PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

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AND SUBSIDIARY COMPANIES

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REPORT OF INDEPENDENT AUDITORS

Mexico City, Mexico, April 20, 2004

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

We have audited the accompanying consolidated balance sheets of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies (collectively, "PEMEX") as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Management of PEMEX. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures made in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Beginning on January 1, 2003 PEMEX recognizes the effects of inflation in accordance with Financial Reporting Standard ("NIF") 06 BIS "A" Section C, which establishes the obligation for PEMEX to adopt Bulletin B-10, "Recognition of the Effects of Inflation on Financial Information", of accounting principles generally accepted in Mexico. Consequently, the financial statements for 2002 have been restated by PEMEX's Management to present them on the same basis as 2003.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PEMEX as of December 31, 2003 and 2002, and the consolidated results of their operations, changes in equity and changes in financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

PricewaterhouseCoopers

Francisco J. Hernández F.

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS
(Notes 1, 2 and 14)

(In thousands of Mexican pesos of December 31, 2003 purchasing power)

	December 31, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 73,336,397	$ 45,621,193
Accounts, notes receivable and other - Net (Note 3)	70,212,832	57,574,177
Inventories - Net (Note 4)	27,477,654	25,402,188
Total current assets	171,026,883	128,597,558
Properties and equipment - Net (Note 5)	539,219,391	503,499,976
Intangible asset derived from the actuarial computation of labor obligations and other assets (Notes 6 and 11)	135,225,530	135,622,509
Total assets	$ 845,471,804	$ 767,720,043
Liabilities		
Current liabilities:		
Current portion of long-term debt (Note 9)	$ 57,503,476	$ 51,465,139
Current portion of notes payable to contractors (Note 8)	1,887,150	1,640,274
Suppliers	33,541,237	30,434,568
Accounts payable and accrued expenses	7,339,932	7,000,103
Taxes payable	36,643,996	27,778,263
Total current liabilities	136,915,791	118,318,347
Long-term debt (Note 9)	303,613,091	198,645,005
Notes payable to contractors (Note 8)	13,139,589	28,509,738
Sale of future accounts receivable (Note 7)	40,457,075	45,166,232
Reserve for dismantlement and abandonment activities, sundry creditors and others (Notes 2 i. and 5)	19,715,956	7,994,019
Reserve for retirement payments, pensions and seniority premiums (Note 11)	285,769,489	265,181,054
Total long-term liabilities	662,695,200	545,496,048
Total liabilities	799,610,991	663,814,395
Commitments and contingencies (Notes 16 and 17)		
Equity (Note 13)		
Certificates of Contribution "A"	82,620,239	82,620,239
Specific oil-field exploration and depletion reserve		13,053,826
Surplus in restatement of equity	130,257,529	124,622,162
Accumulated losses:		
From prior years	(126,372,592)	(91,816,539)
Net loss for the year	(40,644,363)	(24,574,040)
	(167,016,955)	(116,390,579)
Total equity	45,860,813	103,905,648
Total liabilities and equity	$ 845,471,804	$ 767,720,043

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Notes 1, 2 and 14)

(In thousands of Mexican pesos of December 31, 2003 purchasing power)

	Years ended December 31, 2003	Years ended December 31, 2002
Net sales:		
Domestic	$ 387,236,585	$ 336,081,147
Export	238,192,069	178,767,890
	625,428,654	514,849,037
Other revenues (expenses) - Net	2,961,012	(89,423)
Total revenues	628,389,666	514,759,614
Costs and operating expenses:		
Cost of sales	207,118,056	168,754,035
Transportation and distribution expenses	15,548,970	16,000,808
Administrative expenses	35,194,870	34,373,886
Total costs and operating expenses	257,861,896	219,128,729
Comprehensive financing cost:		
Exchange loss - Net	(25,506,359)	(4,431,231)
Interest paid - Net	(16,730,406)	(14,728,767)
Gain on monetary position	11,494,350	12,920,871
	(30,742,415)	(6,239,127)
Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new accounting standard	339,785,355	289,391,758
Hydrocarbon extraction duties and other	288,366,202	191,528,591
Special tax on production and services (IEPS Tax)	94,076,298	122,437,207
	382,442,500	313,965,798
Cumulative effect of adoption of new accounting standard (Note 2 h.)	2,012,782	
Net loss for the year	($ 40,644,363)	($ 24,574,040)

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, 2003 AND 2002
(Notes 1, 2 and 13)

(In thousands of Mexican pesos of December 31, 2003 purchasing power)

	Certificates of Contribution "A"	Specific oil-field exploration and depletion reserve	Surplus in restatement of equity	Accumulated losses: From prior years	Accumulated losses: Net loss for the year	Total
Balances at December 31, 2001	$82,620,239	$ 20,102,266	$ 128,817,890	($ 61,877,350)	($ 36,525,996)	$ 133,137,049
Transfer to prior years' accumulated losses				(36,525,996)	36,525,996	
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on April 24, 2002				(2,321,247)		(2,321,247)
Transfer to prior years' accumulated losses from the specific oil-field exploration and depletion reserve, approved by the Board of Directors on April 24, 2002		(8,865,811)		8,865,811		
Comprehensive loss for the year (Note 12)		1,817,371	(4,195,728)	42,243	(24,574,040)	(26,910,154)
Balances at December 31, 2002	82,620,239	13,053,826	124,622,162	(91,816,539)	(24,574,040)	103,905,648
Transfer to prior years' accumulated losses				(24,574,040)	24,574,040	
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on May 28, 2003				(9,982,013)		(9,982,013)
Comprehensive loss for the year (Note 12)		(13,053,826)	5,635,367		(40,644,363)	(48,062,822)
Balances at December 31, 2003	$82,620,239	$	$ 130,257,529	($126,372,592)	($ 40,644,363)	$ 45,860,813

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Notes 1 and 2)

(In thousands of Mexican pesos of December 31, 2003 purchasing power)

	Years ended December 31,	
Funds provided by (used in):	2003	2002
Operating activities:		
Net loss for the year	($ 40,644,363)	($ 24,574,040)
Charges to operations not requiring the use of funds:		
Depreciation and amortization	40,544,191	33,814,503
Reserve for retirement payments, pensions and indemnities	38,938,604	39,711,998
Specific oil-field exploration and depletion reserve	8,883,222	8,589,510
	47,721,654	57,541,971
Variances in:		
Accounts, notes receivable and other	(12,638,655)	(8,260,885)
Inventories	(2,075,466)	(6,446,982)
Intangible asset derived from the actuarial computation of labor obligations and other assets	396,979	(54,886,659)
Suppliers	3,106,669	4,602,766
Accounts payable and accrued expenses	339,829	(2,261,625)
Taxes payable	8,865,733	24,990,655
Reserve for dismantlement and abandonment activities, sundry creditors and others	11,721,937	(289,579)
Reserve for retirement payments, pensions and indemnities	(18,350,169)	35,300,525
Exploration and well-drilling expenses charged to the specific oil-field exploration and depletion reserve	(21,937,048)	(6,772,139)
Funds provided by operating activities	17,151,463	43,518,048
Financing activities:		
Minimum guaranteed dividends paid to the Mexican Government	(9,982,013)	(2,321,247)
Other equity movements - Net		42,243
Notes payable to contractors - Net	(15,123,273)	13,773,477
Debt - Net	111,006,423	74,905,484
Sale of future accounts receivable - Net	(4,709,157)	(3,945,029)
Funds provided by financing activities	81,191,980	82,454,928
Investing activities:		
Increase in fixed assets - Net	(70,628,239)	(96,223,968)
Funds used in investing activities	(70,628,239)	(96,223,968)
Net increase in cash and cash equivalents	27,715,204	29,749,008
Cash and cash equivalents at beginning of the year	45,621,193	15,872,185
Cash and cash equivalents at end of the year	$ 73,336,397	$ 45,621,193

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

(Amounts expressed in thousands of pesos of December 31, 2003 purchasing power and thousands of U.S. dollars or other currency units)

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

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

The activities of Petróleos Mexicanos and Subsidiary Entities are regulated by the Constitución Política de los Estados Unidos Mexicanos (Political Constitution of the United Mexican States), the Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo (the Regulatory Law to Article 27 of the Political Constitution of the United Mexican States concerning Petroleum affairs, or the "Regulatory Law") effective November 30, 1958, as amended effective May 12, 1995 and November 14, 1996, and the Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios (the Organic Law of Petróleos Mexicanos and Subsidiary Entities, or the "Organic Law"), effective July 17, 1992, as amended effective January 1, 1994 and January 16, 2002. Under the Organic Law and related regulations, Petróleos Mexicanos is entrusted with the central planning activities and the strategic management of Mexico's petroleum industry. For purposes of these financial statements, capitalized words carry the meaning attributed to them herein or the meaning as defined in the Political Constitution of the United Mexican States or the Organic Law.

