SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1995

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from

Commission File Number: 33-86304

PETRÓLEOS MEXICANOS
(Exact name of registrant as specified in its charter)

MEXICAN PETROLEUM United Mexican States
(Translation of registrant’s name into English) (Jurisdiction of incorporation or organization)

Avenida Marina Nacional No. 329, Col. Anáhuac México, D.F. 11311 México
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities registered or to be registered pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer’s classes of capital or common stock as of the close of the period covered by the annual report:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No X

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 X Item 18 _____
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>PART I</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item 1. Description of Business</td>
<td>4</td>
</tr>
<tr>
<td>Item 2. Description of Property</td>
<td>40</td>
</tr>
<tr>
<td>Item 3. Legal Proceedings</td>
<td>40</td>
</tr>
<tr>
<td>Item 4. Control of the Registrant</td>
<td>40</td>
</tr>
<tr>
<td>Item 5. Nature of the Trading Market*</td>
<td>48</td>
</tr>
<tr>
<td>Item 6. Exchange Controls and Other Limitations Affecting Security Holders</td>
<td>48</td>
</tr>
<tr>
<td>Item 7. Taxation*</td>
<td>49</td>
</tr>
<tr>
<td>Item 8. Selected Financial Data</td>
<td>49</td>
</tr>
<tr>
<td>Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations</td>
<td>52</td>
</tr>
<tr>
<td>Item 10. Directors and Officers of the Registrant</td>
<td>74</td>
</tr>
<tr>
<td>Item 11. Compensation of Directors and Officers</td>
<td>80</td>
</tr>
<tr>
<td>Item 12. Options to Purchase Securities from Registrant or Subsidiaries*</td>
<td>80</td>
</tr>
<tr>
<td>Item 13. Interest of Management in Certain Transactions</td>
<td>80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART II</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item 14. Description of Securities to be Registered*</td>
<td>80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART III</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item 15. Defaults upon Senior Securities*</td>
<td>80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART IV</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item 17. Financial Statements</td>
<td>81</td>
</tr>
<tr>
<td>Item 18. Financial Statements**</td>
<td>81</td>
</tr>
<tr>
<td>Item 19. Financial Statements and Exhibits</td>
<td>81</td>
</tr>
</tbody>
</table>

(*) Omitted because the item is inapplicable or the answer is negative.

(**) The Registrant has responded to Item 17 in lieu of this Item.
Petróleos Mexicanos was established by a decree of the Mexican Congress passed on June 7, 1938 as a result of the nationalization of the foreign-owned oil companies then operating in the United Mexican States ("Mexico"). Petróleos Mexicanos and Pemex-Exploración y Producción, Pemex-Refinación, Pemex-Gas y Petroquímica Básica and Pemex-Petroquímica (collectively, the "Subsidiary Entities" and together with Petróleos Mexicanos, "PEMEX") together comprise Mexico's state oil and gas company. Each is a decentralized public entity of the Federal Government of Mexico (the "Government") and is a legal entity empowered to own property and carry on business in its own name. The head office of PEMEX is located at Avenida Marina Nacional No. 329, Col. Anáhuac, México D.F. 11311, México. PEMEX's telephone number is (52-5) 722-2500.

References herein to "U.S.$", "S", "U.S. dollars" or "dollars" are to United States dollars. References herein to "pesos" or "Ps." are to the lawful currency of Mexico which, effective January 1, 1993, replaced its former currency (also called "peso") at the rate of one peso to one thousand old pesos. During the transition period from January 1, 1993 through December 31, 1995, the new currency was referred to as the "nuevo peso" and from January 1, 1996 is referred to as the "peso". All amounts set forth herein in Mexican currency are stated in pesos, even if such amounts relate to a period before January 1, 1996. PEMEX maintains its financial statements and records in nominal or current Mexican pesos. Unless otherwise indicated, U.S. dollar amounts in this Form 20-F, including all convenience translations of the financial statements included in Item 17 (the "Financial Statements"), have been translated from pesos at an exchange rate of Ps. 7.6425 = $1.00, the December 31, 1995 exchange rate published by Banco de México (the Mexican central bank). These translations should not be construed as representations that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. The peso has depreciated substantially in relation to the U.S. dollar since the end of 1994, when the Government allowed the peso to float freely against the U.S. dollar, and the Government has established a broad economic reform program in response to these and other events. Due to the recent volatility of the peso/dollar exchange rate, the exchange rate on any date subsequent to the date hereof could be materially different from the rate indicated above. See "Item 6 — Exchange Controls and Other Limitations Affecting Security Holders" for information regarding the rates of exchange between Mexican currency and the U.S. dollar.

The term "billion" as used in this Form 20-F means one thousand million.
Glossary of Certain Technical Terms

Unless the context indicates otherwise, the following terms as used in this Form 20-F have the meanings shown below:

API. American Petroleum Institute.

Basic Petrochemicals. Ethane, Propane, Butanes, Pentanes, Hexane, Heptane, Naphtas and Carbon Black Feedstocks.

bpd. Barrels per day.

Catalytic cracking. A refinery process using a chemical catalyst to break complex hydrocarbon molecules into smaller molecules that are commonly used to create refined end products.

cfd. Cubic feet per day.

cfpy. Cubic feet per year.

Condensates. Liquid hydrocarbons (i.e., ethane, propane, butane and certain pentanes) obtained from natural gas and recovered in surface separating facilities, as well as liquid hydrocarbons condensed in natural gas pipelines.

Crude oil. Excludes condensates and natural gas liquids production. The crude oil recovered can be light or heavy as follows:

- Heavy crude oil. Crude oil with API density less than or equal to 22°.
- Light crude oil and others. Crude oil with API density higher than 22°.

PEMEX exports three varieties of crude oil with the following typical characteristics:

- Maya. Heavy crude oil, 22° API density and 3.3% sulfur by weight.
- Isthmus. Light crude oil, 33.6° API density and 1.3% sulfur by weight.
- Olmeca. Very light crude oil, 39.3° API density and 0.8% sulfur by weight.

Hydrotreating. A refinery process whereby sulfur is removed from the crude oil feedstock and/or intermediate refinery products in order to improve product quality.

LPG. Liquefied propane gas.

NGL. Natural gas liquids, including ethane, propane, butane, pentanes and heavier paraffin hydrocarbons.

Oil or Petroleum derivatives. Oil products including refining products, petrochemical products and natural gas.

Refining Capacity. The aggregate throughput capacity at a refinery (as opposed to individual refinery units) expressed in thousands of barrels of crude oil input per day of refinery operation.
Reforming. A refinery process whereby smaller or unstable hydrocarbon formula molecules are changed into larger, more useful refining or blending products.

Secondary Petrochemicals. All petrochemical products other than Basic Petrochemicals.

tpy. Tons per year.
PART I

Item 1. Description of Business

General

PEMEX is an integrated state oil and gas company which conducts its operations through the four Subsidiary Entities — 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”). PEMEX is the largest company in Mexico and one of the largest in the world in terms of both total assets and total revenues. According to data published in Petroleum Intelligence Weekly in December 1995, PEMEX was the fourth largest oil company in the world as of December 31, 1994 in terms of total assets (Ps. 201.5 billion), topped only by Royal Dutch-Shell, Exxon and a third company (not identified). In terms of its total revenues (Ps. 100.3 billion) and total income (Ps. 3.3 billion), PEMEX ranked as the tenth and ninth largest company, respectively, in the oil industry. As measured by the Petroleum Intelligence Weekly Composite Index (which comprises reserves, output, refining capacity and product sales by volume), PEMEX ranked as the fifth most important oil company in the world after Saudi Aramco, Petróleos de Venezuela, the Royal Dutch-Shell Group and the National Iranian Oil Company.

The activities of Petróleos Mexicanos and the Subsidiary Entities are regulated by the Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo (the Regulatory Law to Article 27 of the Political Constitution of Mexico Concerning Petroleum Affairs, or the “Regulatory Law”), effective November 30, 1958, as amended effective May 12, 1995, and its statutory charter, the Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios (Organic Law of Petróleos Mexicanos and Subsidiary Entities, or “Organic Law”), effective July 17, 1992, as amended effective January 1, 1994. Under the Organic Law and related regulations, Petróleos Mexicanos is entrusted with the central planning and the strategic management of Mexico's petroleum industry, and PEMEX is granted the exclusive authority to conduct (i) the exploration, exploitation, refining, transportation, storage, distribution and first-hand sale of crude oil, (ii) the exploration, exploitation, production and first-hand sale of natural gas, as well as the transportation and storage inextricably linked with such exploitation and production, and (iii) the production, storage, transportation, distribution and first-hand sale of petroleum derivatives (including petroleum products) used as basic industrial raw materials and the derivatives of natural gas which are considered Basic Petrochemicals (as defined above).

The Organic Law separates the operating functions of Petróleos Mexicanos into four entities, the Subsidiary Entities, each of which is controlled by (and has characteristics of a subsidiary of) Petróleos Mexicanos. The principal objectives of the Subsidiary Entities are as follows: (i) Pemex-Exploration and Production: exploration and exploitation of crude oil and natural gas, and the transport, storage in terminals and marketing thereof;
(ii) Pemex-Refining: refining of petroleum products and derivatives that may be used as basic industrial raw materials, and the storage, transportation, distribution and marketing thereof; (iii) Pemex-Gas and Basic Petrochemicals: production of natural gas, natural gas liquids and derivatives that may be used as basic raw materials and the storage, transportation, distribution and marketing thereof, to obtain Basic Petrochemicals (as defined above), and the storage, transportation, distribution and marketing thereof; and (iv) Pemex-Petrochemicals: industrial petrochemical processes, and the storage, distribution and marketing of Secondary Petrochemicals (as defined above).

The Regulatory Law was amended effective May 12, 1995 to provide that Mexican private sector companies (which may be owned by non-governmental, non-Mexican companies or individuals) may participate, upon Governmental authorization, in the storage, distribution and transportation of natural gas and to that end may construct, own and operate pipelines, installations and equipment. Implementing regulations to the amendment were published on November 8, 1995. The Comision Reguladora de Energia (the “Energy Regulatory Commission”), first established in October 1993 as a technical agency of the Secretaria de Energia (the “Ministry of Energy”), was re-organized with new powers under the Law of the Energy Regulatory Commission enacted on October 1995, and given technical, operational and budgetary autonomy within the Ministry of Energy. Its powers include the regulation of the activities of both public and private operators in the electricity and natural gas industries, the establishment of pricing and tariffs methodologies and general contractual terms through issuance of directives, and the resolution of disputes between regulated parties and users of their services. Under the new regulatory framework, PEMEX will maintain an important role in the supply of natural gas given its position as the sole domestic producer and dominant transporter of natural gas. It will apply methodologies established by the Energy Regulatory Commission for setting its first-hand sales prices of domestic natural gas (imported gas being excluded from such price regulation) and calculating its transportation rates. PEMEX will divest its existing distribution assets, and will allow open access to its transportation system within a 24-month period of the effective date of the Regulations, providing such access to third parties as the necessary measurement and controls systems are implemented. It will continue to perform marketing functions and may develop storage systems. PEMEX nonetheless retains exclusive autonomy with respect to the exploration, exploitation, production and first-hand sale of natural gas as well as the transportation and storage inextricably linked with such exploitation and production. See “Item 9 - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments - Pemex - Transportation and Distribution.”

PEMEX is the fifth largest producer of crude oil and condensates in the world and one of the largest in the Americas, accounting for approximately 5% of the world’s crude oil and condensates production in 1994.2 It is one of the major suppliers of crude oil to the United States and Spain, accounting for 13% and 9%, respectively, of those countries’ imports of crude oil in 1995.

---

As of December 31, 1995, Mexico had proved hydrocarbon reserves of 62.1 billion barrels of crude oil equivalents. Of these reserves, 48.8 billion barrels consisted of crude oil and condensates. Mexico's oil reserves represent approximately 5% of the world's proved oil reserves which, together with those of Venezuela and the former Soviet Union, represent the largest proved oil reserves outside of the Persian Gulf. The Political Constitution of Mexico (the "Constitution") provides that the Mexican nation (not PEMEX) is the owner of all oil and other hydrocarbon reserves of Mexico. Under Mexican law, Petróleos Mexicanos and the Subsidiary Entities are the only entities entitled to extract and utilize these reserves. See "— Reserves" below. Mexico is not a member of the Organization of Petroleum Exporting Countries.

PEMEX supplies substantially all of Mexico's consumption of oil products, a market which is larger than that of Spain, similar to that of Canada or the United Kingdom and equivalent to four-fifths of the oil consumption of France or Italy in 1994. PEMEX's refining capacity totaled 2.1 million bpd at the end of both 1994 and 1995 with 1.5 million bpd of such capacity directed to the primary distillation of crude oil and the remainder (557,000 bpd) used for the fractionation of condensates.

PEMEX is one of the few major producers of crude oil in the world to experience a strong demand for its products in its domestic market, which makes PEMEX less vulnerable to disruptions in the international markets. Domestic demand for PEMEX's products grew steadily from 1986 to 1992, but leveled off first in 1993, principally as a result of a slowdown in the Mexican economy, and then again in early 1995 as a consequence of the macroeconomic events that followed the devaluation of the peso against the U.S. dollar in December 1994. See "— United Mexican States — Events During 1994" and "— The Government's Response".

In 1995, PEMEX earned income of Ps. 9.8 billion on total revenues (net of the IEPS tax) of Ps. 143.8 billion, and income after costs and expenses but before hydrocarbon extraction duties and taxes of Ps. 102.4 billion. Total sales revenues for 1995 (net of the IEPS tax) reached Ps. 139.6 billion. Of this amount, Ps. 74.4 billion resulted from sales in the domestic market and the remainder came from exports to 192 clients in 51 countries. Excluding the operations of P.M.I. Comercio Internacional, S.A. de C.V., ("PMI Comercio") crude oil exports accounted for 89% of export sales, petroleum by-products (including natural gas) accounted for 6% of export sales and petrochemical products accounted for the remainder of export sales in 1995. The weighted average price of crude oil exported by PEMEX was US$15.70 per barrel in 1995, a 13.11% increase over the average of US$13.88 per barrel observed in 1994. The total equity of PEMEX at December 31, 1995 was Ps. 126.6 billion, and total capitalization (long-term debt plus equity) amounted to Ps. 174.1 billion.

PEMEX's exports accounted for approximately 8.6% of Mexico's foreign revenues in 1995 and 9.3% in 1994 (including revenues generated by in-bond industries). If

the indirect taxes collected by PEMEX are taken into account, its contribution to the Federal Government's revenues was approximately 35.3% in 1995 and 27.5% in 1994.

PEMEX owns a 5% interest in Repsol, S.A., a Spanish integrated oil company, subject to the transaction described in Note 6 to the Financial Statements.

Exploration and Drilling

The main objective of PEMEX's exploration program is to identify new oil reservoirs and thereby maintain an adequate level of reserves. PEMEX's exploration program was accelerated in the late 1970's, leading to a substantial growth in proven reserves from 11.2 billion barrels in 1976 to 72.1 billion barrels in 1982. However, PEMEX's exploration program, like that of other oil producing companies, was scaled back as oil prices dropped first in 1981 and then again in 1986. Nonetheless, beginning in 1990, PEMEX initiated the drilling of 562 wells and by December 31, 1995 had completed 662 exploration and development wells with an average success rate of 47% and 91% respectively. From 1990 to 1995, this led to the discovery of 29 new crude oil and 20 new natural gas fields, which brought the number of PEMEX's crude oil and natural gas fields in production to 342 at the end of 1995.

Most of the offshore production in the Gulf of Mexico is obtained in waters under 100 meters in depth; however, the exploration program for 1996 includes the exploration of regions which are located in deeper waters.

The following table summarizes PEMEX's drilling activity for the five years ended December 31, 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wells Drilled</td>
<td>171</td>
<td>121</td>
<td>66</td>
<td>72</td>
<td>104</td>
</tr>
<tr>
<td>Wells Completed</td>
<td>184</td>
<td>129</td>
<td>78</td>
<td>63</td>
<td>102</td>
</tr>
<tr>
<td>Exploratory Wells</td>
<td>51</td>
<td>41</td>
<td>25</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>Development Wells</td>
<td>133</td>
<td>88</td>
<td>53</td>
<td>47</td>
<td>92</td>
</tr>
<tr>
<td>Producing Wells at End of Period</td>
<td>4,863</td>
<td>4,741</td>
<td>4,641</td>
<td>4,555</td>
<td>4,616</td>
</tr>
<tr>
<td>Fields in Production</td>
<td>341</td>
<td>334</td>
<td>336</td>
<td>340</td>
<td>342</td>
</tr>
</tbody>
</table>


In 1994, Pemex-Exploration and Production invested Ps. 5,658 million, with the majority of the investment corresponding to field development projects (39.5% of total investment), exploration activities (22.0% of total investment) and evaluation of potential reserves (2.0% of total investment). Investment in exploration activities totaled Ps.1,245 million in 1994, a figure similar to the annual investment expenditures during 1991 through 1993. Investment in field development totaled Ps. 2,233 million in 1994. Of this amount,
43.8% was directed toward the Ek-Balam, Taratunich and Caan fields in the "Marine" region, located in the Gulf of Mexico, and 36.5% was directed toward the Cantarell project with the objective of maintaining the level of production of crude oil in the Campeche Sound. As a result of these investments, 1994 production of light, including extra light, crude oil was increased by 59,000 bpd over 1993 levels.

In 1995, PEMEX invested Ps. 9,656 million in exploration and production. Of the total investment in strategic projects (Ps. 7,596 million), 51.1% corresponded to field development projects, 19.4% to exploration activities, 16.3% to maintenance of installations, 11.1% to maintenance of wells and 2.1% to artificial exploitation systems. The most significant field development projects were the Och-Uetch-Kax, Abkatun-Pol-Chuc and Cantarell projects in the Marine region and the Jujo-Tecominoacán and Jacinto projects in the Southern region. The principal investments in exploration activities were directed to the Campeche and Litoral de Tabasco projects in the Marine region, the Cuencas del Sureste project in the Southern region and the Burgos project in the Northern region. The most significant investments in artificial exploitation systems were the Ek-Balam project in the Marine region and the gas lift project in Cárdenas and Reforma.

For 1996, PEMEX has budgeted Ps. 15,738.1 million for investment in exploration and production, approximately 53% of which will be invested in projects relating to field development, pipelines and exploration activities, including the continuation of the certain projects underway in 1995. The remaining 47% is budgeted for operational projects as well as projects relating to maintenance, installation, security and environmental matters.

**Reserves**

Mexico's proved reserves are determined by PEMEX and the Instituto Mexicano del Petróleo (Mexican Petroleum Institute), a decentralized public entity, which is, like PEMEX, controlled by the Government. This determination is made in accordance with the rules and regulations of the U.S. Securities and Exchange Commission. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Such estimates do not include reserves located in areas where production has not yet begun.

Mexico's proved hydrocarbon reserves (which, according to statistics published in BP Statistical Review of World Energy, June 1995, are over 60% larger than those of the United States) are sufficient to maintain current production levels for approximately 48 years. As discussed above, under the Mexican Constitution and Mexican statutory law, all oil and other hydrocarbon reserves within Mexico are owned by the Mexican nation and not by PEMEX. Under the Organic Law, PEMEX has the exclusive right to exploit those reserves. PEMEX's exploration and development activities are limited to reserves located in Mexico.

At the end of 1995, Mexico had proved reserves of 62.1 billion barrels of oil equivalent, of which approximately 46% were located in the Marine region, 34% in the
“Northern” or Chicontepec region and 20% in the “Southern” or Chiapas-Tabasco region. Mexico’s total hydrocarbon reserves reached their peak level of 72,500 million barrels at the beginning of 1984. Since then, they have decreased at an average annual rate of 1.30% except in 1992 when additions to reserves exceeded the volume extracted.

The following table sets forth Mexico’s proved reserves and proved developed reserves of crude oil, condensates and natural gas for the five years ended December 31, 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proved Developed and Undeveloped Reserves</td>
<td></td>
<td>44.3</td>
<td>44.4</td>
<td>44.0</td>
<td>43.1</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>6.6</td>
<td>6.8</td>
<td>6.7</td>
<td>6.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Natural gas (2)</td>
<td>14.1</td>
<td>13.9</td>
<td>13.8</td>
<td>13.5</td>
<td>13.3</td>
</tr>
<tr>
<td>Total</td>
<td>65.0</td>
<td>65.1</td>
<td>64.6</td>
<td>63.2</td>
<td>62.1</td>
</tr>
<tr>
<td>Reserves / Production ratio (years)</td>
<td>50</td>
<td>50</td>
<td>49</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Proved Developed Reserves</td>
<td></td>
<td>27.5</td>
<td>27.0</td>
<td>26.6</td>
<td>25.9</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>4.4</td>
<td>4.4</td>
<td>4.3</td>
<td>4.2</td>
<td>4.3</td>
</tr>
<tr>
<td>Natural gas (2)</td>
<td>7.6</td>
<td>7.2</td>
<td>7.1</td>
<td>6.9</td>
<td>6.8</td>
</tr>
<tr>
<td>Total</td>
<td>39.5</td>
<td>38.6</td>
<td>38.0</td>
<td>37.0</td>
<td>36.8</td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.

(1) Includes NGLs.
(2) Crude oil equivalents calculated on basis of 5,088 cubic feet of natural gas equals one barrel.

Estimates of reserves are prepared by PEMEX using standard geological and engineering methods generally accepted by the petroleum industry. The choice of method or combinations of methods employed in the analysis of each reservoir is determined by experience in the area, stage of development, quality and completeness of basic data and production history.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the producer. The reserve data set forth herein represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers often vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate. Accordingly, reserve estimates may be materially different from the quantities of crude oil and natural gas that are ultimately recovered. The significance of such estimates is highly dependent upon the accuracy of the assumptions upon which they are based.
Production

In 1995, production averaged 2.62 million bpd of crude oil, 3.76 billion cfpd of natural gas (approximately 750,000 barrels of oil equivalent) and 449,000 bpd of condensates.

The production level of crude oil in 1995 was slightly lower than the 1994 level, due to the effects of hurricanes Opal and Roxanne, which hit Mexico in October 1995, and was comparable to the historically high production levels reached between 1982 and 1984. Natural gas production in 1995 increased by 3.7% with respect to 1994, while condensates production decreased by 4.7% over the same period.

PEMEX produces three types of crude oil: Maya, a heavy crude; Isthmus, a light crude; and Olmeca, a very light crude. See "Glossary of Certain Technical Terms". Most of PEMEX’s production is Isthmus and Maya crude oil. In 1995, 47% of PEMEX’s total production of crude consisted of heavy crudes and 53% consisted of light and very light crudes. The Marine region predominately produces heavy crude oil (60.2% of the production of the Marine region), although significant volumes of light crude oil are also produced (39.8%). The Southern region produces light and very light crudes and the Northern region produces roughly one-half heavy crudes.
The following table sets forth the annual crude oil production rates for the five years ended December 31, 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Crude Oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marine Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heavy Crude</td>
<td>467.2</td>
<td>472.9</td>
<td>461.7</td>
<td>443.4</td>
<td>425.4</td>
</tr>
<tr>
<td>Light Crude</td>
<td>227.9</td>
<td>225.8</td>
<td>250.0</td>
<td>287.2</td>
<td>281.8</td>
</tr>
<tr>
<td>Southern region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heavy Crude</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Light Crude</td>
<td>242.1</td>
<td>238.3</td>
<td>227.7</td>
<td>213.4</td>
<td>212.9</td>
</tr>
<tr>
<td>Northern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heavy Crude</td>
<td>16.9</td>
<td>17.8</td>
<td>18.4</td>
<td>19.3</td>
<td>19.7</td>
</tr>
<tr>
<td>Light Crude</td>
<td>22.0</td>
<td>18.4</td>
<td>17.5</td>
<td>16.4</td>
<td>15.1</td>
</tr>
<tr>
<td>Total Heavy Crude</td>
<td>484.6</td>
<td>491.1</td>
<td>480.5</td>
<td>463.1</td>
<td>445.5</td>
</tr>
<tr>
<td>Total Light Crude</td>
<td>492.0</td>
<td>482.5</td>
<td>495.3</td>
<td>516.9</td>
<td>509.8</td>
</tr>
<tr>
<td>Total</td>
<td>976.7</td>
<td>973.7</td>
<td>975.8</td>
<td>980.0</td>
<td>955.3</td>
</tr>
<tr>
<td>(B) Condensates</td>
<td>164.1</td>
<td>164.8</td>
<td>168.1</td>
<td>172.0</td>
<td>163.9</td>
</tr>
<tr>
<td>Total Liquids Production (A + B)</td>
<td>1,140.8</td>
<td>1,138.5</td>
<td>1,143.9</td>
<td>1,152.0</td>
<td>1,119.2</td>
</tr>
<tr>
<td>Natural Gas (billions of cfpy)</td>
<td>1,326.4</td>
<td>1,308.2</td>
<td>1,305.2</td>
<td>1,323.1</td>
<td>1,372.0</td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.


In 1995, approximately 74.0% of Mexico's crude oil production was attributable to offshore facilities located mainly in the Campeche Sound in the Gulf of Mexico. Approximately 22.3% of production came from onshore facilities in the Southern region. Inland facilities in the Northern region accounted for the remaining 3.7% of total production. Due to the high productivity of certain wells, 8 fields accounted for 72% of Mexico's crude oil production in 1995.

The Marine region covers an area of approximately 21,000 square kilometers (8,112 square miles) located in the Campeche Sound. PEMEX's production area in the Campeche Sound comprises 9,000 square kilometers (3,476 square miles). Geophysical operations began there in 1972 and drilling commenced in 1974. Production began in June 1979, reaching an average of 1.33 million bpd of crude oil in 1981 and 1.9 million bpd in 1995. The oil fields located in the Campeche Sound are less than 100 meters below the sea surface and have an average depth of 3,500 meters.
The Southern region covers an area of approximately 23,000 square kilometers (8,884 square miles), with PEMEX’s production area comprising 9,000 square kilometers (3,476 square miles) in the states of Chiapas and Tabasco. In 1995, production in the Southern region totaled 584,446 bpd. This production area includes 49 oil fields with an average well depth of 5,500 meters.

During 1995, domestic consumption of crude oil amounted to approximately 1.30 million bpd, which represented approximately half of PEMEX’s total crude oil production. The remainder of PEMEX’s crude oil production was exported. See “— Exports and Imports” below. While total production of crude oil was evenly distributed between domestic consumption and exports, heavy crude accounted for 62% exports but only 38% of domestic consumption.

Natural gas production associated with crude oil production accounted for approximately 84% of production of natural gas in 1995, with the remainder extracted from fields holding natural gas reserves exclusively. Although natural gas production is more geographically diverse than crude oil production, 20 fields accounted for 68.5% of all production in 1995, with 36.7% of total production originating from the Marine region, 48.7% from the Southern region and the remainder from the Northern region.

Domestic consumption of natural gas in 1995 totaled 2.89 billion cfpd, representing no change from the 1994 level due to divergent factors. On the one hand, there was an increase in consumption in 1995 due to the continuing effects of the recovery of the Mexican economy during 1994 and, to a greater extent, an increase in PEMEX’s petrochemical production. Since production of certain petrochemicals such as ammonia requires natural gas as a raw material, increased petrochemical production resulted in higher consumption of natural gas. PEMEX alone represented approximately 49% of domestic consumption of natural gas in 1995 and substantially all of the domestic consumption was supplied by PEMEX’s own production. However, the economic recession in Mexico in 1995 reversed the consumption increases.

PEMEX imports natural gas to satisfy shortfalls in domestic production and to meet demand in areas of northern Mexico which, due to the distance from the fields, can be supplied more efficiently through imports from the United States. Despite the leveling of domestic consumption noted above, PEMEX imported 172.6 million cfpd of natural gas in 1995, increasing from 125.5 million cfpd in 1994.

PEMEX obtains and processes both sweet and sour condensates. Sweet condensates, which do not have any sulfur content, are used by Pemex-Gas and Basic Petrochemicals for the production of solvents and leaded gasoline, while sour condensates, which have some sulfur content, are used to produce stabilized condensates, such as ethane, propane, butane and certain pentanes. Production of sour condensates amounted to 100,000 bpd in 1995 and 106,000 bpd in 1994. Of these amounts, 90,100 bpd (83.1%) resulted in stabilized condensates during 1995, and 87,000 bpd (82.1%) during 1994. Total production of condensates amounted to 460,000 bpd in 1995 and 471,200 bpd in 1994.

