MOODY'S
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Rating Action: Moody's affirms Pemex's A3 ratings

Global Credit Research - 20 Feb 2015

New York, February 20, 2015 -- Moody's Investors Service has affirmed the ratings of Petroleos Mexicanos (Pemex) and its subsidiaries, including Pemex's A3 and (P)A3 global long-term ratings. The rating outlook is stable.

RATINGS RATIONALE

Pemex's ratings are based on Moody's view that, despite the significant changes arising from the new energy law, Pemex will remain closely linked to the government of Mexico, which will continue to provide strong support, given the company's importance to the government's budget, to the oil sector and to the country's exports. In the short to medium term, Moody's does not expect any material reduction in Pemex's tax burden and its debt amount is likely to rise to fund higher capital expenditures. However, its managerial and budgetary autonomy will increase, improving its efficiency.

Pemex's underlying baseline credit assessment (BCA) at ba1 is based on prospects of relatively stable production and reserves over the medium-term, as well as Moody's outlook that continued high government taxation in conjunction with the company's higher capital spending will lead to higher debt levels and financial leverage. For these conditions to materially improve, the government will have to increase other sources of revenues and reduce the call on Pemex's earnings, and the company will have to increase production and earnings from new investments and joint ventures with new industry entrants; this process will be a gradual one. In addition, the lack of a clear financial policy with regards to maximum debt leverage constrains Pemex's ratings.

The stable outlook is based on Moody's expectation that Pemex will be able to sustain production at about current levels and its financial leverage will not materially increase over the next three years.

A reduction in Pemex's tax burden that supports higher levels of internal funding for capital spending and demonstrates a solid trend of increase in reserves and production could benefit the company's baseline credit assessment. These conditions would help reduce Pemex's dependence on debt funding, with a favorable impact on its leverage profile.

An upgrade of Mexico's sovereign rating (A3 stable) could lead to an upgrade of Pemex's rating. However, for an upgrade to be considered, sovereign considerations would have to be accompanied by a fundamental improvement of the company's operations and credit metrics.

A material increase in financial leverage or significant deterioration in production could put pressure on Pemex's BCA and debt ratings. However, for the foreseeable future, Moody's expects Pemex's debt ratings to remain closely linked to those of Mexico. A downgrade of the government's rating could lead to a downgrade of Pemex's ratings.

The principal methodology used in these ratings was Global Integrated Oil & Gas Industry published in April 2014. Other methodologies used include the Government-Related Issuers methodology published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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Nymia Thamara Cortes de Almeida
VP - Senior Credit Officer
Corporate Finance Group
Moody's de Mexico S.A. de C.V
Ave. Paseo de las Palmas
No. 405 - 502
Col. Lomas de Chapultepec
Mexico, DF 11000
Mexico
JOURNALISTS: 001-888-779-5833
SUBSCRIBERS:52-55-1253-5700

Marianna Fernandes Rodrigues Waltz
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 800-891-2518
SUBSCRIBERS: 55-11-3043-7300

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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