Operator: Good morning, ladies and gentlemen, and welcome to the conference call hosted by José Antonio González Anaya, Chief Executive Officer of PEMEX and Miguel Messmacher Linartas, Undersecretary of Income of the Ministry of Finance and Public Credit.

There is a support presentation for this conference. The link is available at PEMEX Web page www.pemex.com at the Investors section within the Investor Tools menu under the Presentations category.

At this time all the participants have been placed on a listen-only mode. The floor will be open for questions following this presentation. Questions may be asked by phone.

It is now my pleasure to introduce Julio Valle, head of the Investor Relations Office. You may begin.

Julio Valle: Thank you and good morning to everyone. Before we start, we'd like to remind our listeners that our comments during this conference call may include some forward-looking statements. Listeners are cautioned not to place undue reliance on any forward-looking statements.

Now, I would like to introduce you to José Antonio González Anaya, our Chief Executive Officer.

José Antonio González Anaya: Thank you very much. Good morning and thank you, everyone, for joining us for this conference call. Today, if it's okay, I will speak for about 10 minutes and go through the brief presentation which was uploaded for everyone.

To start with, it is no secret that PEMEX, like every other oil company in the world, is having to adjust to its new reality. As everyone knows, the price of oil has fallen and PEMEX has been facing declining production over the last several years.

Our costs of production have also increased, partly because (of) geology; we are now moving into fields that are more expensive to get oil from, but partly also for internal reasons. We have had certain success and our spreads have opened in the last few weeks, vis-à-vis the Mexican sovereign debt markets.

What I can say, and I am fully convinced of this, is PEMEX is facing short-term financial difficulties, but it is clearly a very solvent and
an amply solvent company. What we have to do is to adjust to the new realities of PEMEX, and that's why I will concentrate my presentation not so much on the results from 2015, but on the adjustment program that was approved by our Board just last Friday.

If you turn to slide two of the presentation, PEMEX is legally bound to meet its financial balance obligations for a deficit of MXN 149 billion. That includes our own income for MXN 398 billion and a filling of MXN 478 billion with a financing cost of MXN 69 billion.

The issue and the reasons for the adjustments are that these budgetary figures were constructed with the premise that the price of oil was going to be MXN 50. In Mexico, we construct the budget and we set a price. And the price that we set and that was approved by Congress was MXN 50 per barrel, and a production platform of 2.247 million barrels a day.

However, in slide 3, what we are facing is most forecasts for the Mexican oil mix project that the price of oil for the remainder of the year, or for the average of the year, is going to be closer to MXN 25 rather than MXN 50. This lowers PEMEX's income substantially. And that's why we have to make the MXN 100 billion adjustment.

The way we construct this MXN 100 billion figure is, more or less, for every USD 5 that the price of oil falls, PEMEX's income falls by MXN 20 billion. So if you multiply 5x5x4, that gives you (inaudible), and it takes us to a MXN 100 billion of an adjusted program. Let me reiterate that this adjustment program is because if we didn't do it, we would face solvency issues and liquidity issues, but we don't think PEMEX is facing a solvency issue.

The premises that we are using to do this adjustment is, first, we want to preserve the security of the personnel. Secondly, we want to use all the financial and legal instruments that the Energy Reform provides PEMEX, all the flexibility that it provides PEMEX, to maintain our production levels in the medium term. And we are going to pay all of our financial and labor obligations.

We decided to categorize our cuts into three different categories. First, efficiencies and productivity increases that come about from the reduction of general costs. And I will come back to this in a minute.

Secondly, deferring investments that don't have an impact in the short-term, or that we think that with the Energy Reform we can get partners and joint ventures, etcetera, and still do the investments, but not by ourselves. And finally, to cut operating costs for production that is not profitable at these price levels.

If you turn to slide six, we have a table that summarizes these adjustments. You can look at this table horizontally or vertically. If you look at it horizontally, the top row adds up to MXN 28.9 billion, and that's the total amount of adjustments that we have in generating efficiency and reducing costs.

