional currency of PEMEX. The U.S. dollar amounts shown in the consolidated balance sheets, the consolidated statements of operations, the consolidated statements of changes in equity and the consolidated statements of cash flows have been included solely for the convenience of the reader and are unaudited. Such amounts have been translated from amounts in pesos, as a matter of arithmetic computation only, at the exchange rate for the settlement of obligations in foreign currencies provided by *Banco de México* (the Mexican central bank) and the *Secretaría de Hacienda y Crédito Público* (Ministry of Finance and Public Credit, or the "SHCP") at December 31, 2010 of 12.3571 pesos per U.S. dollar. Translations herein should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at the foregoing or any other rate.

In accordance with FRS B-3, "Statement of Operations," PEMEX classifies ordinary costs and expenses based on their function. In addition, since PEMEX is an industrial entity, PEMEX's ordinary costs and expenses are classified in order to present its gross income margin.

Below is a summary of the principal accounting policies followed by PEMEX in the preparation of these consolidated financial statements:

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

The accompanying consolidated financial statements have been prepared in accordance with Mexican FRS in effect as of the balance sheet date, and include the recognition of the effects of inflation on the financial information through December 31, 2007, based on the Mexican National Consumer Price Index (NCPI) published by *Banco de México*. Cumulative inflation for the last three years, including the reporting year, and the indices used in calculating inflation, are as follows:

		Inflation	
December 31,	**NCPI**	**For the year**	**3-year accumulated**
2010	144.6390	4.40%	15.19%
2009	138.5410	3.57%	14.48%
2008	133.7610	6.52%	15.01%

(b) ***Consolidation***

The consolidated financial statements include those of Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies, including Special Purpose Entities (SPEs). 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 Entities and Subsidiary Companies as of December 31, 2010 and 2009.

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; Fideicomiso F/163(1); RepCon Lux(2) and Pemex Finance, Ltd.

(1) 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, because the trusts have been consolidated in the Mexican FRS financial statements of PEMEX.

(2) Historically, PEMEX 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, the company was formally liquidated. Therefore, since that date, RepCon Lux has no longer been consolidated in the financial statements of PEMEX.

(c) *Translation of foreign currency financial statements*

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 comes 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 well as restricted cash and cash equivalents, in accordance with FRS C-1, "Cash and Cash Equivalents" ("FRS C-1"). 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 ("CFR").

In addition, restricted cash and cash equivalents is comprised of excess revenues provided by the Mexican Government to Petróleos Mexicanos pursuant to article 19, fraction IV, clause c) of the *Ley de Presupuesto y Responsabilidad Hacendaria* (Federal Law of Budget and Fiscal Accountability), which may only be used for infrastructure related projects. These excess revenues were previously included in equity (see Notes 3(z) and 5).

(e) ***Accounts, notes receivable and other***

Accounts receivable as of December 31, 2010 are reported at fair value, net of provisions for returns and discounts and the allowance for doubtful accounts.

Other receivables include, among other items, the negative IEPS tax pending to be credited, employees and officers, domestic and export customers and tax credits, each of which is recorded at its acquisition value.

(f) ***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, provided the latter is not higher than the realizable value or less than net realizable value.

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 cost of refined and other products, and then deducting the value of inventories at the end of the year. 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.

(g) ***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, 2010 and 2009. 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.

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

Investments in wells, pipelines, properties, plant 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.

(Figures stated in thousands of Mexican pesos, except as noted)

In accordance with the FRS D-6, "*Capitalization of Comprehensive Financing Result*," during the construction period, the CFR associated with the acquisitions of fixed assets is capitalized as part of the value of 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 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; these estimates are updated quarterly to reflect new investments. The annual depreciation rates used by PEMEX are as follows:

	%	Years
Buildings	3	33
Plants and drilling equipment	3-5	20-33
Furniture and fixtures	10-25	4-10
Offshore platforms	4	25
Transportation equipment	4-20	5-25
Pipelines	4	25
Software/computers	10-25	4-10

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.

Minor repairs and maintenance costs are expensed as incurred.

The carrying value of these assets is subject to an annual impairment assessment (see Note 3(i) and Note 9(d)).

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

Long-lived assets are subject to an annual evaluation of impairment in accordance with Bulletin C-15, "Impairment of the Value of Long-Lived Assets and Their Disposal." PEMEX measures the net carrying value of long-lived assets in order to determine whether the carrying value of the assets exceeds the recoverable amount, i.e., the future net revenues reasonably expected to be generated by the asset. If the net carrying value of the asset exceeds the recoverable amount, PEMEX recognizes an impairment charge in its statement of operations (see Note 9(d)).

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

PEMEX uses the successful efforts method of accounting for the recording of oil and gas exploration and drilling costs in accordance with the Accounting Standard Codification 932 (ASC 932) "Extractive Activities—Oil and Gas" issued by the U.S. Financial Accounting Standards Board, in the absence of local rules in the industry. PEMEX considers that ASC 932 provides the best methodology for recognizing the capitalized costs in the exploration and drilling of wells and allows PEMEX's information to be comparable with that of other international companies. 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 any cross formations in the perforation that contain 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 temporarily closed are recorded based on the units of production method. All estimations are based on the useful lives 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's value, and amortized according to its useful life (see Note 9(c)).

(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***

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 years of employment.
- 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.

As of December 31, 2010, the average remaining years of employment for those employees entitled to benefits in the plan was approximately 12 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 in cash for gas, gasoline and basic necessities.

(n) ***Derivative financial instruments and hedging operations***

As of January 1, 2005, PEMEX adopted the provisions of Bulletin C-10, "Derivative Financial Instruments and Hedging Operations," 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, of derivative financial instruments ("DFIs") for trading and hedging purposes and embedded derivatives.

As of December 31, 2010 and 2009, 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 CFR. DFIs that are designated as hedges are recorded using cash flow or fair value hedge accounting, as 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.

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 CFR. The distribution of profits to the owners of the components of financial instruments classified as equity is charged to equity.

The periodic valuation of debt financial instruments is calculated by considering an instrument's notional amount, its accrued interest and by amortizing the instrument's premium or discount during each period throughout the life of an instrument.

(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.

(q) *Cumulative currency translation effect*

This represents the difference resulting from the translation of the financial statements of consolidated foreign subsidiaries into the reporting currency, if the functional currency of a foreign subsidiary is different than its recording currency (see Note 3(c)).

(r) *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.

(s) ***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).

(t) ***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.

(u) ***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.

(v) ***Comprehensive result***

Comprehensive result represents the sum of net loss for the period plus the currency translation effect, plus the effect of valuation of financial instruments designated as cash flow hedges and of items required by specific accounting standards to be reflected in equity but which do not constitute equity contributions, reductions or distributions. Until December 31, 2007, comprehensive result also included the effects of inflation restatement of equity on the basis of NCPI factors.

(w) ***Comprehensive financing result***

The CFR includes interest income and expense, foreign exchange gains and losses, the valuation effects of financial instruments and minus any portion of the comprehensive financing result that is 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.

(x) ***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).

(y) ***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 crude oil and natural gas production to the temporary differences between the book and the tax values of assets and liabilities at the date of the consolidated financial statements. Deferred taxes on crude oil and natural gas production are derived mainly from customer advances, supplies and fixed assets (see Note 19).

(z) ***Accounting changes and reclassifications***

The new FRS and the interpretations and revisions mentioned below, issued by the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* (the Mexican Board for Research and Development of Financial Reporting Standards, or the CINIF), became effective for fiscal years beginning on or after January 1, 2010, with the respective prospective or retrospective application noted in each case.

(a) **Revision to paragraph 3 of Bulletin C-3, "Accounts Receivable"**—Effective on and after January 1, 2010, and applicable retrospectively. The revised paragraph provides that the realizable value of long-term accounts receivable must be quantified at present value.

The adoption of this FRS, as of January 1, 2010, had no material effects.

(b) **2010 FRS Revisions—**In December 2009, the CINIF issued the document referred to as "2010 FRS Revisions" setting forth the following accounting changes:

- FRS B-1, "Accounting Changes and Error Corrections"—Disclosures are added to financial statements in case of an accounting change or an error correction reflected in the accompanying financial statements.

- FRS B-2, "Statement of Cash Flows"—Unrealized accrued foreign exchange fluctuations and the effects of fair value recognition are excluded from the cash balance on the statement of cash flows. Additionally, the concept "Adjustment to cash flow from foreign exchange fluctuations and inflation levels" is changed to "Effects of changes in cash value," and now includes effects from translation, inflation, foreign exchange fluctuations and fair value of cash balances.

(Figures stated in thousands of Mexican pesos, except as noted)

- FRS C-7, "Investments in Affiliates and Other Permanent Investments"—Capital contributions by the holding company to an affiliate that increase its equity percentage are to be recognized based on the net fair value of identifiable assets and liabilities. For that purpose, the valuation must be in proportion to the increase. The changes resulting from the application of this revision are recognized prospectively beginning January 1, 2010.

(c) **FRS C-1, "Cash and Cash Equivalents"**—FRS C-1 supersedes Bulletin C-1, "Cash" and is effective beginning January 1, 2010. The principal changes with respect to the superseded Bulletin include the following:

- FRS C-1 requires the presentation of restricted cash and cash equivalents under the line item "Cash and cash equivalents" on the balance sheet.

- The term "demand temporary investment" is replaced by "available on-demand investments".

- To be identified as an available on-demand investment, the investments should be highly liquid (original maturities of three months or less).

- FRS C-1 includes definitions of the terms acquisition cost, cash equivalents, restricted cash and cash equivalents, available on-demand investments, net realizable value, nominal value and fair value.

Accounting changes resulting from the initial application of this standard were recognized retrospectively, affecting PEMEX's consolidated financial statements for the fiscal year ended December 31, 2009 as follows:

	Previously reported amounts	Accounting change	Adjusted amounts
Cash and cash equivalents	128,179,628	31,580,688	159,760,316
Accounts, notes receivable and other	158,336,065	(31,580,688)	126,755,377

These accounting changes were recognized retrospectively in each of the statements of cash flows for the years ended December 31, 2009 and 2008.

(Figures stated in thousands of Mexican pesos, except as noted)

(d) **Reclassifications—**PEMEX's consolidated financial statements as of December 31, 2009 and 2008 have been reclassified in certain accounts related to the presentation of the statements of changes in equity and the statements of cash flows with the purpose of making them comparable with the consolidated financial statements as of December 31, 2010.