The average depth of wells is 7,555 meters. PEMEX obtains and processes both sweet and sour condensates. Sweet condensates, which do not have any sulfur content, are used by Pemex-Gas and Basic Petrochemicals for the production of solvents and leaded gasoline, while sour condensates, which have some sulfur content, are used to produce stabilized condensates, such as ethane, propane, butane and certain pentanes. Production of sour condensates amounted to 100,000 bpd in 1995 and 106,000 bpd in 1994. Of these amounts, 90,100 bpd (83.1%) resulted in stabilized condensates during 1995, and 87,000 bpd (82.1%) during 1994. Total production of condensates amounted to 460,000 bpd in 1995 and 471,200 bpd in 1994.
In 1994, Pemex-Gas and Basic Petrochemicals commenced the construction of three facilities for the sweetening and stabilizing of condensates in order to increase the production and recovery of natural gas liquids by 10%. Construction of these facilities is expected to be completed in the second half of 1996.

**Refining**

PEMEX produces a wide range of different oil and natural gas products, including LPG, gasolines, jet fuel, diesel, fuel oil, asphalts, lubricants and other refined products. Production of refined products totaled 1.68 million bpd in 1994 and 1.60 million bpd in 1995. PEMEX is one of the few top producers of crude oil worldwide that both experiences a significant domestic demand for its refined products and supplies most of such demand at international prices. See "Commercial Activities".

The largest consumers of fuels in Mexico are the Comisión Federal de Electricidad (the Federal Electricity Company, or "CFE") and PEMEX. CFE alone consumed approximately 68% of PEMEX’s fuel oil production during 1995. Meanwhile, PEMEX consumed approximately 49% of its natural gas production during 1995 as energy for its own industrial processes and as a raw material in the production of certain refined products and petrochemicals.

At the end of 1995, PEMEX owned and operated six refineries, Cadereyta, Madero, Minatitlán, Salamanca, Salina Cruz and Tula, and one refining unit located in the petrochemical complex of Cangrejera. PEMEX’s refineries are comprised of atmospheric and vacuum distillation units, where the bulk of crude oil input is processed. Secondary processing facilities include desulphurization units and facilities for catalytic cracking, reforming and hydroconverting. During 1995, PEMEX’s refineries processed 1.3 million bpd of crude oil and 15,000 bpd of condensates that remained in a liquid state from the process of reabsorption and separation of LPG. Of the total crude oil that was processed, 65% was light and 35% was heavy.

During 1995, PEMEX imported approximately 65,100 bpd of unleaded gasoline, which represented 25.3% of total domestic demand for unleaded gasoline in that year. During the last four years, PEMEX’s investment program in the area of refining has focused on improving the quality of gasoline and diesel fuel to meet new environmental standards, increasing its ability to process heavier crudes and to produce unleaded gasoline and increasing its variable margins (the difference between market prices for oil by-products and variable operating costs), as opposed to increasing its overall capacity. In the near term, however, PEMEX will continue to import unleaded gasoline to satisfy domestic demand.

In 1995, two isomerization plants began operations in the refineries of Cadereyta and Minatitlán, which are expected to produce 27,000 bpd of a high index of octane which will be used to produce gasolines. A reforming plant at the Madero refinery, with a capacity of 20,000 bpd, and a Methyl Tertiary Butyl Ether ("MTBE") plant at the Salamanca refinery with a capacity of 35,000 tpy are also in operation.
In addition, PEMEX is planning to incorporate new units during 1996, which will allow it to obtain higher levels of production and better performance, while increasing the product quality and improve its supply. The most significant of these will be the second catalytic plant in Cadereyta, with a capacity of 25,000 bpd; the alkylation plants in Cadereyta, Salamanca, Salina Cruz and Tula, with aggregate capacity of 31,000 bpd; the isomerization plants in Salamanca, Salina Cruz and Tula with aggregate capacity of 42,000 bpd; the hydrodisulfurization plants in Salamanca and Tula, with a capacity of 25,000 bpd each; and the MTBE and TAME (Methyl Tertiary Butyl Ether) plants in Tula, with a total capacity of 180,000 annual tons.

On March 31, 1993, Petróleos Mexicanos, through its subsidiary company P.M.I. Norteameica, S.A. de C.V., purchased a substantial interest from Shell Oil Company in a refinery located in Deer Park, Texas. P.M.I. Norteamerica, S.A. de C.V. and Shell process 50% each of the refinery crude intake and own 50% of its output. The partnership completed a substantial upgrading program in mid-1995.

Pemex-Refining invested approximately Ps. 4,520 million in 1995, primarily in environmental-oriented projects which comprised Ps. 3,014 million and expansion projects in the Tula, Salina Cruz and Cadereyta refineries, which comprised Ps. 320 million. The remainder was dedicated mainly to projects dealing with the relocation of loading and storage facilities and the completion of the pipeline system.

Pemex-Refining has budgeted Ps. 6,432.1 million for 1996 of which 41% will be directed to environmental-oriented projects, 14% to projects relating to the expansion of refineries and the balance to the relocation of storage facilities and upgrading and improvements of the pipeline system. According to Pemex-Refining’s business plan, investment projects will focus mainly on the expansion of production, pursuant to projected growth in demand and profitability criteria.

In addition, during 1996, Pemex-Refining will undertake a major project funded from private sources relating to the construction and start-up of a delayed coker complex to be located in Cadereyta. The Cadereyta project is expected to substantially increase clean fuel production in order to fulfill future demand requirements in the north of Mexico and comply with future environmental regulations. The plant is expected to be operating in 1999.
The following table sets forth the refining capacity of PEMEX for the five years ended December 31, 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands of bpd)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Madero</td>
<td>195</td>
<td>195</td>
<td>195</td>
<td>195</td>
<td>195</td>
</tr>
<tr>
<td>Minatán</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Salamanca</td>
<td>235</td>
<td>235</td>
<td>240</td>
<td>240</td>
<td>240</td>
</tr>
<tr>
<td>Reynosa(1)</td>
<td>9</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Tula</td>
<td>320</td>
<td>320</td>
<td>320</td>
<td>320</td>
<td>320</td>
</tr>
<tr>
<td>Salina Cruz</td>
<td>330</td>
<td>330</td>
<td>330</td>
<td>330</td>
<td>330</td>
</tr>
<tr>
<td>Cadereyta</td>
<td>235</td>
<td>235</td>
<td>235</td>
<td>235</td>
<td>235</td>
</tr>
<tr>
<td>Total Primary Distillation Capacity</td>
<td>1,524</td>
<td>1,524</td>
<td>1,520</td>
<td>1,520</td>
<td>1,520</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands of bpd)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minatán</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Poza Rica</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Reynosa(3)</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Cactus(4)</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
</tr>
<tr>
<td>Cangrejeras(5)</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
</tr>
<tr>
<td>Nuevo Pemex(6)</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
</tr>
<tr>
<td>Morelos</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
</tr>
<tr>
<td>Madero</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total Condensate Fractionation Capacity</td>
<td>557</td>
<td>557</td>
<td>557</td>
<td>557</td>
<td>557</td>
</tr>
<tr>
<td>Total Refining Capacity</td>
<td>2,081</td>
<td>2,081</td>
<td>2,077</td>
<td>2,077</td>
<td>2,077</td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.

(1) The primary distillation unit at this facility was closed in 1993.
(2) Petrochemical centers.


As a result of its strategy of investing in technology to improve the quality of its fuel, PEMEX has increased its production of unleaded gasoline by 151,400 bpd, from 10.0% of total gasoline production in 1991 to 45.7% in 1995. PEMEX has also introduced new products such as "Diesel Sin", a low sulfur diesel, which contains 0.05% sulfur, and has encouraged the substitution of current sources of energy with environmentally safer ones. Accordingly, the share of Diesel Sin as a percentage of total diesel produced has increased from 4.6% in 1993 to 59% in 1995. In addition, the electrical sector has begun to use natural gas instead of fuel oil in certain plants, and LPG has been promoted as a substitute fuel for gasoline in vehicles.
The following table shows the average daily production of refined products for the five years ended December 31, 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands of bpd)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LPG</td>
<td>250.3</td>
<td>244.1</td>
<td>254.2</td>
<td>266.9</td>
<td>256.9</td>
</tr>
<tr>
<td>Gasolines(1)</td>
<td>473.2</td>
<td>463.9</td>
<td>482.5</td>
<td>509.4</td>
<td>492.0</td>
</tr>
<tr>
<td>Kerosenes</td>
<td>71.5</td>
<td>76.3</td>
<td>83.8</td>
<td>84.9</td>
<td>77.0</td>
</tr>
<tr>
<td>Diesel</td>
<td>276.1</td>
<td>277.8</td>
<td>266.7</td>
<td>284.4</td>
<td>254.8</td>
</tr>
<tr>
<td>Fuel Oil</td>
<td>414.2</td>
<td>407.7</td>
<td>419.4</td>
<td>420.0</td>
<td>416.7</td>
</tr>
<tr>
<td>Others</td>
<td>85.5</td>
<td>105.6</td>
<td>109.9</td>
<td>110.2</td>
<td>102.8</td>
</tr>
<tr>
<td>Total</td>
<td>1,570.7</td>
<td>1,575.5</td>
<td>1,616.5</td>
<td>1,675.9</td>
<td>1,600.1</td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.
(1) Includes naphtha used as a raw material for petrochemicals and propane exports.

*Source: PEMEX's January 1996 Indicadores Petroleros.*

In January 1993, Pemex-Refining entered into a joint venture with Impulsora Jalisciense, S.A. de C.V., to establish a new company called Mexicana de Lubricantes, S.A. de C.V. ("Mexlub"), which formulates, bottles, cans and distributes PEMEX's automotive and industrial lubricants and greases. PEMEX has a 49% participation in this venture. The new company has contributed to PEMEX's increased participation in the lubricants market both in Mexico and abroad. PEMEX will continue to be the sole producer of the basic oils that are used as raw materials in the formulation of greases and lubricants.

**Petrochemicals**

At the end of 1995, PEMEX operated 121 industrial plants and auxiliary units located in 6 petrochemical complexes, 8 process centers and 6 petrochemical units. Pemex-Gas and Basic Petrochemicals operated 61 of these plants and auxiliary units and Pemex-Petrochemicals operated the remaining 60. Total production associated with petrochemical activities, including that of basic and other inputs, the petrochemical products themselves and the by-products obtained, increased to 19.2 million tons in 1994, approximately the same level as in 1992, from 17.8 million tons in 1993. Production of petrochemicals products and their by-products totaled 19.4 million tons in 1995.

The decrease in petrochemicals production from 1992 to 1993 was the result of several factors. First, the slowdown in the Mexican economy reduced domestic demand; second, a cyclical contraction in the international petrochemical market made it difficult to use exports in order to compensate for a weak domestic demand; third, Pemex-Petrochemicals stopped operations in some plants, whose obsolescence rendered them uncompetitive; and fourth, major maintenance was performed in several plants. In 1994, total petrochemical production increased to the same level as in 1992, mainly as a result of the recovery of the world petrochemical industry, which resulted in higher prices and a growth in demand for petrochemical products in the domestic market.
For 1995, total petrochemical production amounted to 19.4 million tons, a slight increase of 1.1% with respect to 1994. Natural gas supply problems related to an explosion of a sour condensates pipeline in February, 1995 and the hurricanes Opal and Roxanne in October 1995, together with reduced domestic economic activity were, on balance, outweighed by successful export programs by Mexican petrochemicals producers, which acquire inputs from PEMEX.

PEMEX manufactures a variety of petrochemicals, including methane derivatives (such as ammonia and carbon dioxide) (30.9% of total 1995 petrochemical production), ethane derivatives (16.2% of 1995 petrochemical production) and aromatics and derivatives (10.2% of 1995 petrochemical production). The 1.1% increase observed from 1994 to 1995 in the total production of petrochemicals consisted mainly of large increases in the production of pentanes, which represented approximately 95% of the total increase.

Pemex-Gas and Basic Petrochemicals and Pemex-Petrochemicals invested an aggregate of Ps. 1,135 million in 1995 and have budgeted Ps. 1,735 million for 1996 investment in projects related to natural gas and condensates processing and petrochemicals production. These include investments to increase operating efficiency, investments in plant construction, transportation, maintenance and industrial safety and investments in environmental compliance.
The following table shows the annual production associated with the petrochemical activities of PEMEX for the five years ended December 31, 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands of tons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic Inputs............</td>
<td>4,454</td>
<td>4,689</td>
<td>5,090</td>
<td>5,385</td>
<td>5,433</td>
</tr>
<tr>
<td>Gases</td>
<td>3,565</td>
<td>3,649</td>
<td>4,256</td>
<td>4,329</td>
<td>4,142</td>
</tr>
<tr>
<td>Ethane</td>
<td>3,554</td>
<td>3,592</td>
<td>3,530</td>
<td>3,587</td>
<td>3,362</td>
</tr>
<tr>
<td>Butane</td>
<td>17</td>
<td>57</td>
<td>726</td>
<td>742</td>
<td>780</td>
</tr>
<tr>
<td>Liquids</td>
<td>889</td>
<td>1,040</td>
<td>834</td>
<td>1,056</td>
<td>1,291</td>
</tr>
<tr>
<td>Pentanes</td>
<td>590</td>
<td>775</td>
<td>654</td>
<td>822</td>
<td>1,032</td>
</tr>
<tr>
<td>Hexanes</td>
<td>106</td>
<td>52</td>
<td>75</td>
<td>83</td>
<td>79</td>
</tr>
<tr>
<td>Heptanes</td>
<td>20</td>
<td>14</td>
<td>12</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Carbon Black</td>
<td>183</td>
<td>169</td>
<td>123</td>
<td>138</td>
<td>166</td>
</tr>
<tr>
<td>Feedstocks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Inputs............</td>
<td>634</td>
<td>683</td>
<td>639</td>
<td>614</td>
<td>603</td>
</tr>
<tr>
<td>Oxygen</td>
<td>479</td>
<td>526</td>
<td>490</td>
<td>456</td>
<td>444</td>
</tr>
<tr>
<td>Nitrogen</td>
<td>117</td>
<td>115</td>
<td>106</td>
<td>110</td>
<td>110</td>
</tr>
<tr>
<td>Hydrogen</td>
<td>32</td>
<td>39</td>
<td>43</td>
<td>48</td>
<td>49</td>
</tr>
<tr>
<td>Petrochemicals..........</td>
<td>12,630</td>
<td>12,864</td>
<td>11,065</td>
<td>12,148</td>
<td>12,303</td>
</tr>
<tr>
<td>Methane Derivatives.....</td>
<td>6,650</td>
<td>6,565</td>
<td>5,307</td>
<td>6,058</td>
<td>5,989</td>
</tr>
<tr>
<td>Ethane Derivatives......</td>
<td>2,967</td>
<td>3,377</td>
<td>3,087</td>
<td>3,048</td>
<td>3,140</td>
</tr>
<tr>
<td>Aromatics and Derivatives</td>
<td>2,167</td>
<td>2,131</td>
<td>1,857</td>
<td>2,006</td>
<td>1,981</td>
</tr>
<tr>
<td>Propylene and Derivatives</td>
<td>815</td>
<td>740</td>
<td>538</td>
<td>647</td>
<td>555</td>
</tr>
<tr>
<td>Others</td>
<td>31</td>
<td>51</td>
<td>276</td>
<td>389</td>
<td>338</td>
</tr>
<tr>
<td>Other products(1)</td>
<td>875</td>
<td>958</td>
<td>981</td>
<td>1,033</td>
<td>1,060</td>
</tr>
<tr>
<td>Hydrochloric Acid</td>
<td>85</td>
<td>155</td>
<td>147</td>
<td>141</td>
<td>135</td>
</tr>
<tr>
<td>Marinic Acid</td>
<td>36</td>
<td>28</td>
<td>23</td>
<td>15</td>
<td>42</td>
</tr>
<tr>
<td>Sulfur</td>
<td>754</td>
<td>775</td>
<td>811</td>
<td>877</td>
<td>883</td>
</tr>
<tr>
<td>Total</td>
<td>18,593</td>
<td>19,194</td>
<td>17,775</td>
<td>19,180</td>
<td>19,399</td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.

(1) By-products obtained during the production of petrochemicals.


PEMEX has a total installed capacity sufficient to produce 20 million tons each year of the products described above.

Under Mexican law, only PEMEX may produce and engage in the first-hand sale of Basic Petrochemicals. The Ministry of Energy determines which petrochemical products are classified as “basic.” Before 1986, nearly all petrochemicals were classified as “basic” and accordingly, PEMEX had a monopoly on the production and first-hand sale of all products so classified. In this environment, PEMEX expanded its petrochemical division at a very fast rate. Since 1986, the Ministry of Energy has reclassified most petrochemicals so that the number of Basic Petrochemicals has been reduced. At present, Basic Petrochemicals are limited to eight basic inputs, down from 34 in 1986 and 19 in 1989, into the petrochemical production process, such as ethane, butane, NGLs and pentanes. All petrochemicals not
classified as "basic", are considered to be either "secondary" or deregulated. In both cases
private investment is permitted in their manufacture. While the manufacture of "secondary"
products requires a permit from the Ministry of Energy, the manufacture of the deregulated
products (all those not defined either as "basic" or "secondary") does not require any special
permit, though manufacturers need to register with the Ministry of Energy for this purpose.
As a result of the reclassification, PEMEX no longer has monopoly on the production and
first-hand sale of most petrochemical products in Mexico. See "Item 9—Management’s
Discussion and Analysis of Financial Condition and Results of Operations—Recent
Developments—Sale of Petrochemical Plants".

Commercial Activities

In addition to selling crude oil and natural gas, PEMEX markets a full range of
refined products, including gasolines, jet fuel, diesel, fuel oil and petrochemicals. As the
supplier of most of the oil products consumed in Mexico, PEMEX experiences a strong
domestic demand which, in 1994 was equivalent to approximately four-fifths of the domestic
demand in France or Italy.

PEMEX’s sales in domestic and international markets in 1994 consisted of 1.31
million bpd of crude oil (exports only, since domestic sales are eliminated as intercompany
sales), 1.66 million bpd of refined products (including LPG), 1.45 billion cfpd of natural gas
and 7.62 million tpy of petrochemicals. In 1995, sales consisted of 1.30 million bpd of crude
oil, 1.55 million bpd of refined products (including LPG), 1.57 billion cfpd of natural gas and
7.52 million tpy of petrochemicals.
The following tables show PEMEX’s sales by product (net of the IEPS tax) for the five years ended December 31, 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil (bpd)</td>
<td>1,368.7</td>
<td>1,367.8</td>
<td>1,337.1</td>
<td>1,307.4</td>
<td>1,305.6</td>
</tr>
<tr>
<td>Natural Gas (cfpd)</td>
<td>1,467.0</td>
<td>1,447.1</td>
<td>1,379.9</td>
<td>1,450.5</td>
<td>1,570.0</td>
</tr>
<tr>
<td>Refined Products (bpd) (2)</td>
<td>1,504.5</td>
<td>1,548.2</td>
<td>1,599.9</td>
<td>1,664.9</td>
<td>1,552.9</td>
</tr>
<tr>
<td>Petrochemicals (tpy) (3)</td>
<td>7,663.9</td>
<td>7,727.6</td>
<td>6,782.6</td>
<td>7,621.8</td>
<td>7,519.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil</td>
<td>$7,285.2</td>
<td>$7,448.1</td>
<td>$6,441.0</td>
<td>$6,624.1</td>
<td>$7,480.1</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>893.4</td>
<td>981.6</td>
<td>1,089.3</td>
<td>1,043.4</td>
<td>819.2</td>
</tr>
<tr>
<td>Refined Products</td>
<td>9,494.9</td>
<td>11,306.4</td>
<td>10,821.2</td>
<td>10,675.5</td>
<td>9,826.2</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>1,479.9</td>
<td>1,409.4</td>
<td>1,298.4</td>
<td>1,729.3</td>
<td>1,896.0</td>
</tr>
<tr>
<td>Total</td>
<td>$19,145.5</td>
<td>$21,144.5</td>
<td>$18,649.5</td>
<td>$20,074.4</td>
<td>$20,023.5</td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.

(1) In millions.
(2) Includes LPGs and Pentanes.
(3) Includes by-products of the petrochemical production process and some insignificant amounts of basic inputs into such process. These figures do not include Pentanes.
(4) Does not include crude oil, refined products, petrochemicals and natural gas purchased by P.M.I. Trading Ltd. from third parties and resold in the international markets.

Source: PEMEX’s 1995 Statistical Yearbook

Approximately half of the crude oil produced by PEMEX is sold in the domestic market in the form of refined products and petrochemicals, and the remainder is exported. In 1995, domestic sales revenues amounted to Ps. 92.1 billion, or 58.6% of total sales revenues. In 1994, 67.4% of PEMEX’s sales revenues were obtained in the domestic market, where such sales totaled Ps. 64.1 billion.

Domestic gasoline sales in 1995 decreased by 4% from 1994 levels, to 480,700 bpd. Due to environmental regulations requiring installation of catalytic converters in all new automobiles and a price policy aimed at reducing the gap between prices for leaded and unleaded gasoline, sales of unleaded gasoline continued to increase as a percentage of total gasoline sales to an average of 257,500 bpd in 1995, a 12% increase over 1994 sales of 220,600 bpd. Meanwhile, sales of leaded gasoline decreased by approximately 18%, from 272,700 bpd in 1994 to 223,200 bpd in 1995. By the end of 1995, unleaded gasoline accounted for 56% of total gasoline sales. Diesel fuel sales fell by 8% from 1994 to 1995, totaling 228,100 bpd, with the transportation sector accounting for 87% of total demand and the industrial, marine, electrical and agricultural sectors accounting for 13% of total demand.
Exports and Imports

PMI Comercio Internacional, S.A. de C.V. ("PMI Comercio"), a marketing subsidiary of Petróleos Mexicanos incorporated in 1989, manages all of PEMEX’s international commercial activities, except for natural gas which is marketed by Pemex-Gas and Basic Petrochemicals. PMI Comercio’s main corporate objective is to sell abroad crude oil and other products produced by PEMEX and to buy those products that are necessary for PEMEX to supply the domestic market. Through its subsidiary P.M.I. Trading Ltd., PMI Comercio also trades for its own account certain oil products. PMI Comercio is 85% owned by PEMEX; the remaining 15% of its equity is owned equally by Nacional Financiera, S.N.C. and Banco Nacional de Comercio Exterior, S.N.C., both of which are over 99% owned directly or indirectly by the Government.

Through PMI Comercio, PEMEX has focused its marketing efforts on strengthening customer relationships by analyzing and understanding specific purchasing patterns, closely monitoring market conditions and reacting promptly to price variations. PEMEX’s marketing strategy is driven by what it believes are its most important sales concepts: long-term relationships and customer loyalty. PMI Comercio seeks to achieve geographical diversification in its customer base in order to reduce commercial risks and to strengthen PMI Comercio’s negotiating position by increasing its role as a significant global trader. As of December 31, 1995, PMI Comercio had 192 customers in 51 countries. In 1995, crude exports by volume were distributed as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>79.4%</td>
</tr>
<tr>
<td>Spain</td>
<td>7.7%</td>
</tr>
<tr>
<td>Japan</td>
<td>5.9%</td>
</tr>
<tr>
<td>Canada</td>
<td>0.9%</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.9%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>0.5%</td>
</tr>
<tr>
<td>Others</td>
<td>4.7%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: PMI Comercio.

In managing PEMEX’s export and import activities, PMI Comercio sells and purchases petroleum and petrochemical products in the international markets. With regard to crude oil, PMI Comercio makes purchases from PEMEX at the price determined by PEMEX’s pricing committee (comprised of officials from the Ministry of Energy, the Secretaría de Hacienda y Crédito Público (the "Ministry of Finance and Public Credit"), the Ministry of Commerce and Industrial Development, the General Comptroller’s Office, Banco de México.

21
and PEMEX) and then sells the oil directly to its international customers. See "Item 4 — Control of the Registrant — Regulatory Framework and Relationship with the Government".

Since 1986, PEMEX has used a policy of differential crude oil prices by region, based upon a division of the world into three markets (the Americas, Europe and the Far East). PEMEX's price strategy includes a mechanism to set prices through formulas that take into account a basket of benchmark oil prices and a constant. The individual weights used by PEMEX for a market's benchmark oils and products are adjusted only to take into account significant changes that may take place in the relevant market. All customers within a particular region are charged prices based upon the same formula. Most sales of crude oil are made to clients under automatically renewable supply contracts, and the remaining amount is sold in the spot market, mostly to PEMEX's regular clients. PEMEX's supply contracts may be terminated upon 90 days notice by either party.

The following table shows the average crude oil prices for oil exported by PEMEX during the five years ended December 31, 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted Average Price</td>
<td>$14.58</td>
<td>$14.88</td>
<td>$13.20</td>
<td>$13.88</td>
<td>$15.70</td>
</tr>
<tr>
<td>Isthmus</td>
<td>18.11</td>
<td>18.01</td>
<td>15.87</td>
<td>15.33</td>
<td>16.66</td>
</tr>
<tr>
<td>Maya</td>
<td>12.25</td>
<td>13.11</td>
<td>11.44</td>
<td>12.57</td>
<td>14.41</td>
</tr>
<tr>
<td>Onneca</td>
<td>20.07</td>
<td>19.54</td>
<td>16.95</td>
<td>16.27</td>
<td>17.51</td>
</tr>
</tbody>
</table>

Source: PEMEX's December 1995 Indicadores Petroleros.

The following table sets forth the average unit volume of exports and imports of crude oil, natural gas and derivatives for the five years ended December 31, 1995.
### Exports:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil (bpd)</td>
<td>1,368.7</td>
<td>1,367.8</td>
<td>1,337.1</td>
<td>1,307.4</td>
<td>1,305.6</td>
</tr>
<tr>
<td>Refined Products (bpd)</td>
<td>995.5</td>
<td>117.1</td>
<td>155.9</td>
<td>109.7</td>
<td>118.7</td>
</tr>
<tr>
<td>Petrochemicals (tpy)</td>
<td>972.2</td>
<td>1,237.6</td>
<td>1,324.1</td>
<td>1,559.4</td>
<td>1,226.1</td>
</tr>
<tr>
<td>Natural Gas (cfpd) (3)</td>
<td>-</td>
<td>-</td>
<td>4.7</td>
<td>19.3</td>
<td>21.4</td>
</tr>
</tbody>
</table>

### Imports:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Refined Products (bpd)</td>
<td>142.6</td>
<td>172.0</td>
<td>176.6</td>
<td>188.7</td>
<td>139.5</td>
</tr>
<tr>
<td>Petrochemicals (tpy)</td>
<td>47.7</td>
<td>70.1</td>
<td>86.8</td>
<td>178.1</td>
<td>97.4</td>
</tr>
<tr>
<td>Natural Gas (cfpd)(3)</td>
<td>164.6</td>
<td>250.5</td>
<td>96.6</td>
<td>125.1</td>
<td>172.6</td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.

1. Excludes the activities of P.M.I. Norteamérica, S.A. de C.V.
2. Does not include crude oil, refined products, petrochemicals and natural gas purchased by P.M.I. Trading Ltd. from third parties and resold in the international markets.
3. In millions.

Source: PEMEX’s 1995 Statistical Yearbook and PMI Comercio.

The following table sets forth the value of exports and imports of crude oil, natural gas and derivatives for the five years ended December 31, 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil</td>
<td>$ 7,285.2</td>
<td>$ 7,448.1</td>
<td>$ 6,441.0</td>
<td>$ 6,624.1</td>
<td>$ 7,480.1</td>
</tr>
<tr>
<td>Refined Products</td>
<td>654.3</td>
<td>693.4</td>
<td>827.9</td>
<td>601.7</td>
<td>663.3</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>246.1</td>
<td>203.3</td>
<td>186.3</td>
<td>276.6</td>
<td>247.4</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>-</td>
<td>-</td>
<td>3.4</td>
<td>14.8</td>
<td>12.4</td>
</tr>
<tr>
<td>Total Exports</td>
<td>8,166.6</td>
<td>8,344.8</td>
<td>7,458.6</td>
<td>7,517.6</td>
<td>8,403.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refined Products</td>
<td>$ 1,128.7</td>
<td>$ 1,358.6</td>
<td>$ 1,341.2</td>
<td>$ 1,326.6</td>
<td>$ 1,074.4</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>18.6</td>
<td>26.3</td>
<td>26.9</td>
<td>57.1</td>
<td>32.2</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>106.4</td>
<td>175.2</td>
<td>77.5</td>
<td>82.2</td>
<td>99.1</td>
</tr>
<tr>
<td>Total Imports</td>
<td>1,253.7</td>
<td>1,560.1</td>
<td>1,445.6</td>
<td>1,465.9</td>
<td>1,205.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Exports</td>
<td>$ 6,022.9</td>
<td>$ 6,884.7</td>
<td>$ 6,013.0</td>
<td>$ 6,051.7</td>
<td>$ 7,203.5</td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.