The second line which adds up to MXN 64.9 billion represents the amount that we are deferring in investments; trying to not lower our present and our future production capabilities. And finally the final line,
MXN 6.2 billion, that's where we are not making the cost of the investments for production that is not profitable at MXN 25 a barrel.

If you add the final column up that adds up to MXN 100 billion. However, the table also breaks the adjustment up in the different PEMEX companies, and this is important because clearly PEP, as we call it, production and exploration of oil, is the biggest, you know, has the lion's share of expenditure and of the budget, but it's almost the most profitable. What we have done in these last few weeks is we have asked the entire PEMEX organization to contribute to the adjustment program. So that way if you look at this vertically on the first column we have MXN 13.1 billion of adjustments in the corporate section. This includes lots of things. It includes costs in general expenditure, in travel expenses, telecommunications; all your typical, what I would call, austerity measures that you have in the company. But it has an important component that our Board approved.

We are compacting, so we are eliminating two corporate directors; the director of Human Resources, which is going to be absorbed by the Director of Administration. And then we have the Director of Processes and Oil-Related Research. And this corporate direction is going to be absorbed by PEP, by Pemex Exploration and Production, which is the way this operated until about a year and a half ago.

We're also eliminating in the CEO’s office. It has four coordinations, and now we're only going to have one. So we believe that we have to start if we're going to do a MXN 100 billion budget adjustment cut, we have to start from the Director's office at the corporate level, and then all the way down the organization.

The second column is the other productive enterprises which have a MXN 300 million adjustment. Then we have MXN 3.6 billion in Logistics in efficiencies and we are deferring investments. And then in Industrial Transformation, we have MXN 800 million in efficiency, and there we have a very large number, which is MXN 35.4 billion. And I believe I've been saying dollars on and off throughout the presentation. And all of these numbers are in pesos. So, if I have made that mistake I'm sorry.

And this component, this MXN 35.4 billion, is an important component because we are changing the strategy and we're going to look for alternate ways to finance the reconfiguration and modernization of our refineries.

And finally, the lion's share of the adjustment, PEP, which adds up to MXN 46.4 (sic. MXN 46.8) billion, there are MXN 13.1 billion in efficiencies, mostly studies and investigation for and research for future production. This does not affect present or future production. We are deferring MXN 27.5 billion in investment, and this is an important point to stop and reflect. We had investments in deep water that were almost MXN 10 billion, and it was production that was going to come online within 10 years.

It doesn't really make much sense for PEMEX to go to deep water alone. It makes more sense for PEMEX to use all the new flexibility that Energy Reform provides it. So these investments that we are deferring do not necessarily mean they're not going to be carried out. It means
that they're going to be done under the new figures; farm-outs, the migration of new contracts and joint ventures in the future.

And then finally, the 6.2 square there on the bottom right of the table, this is the adjustments, or the savings, that we are taking out of the investments that we were making, investments and operating costs that we were making on production that is not profitable at MXN 25 a barrel.

This adds up to a cut in PEP of MXN 46.8 billion, and the total is MXN 100 billion. I want to finish where I started; we believe these adjustments do not weaken PEMEX, but they strengthen it. This makes PEMEX adjust to two realities. The first reality is that the price of oil is going to be around USD 25 for at least, or for the remainder of the year. And the second reality is that PEMEX has tremendous flexibility with the Energy Reform. And it should take advantage of this flexibility for the future.

With that, I will stop and we can open it for questions. But the Undersecretary of Taxes and Income from the Ministry of Finance wants to make some comments, and I'm very sorry.

Miguel Messmacher Linartas: A very good morning, everybody. Just to make a couple of comments to wrap up sort of the introduction, the introductory section of this conference call.

As you probably all recall, some weeks ago, both the Minister of Finance and myself made statements regarding that the fact that the Ministry of Finance would be willing to support PEMEX as long as PEMEX made a certain set of adjustments to guarantee that PEMEX would be sustainable in the long-term.