The main reclassifications were as follows:

	2009		
	Previously reported amounts	**Reclassification**	**Reclassified amounts**
Income before taxes and duties	458,428,302	(6,457,262)	451,971,040
Net cash flows from operating activities	173,137,923	31,069,148	204,207,071
Net cash flows from investing activities	(214,966,048)	1,733,910	(213,232,138)
Net cash flows from financing activities	55,783,358	(43,819,116)	11,964,242

	2008		
	Previously reported amounts	**Reclassification**	**Reclassified amounts**
Income before taxes and duties	536,298,843	123,326,517	659,625,360
Net cash flows from operating activities	34,217,670	81,042,946	115,260,616
Net cash flows from investing activities	(140,773,856)	8,682,206	(132,091,650)
Net cash flows from financing activities	49,783,341	(63,916,029)	14,132,688

(Figures stated in thousands of Mexican pesos, except as noted)

NOTE 4—FOREIGN CURRENCY EXPOSURE:

As of December 31, 2010 and 2009, the consolidated financial statements of PEMEX included the following assets and liabilities denominated in foreign currencies:

	Amounts in foreign currency (thousands)				
	Assets	Liabilities	Net liability position	Year-end exchange rate	Amounts in pesos
2010:[1]					
U.S. dollars	14,175,680	(39,156,937)	(24,981,257)	12.3571	**Ps. (308,695,891)**
Japanese yen	-	(190,574,762)	(190,574,762)	0.1526	**(29,081,709)**
Pounds sterling	3,380	(769,079)	(765,699)	19.3463	**(14,813,443)**
Euros	38,819	(3,721,879)	(3,683,060)	16.5733	**(61,040,458)**
Swiss francs	506,316	(1,008,516)	(502,200)	13.2757	**(6,667,057)**
Canadian dollars	79	(5,597)	(5,518)	12.4354	**(68,619)**
Total liability position, before foreign currency hedging					**Ps. (420,367,177)**

	Amounts in foreign currency (thousands)				
	Assets	Liabilities	Net liability position	Year-end exchange rate	Amounts in pesos
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)
Euros	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					Ps. (374,095,399)

(1) As of December 31, 2010 and 2009, PEMEX had foreign exchange hedging instruments, which are discussed in Note 11.

NOTE 5—CASH AND CASH EQUIVALENTS:

As of December 31, 2010 and 2009, cash and cash equivalents were as follows:

	2010	2009
Cash on hand and in banks	**Ps. 110,579,933**	Ps. 97,387,736
Marketable securities	**20,720,919**	30,791,892
Restricted cash and cash equivalents[1]	**2,286,227**	31,580,688
	Ps. 133,587,079	Ps. 159,760,316

(1) 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 agent in order to manage certain 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, which may be utilized only for infrastructure works related to exploration, refining, gas and petrochemicals, increase the equity of Petróleos Mexicanos and the Subsidiary Entities. Pursuant to new FRS C-1, restricted cash and cash equivalents, which consists of the Trade Commission Funds, is now presented under the line item Cash and cash equivalents on PEMEX's balance sheet (see Notes 3(d) and 3(z)).

(Figures stated in thousands of Mexican pesos, except as noted)

NOTE 6—ACCOUNTS, NOTES RECEIVABLE AND OTHER:

As of December 31, 2010 and 2009, accounts and notes receivable and other receivables were as follows:

		2010		2009
Domestic customers	**Ps.**	**35,412,605**	Ps.	38,142,868
Export customers		**39,398,026**		39,082,063
Negative IEPS Tax pending to be credited (Note 19)		**6,031,103**		10,711,206
Employees and officers		**4,525,102**		4,476,052
Tax credits		**10,554,474**		9,478,236
Sundry debtors		**26,270,216**		25,805,349
Other accounts receivable		**252,710**		414,452
		122,444,236		128,110,226
Less allowance for doubtful accounts		**1,556,853**		1,354,849
	Ps.	**120,887,383**	Ps.	126,755,377

NOTE 7—INVENTORIES:

As of December 31, 2010 and 2009, inventories were as follows:

		2010		2009
Crude oil, refined products, derivatives and petrochemical products	**Ps.**	**32,738,370**	Ps.	31,878,174
Materials and supplies in stock		**5,862,570**		6,382,505
Materials and products in transit		**220,479**		107,735
		38,821,419		38,368,414
Less allowance for slow-moving and obsolete inventory		**783,859**		1,465,334
	Ps.	**38,037,560**	Ps.	36,903,080

(Figures stated in thousands of Mexican pesos, except as noted)

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:

Subsidiaries and affiliates shares (1):	Percentage of Investment	Carrying value as of December 31, 2010		Carrying value as of December 31, 2009	
Deer Park Refining Limited (2)	50.00%	**Ps.**	**6,749,298**	Ps.	6,081,339
Instalaciones Inmobiliarias para Industrias, S.A. de C.V.	100.00%		**1,436,613**		1,384,753
Other—Net	Various		**2,930,169**		2,296,309
Total investments		**Ps.**	**11,116,080**	Ps.	9,762,401

Profit sharing in subsidiaries and affiliates:	For the year ended December 31, 2010		2009		2008	
Repsol YPF, S.A. (1)	**Ps.**	**-**	Ps.	-	Ps.	(3,780,783)
Deer Park Refining Limited (2)		**923,129**		(1,363,510)		1,748,582
Instalaciones Inmobiliarias para Industrias, S.A. de C.V.		**51,859**		72,023		66,988
Other—Net		**143,188**		-		-
Total profit sharing	**Ps.**	**1,118,176**	Ps.	(1,291,487)	Ps.	(1,965,213)

(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. However, the majority of the holders chose to exchange their bonds for shares prior to the date of the settlement, which occurred on October 24, 2008. Considering that holders had the right to exchange their bonds for shares as settlement, the intrinsic value of the bonds at the time of the redemption proved substantially equivalent to the value of the Repsol shares.

To retain the economic and voting rights of 58,679,800 Repsol shares, or approximately 4.81% of Repsol's share capital, PEMEX entered into equity swaps with financial institutions obtaining the economic and voting rights of 58,679,799; 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 2010, 2009 and 2008, PEMEX recorded Ps. 923,129, Ps. (1,363,510) and Ps. 1,748,582 of profit and (loss), respectively, related to its investment in the joint venture, which has been recorded under "profit sharing in non-consolidated subsidiaries, affiliates and others" in the statement of operations.

(Figures stated in thousands of Mexican pesos, except as noted)

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

As of December 31, 2010 and 2009, the components of properties, plant and equipment were as follows:

		2010		2009
Plants	**Ps.**	**444,200,140**	Ps.	423,699,655
Drilling equipment		**25,898,978**		25,713,299
Pipelines		**317,133,853**		308,025,098
Wells		**777,424,205**		678,534,523
Buildings		**57,466,793**		55,713,561
Offshore platforms		**205,535,391**		189,729,704
Furniture and equipment		**41,488,695**		39,587,111
Transportation equipment		**18,493,198**		18,437,580
		1,887,641,253		1,739,440,531
Less: Accumulated depreciation and amortization		**997,414,572**		924,133,494
Net value		**890,226,681**		815,307,037
Land		**41,241,296**		39,696,349
Construction in progress		**128,813,942**		111,552,872
Fixed assets to be disposed of		**1,105,982**		1,035,242
Total	**Ps.**	**1,061,387,901**	Ps.	967,591,500

a. As of December 31, 2010 and 2009, the CFR identified with fixed assets in the construction or installation stage, capitalized as part of the value of such fixed assets, was Ps. 564,691 and Ps. 2,054,190, respectively.

b. The combined depreciation of fixed assets and amortization of wells for the fiscal years ended December 31, 2010, 2009 and 2008, recognized in operating costs, was Ps. 96,481,781, Ps. 76,890,687 and Ps. 89,840,495, respectively, which includes amortization costs related to dismantlement and abandonment of wells for the years ended December 31, 2010, 2009 and 2008 of Ps. 1,495,310, Ps. 1,648,884 and Ps. 2,144,911, respectively.

c. As of December 31, 2010 and 2009, 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. 37,698,629 and Ps. 24,488,953, respectively.

d. For the years ended December 31, 2010, 2009 and 2008, an impairment of Ps. 9,958,603, Ps. 1,731,229 and Ps. 107,203, respectively, was recorded. As of December 31, 2010 and 2009, PEMEX recognized cumulative impairment charges in the value of long-lived assets amounting to Ps. 26,175,784 and Ps. 16,217,180, respectively.

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.

During 2010, the significant financing activities of PEMEX were as follows:

a. From January 1 to December 31, 2010, Petróleos Mexicanos obtained U.S. $2,996,922 in nominal terms in loans made or guaranteed by export credit agencies.

b. On January 7, 2010, Petróleos Mexicanos obtained, in the domestic market, a direct credit line of Ps. 3,750,000 at a variable rate; the loan matures in September 2011.

c. On February 5, 2010, Petróleos Mexicanos issued U.S. $1,000,000 of its 6.00% Notes due 2020 under its Medium-Term Notes Program, Series C. The notes are guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

d. On February 8, 2010, Petróleos Mexicanos issued, in the domestic Mexican market, Ps. 14,999,999 of publicly traded notes in three tranches: one at a variable rate for Ps. 7,959,779, which matures in 2015; the second at a variable rate for Ps. 5,000,000, which matures in 2020; and the third at a fixed rate of 4.2% for 465,236 Unidaded de Inversión (UDIs), at an exchange rate of 4.385347 pesos per UDI, which matures in 2020. These notes were issued under Petróleos Mexicanos' Ps. 140,000,000 Notes Program.

e. On February 26, 2010, Petróleos Mexicanos issued CHF 150,000 of its 3.50% Notes due 2014; the issuance was a reopening, and the notes were issued under Petróleos Mexicanos' Medium-Term Notes Program, Series C. The notes are guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

f. On May 17, 2010, Petróleos Mexicanos issued, in the Mexican market, Ps. 14,999,999 of publicly traded notes in three tranches: one at a variable rate for Ps. 8,500,000, which matures in 2014; the second at a fixed rate for Ps. 5,000,000, which matures in 2020 (a reopening of a fixed rate tranche issued in February 2010); and the third at a fixed rate of 4.2% for 337,671 UDIs, at an exchange rate of 4.442195 pesos per UDI, which matures in 2020 (a reopening of a fixed rate tranche issued in February 2010). These notes were issued under Petróleos Mexicanos' Ps. 140,000,000 Notes Program.

g. On June 24, 2010, Petróleos Mexicanos obtained U.S. $990,000 from the revolving credit line it entered in 2007 with a syndicate of commercial banks.

h. On July 21, 2010, Petróleos Mexicanos issued U.S. $2,000,000 of its 5.50% Notes due 2021 under its Medium-Term Notes Program, Series C. The notes are guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

i. On August 30, 2010, Petróleos Mexicanos issued U.S. $1,000,000 of its 6.625% Notes due 2035 under its Medium-Term Notes Program, Series C. The notes are guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals. These notes are a reopening of the notes issued on June 8, 2005.

j. On September 28, 2010, Petróleos Mexicanos issued U.S. $750,000 of its 6.625% Perpetual Bonds under its Medium-Term Notes Program, Series C. The bonds are guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

k. On October 20, 2010, Petróleos Mexicanos issued an additional U.S. $250,000 of its 6.625% Perpetual Bonds under its Medium-Term Notes Program, Series C, through a reopening of the bonds issued on September 28, 2010.

l. On November 18, 2010, Petróleos Mexicanos obtained a syndicated credit line for U.S. $2,000,000 bearing interest at a variable rate and with a final maturity in 2016. As of December 10, 2010, Petróleos Mexicanos had utilized the full amount of this credit facility.

m. In January 2010, PMI Trading obtained a syndicated credit line with international banks and Credit Agricole CIB, as administrative agent. The objective of this U.S. $500,000 credit line is to finance the trading activities of PMI Trading. During 2010, PMI Trading used U.S. $4,983 under this financing. As of December 31, 2010, no debt was outstanding under this credit line.

