PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008, 2007 AND 2006

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DECEMBER 31, 2008, 2007 AND 2006

INDEX

KPMG®

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 ("PEMEX") as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in equity for the years then ended, and the consolidated statements of cash flows and changes in financial position for the years ended December 31, 2008 and 2007, respectively. 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. The consolidated financial statements of operations, changes in equity and changes in financial position for the year ended December 31, 2006 were examined by other public accountants, who issued an unqualified opinion thereon, dated on April 20, 2007

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

As disclosed in note 3 (x), during 2008, accounting changes were made to the consolidated financial statements. On January 1, 2008 the FRS B-2 "Statement of Cash Flows" came into effect superseding Bulletin B-12 "Statement of Changes in Financial Position"; accordingly, as of such date and in a prospective manner, PEMEX presents the consolidated statement of cash flows; therefore, such statement and the consolidated statement of changes in financial position are not presented for comparison purposes.

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, 2008 and 2007, and the results of their operations and the changes in their equity for the years then ended and their cash flows and changes in their financial position for the years ended December 31, 2008 and 2007, respectively, in conformity with Mexican Financial Reporting Standards.

KPMG Cárdenas Dosal, S.C.

EPP

Eduardo Palomino
Public Accountant
Mexico City, Mexico
April 17, 2009.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Mexico City, Mexico, June 29, 2007

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

We have audited the accompanying consolidated balance sheet of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies (collectively, "PEMEX") as of December 31, 2006, and the related consolidated statements of operations, changes in equity and changes in financial position for the year ended December 31, 2006. These financial statements are the responsibility of the management of PEMEX. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and with the Standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the consolidated financial statements. An audit also includes assessing the standards of financials information used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PEMEX at December 31, 2006 and the consolidated results of their operations, changes in equity and changes in financial position for the year ended December 31, 2006, in conformity with Mexican Financial Reporting Standards.

PricewaterhouseCoopers

Ariadna L. Muñiz Patiño
Public Accountant

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES
AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS

(In thousands of Mexican pesos (Note 3(x)))

		2008 (Unaudited)		2008		2007
ASSETS:						
Current assets:						
Cash and cash equivalents (Note 5)	U.S.$	**8,437,130**	Ps.	**114,224,395**	Ps.	170,997,240
Accounts, notes receivable and other—Net (Note 6)		**11,988,946**		**162,309,939**		151,510,543
Inventories—Net (Note 7)		**4,836,026**		**65,471,577**		93,143,136
Derivative financial instruments (Note 11)		**1,646,137**		**22,285,896**		12,909,868
		18,471,109		**250,067,412**		257,563,547
Total current assets		**26,908,239**		**364,291,807**		428,560,787
Investments in shares of non-consolidated subsidiaries, affiliates and others (Note 8)		**825,597**		**11,177,184**		33,063,354
Properties, plant and equipment—Net (Note 9)		**62,420,097**		**845,062,005**		793,845,453
Intangible asset derived from the actuarial computation of employee benefits (Note 12)		**-**		**-**		72,008,835
Other assets—Net		**1,204,465**		**16,306,408**		2,802,177
Total assets	U.S.$	**91,358,398**	Ps.	**1,236,837,404**	Ps.	1,330,280,606
LIABILITIES:						
Current liabilities:						
Current portion of long-term debt (Note 10)	U.S.$	**6,738,208**	Ps.	**91,223,879**	Ps.	76,050,128
Suppliers		**2,613,457**		**35,381,771**		35,138,344
Accounts and accrued expenses payable		**588,744**		**7,970,593**		18,097,530
Taxes payable		**1,231,507**		**16,672,511**		146,593,355
Derivative financial instruments (Note 11)		**1,825,623**		**24,715,832**		13,584,495
Total current liabilities		**12,997,539**		**175,964,586**		289,463,852
Long-term liabilities:						
Long-term debt (Note 10)		**36,598,881**		**495,486,625**		424,828,472
Reserve for sundry creditors and others		**2,686,987**		**36,377,238**		31,467,252
Reserve for employee benefits (Note 12)		**36,569,107**		**495,083,543**		528,201,272
Deferred taxes (Note 19(l) and (n))		**520,005**		**7,039,978**		6,411,897
		76,374,980		**1,033,987,384**		990,908,893
Total liabilities		**89,372,519**		**1,209,951,970**		1,280,372,745
EQUITY (Note 14):						
Certificates of Contribution "A"		**7,161,755**		**96,957,993**		96,957,993
Mexican Government increase in equity of Subsidiary Entities		**13,289,341**		**179,915,091**		144,457,629
Equity		**261,935**		**3,546,159**		4,045,178
Legal reserve		**72,944**		**987,535**		832,618
Donation surplus		**65,330**		**884,462**		494,068
Surplus in the restatement of equity		**-**		**-**		171,681,077
Effect on equity from employee benefits (Note 12)		**-**		**-**		(51,759,539)
Comprehensive result (Note 11)		**475,257**		**6,434,173**		373,225
		21,326,562		**288,725,413**		367,082,249
Accumulated losses:						
From prior years		**(11,062,211)**		**(149,763,535)**		(298,866,819)
Net loss for the year		**(8,278,472)**		**(112,076,444)**		(18,307,569)
		(19,340,683)		**(261,839,979)**		(317,174,388)
Total equity		**1,985,879**		**26,885,434**		49,907,861
Commitments and contingencies (Notes 15 and 16)						
Subsequent events (Note 21)						
Total liabilities and equity	U.S.$	**91,358,398**	Ps.	**1,236,837,404**	Ps.	1,330,280,606

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands of Mexican pesos (Note 3(x)))

	2008 (Unaudited)	2008	2007	2006
Net sales:				
Domestic	**U.S.$ 50,209,711**	**Ps. 679,754,126**	Ps. 592,047,961	Ps. 567,289,873
Export	**47,599,642**	**644,418,238**	542,926,858	535,144,048
Services income	**352,894**	**4,777,588**	4,281,799	3,666,782
Total revenues	**98,162,247**	**1,328,949,952**	1,139,256,618	1,106,100,703
Cost of sales	**48,309,792**	**654,032,459**	460,665,742	418,258,210
Gross income	**49,852,455**	**674,917,493**	678,590,876	687,842,493
General expenses:				
Transportation and distribution expenses	**2,508,579**	**33,961,895**	24,798,539	24,921,656
Administrative expenses	**5,159,004**	**69,844,149**	60,140,465	56,052,773
Total general expenses	**7,667,583**	**103,806,044**	84,939,004	80,974,429
Operating income	**42,184,872**	**571,111,449**	593,651,872	606,868,064
Other revenues (principally IEPS benefit)—Net (Note 19(k)).	**14,624,498**	**197,990,840**	79,797,820	58,622,698
Comprehensive financing result:				
Interest—Net (includes valuation effects of financial instruments Note 11(viii))	**(2,692,302)**	**(36,449,189)**	(31,478,006)	(36,195,263)
Exchange loss—Net	**(5,248,999)**	**(71,062,527)**	(1,434,868)	(2,470,584)
Gain on monetary position	**-**	**-**	12,866,287	14,819,222
	(7,941,301)	**(107,511,716)**	(20,046,587)	(23,846,625)
Profit sharing in non-consolidated subsidiaries, affiliates and others (Note 8)	**(145,160)**	**(1,965,213)**	5,545,054	10,073,577
Income before taxes and duties	**48,722,909**	**659,625,360**	658,948,159	651,717,714
Hydrocarbon extraction duties and others (Note 19)	**56,692,638**	**767,521,945**	667,999,120	587,020,786
Excess gain duties	**-**	**-**	-	8,223,820
Hydrocarbon income tax (Note 19(l))	**116,921**	**1,582,910**	6,030,367	4,914,859
Income tax (Note 19(n))	**191,822**	**2,596,949**	3,226,241	4,605,044
	57,001,381	**771,701,804**	677,255,728	604,764,509
Net (loss) income for the year	**U.S.$ (8,278,472)**	**Ps. (112,076,444)**	Ps. (18,307,569)	Ps. 46,953,205

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, 2008, 2007 AND 2006

(In thousands of Mexican pesos (Note 3(x)))

	Certificates of Contribution "A"	Mexican Government increase in equity of Subsidiary Entities	Equity	Legal reserve	Surplus donation	Surplus in the restatement of equity	Effect on equity from labor obligations	Derivative financial instruments	Deferred income tax effect	Foreign transaction conversion effect	Retained earnings (Accumulated losses) From prior years	For the year	Total
Balances as of January 1, 2006	96,957,993	84,568,893	1,476,369	804,903	378,204	152,368,446	(29,454,825)	(7,036,437)	1,392	799,431	(247,516,201)	(82,357,982)	(29,009,814)
Transfer to prior years' accumulated losses	-	-	-	-	-	-	-	-	-	-	(82,357,982)	82,357,982	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on June 10, 2006 (Note 14)	-	-	-	-	-	-	-	-	-	-	(16,392,606)	-	(16,392,606)
Increase in equity of the Subsidiary Entities made by the Mexican Government (Note 14)	-	48,727,912	-	-	-	-	-	-	-	-	-	-	48,727,912
Increase in equity	-	-	2,533,831	-	-	-	-	-	-	-	-	-	2,533,831
Increase in legal reserve	-	-	-	52,197	-	-	-	-	-	-	-	-	52,197
Decrease in surplus donation	-	-	-	-	(185,075)	-	-	-	-	-	-	-	(185,075)
Comprehensive income (loss) for the year (Note 13)	-	-	-	-	-	2,895	(18,871,922)	5,274,109	2,244	1,658,556	710,094	46,953,205	35,729,181
Balances as of December 31, 2006	96,957,993	133,296,805	4,010,200	857,100	193,129	152,371,341	(48,326,747)	(1,762,328)	3,636	2,457,987	(345,556,695)	46,953,205	41,455,626
Transfer to prior years' accumulated losses	-	-	-	-	-	-	-	-	-	-	46,953,205	(46,953,205)	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on August 29, 2007 (Note 14)	-	-	-	-	-	-	-	-	-	-	(263,329)	-	(263,329)
Increase in equity of the Subsidiary Entities made by the Mexican Government (Note 14)	-	11,160,824	-	-	-	-	-	-	-	-	-	-	11,160,824
Increase in equity	-	-	34,978	-	-	-	-	-	-	-	-	-	34,978
Decrease in legal reserve	-	-	-	(24,482)	-	-	-	-	-	-	-	-	(24,482)
Increase in surplus donation	-	-	-	-	300,939	-	-	-	-	-	-	-	300,939
Comprehensive (loss) for the year (Note 13)	-	-	-	-	-	19,309,736	(3,432,792)	656,699	(40)	(982,729)	-	(18,307,569)	(2,756,695)
Balances as of December 31, 2007	96,957,993	144,457,629	4,045,178	832,618	494,068	171,681,077	(51,759,539)	(1,105,629)	3,596	1,475,258	(298,866,819)	(18,307,569)	49,907,861
Transfer to prior years' accumulated losses	-	-	-	-	-	-	-	-	-	-	(18,307,569)	18,307,569	-
Minimum guaranteed dividends paid to the Mexican Government approved by the Board of Directors on August 20, 2008 (Note 14)	-	-	-	-	-	-	-	-	-	-	(4,270,224)	-	(4,270,224)
Increase in equity of the Subsidiary Entities made by the Mexican Government (Note 14)	-	35,457,462	-	-	-	-	-	-	-	-	-	-	35,457,462
Decrease in equity	-	-	(499,019)	-	-	-	-	-	-	-	-	-	(499,019)
Increase in legal reserve	-	-	-	154,917	-	-	-	-	-	-	-	-	154,917
Increase in surplus donation	-	-	-	-	390,394	- -	-	-	-	-	-	-	390,394
Comprehensive (loss) for the year (Note 13)	-	-	-	-	-	(171,681,077)	51,759,539	(1,268,722)	(3,596)	7,333,266	171,681,077	(112,076,444)	(54,255,957)
Balances as of December 31, 2008	**Ps. 96,957,993**	**Ps. 179,915,091**	**Ps. 3,546,159**	**Ps. 987,535**	**Ps. 884,462**	**Ps. -**	**Ps. -**	**Ps.(2,374,351)**	**Ps. -**	**Ps.8,808,524**	**Ps.(149,763,535)**	**Ps.(112,076,444)**	**Ps. 26,885,434**
Unaudited	**U.S.$7,161,755**	**U.S.$13,289,341**	**U.S.$261,935**	**U.S.$72,944**	**U.S.$65,330**	**U.S.$ -**	**U.S.$ -**	**U.S.$(175,380)**	**U.S.$ -**	**U.S.$650,637**	**U.S.$(11,062,211)**	**U.S.$(8,278,472)**	**U.S.$1,985,879**

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CASH FLOW

(In thousands of Mexican pesos (Note 3(x)))

	2008 (Unaudited)	2008
Operating activities		
Net income before taxes and duties	**U.S.$ 39,613,455**	**Ps. 536,298,843**
Items with no effect on cash:		
Net periodic cost of employee benefits	8,320,371	112,643,677
Activities related to investing activities:		
Depreciation and amortization	6,636,025	89,840,495
Impairment on properties, plant and equipment	7,918	107,203
Profit sharing in non-consolidated subsidiaries and affiliates	145,160	1,965,213
Activities related to financing activities:		
Deferred income taxes	(20,237)	(273,980)
Foreign exchange fluctuations	6,919,044	93,672,090
Interest income	(206,864)	(2,800,590)
	61,414,872	831,452,951
Funds generated (used) in operating activities:		
Financial instruments	(321,085)	(4,346,951)
Accounts and notes receivable	(679,953)	(9,205,412)
Inventories	2,043,946	27,671,560
Other assets	(997,485)	(13,504,232)
Suppliers	17,981	243,426
Accounts payable and accrued expenses	(308166)	(4,172,038)
Taxes payable	(57,488,468)	(778,296,131)
Reserve for sundry creditors and others	362,674	4,909,986
Contributions and payments for employee benefits	(1,624,505)	(21,993,032)
Deferred income taxes	66,630	902,061
Net cash flow from operating activities	2,486,441	33,662,188
Investing activities:		
Acquisition of fixed assets	(10,421,622)	(141,091,050)
Investments in non-consolidated subsidiaries and affiliates	41,030	555,482
Disposal of fixed assets	23,429	317,194
Net cash flows from investing activities	(10,357,163)	(140,218,374)
Cash flow to be obtained from financing activities	(7,870,722)	(106,556,186)
Financing activities:		
Increase in equity from the Mexican Government	2,619,048	35,457,462
Proceeds from new debt	10,853,179	146,933,588
Debt payments , principal only	(9,795,004)	(132,607,709)
Net cash flows from financing activities	3,677,223	49,783,341
Net decrease in cash and cash equivalents	(4,193,499)	(56,772,845)
Cash and cash equivalents at the beginning of the year	12,630,629	170,997,240
Cash and cash equivalents at the end of the year	**U.S.$ 8,437,130**	**Ps. 114,224,395**