The Organic Law establishes a structure that consists of decentralized legal entities of a technical, industrial and commercial nature, with their own corporate identity and equity and with the legal authority to own property and conduct business in their own names. The Subsidiary Entities are controlled by and have characteristics of subsidiaries of Petróleos Mexicanos. The Subsidiary Entities are:

Pemex-Exploración y Producción (Pemex-Exploration and Production);
Pemex-Refinación (Pemex-Refining);
Pemex-Gas y Petroquímica Básica (Pemex-Gas and Basic Petrochemicals); and
Pemex-Petroquímica (Pemex-Petrochemicals).

The strategic activities entrusted to Petróleos Mexicanos and Subsidiary Entities by the Organic Law can be performed only by Petróleos Mexicanos and Subsidiary Entities and cannot be delegated or subcontracted. Pemex-Petrochemicals is an exception and may delegate and/or subcontract certain duties.

The principal objectives of the Subsidiary Entities are as follows:

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

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

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

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

At their formation, Petróleos Mexicanos assigned to the Subsidiary Entities all the assets and liabilities needed to carry out these activities, which assets and liabilities were incorporated into the Subsidiary Entities' initial capital contribution. Additionally, Petróleos Mexicanos assigned to the Subsidiary Entities all the personnel needed for their operations, and the Subsidiary Entities assumed all the related liabilities. There was no change in the carrying value of assets and liabilities upon their contribution by Petróleos Mexicanos to the Subsidiary Entities.

The principal distinction between Subsidiary Entities and Subsidiary Companies (as defined below) is that Subsidiary Entities are decentralized public entities created by Article 3 of the Organic Law, whereas the Subsidiary Companies are companies that have been formed in accordance with the general corporations law of each of the respective jurisdictions in which they are incorporated and are managed as other private corporations subject to the general corporations law, in their respective jurisdictions.

As used herein, "Subsidiary Companies" are defined as (a) those companies which are not Subsidiary Entities but in which Petróleos Mexicanos has greater than a 50% ownership investment, and (b) the Pemex Project Funding Master Trust (the "Master Trust"), a Delaware statutory trust, as well as Fideicomiso F/163, a Mexican statutory trust incorporated in 2003 with Bank Boston, S. A.; both trusts are controlled by Petróleos Mexicanos. "Non-consolidated subsidiary companies", as used herein, are defined as those companies which are (a) not Subsidiary Entities or Subsidiary Companies and (b) in which Petróleos Mexicanos has less than a 50% ownership interest. Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies are referred to as "PEMEX".

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies followed by PEMEX in the preparation of these consolidated financial statements are summarized below:

a. Accounting basis for the preparation of financial information -

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Mexico ("Mexican GAAP") as issued by the Instituto Mexicano de Contadores Públicos (Mexican Institute of Public Accountants, or "MIPA").

b. Effects of inflation on the financial information -

Beginning in January 1, 2003, PEMEX recognizes the effects of inflation in accordance with Financial Reporting Standard ("NIF") 06-BIS "A" Section C, which establishes the obligation for PEMEX to adopt Bulletin B-10 of Mexican GAAP, "Recognition of the Effects of Inflation on Financial Information" (" Bulletin B-10"). Consequently, the financial statements for 2002 have been restated by PEMEX's Management to present them on the same basis as 2003.

The effects of adoption of Bulletin B-10, at December 31 2002, are summarized below:

	Amounts previously reported	Restatement increase	Amounts including Bulletin B-10
Total assets	$697,379,233	$70,340,810	$767,720,043
Equity	100,695,549	3,210,099	103,905,648
Net loss for the year	(30,492,113)	5,918,073	(24,574,040)

c. Consolidation -

The consolidated financial statements include the accounts of Petróleos Mexicanos, the Subsidiary Entities and the Subsidiary Companies. All significant intercompany transactions have been eliminated in the consolidation.

The Subsidiary Companies that are consolidated are as follows: P.M.I. Comercio Internacional, S. A. de C. V. ("PMI"); P.M.I. Trading Ltd.; P.M.I. Holdings North America, Inc.; P.M.I. Holdings N.V.; P.M.I. Holdings B.V.; P.M.I. Norteamérica, S. A. de C. V. ("PMI NASA"); Kot Insurance Co. Ltd.; Integrated Trade Systems, Inc.; P.M.I. Marine Limited; P.M.I. Services, B.V.; Pemex Internacional España, S.A.; Pemex Services Europe Ltd.; P.M.I. Services North America, Inc.; Mex Gas International, Ltd.; the Master Trust; Fideicomiso F/163; and RepCon Lux, S.A.

Certain investments in Subsidiary Companies and other non-consolidated subsidiary companies, due to their immateriality in relation to PEMEX's total assets and revenues, are accounted for under the cost method.

d. Long-term productive infrastructure projects (PIDIREGAS) -

The investment in long-term productive infrastructure projects ("PIDIREGAS") and related liabilities are recorded in accordance with NIF-09-B applicable to Entidades Paraestatales de la Administración Pública Federal (State-owned Entities of the Federal Public Administration). In addition to outlining specific accounting treatment, NIF-09-B also identifies specific budgetary and legal requirements governing PIDIREGAS.

During 1997, PEMEX began investing in certain capital expenditure projects that were financed with long-term debt obligations. Such investment expenses and related liabilities will be recognized in the accounting records in future years under NIF-09-B, which provides for only recording liabilities having maturities expiring in less than two years. For the purposes of these financial statements and in accordance with Mexican GAAP consolidation principles, all of the accounts related to PIDIREGAS were incorporated into the consolidated financial statements at December 31, 2003 and 2002, i.e., all effects of NIF-09-B are excluded.

The main objective of the Master Trust and of Fideicomiso F/163 is to administer financial resources related to PIDIREGAS, such financial resources having been designated by PEMEX for that purpose. The Master Trust is consolidated in the financial statements in accordance with the consolidation principles detailed in Mexican GAAP Bulletin B-8, "Consolidated and Combined Financial Statements and Valuation of Permanent Investments in Stocks." Fideicomiso F/163 is being consolidated since 2003, the year in which it started its operations.

e. Exploration and drilling costs -

The successful efforts method of accounting is followed. Exploration and drilling costs are charged to the specific oil-field exploration and depletion reserve, as described below. Accumulated drilling costs corresponding to successful oil wells are capitalized with a credit to this reserve.

f. Specific oil-field exploration and depletion reserve -

The specific oil-field exploration and depletion reserve is established to cover current and future exploration and drilling costs. As oil and gas is extracted from existing wells, the equity reserve is increased based upon a calculated exploration and drilling cost per barrel, with a corresponding amount being charged to cost of sales. Exploration and drilling costs are charged against this reserve as incurred. Cumulative drilling costs related to successful wells are capitalized as fixed assets and a corresponding amount is added back to re-establish the reserve. During 2003 and 2002, PEMEX maintained the cost per barrel of 5.48 nominal pesos.

g. Inventory valuation -

Inventories are valued as follows:

I. Crude oil and its derivatives for export: At net realizable value, determined on the basis of average export prices at December 31, 2003 and 2002, less a provision for distribution expenses and shrinkage.

II. Crude oil and derivatives thereof for domestic sales: At cost, as calculated based on net realizable international market prices.

III. Materials, spare parts and supplies: At the last purchase price.

IV. Materials in transit: At acquisition cost.

h. Properties -

PEMEX's assets are initially recorded at acquisition or construction cost. Associated interest costs are capitalized as part of the asset cost. As of December 31, 2003, the properties are expressed at their restated value, determined by applying factors computed from the National Consumer Price Index ("NCPI"). As of December 31, 2002, such assets were expressed at their restated value determined by applying specific indexes based on technical studies.

Property, plant and equipment assets are depreciated using the straight-line method, considering the restated value of the assets and applying depreciation rates according to its useful expected life, with calculations beginning the month after the asset is placed into service. Until December 31, 2002, PEMEX calculated the depreciation beginning the year after the asset was placed into service.