During 2009, the significant financing activities of PEMEX 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.

b. On January 21, 2009, Petróleos Mexicanos borrowed U.S. $984,000 under a syndicated 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' U.S.$7,000,000 Medium-Term Notes Program, Series C.

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 *Tasa de Interés Interbancaria de Equilibrio* (Mexican Interbank Exchange Rate, or "TIIE"), plus 200 basis points; the loan matured 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.

g. On June 2, 2009, Petróleos Mexicanos issued ₤350,000 of its 8.25% Notes due 2022; the notes were issued under Petróleos Mexicanos' U.S. $7,000,000 Medium-Term Notes Program, Series C.

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 syndicated 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, 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, 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' U.S. $7,000,000 Medium-Term Notes Program, Series C.

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' U.S. $7,000,000 Medium-Term Notes Program, Series C.

n. On September 30, 2009, Petróleos Mexicanos obtained, in the domestic Mexican market, a bank loan for Ps. 3,750,000, 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' U.S. $7,000,000 Medium-Term Notes Program, Series C.

p. On October 13, 2009, Petróleos Mexicanos issued CHF 350,000 of its 3.5% Notes due 2014; the notes were issued under Petróleos Mexicanos' U.S. $7,000,000 Medium-Term Notes Program, Series C.

Various financial transactions (including credit facilities and bond issuances) require compliance with various covenants that, among other things, place restrictions on the following types of transactions by PEMEX, subject to certain exceptions:

- 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, 2010 and 2009, PEMEX was in compliance with the covenants described above.

(Figures stated in thousands of Mexican pesos, except as noted)

As of December 31, 2010 and 2009, long-term debt was as follows:

	Rate of Interest[1]	Maturity	December 31, 2010 Pesos (thousands)	December 31, 2010 Foreign currency (thousands)	December 31, 2009 Pesos (thousands)	December 31, 2009 Foreign currency (thousands)
U.S. dollars:						
Bonds	Fixed from 4.875% to 9.5% and LIBOR plus 0.6%	Various to 2038 and perpetual	Ps. 199,274,719	16,126,334	Ps. 196,358,358	15,036,593
Purchasing loans and project financing	LIBOR plus 0.125% to 0.5% Fixed from 3.27% to 6.64% and LIBOR plus 0.01% to 1.71%	Various to 2020	111,907,372	9,056,119	96,418,120	7,383,439
Direct loans	Fixed from 5.44% to 8.3% and LIBOR plus 1.9%	Various to 2018	2,224,278	180,000	4,261,246	326,315
Syndicated loans	LIBOR plus 0.325% to 1.5%	Various to 2016	77,231,875	6,250,000	55,499,475	4,250,000
Bank loans	Fixed 1.95%	Various to 2018	-	-	2,611,740	200,000
Financial leases[3]	Fixed from 7.96% to 8.0%	2019	3,345,720	270,753	3,826,822	293,048
Total financing in U.S. dollars			393,983,964	31,883,206	358,975,761	27,489,395
Euro:						
Bonds	Fixed from 5.5% to 6.375%	Various to 2025	58,835,215	3,550,000	80,561,790	4,300,000
Project financing	Fixed 2%	2016	3,155	190	4,559	243
Total financing in Euro			58,838,370	3,550,190	80,566,349	4,300,243
Pesos:						
Certificados bursátiles (debt securities)	*Cetes* plus 0.35% to 0.57%, TIIE less 0.07%, and Fixed from 9.1% to 9.91%	Various to 2020	83,947,180		76,172,000	
Direct loans	Fixed from 10.55% to 11% and TIIE plus 0.225% to 2.4%	Various to 2014	28,050,000		31,950,000	
Total financing in pesos			111,997,180		108,122,000	

(Figures stated in thousands of Mexican pesos, except as noted)

			December 31, 2010		December 31, 2009	
	Rate of Interest[1]	Maturity	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	6,393,940	41,900,000	5,882,760	41,900,000
Bonds	Fixed 3.5% and LIBOR yen plus 0.75%	Various to 2023	14,344,400	94,000,000	13,197,600	94,000,000
Project financing	Fixed 2.9079% and Prime Rate yen plus 0.56%	Various to 2017	8,250,194	54,064,178	9,843,306	70,109,017
Bank loans	LIBOR yen plus 0.32%	2009	-	-	1,503,947	10,711,873
Total financing in yen			28,988,534	189,964,178	30,427,613	216,720,890
Unidades de Inversión Certificados Bursátiles	TIIE plus 4.2%	Various to 2020	17,726,749		13,512,998	
Other currency:						
Bonds	Fixed from 3.5% to 8.25%	Various to 2022	21,147,577		20,237,655	
Total principal in pesos[2]			632,682,374		611,842,376	
Plus: Accrued interest			7,389,746		6,728,300	
Notes payable to contractors [4]			24,653,294		13,288,082	
Total principal and interest			664,725,414		631,858,758	
Less: Short-term maturities			70,781,637		90,550,672	
Current portion of notes payable to contractors			11,383,234		5,321,352	
Accrued interest			7,389,746		6,728,300	
Total short-term debt			89,554,617		102,600,324	
Long-term debt			Ps. 575,170,797		Ps. 529,258,434	

	2011	2012	2013	2014	2015 and thereafter	Total
Maturity of the principal outstanding for each of the years ending December 31,	Ps. 70,781,637	Ps. 65,767,714	Ps. 67,267,041	Ps. 51,767,605	Ps. 377,098,377	Ps. 632,682,374

Footnotes appear on following page.

(Figures stated in thousands of Mexican pesos, except as noted)

(1) As of December 31, 2010 and 2009, the rates were as follows: LIBOR, 0.45594% and 0.42969%, respectively; the prime rate in Japanese yen, 1.475% and 1.475%, respectively; TIIE rate of 4.8750% and 4.9231%, respectively, for 28 days; TIIE rate of 4.96% and 5.1121%, respectively, for 91 days; *Cetes* rate of 4.45% and 4.51%, respectively, for 28 days; *Cetes* rate of 4.58% and 4.61%, respectively, for 91 days; *Cetes* rate of 4.71% and 4.86%, respectively, for 182 days.

(2) Includes financing from foreign banks of Ps. 498,585,732 and Ps. 467,885,129 as of December 31, 2010 and 2009, respectively.

(3) 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, 2010 and 2009, assets acquired through these capital leases were as follows:

	2010		2009	
Investment in tankers	**Ps.**	**3,075,142**	Ps.	3,075,142
Less accumulated depreciation		**267,111**		144,105
	Ps.	**2,808,031**	Ps.	2,931,037

The liabilities relating to the assets listed above are payable in the years following December 31, 2010 as presented below:

Year	Pesos		U.S. dollars
2011	**Ps.**	**549,100**	**44,436**
2012		**549,100**	**44,436**
2013		**549,100**	**44,436**
2014		**549,100**	**44,436**
2015 and later		**2,130,401**	**172,403**
		4,326,801	**350,147**
Less: Short-term unaccrued interest		**211,689**	**17,131**
Less: Long-term unaccrued interest		**769,390**	**62,263**
Total capital leases		**3,345,722**	**270,753**
Less: Current portion of leases		**318,776**	**25,797**
Total long-term capital leases	**Ps.**	**3,026,946**	**244,956**

The capital lease interest expense during the years ended December 31, 2010 and 2009 was Ps. 219,257 and Ps. 292,791, respectively.

(4) The total amounts of notes payable to contractors as of December 31, 2010 and 2009, current and long-term, are as follows:

	2010		2009	
Total notes payable to contractors[(a)(b)]	**Ps.**	**24,653,294**	Ps.	13,288,082
Less: Current portion of notes payable to contractors		**11,383,234**		5,321,352
Notes payable to contractors (long-term)	**Ps.**	**13,270,060**	Ps.	7,966,730

(a) 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, 2010 and 2009, PEMEX had an outstanding payable amount of Ps. 20,958,659 and Ps. 9,053,726, respectively.

(b) During 2007, PEMEX-Exploration and Production contracted for the purchase of a Floating Production Storage and Offloading ("FPSO") vessel. The investment in the vessel totaled U.S. $723,575. As of December 31, 2010 and 2009, the outstanding balances owing to the contractor were Ps. 3,694,635 (U.S. $298,989) and Ps. 4,234,356 (U.S. $342,255), respectively. In accordance with the contract, the estimated future payments are as follow:

Year	U.S. $
2011	29,477
2012	25,267
2013	25,267
2014	25,267
2015	25,267
2016 and thereafter	168,444
Total	298,989

NOTE 11—FINANCIAL INSTRUMENTS:

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

In order to monitor and manage these market risks, PEMEX has developed policies and guidelines 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 limit 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 on its financial results by promoting a balance between expected incoming cash flows from operations and outgoing flows related 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 its 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 (PGPB) faces additional credit risk due to the DFIs offered to its domestic customers to help them mitigate the risk associated with the volatility of natural gas prices (see paragraph (iv) below). PGPB significantly reduced its credit risk with the changes made during 2009 to PEMEX's guidelines relating to market risk management.

In order to qualify for these DFIs, PGPB'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 their DFIs is the same as that of their supply contracts. Since October 2, 2009, DFIs with these customers must be secured initially by cash deposits, letters of credit, or other collateral as required. In the event of nonpayment, DFIs related to the default are liquidated, rights to collateral are exercised, and if the collateral is not sufficient to cover the fair value in favor to PEMEX, natural gas supply is suspended until the payment is made. PGPB has some outstanding DFIs contracted before October 2, 2009, in which customers are not required to post collateral.

In 2010, 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 PGPB.

As of December 31, 2010, PGPB had entered into DFIs with 84 of its customers, of which 72 are industrial customers (86%), 11 are distributors (13%) and 1 belongs to both customer categories (1%). Of the total traded volume of DFIs (MMBtus), industrial customers represented 42% while distributors represented 57%. The customer belonging to both categories represented 1%.