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

PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In thousands of Mexican pesos (Note 3(x)))

	2007	2006
Operating activities:		
Net (loss) income for the year	Ps. (18,307,569)	Ps. 46,953,205
Charges to operations not requiring the use of funds:		
Depreciation and amortization	72,591,718	65,672,189
Reserve for employee benefits cost	85,306,866	74,493,349
Profit sharing in non-consolidated subsidiaries and affiliates	5,545,054	10,073,577
Deferred taxes	1,927,847	904,161
Impairment on fixed assets	-	703,247
	147,063,916	198,799,728
Funds generated (used) in operating activities:		
Accounts, notes receivable and other	(14,347,438)	(37,177,837)
Inventories	(12,554,059)	(2,678,038)
Intangible asset derived from the actuarial computation of employee benefits	-	23,316,114
Other assets	1,373,515	(576,898)
Suppliers	(1,964,639)	3,676,529
Accounts payable and accrued expenses	3,974,633	3,382,644
Taxes payable	101,586,711	(26,857,283)
Reserve for sundry creditors and others	(45,820)	3,744,807
Derivative financial instruments	(8,120,165)	(2,541,921)
Funds provided by operating activities	216,966,654	163,087,845
Financing activities:		
Minimum guaranteed dividends paid to the Mexican Government	(263,329)	(16,392,606)
(Decrease) Increase in Debt—Net	(89,836,920)	10,202,873
Increase in equity of Subsidiary Entities	11,160,824	48,727,913
Retirement, seniority premiums and other post-retirement benefits payments.	(27,717,270)	(17,042,349)
Funds (used in) provided by financing activities	(106,656,695)	25,495,831
Investing activities:		
Investment in shares	(5,847,462)	(14,153,450)
Increase in fixed assets—Net	(129,241,714)	(109,103,789)
Funds used in investing activities	(135,089,176)	(123,257,239)
Net (decrease) increase in cash and cash equivalents	(24,779,217)	65,326,437
Cash and cash equivalents at beginning of the year	195,776,457	130,450,020
Cash and cash equivalents at end of the year	Ps. 170,997,240	Ps. 195,776,457

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

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

NOTE 1—APPROVAL:

On April 17, 2009, the attached consolidated financial statements and its notes were authorized by the following officers: Public Accountant Víctor M. Cámara Peón, Deputy Director of Financial Information Systems, and Public Accountant Enrique Díaz Escalante, Associate Managing Director of Accounting.

These consolidated financial statements and the notes thereto will be submitted for approval to the Board of Directors of Petróleos Mexicanos (the "Board") in a meeting scheduled for April 29, 2009, 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 Securities Market Law, of Article 33 Fraction I, paragraph a section 3 and of Article 78 of the general provisions applicable to Mexican securities issuers and other participants of the securities market.

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

Petróleos Mexicanos was created on June 7, 1938, and began operations on July 20, 1938 in accordance with a decree of the Mexican Congress stating that all foreign-owned oil companies in operation at that time in the United States of Mexico ("Mexico") were thereby nationalized. Petróleos Mexicanos and its four Subsidiary Entities (as defined below) are decentralized public entities of the Federal Government of Mexico (the "Mexican Government") and together comprise the Mexican oil and gas industry.

The operations of Petróleos Mexicanos and the Subsidiary Entities are regulated by the *Constitución Política de los Estados Unidos Mexicanos* (Political Constitution of the United Mexican States, or the "Mexican Constitution"), the *Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (Regulatory Law to Article 27 of the Political Constitution of the United Mexican States concerning Petroleum Affairs, or the "Regulatory Law"), effective on November 30, 1958, and as amended effective on December 31, 1977, May 12, 1995, November 14, 1996, January 13, 2006, June 27, 2006 and November 29, 2008 and the *Ley de Petróleos Mexicanos* (the "Law of Petróleos Mexicanos"), effective on November 29, 2008, which establishes that the State will be exclusively entrusted with the activities in the strategic areas of petroleum, hydrocarbons and basic petrochemicals through Petróleos Mexicanos and its Subsidiary Entities in accordance with the Regulatory Law and its regulations.

In November 2008, new laws and modifications to current laws were published that together establish a new legal framework for Petróleos Mexicanos. This new legal framework, among other aspects, includes changes in the structure of the Board of Directors of Petróleos Mexicanos, the development of specific procedures for contracting for substantive activities of a productive character, increased flexibility to invest resources generated through surplus income, a differentiated fiscal regime that considers the complexities of Petróleos Mexicanos' crude oil and natural gas fields and the ability to issue "Citizen Bonds."

Petróleos Mexicanos has the objective of carrying out the exploration, exploitation and other activities mentioned above, as well as conducting the central planning and strategic management of Mexico's petroleum industry, in accordance with the Law of Petróleos Mexicanos.

For purposes of these consolidated financial statements, capitalized words have the meanings attributed to them herein, in the Regulatory Law or in the Law of Petróleos Mexicanos.

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

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, other than those entrusted to Pemex-Petrochemicals, can be performed only by Petróleos Mexicanos and the Subsidiary Entities and cannot be delegated or subcontracted. Pemex-Petrochemicals is an exception and may delegate and/or subcontract certain of its entrusted activities.

The principal objectives of the Subsidiary Entities are as follow:

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

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

As used herein, "Subsidiary Companies" are defined as (a) those companies which are not Subsidiary Entities but in which Petróleos Mexicanos has more than 50% ownership investment and effective control, (b) the Pemex Project Funding Master Trust (the "Master Trust"), a Delaware statutory trust, (c) Fideicomiso Irrevocable de Administración No. F/163 ("Fideicomiso F/163"), a Mexican statutory trust incorporated in 2003 in Mexico (both the Master Trust and Fideicomiso F/163 are controlled by Petróleos Mexicanos), (d) RepCon Lux, S.A., a Luxembourg finance vehicle whose debt is guaranteed by Petróleos Mexicanos ("RepCon Lux") and (e) Pemex Finance, Ltd.

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

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

NOTE 3—SIGNIFICANT ACCOUNTING POLICIES:

The preparation of the financial statements requires the use of estimates and assumptions made by PEMEX's management that affect the recorded amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the recorded amounts of income and expenses during the year. The important items subject to such estimates and assumptions include the carrying value of 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 of the assets and liabilities related to employee benefits. Actual results could differ from those estimates.

References in these financial statements and related notes to "pesos" or "Ps." refer to Mexican pesos, "dollars" or "U.S.$" refers to dollars of the United States of America and "yen" or "¥" refers to Japanese yen.

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

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

a. *Effects of inflation on the financial information*

Until December 31, 2007, PEMEX recognizes the effects of inflation on its financial information in accordance with *Normas de Información Financiera* (Mexican Financial Reporting Standards, or "Mexican FRS" or "NIF's") B-10 "Effects of Inflation" ("FRS B-10"), as issued by the *Secretaría de Hacienda y Crédito Público* (Ministry of Finance and Public Credit, or "SHCP") and by the General Comptroller's Office ("SFP").

These consolidated financial statements include recognition of the effects of inflation on the financial information until December 31, 2007, based on the Mexican National Consumer Price Index ("NCPI") issued by Banco de México. In accordance with FRS B-10, in 2008, the recognition in the financial statements of the effects of inflation was suspended because the accumulated inflation over the last three years was less than 26%, and therefore, the economic environment did not qualify as "inflationary," (see Note 3(o) and (x)).

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

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

(Figures stated in thousands of Mexican pesos (Note 3(x)))

		Inflation	
December 31,	**NCPI**	**For the year**	**Accumulated**
2008	133.7610	6.52%	15.01%
2007	125.5640	3.76%	11.56%
2006	121.0150	4.05%	7.61%
2005	116.3010	3.33%	3.33%

b. *Consolidation*

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

The consolidated Subsidiary Companies are as follows: P.M.I. Comercio Internacional, S.A. de C.V. (“PMI CIM”); P.M.I. Trading, Ltd. (“PMI Trading”); P.M.I. Holdings North America, Inc. (“PMI HNA”); P.M.I. Holdings Petróleos España (“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; RepCon Lux and Pemex Finance, Ltd.

Until December 31, 2007, in accordance with Bulletin B-15 “Foreign currency transactions and translation of financial statements of foreign operations,” the financial statements of foreign Subsidiary Companies classified as integrated foreign operations were translated into Mexican pesos on the following basis: (a) assets and liabilities, at the exchange rate in effect at the end of the period; (b) income and expense items, at the average exchange rate for each month in the year; and (c) the translation effect was recorded in equity. Until December 31, 2007, foreign currency transactions and translation of financial statements of foreign operations were restated based on the rate derived from the NCPI.

FRS B-15 “Translation of foreign currencies” became effective on January 1, 2008 (see Note 3(x)), and establishes the following rules for translation:

When the functional currency of a foreign operation is different from its recording currency, translation is accounted for as follows:

a) Monetary items, at the exchange rate in effect at the end of the period.

b) Non-monetary items and equity, at the historical exchange rate.

c) Non-monetary items recorded at their fair value, at the historical exchange rate effective when their fair value was determined.

d) Income, costs and expenses items, at the average exchange rate for the period.

e) Effects of exchange caused by the translation from recording currency to functional currency are recognized as income or expense in the statement of operations of the foreign operation for the period in which they were incurred.

When the reporting currency of a foreign operation is different from its functional currency, translation is as follows:

a) Assets and liabilities at the exchange rate at the end of the period, and equity at the historical exchange rate.

b) Income, costs and expenses, at the average exchange rate.

c) The effect of translation is recognized as part of comprehensive income or loss in equity, in an item called "accumulated translation effect."

d) At the time of consolidating or using the equity method, any variation between the equity of the foreign operation and the recognized investment in the foreign operation must be recorded in comprehensive result as accumulated translation effect, within equity included in the consolidated financial statements.

Investments in non-consolidated subsidiary companies and affiliates are accounted for in accordance with paragraph (h) of this note. Other non-material subsidiary companies and affiliates are valued at acquisition cost and, based upon their relative importance to the total assets and income of PEMEX, are not consolidated nor accounted for under the equity method.

c. *Long-term productive infrastructure projects*

Until December 31, 2008, PEMEX's investment in long-term productive infrastructure projects ("PIDIREGAS") and related liabilities were initially recorded in accordance with *Normas Específicas de Información Financiera Gubernamental para el Sector Paraestatal* (Specific Standards for Governmental Financial Information of the State-owned Sector, or "NEIFGSP") 009 ("NEIFGSP 009"), applicable to *Entidades Paraestatales de la Administración Pública Federal* (State-owned Entities of the Federal Public Administration), which requires recording only those liabilities maturing in less than two years.

For the purposes of these consolidated financial statements and in accordance with Mexican FRS, all accounts related to PIDIREGAS were incorporated into the consolidated financial statements and all effects of NEIFGSP 009-B were therefore eliminated.

On November 13, 2008, amendments to the *Ley Federal de Presupuesto y Responsabilidad Hacendaria* (Federal Law of Budget and Fiscal Accountability) were published in the *Diario Oficial de la Federación* (Official Gazette of the Federation), eliminating the PIDIREGAS concept in relation to Petróleos Mexicanos and the Subsidiary Entities.

The main objective of the Master Trust and Fideicomiso F/163 has been to administer financial resources related to PIDIREGAS that have been designated by PEMEX for that purpose. As a result of the amendments to the Federal Law of Budget and Fiscal Accountability described above, the Master Trust will no longer participate in PIDIREGAS financings and Petróleos Mexicanos will assume, as primary obligor, all payment obligations under PIDIREGAS financings entered into by the Master Trust. Substantially all of the debt agreements and indentures of the Master Trust permit, without the consent of the creditors or bondholders, Petróleos Mexicanos to assume, as primary obligor, the obligations of the Master Trust.

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

PEMEX uses the successful efforts method of accounting for oil and gas exploration and drilling costs. Exploration costs are charged to income when incurred, except that exploratory drilling costs are included in fixed assets, pending determination of proven reserves. Exploration wells more than 12 months old are expensed unless (a) (i) they are in an area requiring major capital expenditure before production can begin, (ii) commercially productive quantities of reserves have been found, and (iii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future, or (b) proved reserves are recorded within 12 months following the completion of exploratory drilling. Expenses pertaining to the drilling of development wells are capitalized, whether or not successful.

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.

e. *Reserve for abandonment cost of wells*

The reserve for abandonment cost of wells (plugging and dismantling), as of December 31, 2008 and 2007 was Ps. 18,775,600 and Ps. 17,148,400, respectively, and is included in long-term liabilities (see Note 3(i)).

f. *Cash and cash equivalents*

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

g. *Inventory and cost of sales*

Inventories are valued as follows:

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

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

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

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

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

VI. Materials in transit: at acquisition cost.

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

Cost of sales is determined by adding to inventories at the beginning of the year the operating cost of oil fields, refineries and plants (including internally-consumed products), the cost of refined and other products, and deducting the value of inventories at the end of the year. Until December 31, 2007, the resulting amount was adjusted for inflation based on factors derived from the NCPI. Cost of sales also includes the depreciation and amortization expense associated with assets used in operations as well as the expense associated with the reserve for abandonment cost of wells.