1. Excludes the activities of P.M.I. Norteamérica, S.A. de C.V.
2. The figures expressed in dollars differ from the amounts contained in the financial statements under Net Sales because of the differences in methodology associated with the calculation of exchange rates and other minor adjustments.
3. Does not include crude oil, refined products, petrochemicals and natural gas purchased by P.M.I. Trading from third parties and resold in the international markets.

Source: PEMEX’s 1995 Statistical Yearbook and PMI Comercio.

From 1989 through 1995, increasing domestic demand led to a deficit in the trade balance of oil products. In 1995, PEMEX imported 139,500 bpd of refined products. The largest components were gasoline (mainly unleaded) and fuel oil, which amounted to
70,800 bpd and 30,300 bpd, respectively. These imports are likely to continue in the short-term since PEMEX is focusing on improving the environmental quality of its products and increasing its capacity to process heavy crude oil, as opposed to increasing overall capacity. Natural gas imports increased significantly in relative terms (38.0%), from 125.1 million cfpd in 1994 to 172.6 million cfpd in 1995. Imports of petrochemical products experienced an important increase from 86,800 tpy in 1993 to 157,100 tpy in 1994, but then declined to 97,400 tpy in 1995. The 1994 increase was mainly due to PEMEX’s purchases of xylene and crude butane that are used as raw materials in the production of aromatics while the 1995 contraction was due primarily to the recession in the Mexican economy.

PMI Comercio engages in operations to hedge against differences between the prices at which it purchases and sells petrochemicals and refined products. PMI Comercio’s internal policies place a limit on the maximum capital that may be placed at risk in such transactions; such amount is calculated daily and without netting opposing positions across books. Internal controls include a risk comptroller responsible for ensuring compliance, an internal auditing department and a risk management committee.

**Transportation and Distribution**

Pipelines owned by PEMEX connect crude oil and natural gas producing centers with refineries and petrochemical plants, and the refineries and petrochemical plants with major cities all over Mexico. At the end of 1995, PEMEX’s pipeline network had a total length in excess of 56,922 kilometers, which, after the restructuring of PEMEX was distributed among the Subsidiary Entities according to the products transported. Of the total network, 4,264 kilometers are oil pipelines, 8,721 kilometers are for delivering oil products and petrochemicals, 11,431 kilometers are for the distribution of natural gas, approximately 1,551 kilometers are for the distribution of NGLs, 1,040 kilometers are for the transportation of basic petrochemicals and the balance is accounted for by oil and gas gathering pipelines.

The Regulatory Law was amended effective May 12, 1995 to provide that private sector companies (which may be owned by non-Mexican companies or individuals) may participate, upon Governmental authorization, in the storage, distribution and transportation of natural gas and to that end may construct, own and operate pipelines, installations and equipment. Implementing regulations with respect to the amendment took effect on November 9, 1995. See “Item 4 — Control of the Registrant — Regulatory Framework and Relationship with the Government”. PEMEX nonetheless retains exclusive authority with respect to the transportation and storage inextricably linked with the exploration, exploitation, production and first-hand sale of natural gas. For additional discussion, see “Item 9 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments — Transportation and Distribution”.

During 1995, PEMEX transported approximately 35 billion tons-kilometer of crude oil to be processed in the refining system, and 31 billion tons-kilometer of oil products to satisfy domestic demand. Of the total amount of tons-kilometer transported, 61% was done
through pipelines, 36% through vessels and the balance through railroad tank cars and road tankers.

At the end of 1995, of all the vessels operated by PEMEX, 29 were oil tankers owned by PEMEX and 9 were leased. PEMEX also leased 2,855 road tankers during 1995.

PEMEX's exports of crude oil are generally made on a FOB (free on board) basis. PEMEX exports most of its refined products on a CIF (cost, insurance and freight) basis, and imports most of its refined products on an FOB basis, thereby assuming the risk for the transportation of such products.

At the end of 1995, PEMEX owned 81 major wholesale storage centers. There were approximately 3,671 retail filling stations in Mexico, 3,047 of which were privately owned and operated by franchisees of PEMEX that earn commissions on each liter of fuel sold. Of the remaining 624 stations, PEMEX owned 66 directly while the other 558 were privately owned and awaiting franchises. PEMEX anticipates that all operating retail stations will be franchised by the end of 1996 and plans to franchise 6,000 retail filling stations by the year 2000. PEMEX expects that it will retain ownership of only 9 retail filling stations that it will use as training centers.

Employee Matters

At December 31, 1995, PEMEX had 124,396 employees (excluding employees of the P.M.I. Group (as defined below), as compared with 119,645 in 1994 (including those employed on a temporary basis). This figure is down from 210,157 in 1987 and reflects the various measures undertaken by PEMEX in recent years to reduce costs and improve efficiency. Of the total number of PEMEX employees at December 31, 1995, 47,766 (38%) were employed by Petemex-Refining, 34,866 (28%) by Petemex-Exploration and Production, 13,677 (11%) by Petemex-Petrochemicals, 11,382 (9%) by Petemex-Gas and Basic Petrochemicals and 16,705 (13%) by Petroleos Mexicanos. At December 31, 1995, the P.M.I. Group had 307 employees.

The Organic Law provides that workers of PEMEX may be reassigned to the Subsidiary Entities as necessary. Except as may result from the privatization of petrochemical plants, PEMEX has not planned significant layoffs in 1996, nor has it estimated the costs that may result from such privatization. In any case, all rights of employees will be fully recognized and the terms of the current collective bargaining agreement will continue to apply. See "Item 9 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments — Sale of Petrochemical Plants".

Approximately 77.0% of PEMEX's work force is represented by the Petroleum Workers' Union (the "Union"). The leaders of the Union are PEMEX employees and are elected by members of the Union. Since the Union's official establishment in 1938, PEMEX has experienced no labor strikes. During such period, PEMEX has experienced work stoppages for short periods of time, none of which has had a significant material adverse effect on its operations.
PEMEX's relationship with its employees is regulated by the Ley Federal del Trabajo (Federal Labor Law) and a Contrato Colectivo (Collective Contract) between PEMEX and the Union. The Collective Contract regulates extensively all aspects of PEMEX's relationship with its employees. The Collective Contract is subject to renegotiation every two years, although salaries are reviewed annually. The present Collective Contract was renewed effective August 1, 1995 and will expire on July 31, 1997. Wages increased 16% in 1995, 7% in 1994, 8% in 1993, 14% in 1992 and 19.5% in 1991, in line with the Government's price and wage accords.

In accordance with the Collective Contract and Mexican labor law, PEMEX is obligated to pay seniority premiums to retiring employees and pension and death benefits to retired employees. Retirees are entitled to receive increases in their pensions whenever salary increases are granted to current employees. PEMEX also provides health and medical benefits to employees, retired employees and their families and, subject to PEMEX's overall budgetary constraints, provides an interest rate subsidy on employees' mortgage loans.

United Mexican States

The information in this section with regard to Mexico has been included due to the relationship between PEMEX and the Government and has been reviewed by the Ministry of Finance and Public Credit.

Events During 1994

During the period from 1982 through 1994, Mexico pursued far-reaching and comprehensive adjustment policies designed to reform its economy and achieve a return to sustained economic growth. While successful in reducing inflation from 159.2% in 1987 to 7.1% in 1994 and achieving real Gross Domestic Product ("GDP") growth averaging 3.0% over the 1990-1994 period, the Mexican economy had certain weaknesses by 1994 that made it unable to withstand the severe internal and external political and economic shocks that occurred in 1994, resulting in the destabilization of the Mexican economy at the end of 1994, a crisis of confidence on the part of foreign portfolio investors and an economic and financial crisis facing the Government since the beginning of 1995.

Among the weaknesses of the economy apparent in 1994 was a reduced level of domestic savings. From 1990 through 1994, the difference between the savings rate and investment in Mexico was reflected in a substantial current account deficit, which reached US$24.4 billion in 1992, US$23.4 billion in 1993 and US$29.4 billion in 1994. By the end of 1994, Mexico's current account deficit had become unsustainable for the reasons noted below.

A second weakness of the Mexican economic model arose from the Government's exchange rate policy. Over the period from December 1987 through December 1994, representatives of the Government, business and labor entered into a series of social accords designed to limit price and wage increases so as to lower the rate of inflation, which had by 1987 reached 159.2%. Among the elements included in the first accord was a commitment by the Government to maintain a fixed peso/dollar exchange rate from February
to December 1988. Thereafter, the Government implemented a schedule of gradual devaluation of the peso at rates of 16.7% in 1989, 11.4% in 1990, 4.5% in 1991 and 2.4% in 1992, as compared with annual inflation rates of 19.7% in 1989, 29.9% in 1990, 18.8% in 1991 and 11.9% in 1992. From October 1992 through December 20, 1994, the peso/dollar exchange rate was allowed to fluctuate within a band that widened daily. The ceiling of the band, i.e., the maximum selling rate, depreciated at a daily rate of 0.0004 pesos (equal to approximately 4.5% per year), while the floor of the band, i.e., the minimum buying rate, remained fixed. During this period, Banco de México intervened in the foreign exchange market as the peso/dollar exchange rate reached either the floor or the ceiling of the band. While the Government’s exchange rate policy contributed to general economic stability, encouraged foreign portfolio investment and helped reduce inflation, over time it led to a progressive overvaluation of the peso. The appreciation of the peso made imported consumer goods and services relatively more accessible in comparison with domestic products, contributing to the growth in the current account deficit, which rose from 3.0% of GDP in 1990 to 8.0% of GDP in 1994.

In order to finance the growing current account deficit, Mexico relied on substantial inflows of foreign direct investment and portfolio investment. From 1990 through 1993, the capital account surplus exceeded the current account deficit, leading to an accumulation of international reserves to the level of US$24.5 billion at the end of 1993. From 1992 through 1994, increasing amounts of capital inflows were made up of foreign portfolio investment, including investments in the Mexican stock market and investments in short-term Government and private sector debt instruments, such as bank certificates of deposit. The portfolio investors were attracted to Mexico because of its relatively high real interest rates and high returns on equity investments, compared to returns on investments in developed countries, and its relatively stable exchange rate. The portfolio investment flows were, however, by their nature less stable than direct foreign investment (because investors could generally liquidate their portfolio investments at any time) and left Mexico vulnerable to losing large amounts of foreign capital during 1994.

During 1994, internal and external events combined to complicate the management of the Mexican economy and, in particular, adversely affected the capital inflows needed to finance the current account deficit. Higher interest rates in the United States, and the prospect of further increases in those rates, made Mexican investments comparatively less attractive and led to a reluctance on the part of investors to commit capital at fixed rates or for long periods of time. In addition, incidents of civil unrest in the southern state of Chiapas, uncertainty regarding the outcome and fairness of the Presidential and Congressional elections scheduled to occur in August 1994 and the assassination of two prominent politicians and kidnappings of several prominent businessmen caused some foreign investors to believe that the Mexican political system was less stable than had been believed, resulting in substantial outflows of foreign capital.

At the end of the first quarter of 1994, the Mexican authorities responded to the pressure on the peso/dollar exchange rate that resulted from certain of the above-mentioned events by permitting the exchange rate to depreciate, but always within the limit of the Banco
de México intervention band established in the most recent social accord. In addition, in order to retain the capital of investors who perceived a risk of further devaluation of the peso, the Government issued increasing amounts of Bonos de la Tesorería de la Federación (Bonds of the Treasury of the Federation, or “Tesobonos”), short-term notes denominated in dollars but payable in pesos indexed to the value of the dollar. The Government also increased interest rates on its peso-denominated internal debt in an attempt to maintain capital inflows. The Government’s attempts to stabilize the exchange rate and restore capital inflows were not, however, successful and the Government suffered a substantial loss in gross international reserves in 1994, from US$24.5 billion at the end of 1993 to US$17.2 billion on October 31, 1994. During the second half of December 1994, foreign capital continued to flee the country as investors grew even more concerned, resulting in a strong demand for dollars. Given the loss in reserves that had occurred throughout the year, it became impossible to maintain the peso within the band established by the most recent social accord, and on December 20, 1994, the Government increased the ceiling of the intervention band by Ps. 0.53. That action proved insufficient to address the concerns of foreign investors, and the demand for foreign currency continued. On December 22, 1994, the Government eliminated the intervention band and allowed the peso to float freely against the dollar. A sharp and rapid devaluation of the peso ensued, with the peso losing 34.9% of its value relative to the dollar between December 21, 1994 and December 31, 1994. By December 31, 1994, the country’s gross international reserves had dropped to US$6.1 billion, as a result of substantial outflows of foreign currency and the Government’s efforts to support the value of the peso during 1994.

The devaluation at the end of 1994 had a number of adverse repercussions on the Mexican economy. First, the weaker value of the peso relative to the dollar increased the cost, in peso terms, of imported goods and services, and thereby increased the rate of inflation in Mexico. To the extent that employers adjusted wages upward to compensate for the decline in purchasing power resulting from the devaluation, and then adjusted prices to reflect increased wage costs, additional inflationary pressures have arisen. The inflation rate (measured by the increase in the NCPI from December 1994 to December 1995) was 52% in 1995.

Second, the devaluation caused the peso value of Mexico’s external public debt and its dollar-denominated Tesobonos to increase significantly, from 23.6% of GDP at November 30, 1994 to 39.9% of GDP at December 31, 1994.

Third, the devaluation led to a lack of confidence on the part of investors in Mexico’s ability to repay its short-term obligations and, consequently, a reluctance of investors to reinvest in Mexico’s maturing Tesobonos. As a result, Mexico faced a liquidity crisis linked closely to the US$29.2 billion of short-term Tesobonos outstanding at the end of 1994 and maturing in 1995. The value of the peso continued to deteriorate during early 1995, with the peso/dollar exchange rate announced by Banco de México falling to Ps. 7.588 = US$1.00 on March 13, 1995, a 29.8% decline from its value on December 31, 1994. Mexico’s international reserves also fell, as many foreign investors did not choose to reinvest in maturing government debt, including Tesobonos and Cetes (peso-denominated and -payable

Fourth, the devaluation created concerns about the stability of the Mexican banking system. The devaluation of the peso, higher domestic interest rates and contraction of GDP growth in 1995 combined to weaken the quality of the assets of Mexican banks. In addition, the peso-denominated equity of Mexican banks became a proportionately smaller percentage of their total assets, with certain banks having difficulty meeting required capital adequacy levels. As of December 31, 1995, the foreign currency-denominated liabilities of Mexican commercial banks totaled approximately US$20.9 billion, of which US$13.2 billion had a maturity of longer than 365 days.

The concerns regarding the banking system have led to sharply higher interest rates, both domestically and externally, on Mexican public and private sector debt and sharply reduced opportunities for refinancing or refunding maturing debt issues.

The Government's Response

In order to address the adverse economic situation that developed at the end of 1994, the Zedillo Administration announced in January 1995 a new economic program and a new accord among the Government, business and labor, the Acuerdo de Unidad Para Superar la Emergencia Económica (Agreement to Overcome Mexico's Economic Emergency, or "AUSEE"), key aspects of which were strengthened on March 9, 1995, when the Government announced the Programa de Acción para Reforzar el AU SEE (Action Program to Strengthen the AU SEE, or "PARAUS EE"). The PARAUSEE, together with the international support package described below, formed the basis of Mexico's 1995 economic plan (the "1995 Economic Plan").

The objectives of the 1995 Economic Plan were to stabilize the Mexican financial markets, lay the foundation for a return to lower inflation rates in the medium-term, maintain the solvency of the banking system, preserve Mexico's international competitiveness, and reassure long-term investors of the strong underlying fundamentals of the Mexican economy.

The central elements of the PARAUSEE were fiscal reform, aimed at increasing public revenues through price and tax adjustments and reducing public sector expenditures; restrictive monetary policy, characterized by limited credit expansion; stabilization of the exchange rate while maintaining the current floating exchange rate policy; reduction of the current account deficit; introduction of certain financial mechanisms (described below) to enhance the stability of the banking sector; and maintenance and enhancement of certain social programs, to ease the transition for the poorest segments of society.

On October 29, 1995, the Zedillo Administration announced the establishment of a new accord among the Government and the business, labor and agricultural sectors of the economy known as the Alianza para la Recuperación Económica (Alliance for Economic Recovery or "ARE"). The chief objectives of the ARE are to stimulate economic recovery
and job creation, and to strengthen the basis for gradual and sustainable economic growth. These general objectives are intended to be accomplished through (i) the establishment of tax incentives for business aimed at increasing employment and investment in productive activities, (ii) a gradual increase in the prices of public sector goods and services, (iii) the promotion of consumer spending resulting from increases in employment and private and public investment, (iv) increased exports and (v) the reform of Mexico’s pension system, in order to encourage private savings. As a result of these policies, the retail prices of gasoline and diesel fuel increased by 7% in December 1995 and by 6% in April 1996. In addition, those prices are increasing at a monthly rate of 1.2% in 1996 (other than in April 1996). Furthermore, pursuant to the ARE the Government increased the minimum wage by 22% (10% in December 1995 and 12% in April 1996) and is increasing expenditures for job training programs and programs for social development, including within the agrarian sector.

The Government further anticipates under the ARE to have a balanced fiscal budget for 1996 as the fiscal and budgetary effects of the economic stimulus program are balanced with a reduction of 4.7% in public current expenditures. In addition, the Government intends to maintain the existing floating exchange rate system, refrain from increasing generally income and other tax rates, reduce inflation to approximately 20.5% for 1996 and to generate an increase in real GDP of 3% in 1996 as compared with 1995. No assurances can be given, however, that the Government will be successful in achieving its inflation and growth target rates for 1996.

Likewise, the Government will further promote an increase in private investment in electricity generation with the purpose of increasing productivity and to secure financing or the expansion of generating capacity. Moreover, private investment should contribute to the expansion of the facilities for the transportation, storage and distribution of natural gas and the expansion of the secondary petrochemical industry; public investment by PEMEX will be concentrated in areas of exploration and production of crude oil, natural gas and refined products.

As another key element of the Government’s strategy to improve the economic and social conditions of less developed sectors of the Mexican society, the Government established on October 31, 1995 a national rural development program known as Alianza para el Campo ("Rural Alliance"). The purposes of the Rural Alliance are to increase productivity, fight poverty, raise the income of families living in Mexico’s rural zones, produce enough basic foods for the population and promote exports of agricultural products.

The following table summarizes certain key economic indicators for 1994 and 1995 and key economic indicators for 1996, as projected under the ARE.
Primary balance (% of GDP) ........................................ 2.3% 5.5% 4.0%
Average peso/dollar nominal exchange rate .......... 3.2(1) 6.4 7.7
Inflation (December-December) ......................... 7.1% 52.0% 20.5%
Current account deficit ................................ $29.4 billion $0.6 billion $1.0 billion

(1) Average market exchange rate published daily by Banco de México for statistical purposes.
Source: Ministry of Finance and Public Credit.

The figures set forth above include the Government’s 1996 forecasts as to the Mexican economy. While the Government believes these forecasts to be reasonable, some are beyond the control of the Government and all depend on future events. Accordingly, no assurance can be given that economic results will not differ materially from the figures set forth above. See "— Economic and Political Developments in 1995 and 1996" below.

The specific components of the 1995 Economic Plan and the ARE are as follows:

Foreign Exchange Policy. The Government has maintained, and intends to continue to maintain, a floating exchange rate policy, with Banco de México intervening in the foreign exchange market from time to time to minimize volatility and ensure an orderly market. The Government has also promoted market-based mechanisms for stabilizing the exchange rate, such as over-the-counter forward and options contracts between banks and their clients in Mexico, and authorization of peso futures trading on the Chicago Mercantile Exchange. In connection with the ARE, the Government currently assumes an average exchange rate for 1996 of Ps. 7.7 = US$1.00. The average exchange rate for 1995 was Ps. 6.42 = US$1.00. However, the peso/dollar exchange rate fell to a low of Ps. 8.14 = US$1.00 on November 13, 1995. The rate announced by Banco de México on June 21, 1996 (to take effect on the second business day thereafter) was Ps. 7.5743 = US$1.00.

Fiscal Reform. Fiscal measures have been undertaken to increase the Government’s primary balance and promote private sector savings. Public sector revenues in 1995 were expected to increase under the 1995 Economic Plan as a result of an increase in the general Impuesto de Valor Agregado (Value-Added Tax, or “VAT”) rate from 10% to 15% (except in the Mexico-United States border region and in duty-free zones, where the VAT rate remained at 10% and except with respect to pharmaceutical products and food, which continued to be subject to a VAT rate of 0%), increases in the prices of gasoline, diesel, natural gas, electricity and other services (such as railroads, airports and highways) provided by the public sector. The prices of other goods provided by the public sector for which international market prices are available as a comparison were adjusted to eliminate subsidies. During 1995, a 9.8% reduction (in real terms) in public spending was planned, equivalent to 1.6% of GDP.

31
Monetary Policy: Prices and Wages. The goal of monetary policy under the 1995 Economic Plan was to stabilize the exchange rate in order to induce capital inflows. Domestic credit was tightened when the exchange rate depreciated, capital outflows took place or inflation was higher than projected. Banco de México’s tightening of monetary policy resulted in a decline in the monetary base from Ps. 56.9 billion at December 31, 1994 to Ps. 50.4 billion at November 24, 1995. Due to seasonal factors, the monetary base increased to Ps. 66.8 billion at December 31, 1995. Nevertheless, net domestic credit decreased by 77.7 billion, which was well within the target of an increase of Ps. 10 billion set by Banco de México for 1995. In addition, new reserve requirements (which are intended to limit the amount of overdrafts by banks of their accounts at Banco de México) were introduced by Banco de México to facilitate the reduction of liquidity.

On December 11, 1995, the Government announced certain changes in monetary policy that have taken effect in 1996. The Government has established quarterly targets for the expansion of net domestic credit in 1996, as compared with the annual target established for 1995. In addition, the definition of “net domestic credit” has been changed to be more consistent with international standards. Previously, “net domestic credit” was defined as the difference between the monetary base (currency in circulation plus bank deposits at the central bank) and net international reserves; the change in “net domestic credit” is now defined as the variation of the monetary base less the variation of Banco de México’s “net international assets”. “Net international assets” is defined as (a) gross international reserves; plus (b) assets with a maturity longer than six months derived from credit agreements with central banks, less (x) liabilities outstanding to the International Monetary Fund, less (y) liabilities with a maturity shorter than six months derived from credit agreements with central banks.

An important element of the 1995 Economic Plan was the moderation of the inflationary pressures created by the devaluation of the peso. The Government’s restrictive monetary policy was designed to help control inflation. In addition, the Government hoped that businesses would increase prices only in the proportion that products sold in Mexico were comprised of imported components. Nonetheless, the inflation rate (December 1994-December 1995) was 52.0% in 1995, as compared to 7.1% during 1994.

A 7% nominal increase in the minimum wage took effect on January 1, 1995, and a further 12% nominal increase took effect on April 1, 1995, as compared with the 4% increase agreed in December 1994. Wage increases for workers earning more than the minimum wage have been negotiated between employers and such workers. Under the PARAUSEE, productivity bonuses were maintained and tax benefits for workers were extended to those earning less than four times the minimum wage (as opposed to twice the minimum wage under the AUSEE). Furthermore, pursuant to the ARE, the Government increased the minimum wage by 22% (10% in December 1995 and 12% in April 1996).

Mechanisms to Strengthen the Stability of the Banking Sector. A primary objective of the 1995 Economic Plan was to stabilize and strengthen the banking sector. The Government is committed ensuring depositor safety, and, to that end, took a number of interrelated steps. First, the Government put in place a voluntary temporary capitalization
program, the Programa de Capitalización Temporal (Temporary Capitalization Program, or “PROCAPTE”), administered by the Fondo Bancario de Protección al Ahorro (Banking Fund for the Protection of Savings, or “FOBAPROA”) for use by banks that are currently or are expected to be facing short-term capital needs. Under PROCAPTE, FOBAPROA advances funds to banks with capitalization levels below 8% of risk-weighted assets in exchange for five-year mandatorily convertible subordinated bonds. Participating banks must deposit with Banco de México the funds raised from the issuance of the bonds, thereby neutralizing any monetary impact. Second, FOBAPROA made foreign exchange available through a foreign exchange credit window to help banks meet dollar liquidity needs. Third, amendments to Mexican law broadened the scope for investment by foreign and Mexican investors in the equity of Mexican financial institutions, by increasing the percentage of the capital stock of most existing Mexican financial institutions that can be owned by non-Mexicans, increasing the percentage of the capital stock of such institutions that can be owned by Mexican corporations (as opposed to Mexican individuals) and increasing, subject to regulatory approval, the percentage of the capital stock of each such institution that can be owned by any single investor. Fourth, to reduce the risk of lower asset quality, required loan-loss reserves were increased. The new guidelines require minimum loan-loss reserves equal to the greater of 60% of past-due loans and 4% of total loans. The increased reserve requirements are estimated to require an additional Ps. 4.4 billion of reserves. Fifth, the Government is engaging in closer and more frequent inspections of financial institutions and reporting requirements have been heightened. It is expected that the Mexican treatment of past due loans will change in 1997 in connection with recently adopted revisions to Mexican financial accounting principles aimed at bringing Mexican financing accounting into line with international practice. Finally, the Government has announced a debt restructuring support program designed to help banks restructure past-due loans of borrowers facing cash flow constraints. The restructuring program covers four types of loans: small- and medium-size business loans; mortgage loans; certain debt of states and municipalities; and four categories of debt owed to Mexican development banks. An additional debt restructuring program for mortgage loan debtors was announced on May 15, 1996.

Structural Reform. The ARE program projects 3% growth in real GDP in 1996 (in contrast to the 6.9% contraction in 1995), with the Government expecting that increased productivity and competitiveness of the economy will be achieved through deregulation and increased private sector investment. Changes to the Constitution which permit the Government to privatize railway and satellite communications services have been approved and have become effective. Pursuant to these changes, Congress has enacted legislation which contemplates the auction of 50-year private concessions to operate parts of Mexico’s railway system and has enacted legislation to provide for the auction of private concessions to operate satellite telecommunications systems. In addition, the Government has announced that it intends to privatize power generating plants, secondary petrochemical plants, airports, ports and highways and, beginning in 1996, to grant additional concessions for the establishment of public telecommunications systems and for the use of portions of the radio spectrum for telecommunications purposes. Congress has also approved amendments to the law regarding the natural gas industry, which will allow Mexican private-sector companies (which may be owned by non-Mexican companies or individuals) to take part in the storage, distribution and
transportation of natural gas, and has enacted legislation on civil aviation which provides for
the granting of 30-year concessions allowing private companies to operate commercial air
transportation services within Mexico.

International Support. In the beginning of 1995, the Government engaged in a
series of discussions with the International Monetary Fund (the "IMF"), the International Bank
for Reconstruction and Development (the "World Bank"), the Inter-American Development
Bank ("IDB") and the governments of the United States and Canada in order to obtain the
international financial support necessary to relieve Mexico's liquidity crisis and aid in restoring
financial stability to Mexico's economy. The proceeds of the loans and other financial support
have been and will be used to refinance public sector short-term debt, primarily Tesobonos, to
restore the country's international reserves and to support the banking sector.

The largest component of the international support package is up to US$20
billion in support from the United States pursuant to four related agreements entered into on
February 21, 1995, the U.S.-Mexico Framework Agreement for Mexican Economic
Stabilization (the "Framework Agreement"), the Oil Proceeds Facility Agreement (the
"OPFA"), the Medium-Term Exchange Stabilization Agreement (the "Medium-Term
Agreement") and the Guarantee Agreement (the "Guarantee Agreement") (the Framework
Agreement, the OPFA, the Medium-Term Agreement and the Guarantee Agreement,
collectively the "February 21 Agreements"). The February 21 Agreements contemplate that
these resources are to be made available to Mexico in the form of (i) medium-term (i.e., up to
five-year) peso/dollar swap transactions entered pursuant to the Medium-Term Agreement into
between the U.S. Treasury Department, acting through the Exchange Stabilization Fund
("ESF"), and Mexico, (ii) guarantees by the U.S. Treasury Department, acting through the
ESF, pursuant to the Guarantee Agreement of debt securities with a term of up to ten years
issued by Mexico and (iii) short-term swap transactions entered into by Banco de México with
the U.S. Government and Canada pursuant to the North American Framework Agreement of
April 26, 1994 (the "NAFA"). The resources are being used by Mexico to stabilize its foreign
exchange markets, principally by refinancing short-term Government debt, including
Tesobonos. Under the February 21 Agreements, provision of these resources depends upon
the satisfaction by Mexico of certain economic, monetary and fiscal conditions, including
compliance with the targets of the IMF stand-by program described below.