The depreciation rates used by PEMEX are as follows:

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

Related gains or losses from the sale or disposal of fixed assets are recognized in income. PEMEX amortizes its well assets using the units-of-production ("UOP") method. The amount to be recognized as amortization expense is calculated based upon the number of equivalent crude oil barrels extracted from each specific field as compared to the field's total proven and probable reserves.

The Reglamento de Trabajos Petroleros ("Petroleum Works Law") provides that once a well turns out to be dry, invaded with salt water or abandoned due to mechanical failure or when the well's production has been depleted such that abandonment is necessary due to economic unfeasibility of production, it must be plugged to ensure the maintenance of sanitary and safe conditions and to prevent the seepage of hydrocarbons to the surface. All activities required for plugging a well are undertaken with the purpose of isolating, in a definitive and adequate manner, the cross formations in the perforation that contains oil, gas or water in order to ensure that hydrocarbons do not seep to the surface. This law also requires that PEMEX obtain approval from the Ministry of Energy for the dismantlement of hydrocarbon installations, either for the purposes of replacing them with new installations or for permanent retirement.

Until December 31, 2002, estimated dismantlement and abandonment costs were taken into account in determining amortization and depreciation rates. PEMEX recognized the costs related to currently producing and temporarily closed wells based on the UOP method. In the case of the non-producing wells subject to abandonment and dismantlement, the full dismantlement and abandonment cost had been recognized at the end of each period. All estimates were based on the life of the field, and taking into consideration current cost estimates on an undiscounted basis. No salvage value was considered when determining such rates because salvage values have traditionally been zero. The estimated dismantlement and abandonment costs were reflected within accumulated depreciation and amortization.

Effective January 1, 2003, PEMEX adopted Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" ("Bulletin C-9"). As a result, PEMEX changed the method of accruing the costs related to wells subject to abandonment and dismantlement. The fair values of these costs are recorded as liabilities on a discounted basis when incurred, which is typically at the time the wells are put into service. The amounts recorded for these obligations are initially recorded by capitalizing the respective costs. Over time the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depreciated over the useful lives of the related assets based on the UOP method. In the case of the non-producing wells subject to abandonment and dismantlement, the full dismantlement and abandonment cost had been recognized at the end of each period.

The adoption of Bulletin C-9 resulted for PEMEX in the recognition of a benefit of $2,012,782 related to the provision for dismantlement and abandonment, as of the beginning of 2003.

i. Liabilities, provisions, contingent assets and liabilities and commitments -

PEMEX's liabilities represent present obligations and the liability provisions recognized in the balance sheet represent present obligations whose settlement will probably require the use of estimate of economic resources. These provisions have been recorded, based on Management's best estimate of the amount needed to settle present liability; however, actual results could differ from the provisions recognized.

Beginning January 1, 2003, Bulletin C-9 went into effect. This Bulletin establishes general rules for the valuation, presentation and disclosure of liabilities, provisions and contingent assets and liabilities, as well as for the disclosure of commitments entered into by a company as a part of its normal operations. See Note 2 h. for a discussion of the impact of Bulletin C-9 related to the provision for dismantlement and abandonment costs.

j. Foreign currency balances and transactions -

Transactions denominated in foreign currency are recorded at the respective exchange rates prevailing on the day that the transactions are entered into and the related asset or liability is recorded. Assets and liabilities in foreign currencies are stated in pesos at the rates in effect at the balance sheet date and published by the Ministry of Finance and Public Credit (SHCP). Foreign exchange losses and gains are charged and credited, respectively, to income. This resulted in net exchange losses charged to income of $25,506,359 and $4,431,231 in 2003 and 2002, respectively.

k. Retirement benefits and seniority premiums -

PEMEX has established a pension plan for retirement and seniority premiums to be paid to its employees. The liability is computed by an independent actuary, based upon the projected unit-credit method. PEMEX has recorded the results of the actuarial valuation in accordance with Mexican GAAP Bulletin D-3, "Labor Obligations."

Payments for indemnities to dismissed personnel are charged to income as and when the expense is incurred.

l. Equity -

The Certificates of Contribution "A", the specific oil-field exploration and depletion reserve and the accumulated losses represent the value of these items stated in terms of purchasing power of the most recent balance sheet date, and are determined by applying factors derived from the NCPI to the historical amounts.

m. Surplus in restatement of equity -

The surplus in the restatement of equity at December 31, 2003 and 2002, is composed by cumulative results from the initial net monetary position and results from holding non-monetary assets, restated in Mexican pesos of purchasing power as of the most recent balance sheet date.

n. Result on monetary position -

The result on monetary position represents the gain or loss, measured in terms of the NCPI, on net monthly monetary assets and liabilities for the year, expressed in Mexican pesos of purchasing power as of the most recent balance sheet date. The inflation rates were 4% and 5.7%, in 2003 and 2002, respectively.

o. Comprehensive financing cost -

Comprehensive financing cost includes all types of financial gains or costs, such as interest income and expense, net foreign exchange gains or losses and effects on valuation of financial instruments, in addition to gains or losses on monetary position.

p. Cost of sales -

Cost of sales is determined by adding to inventories at the beginning of the year the increase in the specific oil-field exploration and depletion reserve (a fixed charge per extracted barrel), the operating cost of oil fields, refineries and plants (including internally-consumed products), the purchase cost of refined and other products, and deducting the value of inventories at the end of the year. Cost of sales also includes a portion of the depreciation and amortization expense associated with assets used in operations as well as the expense associated with the reserve for future dismantlement and abandonment costs.

q. Taxes and federal duties -

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

Petróleos Mexicanos and the Subsidiary Entities are subject to the following duties and taxes: Hydrocarbon Extraction Duties, Hydrocarbon Income Tax and the Special Tax on Production and Services ("IEPS Tax"). Petróleos Mexicanos and the Subsidiary Entities are also subject to the Value Added Tax ("VAT").

Hydrocarbon extraction duties are calculated at a rate of 52.3% on the net cash flow difference between crude oil sales and extraction costs and expenses. Extraordinary and additional hydrocarbon extraction duties are calculated at a rate of 25.5% and 1.1%, respectively, on the same basis. The hydrocarbon income tax is equivalent to the regular income tax applied to all Mexican corporations, a tax to which Petróleos Mexicanos and the Subsidiary Entities are not subject; the rate of this tax was 35% for all periods presented.

The sum of the above duties and taxes must equal 60.8% of Petróleos Mexicanos and the Subsidiary Entities' annual sales revenues to third parties. In addition, PEMEX pays an additional 39.2% duty on excess gains revenues, i.e., the portion of revenues in respect of crude oil sales at prices in excess of 18.35 U.S. dollars and 15.50 U.S. dollars per barrel for 2003 and 2002, respectively. Therefore, to the extent that the sum of hydrocarbon extraction duties is less than 60.8% of sales to third parties, additional taxes are paid to reach that level.

r. <u>Special Tax on Production and Services (IEPS Tax)</u> -

The special tax on production and services charged to customers is a tax on the domestic sales of gasoline and diesel. The applicable rates depend on, among other factors, the product, producer's price, freight costs, commissions and the region in which the respective product is sold. For financial statement purposes, the special tax on production and services collected from customers is presented as part of "Net domestic sales" and the payment to the Government is deducted after "Income before hydrocarbon extraction duties and other, special tax on production and services, and cumulative effect of adoption of new accounting standard".

s. <u>Revenue recognition</u> -

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

t. <u>Financial instruments</u> -

PEMEX enters into derivative financial instruments to manage its exposures to foreign currency risk, interest rate risk, oil and natural gas price risk, counterparty risk and investment portfolio risk. Derivative financial instruments designated as hedge instruments are recorded in the balance sheet and valued using the same valuation criteria used to value the hedged asset or liability. Derivative financial instruments not designated as hedge instruments are recorded at fair value. Subsequent fair value adjustments are reflected in the statement of operations.

u. Use of estimates -

The preparation of the financial statements in accordance with Mexican GAAP requires the use of estimates. PEMEX's Management makes estimates and assumptions that affect the amounts and the disclosures presented as of the date of the consolidated financial statements. Actual results could differ from those estimates.

v. Comprehensive loss -

Comprehensive loss is represented by the net loss plus the effect of restatement, the net increase in the specific oil-field exploration and depletion reserve, and items required by specific accounting standards to be reflected in equity but which do not constitute equity contributions, reductions or distributions (see Note 12).

w. Recently issued accounting standards -

In 2003, the MIPA issued new Bulletin C-12, "Financial Instruments with Characteristics of Liabilities, Capital or Both", which highlights the differences between liabilities and capital from the viewpoint of the issuer, as a basis for identifying, classifying and accounting for the liability and capital components of combined financial instruments at the date of issuance.