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

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

Investments in shares in which PEMEX holds 50% or less of the issuer's capital stock are recorded at cost and, until December 31, 2007, were adjusted for inflation using factors derived from the NCPI.

i. *Properties, plant and equipment*

Properties, plant and equipment are recorded at acquisition cost and, until December 31, 2007, were adjusted using factors derived from the NCPI.

(Figures stated in thousands of Mexican pesos (Note 3(x)))

Beginning January 1, 2007, assets acquired during the construction or installation phase of a project include the comprehensive financing result associated with assets as part of the value of assets.

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 calculations from independent appraisals. The depreciation rates used by PEMEX are as follows:

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

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

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

The costs related to wells subject to abandonment and dismantlement are recorded at their present values as liabilities on a discounted basis when incurred, which is typically at the time the wells first start drilling. The amounts recorded for these obligations are initially recorded by capitalizing the respective costs. Over time, the liabilities will be increased by the change in their present value during each period and the initial capitalized costs will be depreciated over the useful lives of the related assets based on the UOP method. In the case of non-producing wells subject to abandonment and dismantlement, the full dismantlement and abandonment cost is recognized at the end of each period.

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

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

PEMEX evaluates periodically the values of long-lived assets to determine whether there is any indication of potential impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to future net revenues expected to be generated by the asset. If the carrying value of an asset exceeds its estimated net revenues, an impairment charge is recognized in the amount by which the carrying value of the asset exceeds the fair value of the asset. During 2008, PEMEX recorded impairments of Ps. 807,050 and reversals of impairment of Ps. 699,847. At December 31, 2008, PEMEX recorded a net effect of impairment charge related to long-lived assets of Ps. 107,202, which was recorded in the statement of operations. During 2007, no impairment charge was recognized by PEMEX.

k. *Accruals*

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

l. *Employee Benefits*

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

The accumulated benefits related to pensions, seniority premiums, other post-retirement benefits and employment termination for causes other than restructuring, to which all employees are entitled, are recorded in the statement of operations of each year based on actuarial valuations performed by independent experts, using the projected unit-credit method (see Note 12).

The amortization periods of the unamortized items are as follows:

- Retirement benefits:
    i. Initial transition liability and salary increases due to promotions, in a maximum of five years.
    ii. Plan amendments and actuarial gains and losses for the period, in the employees' average remaining labor life.
- Termination benefits:
    i. Initial transition liability and plan amendments, in a maximum of five years.

ii. Salary increases due to promotions, in a maximum of one year.

iii. Actuarial gains and losses, immediate recognition.

As of December 31, 2008, the employees' average remaining labor life of the employees entitled to benefits in the plan was approximately 10 years. PEMEX incorporates 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.

m. *Derivative financial instruments and hedging operations*

As of January 1, 2005, PEMEX adopted the provisions of Bulletin C-10 "Derivative Financial Instruments and Hedging Operations" ("Bulletin C-10") issued by the Mexican Institute of Public Accountants, which provides expanded guidance for the recognition, valuation, recording, disclosure and bifurcation from a host agreement that are applicable to derivative financial instruments for negotiation purposes, to those designated as hedges and to the embedded derivatives (see Note 11).

As of December 31, 2008 and 2007, derivative financial instruments shown in the consolidated balance sheets are recorded at their fair value in accordance with the provisions of Bulletin C-10 (see Note 11). In the case of derivative financial instruments that are treated for accounting purposes as non-hedges, the changes in their fair value affect the comprehensive financing result. In the case of derivative financial instruments that are designated as hedges, they are recorded using hedge accounting, for fair value hedges or for cash flow hedges, as is established in Bulletin C-10.

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

Financial instruments issued by PEMEX with characteristics of equity or liabilities, or both, are recorded at the time of issuance as a liability, equity or both, depending on the components involved. Initial costs incurred in the issuance of those instruments are assigned to liabilities and equity in the same proportion as the amounts of their components. Gains or losses related to the components of financial instruments classified as liabilities are recorded as part of comprehensive financing result. The distribution of profits to the owners of the components of financial instruments classified as equity is charged to equity.

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

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 and 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.

p. *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.

q. *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") (see Note 19).

r. *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.

s. *Revenue recognition*

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

Comprehensive result represents the sum of net income (loss) for the period plus the accumulated translation effect. It includes the effect of valuation of financial instruments designated as cash flow hedges, the equity effect of the employee benefits provision and items required by specific accounting standards to be reflected in equity but which do not constitute equity contributions, reductions or distributions, and, until December 31, 2007, comprehensive result included the effects of inflation restatement of equity on the basis of NCPI factors (see Note 13).

u. *Comprehensive financing result*

Comprehensive financing result includes interest income and expense, foreign exchange gains and losses, and, until December 31, 2007, the gain or loss attributable to the effects of inflation on monetary assets and liabilities, minus any portion of the comprehensive financing result capitalized during the period.

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

The monetary effect presented until December 31, 2007 was determined by multiplying the difference between monetary assets and liabilities at the beginning of each month, including deferred taxes, by inflation rates through year end. The aggregate of these results represents the monetary gain or loss for the year arising from inflation, which was reported in the statement of operations for the year.

v. *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).

w. *Deferred taxes*

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

x. *Accounting changes*

The CINIF issued the following FRS effective for years beginning after December 31, 2007.

- **FRS B-10 "Effects of inflation"** - FRS B-10 superseded the previous Bulletin B-10 "Recognition of the effects of inflation on the financial information" and its fiveamendments, as well as the related circulars and Interpretation of Financial Reporting Standards ("INIF") No. 2. The principal guidelines established by this FRS include:

    (i) Recognition of the effects of inflation. An entity operates in either a) an "inflationary" economic environment, when cumulative inflation over the immediately preceding 3-year period is equal to or greater than 26%; or b) a "non-inflationary" economic environment, when inflation over the aforementioned period is less than 26%.

In case a), as under the superseded previous Bulletin B-10, the comprehensive recognition of the effects of inflation is required. In case b), the effects of inflation are not recognized. However, as of the effective date of this FRS and when an entity ceases to operate in an inflationary economic environment, the restatement effects determined through the last period in which the entity operated in an inflationary economic environment (in PEMEX's case, the 2007 year), must be retained and reclassified on the same date and using the same procedure as that of the corresponding assets, liabilities and stockholders' equity. Should the entity in the future be once again operating in an inflationary economic environment, the cumulative effects of inflation not recognized in the periods when the environment was non-inflationary must be recognized retroactively.

(ii) Price index. The change in the NCPI or in the value of the Investment Unit ("UDI") may be used for determining the inflation for a given period.

(iii) Valuation of inventories and of foreign machinery and equipment. The use of replacement costs for inventories and of specific indexation for foreign machinery and equipment are no longer allowed.

(iv) Equity adjustment for non-monetary assets. As of the effective date of this FRS, the unrealized portion of the equity adjustment for non-monetary assets maintained in equity should be identified, in order to be reclassified to earnings for the year when the originating item is realized. The realized portion, or when it is not feasible to identify the unrealized portion then both the realized and unrealized portions, should be reclassified to retained earnings.

(v) Monetary position gains or losses. Such gains or losses (included under deficit or surplus in the restatement of equity) were reclassified to retained earnings as of the effective date of this FRS.

As a consequence of the adoption of this FRS, as of January 1, 2008, equity items were reclassified as shown in the statement of changes in equity.

In these consolidated financial statements, amounts pertaining to the years ended December 31, 2007 and 2006 are presented in constant pesos at December 31, 2007, the date on which the comprehensive method for recognizing the effects of inflation was last used.

- **FRS D-3 "Employee benefits"-** FRS D-3 superseded the previous Bulletin D-3 "Labor Obligations" and the portions of Bulletin D-4 and INIF 4 that are applicable to Employee Statutory Profit Sharing ("ESPS"). The principal guidelines established by this FRS are:

(i) A change in the rates for the financial assumptions to be used in actuarial valuations from real rates to nominal rates

(ii) The incorporation of the term "salary increases due to promotions" with effect in liability and in cost.

(iii) A maximum five-year period for amortizing unrecognized/unamortized items and, in the context of retirement benefits, for amortizing salary increases due to promotions.

(iv) Unlike termination benefits, post-employment benefits and actuarial gains or losses may be immediately recognized in the results of operations or amortized over the employees' average remaining labor life or a maximum of five years.

(v) Elimination of the recognition of an additional liability, the related intangible asset and the effect on equity from labor obligations.

As a result of the adoption of this FRS, we eliminated in 2008 an intangible asset of Ps. 72,008,835 and additional minimum pension liability of Ps. 123,768,374 previously reflected in the balance sheet, as well as an effect on equity from labor obligations of Ps. 51,759,539 previously presented in equity.

- **FRS D-4 "Taxes on income"-** FRS D-4 superseded the previous Bulletin D-4 "Accounting for income and asset taxes and employee statutory profit sharing" and Circulars 53 and 54. The principal guidelines established by this FRS are:

(i) Reclassification, on January 1, 2008, of the balance of the cumulative income tax effects resulting from the initial adoption of Bulletin D-4 in 2000 to retained earnings unless identified with any other comprehensive item pending reclassification.

(ii) Transfer of the accounting treatment of ESPS (current and deferred) to FRS D-3, as outlined above.

As a result of the recognition of this FRS, the deferred income tax effect of Ps. 3,596 was reclassified to the comprehensive result within equity.

- **FRS B-2 "Statement of cash flows"-** FRS B-2 superseded Bulletin B-12 "Statement of changes in financial position" and paragraph 33 of Bulletin B-16. The principal guidelines established by this FRS are:

(i) Replacement in the financial statements of the statement of changes in financial position with the statement of cash flows for all periods, except those for periods prior to 2008, presented comparatively with those of the current period.

(ii) Reporting of cash inflows and cash outflows in nominal currency units, *i.e.*, not including the effects of inflation.

(iii) Establishment of two alternative preparation methods (direct and indirect), without stating a preference for either method. In addition, cash flows from operating activities are to be reported first, followed by cash flows from investing activities and finally cash flows from financing activities.

(iv) Reporting of captions of principal items as gross, with certain exceptions, and required disclosure of the composition of items considered cash equivalents.

Accordingly, PEMEX has prepared a statement of changes in financial position for 2007 and a statement of cash flows for 2008 under the indirect method.

- **FRS B-15 "Translation of foreign currencies"-** FRS B-15 supersedes the previous Bulletin B-15 "Foreign currency transactions and translation of financial statements of foreign operations." The principal guidelines established by this FRS are:

(i) Substitution of the integrated foreign operation and foreign entity concepts for determining recording, functional and reporting currencies, requiring that translation be made based on the economic environment in which the entity operates, regardless of its dependency on a holding company.

(ii) Inclusion of translation procedures for those cases where the recording and reporting currencies differ from the functional currency, providing the option not to conduct such translation to companies not subject to consolidation or valuation based on the equity method.

(iii) The requirement that the accounting changes produced by the initial application of this standard be recognized prospectively; *i.e.*, in a non-inflationary economic environment, without modifying the translation already recognized in the consolidated financial statements of prior periods.

(Figures stated in thousands of Mexican pesos (Note 3(x)))

The effect on the consolidated financial statements of the adoption of this FRS is a credit to equity of Ps. 2,809,574, as part of foreign operations translation effect, and a loss in the statement of operations of Ps. 2,847,846.

y. *Reclassifications*

PEMEX's consolidated financial statements as of December 31, 2007 and 2006 have been reclassified in certain accounts with the purpose of making them comparable with the consolidated financial statements as of December 31, 2008.

z. *Convenience translation*

The U.S. dollar amounts shown in the balance sheets, the statements of operations, the statements of changes in equity and statement of cash flow have been included solely for the convenience of the reader and are unaudited. Such amounts are translated from pesos, as a matter of arithmetic computation only, at the exchange rate for the settlement of obligations in foreign currencies provided by Banco de México and the SHCP at December 31, 2008 of 13.5383 pesos per one U.S. dollar. Translations herein should not be construed as a representation that the peso amounts have been or could be converted into U.S. dollars at the foregoing rate or any other rate.

NOTE 4—FOREIGN CURRENCY EXPOSURE:

As of December 31, 2008 and 2007, 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**
2008:[1]					
U.S. dollars	12,303,708	(32,368,723)	(20,065,015)	13.5383	Ps. (271,646,192)
Japanese yen	3,029,369	(246,581,546)	(243,552,177)	0.1501	(36,557,182)
Pounds sterling	528	(401,509)	(400,981)	19.5304	(7,831,319)
Euros	23,055	(3,244,916)	(3,221,861)	19.1432	(61,676,729)
Swedish crowns	-	(12,931)	(12,931)	1.7413	(22,517)
Canadian dollars	79	-	79	11.0463	873
Total liability position, before foreign currency hedging					Ps. (377,733,066)

(Figures stated in thousands of Mexican pesos (Note 3(x)))

	Amounts in foreign currency (Thousands)				
	Assets	Liabilities	Net liability position	Year-end Exchange rate	Amounts in pesos[2]
2007:[1]					
U.S. dollars	16,950,060	(30,083,877)	(13,133,817)	10.8662	Ps. (142,714,682)
Japanese yen	-	(142,217,370)	(142,217,370)	0.0973	(13,837,750)
Pounds sterling	230	(402,411)	(402,181)	21.6074	(8,690,086)
Euros	9,371	(5,932,198)	(5,922,827)	15.8766	(94,034,355)
Swiss francs	-	(260)	(260)	9.5957	(2,495)
Danish kroner	-	(250)	(250)	2.0075	(502)
Total liability position, before foreign currency hedging					Ps. (259,279,870)

(1) As of December 31, 2008 and 2007, PEMEX had foreign exchange hedging instruments, which are discussed in Note 11.

