

Rating Action: Moody's upgrades Pemex's ratings to A3

Global Credit Research - 19 Jun 2014

New York, June 19, 2014 -- Moody's Investors Service (Moody's) upgraded Petroleos Mexicano's (Pemex) global foreign currency and global local currency ratings to A3 from Baa1. This rating action completes the rating review started on February 6, 2014, triggered by the upgrade of the government of Mexico's bond rating to A3 from Baa1 on February 5, 2014. The ratings outlook is stable.

The following ratings were affected:

Upgrades:

..Issuer: Pemex Project Funding Master Trust

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa1

....Senior Unsecured Regular Bond/Debenture Feb 1, 2022, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Feb 1, 2022, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Dec 15, 2014, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Jun 15, 2035, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Dec 15, 2015, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Jun 15, 2038, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Mar 30, 2018, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Dec 1, 2023, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Sep 15, 2027, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Sep 15, 2027, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Aug 5, 2016, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Feb 24, 2025, Upgraded to A3 from Baa1

..Issuer: Petroleos Mexicanos

.... Issuer Rating, Upgraded to A3 from Baa1

.... Issuer Rating, Upgraded to A3 from Baa1

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa1

....Senior Unsecured Regular Bond/Debenture, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Jul 18, 2018, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Apr 26, 2017, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Jan 24, 2022, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture Oct 13, 2014, Upgraded to A3 from Baa1

...Senior Unsecured Regular Bond/Debenture Jan 18, 2024, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Mar 30, 2018, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Sep 15, 2027, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture May 3, 2019, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jan 23, 2045, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jan 23, 2019, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jun 15, 2035, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jun 2, 2041, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jun 2, 2041, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Apr 10, 2019, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Mar 15, 2015, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jun 27, 2044, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jan 27, 2020, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jan 21, 2021, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jun 2, 2022, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Dec 1, 2023, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jul 18, 2018, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jun 27, 2044, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jan 30, 2023, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jan 21, 2021, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Sep 15, 2027, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Jan 9, 2017, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Nov 6, 2017, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Apr 16, 2026, Upgraded to A3 from Baa1
...Senior Unsecured Regular Bond/Debenture Nov 27, 2020, Upgraded to A3 from Baa1

Outlook Actions:

..Issuer: Pemex Project Funding Master Trust

....Outlook, Changed To Stable From Rating Under Review

..Issuer: Petroleos Mexicanos

....Outlook, Changed To Stable From Rating Under Review

RATINGS RATIONALE

"The upgrade of Pemex's ratings to A3 is based on Moody's view that despite the significant changes arising from energy reform, 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," said Nymia Almeida, a Vice President - Sr. Credit Officer at Moody's. "In the short to medium term, we

do not expect any material reduction in Pemex's tax burden and its debt amount is likely to rise to fund higher capex. However, its managerial and budgetary autonomy will increase, improving its efficiency."

Pemex's corporate governance should improve as its board composition is enhanced by a higher participation of independent, experienced members of the Mexican business community, increasing transparency and effectiveness. Another positive factor for Pemex is the possibility that the company will be able to participate in joint-ventures with foreign partners that will give it access to technologies used in deep water exploration and production, which should improve the company's business prospects in the long term.

Moody's is maintaining Pemex's underlying baseline credit assessment (BCA) at ba1 based on prospects of stable production and reserves over the medium-term, as well as our 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 also constrains Pemex's ratings.

The stable outlook is based on our 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. Given the uncertainties around the way the oil and gas industry will function after the energy reform is completed, we will continue to monitor its impact on Pemex, although changes will occur gradually.

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 would put positive pressure on 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 the those of Mexico. A downgrade of the government's rating could lead to a downgrade of Pemex's ratings.

The principal methodology used in this rating was the Global Integrated Oil & Gas Industry published in April 2014. Other methodologies used include the Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moody's.com for a copy of these methodologies.

The period of time covered in the financial information used to determine PEMEX's rating is between January 1, 2009 and March 31, 2014 (source: Pemex).

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