As of December 31, 2010, PGPB, through its subsidiary MGI Supply, Ltd., had not provided any collateral for DFIs, as compared to U.S. $17,325 having been provided in collateral for such DFIs as of December 31, 2009. The difference between the amounts in 2009 and 2010 is explained by (i) an increase in natural gas prices that diminished the negative fair value with the counterparties, putting the contracts back in compliance with the relevant credit limits; and (ii) as some DFIs reached their maturity date, PGPB used domestic customers' payments to meet its international obligations.

(ii) ***Interest rate risk***

PEMEX constantly monitors its exposure to the risk generated by volatility in the various reference interest rates applicable to its outstanding debt, 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 enters into 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 related to PEMEX's debt.

(iii) ***Foreign exchange rate risk***

PEMEX's functional currency is the Mexican peso. Most of PEMEX's debt and income 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 UDI against Mexican peso, and 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, PGPB enters as counterparty into DFIs on natural gas with its domestic customers, in order to help them mitigate the risk of volatility in natural gas prices. In providing this service, PGPB enters into corresponding DFIs with its subsidiary MGI

Supply, Ltd., taking opposite positions 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 arrangement allows PGPB to maintain its overall natural risk profile.

Since 2003, PGPB has been required to sell Liquefied Petroleum Gas ("LPG") under a price system imposed by the Mexican Government. The Mexican Government fixes the sale price of LPG throughout Mexico, with PGPB thereby being exposed to price risk in the geographic areas where it sells imported LPG. During 2009, PGPB mitigated the market risk generated by that exposure by employing a hedging strategy consisting of propane swaps. Propane is the primary component of LPG. During 2010, PGPB did not enter into DFI hedges on propane.

(v) ***Risks 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 is entitled to any capital gains associated with the Repsol YPF shares and agrees to cover its financial counterparties for any capital losses that those 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 premiums of which were paid out by transferring EUR 0.50 cents per share, annually. The aforementioned DFIs have maturities between March and October 2011. As of December 31, 2010 and 2009, the share price for the related Repsol YPF shares was U.S. $27.94 and U.S. $26.66, respectively.

(vi) ***Fair value of DFIs***

PEMEX monitors the fair value of its DFI 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 DFI 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 DFI 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 DFI 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, 2010 and 2009, in accordance with Bulletin C-10, PEMEX recognized the potential existence of embedded derivatives included in the terms of its contracts, including contracts structured as financial instruments (debt instruments or capital instruments) recognized in the balance sheet and agreements relating to, among other things, services in connection with works projects, acquisitions, leases and insurance commitments, which are not recognized in the balance sheet. These contracts were entered into by PEMEX in foreign currencies different from the functional currency of PEMEX and/or its counterparties and in accordance with their terms, the related foreign currency components do not meet the criteria to generate an embedded derivative.

(viii) *Accounting treatment*

PEMEX enters into derivatives transactions with the sole purpose of hedging financial risks related to its operations, firm commitments, planned transactions and assets and liabilities recorded on 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 designation 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 CFR.

As of December 31, 2010 and 2009, the net fair value of PEMEX's DFIs was Ps. 8,860,754 and Ps. 9,239,778, respectively. These amounts include the DFIs designated as cash flow hedges and their net fair value of Ps. 231,028 and (Ps. 64,711), respectively, which was recognized under other comprehensive loss.

(Figures stated in thousands of Mexican pesos, except as noted)

The following table shows the fair values and the notional amounts of PEMEX's over-the-counter ("OTC") DFIs that are designated as cash flow hedges outstanding as of December 31, 2010 and 2009:

		2010		**2009**	
DFI	**Position**	**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. -**	**Ps. -**	Ps. 496,328	Ps. (15,097)
	Market	**Volume (MMb)**	**(1)**	**Volume (MMb)**	**(1)**
Petroleum Products Futures	Exchange Traded	**4.93**	**Ps. (102,493)**	7.15	Ps.(338,418)
Petroleum Products Swaps	Exchange Traded	**0.32**	**(4,096)**	2.86	(33,989)
Petroleum Products Swaps	OTC	**0.55**	**(9,522)**	-	-
			(116,111)		(372,407)

(1) Fair value amounts include the net value of assets and liabilities associated with DFIs designated as cash flow hedges that are entered into by the Subsidiary Companies; therefore, the sum of the fair value amounts included in the table above and the fair value amounts included in the table that follows may not match the information included in PEMEX's consolidated financial statements.

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, in 2010 and 2009 these instruments did not have an impact on earnings; changes in their fair value are recognized in their 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's cash flows affect earnings.

As of December 31, 2010, 2009, and 2008, a net (loss) income of (Ps. 22,987), (Ps. 62,375) and Ps. 1,062,359, respectively, was reclassified from other comprehensive income into earnings as part of CFR. As of December 31, 2010, it is estimated that, in 2011, no amount will be reclassified from other comprehensive income into earnings in the CFR.

(Figures stated in thousands of Mexican pesos, except as noted)

The following table shows fair value and notional amounts as of December 31, 2010 and 2009 of PEMEX's OTC DFIs that were treated for accounting purposes as non-hedges or as entered into for trading purposes:

		2010		2009	
DFI	Position	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. 18,627,271**	**Ps. 1,720,744**	Ps. 19,700,551	Ps. 120,391
Interest Rate Swaps	PEMEX pays fixed in pesos and receives the 28-day TIIE + spread in pesos	**2,400,000**	**(136,220)**	3,000,000	(218,268)
Interest Rate Swaps	PEMEX pays fixed in pesos and receives the PIP 182 day IRS in pesos	**7,500,000**	**(1,075,533)**	7,500,000	(1,161,596)
Cross-Currency Swaps	PEMEX pays fixed in pesos and receives notional in UDI	**13,464,756**	**867,691**	13,464,756	607,198
Cross-Currency Swaps	PEMEX pays the 28-day TIIE + spread in pesos and receives fixed in UDI	**3,540,220**	**262,226**	0	0
Cross-Currency Swaps	PEMEX pays fixed in U.S. $ and receives fixed in ¥	**9,024,917**	**3,300,899**	12,609,031	2,066,422
Cross-Currency Swaps	PEMEX pays floating in 3-month U.S. $ LIBOR + spread and receives floating in 3-month ¥ LIBOR + spread	**4,942,840**	**1,529,826**	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	**7,474,641**	**2,889,451**	7,899,029	1,326,331
Cross-Currency Swaps	PEMEX pays fixed in U.S. $ and receives fixed in euro	**57,553,996**	**(369,052)**	74,854,127	5,734,924
Cross-Currency Swaps	PEMEX pays fixed in U.S. $ and receives fixed in £	**8,434,833**	**(926,728)**	8,913,738	(573,689)
Cross-Currency Swaps	PEMEX pays floating in 6-month U.S. $ LIBOR + spread and receives fixed in £	**7,131,134**	**(8,070)**	7,509,405	101,171
Cross-Currency Swaps	PEMEX pays fixed in U.S. $ and receives fixed in CHF	**5,913,180**	**669,806**	4,424,107	(972)
Natural Gas Swaps	PEMEX receives fixed	**(5,847,889)**	**2,656,871**	(14,780,574)	5,038,005
Natural Gas Swaps	PEMEX receives floating	**5,752,408**	**(2,563,670)**	14,573,778	(4,840,626)
Natural Gas Options	PEMEX Long Put	**91,155**	**38,935**	525,228	149,213
Natural Gas Options	PEMEX Short Put	**(91,155)**	**(38,943)**	(523,818)	(148,996)
Natural Gas Options	PEMEX Long Call	**987,111**	**26,925**	2,350,803	127,432
Natural Gas Options	PEMEX Short Call	**(987,102)**	**(26,915)**	(2,351,140)	(127,244)
Natural Gas Digital Options	PEMEX Long Put	**99,198**	**13,520**	340,149	37,441
Natural Gas Digital Options	PEMEX Short Put	**(99,198)**	**(13,525)**	(340,149)	(37,472)
Natural Gas Digital Options	PEMEX Long Call	**146,033**	**1**	929,201	3,794
Natural Gas Digital Options	PEMEX Short Call	**(146,033)**	**(1)**	(932,490)	(3,825)
		Ps. 145,912,316	**Ps. 8,818,238**	Ps. 164,889,212	Ps. 8,911,277

The exchange rates as of December 31, 2010 and 2009 were Ps. 12.3571 and Ps. 13.0587 per U.S. dollar, respectively.

For the years ended December 31, 2010, 2009 and 2008, PEMEX recognized a net (loss) income of (Ps. 1,236,755), Ps. 9,963,741, and (Ps. 2,319,164), respectively, in CFR with respect to DFIs treated as non-hedges.

(Figures stated in thousands of Mexican pesos, except as noted)

As of December 31, 2010, the valuation effects of DFIs treated as non-hedges in CFR amounted to a loss of Ps. 1,895,731.

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, the resources of which come from the seniority premium item of the Mexican Government's 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 trust.

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*

Petróleos Mexicanos 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.

c. *Cash Flows*

Plan contributions and benefits paid were as follows:

	Retirement benefits			
		2010		**2009**
Contribution to the pension plan assets......	**Ps.**	**24,760,321**	Ps.	20,331,433
Payments charged to the plan assets		**25,297,145**		22,620,838

Payments charged to the reserve for medical and hospital services for retired personnel and pension recipients in 2010 and 2009 were Ps. 4,312,712 and Ps. 4,260,829, respectively. Payments for employment termination before the employees' retirement age were Ps. 5,489 and Ps. 26,525 in 2010 and 2009, respectively.

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

(Figures stated in thousands of Mexican pesos, except as noted)

Note 3(m), were determined based on calculations prepared by independent actuaries as of December 31, 2010 and 2009.