NOTE 5—CASH AND CASH EQUIVALENTS:

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

	2008	2007
Cash on hand and in banks	**Ps. 60,704,660**	Ps. 64,578,352
Marketable securities	**53,519,735**	106,418,888
	Ps. 114,224,395	Ps. 170,997,240

NOTE 6—ACCOUNTS, NOTES RECEIVABLE AND OTHER:

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

	2008	2007
Domestic customers	**Ps. 37,036,622**	Ps. 40,506,098
Export customers	**5,881,394**	25,430,178
Negative IEPS Tax pending to be credited (Note 19)	**6,816,821**	32,943,613
Advance payments to Mexican Government of minimum guaranteed dividends (Note 14)	-	4,270,225
Specific funds (Note 14)	**44,656,862**	11,858,575
Employees and officers	**4,067,658**	3,648,372
Tax credits	**41,206,169**	4,035,632
Other accounts receivable	**24,382,512**	30,308,784
	164,048,038	153,001,477
Less allowance for doubtful accounts	**(1,738,099)**	(1,490,934)
	Ps. 162,309,939	**Ps.** 151,510,543

NOTE 7—INVENTORIES:

(Figures stated in thousands of Mexican pesos (Note 3(x)))

As of December 31, inventories were as follows:

		2008		2007
Crude oil, refined products, derivatives and petrochemical products	**Ps.**	**60,366,216**	Ps.	87,971,050
Materials and supplies in stock		**6,765,361**		6,370,017
Materials and products in transit		**136,458**		148,376
		67,268,035		94,489,443
Less allowance for slow-moving and obsolete inventory		**(1,796,458)**		(1,346,307)
	Ps.	**65,471,577**	Ps.	93,143,136

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

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

<u>Subsidiaries and affiliates shares</u>:	Percentage of Investment 2008 / 2007	Carrying value as of December 31, 2008		2007	
Repsol YPF, S.A.[1]	0.00 / 5.00%	**Ps.**	**-**	Ps.	23,146,258
Deer Park Refining Limited[2]	50.00 / 50.00%		**7,547,905**		7,113,824
Instalaciones Inmobiliarias para Industrias, S.A. de C.V.	100.00 / 100.00%		**1,312,439**		1,122,215
Servicios Aéreos Especializados Mexicanos, S.A. de C.V.	49.00 / 49.00%		**5,147**		5,147
Other—Net	Various		**2,311,693**		1,675,910
Total investments		**Ps.**	**11,177,184**	Ps.	33,063,354

<u>Profit sharing in subsidiaries and affiliates</u>:.	For the year ended December 31, 2008		2007		2006	
Repsol YPF, S.A.[1]	Ps.	(3,780,783)	Ps.	588,729	Ps.	3,621,872
Deer Park Refining Limited[2]		1,748,582		4,944,329		6,419,178
Instalaciones Inmobiliarias para Industrias, S.A. de C.V.		66,988		11,996		32,527
Total profit sharing	Ps.	(1,965,213)	Ps.	5,545,054	Ps.	10,073,577

(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's shares. The settlement was realized and carried out in its entirety on October 24, 2008. The majority of the holders chose to exchange their bonds for shares prior to the date of the settlement. In order to address this liability yet retain the economic and voting rights of 58,679,800 Repsol shares, or approximately 4.81% of Repsol's share capital, PEMEX entered into four equity swaps with financial institutions, monetizing the value of 58,679,799 shares. PEMEX thereby retained the economic and voting rights discussed above, utilizing the proceeds of the swaps to liquidate the exchangeable bonds; PEMEX holds the remaining Repsol shares through PMI-SES.

Because substantially all of the investors elected to exchange their bonds into Repsol shares prior to the redemption date, the intrinsic value of the bonds at the time of the redemption proved substantially equivalent to the value of the Repsol shares.

(Figures stated in thousands of Mexican pesos (Note 3(x)))

(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 2008, 2007 and 2006, PEMEX recorded Ps. 1,748,582, Ps. 4,944,329 and Ps. 6,419,178 of profits, respectively, related to its equity in the results of the joint venture, which has been recorded under "profit sharing in non-consolidated subsidiaries, affiliates and others" in the statement of operations. In 2006, PEMEX paid the joint venture Ps. 11,078,973 for the processing of crude oil. As of December 31, 2006, the contract between PMI NASA and Pemex-Refining was concluded and it was not renewed.

NOTE 9—PROPERTIES, PLANT AND EQUIPMENT:

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

	2008	2007
Plants	**Ps. 399,769,820**	Ps.379,268,733
Pipelines	**296,436,602**	296,304,941
Wells	**568,274,197**	466,157,259
Drilling equipment	**23,370,046**	22,226,019
Buildings	**51,611,161**	47,681,968
Offshore platforms	**169,308,888**	160,543,843
Furniture and equipment	**37,387,996**	36,440,294
Transportation equipment	**17,771,354**	14,146,501
	1,563,930,064	1,422,769,558
Less:		
Accumulated depreciation and amortization	**(843,858,575)**	(760,177,709)
Net value	**720,071,489**	662,591,849
Land	**39,144,853**	39,842,669
Construction in progress	**85,148,023**	90,720,481
Fixed assets to be disposed of	**697,640**	690,454
Total	**Ps. 845,062,005**	Ps. 793,845,453

a) Starting in 2007, as part of the adoption of FRS D-6, PEMEX capitalized interest costs, foreign exchange effect, monetary position result ("REPOMO") and another costs of obtaining financing related to qualified fixed assets. This has directly affected its cost of investment during the acquisition period, in the amounts of Ps. 1,057,440 and Ps. 5,350,849 in 2008 and 2007, respectively.

b) Total depreciation of fixed assets and amortization of wells for the years ended December 31, 2008, 2007 and 2006 were Ps. 89,840,495, Ps. 72,591,718 and Ps. 65,672,189, respectively, which includes amortization costs related to dismantlement and abandonment of wells for the years ended December 31, 2008, 2007 and 2006 of Ps. 2,144,911, Ps. 2,554,062 and Ps. 508,361, respectively.

c) As of December 31, 2008 and 2007, 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. 18,775,600 and Ps. 17,148,400, respectively.

d) As of December 31, 2008, PEMEX recognized impairment of the Pajaritos petrochemical complex in the amount of Ps. 807,050, based on low market demand and projections showing a negative estimated margin of contribution. PEMEX reversed impairment charges related to the Cosoleacaque petrochemical complex in the amount of Ps. 699,847, due to the recovery of the market for that complex's main product. Considering the above, as of December 31, 2008 the net impairment of long-term assets under FRS C-15 was Ps. 107,203, which was recorded in the statement of operations. During 2007, no impairment was recorded. For the 2006 period, impairment of Ps. 703,247 was recorded. As of December 31, 2008 and 2007, PEMEX recognized cumulative impairment charges in the value of long-lived assets amounting to Ps. 14,485,951 and Ps. 14,593,955, respectively.

NOTE 10—DEBT:

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

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

a. On February 29, 2008, Petróleos Mexicanos drew down U.S. $1,000,000 from a syndicated revolving credit line of U.S. $2,500,000, which it entered into on September 7, 2007. This credit line can be used by either Petróleos Mexicanos or the Master Trust. All drawdowns by the Master Trust are guaranteed by Petróleos Mexicanos, and drawdowns by either borrower are guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

b. On March 28, 2008, Petróleos Mexicanos entered into a Ps. 10,000,000 credit line with a banking institution in the domestic market, bearing interest at the 28-day TIIE rate, plus 12 basis points, maturing on December 31, 2008; borrowings through this credit line were guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

c. On March 28, 2008, Petróleos Mexicanos entered into a Ps. 4,000,000 credit line with a banking institution in the domestic market, bearing interest at the 28-day TIIE rate, maturing on June 20, 2008; borrowings through this credit line were guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

d. On March 28, 2008, Petróleos Mexicanos entered into a Ps. 3,500,000 credit line with a banking institution in the domestic market, bearing interest at the 28-day TIIE rate plus 7.5 basis points, maturing on December 31, 2008; borrowings through this credit line were guaranteed by Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

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

a. The Master Trust obtained U.S. $1,471,126 from credit lines guaranteed by export credit agencies for PIDIREGAS financial projects.

b. On June 2, 2008, the Master Trust obtained from a financial institution a credit in Japanese yen equivalent to U.S. $400,000, distributed in two tranches, with maturities of three and six years respectively, both bearing interest at the three-month LIBOR rate. This credit is guaranteed by Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

c. On June 4, 2008, the Master Trust issued notes in the amount of U.S. $1,500,000, of which U.S. $1,000,000 consisted of notes due in 2018 with an interest rate of 5.75% and U.S. $500,000 consisted of bonds due in 2038 with an interest rate of 6.625%. The issuance of the 5.75% notes was a reopening of the Master Trust's October 22, 2007 note issuance. These notes and bonds are guaranteed by Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

d. On September 29, 2008, the Master Trust issued ¥64,000,000 of its Floating Rate Bonds due 2020, which are insured by Nippon Export and Investment Insurance and guaranteed by Petróleos Mexicanos, Pemex-Exploration and Production, Pemex-Refining and Pemex-Gas and Basic Petrochemicals.

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

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

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

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

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

c. On October 18, 2007, the Master Trust utilized the full amount of its syndicated revolving credit facility in the amount of U.S. $2,500,000. This credit line was signed on September 7, 2007; it may be used either by Petróleos Mexicanos or the Master Trust; the credit line consists of two tranches, A and B, with terms of three and five years, respectively and bears interest at rates of LIBOR plus 20 basis points for tranche A and 25 basis points for tranche B; and matures in 2010 and 2012, respectively; and each of the tranches may be extended twice, by one year. This credit line replaces the previously syndicated revolving credit lines, each in the amount of U.S. $1,250,000.

d. On October 22, 2007, the Master Trust issued notes in the amount of U.S. $2,000,000, of which U.S. $1,500,000 consisted of notes with an interest rate of 5.75% due in 2018 and U.S. $500,000 consisted of bonds with an interest rate of 6.625% due in 2035. This issuance of bonds due in 2035 was the second reopening of an issuance that took place on June 8, 2005.

e. During the fourth quarter of 2007, the Master Trust repurchased through a tender offer U.S. $5,763,333 of its own debt securities maturing between 2008 and 2027, as well as a certain amount of its U.S. dollar-denominated perpetual notes. These securities were cancelled after their repurchase.

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

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

As of December 31, 2008 and 2007, PEMEX was in compliance with the operating covenants described above.

(Figures stated in thousands of Mexican pesos (Note 3(x)))

As of December 31, 2008 and 2007, long-term debt was as follows:

			December 31, 2008		December 31, 2007	
	Rate of Interest[(2)]	Maturity	Pesos (thousands)	Foreign currency (thousands)	Pesos (thousands)	Foreign currency (thousands)
U.S. dollars:						
Bonds	Fixed from 5.75% to 9.5% and LIBOR plus 0.6% to 1.8%	Various to 2038	**Ps. 177,500,544**	**13,110,992**	Ps. 163,225,526	12,119,761
Financing assigned to PIDIREGAS	Fixed from 3.23% to 6.64% and LIBOR flat to LIBOR plus 2.25%	Various to 2018	**96,409,801**	**7,121,263**	72,163,251	6,641,075
Purchasing loans and project financing	LIBOR plus 0.0625% to 2.0%	Various to 2014	**1,600,774**	**118,240**	2,108,662	194,057
Credit lines	LIBOR plus 0.20% and 0.25%	Various to 2012	**20,307,450**	**1,500,000**	27,165,500	2,500,000
External trade loans	LIBOR plus 0.325% to 0.475%	Various to 2013	**57,537,775**	**4,250,000**	46,181,350	4,250,000
Bank loans	Fixed from 5.44% and LIBOR plus 1.9%	Various to 2018	**9,169,191**	**677,278**	5,107,114	470,000
Financial leases	Fixed 1.99%	2019	**5,892,346**	**435,235**		
Total financing in U.S. dollars			**368,417,881**	**27,213,008**	315,951,403	26,174,893
Euros:						
Bonds	Fixed from 5.5% to 6.625%	Various to 2025	**59,343,920**	**3,100,000**	50,857,376	3,203,291
Unsecured loans, banks and project financing	Fixed from 2%	2016	**5,671**	**296**	5,544	349
Total financing in Euros			**59,349,591**	**3,100,296**	50,862,920	3,203,640
Japanese yen:						
Direct loans	Fixed from 4.2% and LIBOR yen plus 0.5% to 0.71%	2014	**6,650,233**	**44,305,348**	468,081	4,810,695
Bonds	Fixed from 3.5% and LIBOR yen plus 0.75%	2023	**14,113,049**	**94,000,000**	2,919,000	30,000,000
Project financing	Fixed from 1% to 2.9%	Various to 2017	**13,983,565**	**93,137,574**	10,871,232	111,729,003
Total financing in yen			**34,746,847**	**231,442,922**	14,258,313	146,539,698
Pounds sterling:						
Bonds	Fixed 7.5%	2013	**7,812,160**	**400,000**	8,642,960	400,000

(Figures stated in thousands of Mexican pesos (Note 3(x)))

			December 31, 2008		December 31, 2007	
	Rate of Interest[2]	Maturity	Pesos (thousands)	Foreign currency (thousands)	Pesos (thousands)	Foreign currency (thousands)
Pesos:						
Certificados bursátiles (debt securities)	TIIE less 0.07%, *Cetes* plus 0.35% to 0.65% and Fixed from 8.38% to 9.91%	Various to 2019	82,699,763	-	81,918,416	-
Syndicated bank loans	TIIE plus 0.35% and Fixed from 8.4%	2008	-	-	3,500,000	-
Project financing and syndicated bank loans	Fixed from 11% and TIIE plus 0.4% to 0.48%	Various to 2012	11,444,444		12,333,333	-
Total financing in pesos			94,144,207	-	97,751,749	-
Total principal in pesos[1]			564,470,686	-	487,467,345	-
Plus: Accrued interest			7,073,181	-	58,565	-
Notes payable to contractors			15,166,637	-	13,352,690	-
Total principal and interest			586,710,504	-	500,878,600	-
Less: Short-term maturities			91,198,944	-	71,499,353	-
Current portion of notes payable to contractors			24,935	-	4,550,775	-
Total short-term debt			91,223,879	-	76,050,128	-
Long-term debt			Ps. 495,486,625	-	Ps. 424,828,472	-

	2009	2010	2011	2012	2013	2014 and thereafter	Total
Maturity of the principal outstanding for each of the years ending December 31,	Ps. 91,223,879	Ps. 103,319,009	Ps. 57,837,591	Ps. 60,688,706	Ps. 64,999,627	Ps. 208,641,692	Ps. 586,710,504

Notes to table:

(1) Includes financing from foreign banks of Ps. 472,130,204 and Ps. 355,682,481 as of December 31, 2008 and 2007, respectively.