The new Bulletin establishes the methodology for separating the liabilities and capital components from the proceeds of the issuance of combined financial instruments. That methodology is based on the residual nature of stockholders' equity and avoids the use of fair values affecting stockholders' equity in initial transactions. Additionally, it establishes that beginning on January 1, 2004, the initial costs incurred in connection with the issuance of combined instruments should be assigned to liabilities and stockholders' equity in proportion to the amounts of the components recognized as liabilities and stockholders equity; that the profits and losses related to financial instrument components classified as liabilities should be recorded in comprehensive financing cost and that distributions to owners of financial instrument components classified as capital should be charged directly to a stockholders' equity account other than the net income for the year.

Although this Bulletin became effective on January 1, 2004, there is no requirement to restate information of prior periods or recognize an initial effect of adopting in the income for the year it is adopted, in accordance with the transitory provisions of the Bulletin. The adoption of this Bulletin is not expected to have an impact on PEMEX's financial statements.

NOTE 3 - ACCOUNTS, NOTES RECEIVABLE AND OTHER:

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

	2003	2002
Trade-domestic	$ 22,171,699	$ 24,756,657
Trade-foreign	11,294,430	7,248,986
Pemex Finance, Ltd.	8,147,107	7,779,464
Mexican Government (Note 13) advance payments on minimum guaranteed dividends	10,175,024	10,098,227
Employees and officers	2,307,111	2,085,881
Other accounts receivable	18,209,940	7,592,816
Less:		
Allowance for doubtful accounts	(2,092,479)	(1,987,854)
	$ 70,212,832	$ 57,574,177

NOTE 4 - INVENTORIES:

At December 31, inventories are as follows:

	2003	2002
Crude oil, refined products, derivatives and petrochemical products	$ 23,981,779	$ 21,903,277
Materials and supplies in stock	4,166,261	4,664,164
Materials and products in transit	1,177,830	979,514
Less:		
Allowance for slow-moving inventory and obsolescence reserve	(1,848,216)	(2,144,767)
	$ 27,477,654	$ 25,402,188

NOTE 5 - PROPERTIES AND EQUIPMENT:

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

	2003	2002
Plants	$ 277,970,288	$ 238,873,955
Pipelines	217,598,977	203,340,674
Wells and field assets	213,018,173	168,296,187
Perforation equipment	20,341,501	19,267,114
Buildings	35,759,620	35,368,777
Offshore platforms	69,344,986	45,911,342
Furniture and fixtures	22,877,084	21,091.437
Transportation equipment	12,274,215	12,225,200
	869,184,844	744,374,686
Less:		
Depreciation and amortization	(453,501,524)	(425,315,442)
	415,683,320	319,059,244
Land	37,763,303	38,076,892
Construction in progress	84,023,226	145,355,060
Fixed assets pending disposition	1,601,725	823,622
Construction spares	147,817	185,158
Total	$ 539,219,391	$ 503,499,976

a. At December 31, 2003, the value of properties and equipment was restated using factors computed from the NCPI, and at December 31, 2002, by applying specific factors based on technical studies.

b. At December 31, 2003 and 2002, interest costs associated with fixed assets in the phase of construction or installation are capitalized as part of the cost of those assets. Interest capitalized totaled $7,246,308 and $5,259,078, respectively.

c. Depreciation and amortization expense recorded in operating expenses for the years ended December 31, 2003 and 2002 was $40,544,191 and $33,814,503, respectively, which included $455,930 and $1,400,821, respectively, related to dismantlement and abandonment costs.

d. Until December 31, 2002, the total estimated future costs related to dismantlement and abandonment activities (determined on an undiscounted basis) was $12,257,893. The accrued amounts were included in accumulated depreciation and amortization. As a result of the adoption of Bulletin C-9 (see Note 2 h. and i.), PEMEX's calculation at December 31, 2003, of the total estimated future costs related to dismantlement and abandonment activities (determined on a discounted basis) was $12,274,000 and was reclassified as a liability in the "Reserve for dismantlement and abandonment activities, sundry creditors and others".

NOTE 6 - INTANGIBLE ASSET DERIVED FROM THE ACTUARIAL COMPUTATION OF LABOR OBLIGATIONS AND OTHER ASSETS:

At December 31, the intangible and other assets amount consists of:

	2003	2002
Intangible asset derived from the actuarial computation of labor obligations (Note 11)	$ 119,309,221	$ 120,065,003
Long-term investments and other assets	15,916,309	15,557,506
	$ 135,225,530	$ 135,622,509

PMI NASA has a joint venture with Shell Oil Company, in which it owns a 50% interest in a petroleum refinery located in Deer Park, Texas. The investment is accounted for under the equity method and amounts to $2,806,455 and $2,440,448, respectively, at December 31, 2003 and 2002. During 2003 and 2002, PEMEX recorded $889,726 of earnings and $262,906 of losses, respectively, relative to its interest in the joint venture which has been reflected in the line item "Other revenues" in the statements of operations. During 2003 and 2002, PEMEX paid the joint venture $4,661,482 and $2,690,088, respectively, for the processing of petroleum.

NOTE 7 - SALE OF FUTURE ACCOUNTS RECEIVABLE:

On December 1, 1998, Petróleos Mexicanos, Pemex-Exploration and Production, PMI and P.M.I. Services B.V. entered into several agreements with Pemex Finance, Ltd. ("Pemex Finance"), a limited liability company which was organized under the laws of the Cayman Islands. Under these agreements, Pemex Finance purchases certain existing accounts receivable for crude oil, as well as certain accounts receivable to be generated in the future by Pemex-Exploration and Production and PMI related to crude oil. The current and future accounts receivables sold are those generated or to be generated by the sale of Maya crude oil to designated customers in the United States, Canada, and Aruba. The net resources obtained by Pemex-Exploration and Production from the sale of such receivables under the agreements are utilized for PIDIREGAS (see Note 2 d.). At December 31, 2003 and 2002, the sales under these agreements were $122,006,841 and $78,826,689, respectively.

The “Sale of future accounts receivable” relates to the purchase of rights to certain accounts receivable that will be generated based on existing commitments and is therefore treated as a liability to PEMEX. Sale of future accounts receivable has been classified as a long-term liability as of December 31, 2003 and 2002. The agreements between Petróleos Mexicanos, Pemex-Exploration and Production, PMI, P.M.I. Services B.V. and Pemex Finance establish short-term repayments; however, such agreements are evergreen and it is not expected that current resources will be used in repayments as the agreements do not bear a re-financing risk. Pemex Finance has a proven continuous ability to contract debt in the international market sufficient to sustain the acquisition of accounts receivable from PEMEX.

NOTE 8 - NOTES PAYABLE TO CONTRACTORS:

At December 31, the notes payable to contractors consisted of:

	2003	2002
Total notes payable to contractors (a) (b) (c)	$15,026,739	$30,150,012
Less: Current portion of notes payable to contractors	1,887,150	1,640,274
Notes payable to contractors (long-term)	$13,139,589	$28,509,738

(a) On November 26, 1997, Petróleos Mexicanos and Pemex-Refining entered into a financed public works contract and a unit-price public works contract with Consorcio Proyecto Cadereyta Conproca, S. A. de C. V. The related contracts are for the reconfiguration and modernization of the “Ing. Héctor R. Lara Sosa” refinery in Cadereyta, N.L.

The original amount of the financed public works contract was U.S. $1,618,352, plus a financing cost of U.S. $805,648, due in twenty semi-annual payments of U.S. $121,200. The original amount of the unit-price public works contract was U.S. $80,000, including a financing cost of U.S. $47,600 payable monthly based on the advancement of the project. At December 31, 2003 and 2002, the outstanding balance was $13,480,564 and $14,298,491, respectively.

(b) On June 25, 1997, PEMEX entered into a 10-year service agreement, with a different contractor, for a daily fee of U.S. $82.50 for the storage and loading of stabilized petroleum by means of a floating system (“FSO”). At December 31, 2003 and 2002, the outstanding balance was $1,167,132 and $1,245,132, respectively

(c) During 2003, PEMEX recorded $379,043 for the upgrade of the refinery located in Minatitlán, Veracruz. Additionally, during 2003, PEMEX paid $14,606,389 to various contractors with proceeds from financing activities that the Master Trust undertook. During 2002, this amount was accrued as payables to various contractors relating to the upgrade of the refineries located in Salamanca, Guanajuato, and Madero City, Tamaulipas.