The components of net periodic cost for the years ended December 31, 2010 and 2009 are as follows:

	Termination benefits 2010		Retirement benefits 2010		Total 2010	
Net periodic cost:						
Service cost	**Ps.**	**1,981,137**	**Ps.**	**13,935,679**	**Ps.**	**15,916,816**
Financial cost		**2,008,977**		**70,024,058**		**72,033,035**
Return on plan assets		**-**		**(1,218,398)**		**(1,218,398)**
Prior services cost:						
Prior services costs and plan amendments		**42,349**		**4,975,016**		**5,017,365**
Amortization of transition liability		**138,090**		**27,433,654**		**27,571,744**
Actuarial gain (loss)		**(12,531,089)**		**6,224,769**		**(6,306,320)**
Compensation increase		**-**		**1,260,799**		**1,260,799**
Net periodic cost	**Ps.**	**(8,360,536)**	**Ps.**	**122,635,577**	**Ps.**	**114,275,041**

	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 losses		9,086,387		(2,721,667)		6,364,720
Compensation increase		-		1,260,799		1,260,799
Net periodic cost	Ps.	12,214,637	Ps.	93,437,254	Ps.	105,651,891

(Figures stated in thousands of Mexican pesos, except as noted)

The actuarial present value of benefit obligations is as follows:

	Termination benefits 2010	Retirement benefits 2010	Total 2010
Vested benefit obligation value:			
Vested benefit obligation acquired	**Ps. 23,612,556**	**Ps. 528,960,315**	**Ps. 552,572,871**
Accumulated defined benefit obligations (“OBD”)	**23,612,556**	**764,939,434**	**788,551,990**
Plan assets at fair value	**-**	**(4,258,340)**	**(4,258,340)**
Defined benefit obligations (“OBD”) fund excess	**23,612,556**	**760,681,094**	**784,293,650**
Prior services not recognized:			
Transition liability	**(274,818)**	**(55,068,933)**	**(55,343,751)**
Plan amendments	**(90,636)**	**(49,206,499)**	**(49,297,135)**
Actuarial losses and variances in assumptions	**-**	**(15,766,101)**	**(15,766,101)**
Compensation increase	**-**	**(2,521,598)**	**(2,521,598)**
Total liability recognized in the balance sheet	**Ps. 23,247,102**	**Ps. 638,117,963**	**Ps. 661,365,065**

	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 gains 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

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:

Effect	Termination 2010	Retirement 2010	Termination 2009	Retirement 2009
Increase of one point in Medical Inflation:				
a) Labor cost of current services	**358,988**	**2,463,292**	1,095,522	3,361,428
b) Financial cost	**371,457**	**14,063,586**	1,275,829	18,874,905
c) Total	**730,445**	**16,526,878**	2,371,351	22,236,333
Variation	**12.26%**	**19.68%**	33.19%	45.07%
d) Defined benefit obligations (“OBD”)	**4,324,601**	**164,017,124**	15,175,717	223,285,402
Variation	**11.96%**	**21.44%**	37.30%	43.75%
Decrease of one point in Medical Inflation:				
a) Labor cost of current services	**246,604**	**1,455,987**	667,525	1,877,464
b) Financial cost	**228,501**	**9,919,215**	690,807	12,800,467
c) Total	**475,105**	**11,375,202**	1,358,332	14,677,931
Variation	**(26.99%)**	**(13.50%)**	(23.71%)	(34.96%)
d) Defined benefit obligations (“OBD”)	**2,729,100**	**117,762,688**	8,260,009	152,492,471
Variation	**(29.34%)**	**(15.40%)**	(25.27%)	(33.34%)

(Figures stated in thousands of Mexican pesos, except as noted)

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

	Termination benefits 2010	Retirement benefits 2010	Termination and retirement benefits 2009
Discount rate	**8.96%**	**8.96%**	8.75%
Rate of compensation increase (*)	**5.10%**	**5.10%**	5.50%
Expected long-term rate of return on plan assets	**8.75%**	**8.75%**	8.75%
Employees' average remaining labor life over which pending amortization items are amortized	**N/A**	**12 years**	9 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.

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

	Retirement benefits	
	2010	**2009**
Type of investment:		
Governmental securities	**79.1%**	69.3%
Fixed rate securities	**20.9%**	30.7%
Total	**100.0%**	100.0%

NOTE 13—COMPREHENSIVE LOSS:

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:

	2010		2009		2008	
Net loss	**Ps.**	**(47,462,608)**	Ps.	(94,662,018)	Ps.	(112,076,444)
Derivative financial instruments		**(390,909)**		2,532,882		(1,268,722)
Currency translation effect		**(1,532,399)**		(2,183,412)		6,834,247
Deferred income tax effect		**-**		-		(3,596)
Effect on equity from employee benefits		**-**		-		51,759,539
Comprehensive loss for the year	**Ps.**	**(49,385,916)**	Ps.	(94,312,548)	Ps.	(54,754,976)

(Figures stated in thousands of Mexican pesos, except as noted)

NOTE 14—EQUITY:

Certificates of Contribution "A"—permanent 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).

The capitalization agreement between PEMEX 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

Mexican Government's contributions

During 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. Pursuant to an agreement dated August 20, 2008 (No. CA-122/2008), the Board of Directors of Petróleos Mexicanos authorized the application of this minimum guaranteed dividend, which was recognized in September 2008, as accumulated loss.

In addition, 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*.

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.

During 2010, PEMEX capitalized an amount of Ps. 122, corresponding to interest earned at the end of 2010 on funds provided by the Mexican Government for use in infrastructure works.

In accordance with FRS C-1, PEMEX reclassified the funds provided by the Mexican Government for infrastructure projects from Accounts, notes receivable and other to Cash and cash equivalents for the fiscal years ended December 31, 2010 and 2009.

Legal reserve

Under Mexican law, each of the Subsidiary Companies is required to allocate a certain percentage of its net income to a legal reserve fund until the fund reaches an amount equal to a certain percentage of each Subsidiary Company's capital stock. During 2008, the Subsidiary Companies contributed Ps. 154,917 for legal reserve funds, as compared to no contributions made to such funds during 2010 or 2009.

Donation surplus

During 2009, PEMEX recorded Ps. 119,884 as fixed asset additions for land and buildings regularization. In connection with the project for the construction of a new refinery in Tula, Hidalgo, land valued at Ps. 980,187 was received as a donation from the State of Hidalgo, as stated in a conveyance issued by Public Notary No. 5 of Tepeji del Río de Ocampo, Hidalgo in 2010. In addition, another 64 properties and 97 buildings were recognized as fixed assets totaling Ps. 1,462,210 based on their assessed values, in accordance with article 27 of the *Ley General de Contabilidad Gubernamental* (General Governmental Accounting Law).

Accumulated losses

PEMEX has recorded negative earnings in the past several years. However, under the *Ley de Concursos Mercantiles* ("Commercial Bankruptcy Law of Mexico") decentralized public entities such as Petróleos Mexicanos and the Subsidiary Entities cannot be subject to a bankruptcy proceeding. Furthermore, the financing agreements to which PEMEX 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 through the adoption of the November 2008 amendments to PEMEX's legal framework, which will permit it greater autonomy in decision making and enhanced operational viability.

(Figures stated in thousands of Mexican pesos, except as noted)

NOTE 15—COMMITMENTS:

(a) PEMEX, through Pemex-Exploration and Production, is party to an evergreen contract to sell to PMI CIM crude oil INTENDED 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) or they may contain a minimum obligatory period (long-term contracts).

(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. At December 31, 2010 and 2009, the value of the nitrogen to be supplied during the term of the contract was approximately Ps. 14,180,472 and Ps. 17,309,316, 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:

2011	Ps.	1,673,920
2012		1,926,529
2013		1,302,084
2014		1,318,181
2015		1,337,764
More than 5 years		6,621,994
Total	Ps.	14,180,472

(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, 2010 and 2009, the value of the nitrogen to be supplied during the term of the contract was approximately Ps. 1,465,993 and Ps. 2,443,574, respectively.

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

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

2011	Ps.	497,585
2012		497,585
2013		94,717
2014		94,717
2015		94,717
2016 to 2017		186,672
Total	Ps.	1,465,993

(d) As of December 31, 2010 PEMEX has entered into FPWCs by means of which the contractor manages and is responsible for financing performance of the work to be undertaken. Until PEMEX accepts the completed project, it has no payment obligation under the contract.

Date	Block	2010	2009
		(in thousands of U.S. dollars)	
February 9, 2004	Olmos	**301,818**	304,213
November 21, 2003	Cuervito	**118,022**	202,974
November 28, 2003	Misión	**977,678**	823,052
November 14, 2003	Reynosa-Monterrey	**2,050,000**	2,238,139
December 8, 2003	Fronterizo	**141,997**	221,467
March 23, 2005	Pirineo	**452,399**	553,090
April 3, 2007	Nejo	**696,653**	883,671
April 20, 2007	Monclova	**241,221**	369,899
May 12, 2008	Burgos VII	**765,576**	1,043,666
Total		**5,745,364**	6,640,171

(e) As of December 31, 2010 and 2009, PEMEX had entered into contracts with several contractors for the development of various infrastructure works, for an estimated total amount of Ps. 421,101,319 and Ps. 195,096,931, 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.

(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, 2010 and 2009, the reserve for environmental remediation expenses totaled Ps. 5,297,933 and Ps. 6,032,931, 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 and commercial lawsuits and arbitration proceedings. The result of these proceedings is uncertain as of this date. As of December 31, 2010, PEMEX had accrued a reserve of Ps. 8,430,795 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. CONPROCA is seeking a total amount of U.S. $424,890 and Petróleos Mexicanos and Pemex-Refining are seeking U.S. $116,025. From August 16 to 26, 2010 the hearing to determine the amounts due to each party was held. On October 18, 2010 the Court's experts filed a report and on November 3, 2010, the parties filed their observations to that report. On November 8 and November 9, 2010, the parties cross-examined the Court's experts with respect to such report. On February 15, 2011, the parties submitted briefs with their final arguments. The enumeration of costs, which was presented to the Court on March 15, 2011, is being finalized. As of the date of this report, a final award from the Court is still pending.

In February 2010, the *Servicio de Administración Tributaria* (the Tax Management Service) informed Pemex-Exploration and Production of the results of its review of the financial statements of Pemex-Exploration and Production for 2006, in respect of Federal Taxes, Value Added Tax and Ordinary Duty on Hydrocarbons payable by it. On September 20, 2010, the Tax Management Service determined that Pemex-Exploration and Production owed additional taxes totaling Ps. 4,575,208 (of which Pemex was notified on September 22, 2010). On November 30, 2010, Pemex-Exploration and Production filed an administrative claim (No. 28733/10-17-03-7) before the *Tercera Sala Regional Metropolitana* (Third Regional Metropolitan Court) of the *Tribunal Federal de Justicia Fiscal y Administrativa* (Tax and Administrative Federal Court) challenging the assessment. As of this date, the Tax Management Service has not yet filed a response to this claim.