(2) As of December 31, 2008 and 2007 the rates were as follows: LIBOR, 1.75% and 4.59625%, respectively; the Prime rate in Japanese yen, 1.675% and 1.875%, respectively; the *Cetes* rate, 8.15% for 182 days and 7.62% for 91 days and 7.20% for 182 days and 7.71% for 91 days, respectively; TIIE, 8.7018% and 7.37%, respectively.

(Figures stated in thousands of Mexican pesos (Note 3(x)))

The total amounts of notes payable to contractors as of December 31, 2008 and December 31, 2007 are as follows:

		2008		2007
Total notes payable to contractors[(1)(2)(3)(4)]	**Ps.**	**15,166,637**	Ps.	13,352,690
Less: Current portion of notes payable to contractors		**24,935**		4,550,775
Notes payable to contractors (long-term)	**Ps.**	**15,141,702**	Ps.	8,801,915

(1) On November 26, 1997, Petróleos Mexicanos and Pemex-Refining entered into a financed public works contract and a unit-price public works contract with Consorcio Proyecto Cadereyta Conproca, S.A. de C.V. The related contracts are for the reconfiguration and modernization of the Ing. Héctor R. Lara Sosa refinery in Cadereyta, N.L. The original amount of the financed public works contract was U.S. $1,618,352, plus a financing cost of U.S. $805,648, due in twenty semi-annual payments of U.S. $121,200. The original amount of the unit-price public works contract was U.S. $80,000, including a financing cost of U.S. $47,600 payable monthly based on the percentage of completion. As of December 31, 2008 and 2007, the outstanding balances of the respective contracts were Ps. 4,561,189 and Ps. 5,854,295, respectively.

(2) On June 25, 1997, PEMEX entered into a 10-year service agreement with a contractor for a daily fee of U.S. $82.50 for the storage and loading of stabilized petroleum by means of a floating system ("FSO"). As of December 31, 2007, the outstanding balance was Ps. 242,888. The remaining amount was paid in full during 2008.

(3) PEMEX has Financed Public Works Contracts ("FPWC") (formerly known as Multiple Services Contracts or "MSCs") pursuant to which the hydrocarbons and construction in progress are property of PEMEX. Pursuant to the FPWC, the contractors manage the work in progress, classified as development, infrastructure and maintenance. As of December 31, 2008 and 2007, PEMEX had an outstanding payable amount of Ps. 5,930,523 and Ps. 3,228,735, respectively.

(4) During 2007, a Floating Production Storage and Offloading ("FPSO") vessel was purchased. The investment in the vessel totaled U.S. $723,575. As of December 31, 2008 and 2007, the outstanding balances were Ps. 4,674,925 (U.S. $345,311) and Ps. 4,026,772 (U.S. $370,579), respectively.

NOTE 11—FINANCIAL INSTRUMENTS:

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

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

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

Functions of the Committee include the authorization of the general strategies of risk management. The Committee is comprised of representatives of PEMEX, the Central Bank of Mexico, the SHCP and PMI CIM.

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

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

PEMEX is exposed to credit risk (or repayment risk) when the market value of its derivative financial instruments is positive (that is favorable for PEMEX) since it faces a repayment risk of the counterparty failing to fulfill its performance obligations. Conversely, when the fair value of these instruments is negative, the risk is borne by the counterparty.

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

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

(ii) *Interest rate risk management*

PEMEX is exposed to risk in its cash flows due to fluctuations in the reference interest rates curves applicable to different currencies. Its predominant exposure is to LIBOR in U.S. dollars, because most of PEMEX's debt is denominated in U.S. dollars or hedged to U.S. dollars through currency swaps tied to LIBOR. The use of derivative financial instruments allows PEMEX to obtain an acceptable mix of fixed and variable rates in its debt portfolio.

The derivative financial instruments used in PEMEX's hedging transactions related to interest rate risk consist primarily of fixed-floating interest rate swaps. Under these instruments, PEMEX has the right to receive payments based on LIBOR or Mexican interest rates ("TIIE") while making payments at a fixed rate.

(iii) *Exchange rate risk management*

Since a significant amount of PEMEX's revenues is denominated in U.S. dollars, it generally obtains loans in U.S. dollars. However, PEMEX also borrows in currencies other than U.S. dollars in order to take advantage of existing financing conditions of these foreign currencies when they are considered favorable Management.

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

(iv) *Commodity price risk management*

Natural gas:

PEMEX offers derivative financial instruments to its customers as a value added service, providing them with various hedging contracts as an option for protecting against fluctuations in the price of PEMEX's products. The risk that PEMEX incurs under these contracts is transferred to financial counterparties through its subsidiary, MGI Supply Ltd.

Crude oil:

Under its fiscal regime, PEMEX transfers most of its risk related to crude oil prices to the Mexican Government. As a consequence, PEMEX generally does not enter into long-term hedging transactions against fluctuations in crude oil prices. During 2008 and 2007, PEMEX did not enter into any crude oil price hedging transactions.

(v) *Investment portfolio risk*

PEMEX is currently party to four asset swaps for a total of over 58,679,799 shares of Repsol denominated in U.S. dollars and with dates of maturity between January and April, 2011. As of December 31, 2008, the market value of Repsol shares was U.S. $21.10 per share.

(vi) *Fair value of derivative financial instruments*

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

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

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

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

(vii) *Embedded derivatives*

As of December 31, 2008 and 2007, in accordance with Bulletin C-10, PEMEX recognized several agreements related to, among other things, services in connection with works projects, acquisitions, leases and insurance commitments. These agreements were entered into by PEMEX in foreign currencies, and in accordance with their terms, the related foreign currency components do not meet the criteria to generate an embedded derivative.

(viii) *Operations with derivative financial instruments*

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

(Figures stated in thousands of Mexican pesos (Note 3(x)))

PEMEX seeks to mitigate the impact of market risk in its financial statements, through the establishment of a liability structure consistent with its expected operating cash flows. As a result, PEMEX seeks to eliminate exchange rate risk of its debt issued in currencies other than pesos or U.S. dollars by entering into derivative financial instruments contracts.

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

As of December 31, 2008 and 2007, the fair value of PEMEX's derivative instruments was (Ps. 2,429,936) and (Ps. 6,665,027), respectively. These amounts include the derivative instruments designated as cash flow hedges and their fair value of (Ps. 2,374,351) and (Ps. 977,664), respectively, which was recorded under other comprehensive loss.

The following table shows the fair values and the notional amounts of the over-the-counter derivative instruments outstanding as of December 31, 2008 and 2007, which are designated as cash flow hedges:

	2008		**2007**	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Interest rate swaps:				
Pay fixed/receive variable..........	**Ps. 11,529,112**	**Ps. (1,170,824)**	Ps. 14,211,489	Ps. (1,267,432)
Cross-currency swaps:				
Pay Mexican peso /receive UDI	**11,901,650**	**572,670**	11,901,650	221,101
Pay U.S. dollar/receive euros...	**Ps. 22,026,814**	**Ps. 842,046**	-	-
Pay U.S. dollar/receive Japanese yen...........................	**20,700,783**	**3,616,388**	-	-
Pay U.S. dollar/receive pounds sterling	**9,241,108**	**(1,901,494)**	-	-

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

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

(Figures stated in thousands of Mexican pesos (Note 3(x)))

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

When a cash flow hedge is no longer effective, the accumulated gains or losses that were recorded in other comprehensive income must remain in this account and be reclassified into earnings at the same time as the hedged item's cash flows affect earnings; however, from that date forward, the derivative instrument will no longer qualify for hedge accounting treatment. As of December 31, 2008, only one interest rate swap designated as a cash flow hedge had lost its effectiveness.

As of December 31, 2008, 2007 and 2006, net income (loss) of Ps. 1,062,359, Ps. (1,479,284) and Ps. (727,707), respectively was reclassified from other comprehensive income into earnings. It is estimated that, in 2009, a net loss of Ps. 1,182,677 will be reclassified from other comprehensive income into earnings.

The following table shows the fair values and the notional amounts as of December 31, 2008 and 2007 of over-the-counter derivative instruments that were treated for accounting purposes as non-hedges:

	2008		**2007**	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Interest rate swaps:				
Pay fixed /receive variable	**Ps. 5,000,000**	**Ps. (97,841)**	Ps. 5,000,000	Ps. (185,719)
Assets rate swaps:			-	-
Pay fixed /receive variable	**19,679,112**	**(2,761,533)**		
Cross-currency swaps:				
Pay U.S. dollar /receive euros	**31,832,605**	**(1,721,125)**	44,730,188	3,549,308
Pay U.S. dollar /receive Japanese yen	**7,481,871**	**380,232**	13,549,835	(355,956)
Pay U.S. dollar /receive Pounds sterling	**-**	**-**	7,417,159	1,120,775
Natural gas swaps:				
Pay fixed / receive variable	**Ps. 20,087,150**	**Ps. (8,855,595)**	Ps. 5,163,787	Ps. 202
Pay variable / receive fixed	**20,007,263**	**9,009,270**	5,185,476	16,882
Pay variable / receive variable			472	470
Natural gas options:				
Put				
Purchase		**Ps. 706,173**		Ps. 73,261
Sale		**(706,370)**		(74,064)
Call		**-**		-
Purchase		**208,790**		361,510
Sale		**(208,625)**		(361,300)

Note: The exchange rates as of December 31, 2008 and 2007 were Ps. 13.5383 and Ps. 10.8662 per U.S. dollar, respectively.

(Figures stated in thousands of Mexican pesos (Note 3(x)))

For the years ended December 31, 2008, 2007 and 2006, PEMEX recognized a net income (loss) of Ps. (2,319,164), Ps. (514,893) and Ps. 916,790, respectively, in the comprehensive financing result with respect to derivative financial instruments treated as non-hedges. Additionally, for the year ended December 31, 2007, PEMEX recognized a net loss of Ps. 702,173 in other revenues related to operations with derivative financial instruments treated for accounting purposes as non-hedges. For the year ended December 31, 2008, PEMEX did not recognize any impact in other revenues related to operations with derivative financial instruments treated for accounting purposes as non-hedges.

The estimated fair value of financial instruments other than derivatives for which it is practicable to estimate a value, as of December 31, 2008 and 2007, in nominal terms, was as follows:

	2008		2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets:				
Cash and cash equivalents	**Ps. 114,224,395**	**Ps. 114,224,395**	Ps. 170,997,240	Ps. 170,997,240
Accounts receivable, notes and other	**162,309,939**	**162,309,939**	151,510,543	151,510,543
Derivative financial instruments	**22,285,896**	**22,285,896**	12,909,868	12,909,868
Liabilities:				
Suppliers	**35,381,771**	**35,381,771**	35,138,344	35,138,344
Accounts and accumulated expenses payable	**7,970,593**	**7,970,593**	18,097,530	18,097,530
Taxes payable	**16,672,511**	**16,672,511**	146,593,355	146,593,355
Derivative financial instruments	**24,715,832**	**24,715,832**	13,584,495	13,584,495
Current portion of long-term debt	**91,223,879**	**91,223,879**	76,050,128	76,050,128
Long-term debt	**495,486,625**	**475,496,718**	424,828,472	442,731,344

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

Because of their short maturities, the nominal value of financial instruments such as cash equivalents, accounts receivable and payable, taxes payable and current portion of long-term debt approximate their fair value.

The fair value of long-term debt is determined by reference to market quotes, and, where quotes are not available, is based on discounted cash flow analyses. Because assumptions significantly affect the derived fair value and are inherently subjective in nature, the estimated fair values may not necessarily be realized in a sale or settlement of the instrument.

NOTE 12—EMPLOYEE BENEFITS:

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

PEMEX has established employee non-contributory retirement plans, under which benefits are determined based on employees' years of service and final salary at their retirement date. Liabilities and costs of such plans, including those related to the seniority premium benefit, to which every employee is entitled upon termination of employment, are recorded in accordance with actuarial valuations performed by independent actuaries. PEMEX partially funds its employee benefits through a Mexican trust structure, the resources of which come from the seniority premium item of the Governmental Budget, or any other item that substitutes or could be connected to this item, or that is associated to the same item and the interests, dividends and capital gains obtained from the investments of the trusts.

(Figures stated in thousands of Mexican pesos (Note 3(x)))

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.

The information corresponding to these employee benefits (see Note 3(l)) is presented for 2008 in accordance with FRS D-3 and for 2007 in accordance with the previous Bulletin D-3 "Labor Obligations" (see Note 3(l)).

Cash Flow:

Plan contributions and benefits paid were as follows:

	Retirement benefits			
	2008		2007	
Contribution to the pension plan assets	Ps.	17,948,524	Ps.	25,107,563
Payments charged to the plan assets		20,662,053		19,200,217

Payments charged to the reserve for medical and hospital services for retired personnel and pension recipients in 2008 and 2007 were Ps. 4,039,137 and Ps. 2,609,707, respectively.

The cost, obligations and other elements of the pension plan, seniority premium plan and other post-retirement benefits plans for termination for causes other than restructuring, mentioned in Note 3(l) of these financial statements, were determined based on calculations prepared by independent actuaries as of December 31, 2008 and 2007.