Pursuant to the OPFA, Petróleos Mexicanos and its sales affiliates have
instructed their foreign buyers of crude oil and oil derivatives (with certain exceptions) to
make payments to designated accounts of PEMEX with a bank in New York and have
instructed that bank to credit the amounts received to an account of Banco de México at the
FRBNY. Banco de México has the right to withdraw the funds deposited in the FRBNY
account so long as there is no payment default by Mexico under the February 21 Agreements
or the NAFA. In the event of any such payment default, FRBNY has the right to debit and
set-off the funds in the account to repay any amounts due and payable by Mexico under the
February 21 Agreements and the NAFA.
During 1995, the U.S. Government and the Canadian Government disbursed US$12.7 billion of proceeds to Mexico under the February 21 Agreements and the NAFA, the proceeds of which were used by Mexico to refinance maturing short-term debt, including Tesobonos. In October 1995, Banco de México repaid US$700 million to the U.S. Government and US$83 million to the Canadian Government in respect of short-term swaps under the NAFA that were scheduled to mature on November 1, 1995. This prepayment was financed, in part, through the sale of Deutsche mark-denominated bonds issued by Mexico in November 1995. On January 29, 1996, Banco de México repaid US$1.3 billion to the U.S. Government and US$158 million to the Canadian Government in respect of short-term swaps under the NAFA that matured on that date, with such repayment being financed in part through the sale of Mexico's LIBOR/Cetes Notes due 1996 that were issued in December 1995.

On June 18, 1996, the Government announced that it is negotiating the issue of approximately U.S.$3,000,000,000 of five-year Floating Rate Notes to a group of international commercial banks and financial institutions, the proceeds of which will be used to repay a portion of the amounts outstanding to the U.S. Treasury Department under the February 21 Agreements. It is contemplated that the obligations of the Government under the Notes will be supported by payment arrangements similar to those provided in the OPFA.

Outstanding disbursements by the U.S. and Canadian Governments to Mexico under the February 21 Agreements as of May 31, 1996 can be summarized as follows:

<table>
<thead>
<tr>
<th>Disbursed By</th>
<th>Disbursed To</th>
<th>Facility</th>
<th>Date Disbursed</th>
<th>Amount Outstanding (billions of dollars)</th>
<th>Final Maturity Date</th>
<th>Repayment Installments</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government</td>
<td>Government</td>
<td>Medium-Term Agreement</td>
<td>April 19, 1995</td>
<td>3.00</td>
<td>March 31, 2000</td>
<td>12</td>
</tr>
<tr>
<td>U.S. Government</td>
<td>Government</td>
<td>Medium-Term Agreement</td>
<td>May 19, 1995</td>
<td>2.00</td>
<td>March 31, 2000</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>US$10.50</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Finance and Public Credit.

On February 1, 1995, the IMF approved a US$17.75 billion stand-by program for Mexico, based upon its review and approval of Mexico's economic program. During 1995, Mexico received US$13.05 billion in disbursements under its IMF stand-by program (in the form of purchases of Special Drawing Rights by Banco de México) under the IMF program, based on meeting an agreed-upon set of quarterly economic, monetary and fiscal...
targets during 1995. An additional US$4.7 billion of medium-term resources will become available to Mexico under this program during 1996 if Mexico meets its quarterly targets (as agreed to with the IMF) for 1996.

On June 23, 1995, the Government entered into a total of US$2.75 billion in adjustment loans with the World Bank and the IDB, of which US$1.75 billion was intended to be used to support the Mexican financial system and US$1.00 billion was intended to be used to support the Government’s provision of essential social services. The Government drew half of the available funds under these facilities in 1995 and, subject to the satisfaction of certain conditions, expects to draw the balance in 1996.

The amount of international support made available as of May 31, 1996 (or which the Government expects to become available) to Mexico can be summarized as follows:

<table>
<thead>
<tr>
<th>Disbursed By</th>
<th>Disbursed To</th>
<th>Facility</th>
<th>Maximum Amount of Resources (in billions of dollars)</th>
<th>Amount Outstanding</th>
<th>Amount Available(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Government</td>
<td>Banco de México</td>
<td>NAFA</td>
<td>0.24</td>
<td>0.00(3)</td>
<td>0.00</td>
</tr>
<tr>
<td>IMF</td>
<td>Banco de México</td>
<td>Stand-by program</td>
<td>17.75</td>
<td>13.05</td>
<td>4.70</td>
</tr>
<tr>
<td>World Bank</td>
<td>Government</td>
<td>Adjustment loan for the financial sector</td>
<td>1.00</td>
<td>0.50</td>
<td>0.50</td>
</tr>
<tr>
<td>World Bank</td>
<td>Government</td>
<td>Adjustment loan for essential social services</td>
<td>0.30</td>
<td>0.24</td>
<td>0.26</td>
</tr>
<tr>
<td>IDB</td>
<td>Government</td>
<td>Adjustment loan for the financial sector</td>
<td>0.75</td>
<td>0.38</td>
<td>0.37</td>
</tr>
<tr>
<td>IDB</td>
<td>Government</td>
<td>Adjustment loan for essential social services</td>
<td>0.50</td>
<td>0.22</td>
<td>0.28</td>
</tr>
<tr>
<td><strong>Totals:</strong></td>
<td></td>
<td></td>
<td><strong>US$40.24</strong></td>
<td><strong>US$24.89</strong></td>
<td><strong>US$13.61</strong></td>
</tr>
</tbody>
</table>

(1) Subject to satisfaction by Mexico of certain conditions under the various facilities.
(2) For a breakdown as between the Government and Banco de México of disbursements from the U.S. Government, see the immediately preceding table.

Source: Ministry of Finance and Public Credit.
**Modified Debt Profile.** Using resources made available through the international support package as well as operations by Banco de México, in 1995 Mexico altered its debt profile significantly. The outstanding Tesobono balance was reduced from US$29.2 billion at December 31, 1994 to US$246 million at December 31, 1995. As of February 16, 1996, Mexico had no Tesobonos outstanding. As of March 31, 1996, all of Mexico’s net internal debt was denominatd and payable in pesos, as compared with only 44.3% of such debt at the end of 1994.

**Economic and Political Developments in 1995 and 1996**

The effects of the devaluation of the peso, as well as the Government’s response to that and related events, were apparent in the performance of the Mexican economy.

Recent trade figures show a reversal of Mexico’s trade deficit during 1995 and 1996. The value of imports (including in-bond industries) decreased by 8.7% between 1994 and 1995, to US$72.5 billion in 1995, 92.6% of which represented purchases of intermediate and capital goods. Of the three categories of merchandise imports—imports of capital goods, intermediate goods and consumer goods—imports of intermediate goods increased in 1995 by 3.4%, while imports of capital goods and consumer goods decreased by 34.75% and 43.9%, respectively, over 1994 levels. Exports grew to US$79.5 billion in 1995 as compared with US$60.9 billion in 1994. Petroleum exports increased by 13.1% during 1995 and non-petroleum exports increased by 33.1%. Manufactured goods registered a significant growth in exports, increasing by 32.1% over their level in 1994. During 1995, Mexico registered a US$7.089 billion trade surplus, its first annual trade surplus since 1989.

In the first five months of 1996, Mexico registered a trade surplus of US$3.2 billion, as compared with a trade surplus of US$2.5 billion during the first five months of 1995. Imports in the first five months of 1996 increased at an annual rate of 18.3%, as compared with a decrease of 5.1% during the same period of 1995.

During 1995, the current account deficit totalled US$654 million, 97.8% lower than the current account deficit for 1994. The capital account surplus during 1995 was US$15.3 billion, 5.0% higher than the capital account surplus registered in 1994. During the first quarter of 1996, the current account deficit totalled US$462 million, 60.7% lower than the current account deficit during the same period of 1995. The capital account registered a deficit of US$1.1 billion during the first quarter of 1996.

The outstanding principal amount of Tesobonos was reduced sharply during 1995, from US$29.2 billion as of December 31, 1994 to US$246 million as of December 31, 1995, a cumulative 99.2% decline. This reduction was accomplished primarily through the payment of maturing Tesobonos and the repurchase (through auctions) by Banco de México of outstanding Tesobonos held by Mexican commercial banks in exchange for the cancellation of liabilities of those banks to Banco de México. By the end of 1995, 91.8% of Mexico’s external public sector debt and outstanding Tesobonos consisted of long-term (i.e., one year or more) maturities, as compared with 69.0% at the end of 1994. By February 16, 1996, Mexico had reduced the outstanding principal amount of Tesobonos to zero.
Banco de México is currently disclosing reserve figures on a weekly basis. On June 14, 1996, Mexico’s international reserves amounted to US$15.873 billion, as compared to $1.148 billion at December 31, 1994 and $24.538 billion at December 31, 1995. Banco de México has begun publishing, on a weekly basis, its net international assets in accordance with the definition provided above under "The Government’s Response". On December 29, 1995, and June 14, 1996, net international assets of Banco de México totaled $(35) million and US$1.775 million, respectively.

According to preliminary estimates, during 1995 real GDP decreased by 6.9% as compared with a growth rate of 3.5% during 1994. Electricity, gas and water was the only sector that showed real growth, increasing by 3.1%, while the remainder of the economic sectors showed a contraction. The sectors that showed the greatest decrease were: construction, which recorded a real decrease of 22.0%; followed by commerce, hotels and restaurants, which recorded a real decrease of 14.4%; manufacturing, which recorded a real decrease of 6.4%; and agriculture, livestock, fishing and forestry, which recorded a real decrease of 3.8%. The sectors of transportation, storage and communications, financial services, insurance, real estate and community, social and personal services; and mining, petroleum and gas, all experienced negative real growth rates of 1.9%, 1.3% and 0.7%, respectively. During the first quarter of 1996, real GDP decreased by 1%, as compared to the first quarter of 1995.

Lower and middle income members of society have been particularly harshly affected by the economic developments since the beginning of 1995, mainly as a consequence of increased unemployment, higher inflation, higher financial payments and unavailability of credit. The Government has estimated that at the end of March 1996, 842,857 Mexican workers were unemployed as a result of the current economic crisis. Increases in crime and poverty have also been reported. The fact that Mexico does not have an unemployment benefits scheme or a fully developed social welfare system has contributed to the impact of the economic crisis (although certain features of Mexican society, such as the support provided by extended families, may have helped to mitigate the effects of the economic crisis to some extent).

During 1995, budgetary public sector expenditures exceeded budgetary public sector revenues (excluding off-budget revenues and expenditures of the public sector) by approximately Ps. 799.8 million in nominal terms, or approximately Ps. 2.7 million in constant pesos with purchasing power as of December 31, 1980, a decrease of 86.8% in real terms from the deficit registered in 1994. The public sector primary surplus was approximately Ps. 88.17 billion in nominal terms, or approximately Ps. 299.1 million in constant 1980 pesos, an increase of 121.7% in real terms over the public sector primary surplus registered during 1994. The public sector surplus during 1995 was approximately Ps. 815.0 million in nominal terms, or approximately Ps. 2.8 million in constant 1980 pesos, in contrast with the public sector deficit of Ps. 1,734.8 million in nominal terms, or approximately Ps. 8.0 million in constant 1980 pesos, registered during 1994.
During the first quarter of 1996, budgetary public sector revenues exceeded budgetary public sector expenditures (excluding off-budget revenues and expenditures of the public sector) by approximately Ps. 2.0 billion in nominal terms, or approximately Ps. 4.8 million in constant pesos with purchasing power as of December 31, 1980, a decrease of 79.8 % in real terms over the surplus registered in the same period of 1995. The public sector primary surplus was approximately Ps. 26.6 billion in nominal terms, or approximately Ps. 63.9 million in constant 1980 pesos, a decrease of 27.5 % in real terms over the surplus registered in the same period of 1995. The public sector surplus during the first three months of 1996, was approximately Ps. 1.5 billion in nominal terms, or approximately Ps. 3.6 million in constant 1980 pesos, a decrease of 90.8 % in real terms over the surplus registered in the same period of 1995.

On May 31, 1995, President Zedillo announced the Plan Nacional de Desarrollo 1995-2000 (1995-2000 National Development Plan, or the "Development Plan"). The Development Plan covers five topics: sovereignty, the rule of law, democratic development, social development and economic growth. The fundamental strategic objective of the Development Plan is to promote vigorous and sustainable economic growth. Among other things, the Development Plan calls for steps to increase domestic savings, preference to be given to channeling foreign investment into direct productive investment, the elimination of unnecessary regulatory obstacles to foreign participation in productive activities and further deregulation of the economy. The Development Plan also states that the Government must maintain fiscal discipline over the medium-term and that exchange-rate policy should systematically avoid overvaluation of the real exchange rate and should, in concert with other policy instruments, seek to ensure that evolution of the exchange rate is conducive to price stability. In addition, the Development Plan contemplates various steps to strengthen the rule of law in Mexico, including consolidating and coordinating the activities of various security organizations and police forces in Mexico and intensifying efforts to combat organized crime.

In September 1995, the Government created an Infrastructure Investment Fund aimed at the construction of basic infrastructure, such as toll roads, ports, water treatment plants and sanitation facilities. The Ps. 1.7 billion fund will be capitalized in part, from the privatization of certain state-owned assets and managed by Banco Nacional de Obras y Servicios Publicos, S.N.C. ("Banobras").

In the domestic political arena, the Government has renewed its efforts to resolve its differences with the insurgents in the Chiapas region, by facilitating their participation in the political process. On March 9, 1995 Congress approved a law granting temporary amnesty to insurgents who participate in peace talks with the Government, and on March 13, 1995 the law establishing the framework for these peace talks took effect. On September 11, 1995, the Government and the insurgents reached an agreement pursuant to which both sides accepted a common political agenda and procedural rules, and agreed to the creation of a working committee regarding the rights of indigenous peoples. This agreement was expected to represent a first step toward a comprehensive peace agreement between the parties. The working committee began negotiations on October 17, 1995 and concluded a second round of meetings on November 19, 1995, having made significant progress in laying
out the framework for a plenary session that took place from January 10 through January 19, 1996. The attendees at the plenary session drafted an agreement on a series of measures aimed at enhancing and guaranteeing the rights of the indigenous population. The agreement was signed on February 16, 1996.

The Government believes that these reforms, including the ARE, together with the changes in the Mexican economy since 1982, will help restore order to the foreign exchange markets and enable the Mexican economy to recover from the economic crisis experienced in 1995. In the short-term, however, higher inflation and interest rates than those that were experienced before 1995 are expected. In addition, significant new investment in infrastructure, industrial and agricultural modernization, training and environmental protection will be required for a resumption of growth and development. The Mexican economy is likely to continue to be subject to the effects of adverse domestic and external factors such as declines in foreign direct and portfolio investment, high interest rates and low oil prices, which may lead to volatility in the foreign exchange and financial markets and may affect Mexico's ability to service its debt.

Item 2. Description of Property

Substantially all of PEMEX's property, consisting of refineries, storage, manufacturing and transportation facilities and service stations, is located in Mexico. Under Mexican law, all oil and other hydrocarbon reserves within Mexico are owned by the Mexican nation and not by PEMEX. PEMEX has the exclusive right to exploit those reserves. See "Item 1 — Description of Business".

Item 3. Legal Proceedings

PEMEX, in the ordinary course of its business, is a party to various legal actions, including those involving labor claims of former and present employees. These labor disputes relate to severance payments, life insurance benefits, extensions of labor contracts, level of wages, improper termination and employee housing. PEMEX does not expect these lawsuits to have a material adverse effect on its financial condition or future results of operation.

Item 4. Control of the Registrant

Petróleos Mexicanos was established by a decree of the Mexican Congress passed on June 7, 1938 as a result of the nationalization of the foreign-owned oil companies then operating in Mexico. Petróleos Mexicanos and the Subsidiary Entities comprise Mexico's state oil and gas company. Each is a decentralized public entity of the Government and is a legal entity empowered to own property and carry on business in its own name.

Regulatory Framework and Relationship with the Government

The operations of PEMEX are subject to close regulation and supervision by the Government. Its activities are monitored by the Ministry of Energy, the Secretary of which
acts as the Chairman of the Board of Directors of PEMEX. The General Comptroller's Office is responsible for the appointment of PEMEX's external auditors. PEMEX's annual budget and its annual financing program must be approved by the Ministry of Finance and Public Credit. PEMEX's annual budget and financing program are subsequently incorporated into the budget for the Government and are subject to approval by the Mexican Congress. The Government is not, however, liable for the financial obligations incurred by PEMEX. PEMEX's activities are also subject to regulation by federal and state environmental authorities. See "Environmental Regulation" below.

The formulas for crude oil export prices and for prices of products sold domestically are set by committees composed of PEMEX officials and representatives of various governmental agencies (including, among others, the Ministry of Finance and Public Credit, the Ministry of Energy, the General Comptroller's Office, Banco de México and the Ministry of Commerce and Industrial Development).

The formulas for determining crude oil export prices are based on international reference prices and a constant to be set according to specific market conditions. Export prices of derivatives and natural gas are determined by market conditions and direct negotiations with clients.

In setting the price formulas for PEMEX's products sold domestically, the pricing committees pursue the following objectives: (i) consumer and producer prices should reflect opportunity costs in the relevant international markets; (ii) subsidies and premiums should be avoided; (iii) producer and consumer prices should be differentiated to send the correct economic signals to producers and consumers; (iv) the price-setting mechanism should be transparent, lending itself to the use of formulas, and (v) macro-economic targets. It is the policy of the Government and PEMEX to keep PEMEX's domestic prices generally in line with international prices. However, due to a decision made in January 1995 during the "AUSEEF" negotiations (see "Item 1 - Description of Business - United Mexican States - The Government's Response") following the December 1994 peso crisis, the price setting mechanism was adjusted temporarily, as explained below.

In accordance with the foregoing, the prices for PEMEX's domestic products are determined as follows: international prices are used as reference prices, but are adjusted to reflect transportation expenses, opportunity costs and differences in the quality of PEMEX's products relative to the international benchmarks, to arrive at Mexican producer prices; next, the value-added tax, the retailer's margin and freight costs are added to reach the consumer's (retail) price. However, in 1995, as a result of the AUSEEF, the peso/dollar exchange rate used in the domestic price formulas was temporarily held lower than the actual market peso/dollar rate, in order to ease the impact of devaluation on domestic consumers (including PEMEX). Starting December 1995, the difference between the two rates began to be reduced, and was eliminated by May 1, 1996.

Special conditions prevail for setting the price formula for gasoline and diesel fuel in particular: in arriving at producer prices for gasoline and automotive diesel, an extra
charge (which is expected to be completely phased out by 1998) is added to the international reference price to compensate for efficiency differences in refining costs. In addition, the consumer price for gasoline and diesel fuel - which are determined by the Ministry of Finance and Public Credit - reflect the addition of the indirect IEPS (as defined below) tax (which PEMEX collects on behalf of the Government) and VAT. The IEPS tax is currently only being charged on gasoline, diesel, and natural gas for automotive uses, but not on other products. For further discussion of the IEPS tax, see "—Federal Taxes and Duties" below.

As for natural gas prices for domestic sale, these are calculated according to directives published March 20, 1996 by the Energy Regulatory Commission, an autonomous agency of the Ministry of Energy. They reflect gas opportunity costs, competitive conditions in international markets and the location where the sale is made.

Under the Organic Law, Petróleos Mexicanos is entrusted with the central planning and strategic management of Mexico's petroleum industry, and PEMEX is granted the exclusive authority to conduct (i) the exploration, exploitation, refining, transportation, storage, distribution and first-hand sale of crude oil, (ii) the exploration, exploitation, production and first-hand sale of natural gas, as well as the transportation and storage inextricably linked with such exploitation and production and (iii) the production, storage, transportation, distribution and first-hand sale of petroleum derivatives (including petroleum products) used as basic industrial raw materials and the derivatives of natural gas which are considered "basic" petrochemicals. The entry into force on January 1, 1994 of the North American Free Trade Agreement ("NAFTA") among the Governments of Mexico, the United States and Canada will not affect PEMEX's exclusive rights described above. The NAFTA will, however, result in lower tariffs — to be phased in over a 10-year period — on certain oil derivatives and oil products, including petrochemicals, and certain materials and equipment imported by PEMEX into Mexico and lower tariffs on oil and oil products exported by PEMEX to the United States and Canada. To the extent that domestic and international prices for PEMEX's products remain constant, lower tariffs on products, materials and equipment imported by PEMEX into Mexico or exported by PEMEX to the United States and Canada will decrease PEMEX's expenses and increase its income.

Lower tariffs on exports of secondary petrochemicals (those not deemed as "basic" according to Government decree) from the United States and Canada to Mexico could, over time, increase competition in the secondary petrochemicals industry in Mexico.

Foreign investment in secondary petrochemicals is currently permitted under Mexican law and is being actively pursued through a privatization program announced on March 18, 1995 as a part of the process followed by the Government concerning the sale of non-strategic assets. PEMEX will only keep 20 to 33% of the equity of firms created through privatization, and may sell the retained equity after the first few years. Therefore, depending on the success of the privatization program, a mid-term decrease in PEMEX's secondary petrochemical activity and income may occur.
The following table compares the average prices in Mexico and in the United States of certain products sold by PEMEX in Mexico during the years and the period indicated.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline(1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular</td>
<td>$ 32.49</td>
<td>$ 46.00</td>
<td>$ 40.25</td>
<td>$ 44.93</td>
<td>$ 56.66</td>
<td>$ 64.54</td>
</tr>
<tr>
<td>Premium</td>
<td>$ 42.20</td>
<td>$ 53.25</td>
<td>$ 54.50</td>
<td>$ 51.86</td>
<td>$ 63.06</td>
<td>$ 51.93</td>
</tr>
<tr>
<td>Jet Fuel(2)</td>
<td>$ 32.01</td>
<td>$ 30.52</td>
<td>$ 30.33</td>
<td>$ 23.50</td>
<td>$ 26.28</td>
<td>$ 24.02</td>
</tr>
<tr>
<td>Kerosene(4)</td>
<td>$ 28.16</td>
<td>$ 32.17</td>
<td>$ 30.26</td>
<td>$ 35.18</td>
<td>$ 35.55</td>
<td>$ 41.08</td>
</tr>
<tr>
<td>Natural Gas(4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>$ 2.71</td>
<td>$ 2.88</td>
<td>$ 1.70</td>
<td>$ 2.64</td>
<td>$ 1.88</td>
<td>$ 2.80</td>
</tr>
<tr>
<td>Residential</td>
<td>$ 1.79</td>
<td>$ 6.24</td>
<td>$ 1.77</td>
<td>$ 6.22</td>
<td>$ 2.46</td>
<td>$ 6.35</td>
</tr>
<tr>
<td>Petrochemicals(5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ammonia(6)</td>
<td>121.83</td>
<td>344.38</td>
<td>212.10</td>
<td>216.05</td>
<td>247.36</td>
<td>342.84</td>
</tr>
<tr>
<td>Polyethylene L.D.(7)</td>
<td>2,125.90</td>
<td>2,806.73</td>
<td>2,269.65</td>
<td>2,481.38</td>
<td>2,498.92</td>
<td>2,556.36</td>
</tr>
<tr>
<td>Polyethylene HD(8)</td>
<td>2,100.96</td>
<td>2,860.18</td>
<td>2,246.31</td>
<td>2,680.92</td>
<td>2,281.63</td>
<td>2,006.86</td>
</tr>
<tr>
<td>Styrax(9)</td>
<td>2,067.87</td>
<td>2,510.93</td>
<td>1,848.62</td>
<td>1,945.70</td>
<td>1,535.01</td>
<td>1,649.13</td>
</tr>
</tbody>
</table>

(1) In U.S. dollars per barrel. Prices include taxes. Mexican prices exclude taxes in the border zone. U.S. prices are for Houston, Texas. Source: Pemex Refining and Lundberg Gasoline Retail Price Average.
(2) In U.S. dollars per barrel. Mexican prices are production center prices. U.S. prices are Houston prices corresponding to Jet Fuel and Tijuana Bunker. Source: Pemex Refining and Pemex's U.S. Market Scan.
(3) In U.S. dollars per barrel. All prices are ex-works prices. Mexican prices include taxes, while U.S. prices exclude taxes. Sources: Petroleum Marketing Monthly ("Kerosene Type Jet Fuel") and U.S. ("Jet Fuel") spot prices.
(4) In U.S. dollars per million of cubic feet. U.S. prices are national average industrial prices and Texas residential prices.
(5) The four most representative petrochemicals in domestic sales value.
(7) In pesos per ton. Quality price Ps.20,000/SP. Source: Pemex Petrochemicals, Chemical Market Analysis of Bonne & Moore, CMAI and Monthly Petrochemicals & Plastic Analysis of Chemical Data.
(9) In pesos per ton. Source: Pemex Petrochemicals and Chemical Market Analysis of Bonne & Moore, Arzamex & Intermediates of CMAI.

43
Equity and Dividends

In March 1990, as a result of the implementation of the 1989-92 Financing Package for Mexico, US$7.58 billion worth of Petróleos Mexicanos' external debt with international commercial banks was exchanged for 30-year Collateralized Fixed Rate Bonds Due 2019 and Collateralized Floating Rate Bonds Due 2019 ("Brady Bonds") issued by the Government. At the same time, Petróleos Mexicanos' indebtedness to the Government was increased by the same amount, which new indebtedness was denominated in currencies other than pesos. In December 1990, the Government and PEMEX agreed to capitalize such amount into PEMEX’s equity as certificados de operación “A” (certificates of contribution “A”, or “CAPs”). As a condition of this capitalization, Petróleos Mexicanos agreed to pay a minimum guaranteed dividend to the Government equal to the debt service on the capitalized debt. The total dividend on the CAPs is approved annually by the Board of Directors of Petróleos Mexicanos after the close of each fiscal year, although an amount equal to the minimum guaranteed dividend is paid to the Government in monthly advance payments during the year. During 1992, 1993, 1994 and 1995 Petróleos Mexicanos paid the Government advance payments of Ps. 1,417 million, Ps. 1,209 million, Ps. 1,661 million and Ps. 4,289 million, respectively, in respect of minimum guaranteed dividends. The total dividends paid by Petróleos Mexicanos to the Government in respect of the CAPs in respect of the 1992, 1993, 1995 fiscal years amounted to Ps. 3,313 million, Ps. 2,982 million, Ps. 1,661 million and Ps. 4,289 million, respectively.

Federal Taxes and Duties

Instead of paying a conventional tax on income, until 1992 PEMEX was subject to a special duty on hydrocarbon extraction imposed by the Government. This duty was meant to incorporate a royalty payment for the extraction of hydrocarbons, an oil income tax and a dividend to PEMEX's sole owner, the Government. For 1992, this duty was set at a rate of 58.4% of the value of the oil exported and 53.4% of the value (based on the average price of crude oil exported) of the oil sold in the domestic market in the form of natural gas, refined products and petrochemicals.

The rate at which PEMEX’s special duty was assessed varied from year to year. The duty estimate generally was set after taking into consideration PEMEX’s operating budget, its capital expenditure program and its financing needs.

With a view towards providing PEMEX with a more stable fiscal regime, starting in 1993 the Ministry of Finance and Public Credit established a new fiscal regime for PEMEX. For 1996, according to the new fiscal regime, PEMEX, in addition to being subject to the payment of all taxes and contributions set forth by the Ministry of Finance and Public Credit (other than the corporate income tax and the asset tax), must pay the following direct and indirect taxes and duties:

Hydrocarbon Extraction Duty – This duty is paid by Pemex-Exploration and Production only. A rate of 52.3% is applied to the net amount resulting from the deduction of all accrued expenditures (including operating expenses, investments in fixed assets and
deferred expenses and charges) from revenues generated by Pemex-Exploration and Production by way of sales of goods and services.

Extraordinary Hydrocarbon Extraction Duty — This duty is paid by Pemex-Exploration and Production only. It is calculated on the same basis as the Hydrocarbon Extraction Duty, using a tax rate of 25.5%.

Additional Hydrocarbon Extraction Duty — This duty is paid by Pemex-Exploration and Production only. It is calculated on the same basis as the Hydrocarbon Extraction Duty, using a tax rate of 1.1%.

Hydrocarbon Income Tax — This direct tax is paid by Petróleos Mexicanos and the Subsidiary Entities. This tax is equivalent to the regular income tax applicable to all Mexican corporations. A tax rate of 34% is applied to net income (determined in accordance with the Income Tax Law) of each of Petróleos Mexicanos and the Subsidiary Entities. Petróleos Mexicanos and the Subsidiary Entities may determine this tax on a consolidated basis.