In December 2004, Corporación Mexicana de Mantenimiento Integral, S. de R.L. de C.V. ("COMMISA") filed an arbitration claim (No. 13613/CCO/JRF) before the ICA against Pemex-Exploration and Production for, among other things, a breach of a construction agreement in connection with two platforms in the Cantarell complex (Project No. IPC-01). 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. $293,645 and Ps. 34,459, plus interest, but also requiring COMMISA to pay Pemex-Exploration and Production a sum of approximately U.S. $5,919, plus interest. On January 11, 2010, Pemex-Exploration and Production was notified that COMMISA had filed a motion before the U.S. District Court for the Southern District of New York requesting the enforcement of the ICA award in its favor plus interest and expenses related to the claim. On November 2, 2010 a judgment was issued and Pemex-Exploration and Production was ordered to pay U.S. $355,864 plus interest (such amount already having been reduced by the amount owed to Pemex-Exploration and Production by COMMISA). On November 15, 2010, Pemex-Exploration and Production appealed the ruling and requested that execution of the ruling be postponed until the appeal is resolved. This request was granted, on the condition that Pemex-Exploration and Production deposit U.S. $395,009 in an account of the Court, equivalent to 111% of the amount of the judgment, to guarantee its compliance with the judgment. Such amount was deposited by Pemex-Exploration and Production in the Court's account on December 30, 2010, eliminating the risk of any seizure of assets ordered against Pemex-Exploration and Production in the United States. Previously, Pemex-Exploration and Production had filed a motion before the *Juzgado Quinto de Distrito en Materia Civil* (Fifth Civil District Court) in the Federal District, requesting that the award be declared null and void. This request was denied on June 24, 2010. On October 27, 2010, a constitutional relief known as *amparo* against this resolution was also denied. On November 18, 2010, Pemex-Exploration and Production filed a motion to review this resolution. On March 4, 2011, the *Tribunal Colegiado* (Joint Court), which has been designated to review such motions, submitted the case to the *Suprema Corte de Justicia de la Nación* (Supreme Court of Justice of Mexico). On March 25, 2011, the Supreme Court of Justice of Mexico accepted the case. As of the date of this report, the Court has not yet ruled on this appeal.

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 contamination of land used to store oil waste caused by hydrocarbons and other toxic substances. On May 19, 2010, a final judgment was issued in favor of the plaintiff. Petróleos Mexicanos and Pemex-Refining were ordered to pay Ps. 995,136, plus interest, as well as expenses related to the claim. On May 26, 2010, the defendants filed an appeal against this judgment. The plaintiff also filed an appeal against this judgment. The plaintiff also filed a motion to have the appeal of Petróleos Mexicanos rejected, on the basis that the Judge had only agreed to hear the appeal of Pemex-Refining and had omitted the appeal of Petróleos Mexicanos. This motion was rejected, and Petróleos Mexicanos' right to appeal was affirmed. The appeals (No. 25/2010-I) are being resolved before the *Primer*

Tribunal Unitario del Décimo Circuito (First Unit Court of the Tenth Circuit) in Villahermosa, Tabasco. As of the date of this report, a final resolution is still pending.

In February 2010, the Tax Management Service informed Pemex-Refining of the results of its review of Pemex-Refining's financial statements for 2006, in respect of Federal Taxes, Value Added Tax and Hydrocarbons Income Tax. On September 20, 2010 the Tax Management Service determined that Pemex-Refining had failed to deliver the full Value Added Tax owing by it, and assessed fees and fines for a total amount of Ps. 1,553,371 (of which Pemex-Refining was notified on September 22, 2010). On November 30, 2010, Pemex-Refining filed an administrative claim (No. 28733/10-17-03-7) before the Third Regional Metropolitan Court of the Tax and Administrative Federal Court challenging the assessment. On February 14, 2011, the claim was accepted by the Court. As of this date, the Tax Management Service has not filed a response to this claim.

In February 2011, EMS Energy Services de México, S. de R.L. de C.V. and Energy Maintenance Services Group I. LLC filed a claim against Pemex-Exploration and Production before the *Juzgado Tercero de Distrito* (Third District Court) in Villahermosa, Tabasco, (No. 227/2010). Pemex-Exploration and Production was notified of this claim on March 14, 2011. The plaintiffs are seeking, among other things, the termination of a public works contract and damages totaling U.S. $193,700, due to non-payment by Pemex-Exploration and Production under the contract. As of the date of this report, the trial is in the evidentiary stage.

In December 2003, Unión de Sistemas Industriales, S.A. de C.V. ("USISA") 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 to nullify a fixed-price work contract with a predetermined length, whose object was the modernization of the cathodic protection system in certain Pemex-Refining pipelines, and seeking approximately Ps. 393,000 for, among other things, work performed and not paid for under a pipeline construction agreement, as well as damages and expenses related to the claim. A final judgment was issued against Pemex-Refining in which it was ordered to pay Ps. 89,000. Pemex-Refining and USISA both filed *amparos* (No. 204/2009 and No. 205/2009) against the resolution with the *Segundo Tribunal Unitario en Materia Civil y Administrativa del Primer Circuito* (Second Unit Civil and Administrative Court of the First Circuit); both filings for *amparo* (No. D. C. 03/2010 and No. D.C. 04/2010) were settled in the *Décimo Tribunal Colegiado en Materia Civil* (Tenth Joint Civil Court). On May 26, 2010, a resolution was issued against Pemex-Refining's *amparo* and in favor of the plaintiff. The court ordered that the grievances filed by the plaintiff be analyzed. On July 13, 2010, the Second Unit Civil and Administrative Court of the First Circuit issued a resolution ordering Pemex-Refining to pay Ps. 83,301 plus the plaintiff's financial expenses. On August 30, 2010, Pemex-Refining and USISA filed *amparos* before the Tenth Joint Civil Court (No. 525/2010 and No. 532/2010). On January 12, 2011, both *amparos* were denied. As a result, on March 4, 2011, Pemex-Refining was required to comply with the final judgment issued by the Second Unit Civil and

Administrative Court of the First Circuit. On March 22, 2011, Pemex-Refining paid the principal portion of the judgment. However, as of the date of this report, the related financial and unrecoverable costs are pending payment pursuant to the Court's judgment.

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 by carrying out development, infrastructure and maintenance projects in non-associated gas fields under a public works contract. On June 16, 2010, Pemex-Exploration and Production filed a complaint asserting that the judge did not consider a prior resolution (No. 5605/03-17-04-6) issued by the *Cuarta Sala Regional Metropolitana del Tribunal Federal de Justicia del Fiscal y Administrativa* (Fourth Regional Metropolitan Court of the Federal Fiscal and Administrative Court) stating that this type of gas is a hydrocarbon and, therefore, it can only be exploited by Petróleos Mexicanos and the subsidiary entities. The complaint was denied. A constitutional hearing will be held on May 24, 2011.

On April 14, 2010, Petróleos Mexicanos and Pemex-Gas and Basic Petrochemicals were summoned before the *Juzgado Séptimo de Distrito* (Seventh District Court) in Reynosa, Tamaulipas, in connection with a claim filed by Irma Ayala Tijerina de Barroso and others, seeking approximately Ps. 1,490,873 for, among other things, civil liability and damages resulting from the possible contamination of land used for water treatment in the Reynosa Gas Processing Complex. On May 7, 2010, Petróleos Mexicanos and Pemex-Gas and Basic Petrochemicals responded to this claim, objecting that the court lacked both subject matter and territorial jurisdiction to hear it. This objection was denied on September 3, 2010. The defendants filed an appeal against this resolution before the *Tercer Tribunal Unitario del Décimo Noveno Circuito* (Third Unit Court of the Nineteenth Circuit), which was partially granted on November 30, 2010 (No. 13/2010). Both parties filed *amparos* against this resolution before the *Segundo Tribunal Unitario* (Second Unit Court) in Matamoros, Tamaulipas. A judgment was issued granting both *amparos* and, as a result, as of this date, PEMEX is awaiting the issuance of a new resolution as required by the Second Unit Court's ruling.

In January 1993, Pemex-Refining entered into a joint venture with Impulsora Jalisciense, S.A. de C.V. ("Impulsora") to establish a company called Mexicana de Lubricantes, S.A. de C.V. ("Mexicana de Lubricantes"), which manufactures, bottles and distributes automotive and industrial oils and lubricants. 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 challenge to the *Ley*

Federal de Procedimiento Administrativo (Federal Law of Administrative Procedure) and a resolution (Acuerdo No. PMREF-00-002) modifying the franchise agreement among Pemex-Refining and the service stations franchised by Pemex-Refining. This proceeding (currently 1085/2009 before the *Juzgado Tercero de Distrito en Materia Administrativa* (Third Administrative District Court) 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 and seeking to be permitted to sell its products in the service stations franchised by Pemex-Refining, thereby eliminating Mexicana de Lubricantes' exclusive right to sell its lubricants in these service stations. A constitutional hearing was held on January 31, 2011, resolving Bardahl's complaint. Impulsora's claim was then transferred to the *Juzgado Segundo de Distrito Auxiliar* (Second Auxiliary District Court) in Guadalajara, Jalisco (No. 170/2011). As of the date of this report, a final resolution is still pending.

- 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, compliance with this 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. The investigation is still underway. On July 17, 2009, Pemex-Refining filed an accounting report stating that certain officers of Mexicana de Lubricantes had collected Ps. 25,800 in wages and salaries without the prior authorization of the board of directors of Mexicana de Lubricantes. In addition, Pemex-Refining claimed that it had suffered Ps. 360,900 in damages as a result of alleged fraud committed by the board of directors. The experts of the Federal Attorney General's Office determined that Pemex-Refining was entitled to Ps. 12,600 for unauthorized wages and salaries and Ps. 176,800 for damages, corresponding to the percentage of shares of Mexicana de Lubricantes held by Pemex-Refining. As of this date, a final resolution 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 oils supply contract; and

(iii) a contract for the manufacture of oils and lubricants for Petróleos Mexicanos and the subsidiary entities. On March 16, 2010, a judgment was issued in favor of Pemex-Refining. Mexicana de Lubricantes and Pemex-Refining each filed an appeal against this resolution before the *Primer Tribunal Unitario en Materia Civil y Administrativa del Primer Circuito* (First Unit Civil and Administrative Court of the First Circuit). The First Unit Civil and Administrative Court of the First Circuit issued a resolution in favor of Pemex-Refining. Mexicana de Lubricantes filed an *amparo* against this resolution (No. 667/2010) before the *Noveno Tribunal Colegiado en material Civil del Primer Circuito* (Ninth Civil Joint Court of the First Circuit), which was granted. In connection with that ruling, on February 16, 2011, the Ninth Civil Joint Court of the First Circuit overturned the original judgment against Mexicana de Lubricantes. Both Pemex-Refining and Mexicana de Lubricantes filed *amparos* (No. D.C. 200/2011 and No. D.C. 201/2011). As of the date of this report, a final resolution is still pending.

- On November 3, 1997, the *Comisión Federal de Competencia* (Federal Competition Commission) initiated 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 franchised by Pemex-Refining, which provided that those service stations could only sell oils and lubricants bearing PEMEX or Mexicana de Lubricantes trademarks. On July 10, 2003, the Federal Competition Commission issued a resolution (No. IO-62-97) 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 Bardahl 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. An *amparo* (No. 46/2008-VIII) was 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 and on December 23, 2008, the District Judge granted Pemex-Refining the *amparo*. 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). A hearing was held on November 25, 2010, and on February 17, 2011, Pemex-Refing's *amparo* was granted, thereby requiring the Federal Competition Commission to issue a new resolution based on the existing evidence. The Federal Competition Commission appealed this ruling before the *Tribunal Colegiado en Materia Administrativa* (Joint Administrative Court). A final resolution is still pending.