The components of net periodic cost for the years ended December 31, 2008, 2007 and 2006 are as follows:

	Termination benefits	Retirement benefits	Total	Total	Total

	2008	2008	2008	2007	2006
Net periodic cost:					
Service cost	Ps. 1,782,851	Ps. 13,693,537	Ps. 15,476,388	Ps. 15,573,496	Ps. 13,389,101
Financial cost	1,691,923	52,042,518	53,734,441	49,042,461	43,133,700
Return on plan assets	-	(933,360)	(933,360)	(26,007)	(51,860)
Net actuarial gain	7,961,507	2,034,043	9,995,550	-	-
Amortization of prior services cost and plan amendments	46,934	5,068,576	5,115,510	5,161,284	5,110,393
Variances in assumptions and experience adjustments	-	-	-	(33,942)	(2,459,962)
Amortization of transition liability	138,675	27,337,017	27,475,692	12,540,701	12,472,181
Compensation increase	518,657	1,260,799	1,779,456	-	-
Inflation adjustment	-	-	-	3,048,862	2,899,795
Net periodic cost	Ps. 12,140,547	Ps. 100,503,130	Ps. 112,643,677	Ps. 85,306,855	Ps. 74,493,348

The actuarial present value of benefit obligations is as follows:

	Termination benefits 2008	Retirement benefits 2008	Total 2008	Total 2007
Vested benefit obligation value:				
Vested benefit obligation acquired	Ps. 19,973,037	Ps. 427,908,459	Ps. 447,881,496	Ps. 206,364,293
Vested benefit obligation	-	-	-	357,768,687
Accumulated defined benefit obligations (OBD)	20,158,345	619,642,382	639,800,727	667,881,942
Plan assets at fair value	-	(5,761,615)	(5,761,615)	(7,664,407)
Defined benefit obligations (OBD) fund excess	20,158,345	613,880,767	634,039,112	660,217,535
Prior services not recognized				
Plan amendments	(185,455)	(59,747,435)	(59,932,890)	(64,552,453)
Actuarial gain/(loss) and variances in assumptions	-	35,905,470	35,905,470	(53,453,305)
Transition asset (liability)	(536,889)	(109,348,066)	(109,884,955)	(137,778,879)
Compensation increase	-	(5,043,194)	(5,043,194)	-
Project liability—Net	19,436,001	475,647,542	495,083,543	404,432,898
Additional liability	-	-	-	123,768,374
Total liability recognized in the balance sheet	Ps. 19,436,001	Ps. 475,647,542	Ps. 495,083,543	Ps. 528,201,272

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 2008	Retirement 2008
Increase of one point in Medical Inflation		
a) Labor cost of current services	Ps. 510,705	Ps. 2,798,567
b) Financial cost	341,316	10,403,186
c) Total	Ps. 852,021	Ps. 13,201,753
Variation	8.72%	27.0%
d) Defined benefit obligations (OBD)	Ps. 3,250,253	Ps. 95,782,246
Variation	8.73%	10.0%
Decrease of one point in Medical Inflation		
a) Labor cost of current services	Ps. 433,224	Ps. 2,304,750

(Figures stated in thousands of Mexican pesos (Note 3(x)))

b) Financial cost	289,490	8,679,416
c) Total	Ps. 722,714	Ps. 10,984,166
Variation	(7.78%)	(6.00%)
d) Defined benefit obligations (OBD)	Ps. 2,756,368	Ps. 79,880,493
Variation	(7.79%)	(8.0%)

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

	Termination benefits 2008	Retirement benefits 2008	Total 2007
Discount rate	8.75%	8.75%	8.42%
Rate of compensation increase (*)	5.00%	5.00%	4.52%
Expected long-term rate of return on plan assets	8.50%	8.50%	8.42%
Employees' average remaining labor life over which pending amortization items are amortized	10 years	10 years	11 years

(*) Includes salary increase due to promotions.

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

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

Type of investment	Retirement benefits 2008	Total 2007
Governmental securities	49.0%	84.2%
Fixed rate securities	51.0%	15.8%
Total	**100.0%**	**100.0%**

NOTE 13—COMPREHENSIVE (LOSS) INCOME:

Comprehensive (loss) income, 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:

	2008	2007	2006
Net (loss) income	Ps. (112,076,444)	Ps. (18,307,569)	Ps. 46,953,205
Surplus in restatement of equity	-	19,309,736	2,895
Derivative financial instruments	(1,268,722)	656,699	5,274,109
Accumulated conversion effect	7,333,266	(982,729)	1,658,556
Deferred income tax effect	(3,596)	(40)	2,244

(Figures stated in thousands of Mexican pesos (Note 3(x)))

Effect on equity from employee benefits	51,759,539	(3,432,792)	(18,871,922)
Others	-	-	710,094
Comprehensive (loss) income for the year	**Ps. (54,255,957)**	**Ps. (2,756,695)**	**Ps. 35,729,181**

NOTE 14—EQUITY:

On December 31, 1990, certain debt owed by Petróleos Mexicanos to the Mexican Government was capitalized as equity. This capitalization amounted to Ps. 22,334,195 in nominal terms (U.S. $7,577,000) and was authorized by the Board of Directors.

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, 2008, 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. 6,318,000).

The capitalization agreement between Petróleos Mexicanos and the Mexican Government states that the Certificates of Contribution "A" constitute permanent capital. As a result, the Certificates of Contribution "A" are as follows:

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

Until January 2007, as a condition of this capitalization, PEMEX paid a minimum guaranteed dividend to the Mexican Government equal to the debt service for the capitalized debt in December 1990. The minimum guaranteed dividend consisted of the payment of principal and interest on the same terms and conditions as those originally agreed upon with international creditors through 2006, at the exchange rates on the date that such payments are made. Such payments must be approved annually by the Board of Directors.

This minimum guaranteed dividend was extended until 2007 by the CA-164/2007 agreement, and during 2007, Petróleos Mexicanos paid Ps. 4,270,225 to the Mexican Government in advance for the minimum guaranteed dividend. Through the CA-122/2008 agreement, the minimum guaranteed dividend was again extended, and in September 2008 was recognized in the comprehensive result. These payments are applied to the final amount that the Board of Directors approves as the total annual dividend, which usually occurs in the following fiscal year.

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

(Figures stated in thousands of Mexican pesos (Note 3(x)))

Ps. 2,806,200 was recognized as uncalled capital until it was received by Petróleos Mexicanos in February 2008. Additionally, Petróleos Mexicanos received Ps. 19,700 from the *Fondo sobre Ingresos Excedentes* ("FIEX").

During 2008, the Mexican Government made the payment mentioned above of Ps. 2,806,200, to Petróleos Mexicanos, which was capitalized in equity. Also during 2008, the Mexican Government made payments in the amount of Ps. 32,639,044 to Petróleos Mexicanos to fund infrastructure works, which were capitalized in equity. In addition, interest in the amount of Ps. 12,218 related to these payments by the Mexican Government was capitalized.

In 2004, Petróleos Mexicanos signed an agency agreement (Funds for Specific Purposes—Trade Commission) with Banco Santader Serfin, S.A. as an agent in order to manage the funds transferred by the Mexican Government to Petróleos Mexicanos and Subsidiary Entities. According to the *Ley de Ingresos de la Federación* ("Federal Revenue Law"), these funds are to be utilized only for infrastructure works related to exploration, refining, gas and petrochemicals. Payments made by the Mexican Government that increase the equity of Petróleos Mexicanos and the Subsidiary Entities are deposited into the Fund for Specific Purposes—Trade Commission. As of December 31, 2008 and 2007, the balance of this account was Ps. 44,656,862 and Ps. 11,858,575, respectively (see Note 6).

As of December 31, 2008 and 2007 the outstanding balances of the Trade Commission funds were as follows:

	2008	2007
Trade Commission FEIIP	Ps. 29,023,651	Ps. 9,435,548
Trade Commission FEX	15,179,213	1,703,274
Trade Commission AOI	44,316	118,684
Trade Commission FIEX	409,682	601,069
Total funds for specific purposes	Ps. 44,656,862	Ps. 11,858,575

NOTE 15—COMMITMENTS:

a. PEMEX, through Pemex-Exploration and Production, is party to the following agreements with PMI CIM:

   An evergreen contract to sell crude oil destined for sale on the international market; through 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.

(Figures stated in thousands of Mexican pesos (Note 3(x)))

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

In October 1998, Pemex-Exploration and Production and PMI CIM entered into an evergreen contract for the purchase and sale of certain present and future accounts receivable generated by Pemex-Exploration and Production in connection with sales of Maya and Altamira crude oil by Pemex-Exploration and Production to PMI CIM, for sale in turn to certain clients in the United States of America, Canada and Aruba. As of December 31, 2008 and 2007, the sales of receivables realized by PMI CIM totaled Ps. 376,620,730 and Ps. 287,988,094, respectively.

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, 2008 and 2007, the value of the nitrogen to be supplied during the term of the contracts was approximately Ps. 19,972,377 and Ps. 18,314,382, 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.

Future estimated payments are as follows:

2009	Ps.	2,027,351
2010		2,081,131
2011		2,096,865
2012		2,130,883
2013		1,443,781
More than 5 years		10,192,366
Total	Ps.	19,972,377

(Figures stated in thousands of Mexican pesos (Note 3(x)))

c. Between 2003 and 2008, PEMEX entered into Financed Public Work Contracts ("FPWCs") (formerly known as Multiple Services Contracts, or "MSCs"). In connection with these contracts, the contractor, at its own cost, has to administer and support the execution of the works in connection with the FPWCs, which are classified into categories of development, infrastructure and maintenance. The estimated value of the FPWCs as of December 31, is as follows:

Date of contract	Block	2008		2007	
February 9, 2004	Olmos	**U.S.$**	**343,574**	U.S.$	343,574
November 21, 2003	Cuervito		**260,072**		260,072
November 28, 2003	Misión		**1,035,580**		1,035,580
November 14, 2003	Reynosa-Monterrey		**2,437,196**		2,437,196
December 8, 2003	Fronterizo		**264,977**		264,977
December 9, 2004	Pandura-Anáhuac		**900,392**		900,392
March 23, 2005	Pirineo		**645,295**		645,295
April 3, 2007	Nejo		**911,509**		911,509
April 20, 2007	Monclava		**433,501**		433,501
May 12, 2008	Burgos VII		**1,153,551**		-
Total		**U.S.$**	**8,385,647**	U.S.$	7,232,096

As of December 31, 2008 and 2007, PEMEX had entered into contracts with several contractors for the development of various infrastructure works, at an estimated total amount of Ps. 483,256,449 and Ps. 306,084,424, 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. Such contingent liabilities are mentioned below.

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

As of December 31, 2008 and 2007, the reserve for environmental remediation expenses totaled Ps. 1,751,453 and Ps. 2,093,440, respectively. This reserve is included in the reserve for sundry creditors and others as a long-term liability in the balance sheet.

(b) As of December 31, 2008, PEMEX was involved in various civil, tax, criminal, administrative, labor and commercial arbitrations and lawsuits. Based on the information available, the amount claimed in connection with these lawsuits totaled approximately Ps. 41,321,410. As of December 31, 2008, PEMEX had accrued a reserve of Ps. 11,033,033 for these contingent liabilities.

(c) In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions.

The current status of the principal lawsuits in which PEMEX is involved is as follows:

I. 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. The claim filed by CONPROCA was for U.S. $633,142, and Pemex-Refining and Petróleos Mexicanos filed a counterclaim in the amount of U.S. $907,659 (including value added tax). On December 17, 2008, the ICA issued a general liability award in favor of CONPROCA without specifying an amount to be paid by Pemex-Refining or Petróleos Mexicanos. A hearing to determine the amount of liability is still pending.

II. In December 2003, Unión de Sistemas Industriales, S.A. de C.V. filed a claim in the *Juzgado Tercero de Distrito en Materia Civil* (Third District Civil Court) in the Federal District against Pemex-Refining seeking approximately Ps. 393,095 (No. 202/2003) for, among other things, work performed and not paid under a construction agreement. In October 2004, Pemex-Refining responded to this claim. A final hearing was held on November 18, 2008. A final judgment is still pending.

III. In December 2004, Corporación Mexicana de Mantenimiento Integral, S. de R.L. de C.V. ("COMMISA") filed an arbitration claim before the ICA against Pemex-Exploration and Production (arbitration related to the project IPC-01) for, among other things, a breach of a construction agreement in connection with two platforms in the Cantarell complex. The detailed claim filed by COMMISA on January 26, 2007 seeks damages of U.S. $292,043 and Ps. 37,537. Pemex-Exploration and Production has responded to the claim and filed a counterclaim against COMMISA, seeking U.S. $125,897 and Ps. 41,513. On February 13, 2009, the ICA notified the parties that it would not issue a final award until May 31, 2009.

IV. In February 2005, COMMISA filed a claim before the ICA against Pemex-Exploration and Production (arbitration related to project No. IPC-28) seeking approximately U.S. $142,400 and Ps. 40,199 for, among other things, the breach of an agreement in connection with two vessels named Bar Protector and Castoro 10 in the Cantarell complex and additional work performed. On December 3, 2008, Pemex-Exploration and Production and COMMISA executed a settlement agreement to settle any claim related to project No. IPC-28. In connection with the settlement, Pemex-Exploration and Production paid Ps. 1,213.9 million to COMMISA, and the case has therefore concluded.

V. On December 7, 2005, Pemex-Refining was summoned before the *Juzgado Quinto de Distrito en Materia Civil* (Fifth Civil District Court) in the Federal District in connection with a claim filed by Asociación de Transportistas al Servicio de Petróleos Mexicanos, Clientes o Empresas Sustitutos, A.C. (No. 262/2005-II) seeking approximately Ps. 1,647,629 in damages for, among other claims, the suspension of an existing tank truck transportation agreement. On March 7, 2008, a final hearing was held in which both parties filed their final allegations. A final judgment was issued on June 6, 2008 in which payments for damages were denied. The parties have filed appeals before the *Tercer Tribunal Unitario en Materia Civil y Administrativa del Primer Circuito* (Third Unit Civil and Administrative Court of the First Circuit) in the Federal District. On December 22, 2008 the final judgment was confirmed. The parties filed *amparos* against this resolution. Pemex-Refining filed an *amparo* because the judgment did not require the plaintiff to pay expenses and court fees. A final resolution is still pending.