IEPS Tax — (Special Tax on Products and Services) — This indirect tax, which is collected on behalf of the Government by Pemex-Refining and Pemex-Gas and Basic Petrochemicals, applies to sales of gasolines, diesel fuel and natural gas for automotive use. The IEPS tax on the sale of gasolines and diesel fuel is equivalent to the difference between the international reference price of each product (adjusted by freight costs and quality factors) and the retail price of such product to its customers (not including VAT, the retailers’ margin and freight costs), which is fixed by the Ministry of Finance and Public Credit. In effect, through the IEPS tax, the Government ensures that PEMEX retains only an amount reflecting the international prices (adjusted as described above) of these products, while the Government collects the difference between the international prices and the prices at which such products are sold in Mexico. The IEPS tax in respect of sales of natural gas for automotive use, which does not represent a substantial revenue to the federal financial authorities, is based on a fixed percentage of the retail price of such product.

The sum of the Hydrocarbon Extraction Duty, the Extraordinary Hydrocarbon Extraction Duty, the Hydrocarbon Income Tax and the IEPS tax (collectively, the “Taxes and Duties”) must equal 60.8% of PEMEX’s annual sales revenues to third parties. The Taxes and Duties are to be credited against the Derecho Sobre Hidrocarburos (the “Hydrocarbon Duty”), which is calculated by applying a rate of 60.8% to the sales revenue of PEMEX to third parties including the IEPS tax generated by Pemex-Refining, but excluding the VAT. PEMEX makes advance payments to the Government in respect of its liability under the Taxes and Duties up to the amount of the Hydrocarbon Duty. PEMEX’s advance payments are, in turn, credited against PEMEX’s liability under the Hydrocarbon Duty. In the event that the sum of PEMEX’s payments of Taxes and Duties are not equal to the Hydrocarbon Duty, the rate of Hydrocarbon Extraction Duty and the Extraordinary Hydrocarbon Extraction Duty will be adjusted accordingly to ensure that the sum is equal to the Hydrocarbon Duty.

45
In addition to the payment of the Hydrocarbon Duty, PEMEX must pay to the Government its "Excess Gains Revenues", which for 1996 equal 39.2% of its revenues in respect of crude oil export sales at prices in excess of U.S.$13.25 per barrel.

Starting in 1994, interest payments by PEMEX on its external debt are no longer exempt from withholding taxes. During 1994, however, payments made by PEMEX to the Government in respect of withholding taxes were credited against PEMEX's liability under the Hydrocarbon Duty. In 1995, PEMEX was required to make payments in respect of withholding taxes directly to the Government, and is expected to do so again in 1996. PEMEX's payments in respect of withholding taxes in 1995 totaled approximately Ps. 229.2 million.

Beginning in 1995, PEMEX is also subject to municipal and state taxes such as real property and payroll taxes. The real property tax does not represent a significant portion of PEMEX's total tax liability as most of PEMEX's properties are located on federal grounds and are not subject to municipal taxation. The new tax regime is not expected to have a material impact on the levels of payment by PEMEX to the Government in 1996.

Environmental Regulation

PEMEX is subject to the provisions of the Ley General de Equilibrio Ecológico y Protección al Ambiente (General Law on Ecology and Protection of the Environment, or the "Environmental Law"), the regulations issued thereunder and several technical environmental norms issued by the Secretaría de Medio Ambiente, Recursos Naturales y Pesca ("SEMARNAP"), the federal ministry in charge of supervising and regulating environmental matters. The SEMARNAP is, in turn, assisted by other governmental authorities such as the Secretaría de Salud (Ministry of Health), the Secretaría de Comunicaciones y Transportes (Ministry of Transportation and Communications), the Secretaría de Marina (the Ministry of the Navy) and the Ministry of Energy. In addition, it is subject to the environmental laws and regulations issued by the governments of each of the states of Mexico where its facilities are located.

The Environmental Law and regulations thereunder require that authorizations be obtained from SEMARNAP prior to carrying out any activity that may have an adverse effect on the environment. In particular, they address chemical, petrochemical, oil refining and extraction activities, as well as the construction of oil and gas pipelines. In order to obtain authorization, the submission of an environmental impact analysis is required and SEMARNAP, based upon such analysis and other information it may request, is entitled to grant or deny its authorization for the activity.

Since the enactment of the Environmental Law, several technical environmental regulations have been issued. These regulations, which specifically set forth, among others, permissible levels of emissions, water discharges and hazardous substances discharges as well as atmospheric pollution levels, are applicable to Mexican industry in general, including PEMEX. Other technical regulations are issued for specific industries. Some have been issued in respect of the oil refining and petrochemical industry, setting forth maximum
permissible levels and procedures to be followed for determining the level of polluting substances in residual water discharges and gas emissions derived from the petrochemical and oil refining industry. The Mexican environmental regulatory framework is generally updated and revised annually. In this respect, 64 rules applicable to the petroleum industry were issued in 1995.

Federal and state authorities in Mexico are authorized to inspect any facility to determine compliance with the Environmental Law, local environmental laws, regulations and technical environmental regulations. Violations or non-compliance with the legal provisions may result in the application of considerable fines, temporary or permanent shutdown of a facility, required capital expenditures to minimize the effect of PEMEX's operations on the environment, cleanup of contaminated land and water, cancellation of a concession or revocation of authorization for carrying out certain activities and, in certain cases, criminal prosecution of employees and individuals.

PEMEX believes that it is currently in substantial compliance with current federal and state environmental laws as such laws have been historically interpreted and enforced. Petróleos Mexicanos maintains an organizational structure that permits it to implement and monitor its environmental program. The Subsidiary Entities have specialized departments, which vary in accordance with the size and geographic distribution of their respective sites, to implement PEMEX's environmental objectives on an operative level. To this end, among other activities PEMEX performs environmental audits on its sites and their immediate surroundings based on the Términos de Referencia (Reference Terms) of the SEMARNAP and undertakes the necessary actions to correct the deficiencies that are detected.

Prior to 1993, the identification of environmental matters was done individually by each operating plant. In 1993, partly as a result of the enactment of new environmental laws and regulations by the Government, PEMEX began to develop an internal structure to better identify and quantify restoration, dismantlement and abandonment costs. In connection with the new structure, PEMEX contracted with external engineers for the performance of operational audits which included environmental assessments of the sites being audited. The assessments include cost estimates for remedying any shortfall in compliance with Mexican environmental laws. Once the audits are completed, they are sent to the Government for approval. Once approved by the Government, PEMEX will negotiate an agreement with the Government stipulating the term, amounts to be expended and the steps to be taken to bring each site into compliance. At December 31, 1995, 42 audits had been completed, all of which had been approved by the Procuraduría Federal para la Protección Ambiental (Office of the Federal Attorney General for Environmental Protection). As a result of this program, Planes de Acciones Correctivas (Corrective Action Plans) have been coordinated with the Office of the Federal Attorney General for Environmental Protection for 20 of the audited sites, which will be effected starting in 1996. The majority of the corrective actions will be directed to the remediation of surface and subsurface areas. PEMEX currently estimates that it will invest Ps. 3,935.7 million in environmental expenditures in 1996.
There are currently no material legal or administrative proceedings pending against PEMEX with respect to any environmental matters, and management does not believe that continued compliance with environmental laws will have a material adverse effect on PEMEX’s financial condition or results of operations.

During 1994, PEMEX invested approximately Ps. 1.5 billion in environmental projects. These projects included the modernization of facilities, improved pollution controls and waste management practices and an increase in spill prevention and emergency response capabilities. In addition, PEMEX has engaged in extensive research and development efforts to develop capacity for increased production of unleaded gasoline, diesel and fuel oil with lower sulfur content and alternative fuels, such as industrial oil gas and natural gas. During 1995, PEMEX invested Ps. 3,654.8 million in various environmental projects. The most important of these projects were directed to the modernization of installations; the implementation of systems and control mechanisms to monitor atmospheric pollution, the acquisition of equipment to address the contingencies of hydrocarbon spills, the expansion of aquatic effluent systems, the restoration and reforestation of affected areas, studies for environmental investigation and conduct of environmental audits, as well as for the production and upgrading of fuels.

PEMEX does not expect that the cost of maintaining compliance with environmental laws or environmental requirements related to the NAFTA or the recent admission of Mexico to the Organization for Economic Cooperation and Development (OECD) will cause a significant increase in PEMEX’s environmental expenditures.

**Item 5. Nature of the Trading Market**

Not applicable.

**Item 6. Exchange Controls and Other Limitations Affecting Security Holders**

From late 1982 until November 10, 1991, Mexico maintained a dual foreign exchange rate system, with a Controlled Rate and a Free Market Rate. The Controlled Exchange Rate applied to certain imports and exports of goods, advances and payments of registered foreign debt, funds used in connection with the in-bond industry and payments of royalties and technical assistance under registered agreements. The Free Market Rate was applicable to all other transactions. Mexico repealed its exchange control rules effective November 11, 1991 and now maintains only a free, or market, exchange rate. During the four-month period from September 1, 1982 to December 20, 1982, the Government imposed strict exchange control policies which limited the right to exchange pesos for dollars. While the Government does not currently restrict the ability of Mexican or foreign persons or entities to convert pesos into dollars or other currencies, no assurance can be given that the Government will not constitute a restrictive exchange control policy in the future. The imposition of such a policy in the future may impair PEMEX’s ability to meet its obligations requiring payments in foreign currency.

48
From October 1992 to December 21, 1994, Banco de México, through intervention in the foreign exchange market, maintained the peso/dollar exchange rate within a band (which widened daily) prescribed by the Government. The ceiling of the band, which was the maximum selling rate, depreciated at a daily rate of 0.0004 pesos (equal to approximately 4.9% per year), while the floor of the band, i.e., the minimum buying rate, remained fixed. On December 20, 1994, the Government increased the ceiling of the trading band by Ps. 0.53, equivalent to an effective devaluation of 15.3%.

On December 21, 1994, the Government announced its decision to suspend intervention by Banco de México and to allow the peso to float freely against the U.S. dollar. Factors contributing to the decision included the growing size of Mexico’s current account deficit, the declining level of Banco de México’s foreign exchange reserves, rising interest rates for other currencies, especially the U.S. dollar, and reduced confidence in the Mexican economy on the part of international investors due to political uncertainty, especially concerning events in the State of Chiapas and political turmoil. By December 31, 1994 the exchange rate was Ps. 5.00 per U.S. dollar, as compared to Ps. 3.47 per U.S. dollar on December 19, 1994. See “Item 1 — Description of Business — United Mexican States — Events During 1994”. The peso was highly volatile throughout 1995, fluctuating between Ps. 5.3 and Ps. 8.1 per U.S. dollar. There can be no assurance that the Government will maintain its current policies with regard to the peso or that the peso will not further depreciate or appreciate significantly in the future.

**Item 7. Taxation**

Not applicable.

**Item 8. Selected Financial Data**

The selected financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Financial Statements. The selected financial data set forth below as at and for the five years ended December 31, 1995 have been derived from the financial statements of Petróleos Mexicanos as at and for the years ended December 31, 1992 and 1991, and from the consolidated financial statements of PEMEX and Subsidiary Companies (as defined below under “Item 9 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — General — Consolidation”) and for the years ended December 31, 1995, 1994 and 1993 which have been audited by Coopers & Lybrand, Despacho Roberto Casas Alatriste, independent accountants.

The Financial Statements are prepared in accordance with Mexican GAAP, except with respect to inflation accounting. See Notes 2(c) and 13 to the Financial Statements for a discussion of the inflation accounting rules applicable to PEMEX. Mexican GAAP differs in certain significant respects from United States generally accepted accounting principles (“U.S. GAAP”). The material differences as they relate to the Financial Statements are described in Note 15 to the Financial Statements.
The most important of the material items generating a difference between operating results under U.S. and Mexican GAAP are the accounting methodologies for the treatment of petroleum exploration and drilling costs, measurement of pension obligations, accounting for capitalized interest, inflation accounting and accounting for foreign exchange losses. Under Mexican GAAP, oil exploration and development costs are charged to a capital reserve rather than expensed or directly capitalized as required by U.S. GAAP. Such capital reserve is funded by charging a certain percentage to cost of sales for each barrel of crude extracted. PEMEX sets this percentage on an annual basis. Seniority premiums retirement plans generate a difference between U.S. and Mexican GAAP due to the different actuarial cost assumptions applied under Bulletin D-3 and SFAS No. 87. In addition, PEMEX's adoption dates for Bulletin D-3 and SFAS No. 87 were different, resulting in differences in period expenses due to the differing amortization of transition amounts. The treatment of capitalized interest between PEMEX's Mexican GAAP financial statements and U.S. GAAP differs in that for Mexican GAAP purposes PEMEX treats all interest expense as being associated with construction or well development and accordingly capitalizes all interest. For purposes of the U.S. GAAP reconciliation, PEMEX capitalizes interest by applying its average borrowing rate to its average amount of construction in progress. PEMEX applies NIF-06 BIS/A to its financial statements to reflect the effects of inflation. NIF-06 BIS/A provides for the restatement of fixed assets, inventories and costs of sales by indexing and/or appraisals. Since NIF-06 BIS/A does not represent a comprehensive basis of inflation accounting, beginning with its 1992 fiscal year, PEMEX has reversed the effects of NIF-06 BIS/A on its financial statements from the U.S. GAAP reconciliation of income and equity. Under NIF-06 BIS/A, a devaluation of the peso does not have a negative impact on the income of PEMEX because exchange losses are capitalized into fixed assets. Furthermore, a devaluation of the peso relative to the dollar results in an increase in income to the extent that expenses remain relatively stable because they are incurred in pesos, while revenues, which are mostly denominated in dollars or linked to international, dollar-denominated prices, increase in peso terms. In contrast, under U.S. GAAP, a devaluation of the peso has a negative impact on the income of PEMEX because the exchange losses are not capitalized but are charged immediately to income. This one-time charge to income will be gradually offset by dollar-linked revenues. In any particular accounting period, the negative impact of a devaluation is, therefore, greater when the devaluation occurs at or near the end of the period, as occurred with the peso at the end of 1994. For a further discussion of these and other adjustments, see Note 15 to the Financial Statements.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME STATEMENT DATA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue(s)</td>
<td>Ps. 64,923,534</td>
<td>Ps. 77,759,727</td>
<td>Ps. 84,201,636</td>
<td>Ps. 100,299,725</td>
<td>Ps. 161,547,025</td>
</tr>
<tr>
<td>Total Revenue ex Net of IEPS Tax</td>
<td>58,376,257</td>
<td>66,038,727</td>
<td>66,752,136</td>
<td>78,502,779</td>
<td>143,843,835</td>
</tr>
<tr>
<td>Net Sales(s)</td>
<td>64,326,940</td>
<td>77,002,774</td>
<td>82,780,455</td>
<td>95,199,785</td>
<td>157,309,598</td>
</tr>
<tr>
<td>Income</td>
<td>3,161,629</td>
<td>3,313,394</td>
<td>3,024,670</td>
<td>3,326,259</td>
<td>9,808,638</td>
</tr>
<tr>
<td>Approximate amounts in accordance with U.S. GAAP(1):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>n.a.</td>
<td>3,717,595</td>
<td>3,916,237</td>
<td>(21,084,652)</td>
<td>(8,275,624)</td>
</tr>
<tr>
<td><strong>BALANCE SHEET DATA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(end of period)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts in accordance with Mexican GAAP:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Marketable Securities</td>
<td>1,200,654</td>
<td>1,768,131</td>
<td>1,910,949</td>
<td>5,781,465</td>
<td>11,787,227</td>
</tr>
<tr>
<td>Total Assets</td>
<td>247,754,183</td>
<td>155,133,854</td>
<td>157,102,379</td>
<td>201,518,067</td>
<td>244,438,126</td>
</tr>
<tr>
<td>Long-Term Debt</td>
<td>21,622,435</td>
<td>20,118,875</td>
<td>18,030,113</td>
<td>35,141,909</td>
<td>47,518,903</td>
</tr>
<tr>
<td>Total Long-Term Liabilities</td>
<td>23,597,727</td>
<td>28,274,065</td>
<td>27,143,317</td>
<td>58,579,375</td>
<td>76,126,863</td>
</tr>
<tr>
<td>Equity</td>
<td>115,800,452</td>
<td>113,728,908</td>
<td>107,808,558</td>
<td>118,231,566</td>
<td>126,601,993</td>
</tr>
<tr>
<td>Approximate amounts in accordance with U.S. GAAP(1):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity (5)</td>
<td>n.a.</td>
<td>102,486,284</td>
<td>98,231,995</td>
<td>74,856,730</td>
<td>62,291,747</td>
</tr>
<tr>
<td><strong>OTHER FINANCIAL DATA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts in accordance with Mexican GAAP:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>5,065,302</td>
<td>5,000,749</td>
<td>6,765,214</td>
<td>6,559,095</td>
<td>9,385,382</td>
</tr>
<tr>
<td>Investment at Cost(4)</td>
<td>8,754,768</td>
<td>6,794,396</td>
<td>9,110,730</td>
<td>8,027,485</td>
<td>14,166,084</td>
</tr>
<tr>
<td>Weighted Average Price for Crude Oil Exported by PEMEX</td>
<td>$14.58</td>
<td>$14.88</td>
<td>$13.20</td>
<td>$13.88</td>
<td>$15.70</td>
</tr>
</tbody>
</table>

n.a. = Not available.

1. The Financial Statements of PEMEX are prepared in accordance with Mexican GAAP, except with respect to inflation accounting. For information concerning (i) material differences between Mexican GAAP and U.S. GAAP, as applied to the Financial Statements, (ii) the effect of certain material differences in income and equity and a reconciliation of such differences and (iii) the manner in which PEMEX, as opposed to private Mexican corporations, accounts for the effect of inflation, see Notes 2(c) and 13 to the Financial Statements.

2. For the years ended December 31, 1993 and 1963, the financial condition and results of the P.M.I. Group (as defined below) are included and for the year ended December 31, 1994, the financial condition and results of KOT Insurance Co. Ltd. are included and for the year ended December 31, 1995, the financial condition and results of Integrated Trade Systems, Inc. are included. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - General - Consolidation" below. In 1994, net sales by the P.M.I. Group were 6.7% of total PEMEX sales.

3. Total Revenues and Net Sales figures include the IEPS tax as part of the sales price of the products sold.

4. Includes expenditures in fixed assets and capitalized interest, and excludes certain expenditures charged to the oil field exploration and depletion reserve. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

5. Equity under U.S. GAAP as of December 31, 1993 and 1992 has been revised from the amount previously reported to reflect the appropriate liability for pensions in accordance with SFAS No. 87 (see Note 15 to the Financial Statements).
Exchange Rates

The following table sets forth, for the periods indicated, the period-end, average, high and low Controlled Rate and free-market rate for the purchase of U.S. dollars, expressed in nominal pesos per U.S. dollar.

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>Controlled Rate(1)</th>
<th>Free Market Rate(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Period End</td>
<td>Average(3)</td>
</tr>
<tr>
<td>1990</td>
<td>2.637</td>
<td>2.453</td>
</tr>
<tr>
<td>1991(1)</td>
<td>2.939</td>
<td>2.807</td>
</tr>
<tr>
<td>1993</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1994</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1995</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1996 (through June 14)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

n.a. = Not applicable

(1) Source: Banco de México.
(2) Source: Banco de México, until November 5, 1993, with the free-market rate representing the average of the buy and sell rates on the relevant date(s). Commencing November 5, 1993, the Free Market Rate is the Noon Buying Rate for Cable Transfers in New York reported by the Federal Reserve Bank of New York.
(3) Average of month-end rates.
(4) Controlled rate is through November 10, 1991.

The Noon Buying Rate for cable transfers in New York reported by the Federal Reserve Bank of New York on June 27, 1996 was Ps. 7.636 = US$1.00.


The following discussion should be read in conjunction with the Financial Statements. The Financial Statements have been prepared in accordance with Mexican GAAP, except with respect to inflation accounting. See Notes 2(c) and 13 to the Financial Statements for a discussion of the inflation accounting rules applicable to PEMEX. Mexican GAAP differs in certain respects from U.S. GAAP. Note 15 to the Financial Statements of PEMEX provides a description of the material differences between Mexican GAAP and U.S. GAAP, as they relate to PEMEX, and a reconciliation to U.S. GAAP of income and total equity.

General

PEMEX's operating results are affected by a variety of factors, including general economic conditions, particularly in Mexico, and movements in international oil prices, which are denominated in U.S. dollars. The discussion below is based on the amounts contained under "Item 8 — Selected Financial Data" and should be read in conjunction with the introductory paragraphs set forth therein.

Prices. Higher crude oil prices generally have a positive effect on PEMEX's results, as its upstream oil and gas business benefits from the resulting increase in prices realized from production. Lower crude oil prices generally have a corresponding negative
effect. The impact of changes in oil prices on PEMEX’s downstream refining and marketing activities and in its petrochemicals business depends in part on the speed with which refined petroleum and petrochemical products prices in the international markets adjust to reflect changes in crude oil prices and, in part, on the extent to which prices in the Mexican markets, where most of PEMEX’s production of natural gas, refined products and petrochemicals is sold, reflect international prices.


The prices at which PEMEX’s products are sold in the domestic market are set by committees composed of representatives of PEMEX and the Government, and may differ from international prices. PEMEX’s sales revenues (net of the IEPS tax) for these products are linked to their international reference prices. The IEPS tax is an indirect tax on gasoline, automotive diesel and natural gas for automotive use sales (an IEPS tax on jet fuel sales was eliminated in 1994).

The IEPS tax on gasoline and automotive diesel is the difference between the producer price - linked to international markets - and the retail price less VAT, the retail price being a price managed by the Government. As a consequence, a fall in the international price of such products will result in a fall in the reference price and, therefore, in an increase in the IEPS tax collected from consumers and paid to the Government. Alternatively, an increase in international prices will have the opposite effect to the extent that domestic prices do not adjust to reflect the changes in international prices. In effect, through the IEPS tax, the Government ensures that PEMEX retains only a portion of its sales revenues equal to adjusted international reference prices of its products, while the Government collects the difference between the international reference prices and the prices at which such products are sold in Mexico. As discussed under “Regulatory Framework and Relationship with the Government — Federal Taxes and Duties”, an increase in the IEPS tax may result in a decline in hydrocarbon extraction duties payable by PEMEX, while a decline in the IEPS tax may cause an increase in hydrocarbon extraction duties.

The IEPS tax on natural gas sales is determined as a fixed percentage of the retail price of such product.
PEMEX's revenues and expenses from domestic sales reflect its collection on behalf of the Government and payment to the Government of the IEPS tax as offsetting revenue and cost items, respectively.

Inflation. Mexico experienced high inflation during much of the last decade. The rate of inflation (as measured by the change in the National Consumer Price Index, or "NCPI") has been reduced from a high of 159.2% in 1987 to 11.8% in 1992, 8.0% in 1993 and 7.1% in 1994. However, in the light of the recent economic events that followed from the devaluation of the peso against the U.S. dollar, Mexico registered an inflation rate of 52.0% in 1995. See "— Recent Developments — United Mexican States" below and "Item 1 — Description of Business — United Mexican States". For 1996, the Government expects the annual rate of inflation to be 21.6%. In accordance with NIF-06 BIS/A, the inflation accounting rule applicable to PEMEX, which differs from Mexican GAAP, PEMEX restates certain items in its financial statements to reflect the effects of inflation. Such restatement is not the comprehensive restatement of financial statements required by Bulletin B-10. Due to the economic stability and low rates of inflation during 1993, PEMEX did not restate its fixed assets during that year. For a description of the differences in accounting for inflation under the accounting principles applicable to PEMEX and under Mexican GAAP, see Notes 2(c) and 13 to the Financial Statements.

Mexican inflation has affected PEMEX's consolidated financial results in the following principal ways: (i) since the prices of certain products and services purchased and sold by PEMEX tend to increase in line with general inflation, sales and expense items in PEMEX's income statement contain substantial effects from nominal price increases, and as a result inter-period comparisons may not reflect the true trends; (ii) the value of fixed assets, materials and spare parts on PEMEX's balance sheet are revalued annually to reflect the effect of inflation; and (iii) PEMEX's income each year is affected negatively by increased depreciation of fixed assets and inventories that are revalued to reflect the effects of inflation on those assets. In 1993, because of the moderate rates of inflation in Mexico, PEMEX determined that it was not necessary to revalue its assets to reflect the effects of inflation; however, its 1993 income statement and balance sheet still reflect the effects of inflation adjustments made in prior years. In 1994, PEMEX restated the value of its fixed assets in the amount of Ps. 16,507 million to reflect the cumulative effect of inflation in 1993 and 1994 and the increased peso value of dollar-denominated assets following the devaluation of the peso in 1994. In 1995, no restatement of the value of fixed assets due to inflation was made.

Exchange Rates. A significant portion of PEMEX's revenues is derived from exports of crude oil and oil products, which are denominated and payable in U.S. dollars. In addition, the domestic revenues that PEMEX retains (i.e., does not pay to the Government in the form of IEPS taxes) in respect of its sales of oil products and petrochemicals are related to the international prices of these products, which are denominated in U.S. dollars. With the exception of hydrocarbon duties, which are linked to sales, most of PEMEX's cost of sales and other expenses are payable in pesos and are not linked to the U.S. dollar. As a result, any depreciation of the peso relative to the U.S. dollar will increase PEMEX's revenues in peso terms and will also increase PEMEX's net income, while an appreciation of the peso relative
to the U.S. dollar will have the opposite effect. Because a significant portion of PEMEX's revenues is denominated in U.S. dollars, PEMEX's borrowings are generally denominated in dollars. To the extent that, since 1991, PEMEX has borrowed in currencies other than U.S. dollars, PEMEX generally enters into currency swaps to hedge against movements in exchange rates. In addition, since a significant portion of PEMEX's revenues are dollar-denominated while hydrocarbon duties are peso-denominated, PEMEX from time to time enters into forward contracts with Mexican banks for the sale of dollars. Due to the December 1994 peso devaluation, PEMEX incurred an unrealized loss of Ps. 830 million for 1994 under certain such contracts, which was reported in PEMEX's 1994 income statement. In 1995, PEMEX's hedging activities were concentrated mainly in interest rate and foreign exchange swaps, without new participation in the peso/dollar forward market. All forward contracts expired in 1995.

Foreign exchange losses derived from debt are capitalized on PEMEX's balance sheet, provided that they do not exceed the increase in the value of PEMEX's fixed assets resulting from their restatement. In 1992, PEMEX capitalized Ps. 121 million of foreign exchange losses. Because PEMEX's foreign exchange losses in 1993 were not considered material, PEMEX did not capitalize such losses and recorded in its income statement Ps. 57 million of foreign exchange losses in respect of its debt. In 1994, PEMEX capitalized Ps. 21,099 million of foreign exchange losses in respect of its debt, primarily due to the fact that the devaluation of the peso at the end of 1994 increased the value in peso terms of PEMEX's indebtedness and other liabilities denominated in foreign currencies. See "Item 1—Description of Business — United Mexican States — Events During 1994" above. For the year ended December 31, 1995, PEMEX (excluding the results of the Subsidiary Companies (as defined below)) capitalized Ps. 20,952 million of foreign exchange losses in respect of its debt, due to the further devaluation of the peso during the year. Any foreign exchange gains and losses derived from PEMEX's operations, which relate mainly to receivables in respect of export sales and payables to foreign suppliers, are recorded in results of operations rather than being capitalized. PEMEX recorded Ps. 27 million of foreign exchange losses in 1993, Ps. 2,603 million of foreign exchange gains in 1994 and Ps. 1,601 million of foreign exchange gains in 1995.

Interest Rates. In addition to entering into currency swaps with respect to its bond issues denominated in currencies other than U.S. dollars, PEMEX has sought to reduce its exposure to increases in interest rates, since the interest rate on most of its debt and the guaranteed dividend rate on its certificates of contribution "A" (See "— Liquidity and Capital Resources" below) fluctuate in parallel with changes in international interest rates. PEMEX's hedging committee, composed of representatives of PEMEX, Banco de México, the Ministry of Finance and Public Credit and P.M.I. Comercio, authorizes PEMEX's hedging strategy and supervises the hedging activities carried out by PEMEX's Finance Department. In 1992, 1993 and 1994, PEMEX's hedging activities consisted principally of interest rate swaps (where PEMEX in effect converted floating rate exposure into fixed rate payments) and, to a lesser extent, interest rate caps (which set a fixed ceiling on floating rate payments) and interest rate collars (which set both a floor and a ceiling on floating rate payments).
During 1994, PEMEX’s hedging committee determined that it would remove some of the protection provided by its interest rate swaps by selling interest rate caps. In exchange for receiving a premium, PEMEX is obligated to pay the holder the amount, if any, calculated with reference to a notional principal amount, by which the floating interest rate exceeds the rate specified in the cap agreement on the exercise date of the cap. In addition, beginning in 1994, PEMEX entered into transactions ("swaptions") that give its counterparty the right to enter into an interest rate swap at an agreed future date, which would obligate PEMEX to make fixed interest rate payments and receive floating rate payments.