NOTE 9 - DEBT:

As of December 31, 2003, revolving lines of credit contracted by PEMEX (credit acceptance facilities and commercial paper) and of partial availability, amounted to $54,030,425. At December 31, 2003 the unused portion of those credit lines amounted to $9,870,861, which included $2,898,888 of revolving lines and $6,971,973 of lines granted by export credit agencies. These credit lines bear fixed interests from 3.32% to 7.77% and LIBOR plus 0.3% to 2.25%.

During 2003, significant financing operations were as follows:

a. Petróleos Mexicanos obtained loans to finance foreign trade operations totalling U.S. $125,000 ($1,404,500). The loans are repayable during 2004 and bear interest at LIBOR plus 0.585% to 0.65%.

b. Petróleos Mexicanos obtained unsecured loans of U.S. $440,000 ($4,943,840), which bear interest at LIBOR plus 0.55% to 0.695% and are repayable during 2004.

c. Petróleos Mexicanos reutilized U.S. $432,000 ($4,853,952) under its commercial paper program. This commercial paper bears interest at the discount rate of 1.085% to 1.11%, which are the prevailing rate in the market at the date of each issuance.

d. Petróleos Mexicanos utilized U.S. $540,000 ($6,067,440) from two acceptance credit facilities from foreign banks: U.S. $405,000 (4,550,580) and U.S. $135,000 ($1,516,860). The acceptance credit facilities bear interest at LIBOR plus 0.6% and will expire in 2004.

e. Petróleos Mexicanos obtained U.S. $152,340 ($1,711,692) for purchasing loans and project financing, granted by various export credit agencies. The project financing credits bear fixed interest from 3.32% to 5.04% and LIBOR plus 0.625% to 1.5%.

During 2003, the Master Trust undertook the following financing activities:

a. The Master Trust obtained commercial bank loans totalling U.S. $1,173,583 ($13,186,379). These loans bear fixed interest of 5.44%, LIBOR plus 0.6% to 1.9% and variable plus 0.2% to 0.4%, and are repayable in installments until 2018.

b. The Master Trust obtained loans to finance foreign trade operations totaling U.S. $1,700,000 ($19,101,200). These loans are repayable in 2004 and 2006 and bear interest at LIBOR plus 0.4% and 0.6%.

c. On January 27, 2003, the Master Trust issued £250,000 ($5,023,050) bearing an interest rate of 7.50% Notes due 2013; the Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

d. On February 6, 2003, the Master Trust issued U.S. $750,000 ($8,427,000) bearing a fixed interest rate of 6.125% Notes due 2008; the Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

e. On March 21, 2003, the Master Trust issued U.S. $500,000 ($5,618,000) bearing a fixed interest rate of 8.625% Bonds due 2022; the Bonds were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

f. On April 4, 2003, the Master Trust issued €750,000 ($10,622,250) bearing a fixed interest rate of 6.625% Notes due 2010; the Notes are guaranteed by Petróleos Mexicanos.

g. On June 4, 2003, the Master Trust issued U.S. $750,000 ($8,427,000) bearing a fixed interest rate of 7.375% Notes due 2014; the Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

h. On August 5, 2003, the Master Trust issued €500,000 ($7,081,500) bearing a fixed interest rate of 6.25% Notes due 2013; the Notes are guaranteed by Petróleos Mexicanos.

i. On October 15, 2003, the Master Trust issued U.S. $500,000 ($5,618,000) bearing a floating interest rate Notes due 2009; the Notes are guaranteed by Petróleos Mexicanos.

j. On November 5, 2003, the Master Trust issued £150,000 ($3,013,830) bearing a fixed interest rate of 7.5% Notes due 2013. The Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

k. At various dates during 2003, the Master Trust obtained U.S. $2,096,154 ($23,552,386) in project financing at fixed interest rates from 3.23% to 6.64% and at LIBOR plus 0.03% to 2.25% with various settlements until 2014.

During 2003, Fideicomiso F/163 undertook the following financing activities:

a. On October 24, 2003, Fideicomiso F/163 issued $6,500,000 of certificates at a fixed rate of 8.38% and a variable rate plus 0.65% and 0.67% with various settlements until 2010.

b. On December 18, 2003, Fideicomiso F/163 obtained a bank loan of $2,500,000, which bears a variable rate plus 0.36% and has several settlements until 2008.

c. On December 23, 2003, Fideicomiso F/163 obtained a syndicated bank loan of $7,000,000, which bears a variable rate plus 0.35% and a fixed rate of 8.4% and is repayable in 2007 and 2008.

During 2002, significant financing operations were as follows:

a. Petróleos Mexicanos obtained loans from export credit agencies totalling U.S. $225,000 ($2,412,579). The loans are repayable during 2003 and bear interest at LIBOR plus 0.55% to 0.65%.

b. Petróleos Mexicanos obtained unsecured loans of U.S. $650,000 ($6,969,675) from domestic banks. The unsecured loans bear interest at LIBOR plus 0.625% to 0.760% and are repayable during 2003.

c. Petróleos Mexicanos reutilized U.S. $962,500 ($10,320,480) under the commercial paper program. This commercial paper bears interest at the discount rate of 1.345% to 1.42%, which are the prevailing rates in the market at the date of each issuance and the program expires in 2004.

d. Petróleos Mexicanos reutilized U.S. $785,000 ($8,417,222) from acceptance credit facilities. These facilities bear interest at LIBOR plus 0.6%. These facilities were contracted in 2001 and both will expire in 2004.

e. Petróleos Mexicanos obtained U.S. $146,442 ($1,570,235) for purchasing loans and project financing, granted by various export credit agencies. These credits bear fixed interest from 4.14% to 5.51% and LIBOR plus 0.0625% to 0.225%. The purchasing loans and project financing are repayable from 2003 through 2010.

f. P.M.I. Trading Ltd. obtained U.S. $10,000 ($107,226) in a bank loan from a financial institution. The bank loan bears a fixed interest rate of 2.2345% and is due in January 2003.

During 2002, the Master Trust undertook the following financing activities:

a. The Master Trust obtained commercial bank loans totalling U.S. $650,000 ($6,969,675). These loans bear interest at LIBOR plus 0.9% and are repayable in 2004. In addition, the Master Trust obtained commercial bank loans for $11,957,298. These loans bear interest at domestic rate of 8.3% and 8.13% and are repayable from 2003 through 2005.

b. On January 7, 2002, the Master Trust issued U.S. $500,000 ($5,361,288) bearing a floating rate of LIBOR plus 1.5% Notes due 2005; the Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

c. On February 1, 2002, the Master Trust issued U.S. $1,000,000 ($10,722,577) bearing a fixed interest rate of 7.875% Notes due 2009; the Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

d. On February 1, 2002, the Master Trust issued U.S. $500,000 ($5,361,288) bearing a fixed interest rate of 8.625% Notes due 2022; the Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

e. On December 3, 2002, the Master Trust increased its Medium-Term Note program, Series A, from U.S. $6,000,000 ($64,335,459) to U.S. $11,000,000 ($117,948,342).

f. On December 5, 2002, the Master Trust issued ¥30,000,000 ($2,710,667) bearing a fixed interest rate of 3.50% Notes due 2023, and are guaranteed by Petróleos Mexicanos.

g. On December 12, 2002, the Master Trust issued U.S. $1,000,000 ($10,722,577) bearing a fixed interest rate of 7.375% Notes due 2014; the Notes were issued under the Master Trust's Medium-Term Note program, Series A, and are guaranteed by Petróleos Mexicanos.

h. The Master Trust obtained U.S. $2,042,500 ($21,900,862) in project financing from several financial institutions, of which U.S. $300,000 ($3,216,773) relates to foreign trade financing and U.S. $742,500 ($7,961,513) to financing guarantee by export credit agencies, which include ¥13,962,623 ($1,261,601) and U.S. $1,000,000 ($10,722,577) to a syndicated facility. The project financing bears fixed interest at rates between 4.14% and 5.74% and variable rates of LIBOR plus 0.05% to 2.25% and the Yen Prime rate. The project financing is repayable between 2003 and 2013.