- 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 dated January 19, 1993 and its amendments be declared invalid because of an exclusivity clause that prevents the sale of Bardahl's products in the service stations franchised by Pemex-Refining, as well as related damages. The independent expert determined that Bardahl's damages totaled Ps. 6,210,692. As of the date of this report, the trial is in the evidentiary stage.

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

NOTE 17—HYDROCARBON RESERVES (UNAUDITED)

Information in this note is presented only for information purposes. 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 right to extract and exploit Mexico's petroleum reserves. However, because such reserves are not PEMEX's property, they are not recorded on its books. Pemex-Exploration and Production estimates the 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, as amended. Reserves valuation is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserves estimate depends on the quality of available data, engineering and geological interpretation and professional judgment. As a result, estimates from different engineers may vary. In addition, the results of drilling, testing and producing subsequent to the date of an estimate may lead to its revision.

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.

In making performance analyses of 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.

(Figures stated in thousands of Mexican pesos, except as noted)

Following is the condensed financial information of these segments:

	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Corporate and Subsidiary Companies	Intersegment Eliminations	Total
Year ended December 31, 2010:							
Sales							
Trade	Ps. -	Ps. 533,722,826	Ps. 125,391,708	Ps. 24,738,801	Ps. 592,907,683	Ps. -	Ps. 1,276,761,018
Intersegment	980,603,172	68,864,848	74,064,806	16,587,113	350,326,862	(1,490,446,801)	-
Services income	-	3,469,042	-	-	2,903,752	(1,069,502)	5,303,292
Total net sales	980,603,172	606,056,716	199,456,514	41,325,914	946,138,297	(1,491,516,303)	1,282,064,310
Gross income	744,433,897	(106,207,256)	12,148,916	(5,455,508)	49,840,737	(44,986,892)	649,773,894
Operating income (loss)	712,063,736	(155,642,889)	1,005,678	(15,361,966)	5,137,554	(1,680,950)	545,521,163
Comprehensive financing result	(20,888,539)	(2,238,951)	2,856,243	(38,919)	8,231,872	108,956	(11,969,338)
Taxes and duties	649,813,771	-	1,651,735	34,562	2,640,581		654,140,649
Net income (loss)	34,366,809	(83,082,344)	3,573,282	(15,120,242)	(42,077,793)	54,877,680	(47,462,608)
Depreciation and amortization	82,244,686	8,906,150	3,531,638	1,165,828	633,479	-	96,481,781
Net cost for the period of employee benefits	38,822,191	38,974,527	7,768,779	10,617,542	18,092,002	-	114,275,041
Current assets	740,040,846	370,842,051	99,868,803	89,198,563	917,048,061	(1,903,569,091)	313,429,233
Investments in shares	753,219	157,094	1,983,237	-	393,300,227	(385,077,697)	11,116,080
Properties, plant and equipment	789,473,758	201,826,731	42,383,097	17,793,522	9,910,793	-	1,061,387,901
Acquisition of fixed assets	176,378,800	24,585,500	3,631,300	2,217,300	1,209,800	-	208,022,700
Total assets	1,532,989,752	573,181,071	144,514,505	108,151,144	1,878,731,690	(2,844,852,888)	1,392,715,274
Current liabilities	433,338,544	323,872,240	29,850,392	17,323,008	1,294,574,159	(1,891,704,715)	207,253,628
Reserve for employee benefits	228,029,915	225,323,759	55,740,944	62,105,361	90,165,086	-	661,365,065
Total liabilities	1,249,247,867	587,354,957	94,353,467	80,046,330	1,955,267,780	(2,459,771,710)	1,506,498,691
Equity	283,741,885	(14,173,886)	50,161,038	28,104,814	(76,536,090)	(385,081,178)	(113,783,417)
Year ended December 31, 2009:							
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	(27,778,181)	(157,022)	2,748,591	100,489	9,778,256	-	(15,307,867)
Taxes and duties	538,596,544	3,309,822	692,647	290,507	3,743,538	-	546,633,058
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
Net cost for the period of employee benefits	34,995,298	35,426,353	7,961,731	9,900,426	17,368,083	-	105,651,891
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
Properties, plant and equipment	711,503,482	186,970,987	42,128,005	17,488,295	9,500,731	-	967,591,500
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 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 liabilities	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)
Year ended December 31, 2008:							
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	87,731,727	25,488,043	(3,199,974)	(624,199)	(4,032,478)	2,148,597	107,511,716
Taxes and duties	761,683,140	5,348,879	1,771,024	274,084	2,624,677	-	771,701,804
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

(Figures stated in thousands of Mexican pesos, except as noted)

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
Year ended December 31, 2010:					
Total net sales	Ps. 979,563,741	Ps. 605,155,570	Ps. 199,151,783	Ps. 41,305,870	Ps. 946,621,370
Intersegment revenue	1,039,431	901,146	304,731	20,044	(690,031)
Total consolidated net sales	980,603,172	606,056,716	199,456,514	41,325,914	945,931,339
Operating income (loss)	711,060,303	(159,536,815)	392,235	(15,255,940)	4,576,209
Less intersegment revenue	1,039,431	901,146	304,731	20,044	(690,031)
Less intersegment sales	(154,979)	(309,350)	(56,502)	(2,989)	1,044,418
Depreciation interest not capitalized	118,981	-	-	-	-
Less unrealized profit on inventory	-	3,302,132	365,214	(123,081)	-
Operating income (loss)	Ps. 712,063,736	Ps. (155,642,889)	Ps. 1,005,678	Ps. (15,361,966)	Ps. 4,930,596
Total assets	1,535,841,727	613,192,734	145,643,281	109,644,958	1,880,399,853
Less intersegment sales	-	(1,173,638)	(74,220)	-	4,785,455
Less unrealized profit on inventory	-	(38,838,025)	(1,054,556)	(1,493,814)	(6,453,618)
Less intersegment capitalized interest	(2,855,552)	-	-	-	-
Less participation method for unrealized profits from intersegment operations	3,577	-	-	-	-
Total assets	Ps. 1,532,989,752	Ps 573,181,071	Ps. 144,514,505	Ps. 108,151,144	Ps. 1,878,731,690
Equity	286,593,860	25,837,777	51,289,814	29,598,628	(76,277,888)
Less intersegment sales		3,893,927	613,443	(106,025)	354,387
Less unrealized profit on inventory	-	(43,905,590)	(1,742,219)	(1,387,789)	(612,589)
Less intersegment capitalized interest	(2,855,552)	-	-	-	-
Less participation method for unrealized profits from intersegment operations	3,577	-	-	-	-
Consolidated equity	Ps. 283,741,885	Ps. (14,173,886)	Ps. 50,161,038	Ps. 28,104,814	Ps. (76,536,090)
Year ended December 31, 2009:					
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	827,653,321	530,615,379	171,967,900	49,954,333	747,026,297
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)	Ps. 576,366,159	Ps. (129,814,425)	Ps. (4,789,179)	Ps. (20,370,049)	Ps. 7,618,478
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	Ps. 2,983,699,608	Ps. 496,044,407	Ps. 133,497,604	Ps. 86,943,440	Ps. 1,802,500,251
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	Ps. 254,833,089	Ps. 11,857,828	Ps. 44,081,477	Ps. 22,690,962	Ps. (32,602,420)

NOTE 19—FISCAL REGIME:

On December 21, 2005, the Mexican Congress approved a new fiscal regime for Petróleos Mexicanos and the Subsidiary Entities, which was published in the Official Gazette of the Federation, effective January 1, 2006. This regime was modified on October 1, 2007, on November 13, 2008 and again on November 27, 2009.

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 2010 contemplates the following duties:

(a) *Ordinary Hydrocarbons Duty ("DOSH")*—During 2010 and 2009, the applicable rates of this duty were 73.00% and 73.50%, 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 2010, Pemex-Exploration and Production made daily, weekly and monthly advance payments in the amounts of Ps. 182,051,780, Ps. 182,051,636 and Ps. 178,669,965, respectively, totaling Ps. 542,773,381, which amount was credited to the annual payment of the DOSH. 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.

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. 302,763,680, 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 varies 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.

(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. $59.00 and U.S. $70.00 during 2010 and 2009, 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 0.40% 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;
- 15% to the Scientific Research and Technological Development Fund of the *Instituto Mexicano del Petróleo* (Mexican Petroleum Institute, or “IMP”); and
- 20% 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*—This duty was modified effective January 1, 2010 and is applied to the value of the crude oil and natural gas extracted from the fields in Paleocanal de Chicontepec and in deep waters in the Gulf of Mexico, at a 15% rate, 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*—This duty was modified effective January 1, 2010 and is applied at a rate between 30% and 36%, in accordance with cumulative production to the value of the crude oil and natural gas extracted from the fields in the Paleocanal de Chicontepec and deep waters less certain deductions, which may not exceed the cost limit established in article 257 of the Federal Duties Law.

(i) *Additional Hydrocarbons Duty*—This Duty is effective January 1, 2010 and is determined by applying a 52% rate on the amount realized in excess of U.S. $60.00 per barrel of crude oil extracted from fields located in the Paleocanal de Chicontepec and the deep waters in the Gulf of Mexico.

(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.

(Figures stated in thousands of Mexican pesos, except as noted)

In 2010, 2009 and 2008, 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 in 2010, 2009 and 2008 revenue of approximately Ps. 73,582,280, Ps. 37,247,260 and Ps. 194,575,700, 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, 2010, 2009 and 2008, PEMEX generated an IRP as follows:

	2010		2009		2008	
Current IRP	**Ps.**	**2,271,848**	Ps.	2,464,890	Ps.	1,453,626
Deferred IRP		**187,709**		37,761		129,284
Total IRP	**Ps.**	**2,459,557**	Ps.	2,502,651	Ps.	1,582,910

During 2010, Petróleos Mexicanos and the Subsidiary Entities other than Pemex-Exploration and Production made daily and weekly payments of Ps. 1,198,660, and Ps. 1,225,848, respectively, as determined by the SHCP, for an overall total of Ps. 2,424,508 credited to the annual payment of the IRP. During 2009, the total daily and weekly payments determined by the SHCP were Ps. 1,190,700 and Ps. 1,170,141, respectively, for an overall total of Ps. 2,360,841 credited to the annual payment.

This tax will be declared through a tax return filed with the Federal Treasury no later than the last business day of March 2011, and the daily and weekly advance payments made during the fiscal year will be credited against that amount.

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.