VI. On December 15, 2005, Asociación de Transportistas al Servicio de Petróleos Mexicanos, Clientes o Empresas Sustitutos, A.C. filed an additional claim before the Fifth Civil District Court in the Federal District (No. 271/2005-I), asserting that Pemex-Refining should authorize the plaintiff to replace tank trucks older than ten years, register these new tank trucks and assign a cargo to each of them pursuant to the above-mentioned transportation agreement. A final judgment against Pemex-Refining was issued on April 29, 2008. Pemex-Refining filed an appeal, which was accepted on May 20, 2008 before the *Primer Tribunal Unitario en Materia Civil y Administrativa* (First Unit Civil and Administrative Court of the First Circuit) in the Federal District (No. 425/2008). The plaintiff filed a motion to void the appeal, arguing that the appeal was not properly executed. On September 10, 2008, Pemex-Refining filed an *amparo*, which was granted in its favor, stating that the First Court does not have jurisdiction to resolve this motion.

VII. On October 31, 2007, another civil claim was filed by Asociación de Transportistas al Servicio de Petróleos Mexicanos, Clientes o Empresas Sustitutos, A.C. against Pemex-Refining (No. 295/2007) before the *Juzgado Quinto de Distrito en Materia Civil* (Fifth Civil District Court) in the Federal District, seeking a judgment declaring the breach of a services agreement dated March 26, 1993 and monetary damages, among other claims. Pemex-Refining filed a response to this claim on May 27, 2008. On September 22, 2008 a final hearing was held. A final resolution is still pending.

VIII. On August 16, 2006 two *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. against Petróleos Mexicanos and Pemex-Exploration and Production for the alleged violation of their constitutional rights as a result of the execution of development, infrastructure and maintenance works in non-associated gas fields under a public works contract (No. 414105826) and seeking a modification of the Regulatory Law. As of the date of this report, a constitutional hearing is still pending. An expert's opinion on geology to be filed by Pemex-Exploration and Production is still pending.

IX. In January 2006, Tejas Gas de Toluca, S. de R.L. de C.V. commenced an arbitration proceeding against Gas Natural México S.A. de C.V. ("GNM") and Pemex-Gas and Basic Petrochemicals seeking, among other things, compliance with a transportation agreement and its amendments dated February 2001 and November 2001. This agreement was entered into for the operation of the Palmillas-Toluca pipeline. On February 12, 2009, the court of arbitration ordered that the parties report on the results of their negotiations to resolve the claim no later than March 9, 2009. If an agreement were not reached among the parties by that time, the court would schedule a witnesses hearing.

X. As of the date of this report, only one of the several claims filed by a group of Congressmen from the LIXth. Legislature related to the FPWC remains pending. Pemex-Exploration and Production has obtained favorable judgments in the other similar claims filed by these plaintiffs.

This remaining claim (No. 226/2004) is related to the FPWC entered into between Pemex-Exploration and Production and PTD Servicios Múltiples, S. de R.L. de C.V. for the Cuervito natural gas production block, and was filed before the *Juzgado Noveno de Distrito en Materia Civil del Distrito Federal* (Ninth Civil District Court of the Federal District). The claim does not seek monetary relief, but instead to prevent the performance of this FPWC through a declaration that it is void based on the alleged violation of Article 27 of the Mexican Constitution. On December 13, 2007, Pemex-Exploration and Production filed a motion arguing a lack of standing on the part of the plaintiffs due to the termination of their positions as Congressmen. On May 15, 2008, the motion was denied and Pemex-Exploration and Production filed an appeal against this resolution, which was accepted for consideration. On June 2, 2008, Pemex-Exploration and Production responded to the claim. The trial is suspended until the appeal in connection with the standing of the plaintiffs is resolved.

XI. 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 seeking approximately Ps. 1,200,000 for, among other things, civil liability and damages resulting from the pollution of land used to store oil waste in accordance with an agreement entered into in 1987 by and among Leoba Rueda Nava, Petróleos Mexicanos and Pemex-Refining. As of the date of this report, the trial is in evidentiary stages, with an expert's opinion on environmental damages pending. A final hearing is still pending.

XII. In January 1993, Pemex-Refining entered into a joint venture with Impulsora Jalisciense, S.A. de C.V. ("Impulsora") to establish a new company called Mexicana de Lubricantes, S.A. de C.V. ("Mexicana de Lubricantes"), which manufactures, bottles, and distributes PEMEX's automotive and industrial lubricants and greases. Pemex-Refining has a 49% participation in this venture, which has contributed to PEMEX's increased participation in the lubricants market both in Mexico and abroad. Currently, Pemex-Refining is involved in certain litigation and administrative proceedings in connection with this joint venture, including the following:

- On December 5, 2005, Impulsora filed an *amparo* (No. 1519/2005) before the *Juzgado Quinto de Distrito en Materia Administrativa* (Fifth Administrative District Court) in the state of Jalisco in connection with a constitutional claim related to a proposed model franchise agreement to be executed by Pemex-Refining with the service stations of Mexico. This proceeding has been joined with a pending proceeding filed by Bardahl de México, S.A. de C.V. ("Bardahl"), a competitor in the lubricants market, which claims that it is the owner of the "Mexlub" trademark. Bardahl seeks a ruling under which it would be permitted to sell its products in the service stations, thereby eliminating the exclusivity of Mexicana de Lubricantes' rights to sell lubricants. On December 9, 2008 a constitutional hearing was held. A final judgment is still pending.

- On December 26, 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. 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 but it was not ordered to pay any damages. Both parties appealed this judgment before the *Primer Tribunal Unitario del Tercer Circuito* (First Unit Court of the Third Circuit) and the judgment was reversed. A motion to declare this judgment null and void was filed by Pemex-Refining. A final resolution is still pending.

- On June 7, 2006, Pemex-Refining filed a criminal complaint before the *Procuraduría General de la República* (Office of the Federal Attorney

General) for fraud allegedly committed by members of the board of directors of Mexicana de Lubricantes. As of the date of this report, the matter is still under investigation. A report on the results of an accounting investigation by Pemex-Refining's experts, made at the request of the Federal Public Ministry, is pending.

- On October 17, 2006, Pemex-Refining filed a commercial claim (No. 222/2006) against Impulsora before the *Juzgado Octavo de Distrito en Materia Civil* (Eight Civil District Court) in Mexico City, pursuant to which Pemex-Refining is seeking to enforce its contractual right to exercise an option to repurchase the Mexicana de Lubricantes shares owned by Impulsora. Impulsora has filed a counterclaim asserting that Pemex-Refining does not have such right under the relevant agreement. The trial is currently in the evidentiary stage. On September 23, 2008, Pemex-Refining filed an expert's opinion related to accounting issues. An expert's opinion from the defendant is still pending.

- On March 28, 2008, Mexicana de Lubricantes filed a commercial claim (No. 28/2007) against Pemex-Refining before the *Juzgado Primero de Distrito en Materia Civil* (First Civil District Court) in the Federal District seeking, among other things, a judgment declaring null and void any advance termination or cancellation of the following agreements executed between Mexicana de Lubricantes and Pemex-Refining: (i) a license and trademark contract; (ii) a basic greases supply contract; and (iii) a contract for the manufacture of lubricants and greases for Petróleos Mexicanos and the Subsidiary Entities. Mexicana de Lubricantes filed a motion alleging that the authorized representative of Pemex-Refining did not have the authority to represent Pemex-Refining. On July 4, 2008, a resolution was issued stating that the power-of-attorney filed by Pemex-Refining contained some irregularities. In July 2008, Pemex-Refining filed an appeal of this resolution (504/2008) before the *Primer Tribunal Unitario en Materia Civil y Administrativa* (First Unit Civil and Administrative Court). On November 24, 2008, a resolution affirming the judgment was issued. Pemex-Refining filed an *amparo* (No. 130/2008) before the *Tercer Tribunal Unitario en Materia Civil* (Third Unitary Civil Court), which was granted on December 24, 2008. An additional *amparo* was filed by Pemex-Refining before the Third Unitary Civil Court (No. 133/2008), against the resolution, which claimed that Pemex-Refining did not have the right to rectify the alleged irregularities in its power-of-attorney. Mexicana de Lubricantes filed a complaint against this resolution. A final resolution is still pending.

- In addition, there is an administrative proceeding before the *Comisión Federal de Competencia* (Federal Competition Commission) under which several claims have been filed. On July, 2003, the Federal Competition Commission issued a resolution (No. 10-62-97) (the "Resolution") prohibiting Pemex-Refining from engaging in anti-competitive practices as a result of the exercise of a contractual right of exclusivity under certain agreements, including the obligation to amend such agreements in order to eliminate the obligations of service stations to sell exclusively those lubricants authorized by Pemex-Refining. The Resolution imposed a six-month compliance deadline and included the imposition of a fine on Pemex-Refining of 1,500 daily minimum wage units per day until such agreements were brought into compliance.

- On January 15, 2008, the Federal Competition Commission requested that Pemex-Refining provide evidence of its compliance with the Resolution. Pemex-Refining argued that it was not able to comply with the Resolution due to a suspension granted to Bardahl in a separate *amparo* hearing. On April 10, 2008, the Commission announced that Pemex-Refining was required to comply with the Resolution within 15 days. On January 10, 2008, Pemex-Refining filed an *amparo* before the *Juzgado Sexto de Distrito en Materia Administrativa* (Sixth Administrative District Court) in the Federal District (No. 46/2008 VI). On May 6, 2008, the Sixth Administrative District Court granted an *amparo* to Pemex-Refining and ordered a definitive suspension of the Federal Competition Commission's Resolution. On May 20, 2008, Impulsora and Mexicana de Lubricantes filed a motion as an injured third party. On May 27, 2008, the Federal Competition Commission filed a revised motion against the resolution granting the definitive suspension. On April 30, 2008, the *amparo* was granted in favor of Pemex-Refining, declaring unconstitutional the Resolution issued by the Federal Competition Commission. The Federal Competition Commission filed a revised motion (No. 246/2008) before the *Décimo Tribunal Colegiado del Primer Circuito* (Tenth Joint Court of the First Circuit) objecting to the *amparo*, but that motion was denied. The Federal Competition Commission, Impulsora and Mexicana de Lubricantes filed a revised motion against this resolution. A final resolution is still pending.

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

NOTE 17—HYDROCARBONS RESERVES (UNAUDITED):

Under the Mexican Constitution and the Law of Petróleos Mexicanos, all oil and other hydrocarbons reserves are the property of the Mexican Nation and PEMEX is entrusted with the exclusive rights to extract and exploit Mexico's petroleum reserves. However, because such reserves are not PEMEX's property, they are not recorded on its books. Beginning in 1997, PEMEX reformed its procedures for calculating such reserves in accordance with the regulations of the United States Securities and Exchange Commission, as established in Rule 4-10(a) of

Regulation S-X of the United States Securities Act of 1934 (“Rule 4-10(a)”). Based on technical studies performed internally in accordance with Rule 4-10(a), the estimated crude oil and gas reserves of Mexico totaled 14.3 billion of barrels of crude oil equivalent as of December 31, 2008 and 14.7 billion barrels of crude oil equivalent as of December 31, 2007. These calculated reserves may be revised upward based on adjustment by reviewing engineers, extensions and discoveries and developments, and revised downward based on production for the year. Estimates of such reserves may vary from one analyst to another. In addition, the results of drilling, testing and production performed subsequent to the date of an estimate are used in conducting future reviews of these reserves.

NOTE 18—SEGMENT FINANCIAL INFORMATION:

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

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

- Pemex-Exploration and Production earns revenues from domestic crude oil sales, as well as from the export of crude oil, through PMI Group, to international markets. Export sales are made through PMI Group to approximately 25 major customers in various foreign markets. Less than half of PEMEX crude oil is sold domestically; however, these amounts are in large part sufficient to satisfy Mexican domestic demand.

- Pemex-Refining earns revenues from sales of refined petroleum products and derivatives. Most of Pemex-Refining’s sales are to third parties and occur within the domestic market. The entity supplies the *Comisión Federal de Electricidad* (“CFE”) with a significant portion of its fuel oil production. Pemex-Refining’s most important products are different types of gasoline.

- Pemex-Gas and Basic Petrochemicals earns revenues primarily from domestic sources. Pemex-Gas and Basic Petrochemicals also consumes high levels of its own natural gas production. Most revenues of this entity are obtained from the sale of ethane and butane gas.

- Pemex-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 come from methane derivatives, ethane derivatives and aromatics and derivatives.