In 1983, 1985, 1987, and 1990, Petróleos Mexicanos, together with the Mexican Government, entered into various covenants with the international banking community for restructuring its debt. As a result of the final agreement, the remaining balance of the restructured Mexican Government debt retained, principally, the same interest rate conditions as had been negotiated in 1987. The agreed-upon periods of amortization including a provision for division of the debt into two main portions with amortization over 52 and 48 quarters, respectively. The first amortization period began in 1994 and the second began in 1995, with both scheduled to end in December 2006.

Each year, SHCP approves Petróleos Mexicanos and Subsidiary Entities' annual budget and its annual financing program. The Mexican Government incorporates Petróleos Mexicanos and Subsidiary Entities' annual budget and annual financing program into the budget of the Mexican Government, which the Federal Congress of Mexico must approve each year. PEMEX's debt is not an obligation of, or guaranteed by, the Mexican Government. However, under the Ley General de Deuda Pública (the "General Law of Public Debt"), Petróleos Mexicanos and Subsidiary Entities' foreign debt obligations must be approved by and registered with the SHCP and are considered Mexican external public debt. Although Petróleos Mexicanos' debt is not guaranteed by the Mexican Government, Petróleos Mexicanos' external debt has received pari passu treatment in previous debt restructurings.

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

- Sale of substantial assets essential for the continued operations of the business;

- Liens against its assets; and

- Transfers, sales or assignments of rights to payment under contracts for the sale of crude oil or gas not yet earned, accounts receivable or other negotiable instruments.

As of December 31, 2003 and 2002, long-term debt was as follows:

	Rate of interest (4)	Maturity	December 31, 2003 Pesos (thousands)	December 31, 2003 Foreign currency (thousands)	December 31, 2002 Pesos (thousands)	December 31, 2002 Foreign currency (thousands)
U.S. dollars:						
Unsecured loans (1)	Variable and LIBOR plus 0.8125%	Various to 2006	$ 1,683,161	149,801	$ 2,369,194	220,954
Unsecured loans	Variable and LIBOR plus 0.55 to 0.8125%	Various to 2006	4,780,975	425,505	10,177,021	949,121
Acceptance lines	LIBOR plus 0.6%	2004	6,067,440	540,000	8,417,223	785,000
Bonds	Fixed of 6.125% to.9.5% and LIBOR plus 1.5% to 1.8%	Various to 2027	136,497,625	12,148,240	103,453,992	9,648,240
Financing assigned to PIDIREGAS	Fixed of 3.23% to 7.69% and LIBOR plus 0.3% to 2.25%	Various to 2014	41,369,085	3,681,834	60,123,966	5,607,231
Purchasing loans and project financing	Fixed of 3.32% to7.77% and LIBOR plus 0.0625% to 2%	Various to 2012	5,038,346	448,411	4,589,066	427,982
Leasing contracts	Fixed of 8.05% to 10.34%	Various to 2012	2,857,871	254,350	2,987,949	278,660
Commercial paper	Various from 1.085% to 1.11%	Various to 2004	4,853,952	432,000	4,637,514	432,500
External trade loans	LIBOR plus 0.4% to 1.125%	Various to 2007	37,340,973	3,323,333	2,412,580	225,000
Bank loans	Fixed of 5.44% to 5.58% LIBOR plus 0.6% to 1.9%	Various to 2018	27,813,879	2,475,425	107,720	10,046
Total financing in U.S. dollars			268,303,307	23,878,899	199,276,225	18,584,734
Euros:						
Bonds	Fixed of 6.25% to 7.75%, floating, and LIBOR plus 1.65%	Various to 2013	34,294,203	2,421,394	15,145,600	1,346,394
Unsecured loans, banks and project financing	Fixed of 2% LIBOR plus 0.8125	Various to 2016	75,823	5,354	89,790	7,982
Total financing in Euros			34,370,026	2,426,748	15,235,390	1,354,376
Pesos:						
Certificates	Fixed of 8.38% and variable plus 0.65% to 0.67%	Various to 2010	6,500,000			
Project financing and bank loans	Fixed of 8.4% and variable plus 0.62% to 0.64%	Various to 2008	19,000,000		11,957,296	
Total pesos			25,500,000		11,957,296	
Japanese yen:						
Bonds	Fixed of 3.5%	2023	3,144,000	30,000,000	2,710,667	30,000,000
Project financing	Fixed 2.9% and Prime in yen	Various to 2015	15,592,863	148,786,858	15,273,229	169,034,706
Total financing in Yen			18,736,863	178,786,858	17,983,896	199,034,706
Other currencies (2)	Fixed rate of 7.5% and 14.5% and LIBOR plus 0.8125%	Various to 2013	9,045,633	Various	2,170,580	Various
Total principal in pesos (3)			355,955,829		246,623,387	
Plus: Accrued interest			5,160,738		3,486,757	
Total principal and interest			361,116,567		250,110,144	
Less: Short-term maturities			57,503,476		51,465,139	
Long-term debt			$ 303,613,091		$ 198,645,005	

	2004	2005	2006	2007	2008	2009 and thereafter	Total
Maturities (in thousands of pesos)	$ 52,342,738	$ 41,347,653	$ 42,291,744	$ 42,074,201	$ 42,056,092	$ 135,843,401	$355,955,829

Notes to table:

(1) Unsecured loans remain from a debt restructuring in 1987. This restructuring extended maturities to new periods through 2006.

(2) Balance includes market operations, unsecured loans, loans denominated in Pounds sterling and Swiss francs, all carrying different interest rates.

(3) Includes financing from foreign banks for $323,367,487 and $239,068,285 as of December 31, 2003 and 2002, respectively.

(4) As of December 31, 2003 and 2002 the rates were as follows: LIBOR, 1.22% and 1.38%, respectively; the Eurodollar, 1.2% and 1.38%, respectively; the U.S. discount, 0.75% and 1.42%, respectively; the Prime rate in Japanese yen, 1.7% and 1.375%, respectively; and the Acceptance rates ranged from 0.75% to 1.82%, respectively.

NOTE 10 - FINANCIAL INSTRUMENTS:

During the normal course of business, PEMEX is exposed to foreign currency risk and interest rate risk, among other risks. These risks create volatility in earnings, equity, and cash flows from period to period. PEMEX makes use of derivative instruments in various strategies to eliminate or limit many of these risks.

PEMEX has enacted general risk management guidelines for the use of derivative instruments, which form a comprehensive framework for PEMEX.

The Risk Management Committee of PEMEX, comprised of representatives of PEMEX, the Central Bank of Mexico, SHCP, and PMI, authorizes PEMEX's hedging strategies and submits the risk management policies for the approval of the Board of Directors of Petróleos Mexicanos (the "Board of Directors").

During 2001, the Board of Directors approved a restructuring of the risk management area and created the Risk Management Deputy Direction, whose objective is to develop the financial and operational risk management strategy for PEMEX and to establish institutional regulations consistent with a consolidated risk management approach.

(i) Credit risk

PEMEX is subject to credit risk through trade receivables and derivative financial instruments. To monitor this risk, PEMEX has established an internal credit committee to monitor credit policies and procedures. However, PEMEX closely monitors extensions of credit and has never experienced significant credit losses. Also, most foreign sales are made to large, well-established companies. PEMEX invests excess cash in low-risk, liquid instruments, which are placed with a wide array of institutions.

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

PEMEX is exposed to credit (or repayment) risk and market risk through the use of derivative instruments. If the counterparty fails to fulfill its performance obligations under a derivative contract, PEMEX's credit risk will equal the positive fair value of the derivative. Currently, when the fair value of a derivative contract is positive, this indicates that the counterparty owes PEMEX, thus creating a repayment risk for PEMEX. When the fair value of a derivative contract is negative, PEMEX owes the counterparty and, therefore, assumes no repayment risk.

In order to minimize the credit risk in derivative instruments, PEMEX enters into transactions with high quality counterparties, which include financial institutions and commodities exchanges that satisfy PEMEX's established credit approval criteria. Normally, these counterparties have higher credit standing than that of PEMEX.

Derivative transactions are generally executed on the basis of standard agreements. In general, collateral for financial derivative transactions are neither provided nor received. However in energy derivatives transactions, counterparties require collateral when the negative fair value of the position exceeds the credit threshold.

(iii) Interest rate risk management

PEMEX's interest rate risk hedging strategy allows the volatility of the financial risk to be reduced in the operating cash flows of PEMEX for the long-term debt commitments and guaranteed minimum dividends. Interest rate derivatives allow PEMEX to contract long-term loans to be contracted at fixed or variable rates and to select the appropriate mix of the debt at variable versus fixed rates.

