

FITCH AFFIRMS PEMEX'S FC IDR AT 'BBB'; NATIONAL RATING AT 'AAA(MX)'; OUTLOOK STABLE

Fitch Ratings-Buenos Aires-29 June 2012: Fitch ratings has affirmed the Foreign Currency Issuer Default Rating (FC IDR) and all outstanding internationally rated debt securities of Petroleos Mexicanos (PEMEX) at 'BBB'. The rating affects approximately USD29 billion of international debt issuances. In addition, Fitch has affirmed PEMEX's Local Currency (LC) IDR at 'BBB+'. Fitch has also affirmed the National long-term rating at 'AAA(mex)'.

The Ratings Outlook is stable.

Pemex's ratings reflect its linkage to the government of Mexico and the company's fiscal importance to the sovereign. The ratings also reflect the company's solid pretax income, export-oriented profile, sizable hydrocarbon reserves and its domestic market position. The ratings are tempered by Pemex's significant adjusted debt levels, historical negative net worth position that was reversed following the adoption of IFRS in January 2012, substantial tax burden, large capital investment requirements, and exposure to political interference risk.

A negative rating action could be triggered by a negative rating action on the sovereign's rating, the perception of a lower degree of linkage between Pemex and the sovereign, and/or a substantial deterioration in credit metrics. An upgrade of Pemex could result from the upgrade of the sovereign and a material reduction in Pemex tax burden.

Strong Linkage to the Government

As a state-owned entity, Pemex's ratings are linked to the credit profile of Mexico (Fitch rated foreign and local currency IDRs 'BBB' and 'BBB+', respectively). Pemex is the nation's largest company and one of its major sources of funds. Over the past five years, its transfers to the government have averaged 55% over sales or 125% of operating income. Pemex contributions to the government through royalties and taxes have averaged between 30% to 40% over the government's revenues.

As a result, Pemex's balance sheet has weakened and was reflected by a negative net worth which was reversed in the first quarter of 2012 with IFRS adoption. Fitch does not expect any significant reduction in Pemex's heavytax burden over the medium term. Despite pari passu treatment with sovereign debt in the past, Pemex's debt lacks an explicit guarantee.

Fitch does not anticipate any immediate change in the energy policy following the upcoming presidential elections. Both the PRI and PAN candidates have expressed their interest to increase oil production. However, energy sector reforms that promote a larger investment of the private sector would be relevant to materialize significant oil production increases.

Strong Pre-tax Credit Metrics

For the 12 month period ended March 2012, Pemex's pro-forma EBITDA under IFRS accounting standards was approximately USD84.9 billion. Under Mexican GAAP, in 2011 Pemex reported an EBITDA (operating income plus depreciation plus other income) of USD78.3 billion compared to USD56.5 billion (in 2010. The improvement reflects higher realization crude oil prices (USD101 average per barrel in 2011, USD72 in 2010 and USD57 in 2009) that compensated the negative margin of the refining segment.

As of March 2012, Pemex's interest coverage was solid reflected in an EBITDAP (EBIDTA before pension expenses) to fixed charges (interest plus pension expenses) at 9.0 times(x). Leverage as measured by total debt to EBITDA) was low at 0.7 times (x) similar to the ratio in 2008 under local GAAP. Adjusted leverage as measured by debt to EBITDAP (EBITDA plus pension cost) increased

to 1.4x compared to 1.0x in 2008.

Sizable Capex to Result in Negative Free Cash Flow

Pemex is expected to continue implementing sizable capital investments in an attempt to sustain and potentially increase current production volumes. The company's historical significant tax burden, however, has limited access to internally generated funds, forcing a growing reliance on external borrowings.

For 2012, the Congress has approved a capex for Pemex of approximately USD23 billion which is above the USD 14 - 16 billion annual investment between 2009 and 2011. For the 12 month period ended March 2012, Pemex's pro-forma funds from operations were approximately USD USD12.7 which compared to a cash capex of USD16.3 billion, resulting in a negative free cash flow of USD4.3 billion. Fitch expects to continue showing cash flow deficits over the next two to three years, assuming it maintains its current investment levels.

As of March 2012, under IFRS, total debt was USD57.9 billion that doubles to USD124.0 billion when adjusting for the underfunded pension plan and other post-employment benefits (OPEBs). Positively, Pemex enjoys an adequate liquidity of USD8.4 billion as of March 2012. The debt is well structured in the long term, with manageable debt maturities of USD6.3 billion in 2012, USD6.3 billion in 2013 and USD4.9 billion in 2014. Fitch expects the company will have no difficulty to refinance these debt maturities and will continue to access the financial markets to fund anticipated cash flow deficits.

Production Still Declining But at Lower Rates

Production appears to be stabilizing falling by only 1% in 2011 and falling 1% in 2010, after a precipitous fall in oil production in 2008-2009. This is mostly the result of a more intensive use of technology in Cantarell field, improvements in the operations and increased production from a diversified number of fields. The company's goal is to increase total crude production to three million barrels per day (bpd) by 2018 from the current 2.58 million bpd. However, Fitch notes that this might prove challenging considering past difficulties to stabilize current production volumes. Moreover, the company's capital spending capacity is constrained by limited budgetary flexibility and high level of tax burden.

Pemex, Mexico's state oil and gas company, is the nation's largest company and ranks among the world's largest vertically integrated petroleum enterprises. As of May 2012, it reported a production of 3.7 million boe per day refining capacity of 1.5 million bpd, and hydrocarbon reserves of 13.8 billion boe. Pemex's reserves life was 10 years and its reserve replacement rate has increased from 23% in 2005 to 101% in 2011.

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Additional information is available at 'www.fitchratings.com'. The ratings above were unsolicited and have been provided by Fitch as a service to investors.

Available Criteria and Related Research:

- 'Corporate Rating Methodology' (Aug. 12, 2011);
- 'Rating Oil and Gas Exploration and Production Companies' (April 5, 2011);
- 'Parent and Subsidiary Rating Linkage' (Aug. 12, 2011).

Applicable Criteria and Related Research:

Corporate Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647229

Rating Oil and Gas Exploration and Production Companies

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=645090

Parent and Subsidiary Rating Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647210

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