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

(Figures stated in thousands of Mexican pesos (Note 3(x)))

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

Following is the condensed financial information of these segments:

	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Corporate and Subsidiary Companies	Intersegment Eliminations	Total
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 cost	(87,731,727)	(25,488,043)	3,199,974	624,199	4,032,478	(2,148,597)	(107,511,716)
Net income (loss)	23,473,089	(119,474,506)	2,263,955	(18,670,810)	(110,724,131)	111,055,959	(112,076,444)
Depreciation and amortization	74,475,554	9,978,606	3,688,137	1,093,894	604,304	-	89,840,495
Labor cost reserve	38,146,689	37,599,695	9,850,665	9,111,632	17,934,996	-	112,643,677
Taxes and duties	761,683,140	5,348,879	1,771,024	274,084	2,624,677	-	771,701,804
Acquisition of fixed assets	113,321,706	24,155,484	5,405,305	3,507,099	2,922,006	-	149,311,600
Total assets	1,402,388,519	380,061,362	143,791,980	78,498,657	3,059,645,158	(3,827,548,272)	1,236,837,404
Current assets	779,192,962	206,142,588	98,032,197	61,787,281	559,007,033	(1,339,870,254)	364,291,807
Investments in shares	402,563	157,094	1,667,006	-	735,301,521	(726,351,000)	11,177,184
Properties, plant and equipment	606,668,876	171,844,781	43,831,789	16,547,828	6,168,731	-	845,062,005
Current liabilities	94,754,683	158,066,528	39,420,210	7,719,939	1,126,494,021	(1,250,490,795)	175,964,586
Reserve for employee benefits	172,980,782	168,326,666	41,601,685	45,590,405	66,584,005	-	495,083,543
Total liability	1,144,606,751	395,713,962	96,035,525	54,480,917	3,001,023,014	(3,481,908,198)	1,209,951,970
Equity	257,781,768	(15,652,600)	47,756,455	24,017,740	58,622,145	(345,640,074)	26,885,434
Year ended December 31, 2007							
Sales -							
Trade	-	430,382,930	139,963,302	21,701,729	542,926,858	-	1,134,974,819
Intersegment	912,295,482	42,229,528	82,940,711	35,942,074	247,993,773	(1,321,401,568)	-
Services income	-	3,221,190	-	-	1,880,032	(819,423)	4,281,799
Total net sales	912,295,482	475,833,648	222,904,013	57,643,803	792,800,663	(1,322,220,991)	1,139,256,618
Gross income	740,811,644	(77,803,300)	15,816,747	(6,559,693)	41,180,126	(34,854,648)	678,590,876
Operating income (loss)	707,401,828	(111,085,600)	7,335,910	(14,115,424)	5,850,048	(1,734,890)	593,651,872
Comprehensive financing cost	(25,561,647)	(5,764,552)	1,071,281	(1,181,167)	10,097,224	1,292,274	(20,046,587)
Net income (loss)	19,966,387	(45,653,619)	4,958,173	(16,085,945)	(11,473,248)	29,980,683	(18,307,569)
Depreciation and amortization	57,262,960	10,159,674	3,437,370	1,091,848	639,866	-	72,591,718
Labor cost reserve	29,124,816	28,579,131	6,491,464	8,215,002	12,896,453	-	85,306,866
Taxes and duties	663,549,438	3,846,738	5,537,391	257,203	4,064,958	-	677,255,728
Acquisition of fixed assets	99,252,970	22,912,301	5,871,320	998,725	324,582	-	129,359,898
Total assets	1,237,968,402	417,393,499	133,970,702	79,872,062	2,331,376,672	(2,870,300,731)	1,330,280,606
Current assets	630,760,334	229,536,695	85,311,492	58,650,943	495,164,854	(1,070,863,531)	428,560,787
Investments in shares	342,538	157,094	1,095,666	-	612,696,004	(581,227,948)	33,063,354
Properties, plant and equipment	565,433,958	162,585,821	42,005,574	15,569,956	8,250,144	-	793,845,453
Current liabilities	191,867,210	148,709,748	33,463,623	8,896,698	929,478,616	(1,022,952,043)	289,463,852
Reserve for employee benefits	180,931,471	178,386,606	40,791,915	49,058,100	79,033,180	-	528,201,272
Total liability	998,713,758	377,308,387	85,452,634	59,275,500	2,262,119,197	(2,502,496,731)	1,280,372,745
Equity	239,254,644	40,085,112	48,518,068	20,596,562	69,257,475	(367,804,000)	49,907,861
Year ended December 31, 2006							
Sales -							
Trade	-	406,963,236	138,687,862	21,638,776	535,144,047	-	1,102,433,921
Intersegment	890,012,141	46,242,429	83,058,212	9,654,394	171,981,054	(1,200,948,230)	-
Services income	-	2,590,835	-	-	1,707,386	(631,439)	3,666,782
Total net sales	890,012,141	455,796,500	221,746,074	31,293,170	708,832,487	(1,201,579,669)	1,106,100,703
Gross income	718,463,139	(49,603,049)	18,030,329	(4,925,440)	31,717,998	(25,840,484)	687,842,493
Operating income (loss)	690,607,335	(80,319,596)	10,720,768	(11,854,541)	(1,720,065)	(565,837)	606,868,064

(Figures stated in thousands of Mexican pesos (Note 3(x)))

	Exploration and Production	Refining	Gas and Basic Petrochemicals	Petrochemicals	Corporate and Subsidiary Companies	Intersegment Eliminations	Total
Comprehensive financing cost	(24,174,018)	(9,026,219)	1,134,603	(4,173,330)	12,659,001	(266,662)	(23,846,625)
Net income (loss)	75,888,386	(35,325,390)	6,311,661	(18,029,704)	54,656,089	(36,547,837)	46,953,205
Depreciation and amortization	51,819,623	8,723,393	3,529,726	902,845	696,602	-	65,672,189
Labor cost reserve	25,562,500	24,775,200	5,637,100	6,972,400	11,546,149	-	74,493,349
Taxes and duties	591,866,238	3,165,413	4,703,707	394,529	4,634,622	-	604,764,509

NOTE 19—FISCAL REGIME:

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

Under this new fiscal regime, PEMEX's contributions remain 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 contemplates the following duties:

a. The Ordinary Hydrocarbons Duty – In 2007, the applicable rate of this duty was 78.76%, based on the annual average price per barrel of Mexican crude oil exports. In 2008, the rate was 74.00%. In 2009, 2010 and 2011, the applicable rates will be 73.50%, 73.00% and 72.50%, 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, and may not exceed the cost limit established in article 254 of the Federal Duties Law. During 2008, Pemex-Exploration and Production made daily and weekly advance payments to the account of this duty, as established in article 7, paragraphs I and VII of the Federal Income Law. These amounts were Ps. 175,359,039 and Ps. 183,755,212 respectively., totaling Ps. 359,114,251, which was credited to the monthly payment of this duty. During 2007, PEMEX made daily and weekly advance payments to the account of this duty in the amounts of Ps. 231,326,765 and Ps. 233,511,083, respectively, totaling Ps. 464,837,848, which was credited to the annual payment of the duty.

b. Hydrocarbon Duty for the Oil Revenues Stabilization Fund – Pemex-Exploration and Production must pay this duty when, during the applicable year, the weighted average crude oil export price exceeds U.S.$ 22.00. The applicable rate will be between 1% and 10% depending on the weighted average price of crude oil exports, with the maximum rate applying when the price exceeds U.S. $30.00 per barrel. Collections of this duty are deposited in the Oil Revenues Stabilization Fund.

c. Extraordinary Duty on Crude Oil Exports – This duty was applied at a rate of 13.1% on the difference between the value realized for crude oil exports and the budgeted crude oil price of U.S. $49.00, times the annual export volume. This duty is credited against the Hydrocarbon Duty for the Oil Revenues Stabilization Fund. The income from this duty is directed to the states of Mexico via the Income of the Federative Entities Stabilization Fund.

d. Duty for the Fund for Scientific and Technological Research on Energy – This duty was applied at a rate of 0.15% to the value of the extracted production of crude oil and natural gas for the year. The collection from this tax are directed as follows:

- 55% for the Sectorial Fund CONACYT –of the Ministry of Energy for Hydrocarbons;
- 35% for the Scientific Research and Technological Development Fund of the *Instituto Mexicano del Petróleo* (Mexican Petroleum Institute, or "IMP"); and
- 10% for the Sectorial Fund CONACYT of the Ministry of Energy for Energy Sustainability.

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

f. Additional Duty – During 2007 actual crude oil production was lower than the target established by the Mexican Congress. Actual crude oil production was 1,124,835,000 barrels, an amount less than the target production of 1,259,980,000 barrels. This duty was repealed for 2008.

g. 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.

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

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

j. Special duty on Hydrocarbons for fields in deep waters - Effective November 14, 2008 this duty is applied to the value of the crude oil and natural gas extracted from the fields in deep waters, less certain deductions, which may not exceed the cost limit established in article

(Figures stated in thousands of Mexican pesos (Note 3(x)))

257 of the Federal Duties Law. The applicable rate will be between 60% and 71.5%, depending on the weighted average price per barrel of Mexican crude oil exports.

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

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

l. 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 the total revenues minus the authorized deductions pursuant to the specific rules expressed by the SHCP.

For the years ended December 31, 2008, 2007 and 2006, PEMEX generated an IRP as follows:

	2008	**2007**	**2006**
Current IRP	**Ps. 1,453,626**	Ps. 4,070,364	Ps. 3,705,184
Deferred IRP	**129,284**	1,867,292	1,031,619
	1,582,910	5,937,656	4,736,803
Inflation effect	-	92,711	178,056
Total IRP	**Ps. 1,582,910**	Ps. 6,030,367	Ps. 4,914,859

During 2008, Petróleos Mexicanos and the Subsidiary Entities other than Pemex-Exploration and Production made daily and weekly payments of Ps. 1,185,590, as determined by the SHCP, which were then raised to Ps. 1,399,383 and Ps. 1,413,548, respectively, for a total of Ps. 2,812,931 credited to the annual payment of the IRP. During 2007, the daily and weekly payments determined by the SHCP were Ps. 1,209,610 and Ps. 1,232,886, respectively, for a total of Ps. 2,442,496 credited to the annual payment.

This tax will be declared through a tax form filed with the Federal Treasury no later than the last business day of March 2009, 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 Federal Government.

(Figures stated in thousands of Mexican pesos (Note 3(x)))

The principal concepts generating the deferred IRP are the following:

	2008		2007	
Deferred asset IRP:				
Advance from customers	**Ps.**	**482,417**	Ps.	491,424
Provision for insurance		**106,224**		94,892
Provision for contingencies		**31,043**		19,918
Environmental reserve		**32,259**		63,508
Allowance for doubtful accounts		**10,601**		8,899
		662,544		678,641
Deferred liability IRP:				
Advance insurance		**(6,532)**		(2,692)
Properties, plant and equipment		**(5,661,935)**		(5,552,588)
		(5,668,467)		(5,555,280)
Long term liability	**Ps.**	**(5,005,923)**	Ps.	(4,876,639)

The reconciliation of the legal rate of the IRP and the effective rate, expressed as a percentage of income before the IRP, is as follows:

	2008	2007
Legal rate	30.00%	30.00%
Minus:		
Inflation effect	(18.69)	11.67
Profit sharing in subsidiaries	(10.38)	(4.35)
Others	28.12	(4.12)
Effective rate	29.05%	33.20%

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

For purposes of the VAT, the provisional monthly payments are determined in the cash flow, in accordance with the regulations of the Value Added Tax Law.

n. Income Tax- Certain Subsidiary Companies are subject to the Income Tax Law and to the Flat Rate Business Tax (IETU), and are therefore required to pay the greater of their IETU or Income Tax.

For the years ended December 31, 2008, 2007 and 2006, the Subsidiary Companies incurred the following income tax:

	2008		2007		2006	
Current income tax	**Ps.**	**2,540,703**	Ps.	3,253,655	Ps.	4,771,281
Deferred income tax		**56,246**		(27,414)		(166,237)
	Ps.	**2,596,949**	Ps.	3,226,241	Ps.	4,605,044

(Figures stated in thousands of Mexican pesos (Note 3(x)))

The principal concepts generating the Deferred Income Taxes are the following:

	2008	2007
Deferred asset income taxes:		
Advance from customers	**Ps. 6,612**	Ps. -
	55,250	-
Losses of prior years	-	653
Total deferred asset income tax	**61,862**	653
Deferred liability income taxes:	-	-
Advance payments	**(7,635)**	-
Gain unrealizable from financial transactions	**(82,709)**	-
Properties, plant and equipment	**(2,006,141)**	(1,535,911)
Total deferred liability income tax	**(2,096,485)**	(1,535,911)
Long term liability	**Ps. (2,034,623)**	Ps. (1,535,258)

NOTE 20—NEW ACCOUNTING PRONOUNCEMENTS

The CINIF has issued the following FRS, effective for fiscal years beginning after December 31, 2008. Early application is not permitted.

(a) ***FRS B-7 "Business acquisitions"***– FRS B-7 supersedes the previous Bulletin B-7 and establishes, among other things, the general rules for the initial valuation and recognition at the acquisition date of net assets, emphasizing that all business acquisitions should be accounted for using the purchase method.

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

(b) ***FRS B-8 "Consolidated and combined financial statements"*** **–** FRS B-8 supersedes the previous Bulletin C-8 "Consolidated and combined financial statements and valuation of permanent investments in shares" and establishes the general rules for the preparation and presentation of consolidated and combined financial statements and related disclosures. The principal changes under this FRS include:

(i.) The obligation to consolidate special purpose entities ("SPEs") when these are controlled by the parent.

(ii.) The possibility, under certain rules, of presenting unconsolidated financial statements when the parent is, in turn, a subsidiary with no minority interest or when the minority stockholders do not object to the fact that consolidated financial statements are not issued.

(iii.) Consideration is given to the existence of potential voting rights that might be exercised or converted in favor of the entity as parent and that may change its involvement in decision making at the time of assessing the existence of control.

Additionally, regulations relating to the valuation of permanent investments have been transferred to a different bulletin.

Management estimates that the initial effects of this new FRS will be immaterial.

(c) ***FRS C-7 "Investments in affiliates and other permanent investments"*** **–** FRS C-7 sets forth the rules to account for investments in affiliates, as well as other permanent investments where there is no control, joint control or significant influence. The principal changes with respect to the former standards include the following:

(i) The equity method of accounting is required for SPEs where significant influence is exercised.

(ii) Consideration is given to the existence of potential voting rights that might be exercised or converted in favor of the entity as parent and that may change its involvement in decision making at the time of assessing the existence of significant influence.

(iii) A specific procedure and a limit for recognizing the affiliated entity's losses are provided.

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

(d) ***FRS C-8 "Intangible assets"*** **–** FRS C-8 supersedes the previous Bulletin C-8 and establishes general rules for the initial and subsequent recognition of intangible assets acquired individually, either through the acquisition of a business or arising internally during the normal course of the entity's operations. The principal changes under this FRS include:

(i) The definition of intangible assets is narrowed to establish that separability is not the only condition for the intangible asset to be identifiable.

(ii) Subsequent outlays for research and development projects in progress should be expensed as earned if they are part of the research phase, or as an intangible asset if they meet the criteria to be recognized as such.

(iii) Greater detail is provided regarding accounting treatment of the exchange of an asset, in accordance with the provisions of international standards and other FRS.

(iv) The presumption that an intangible asset may not have a useful life exceeding twenty years is eliminated.

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

NOTE 21—SUBSEQUENT EVENTS:

On April 17, 2009, the weighted average price of the crude oil exported by PEMEX was U.S. $47.58 per barrel; this price increased by approximately 39.02% as compared to the average price as of December 31, 2008, which was U.S. $34.22 per barrel.

On April 17, 2009, the exchange rate was Ps. 13.0511 per dollar, which represents a 3.60% depreciation in dollar terms as compared to the exchange rate as of December 31, 2008, which was Ps. 13.5383 per dollar.