Under its interest rate swap agreements, PEMEX is obligated to make payments based on a fixed interest rate and is entitled to receive payments based on the floating three-month LIBOR interest rate. As of December 31, 1995, PEMEX was a party to interest rate swap agreements with an aggregate amount of US$6.4 billion, with weighted average remaining maturities of approximately 3.1 years and weighted average fixed interest rates of approximately 6.28%. As of December 31, 1995, PEMEX also had forward start interest rate swaps, which commenced on February and March 1996, with an aggregate notional principal amount outstanding of $1,100 million. As of December 31, 1995, the aggregate notional principal amount of written caps totaled US$1.3 billion, with fixed rate caps that ranged from 6.5% to 10.00%, and with expiration dates ranging from 1996 to 2001. All swaptions that were sold during 1994 expired during 1995, reducing the outstanding number at year end to zero. During 1995 PEMEX entered into transactions ("corridors"). Under these transactions, PEMEX is obligated to make payments based on a fixed interest rate and entitled to receive payments based on the floating three-month LIBOR interest rate, if the LIBOR interest rate is within a specified range. As of December 31, 1995, PEMEX was a party to such transactions with an aggregate amount of US$1.1 billion.

For accounting purposes, the result from the financial hedges of interest rates swap contracts is recorded on an accrual basis and when the definitive amounts receivable or payable are known. The result from other financial derivative instruments, as well as the premiums that are received or paid, are recognized in accordance with their collection or payment date. For presentation purposes, these results are included in the interest account. From time to time PEMEX reviews its contingencies.

The market value as of December 31, 1995 and June 5, 1996 of PEMEX’s aggregate interest rate derivatives position was US$264 million negative and US$50 million negative, respectively.

Income. From 1991 through 1994, PEMEX’s income has declined as a percentage of its total revenues (net of the IEPF tax), from 5.4% in 1991 to 5.0% in 1992, 4.5% in 1993 and 4.2% in 1994. The decline in income relative to total revenues (net of the IEPF tax) from 1991 to 1994 was due in part to the impact of inflation on PEMEX’s cost of sales (including wages, cost of materials and supplies, depreciation of fixed assets, and reserves for retirement payments and pensions) and distribution and administrative expenses and, in part, to higher depreciation expenses resulting from increases in PEMEX’s fixed assets caused by increased capital expenditures. See “— Inflation” above. Over the same period.
however, the international prices of crude oil and oil products remained relatively stable and, until mid-December 1994, the peso/dollar exchange rate also remained fairly stable. As a result of these factors, expenses during the period from 1991 through 1994 increased faster than revenues. However, in 1995, there was a significant change from the prior trend, when PEMEX's income as a percentage of total revenues (net of the IEPS Tax) was 6.8%, mainly because the devaluation of the peso caused the peso value of PEMEX's exports to increase, while PEMEX's costs of sales did not increase proportionately. See "Item 1 — Description of Business — United Mexican States — The Government's Response".

PEMEX's income is also affected by the level of the direct tax and duty payments to the Government, which, together with indirect taxes collected by PEMEX for the Government, represent a substantial portion — 24.0% in 1992, 27.1% in 1993, 27.5% in 1994 and 35.3% in 1995 — of the Government's total tax receipts. The taxes and duties that PEMEX pays to the Government, or collects on behalf of the Government, consist of direct taxes (i.e., the hydrocarbon extraction duties and, beginning in 1993, a hydrocarbon tax on income) and indirect taxes (i.e., the IEPS tax and the VAT). Direct taxes affect PEMEX's income because they are recorded as expenses; however, indirect taxes have no impact on PEMEX's income because they represent a pass-through tax which PEMEX collects from its sales to customers and pays to the Government. From 1991 to 1994 the composition of PEMEX's payments changed, with indirect taxes — which did not have any impact on PEMEX's income — representing a greater percentage of PEMEX's total taxes and duties and direct taxes — which had an impact on PEMEX's income — representing a smaller portion of such taxes and duties.

Because PEMEX was not subject to the Hydrocarbon Income Tax in 1991 and 1992, and had no taxable income in 1993 and 1994 to which this tax was applicable, the difference between PEMEX's revenues and its costs and expenses is called "income". See "Item 4 — Control of the Registrant — Regulatory Framework and Relationship with the Government — Federal Taxes and Duties".

Consolidation. PEMEX's financial statements include, on a consolidated basis, the accounts of Petróleos Mexicanos, the Subsidiary Entities and, beginning with PEMEX's financial statements as at and for the year ended December 31, 1993, the Subsidiary Companies (as defined below). The PEMEX subsidiaries that were consolidated with PEMEX's 1993 and 1994 results were P.M.I. Comercio, P.M.I. Trading Ltd., P.M.I. Holdings, N.V., P.M.I. Holdings, B.V. and P.M.I. Norteamérica, S.A. de C.V. (together, the "P.M.I. Group") and, starting in 1994, KOT Insurance Co. Ltd. and, since 1995, Integrated Trade Systems, Inc. (together with the P.M.I. Group, the "Subsidiary Companies"). Each of these companies (other than P.M.I. Norteamérica, S.A. de C.V., which did not commence operations until March 1993, and KOT Insurance Co. Ltd., which did not commence operations until February 1993) was previously accounted for under the cost method. The consolidation, after inter-company eliminations, increased total assets of PEMEX by Ps. 1,416 million in 1994 and Ps. 947 million in 1995, decreased equity by Ps. 392 million in 1994 and Ps. 1,188 million in 1995, and increased yield by Ps. 130 million in 1994 and decreased the yield for the year by Ps. 374 million in 1995.
PEMEX Restructuring. From 1992 to 1995, PEMEX undertook the most comprehensive restructuring since its creation in 1938, with a view towards increasing productivity and competitiveness. As part of the restructuring program, the Organic Law separated the operating functions of PEMEX into the four Subsidiary Entities. The new legal and administrative structure grants more control and responsibility to the management of each operating area through integrated lines of business. As of December 31, 1995, PEMEX had 124,396 employees (excluding P.M.I. Group employees), down from 210,157 in 1987. See “Item 1 — Description of Business — Employee Matters”. This reduction in PEMEX’s labor force reflects the various measures undertaken by PEMEX in recent years to reduce its costs and improve its efficiency.

Results of Operations — 1995 compared to 1994

In 1995, PEMEX earned income of Ps. 9.8 billion on total revenues (net of the IEPS tax) of Ps. 143.8 billion, as compared with 1994 income of Ps. 3.3 billion on total revenues (net of the IEPS tax) of Ps. 78.5 billion. The increase in income from 1994 to 1995 was attributable primarily to an increase in net sales and a reduction of costs and operating expenses as a percentage of net sales. Total revenues (net of the IEPS tax) increased by 83.2%, due primarily to an increase in net sales. PEMEX’s total sales revenues (net of the IEPS tax), in 1995 reached Ps. 139.6 billion, an increase of 90.3% over 1994 total sales revenues (net of the IEPS tax) of Ps. 73.4 billion, due to increases in domestic prices, in the volume of petrochemical products sold in the domestic market and in the international price of crude oil. Of 1995 total sales revenues (net of the IEPS tax), Ps. 65.2 billion (or 46.7%) resulted from exports and Ps. 74.4 billion (or 53.3%) resulted from domestic sales.

Export sales increased by 110.0% in peso terms (with dollar-denominated export revenues converted to pesos at the exchange rate for the date on which the export sale was made), from Ps. 31.0 billion in 1994 to Ps. 65.2 billion in 1995, and increased as a percentage of total sales revenues (net of the IEPS tax) from 42.3% in 1994 to 46.7% in 1995. Excluding the activities of the P.M.I. Group, export sales increased by 114.3% from Ps. 25.0 billion in 1994 to Ps. 53.7 billion in 1995. In dollar terms, export sales (excluding the activities of the P.M.I. Group) increased by 12.0% from US$7.5 billion in 1994 to US$8.4 billion in 1995. Crude oil exports accounted for 88.2% of export sales in 1994 and 89.3% in 1995, petroleum by-products (including natural gas) accounted for 5.7% of export sales in 1994 and 6.2% in 1995, and petrochemical products accounted for the remainder of export sales in those years. Crude oil export sales increased by 117.1% from Ps. 22.1 billion in 1994 to Ps. 47.9 billion in 1995, and increased in dollar terms by 13.1%, from US$6.6 billion in 1994 to US$7.5 billion in 1995, as a result of an increase in international crude oil prices. The weighted average price per barrel of crude oil exported by PEMEX was US$15.70 in 1995, a 13.1% increase from the average of US$13.88 observed in 1994. Export sales of petroleum derivatives (including NGLs) increased by 132.0% from Ps. 1.4 billion in 1994 to Ps. 3.3 billion in 1995, and increased in dollar terms by 24.3% from US$423 million in 1994 to US$526 million in 1995, due to increased prices in international markets. Export sales of petrochemical products (including certain by-products of the petrochemical process) increased

58
by 56.9% from Ps. 1.5 billion in 1994 to Ps. 2.4 billion in 1995, and decreased in dollar terms by 16.9% from US$453.7 million in 1994 to US$376.8 million in 1995.

Net of collection of the IEPS tax, domestic sales increased by 75.9% from Ps. 42.3 billion in 1994 to Ps. 74.4 billion in 1995. Domestic sales of petroleum derivatives (other than natural gas) increased by 72.5% from Ps. 34.1 billion in 1994 to Ps. 58.9 billion in 1995, led by an increase in the prices of domestic sales of unleaded gasoline and fuel oil. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) increased from Ps. 4.9 billion in 1994 to Ps. 10.5 billion in 1995, due to an increase in international prices for petrochemicals and an increase in domestic demand. Sales of natural gas increased from Ps. 3.4 billion in 1994 to Ps. 5.1 billion in 1995. Other income increased from Ps. 2.5 billion in 1994 to Ps. 2.6 billion in 1995.

In addition, in 1995 PEMEX recorded an exchange gain of Ps. 1.6 billion, primarily due to the depreciation of the peso between the date on which PEMEX recorded export sales on its books in pesos (i.e., the date of shipment) and the date on which PEMEX collected the proceeds from such sales.

Excluding the IEPS tax, total costs and operating expenses increased by 78.3% from Ps. 75.2 billion in 1994 to Ps. 134.0 billion in 1995, primarily due to a Ps. 15.3 billion increase in cost of sales and a Ps. 41.8 billion increase in hydrocarbon extraction duties. The increase in cost of sales resulted primarily from the increase in the volume of domestic sales. Cost of sales as a percentage of total net sales (net of the IEPS tax) decreased from 41.4% in 1994 to 32.8% in 1995. Hydrocarbon extraction duties increased from Ps. 33.1 billion to Ps. 74.9 billion, largely because of the increase in the international price of crude oil. In addition, transportation and distribution expenses increased by Ps. 415 million over their 1994 level, interest expense (net) changed significantly from a debit of Ps. 852 million in 1994 to a credit of Ps. 1,052 million in 1995, and other expenses (including write-offs of accounts receivable and rental expense) increased by Ps. 746 million from the level of Ps. 726 million in 1994.

The change in interest was due to the levels of the domestic market rates and an increase in the liquidity of the peso treasury.

**Results of Operations — 1994 compared to 1993**

In 1994, PEMEX earned income of Ps. 3.3 billion on total revenues (net of the IEPS tax) of Ps. 78.5 billion, as compared with 1993 income of Ps. 3.0 billion on total revenues (net of the IEPS tax) of Ps. 66.8 billion. The increase in income from 1993 to 1994 was attributable primarily to increased net sales, while the cost of sales remained unchanged as a percentage of net sales. Total revenues (net of the IEPS tax) increased by 17.6%, due primarily to an increase in net sales and an increase in foreign exchange gains. PEMEX's total sales revenues (net of the IEPS tax) in 1994 reached Ps. 73.4 billion, an increase of 12.3% over 1993 total sales revenues (net of the IEPS tax) of Ps. 65.3 billion, due to an increase in the volume of domestic sales of unleaded gasoline, fuel oil and petrochemicals and an increase in the international price of crude oil and petrochemicals. Of 1994 total sales revenues (net of
the IEPS tax), Ps. 31.0 billion (or 42.3%) resulted from exports and Ps. 42.3 billion (or 57.7%) resulted from domestic sales.

Export sales increased by 18.1% in peso terms (with dollar-denominated export revenues converted to pesos at the average monthly exchange rate for the month in which the export sale was made), from Ps. 26.3 billion in 1993 to Ps. 31.0 billion in 1994, and increased as a percentage of total sales revenues (net of the IEPS tax) from 40.2% in 1993 to 42.3% in 1994. Excluding the activities of the P.M.I. Group, export sales increased by 7.9% from Ps. 23.2 billion in 1993 to Ps. 25.0 billion in 1994. In dollar terms, export sales (excluding the activities of the P.M.I. Group) increased by 0.4% from US$7.4 billion in 1993 to US$7.5 billion in 1994. Crude oil exports accounted for 86.1% of export sales in 1993 and 88.2% in 1994, petroleum by-products (including natural gas) accounted for 8.2% of export sales in 1993 and 5.7% in 1994, and petrochemical products accounted for the remainder of export sales in those years. Crude oil export sales increased by 10.2% from Ps. 20.0 billion in 1993 to Ps. 22.1 billion in 1994, and increased in dollar terms by 2.9%, from US$6.4 billion in 1993 to US$6.6 billion in 1994, as a result of an increase in international crude oil prices that more than offset a 2.2% decrease in the volume of exports. The weighted average price per barrel of crude oil exported by PEMEX was US$13.88 in 1994, a 5.2% increase from the average of US$13.20 observed in 1993. Export sales of petroleum derivatives (including NGLs) decreased by 25.1% from Ps. 1.9 billion in 1993 to Ps. 1.4 billion in 1994, and decreased in dollar terms by 32.9% from US$630 million in 1993 to US$423 million in 1994, due to an increase in domestic demand which reduced the amount of excess production available for export. Export sales of petrochemical products (including certain by-products of the petrochemical process) increased by 21.4% from Ps. 1.3 billion in 1993 to Ps. 1.5 billion in 1994, and increased in dollar terms by 13.2% from US$401 million in 1993 to US$454 million in 1994, as a result of the recovery of the international petrochemical industry which had experienced a recession during 1993.

Net of collection of the IEPS tax, domestic sales increased by 8.4%, from Ps. 39.1 billion in 1993 to Ps. 42.3 billion in 1994. Domestic sales of petroleum derivatives (other than natural gas) resumed the trend of growth existing prior to 1993, increasing by 5.9% from Ps. 32.1 billion in 1993 to Ps. 34.1 billion in 1994, led by an increase in the volume of domestic sales of unleaded gasoline and fuel oil. This growth in demand resulted from an increase in the rate of growth of the Mexican economy in 1994 as compared to 1993. Domestic petrochemical sales (including sales of certain by-products of the petrochemical production process) also increased, from Ps. 3.5 billion in 1993 to Ps. 4.9 billion in 1994, due to an increase in international prices for petrochemicals and an increase in domestic demand fueled by the growth of the economy. Sales of natural gas remained essentially unchanged at Ps. 3.4 billion in 1993 and 1994.

Other income increased significantly, from Ps. 1.4 billion in 1993 to Ps. 2.5 billion in 1994, primarily reflecting the sale of PEMEX's air transport division and the income resulting from the transportation of a larger volume of products domestically. In addition, in 1994, PEMEX recorded an exchange gain of Ps. 2.6 billion, primarily due to the depreciation
of the peso between the dates on which PEMEX recorded export sales on its books in pesos (i.e., the date of shipment) and December 31, 1994.

Excluding the IEPS tax, total costs and operating expenses increased by 18.0%, from Ps. 63.7 billion in 1993 to Ps. 75.2 billion in 1994, primarily due to a Ps. 3.0 billion increase in cost of sales and a Ps. 6.1 billion increase in hydrocarbon extraction duties. The increase in cost of sales resulted primarily from the increase in the volume of domestic sales. Cost of sales as a percentage of total net sales (net of the IEPS tax) remained virtually unchanged at 41.9% in 1993 and 41.4% in 1994. Hydrocarbon extraction duties increased from Ps. 27.0 billion to Ps. 33.1 billion, largely because of the increase in the international price of crude oil and a decrease in 1993 hydrocarbon extraction duties (see Note 2(k) to the Financial Statements). In addition, transportation and distribution expenses increased by Ps. 638 million over their 1993 level, interest expense (net) increased significantly, from a credit of Ps. 210 million in 1993 to a debit of Ps. 852 million in 1994, and other expenses (including write-offs of accounts receivable of Petróleos Mexicanos and rental expense), increased by Ps. 642 million from the level of Ps. 84 million in 1993. The increase in interest expense was due to a provision of Ps. 830 million created to cover foreign exchange losses in connection with peso/dollar forward transactions payable during 1995. The increase in transportation and distribution expenses resulted from the increase in the volume of domestic sales and the increase in the allowance for doubtful accounts.

Liquidity and Capital Resources

General. In March 1990, as a result of the implementation of the 1989-92 Financing Package for Mexico, US$7.58 billion worth of Petróleos Mexicanos' external debt with international commercial banks was exchanged for 30-year Collateralized Fixed Rate Bonds Due 2019 and Collateralized Floating Rate Bonds Due 2019 ("Brady Bonds") issued by the Government. At the same time, Petróleos Mexicanos' indebtedness to the Government was increased by the same amount, which new indebtedness was denominated in currencies other than pesos. In December 1990, the Government and PEMEX agreed to capitalize such amount into PEMEX's equity as certificados de aportación, "A" (certificates of contribution "A", or "CAPs"). As a condition of this capitalization, Petróleos Mexicanos agreed to pay a minimum guaranteed dividend to the Government equal to the debt service on the capitalized debt. The total dividend on the CAPs is approved annually by the Board of Directors of Petróleos Mexicanos after the close of each fiscal year, although in amount equal to the minimum guaranteed dividend is paid to the Government monthly in advance payments during the year. During 1992, 1993, 1994 and 1995, Petróleos Mexicanos paid the Government advance payments of Ps. 1,417 million, Ps. 1,209 million, Ps. 1,661 million and Ps. 4,289 million, respectively, in respect of minimum guaranteed dividends. The total dividends paid by Petróleos Mexicanos to the Government in respect of the CAPs in respect of the 1992, 1993, 1994 and 1995 fiscal years amounted to Ps. 3,313 million, Ps. 2,982 million, Ps. 1,661 million and Ps. 4,289 million, respectively. See Note 12 to the Financial Statements.
From 1990 through 1995, PEMEX’s total indebtedness increased from US$8.1 billion to US$9.6 billion, while PEMEX financed a capital expenditure program that averaged US$2.6 billion per year during the same period.

During 1995, net funds provided by operations was Ps. 17.3 billion, down Ps. 1.1 billion from 1994. Funds provided by income plus items not requiring cash outlays of Ps. 31.5 billion were partially offset by a Ps. 7.6 billion increase in accounts and notes receivable. An additional Ps. 1,536 million of net funds was provided by new financings (excluding Ps. 22,028 million of foreign exchange losses). During 1995, PEMEX applied net funds of Ps. 33.1 billion for net investments at cost, including net investments in fixed assets of Ps. 12.2 billion (consisting of Ps. 14.4 billion of new investments and capitalized interest less Ps. 2.2 billion in dispositions of fixed assets) and Ps. 20,952 million of capitalized foreign exchange losses.

During 1994, net funds provided by operations was Ps. 18.4 billion, up Ps. 5.8 billion from 1993. In addition to income plus items not requiring cash outlays of Ps. 15.8 billion, funds were provided by decreasing accounts and notes receivable by Ps. 4.7 billion, increasing taxes payable by Ps. 1.5 billion and increasing amounts payable to suppliers by Ps. 339 million. These increases in available funds were offset partially by increases in inventories and other assets of Ps. 296 million and Ps. 605 million, respectively. An additional Ps. 735 million of funds was provided by new financings (excluding Ps. 21,099 million of capitalized foreign exchange losses). During 1994, PEMEX applied net funds of Ps. 27.0 billion for net investments at cost, including net investments in fixed assets of Ps. 5.9 billion (consisting of Ps. 8.0 billion of new investments and capitalized interest less Ps. 2.1 billion of dispositions of fixed assets) and Ps. 21,099 million of capitalized foreign exchange losses.

At December 31, 1995, PEMEX had cash and marketable securities totaling Ps. 11.8 billion, as compared with Ps. 5.8 billion at December 31, 1994. PEMEX’s cash requirements for working capital, capital expenditures and investments over the past three years have been funded by a combination of funds provided by operations and financings.

In 1995, several lines of credit to foreign trade were contracted to finance the import and export of oil and petrochemical products, for a total amount of US$648 million, granted principally by Banco Latinoamericano de Exportaciones, Chase Manhattan Bank, Barclays and Fuji Bank, among others. Additionally, four revolving lines of credit were contracted for a total of US$880 million, of which US$800 million was repaid in the same year. All mature in the short term. During 1995, US$229 million was obtained from purchasing loans in the United States market, which were obtained through three credit lines with Deutsche Bank, three credit lines with Banque Europeenne pour L’Amérique Latine, three credit lines with Société Générale, two credit lines with Kreditanstalt für Wiederaufbau, one credit line with Export Development Corporation and one credit line with Westdeutsche Landesbank Girozentrale, with different maturities, the longest being for five years. A bond issue of 150 million Swiss francs, equivalent to US$133 million was placed in the Swiss
market with a two-year maturity at a rate of 9.255%. The size of the commercial paper program with Bank of America was enlarged by US$65 million.

During 1994, PEMEX obtained external borrowings totaling approximately US$3.93 billion. Among these were three transactions to refinance PEMEX's existing bankers' acceptance lines: a US$700 million bankers' acceptance facility syndicated with U.S. and European banks; a US$427 million bankers' acceptance facility syndicated with Japanese banks; and a new US$300 million commercial paper program in the United States. In addition, in March 1994 PEMEX issued US$300 million of five-year floating rate notes in the U.S. and European markets, and in early April 1994 PEMEX issued another two series totaling US$400 million of three-year floating rate notes in the U.S. and European markets. In May 1994, PEMEX issued US$150 million of privately placed three-year notes through its medium-term note program in the U.S. Furthermore, PEMEX entered the Japanese market through its first Samurai bond issue in an amount of ¥20 billion, with a term of four years. In mid-November 1994, PEMEX raised approximately US$467 million through a transaction involving its shares in Repsol, S.A., a Spanish integrated oil company. See Note 6 to the Financial Statements. The remainder was raised through purchasing loans (loans financing the importation of equipment and spare parts), direct bank loans, financial leases, project finance lines and commercial paper. Between January and August 1994, PEMEX placed US$576 million through 11 issues under its euro-commercial paper program, with maturities ranging between 90 and 270 days. Since November 1994 PEMEX has had no liabilities outstanding under its euro-commercial paper program.

In 1995, net payments on external borrowings amounted to US$2.48 billion, of which US$320 million was paid to amortize foreign trade lines, US$273.0 million to amortize purchasing loans, US$100.0 million to amortize bonds, US$142 million to amortize the existing bankers' acceptance facilities, and US$190 million to reduce commercial paper liabilities. The remainder was used to amortize leases, restructured debt and direct loans. Of PEMEX's total debt and sales of receivables, which amounted to US$9.56 billion as at December 31, 1995, long-term debt was approximately US$6.20 billion. PEMEX's ratio of equity to total assets fell to 51.8% at the end of 1995, principally due to the restatement of fixed assets as a result of peso devaluation. As a result, total assets of PEMEX increased by 21.3% from 1994 to 1995. See Notes 6 and 7 to the Financial Statements.
The following table sets forth a breakdown of PEMEX’s total indebtedness and sales of receivables as at December 31 for each of the five years from 1991 to 1995.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in millions of U.S. dollars$1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Domestic Debt(2):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pesos</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Currencies</td>
<td>$1,537</td>
<td>$1,826</td>
<td>$1,633</td>
<td>$1,777</td>
<td>$2,100</td>
</tr>
<tr>
<td><strong>Total Domestic Debt</strong></td>
<td>1,837</td>
<td>1,826</td>
<td>1,633</td>
<td>1,777</td>
<td>2,100</td>
</tr>
<tr>
<td><strong>External Debt(3)(4):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MYRN(4)</td>
<td>773</td>
<td>719</td>
<td>589</td>
<td>543</td>
<td>532</td>
</tr>
<tr>
<td>Other Direct Bank Loans</td>
<td>153</td>
<td>983</td>
<td>707</td>
<td>533</td>
<td>388</td>
</tr>
<tr>
<td>Securities</td>
<td>1,156</td>
<td>1,539</td>
<td>2,582</td>
<td>3,405</td>
<td>3,256</td>
</tr>
<tr>
<td>Bonds</td>
<td>1,156</td>
<td>1,264</td>
<td>2,259</td>
<td>2,930</td>
<td>2,906</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>0</td>
<td>275</td>
<td>323</td>
<td>475</td>
<td>350</td>
</tr>
<tr>
<td>Revolving Loans</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Trade Finance(5)</td>
<td>2,860</td>
<td>2,714</td>
<td>1,749</td>
<td>1,452</td>
<td>1,638</td>
</tr>
<tr>
<td>Acceptance Lines</td>
<td>2,801</td>
<td>2,136</td>
<td>1,200</td>
<td>1,127</td>
<td>985</td>
</tr>
<tr>
<td><strong>Total External Debt</strong></td>
<td>6,395</td>
<td>7,202</td>
<td>6,666</td>
<td>7,184</td>
<td>7,134</td>
</tr>
<tr>
<td>Project Finance(7)</td>
<td>548</td>
<td>577</td>
<td>559</td>
<td>657</td>
<td>519</td>
</tr>
<tr>
<td><strong>Total Debt and Sales of Receivables</strong></td>
<td>$8,223</td>
<td>$9,228</td>
<td>$8,060</td>
<td>$9,314</td>
<td>$9,564</td>
</tr>
</tbody>
</table>

Note: Totals may differ due to rounding.

(1) Indebtedness payable in currencies other than in U.S. dollars were translated into pesos at the exchange rates for accounting purposes and then to U.S. dollars at the following exchange rates: Ps. 3.0739 = U.S. $1.00 at December 31, 1991; Ps. 3.1230 = U.S. $1.00 at December 31, 1992; Ps. 3.1099 = U.S. $1.00 at December 31, 1993; Ps. 5.3250 = U.S. $1.00 at December 31, 1994 and Ps. 7.6425 = U.S. $1.00 at December 31, 1995. See Note 8 to the Financial Statements. Figures for 1995 do not include indebtedness of the Subsidiary Companies.

(2) Excludes capitalized interest and other accrued interest. See Note 7(c) to the Financial Statements for amount of capitalized interest for 1992, 1993 and 1994.

(3) Indebtedness payable other than in pesos and owed to persons or institutions outside Mexico.

(4) Multi-Year Restructure Agreements.

(5) To finance external trade of crude oil and derivatives.

(6) To finance imports of equipment and spare parts.

(7) Includes PMI project finance debt of $32 million.

**Capital Expenditures.** PEMEX’s total capital expenditures in 1995 amounted to Ps. 15.9 billion, of which Ps. 1.4 billion correspond to financial investment and approximately Ps. 14.5 billion to physical investment. Physical investment represents a 46% increase from the Ps. 9.9 billion invested in 1994 and a 68% increase from the Ps. 8.6 billion invested in 1993.

The following table provides a breakdown of the allocation of PEMEX’s capital expenditure program for the five years ended December 31, 1995. These capital expenditure figures may differ from amounts contained in the Financial Statements under investments at
cost, because some expenditures are charged to the oil field exploration and depletion reserve and the figures in the table below do not include the capitalization of interest.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction in Progress</td>
<td>Ps. 3,047</td>
<td>Ps. 3,135</td>
<td>Ps. 3,160</td>
<td>Ps. 3,751</td>
<td>Ps. 5,732</td>
</tr>
<tr>
<td>Equipment for Oil Drilling</td>
<td>879</td>
<td>1,104</td>
<td>416</td>
<td>388</td>
<td>828</td>
</tr>
<tr>
<td>Drilling of Oil Wells by Contract</td>
<td>868</td>
<td>1,117</td>
<td>1,639</td>
<td>1,952</td>
<td>2,574</td>
</tr>
<tr>
<td>Real Estate</td>
<td>774</td>
<td>894</td>
<td>798</td>
<td>626</td>
<td>856</td>
</tr>
<tr>
<td>Maintenance</td>
<td>629</td>
<td>907</td>
<td>1,058</td>
<td>1,540</td>
<td>2,295</td>
</tr>
<tr>
<td>Labor for Exploration and Drilling</td>
<td>542</td>
<td>529</td>
<td>488</td>
<td>436</td>
<td>562</td>
</tr>
<tr>
<td>Other Investments</td>
<td>533</td>
<td>163</td>
<td>267</td>
<td>854</td>
<td>1,182</td>
</tr>
<tr>
<td>Exploration</td>
<td>344</td>
<td>534</td>
<td>738</td>
<td>461</td>
<td>556</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Ps.7,616</strong></td>
<td><strong>Ps.8,383</strong></td>
<td><strong>Ps.8,564</strong></td>
<td><strong>Ps.9,008</strong></td>
<td><strong>Ps.14,587</strong></td>
</tr>
</tbody>
</table>

Note: Numbers may not total due to rounding.