PEMEX's hedging strategy against interest rate has allowed it to change effectively the characteristics of its liabilities. Derivative financial instruments used in hedging transactions of PEMEX are mainly interest rate swaps, in which PEMEX has the rights to receive payments based on LIBOR at three and six months.

(iv) Exchange rate risk management

As a currency exchange rate risk hedging policy, PEMEX contracts cross-currency swaps in order to hedge against adverse changes in currency exchange rates. Since a significant amount of PEMEX's revenues is denominated in U.S. dollars, PEMEX generally contracts loans in U.S. dollars.

However, PEMEX also contracts debt in currencies other than the U.S. dollar to take advantage of the financing terms available in these foreign currencies. PEMEX has historically contracted cross-currency swaps as a hedging strategy against market exposure due to the depreciation of the U.S. dollar. These foreign currency financial derivatives have been established to translate the amounts relative to various bonds issued in other currencies into U.S. dollars.

(v) Fair value of derivative financial instruments

The fair value of derivative instruments is sensitive to movements in the underlying market rates and variables. PEMEX monitors the fair value of derivative financial instruments on a periodic basis. The fair value of foreign currency, commodity and interest rate financial derivatives is monitored on a periodic basis ranging from daily to at least quarterly. Fair values are calculated for each derivative financial instrument, which is the price at which one party would assume the rights and duties of another party. Fair values of financial derivatives have been calculated using common market valuation methods with reference to available market data as of the balance sheet date.

Fair value for instruments designated as non-market interest rate hedging instruments was calculated discounting the future cash flows at its present value, using the market interest rate for the remaining period of the instrument. Cash flows discounted for interest rate swaps are determined for each individual transaction at the balance sheet date.

The following table indicates the types of current swaps, their notional amount and fair value at December 31:

	2003		2002	
	Notional amount	Fair value	Notional amount	Fair value
Interest rate swaps	$ 4,112,960	($ 225,736)	$ 4,445,926	($ 336,971)
Equity swaps	8,173,190	598,006	6,589,202	(1,162,613)

The following table indicates the type of cross-currency swaps and their respective fair values at December 31:

	2003		2002	
	Notional amount	Fair value	Notional amount	Fair value
British pounds to U.S. dollars	$ 8,195,089	$ 830,026	$ 2,023,570	$ 27,433
Japanese yens to U.S. dollars	14,825,716	1,844,856	14,402,316	(1,016,237)
Euro to U.S. dollars	29,116,726	5,171,162	16,094,968	114,592

Fair value of derivative financial instruments presented in the previous schedules are presented for information purposes only.

NOTE 11 - RESERVE FOR RETIREMENT PAYMENTS, PENSIONS AND SENIORITY PREMIUMS:

PEMEX has labor obligations for seniority premiums and pensions, according to regulations established by the Ley Federal del Trabajo (the "Federal Labor Law"), and provisions in the individual and collective labor contracts. This compensation is only payable after the worker or employee has worked a certain number of years. Benefits are based on the employee's compensation as of his retirement date, as well as the number of years of service. PEMEX has established a reserve for retirement and seniority premium benefits, determined by independent actuaries. The reserve is calculated by independent third party actuaries using the projected unit-credit method. The net cost of the plan recorded in the consolidated statements of operations amounted to $38,938,604 and $39,711,998 in 2003 and 2002, respectively.

The amount of benefits projected for pensions and seniority premiums, determined by independent actuaries, is as follows:

	2003	2002
Obligation for current benefits	$ 298,918,138	$ 272,046,398
Additional amount for projected benefits	14,443,993	7,303,724
Projected benefit obligation	313,362,131	279,350,122
Less:		
Plan assets (trust funds)	13,148,657	6,865,808
	300,213,474	272,484,314
Transition liability to be amortized over the following 15 years, actuarial gains or losses, prior service costs and plan amendments	133,753,206	127,368,263
Net projected liability	166,460,268	145,116,051
Additional minimum liability	119,309,221	120,065,003
Accumulated obligation	$ 285,769,489	$ 265,181,054

Net cost for the year is comprised as follows:

	2003	2002
Service cost	$ 7,493,503	$ 7,061,838
Financial cost	23,058,739	25,793,820
Gain of plan assets	(1,029,529)	(715,319)
Amortization of transition obligation	7,638,880	1,233,101
Prior services and plan changes	344,877	5,350,289
Actuarial (gains) losses	(54,950)	988,269
Inflation adjustment	1,487,084	
Net cost for the year	$ 38,938,604	$ 39,711,998

Actuarial assumptions used in the calculation of net seniority premium and pension plan cost for both years 2003 and 2002, are the following:

Expected long-term rate of return on assets	5.50%
Interest rate	4.59%
Rate of increase in compensation levels	0.92%

NOTE 12 - COMPREHENSIVE LOSS:

Comprehensive loss for the years ended December 31, 2003 and 2002 is analyzed as follows:

	2003	2002
Net loss for the year	($ 40,644,363)	($ 24,574,040)
Effect of restatement of the year - Net	5,635,367	(4,195,728)
(Application) increase in specific oil-field exploration and depletion reserve - Net	(13,053,826)	1,817,371
Other equity movements (1)		42,243
Comprehensive loss for the year	($ 48,062,822)	($ 26,910,154)

(1) Represents primarily translation adjustments from non-Mexican subsidiaries.

NOTE 13 - EQUITY:

On December 31, 1990, certain debt owed by Petróleos Mexicanos to the Mexican Government was capitalized as equity. This capitalization amounted to $22,334,195 (U.S. $7,577,000) and was authorized by the Board of Directors. The capitalization agreement between Petróleos Mexicanos and the Mexican Government stipulates that the Certificates of Contribution "A" constitute permanent capital.

As a condition of this capitalization, Petróleos Mexicanos agreed to pay a minimum guaranteed dividend to the Mexican Government equal to the debt service for the capitalized debt. The minimum guaranteed dividend consists of the payment of principal and interest in the same terms and conditions as those originally agreed upon with international creditors until the year 2006, at the exchange rates in effect as of the date payments are made. Such payments must be approved annually by the Board of Directors.

In December 1997, the Board of Directors and the Mexican Government agreed to an equity reduction of the Certificates of Contribution "A" in exchange for a cash payment to the Mexican Government of $12,118,050 (U.S. $1,500,000). Petróleos Mexicanos and SHCP agreed upon a corresponding reduction in the future payments of the minimum guaranteed dividend. As a result, the Certificates of Contribution "A" are as follows:

Certificates of Contribution "A"	$ 10,222,463
Restatement increase	72,397,776
Certificates of Contribution "A" in Mexican pesos of December 31, 2003 purchasing power	$ 82,620,239

During 2003, Petróleos Mexicanos paid $10,175,024 ($10,098,227 during 2002) to the Mexican Government in advance on account of the minimum guaranteed dividend. These payments will be applied to the final amount that the Board of Directors approves as the total annual dividend, which is usually in the following fiscal year.

NOTE 14 - FOREIGN CURRENCY POSITION:

PEMEX has the following assets and liabilities denominated in foreign currencies, which are stated in thousands of Mexican pesos at the exchange rate prevailing at December 31, 2003 and 2002:

	Amounts in foreign currency (Thousands)				
	Assets	Liabilities	Long (short) position	Exchange rate	Amounts in pesos
2003:					
U.S. dollars	5,779,829	29,843,201	(24,063,372)	11.2360	($ 270,376,048)
Japanese yen		194,226,518	(194,226,518)	0.1048	(20,354,939)
Pounds sterling	260	452,718	(452,458)	20.0922	(9,090,877)
Euros	279,441	2,670,519	(2,391,078)	14.1630	(33,864,838)
Net-short position, before foreign-currency hedging (Note 10)					($ 333,686,702)
2002:					
U.S. dollars	12,969,633	32,372,228	(19,402,595)	10.3125	($ 200,089,261)
Japanese yen	102,593,907	204,882,010	(102,288,103)	0.0869	(8,888,836)
Pound sterling	125,208	125,479	(271)	16.6217	(4,504)
Swiss francs		669	(669)	7.4572	(4,989)
Dutch guilders	40		40	4.9044	196
Euros	1,318,788	1,369,405	(50,617)	10.8188	(547,615)
Net-short position, before foreign-currency hedging (Note 10)					($ 209,535,009)

NOTE 15 - SEGMENT FINANCIAL INFORMATION:

PEMEX operates in different operating segments, which are (1) exploration and production of crude oil and natural gas (2) refining of petroleum products (3) production and processing of gas and basic petrochemical and (4) processing of petrochemicals.