In that respect, I would like to emphasize that this adjustment program that has been approved by PEMEX's Board, is actually very positive in the sense that it guarantees that PEMEX will be able to meet all of its original financial and budgetary obligations during 2016 in response to, or in spite of, the very sharp reduction that we're observing in oil prices in a context also where these results do not incorporate as of yet any type of changes to PEMEX's fiscal regime or any type of recapitalization efforts by the Federal Government.

This is purely a PEMEX effort. I think, and I would like to mention, at the Ministry of Finance we find the effort to be absolutely commendable and we think it is a very positive step in order to guarantee the sustainability of the company going forward. In that respect, I would like to mention that we think that it is a very good point for us to start our discussions with PEMEX; we still do not have a set of measures regarding this potential support for the Mexican Ministry of Finance, but we do think and we are convinced that the adjustment program that was approved in such an experienced way by the board of PEMEX, and which was proposed by the CEO, the new CEO, in addition to the fact that it clearly guarantees the strength of PEMEX going forward. We think it is the right starting point for us to now start the discussions that we will be having with PEMEX regarding a potential strengthening of PEMEX's balance sheet going forward.

So, we think that the conditions for us to start these discussions with PEMEX have been met; we will start this process of discussions, and
when we have reached a state of agreement in this respect of the support that the Ministry of Finance will be providing PEMEX, we will let the markets and investors know. We expect to be working on these issues in the next weeks, and we would be letting you know as soon as we have the complete details of the type of support that the Federal Government will be providing PEMEX, both in terms of magnitude and in terms of the type of instrument that we will be using to provide that support. Thank you.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from Rafael Elias from Cantor Fitzgerald.

Rafael Elias: The question is regarding what the Undersecretary of Finance said and also the Ministry of Finance, Mr. Videgaray has said that there will be some capitalization of PEMEX, but in what terms and dates do you anticipate that this could be completed? How does that relate to the adjustment plan? That’s one question.

And the other one is, my understanding is that the lower oil prices also hit the Federal Government, so I am assuming that the Mexican Sovereign is probably also going to have some challenges in terms of funding its expenditures work. Is the country thinking of getting the revenues both to fund its obligations and also to capitalize PEMEX? Is it going to be through and issue of debt, or how are you looking into this challenge?

Miguel Messmacher: Rafael, first on the issue of the Federal Government; as you know, actually at the level of Federal Government, we’re not really [an issue] associated with oil prices. Why is that?

As you know, as in previous years we actually undertook operations in order to hedge the Federal Government’s exposure to lower oil prices (inaudible) actually have these options, which (inaudible) last year, which guaranteed that we should be receiving revenues at least oil price was actually the one that is observed in the budget. Nevertheless, we have announced in addition to the adjustment by PEMEX, we have announced an additional adjustment from the rest of the public sector, basically the Federal Government to the largest extent and a little bit in CFE in the order of MXN 33 billion.

Now, that adjustment is really a preventive one, considering the need to actually have perhaps a tighter budget during next year, during 2017. It’s not so much an issue or a pressure that we have in 2016. Given that in 2016, we already have the hedging strategy in place, which guarantees that we will be receiving the revenues as originally envisioned. It is more something that we’re preparing, considering the possibility that when we submit the budget to Congress next year, we will actually have to submit a budget that has lower oil prices and the ones that for which we had the original approval for this 2016.

It’s really more of a prevention strategy than something that we are necessarily forced to do; it is more forward-looking and thinking about what we might need to do in 2017, we have already made the announcement of the adjustment. As I mentioned, it will be in the order of MXN 33
billion, most of the MXN 30 billion by the Federal Government, MXN 3 billion by CSP. So that part is already in place and it’s really more forward-looking towards what we might need to do in 2017 in case we observe this level of prices being maintained for next year.