For 1996, the capital expenditures budget of PEMEX calls for a total investment of Ps. 24,299 million. Of that amount, Ps. 15,738 million, equivalent to 64.8% of total capital expenditures, will be directed to exploration and production programs.

In its downstream projects, PEMEX will adapt some of its existing refineries such as Cadereyta to enable them to produce unleaded gasoline and to reduce substantially sulfur levels in fuel oil and diesel fuels. In order to increase its refining capacity, PEMEX recently completed two facilities for thermal cracking of heavy residues from crude, two fluid catalytic units and a reformer.

PEMEX’s budget calls for it to finance a majority of its capital expenditure program through internally generated funds, with the balance to be financed from external financing.

**Results of Operations by Business Segment**

The presentation of segment information reflects the activities of PEMEX according to the following criteria: exploration and production includes the crude oil and gas exploration and production activities, which are conducted through Pemex-Exploration and Production; refining includes the activities of refining of crude oil to produce petroleum products and derivatives and the storage, distribution and marketing thereof, which are conducted by Pemex-Refining; gas and petrochemicals includes the processing of natural gas, natural gas liquids and derivatives and the production of petrochemical products, and the storage, distribution and marketing thereof, which are conducted through Pemex-Gas and Basic Petrochemicals and Pemex-Petrochemicals.

65
The table below sets forth PEMEX's trade and intersegment net sales revenues by business segment for the 1992, 1993, 1994 and 1995 fiscal years, as well as the percentage change in sales revenues for the periods indicated.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade sales</td>
<td>Ps.23,152</td>
<td>Ps.20,041</td>
<td>Ps.22,073</td>
<td>Ps.47,931</td>
<td>10.2%</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>n.a.</td>
<td>23,573</td>
<td>31,590</td>
<td>53,066</td>
<td>20.3%</td>
</tr>
<tr>
<td>Total net sales</td>
<td>n.a.</td>
<td>Ps.45,544</td>
<td>Ps.53,268</td>
<td>Ps.101,897</td>
<td>15.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade sales</td>
<td>Ps.44,057</td>
<td>Ps.46,090</td>
<td>Ps.52,169</td>
<td>Ps.72,099</td>
<td>8.5%</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>n.a.</td>
<td>1,538</td>
<td>2,321</td>
<td>5,927</td>
<td>50.9%</td>
</tr>
<tr>
<td>Total net sales</td>
<td>n.a.</td>
<td>Ps.49,375</td>
<td>Ps.54,490</td>
<td>Ps.78,026</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade sales</td>
<td>Ps.7,874</td>
<td>Ps.12,056</td>
<td>Ps.15,087</td>
<td>Ps.25,752</td>
<td>25.1%</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>n.a.</td>
<td>9,049</td>
<td>7,833</td>
<td>11,174</td>
<td>(13.4)%</td>
</tr>
<tr>
<td>Total net sales</td>
<td>n.a.</td>
<td>Ps.21,915</td>
<td>Ps.22,900</td>
<td>Ps.36,926</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade sales</td>
<td>Ps.0</td>
<td>Ps.2,603</td>
<td>Ps.5,826</td>
<td>Ps.11,528</td>
<td>127.8%</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>n.a.</td>
<td>(35,500)</td>
<td>(41,344)</td>
<td>(71,127)</td>
<td>(131)%</td>
</tr>
<tr>
<td>Total net sales</td>
<td>n.a.</td>
<td>Ps.23,107</td>
<td>Ps.35,158</td>
<td>Ps.59,599</td>
<td>(48.4)%</td>
</tr>
</tbody>
</table>

n.a. = Not applicable.

The table below sets forth PEMEX's income by business segment for each year in the two-year period ended December 31, 1995, as well as the percentage change in income for the period indicated.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade sales</td>
<td>Ps.5,914</td>
<td>Ps.7,888</td>
<td>33.4%</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>(3,703)</td>
<td>(2,372)</td>
<td>35.9%</td>
</tr>
<tr>
<td>Gas and Petrochemicals</td>
<td>805</td>
<td>4,436</td>
<td>451.1%</td>
</tr>
<tr>
<td>Corporate and other</td>
<td>310</td>
<td>(160)</td>
<td>(146.1)%</td>
</tr>
<tr>
<td>Total Income</td>
<td>Ps.3,326</td>
<td>Ps.9,509</td>
<td>194.9%</td>
</tr>
</tbody>
</table>

1995 Compared to 1994. Trade sales relating to exploration and production activities, which in their entirety represent export sales, showed an increase of 117% relative to 1994 sales, and an increase in U.S. dollar terms of 13.1%, as a result of an increase in the international price of crude oil, notwithstanding a minor decrease in volume exported, from 1,307,100 bpd in 1994 to 1,306,000 bpd in 1995. The weighted average price of exported crude oil was US$15.70 in 1995 as compared to US$13.88 in 1994. Intersegment sales
increased by 73% principally as a result of an increase in domestic prices and the sale of higher quality crude oil, which resulted in a higher weighted average price. Income related to exploration and production activities increased from Ps. 5,914 million in 1994 to Ps. 7,888 million in 1995, mainly as a result of increased revenue, which was partially offset by an increase in taxes and hydrocarbon extraction duties. Such taxes and duties increased from Ps. 32,668 million in 1994 to Ps. 74,196 million in 1995.

Trade sales related to refining activities increased by 38.2% from Ps. 52,169 million in 1994 to Ps. 72,099 million in 1995. Export sales increased from Ps. 880 million in 1994 to Ps. 2,262 million in 1995, as a result of increased prices. Domestic sales increased by Ps. 18,548, principally due to increased value of sales, notwithstanding a decrease in the IEPS tax of Ps. 4,269 million. Intersegment sales increased by Ps. 3,666 million, largely due to an increase in the sale of naphthas.

Trade sales related to the natural gas and petrochemical business segment increased by 70.7%, from Ps. 15,087 million in 1994 to Ps. 25,752 million in 1995. The increase in trade sales was driven by increases in the volume of domestic sales of petrochemicals, as well as an increase in the prices of petrochemical products in international markets. In 1995, the volume of petrochemical exports decreased by 21.3%, from 1,559,800 tpy in 1994 to 1,226,100 tpy in 1995. The volume of domestic sales of petrochemicals increased 5.1% in 1995, from 6,062,000 tpy in 1994 to 6,571,800 tpy in 1995. The volume of domestic sales of natural gas increased by 7.0%; natural gas sales increased by 49.2%, from Ps. 3,478 million in 1994 to Ps. 5,191 million in 1995.

1994 Compared to 1993. Trade sales relating to exploration and production activities, which in their entirety represent export sales, showed an increase of 10.2% relative to 1993 sales, and an increase in U.S. dollar terms of 2.7%, as a result of an increase in the international price of crude oil, notwithstanding a 2.2% decrease in volume exported, from 1,337,700 bpd in 1993 to 1,307,100 bpd in 1994. The average price of exported crude oil was US$13.88 in 1994 as compared to US$13.20 in 1993. Intersegment sales increased by 20.3%, principally as a result of a greater volume of crude oil delivered to Pemex-Refining and the sale of higher quality crude oil, which resulted in a higher weighted average price. Income related to exploration and production activities nearly doubled from Ps. 3,092 million in 1993 to Ps. 5,914 million in 1994, mainly as a result of increased revenue, which was partially offset by an increase in taxes and hydrocarbon extraction duties (such taxes and duties increased from Ps. 26,563 million in 1993 to Ps. 32,668 million in 1994). There was no significant change in the cost of sales in 1994 as compared to 1993.

Trade sales related to refining activities increased by 8.5%, from Ps. 48,096 million in 1993 to Ps. 52,169 million in 1994. Export sales decreased from Ps. 1,790 million in 1993 to Ps. 880 million in 1994, in large part because of reduced export volume in 1994. Domestic sales increased by Ps. 4,814 million in 1994, principally because of a 24.9% increase in the IEPS of Ps. 4,347 million. Intersegment sales increased by Ps. 783 million largely due to an increase in the sales of naphthas. In 1994, Pemex-Refining realized lower refining margins, registering a loss of Ps. 3,703 million as compared to income of Ps. 522
million in 1993, due to higher sales costs of crude oil purchased from Pemex-Exploration and Production.

Trade sales related to the natural gas and petrochemical business segment increased by 25.1%, from Ps. 12,056 million in 1993 to Ps. 15,087 million in 1994. The increase in trade sales was driven by increases in the volume of exports and domestic sales of petrochemicals, as well as an increase in the prices of petrochemical products in international markets. In 1994, the volume of petrochemical exports increased by 17.8%, from 1,324,100 tpy in 1993 to 1,559,806 tpy in 1994. The volume of domestic sales of petrochemicals increased 11.1% in 1994, from 5,459,000 tpy in 1993 to 6,062,000 tpy in 1994. The volume of domestic sales of natural gas increased by 5.1% in 1994; however, the peso value of natural gas sales increased by only 1.5%, from Ps. 3,426 million in 1993 to Ps. 3,478 million in 1994. There was no significant change in the cost of sales in 1994 as compared to 1993. Natural gas and petrochemical activities resulted in income of Ps. 805 million for 1994, as compared to a loss of Ps. 840 million in 1993, mainly due to the increase in sales revenues.

Recent Developments

United Mexican States

Certain weaknesses apparent in the Mexican economy by 1994, including a large current account deficit (8.0% of GDP in 1994), when combined with external shocks and domestic events, including an increase in international interest rates, civil unrest in the southern state of Chiapas, the assassination of two prominent political figures and uncertainty regarding the Presidential and Congressional elections in August 1994, led to large outflows of capital by foreign investors and extreme pressure on the peso/dollar exchange rate.

From October 1992 to December 20, 1994, the peso/dollar exchange rate was allowed to fluctuate within a band that widened daily with the ceiling of the band increasing at a daily rate and the floor of the band remaining constant. Banco de México would intervene in the foreign exchange market if the peso reached either the floor or the ceiling of the band. In response to the extreme pressure on the peso/dollar exchange rate in the final weeks of 1994, on December 20, 1994, the Government increased the ceiling of the Banco de México intervention band by Ps. 0.53. That action proved insufficient, and pressure on the exchange rate increased. The Government responded by eliminating the intervention band on December 22, 1994 and allowing the peso to float freely against the dollar. A sharp and rapid devaluation ensued, with the peso losing 34.9% of its value relative to the dollar between December 21, 1994 and December 31, 1994. Outflows of foreign capital continued, and on December 31, 1994 Mexico's gross international reserves totaled US$6.1 billion, as compared with US$24.5 billion on December 31, 1993. The outflows of foreign capital continued in early 1995 and gross international reserves totaled US$3.5 billion at January 31, 1995. Such reserves totaled US$15.741 billion at December 31, 1995.

The devaluation of the peso had a number of adverse repercussions on the Mexican economy. First, the weaker value of the peso relative to the dollar increased the cost, in peso terms, of imported goods and services, and thereby increased the rate of inflation
in Mexico. Second, the devaluation caused the peso value of Mexico’s external public debt and its dollar-denominated internal debt to increase significantly, from 25.6% of GDP at November 30, 1994 to 39.9% of GDP at December 31, 1994. Third, the devaluation led to a crisis of confidence on the part of investors in Mexico’s ability to repay its short-term obligations and, consequently, a reluctance of investors to reinvest in Mexico’s maturing short-term debt. As a result, Mexico faced a liquidity crisis closely linked to US$29.2 billion of dollar-denominated internal debt maturing in 1995. These factors, as well as concerns about the stability of the Mexican banking sector, led to sharply higher interest rates, both domestically and externally, on Mexican public and private sector debt and sharply reduced opportunities for refinancing and refunding maturing debt issues.

In order to address the adverse economic situation that developed at the end of 1994, the Zedillo Administration announced in January 1995, a new economic program and a new accord among the Government, business and labor, the Acuerdo de Unidad para Superar la Emergencia Económica (Agreement for Unity in Overcoming Mexico’s Economic Emergency, or “AUSEE”), key aspects of which were strengthened on March 9, 1995, when the Government announced the Programa de Acción para Reforzar el AUSEE (Action Program to Strengthen the AUSEE or “PARAUSSEE”). The PARAUSSEE, together with the international support package described below, formed the basis of Mexico’s 1995 economic plan.

On October 29, 1995, the Zedillo Administration announced the establishment of a new accord among the Government and the business, labor and agricultural sectors of the economy known as the Alianza para la Recuperación Económica (Alliance for Economic Recovery or “ARE”). The chief objectives of the ARE are to stimulate economic recovery and job creation, and to strengthen the basis for gradual and sustainable economic growth.

According to preliminary figures, GDP contracted by 6.9% during 1995. The Government projects under the ARE a 3% increase in GDP for 1996, in real terms. Inflation (as measured by the change in the National Consumer Price Index) for the first five months of 1996 was 13.5%, as compared with 28.8% during the first five months of 1995. During the first five months of 1996, the interest rates on 28-day Cedes averaged 36.9%, as compared with an average interest rate of 56.5% in the same period of 1995. At June 14, 1996, Mexico’s international reserves totaled US$15.873 billion, and the net international assets of Banco de México totaled US$1,775 million, and the average exchange rate for the first five months of 1996 was Ps. 7.497 = US$1.00. For 1995 the current account deficit totaled US$654 million, 97.8% lower than the current account deficit for 1994. The capital account surplus during 1995 was US$15.3 billion, 5.0% higher than the capital account surplus registered in 1994. In the first five months of 1996, Mexico’s trade balance registered a trade surplus of US$4 billion, as compared with a trade surplus of US$2.5 billion in the same period of 1995. During the first quarter of 1996, the current account deficit totaled US$462 million, 60.7% lower than the current account deficit during the same period of 1995. The capital account registered a deficit of US$1.1 billion during the first quarter of 1996. The Government has estimated that at the end of March 1996, 842,857 Mexican workers were
unemployed as a result of the current economic crisis, as compared with 1,387,619 workers as of August 1995.

In the beginning of 1995, the Government engaged in a series of agreements with the IMF, the World Bank, the IDB and the U.S. and Canadian Governments in order to obtain the international financial support necessary to relieve Mexico's liquidity crisis and aid in restoring financial stability to Mexico's economy.

These agreements added up to a total of US$40.74 billion in commitments, of which an approximately 65.4% were disbursed to Mexico up to May 30, 1996. Approximately US$2.24 billion of these funds were already repaid to the U.S. and Canadian Governments as of that date.

A portion of such commitments is contingent upon the attainment of quarterly economic, monetary and fiscal targets by Mexico. For further details on recent developments concerning Mexico, see "Item 1 — Description of Business — United Mexican States".

Pemex

Prices. In accordance with the revision in October 1993 of the then most recent accord between representatives of the Government, labor and business, the price of leaded gasoline increased by 1% per month from November 1993 through October 1994. Effective March 1, 1994 the 1% monthly increase was also applied to the price of unleaded gasoline. As of October 1994, such monthly increase was reduced to 0.8% per month. As a result of the recent economic events in Mexico, and as part of the economic program announced by the Government in early 1995, the retail price of gasolines and diesel fuel was increased by 35% effective March 10, 1995. As a result of the latest accord, known as the Alianza para la Recuperación Económica (Alliance for Economic Recovery) among the Government and the business, labor and agrarian sectors of the Mexican economy, the retail prices of gasolines and diesel fuel increased by 7% in December 1995 and will increase by 6% in April 1996. In addition, these prices will continue to increase at a monthly rate of 1.2% in 1996 (excluding April 1996). During 1995, the overall increase in the retail price of diesel fuel and gasolines was approximately 58.5%. At December 31, 1995 the retail price of leaded ("Novo") gasoline was Ps. 2.00 per liter and the retail price of unleaded ("Magna Sin") gasoline was Ps. 2.03 per liter. From 1991 to 1994, the price of unleaded gasoline in Mexico was higher than the price of unleaded gasoline in Houston, Texas. During 1995, as a result of the devaluation, the price of unleaded gasoline in Mexico was lower than that in Houston, Texas.

The retail price of LPG was increased by 21% on April 1, 1995 and a 0.8% monthly increase will apply for the remainder of the year. By the end of 1995 the overall increase in the retail price for LPG was approximately 41%.

Sale of Secondary Petrochemical Plants. In October 1992, PEMEX and the Government announced their intention to privatize the petrochemical plants owned and operated by Pemex-Petrochemicals. In June 1993, PEMEX announced that it would delay the privatization program as a consequence of the unfavorable conditions then prevailing in the
international petrochemical industry. The petrochemical markets began to recover in the second half of 1994, in view of which, on November 14, 1995 PEMEX issued a Public Tender published in the Federal Official Gazette whereby certain assets from the Cosoleacaque petrochemical complex will be sold to private entities that comply with certain requirements. The original time scheduled for the bidding process is being modified by the Secretaría de Energía (Ministry of Energy), which has stated that it will issue new target dates in the near future. It is expected that within the coming months the Government will indicate how it intends to proceed with respect to the other petrochemical complexes. In March 1996, the Government announced that it would exercise its right under the NAFTA to restrict foreign investors from acquiring majority stake in certain privatized petrochemical operations. The Government’s announcement stated that the Cosoleacaque petrochemical complex privatization process would not be subject to these restrictions. At present, Pemex-Petrochemicals owns and operates approximately 60 plants, located in 10 petrochemical complexes, various storage terminals and one shipping center. It is expected that PEMEX will invest the proceeds of any petrochemical asset sales in its core lines of business and that these investments will be carried out in accordance with the guidelines established in the Federal Budget by the Ministry of Finance and Public Credit.

Transportation and Distribution. The Regulatory Law was amended effective May 12, 1995 to provide that Mexican private sector companies (which may be owned by non-governmental, non-Mexican companies or individuals) may participate, upon Governmental authorization, in the storage, distribution and transportation of natural gas, and to that end may construct, own and operate pipelines, installations and equipment. The purpose of this amendment is to increase the use of natural gas, particularly among industrial users which are dependent on fuel oil. Natural gas is a particularly practical substitute for fuel oil due to the low cost of converting existing equipment from fuel oil to natural gas and the existence of significant reserves of natural gas in Mexico. In addition, the increased use of natural gas should promote economies of scale which will tend to lower its price and enable Mexican industry to comply with the stricter environmental standards effective beginning in 1998.

Notwithstanding the amendment to the Regulatory Law, PEMEX retains exclusive authority with respect to the exploration, exploitation, production and first-hand sale of natural gas, as well as the transportation, and storage inextricably linked with such exploitation and production. In addition, PEMEX retains exclusive authority over the production of natural gas derivatives classified as “basic” petrochemicals. Pemex expects competition from the private sector due to the amendment to the Regulatory Law discussed above; it is uncertain whether such competition will be offset by the increased use of natural gas for which PEMEX remains the sole producer.

Regulations implementing the Regulatory Law amendment (the “Regulations”) were published on November 8, 1995 and entered into effect on November 9, 1995. The authority responsible for applying and interpreting the Regulations is the Energy Regulatory Commission, which was created by a decree dated October 4, 1993 and re-organized under the Law of the Energy Regulatory Commission enacted October 1995. The Energy Regulatory Commission functions as an administrative agency of the Ministry of Energy with technical.
operational and budgetary autonomy, and is responsible for regulating the electricity and gas industries of Mexico.

Under the new regulatory framework, PEMEX will maintain an important role in the supply of natural gas given its position as the sole domestic producer. PEMEX will be required to apply Energy Regulatory Commission methodologies for establishing its first-hand sales prices and calculating its transportation rates and must submit such prices and rates to the Energy Regulatory Commission for approval. It will continue to own and operate its transportation pipelines, and accordingly, will be the principal transportation system permitted. PEMEX is required to allow open access for third parties to its system, and is permitted to develop storage systems and perform marketing.

The Regulations provide for a transition regime, under which PEMEX is granted a provisional permit to continue its transportation activities. It is required to submit an application for a definitive permit within eight months after the effective date of the Regulations.

Oil Proceeds Facility Agreement. The February 21 Agreements entered into between the United States and Mexico in 1995 provide for up to U.S. $20 billion of resources to be made available to Mexico in the form of short- and medium-term U.S. dollar/peso swaps and guarantees of securities to be issued by Mexico. As part of these arrangements the Government, Banco de México, Petróleos Mexicanos and certain of its sales affiliates and the U.S. Government entered into the OPFA, an Oil Proceeds Facility Agreement, pursuant to which PEMEX agreed to instruct its foreign buyers of crude oil and oil derivatives (with certain exceptions) to make payment to designated accounts of Petróleos Mexicanos and such affiliates with a bank in New York City (which, in most cases, is merely a confirmation of existing instructions) and to instruct that bank to credit the amounts received to an account of Banco de México at the FRBNY. At the same time that the amounts received are credited to Banco de México’s account, the same amounts are then credited by Banco de México to PEMEX’s account with Banco de México. Banco de México has the right to withdraw the funds deposited in the FRBNY account so long as there is no payment default by Mexico under the February 21 Agreements or the NAFA. In the event of any such payment default, FRBNY has the right to debit and set-off the funds in the account to repay any amounts due and payable by Mexico under the February 21 Agreements and the NAFA.

PEMEX will have no payment obligations, nor will it be an obligor, with respect to any resources made available to Mexico. PEMEX has not transferred, pledged or created a security interest in its export receivables or any other assets pursuant to the arrangements with the U.S. Government.

The standing instruction by PEMEX to its bank to credit amounts received from customers to an account of Banco de México at FRBNY is consistent with the procedure followed by PEMEX for many years, as well as with the regulatory practice of Banco de México. This mechanism is the way in which PEMEX, in the ordinary course of its business, repatriates funds for its own use within Mexico. In effect, PEMEX deposits its export

72
revenues with Banco de México and receives credit to its account with Banco de México. PEMEX, like any other depositor, has no interest in the funds themselves once they have been deposited; rather its asset consists of the deposit itself and the claim against Banco de México that it represents.

On June 18, 1996, the Government announced that it is negotiating the issue of approximately US$3,000,000,000 of five-year Floating Rate Notes to a group of international commercial banks and financial institutions, the proceeds of which will be used to repay a portion of the amounts outstanding to the U.S. Treasury Department under the February 21 Agreements. It is contemplated that the obligations of the Government under the Notes will be supported by payment arrangements similar to those provided in the OPFA. See "Item 2 — Description of Business — United Mexican States — The Government’s Response — International Support."

U.S. GAAP Reconciliation

Operating results between U.S. GAAP and Mexican GAAP differ as a result of various U.S. GAAP reconciling items. The most important of the material items generating a difference between U.S. and Mexican GAAP are the accounting methodologies for the treatment of foreign exchange losses, petroleum exploration and drilling costs, measurement of pension obligations, accounting for capitalized interest and inflation accounting. Under Mexican GAAP, oil exploration and development costs are charged to a capital reserve rather than expensed or directly capitalized as required by U.S. GAAP. Such capital reserve is funded by charging a certain percentage to cost of sales for each barrel of crude extracted. PEMEX sets this percentage on an annual basis. Seniority premiums retirement plans generate a difference between U.S. and Mexican GAAP due to the different actuarial cost assumptions applied under Bulletin D-3 and SFAS No. 87. In addition, PEMEX’s adoption dates for Bulletins D-3 and SFAS No. 87 were different, resulting in differences in period expenses due to the differing amortization of transition amounts. The treatment of capitalized interest between PEMEX’s Mexican GAAP financial statements and U.S. GAAP differs in that for Mexican GAAP purposes PEMEX treats all interest expense as being associated with construction or well development and accordingly capitalizes all interest. For purposes of the U.S. GAAP reconciliation, PEMEX capitalizes interest by applying its average borrowing rate to its average amount of construction in progress. PEMEX applies NIF-06 BIS/A to its financial statements to reflect the effects of inflation. NIF-06 BIS/A provides for the restatement of fixed assets, inventories and costs of sales by indexing and/or appraisals. Since NIF-06 BIS/A does not represent a comprehensive basis of inflation accounting, beginning with its 1992 fiscal year, PEMEX has reversed the effects of NIF-06 BIS/A on its financial statements from the U.S. GAAP reconciliation of income and equity. Under NIF-06 BIS/A, a devaluation of the peso does not have a negative impact on the income of PEMEX because exchange losses are capitalized into fixed assets. Furthermore, a devaluation of the peso relative to the dollar results in an increase in income to the extent that expenses remain relatively stable because they are incurred in pesos, while revenues, which are mostly denominated in dollars or linked to international, dollar-denominated prices, increase in peso terms. In contrast, under U.S. GAAP, a devaluation of the peso has a negative impact on the
income of PEMEX because the exchange losses are not capitalized but are charged immediately to income. This one-time charge to income will be gradually offset by dollar-linked revenues. In any particular accounting period, the negative impact of a devaluation is, therefore, greater when the devaluation occurs at or near the end of the period, as occurred with the peso at the end of 1994. During 1995, PEMEX implemented SFAS No. 106, "Employers Accounting for Postretirement Benefits Other than Pension," using the transitional recognition method.

For the year ended December 31, 1995 and 1994, PEMEX reported losses under U.S. GAAP approximating Ps. 8.3 billion and Ps. 21.1 billion, respectively. In contrast, for the year ended December 31, 1993, PEMEX's income under U.S. GAAP approximated Ps. 1.9 billion. The significant losses under U.S. GAAP for 1995 and 1994 principally resulted from the treatment of Ps. 21.1 billion of foreign exchange losses. Such foreign exchange losses were capitalized in PEMEX's Mexican GAAP Financial Statements; in the reconciliation to U.S. GAAP, such losses were charged to income. For a further discussion of this and other adjustments, see Note 15 to the Financial Statements.

PEMEX's equity under U.S. GAAP approximated Ps. 62.3 billion as of December 31, 1995, down from Ps. 74.8 billion as of December 31, 1994. The 1995 decrease in equity under U.S. GAAP principally reflected the restatement of fixed assets and capitalization of foreign exchange losses under Mexican GAAP. See Note 7 to the Financial Statements. For a further discussion of these and other adjustments, see Note 15 to the Financial Statements.

**Item 10. Directors and Officers of the Registrant.**

Petróleos Mexicanos is governed by its Board of Directors, which has eleven members. Six members, including the Chairman of the Board and its Director General are appointed by the President of Mexico. The remaining five directors are selected by the Union from among PEMEX's employees. Alternate directors are authorized to serve on the Board of Directors in place of directors who are unable to attend meetings or otherwise participate in the activities of the Board of Directors.