Following is the condensed financial information of these segments:

	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Subsidiary companies	Eliminations	Consolidated amount
2003:							
Sales revenues							
Customers	$183,628,097	$294,577,620	$99,934,930	$12,258,658	$286,510,797	($251,481,448)	$ 625,428,654
Inter-segment	243,005,708	13,632,309	42,430,424	4,708,721	16,788,136	(320,565,298)	
Operating income (loss)	304,188,007	71,251,926	3,970,629	(9,786,399)	6,480,575	(8,537,980)	367,566,758
Net income (loss)	1,122,231	(36,218,695)	7,683,579	(14,619,449)	(33,850,752)	35,238,723	(40,644,363)
Total assets	618,797,893	205,687,191	84,897,672	32,929,385	838,514,752	(935,355,089)	845,471,804
2002:							
Sales revenue							
Customers	$137,698,829	$274,058,225	$66,768,894	$ 8,755,370	$219,905,302	($192,337,583)	$ 514,849,037
Inter-segment	163,517,973	8,438,170	22,165,229	3,201,016	18,546,786	(215,869,174)	
Operating income (loss)	205,282,552	93,143,748	4,058,302	(9,403,924)	6,543,066	(3,903,436)	295,720,308
Net income (loss)	15,576,158	(35,648,023)	2,320,178	(12,221,306)	(32,391,667)	37,790,620	(24,574,040)
Total assets	429,726,134	205,112,259	68,651,627	33,146,042	737,382,715	(706,298,734)	767,720,043

NOTE 16 - COMMITMENTS

a. PEMEX has a nitrogen supply contract for the pressure maintenance program for the Cantarell field that expires in 2015. At December 31, 2003 and 2002, the value of the nitrogen to be supplied during the term of the contract is approximately $21,311,844 and $23,079,619, respectively. In the event of the annulment of the contract for causes attributable to PEMEX, PEMEX would be required to purchase the nitrogen production plant in accordance with the terms of the contract.

b. At December 31, 2003, PEMEX has entered into contracts with various contractors for an approximate amount of $172,652,164. These contracts are for the development of PIDIREGAS.

c. PEMEX sold 13,679,704 shares of Repsol and simultaneously contracted an equity swap on such shares with an international financial institution. The agreement contained a mandatory repurchase clause for the shares. The repurchase commitment was for U.S. $292,000; however, at the expiration date, PEMEX did not repurchase the shares and opted for reviewing the swap, which has no mandatory repurchase.

d. PEMEX, through its subsidiaries PMI and PMI-NASA, has executed several long-term purchase and sale contracts for crude oil with foreign companies in international markets. The terms and condition of these contracts are specific for each customer and their duration in certain contracts have no expiration and in certain cases, the contracts contain minimum mandatory periods.

NOTE 17 - CONTINGENCIES:

a. In the normal course of business, PEMEX is named in a number of lawsuits of various natures. PEMEX evaluates the merit of each claim and assesses the likely outcome, accruing a contingent liability when an unfavorable decision is probable and the amount is reasonably estimable. PEMEX does not believe a materially unfavorable outcome is probable for any known or pending lawsuits or threatened litigation for which PEMEX has not made any accruals.

b. PEMEX is subject to the Ley General de Equilibrio Ecológico y Protección al Ambiente (the General Law on Ecology and Protection of the Environment, or the "Environmental Law"). To comply with this law, PEMEX has contracted environmental audits for its larger operating, storage and transportation facilities. To date, audits of refineries, secondary petrochemical plants and certain other facilities have been concluded. Following the completion of such audits, PEMEX signed various agreements with the Procuraduría Federal de Protección al Ambiente (the Federal Attorney of Environmental Protection, or "PROFEPA") to implement environmental remediation and improvement plans. Such plans consider remediation for environmental damages previously caused, as well as related investments for the improvement of equipment, maintenance, labor and materials.

   PEMEX has recorded obligations for environmental remediation as of December 31, 2003 and 2002 of $1,926,440 and $2,287,228, respectively. These liabilities are included in "Reserve for dismantlement and abandonment activities, sundry creditors and others".

c. At December 31, 2003, PEMEX is involved in various civil, tax and administrative lawsuits with a total claim amount of $15,736,143. At December 31, 2003 and 2002, PEMEX has accrued $1,339,740 and $1,106,557, respectively, related to those contingencies for which management believes that the outcome will be unfavorable.

d. PEMEX was sued in a lawsuit filed by Conproca, relating to the non-fulfillment of the terms agreed between the parties involved in Contrato de Obra Pública Financiada (Financed Public Construction Contract) and the Contrato de Obra Pública a Precios Unitarios (Unit Price Public Construction Contract) signed with Conproca and accounted for under PIDIREGAS.

The claim is before the International Arbitration Court of the International Chamber of Commerce located in Paris, France.

The lawsuit seeks payment for U.S. $648,000 for the alleged non-fulfillment of various contracts and agreements between Conproca and PEMEX. The amount claimed by Conproca is for additional contract work, indemnities and expenses incurred not refunded by PEMEX. PEMEX filed a counterclaim against Conproca for the non-fulfillment of contracts and agreements in the Cadereyta Project. The amount of the counterclaim is U.S. $919,200. Based on PEMEX's Management evaluation of this lawsuit, no provision has been recorded as of December 31, 2003.

e. PEMEX has been sued by a supplier for late and non-payment of billings and other items for a total of U.S. $79,276 ($890,745). In connection with this lawsuit, PEMEX sued the supplier for U.S. $4,949 ($55,607) for unsatisfactory work. The first resolution of the Judge determined that PEMEX had to pay U.S. $4,000 ($44,944), plus interest accrued since the date the payment was ceased. PEMEX appealed against this resolution, which appeal is pending. PEMEX recognized a provision for this claim totaling U.S. $4,576 ($51,416).

f. The Comisión Federal de Competencia ("Federal Competition Commission") handed down a resolution against PEMEX for presumed monopolistic policies relative to exclusivity clauses for the sale of lubricants, grease, and oil. The resolution established the following measures:

- Amendment of the joint venture agreements, use of trademark license contract, franchise supply contract, as well as documents containing the exclusivity clause;
- Amendment of contracts with franchise service stations to adjust franchise and supply contracts; and
- Report the resolution handed down by the Federal Competition Commission to the legal representatives of service stations.

To date, PEMEX has filed two appeals for constitutional relief from this resolution. One appeal was resolved favorably in the first instance, because it was challenged through an appeal for review. A ruling thereon has not been handed down yet. Consequently, PEMEX has not accrued any reserve for this claim.

NOTE 18 - HYDROCARBON RESERVES (UNAUDITED):

In accordance with the Political Constitution of the United Mexican States and the Organic Law, all reserves of petroleum and other hydrocarbons in Mexico are the property of the nation. Furthermore, as mandated by the Organic Law, PEMEX has the exclusive right to extract and exploit the resources. Mexico's proved reserves of hydrocarbons were 18,900 million barrels of oil equivalent at December 31, 2003 and 20,077 million barrels of oil equivalent at December 31, 2002. Reserves have been adjusted by revisions, increases and developments and have been decreased by the production for the year.

NOTE 19 - SUBSEQUENT EVENTS:

a. The provisions of Bulletin C-15, "Impairment of the Value of Long-Lived Assets and their Disposal", issued by the MIPA, went into effect on January 1, 2004. That Bulletin establishes general criteria for the identification and, if applicable, recording of losses from impairment or decrease in value of long-lived tangible and intangible assets, including goodwill. Additionally, it defines concepts such as net sales price and value in use for the valuation of long-lived assets. PEMEX carried out, at January 1, 2004, a study to determine the value in use of its long-lived assets. That study did not identify a significant impairment loss or decrease in value of the long-lived assets.

b. The Board of Directors of Petróleos Mexicanos in its ordinary session of February 11, 2004, approved the change in accounting policy for the recording of exploration and drilling costs, to be applied in 2004, using the successful efforts method, instead of the policy currently used through the reserve for exploration and depletion.

c. At April 20, 2004, date of issuance of the audited consolidated financial statements, the average price per barrel of crude oil for exportation was 28.44 U.S. dollars; this price increased approximately 12% over the same average price at December 31, 2003, which was 25.36 U.S. dollars per barrel.