As to if the support of the Federal Government might be giving PEMEX. As you might recall or as you probably recall, the Minister of Finance and myself, we made some statements several weeks ago that we would be willing to support PEMEX in order to make sure that PEMEX is able to turn its liquidity problems around in a much more successful situation. Obviously, PEMEX, we are convinced and we agree with the assessment by José Antonio González, the new CEO of PEMEX; that PEMEX doesn’t have solvency problems, it’s a liquidity problem.

Clearly when you look at the structure of forward-looking investments that PEMEX has, PEMEX clearly has a large portfolio of highly profitable projects. And in that respect, it make sense from a public sector point of view, public finances, to actually support PEMEX so that PEMEX can undertake as many of these profitable investments as possible going forward. So in that respect, we will be working during the forthcoming weeks with PEMEX to actually decide precisely on the amount of support and the structure that the support will be taking place.

At this point in time, we are not yet making absolutely any comments with regards to either the amount of support or the structure that the support will be taking place. That is something that we will announce once we have it ready. Thank you.

Operator: Our next question comes from Surya Bhattacharjee from BBVA.

Surya Bhattacharjee: Just have a question regarding the financing plan for 2016 with regard to the new adjustment program. Does that in any way impact the financing program in terms of increase or decrease that we should expect from this?

Operator: And our next question comes from Anne Milne from Bank of America Merrill Lynch.

Anne Milne: I don’t think that the previous question was answered. Mine is fairly similar. In your presentation, you do have the approved budget for PEMEX for 2016 with a financial balance of negative MXN 149 billion. I was just hoping you could review what the plans are to finance that deficit for 2016?

José Antonio González Anaya: Well, very quickly, to answer both of the questions, we were trying to see if we could cut more questions in, but the financing plan is not changed. One of the primary purposes of the adjustment program is to keep the balance at negative MXN 149 billion, so we will maintain the financing program for 2016.

The gross is USD 21.1 billion, the net indebtedness is USD 15.7 billion, and in domestic markets is between USD 6 to USD 9 as well. So no, our financing plan is not changed, and the adjustment program is exactly to maintain the financing plan as it is.
Operator: Our next question comes from Shawn Wayne from Delaware Investments.

Shawn Wayne: I have two quick questions. The first one, as you mentioned that the budget is negative MXN 149 billion deficit, it should be kept steady and I’m just kind of curious; if the price of oil started to improve, say, second half of the year - would that alter your plan for the next adjustment? And the next question is what’s the progress in asset sales year-to-date?

José Antonio González Anaya: Well, one of the things that you may notice from the adjustment plan that we are proposing is that we are not considering any additional income. Any income windfalls that may materialize during the year. So in that sense, your questions are entirely related.

If the price of oil improves and we have additional income or if we manage to materialize some of the asset monetizations or true sales, whatever the case may be, we are going to use these proceeds to reinvest and reopen our production lines as they become marginally more profitable, so to speak. I’m going to make a caricature of this, but if the price of oil increase, we have now stopped the financing and the operational cost for production that is not profitable at MXN25. If the price of oil were to increase sustainably to a higher level, we would put in production that is profitable at the higher level of the price.

We’re going to prioritize the production, but one thing that is important is that we’re going to do so without changing the financial balance. If we have a better than expected price of oil and that allows us to spend or invest more, we’re not going to worsen the financial balance. And if we have certain types of monetization, we’re also going to improve our debt profile. So those two things we’re going to work on.

Operator: There is no time for further questions. I would now like to turn the call back to the CEO to provide closing remarks.

José Antonio González Anaya: Thank you very much for everybody who joined us this morning. I hope that the information that we gave was useful and we will try to keep everybody informed in due time as we make these adjustments in PEMEX, which as I said in the beginning, adjust PEMEX to two near realities; the reality of a low price of oil, but also the reality that we have an Energy Reform that provides PEMEX for a lot of flexibility.

And as the President said when he named me, one of his instructions was that we should take advantage of all of the flexibility that the Energy Reform provides, and we will do so in the various fronts. Thank you very much and good morning to everyone.