(Figures stated in thousands of Mexican pesos, except as noted)

The principal factors generating the deferred IRP are the following:

		2010		2009
Deferred asset IRP:				
Advances from customers	**Ps.**	**38,530**	Ps.	475,471
Provision for insurance		**195,787**		168,605
Provision for contingencies		**18,533**		37,369
Environmental reserve		**5,857**		6,721
Allowance for doubtful accounts		**30,882**		29,362
Allowance for slow moving and obsolete inventory		**64,236**		-
		353,825		717,528
Deferred liability IRP:				
Advance insurance		**(10,681)**		(10,910)
Properties, plant and equipment		**(5,574,537)**		(5,750,302)
		(5,585,218)		(5,761,212)
Long-term liability	**Ps.**	**(5,231,393)**	Ps.	(5,043,684)

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:

		2010		2009		2008
Expected (benefit) expense	**Ps.**	**(2,089,132)**	Ps.	(129,178,136)	Ps.	1,501,210
Tax effect of inflation, net		**(1,444,611)**		(915,759)		(280,619)
Difference between book depreciation and tax depreciation		**(362,109)**		(1,104,432)		320,018
Equity interest in investments		**5,559,490**		131,627,990		-
Non-deductible expenses		**358,978**		2,066,042		19,570
Customer advances		**436,941**		6,946		-
Other, net		-		-		22,731
Expense for tax on earnings	**Ps.**	**2,459,557**	Ps.	2,502,651	Ps.	1,582,910

(l) *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 was published in the Official Gazette of the Federation. Article 7, section III of that law provides for 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.

(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.

(Figures stated in thousands of Mexican pesos, except as noted)

For the years ended December 31, 2010, 2009 and 2008, the Subsidiary Companies incurred the following income tax:

	2010	2009	2008
Current income tax	**Ps. 1,629,875**	Ps. 1,900,467	Ps. 2,540,703
Deferred income tax	**94,931**	(144,619)	56,246
	Ps. 1,724,806	Ps. 1,755,848	Ps. 2,596,949

The principal factors generating deferred Income Tax are the following:

	2010	2009
Deferred asset income taxes:		
Allowance:	**Ps. -**	Ps. 530
Losses from prior years	**38,913**	-
Total deferred asset income tax	**38,913**	530
Deferred liability income taxes:		
Properties, plant and equipment	**(2,023,280)**	(1,855,762)
Gain unrealizable from financial transactions	**-**	(34,204)
Total deferred liability income tax	**(2,023,280)**	(1,889,966)
Long term liability	**Ps. (1,984,367)**	Ps. (1,889,436)

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:

	2010	2009	2008
Expected expense	**Ps. 1,198,550**	Ps. 1,837,132	Ps. 2,463,151
Tax effect of inflation, net	**(34,055)**	(80,936)	(96,070)
Difference between accounting and tax depreciation	**216,164**	-	-
Non-deductible expenses	**344,147**	-	110,279
Others, net	-	(348)	119,589
Income tax expense	**Ps. 1,724,806**	Ps. 1,755,848	Ps. 2,596,949

NOTE 20—NEW ACCOUNTING PRONOUNCEMENTS:

The CINIF has issued the following revised FRS, which will take effect for the fiscal year beginning as of January 1, 2011 and whose effects on Petróleos Mexicanos and the Subsidiary Entities will be evaluated together with the *Unidad de Contabilidad Gubernamental e Informes Sobre la Gestión Pública* (Government Accounting and Public Administration Reporting Unit), which is under the auspices of the SHCP.

FRS B-5, "Segment Financial Information"—FRS B-5 will take effect as of January 1, 2011, with retrospective application. The principal changes as compared to Bulletin B-5, "Segment financial information," which it supersedes, include the following:

- The information to be disclosed by operating segment is the information regularly used by top management and does not require segmentation into primary and secondary information or into segments identified based on products or services (economic segments), geographical areas or homogeneous customer groups. Additionally, disclosure by the entity as a whole of information on its products or services, geographical areas and principal customers and suppliers is required.

- FRS B-5 does not require that the entity's business areas be subject to different risks to qualify as operating segments.

- Business areas in the pre-operating stage may be classified as operating segments.

- FRS B-5 requires disclosing separately by segment, interest revenue and expense, as well as all other components of CFR. In specific cases, disclosure of net interest income is permissible.

- Disclosure of the liability amounts included in the usual operating segment information normally used by top management is required.

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

FRS B-9, "Interim Financial Reporting"—FRS B-9 will take effect as of January 1, 2011, with retrospective application. The principal changes as compared to Bulletin B-9 – "Interim financial reporting," which it supersedes, include the following:

- FRS B-9 requires that the interim financial information, in addition to the balance sheet and income statement, include a comparative and condensed statement of stockholders' equity and statement of cash flows, and, for not-for-profit entities, the presentation of the statement of activities is expressly required.

- FRS B-9 establishes that the financial information reported at the end of an interim period should be presented comparatively with the equivalent interim period of the immediately preceding year and, in the case of the balance sheet, compared also to such financial statement at the immediately preceding year-end date.

- New terminology is included and defined.

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

FRS C-4, "Inventories"—FRS C-4 will take effect as of January 1, 2011, with retrospective application, supersedes Bulletin C-4 and establishes new valuation, presentation and disclosure rules for initial and subsequent recognition of inventories on the balance sheet. The principal changes are as follows:

- FRS C-4 eliminates: (a) direct costing as a valuation system and, (b) the inventory cost assignment formula (formerly method) referred to as Last In – First Out (LIFO).

- Inventory cost can only be modified solely to equal the lower of cost or market value, except that the net realizable value may not exceed the market value of the inventory.

- For inventories acquired on an installment payment basis, the difference between the purchase price under normal credit conditions and the amount paid must be recognized as financial cost during the financing period.

- Under certain circumstances, estimates of impairment losses on inventories recognized in a prior period may be deducted or charged off against the results of operations for the period in which such modifications occur.

- Only items whose benefits and risks have already been transferred to the entity may be recognized as inventories; therefore, prepayments are not part of inventory.

PEMEX's management is evaluating whether the adoption of this new FRS will have any material effects.

FRS C-5, "Prepayments"—FRS C-5 will take effect as of January 1, 2011, with retrospective application, supersedes Bulletin C-5 and includes primarily the following changes:

- Advances for purchase of inventories (current assets) or property, plant and equipment and intangible assets (non-current assets), among others, must be reported under prepayments provided the benefits and risks inherent in the assets to be acquired or the services to be received have not yet been transferred to the entity. Furthermore, prepaid expenses must be reported based on the nature of the item to be acquired, either under current assets or non-current assets.

- When an impairment loss on the value of prepayments occurs, the unrecoverable amount must be reported in the income statement. Additionally, if the necessary conditions exist, the impairment effect may be reversed and recorded on the income statement for the related future period.

- Among other things, the following must be disclosed in notes to financial statements: breakdown of prepayments, accounting policies for recognition and impairment losses, as well as relevant reversal of impairments.

PEMEX's management is evaluating whether the adoption of this new FRS will have any material effects.

FRS C-6, "Property, Plant and Equipment"—FRS C-6 will take effect as of January 1, 2011, except for changes arising from segregation into the components of property, plant and equipment items having a clearly different useful life, which will be effective for fiscal years beginning on or after January 1, 2012. The accounting changes resulting from the initial application of this FRS must be prospectively recognized. The principal changes as compared to Bulletin C-6, "Property, Plant and Equipment," which it supersedes, include the following:

- Property, plant and equipment to develop or maintain biological and extraction industry assets are within the scope of this FRS.

- The treatment for asset exchanges based on the economic substance is included.

- The bases for determination of the residual value of a component are added.

- The requirement to assign an appraised value to property, plant and equipment acquired at no cost or at an inadequate cost is eliminated.

- Depreciation for components representative of a property, plant and equipment item is mandatory, independently of the depreciation of the rest of the item as if it were a single component.

- Depreciation of idle components must continue, unless depreciation is determined based on the activity.

PEMEX's management is evaluating whether the adoption of this new FRS will have any material effects.

FRS C-18, "Property, Plant and Equipment Retirement Obligations"—FRS C-18 will take effect as of January 1, 2011, and primarily provides for the following:

- Requirements that must be considered for valuation of a fixed asset component retirement obligation.

- Requirement to recognize retirement obligations as a provision that increases the acquisition cost of a component.

- How changes in the valuation of retirement obligations (provisions) resulting from revisions to estimated future cash flows, the periodicity for settlement and the suitable discount rate to be used must be recognized for accounting purposes.

- Use of a suitable discount rate to determine estimated future cash flows, incorporating the cost of money and the entity's credit risk.

- Use of the expected present value technique to determine the best estimate for retirement obligations.

- Disclosures that are to be made in case an entity has a component retirement obligation.

PEMEX's management is evaluating whether the adoption of this new FRS will have any material effects.

2011 FRS Amendments

In December 2010, the CINIF announced the following amendments to some existing FRS that will take effect for the fiscal year beginning as of January 1, 2011:

- **Bulletin C-3, "Accounts Receivable"**—Provides that interest income on accounts receivable should be recognized when accrued, provided that the relevant amount is reliably valued and likely to be recovered. Furthermore, interest income on accounts receivable unlikely to be recovered must not be recognized. These amendments will take effect as of January 1, 2011, and are applicable retrospectively.

- **FRS C-10, "Derivative Financial Instruments and Hedging Activities"**—The amendments to this FRS will take effect as of January 1, 2011, with retrospective application. The principal amendments include the following:

    - Certain criteria used to assess hedge effectiveness may be excluded.

    - An intra-group transaction may be recognized as a hedging activity only when the functional currencies of the related parties involved in such transaction are different from each other.

    - Reporting of the effect of the hedged interest rate risk is required when a portfolio portion is the hedged position.

    - Account margins must be reported separately.

    - In a hedge relationship, a portion of the total amount of the DFI may be designated as the hedging instrument. However, it is not possible to designate only a portion of the term of the hedging instrument as a hedge relationship.

- **Bulletin D-5, "Leases"—**The discount rate to be used on capital leases is established, disclosures related to such leases are added and the timing for recognition of the gain or loss on a sale and leaseback transaction is modified. Application is on a prospective basis, except for the changes in disclosure, which must be retrospectively recognized and will take effect as of January 1, 2011.

PEMEX's management is evaluating whether the adoption of this new FRS will have any material effects.

NOTE 21—SUBSEQUENT EVENTS:

On April 8, 2011, the weighted average price of the crude oil exported by PEMEX was U.S. $113.54 per barrel; this price increased by approximately 36% as compared to the average price as of December 31, 2010, which was U.S. $83.51 per barrel.

On April 8, 2011, the peso- dollar exchange rate was Ps. 11.7931 per dollar, which represents a 5% appreciation in dollar terms as compared to the exchange rate as of December 31, 2010, which was Ps. 12.3571 per U.S. dollar.