Each of the Subsidiary Entities is governed by an eight-member Board of Directors, consisting of the Director General of Petróleos Mexicanos, the Director General of each of the other three Subsidiary Entities and four directors appointed by the President of Mexico. The Director General of Petróleos Mexicanos serves as Chairman of the Board of each PEMEX Subsidiary Entity. Neither the members of the Boards of Directors nor the Executive officers are appointed for a specific term. The members of the Boards of Directors and the Directors General serve subject to the discretion of the President.
The following are the Board members and executive officers of Petróleos Mexicanos:

**Board of Directors**

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Year Appointed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Jesús Reyes-Heróles González Garza</td>
<td>Chairman of the Board of Petróleos Mexicanos and Secretary of the Ministry of Energy</td>
<td>1996</td>
</tr>
<tr>
<td>Mr. Guillermo Ortiz Martínez</td>
<td>Secretary of the Ministry of Finance and Public Credit</td>
<td>1994</td>
</tr>
<tr>
<td>Mr. Herminio Blanco Mendoza</td>
<td>Secretary of the Ministry of Commerce and Industrial Development</td>
<td>1994</td>
</tr>
<tr>
<td>Mr. José Angel Gurría Treviño</td>
<td>Secretary of the Ministry of Foreign Affairs</td>
<td>1994</td>
</tr>
<tr>
<td>Mrs. Julia Carabias Lillo</td>
<td>Secretary of the Environment, Natural Resources and Fishing</td>
<td>1994</td>
</tr>
<tr>
<td>Mr. Rogelio Gasca Neri</td>
<td>Director General of the Federal Electricity Commission</td>
<td>1994</td>
</tr>
<tr>
<td>Mr. Ramón Hernández Toledo</td>
<td>Union Representative</td>
<td>1992</td>
</tr>
<tr>
<td>Mr. Pablo Pavón Vinales</td>
<td>Union Representative</td>
<td>1992</td>
</tr>
<tr>
<td>Mr. Antonio Barajas Velarde</td>
<td>Union Representative</td>
<td>1993</td>
</tr>
<tr>
<td>Mr. Jesús Olvera Méndez</td>
<td>Union Representative</td>
<td>1995</td>
</tr>
<tr>
<td>Mr. César Javiera Riveria Díaz</td>
<td>Union Representative</td>
<td>1995</td>
</tr>
</tbody>
</table>

**Executive Officers**

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Year Appointed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Adrián Lajous Vargas</td>
<td>Director General</td>
<td>1994</td>
</tr>
<tr>
<td>Mr. Juan Manuel Romero Ortega</td>
<td>Corporate Director of Finance</td>
<td>1995</td>
</tr>
<tr>
<td>Mr. Humberto Lira Mora</td>
<td>Corporate Director of Administration</td>
<td>1995</td>
</tr>
<tr>
<td>Mr. Gonzalo Moctezuma Barragán</td>
<td>Corporate Comptroller General</td>
<td>1995</td>
</tr>
</tbody>
</table>
PEMEX-EXPLORATION AND PRODUCTION

Board of Directors

Mr. Adrián Lajous Vargas-Chairman (refer to Petróleos Mexicanos) 1994

Mr. Jaime Mario Willars Andrade (refer to Pemex-Refining) 1995

Mr. Marcos Ramírez Silva Director General of Pemex-Gas and Basic Petrochemicals 1996

Mr. Luis Puig Lara Director General of Pemex-Gas and Basic Petrochemicals 1996

Mr. Santiago Levy Algazi Undersecretary of Disbursements of the Ministry of Finance and Public Credit 1994

Mr. Oscar González Rodríguez Undersecretary of the Ministry of the Environment, Natural Resources and Fishing 1995

Mr. Francisco Javier Casas Guzmán Undersecretary of Energetic Operation of the Ministry of Energy 1996

Mr. Decio de María Serrano Undersecretary of Industry of the Ministry of Commerce and Industrial Development 1994

Executive Officers

Mr. José A. Ceballos Soberanis Director General 1995

Mr. Antonio Acuña Rosado Deputy Director - Northeastern Marine Region 1996

Mr. Luciano Flores Plauche Deputy Director - Southwestern Marine Region 1996

Mr. Maclovio Yuñez Mondragón Deputy Director - North Region 1995

Mr. Héctor Leyva Torres Deputy Director - South Region 1995

Mr. Miguel Angel Rivera Villaseñor Deputy Director of Management and Finance 1995
Board of Directors

Mr. Adrián Lafous Vargas-Chairman (refer to Petróleos Mexicanos) 1994

Mr. José Antonio Ceballos Soberanis (refer to Pemex-Exploration and Production) 1995

Mr. Marcos Ramírez Silva Director General of Pemex-Gas and Basic Petrochemicals 1996

Mr. Luis Puig Lara (refer to Pemex-Petrochemicals) 1994

Mr. Santiago Levy Algazi Undersecretary of Disbursements of the Ministry of Finance and Public Credit 1994

Mr. Gabriel Quadri de la Torre President of the Ecology National Institute of the Ministry of the Environment, Natural Resources and Fishing 1994

Mr. Francisco Javier Casas Guzmán Undersecretary of Energetic Operation of the Ministry of Energy 1996

Mr. Decio de María Serrano Undersecretary of Industry of the Ministry of Commerce and Industrial Development 1994

Executive Officers

Mr. Jaime Mario Willars Andrade Director General 1995

Mr. Armando Leal Santana Deputy Director of Production 1995
Mr. Emilio Aguado Calvet  
Deputy Director of Trading  
1995

Mr. Pedro Carlos Gómez  
Deputy Director of Distribution  
1995

Mr. Rudy Omar Alberto Cámara  
Deputy Director of Management and Finance  
1995

Mr. Guillermo Ruiz Gutiérrez  
Deputy Director of Planning and Evaluation  
1994

Mr. Eduardo Vergara Cabrera  
Deputy Director of Projects  
1996

PEMEX-GAS AND BASIC PETROCHEMICALS

Board of Directors

Mr. Adrián Lajous Vargas-Chairman  
(refer to Petróleos Mexicanos)  
1994

Mr. José Antonio Cevallos Soberanis  
(refer to Pemex-Exploration and Production)  
1995

Mr. Jaime Mario Willars Andrade  
(refer to Pemex-Refining)  
1995

Mr. Luis Puig Lara  
(refer to Pemex-Petrochemicals)  
1994

Mr. Santiago Levy Algazi  
Undersecretary of Disbursements of the Ministry of Finance and Public Credit  
1994

Mr. Gabriel Quadri de la Torre  
President of the Ecology National Institute of the Ministry of the Environment, Natural Resources and Fishing  
1994

Mr. Francisco Javier Casas Guzmán  
Undersecretary of Energetic Operation of the Ministry of Energy  
1996

Mr. Decio de María Serrano  
Undersecretary of the Ministry of Commerce and Industrial Development  
1995

Executive Officers

Mr. Marcos Ramírez Silva  
Director General  
1996

Mr. Horacio Gaevara Montalvo  
Deputy Director of Planning  
1995
[Vacant]  Deputy Director of Liquefied Gas and Basic Petrochemicals

Mr. Luis Felipe Luna Melo  Deputy Director of Natural Gas Commercialization  1996

Mr. Juan José Bravo Moisés  Deputy Director of Management and Finance  1996

Mr. Armando Arenas Briones  Deputy Director of Production  1996

Mr. Ernesto Estrada González  Deputy Director of Pipelines  1995

PEMEX- PETROCHEMICALS

Board of Directors

Mr. Adrián Lajous Vargas-Chairman  (refer to Petróleos Mexicanos)  1994

Mr. José Antonio Ceballos Soberanis  (refer to Pemex-Exploration and Production)  1995

Mr. Jaime Mario Wittars Andrade  (refer to Pemex-Refining)  1995

Mr. Marcos Ramírez Silva  Director General of Pemex-Gas and Basic Petrochemicals  1996

Mr. Santiago Levy Algazi  Undersecretary of Disbursements of the Ministry of Finance and Public Credit  1994

Mr. Gabriel Quadri de la Torre  President of the National Ecology Institute of the Ministry of the Environment, Natural Resources and Fishing  1994

Mr. Francisco Javier Casas Guzman  Undersecretary of Energetic Operation of the Ministry of Energy  1996

Mr. Decio de María Serrano  Undersecretary of Industry of the Ministry of Commerce and Industrial Development  1994
Executive Officers

Mr. Luis Puig Lara        Director General         1994
Mr. José Luis Jaramillo Hernández Deputy Director of Operation 1994
Mr. César González Velazco  Deputy Director of Trading 1994
Mr. Roberto Andrade Cruz    Deputy Director of Programming and Technical Service 1992
Mr. Jesús Salvador Gómez Avila    Deputy Director of Planning 1993
Mr. Mario González Petrikowsky Deputy Director of Management and Finance 1994

Item 11. Compensation of Directors and Officers.

For the year ended December 31, 1995, the aggregate compensation of all directors and executive officers of Petróleos Mexicanos and the Subsidiary Entities (71 persons) paid or accrued in that year for services in all capacities was approximately Ps. 48.2 million.

Item 12. Options to Purchase Securities from Registrant or Subsidiaries.

Not applicable.

Item 13. Interest of Management in Certain Transactions.

Not applicable.

PART II

Item 14. Description of Securities to be Registered.

Not applicable.

PART III

Item 15. Defaults upon Senior Securities.

Not applicable.


Not applicable.
PART IV

Item 17. Financial Statements.

Reference is made to Item 19(a) for a list of all financial statements filed as a part of this Form 20-F.

Item 18. Financial Statements.

Not applicable.


(a) List of Financial Statements:

<table>
<thead>
<tr>
<th>Document Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of Independent Accountants</td>
<td>F-1</td>
</tr>
<tr>
<td>Consolidated Statements of Income for the years ended December 31, 1995, 1994 and 1993</td>
<td>F-3</td>
</tr>
<tr>
<td>Consolidated Statements of Changes in Equity for the years ended December 31, 1995, 1994 and 1993</td>
<td>F-4</td>
</tr>
<tr>
<td>Consolidated Statements of Changes in Financial Position for the years ended December 31, 1995, 1994 and 1993</td>
<td>F-5</td>
</tr>
<tr>
<td>Notes to the Consolidated Financial Statements</td>
<td>F-6</td>
</tr>
</tbody>
</table>

(b) List of Exhibits

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

PETRÓLEOS MEXICANOS

By: [signature]

Name: Enrique Roman
Title: Managing Director of Finance

Date: June 28, 1996
Report of Independent Accountants

To the Mexican Comptroller and
Administrative Development Office
and to the Board of Directors of
Petróleos Mexicanos:

We have audited the accompanying consolidated balance sheets of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies as of December 31, 1995 and 1994, and the related consolidated statements of income, changes in equity and changes in financial position for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Management of Petróleos Mexicanos. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico, which are substantially the same as those in the United States. 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 in the consolidated financial statements. An audit also includes assessing the accounting principles 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.

On November 14, 1995, Petróleos Mexicanos publicly offered for sale the Cosoleacaque Petrochemical Complex, as the initial phase of the sale of six petrochemical plants, including their inventories of products and materials. The assets of the Cosoleacaque Complex as of December 31, 1995 are not valued at their expected realizable value, and such value is not known.

The effects of inflation are recognized in conformity with Financial Reporting Standard (NIF) 06 BIS/A (Note 2 to the consolidated financial statements) which affect the equity caption titled revaluation surplus. The difference between this standard and Bulletin 8-10 of accounting principles is disclosed in Note 13 to the consolidated financial statements.

In our opinion, the aforementioned consolidated financial statements, stated in Mexican pesos, present fairly, in all material respects, the consolidated financial position of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies as of December 31, 1995 and 1994, and the consolidated results of operations, changes in consolidated equity and changes in consolidated financial position for each of the years in the three-year period ended December 31, 1995 in accordance with accounting principles generally accepted in Mexico and, as to the recognition of inflation, in accordance with NIF-06 BIS/A (see Notes 2 and 13 to the consolidated financial statements).

Generally accepted accounting principles in Mexico vary in significant respects from accounting principles generally accepted in the United States. In our opinion, based on our audit, the application of accounting principles generally accepted in the United States would have affected the determination of income in each of the three years in the period ended December 31, 1995, and total equity as December 31, 1995 and 1994 to the extent summarized in Note 15 to the consolidated financial statements.

COOPERS & LYBRAND

DESAPCHO ROBERTO CASAS ALATRISTE

Manuel Alatriste
Contador Público

Mexico, D.F., Mexico
March 23, 1996 (except for Note 15
to the consolidated financial statements,
for which the date is June 28, 1996)

F-1
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>US$ 1,542,326</td>
<td>Ps. 11,787,227</td>
<td>Ps. 5,781,485</td>
</tr>
<tr>
<td>Accounts and notes receivable</td>
<td>2,839,511</td>
<td>21,700,962</td>
<td>14,092,067</td>
</tr>
<tr>
<td>(Note 4)</td>
<td>1,334,434</td>
<td>10,198,414</td>
<td>7,005,715</td>
</tr>
<tr>
<td>Inventories (Note 5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>5,716,271</td>
<td>42,686,603</td>
<td>26,879,267</td>
</tr>
<tr>
<td>Properties (Note 7)</td>
<td>23,890,489</td>
<td>182,583,061</td>
<td>159,437,081</td>
</tr>
<tr>
<td>Other assets (Notes 6 and 10)</td>
<td>2,377,293</td>
<td>18,168,450</td>
<td>15,201,719</td>
</tr>
<tr>
<td>Total assets</td>
<td>US$31,984,053</td>
<td>Ps. 244,438,124</td>
<td>Ps. 201,518,067</td>
</tr>
<tr>
<td><strong>LIABILITIES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt and current</td>
<td>US$ 3,413,130</td>
<td>Ps. 26,084,849</td>
<td>Ps. 14,921,650</td>
</tr>
<tr>
<td>portion of long-term debt</td>
<td>936,457</td>
<td>7,156,870</td>
<td>6,157,825</td>
</tr>
<tr>
<td>(Notes 8 and 9)</td>
<td>801,315</td>
<td>6,124,049</td>
<td>3,627,651</td>
</tr>
<tr>
<td>Accounts payable and accrued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>5,150,902</td>
<td>39,365,768</td>
<td>24,707,126</td>
</tr>
<tr>
<td>Long-term debt (Notes 8 and 9)</td>
<td>6,220,334</td>
<td>47,538,903</td>
<td>35,141,909</td>
</tr>
<tr>
<td>Reserve for sundry credits and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>others (Note 11)</td>
<td>290,220</td>
<td>2,218,010</td>
<td>500,123</td>
</tr>
<tr>
<td>Reserve for retirement</td>
<td>3,757,076</td>
<td>28,713,450</td>
<td>22,937,343</td>
</tr>
<tr>
<td>payments, pensions and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>indemnities (Notes 21 and 10)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Note 11)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>US$15,418,232</td>
<td>Ps. 117,836,131</td>
<td>Ps. 83,286,501</td>
</tr>
<tr>
<td><strong>EQUITY:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificates of Contribution</td>
<td>2,923,194</td>
<td>22,340,513</td>
<td>22,340,513</td>
</tr>
<tr>
<td>&quot;A&quot; (Note 12)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific oil-field exploration</td>
<td>1,211,679</td>
<td>9,360,253</td>
<td>8,421,110</td>
</tr>
<tr>
<td>and depletion reserve (Notes 2d</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2e and 12)</td>
<td>10,730,590</td>
<td>82,008,530</td>
<td>82,624,862</td>
</tr>
<tr>
<td>Revaluation surplus</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings:</td>
<td>416,625</td>
<td>3,184,059</td>
<td>1,518,822</td>
</tr>
<tr>
<td>Prior years</td>
<td>1,283,433</td>
<td>9,808,618</td>
<td>3,326,259</td>
</tr>
<tr>
<td>Current year income</td>
<td>1,700,058</td>
<td>12,992,697</td>
<td>4,845,081</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>16,565,521</td>
<td>126,601,993</td>
<td>116,231,566</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>US$31,984,053</td>
<td>Ps. 244,438,324</td>
<td>Ps. 201,518,067</td>
</tr>
</tbody>
</table>

Mexico is the owner of the hydrocarbon reserves being developed by PEMEX (Note 1); accordingly, such reserves are not reflected in these financial statements. According to technical studies (unaudited), Mexico's proved hydrocarbon reserves were 62,058 million barrels at December 31, 1995 and 63,220 million barrels at December 31, 1994.

The accompanying notes are an integral part of these consolidated financial statements.
Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies
Consolidated Statements of Income
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)
(Notes 1, 2, 3 and 13)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export</td>
<td>US$ 12,054,356</td>
<td>Ps. 92,125,412</td>
<td>Ps. 64,116,414</td>
<td>Ps. 56,502,772</td>
</tr>
<tr>
<td></td>
<td>8,529,171</td>
<td>65,184,186</td>
<td>31,043,367</td>
<td>26,287,683</td>
</tr>
<tr>
<td>Export</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange gain (Note 2b)</td>
<td>20,583,527</td>
<td>157,309,598</td>
<td>95,159,781</td>
<td>82,790,455</td>
</tr>
<tr>
<td>Other revenues</td>
<td>209,506</td>
<td>1,601,151</td>
<td>2,603,216</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>344,949</td>
<td>2,636,276</td>
<td>2,536,728</td>
<td>1,411,181</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>21,137,982</td>
<td>161,547,025</td>
<td>100,299,725</td>
<td>84,201,636</td>
</tr>
<tr>
<td><strong>Costs and operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>5,982,811</td>
<td>45,723,632</td>
<td>30,391,383</td>
<td>27,367,194</td>
</tr>
<tr>
<td>Transportation and distribution expenses</td>
<td>588,461</td>
<td>4,497,313</td>
<td>4,082,006</td>
<td>3,443,872</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>1,113,563</td>
<td>8,510,409</td>
<td>6,070,574</td>
<td>5,983,659</td>
</tr>
<tr>
<td>Interest, net</td>
<td>(137,657)</td>
<td>(1,052,045)</td>
<td>851,505</td>
<td>(209,651)</td>
</tr>
<tr>
<td>Exchange loss (Note 2b)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>84,054</td>
</tr>
<tr>
<td>Other expenses</td>
<td>192,622</td>
<td>1,472,113</td>
<td>726,593</td>
<td>84,286</td>
</tr>
<tr>
<td>Special tax on products and services (IEPS)</td>
<td>2,316,411</td>
<td>17,703,170</td>
<td>21,796,946</td>
<td>17,449,500</td>
</tr>
<tr>
<td>Hydrocarbon extraction duties and other</td>
<td>9,798,338</td>
<td>74,883,795</td>
<td>33,054,459</td>
<td>26,974,052</td>
</tr>
<tr>
<td><strong>Total costs and operating expenses</strong></td>
<td>19,854,549</td>
<td>151,738,387</td>
<td>96,973,466</td>
<td>81,176,966</td>
</tr>
<tr>
<td><strong>Income for the year (Note 12)</strong></td>
<td>US$ 1,283,433</td>
<td>Ps. 9,088,638</td>
<td>Ps. 3,226,259</td>
<td>Ps. 3,024,670</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
Petroles Mexicanos, Subsidiary Entities and Subsidiary Companies

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 1995, 1994 and 1993

(In thousands of pesos)

(Notes 1, 2 and 13)

<table>
<thead>
<tr>
<th>Certification of Contribution</th>
<th>Reserve for Oil Field Exploration and Depletion</th>
<th>Retained Earnings</th>
<th>Current Year Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Note 12)</td>
<td>(Note 2d and 2e)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Balances at December 31, 1992
| Dividends paid to the Federal Government approved by the Board of Directors on May 27, 1993 (Note 12) | 1,745,982         | 1,545,620         | (3,373,394)       |
| Increase in (allocations of) reserve for oil field exploration and depletion (Note 2d and 2e): | | | |
| Increase charged to cost of sales | | | |
| Capitalized exploration and drilling cost of producing oil wells | | | |
| Exploration and drilling costs | | | |
| Accumulated effects from consolidation of subsidiary companies | (267,682)         | (193,191)         |                   |
| Effect of remeasurement in the year, net | | | |
| Income for the year | | | |
| Balances at December 31, 1993
| Dividends paid to the Federal Government approved by the Board of Directors on May 29, 1994 (Note 12) | 22,340,513         | 16,275,855        | 66,360,712        |
| Transfer to prior year's retained earnings | 43,014             | 43,014            | (2,981,656)       |
| Transfer to prior year's retained earnings approved by the Board of Directors (Note 12) | 8,041,000          | 8,041,000         |                   |
| Retraining of accounts payable from the Federal Government against retained earnings, approved by the Board of Directors (Note 12) | | | |
| Increase in (allocations of) reserve for oil field exploration and depletion (Note 2d and 2e): | (6,372,000)        | | |
| Increase charged to cost of sales | 1,834,669          | | |
| Capitalized exploration and drilling cost of producing oil wells | 2,357,212          | | |
| Exploration and drilling costs | (4,605,646)        | | |
| Effect of remeasurement in the year, net | 16,266,150         | | |
| Income for the year | | | 3,576,250       |
| Balances at December 31, 1994
| Dividends paid to the Federal Governments approved by the Board of Directors on June 28, 1995 (Note 12) | 22,340,513         | 8,421,110         | 82,624,862        |
| Transfer to prior year's retained earnings approved by the Board of Directors (Note 12) | | | 1,518,822         |
| Transfer to prior year's retained earnings | (1,860,023)        | | 3,196,272         |
| Increase in (allocations of) reserve for oil field exploration and depletion (Note 2d and 2e): | 129,987            | | (2,198,272)       |
| Increase charged to cost of sales | 3,609,444          | | |
| Capitalized exploration and drilling cost of producing oil wells | 4,459,827          | | |
| Exploration and drilling costs | (7,229,128)        | | |
| Effect of remeasurement in the year, net | (856,332)          | | |
| Income for the year | | | 9,408,638        |
| Balances at December 31, 1995 | 22,340,513         | 8,420,250         | 82,623,528        |
| | | | 3,184,015         |
| | | | 1,804,638         |

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
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)
(Notes 1, 2 and 13)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds provided by (applied in)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Add charges to income not requiring the use of funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,228,051</td>
<td>9,385,382</td>
<td>6,618,095</td>
<td>6,763,214</td>
</tr>
<tr>
<td>Increase in the reserves for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement payments, pensions and indemnities</td>
<td>915,807</td>
<td>6,999,057</td>
<td>4,033,982</td>
<td>3,932,557</td>
</tr>
<tr>
<td>Environmental liabilities</td>
<td>472,286</td>
<td>3,609,444</td>
<td>1,834,669</td>
<td>1,745,982</td>
</tr>
<tr>
<td></td>
<td>219,150</td>
<td>1,674,852</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts and notes receivable</td>
<td>(995,603)</td>
<td>(7,608,895)</td>
<td>4,695,890</td>
<td>(2,831,689)</td>
</tr>
<tr>
<td>Inventories</td>
<td>(417,756)</td>
<td>(3,192,699)</td>
<td>(296,461)</td>
<td>1,217,692</td>
</tr>
<tr>
<td>Other assets</td>
<td>(244,374)</td>
<td>(1,867,625)</td>
<td>(604,880)</td>
<td>295,941</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>130,722</td>
<td>999,045</td>
<td>294,886</td>
<td>3,143,793</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>326,647</td>
<td>2,496,398</td>
<td>1,539,415</td>
<td>(178,194)</td>
</tr>
<tr>
<td>Reserve for sundry credits</td>
<td>5,631</td>
<td>43,035</td>
<td>386,876</td>
<td>24,701</td>
</tr>
<tr>
<td>Payments for retirement, pensions and indemnities</td>
<td>(303,836)</td>
<td>(2,322,066)</td>
<td>(1,765,301)</td>
<td>(2,999,248)</td>
</tr>
<tr>
<td>Exploration and drilling expenses charged to the reserve for oil-field exploration and depletion (net)</td>
<td>(362,486)</td>
<td>(2,770,301)</td>
<td>(1,648,414)</td>
<td>(1,550,055)</td>
</tr>
<tr>
<td>Funds provided by operations</td>
<td>2,257,672</td>
<td>17,254,263</td>
<td>18,416,016</td>
<td>12,621,354</td>
</tr>
<tr>
<td>Financing:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in financing</td>
<td>3,082,786</td>
<td>23,506,193</td>
<td>21,834,113</td>
<td>(234,834)</td>
</tr>
<tr>
<td>Dividends paid to the Federal Government</td>
<td>217,340</td>
<td>(1,661,022)</td>
<td>(2,981,656)</td>
<td>(3,313,394)</td>
</tr>
<tr>
<td>Offsetting of accounts receivable from the Federal Government against retained earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds provided by (applied in) financing activities</td>
<td>2,865,446</td>
<td>21,899,171</td>
<td>12,480,457</td>
<td>(2,548,228)</td>
</tr>
<tr>
<td>Investment:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment at cost in properties (includes capitalized interest and exchange losses)</td>
<td>(4,337,284)</td>
<td>(33,147,694)</td>
<td>(27,025,937)</td>
<td>(8,469,444)</td>
</tr>
<tr>
<td>Funds applied in investment activities</td>
<td>(4,337,284)</td>
<td>(33,147,694)</td>
<td>(27,025,937)</td>
<td>(8,469,444)</td>
</tr>
<tr>
<td>Effect of the consolidation of subsidiary companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in cash</td>
<td>785,834</td>
<td>6,005,742</td>
<td>3,870,536</td>
<td>142,818</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of the year</td>
<td>756,492</td>
<td>5,781,485</td>
<td>1,910,949</td>
<td>1,768,121</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of the year</td>
<td>US $1,542,326</td>
<td>Ps. 11,787,227</td>
<td>Ps. 5,781,485</td>
<td>Ps. 1,910,949</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
1. **STRUCTURE AND ACTIVITIES OF PEMEX**:

As a result of the nationalization of the foreign-owned oil companies then operating in the United Mexican States ("Mexico"), Petróleos Mexicanos was established by a decree of the Mexican Congress passed on June 7, 1938. Petróleos Mexicanos and the Subsidiary Entities ("PEMEX") together comprise Mexico's state oil company.

The activities of Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies are regulated by the *Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo* (the Regulatory Law to the Constitutional Article 27 in the Petroleum Sector, or "Regulatory Law"), effective November 30, 1958, as amended effective May 12, 1995, and PEMEX's statutory charter, the *Ley Orgánica de Petróleos Mexicanos y Organismos Subsidiarios* (the Organic Law of Petróleos Mexicanos and Subsidiary Entities, or "Organic Law"), effective July 17, 1992, as amended effective January 1, 1994. Pursuant to the Organic Law and related regulations, PEMEX's principal objectives are the exploration, exploitation, refining, transportation, storage, distribution and first-hand sale of crude oil, natural gas and their derivatives and by-products, as well as the manufacture, storage, transportation, distribution and first-hand sale of gas and petroleum derivatives (including petrochemicals) used as basic industrial raw materials. Under the Organic Law and related regulations, Petróleos Mexicanos is entrusted with the central planning and the strategic management of Mexico's petroleum industry. The Organic Law separates the operating functions of PEMEX into the four Subsidiary Entities, which are controlled by (and have characteristics of subsidiaries of) Petróleos Mexicanos, a Decentralized Public Entity of the Federal Government of Mexico.

The Organic Law establishes a structure which consists of decentralized legal entities of a technical, industrial and commercial nature, with their own corporate identity and their own equity. The Subsidiary Entities, which are empowered to own property and conduct business in their names, are:

Pemex-Exploración y Producción;
Pemex-Refinación;
Pemex-Gas y Petroquímica Básica; and
Pemex-Petroquímica.

The strategic activities entrusted to Petróleos Mexicanos and Subsidiary Entities by the Organic Law can only be performed by PEMEX and cannot be delegated or subcontracted.
PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

In 1995, as permitted by the Organic Law, PEMEX initiated the public tender for sale of the secondary petrochemical plants. The revision of the Regulatory Law of the Constitutional Article 27 and its Regulations allows private investment in the transportation, distribution and storage of natural gas. During 1995 PEMEX initiated the process to permit such private participation in the Mexican natural gas market.

2. ACCOUNTING POLICIES:

The principal accounting policies followed by PEMEX in the preparation of these financial statements are summarized below:

a. Monetary Unit.

In January 1993, a new monetary unit temporarily named "new peso", equivalent to one thousand previous pesos, became effective. Starting January 1, 1996, the monetary unit is named "peso" without altering its equivalence and accordingly all amounts in the 1995, 1994 and 1993 financial statements presented herein use the term "peso".

b. Consolidation.

The consolidated financial statements include the accounts of Petróleos Mexicanos, of the Subsidiary Entities and subsidiary companies in which it owns more than a 50% ownership interest. All material intercompany transactions have been eliminated in the consolidation. Certain investments in other subsidiaries and associated companies, due to their immateriality in relation to PEMEX's total assets, are accounted for under the cost method.

Since January 1, 1994 KOT Insurance Co. Ltd. and, since January 1, 1995, Integrated Trade Systems, Inc. have been included in the consolidated group; previously both companies were accounted for as cost basis investments. The effect of consolidating these entities, after elimination, increased total assets by Ps.51,500 and Ps.471,899, increased liabilities by Ps.37,716 and Ps.402,966, increased equity by Ps.13,784 and Ps.68,833, at December 31, 1995 and 1994, respectively, and increased income by Ps.8,564 and Ps.43,123 for the years then ended, respectively.

c. Effects of Inflation in the Financial Information.

The financial statements of PEMEX are prepared in conformity with generally accepted accounting principles in Mexico and, as to the recognition of inflation, in accordance with the guidelines established in Financial Reporting Standard (NIF-96 BIS/A) issued by the
Ministry of Finance and Public Credit and the Comptroller and Administrative Development Office. The principal requirements of NIF-06 BIS/A are as follows:

(a) Fixed assets (property and equipment) and accumulated depreciation are restated for balance sheet presentation at net replacement cost, based upon annual appraisals made by independent appraisers or based upon the use of a specific price index (the "SPI") calculated by the Instituto Mexicano del Petróleo (the Mexican Petroleum Institute or "IMP"). The difference between the historical cost and the restated costs is recorded as Revaluation Surplus in equity.

(b) Materials and supplies inventory must be restated based upon last purchase price.

Due to the relatively low rate of inflation during 1993, it was determined that the book value of fixed assets approximated net replacement cost. The effect of restatement on materials, supplies, inventory and cost of sales was deemed to be immaterial. PEMEX, accordingly, only restated the 1993 book values associated with Pemex-Petroquímica planes, as discussed in Note 7.

d. Specific Oil Field Exploration and Depletion Reserve.

The specific oil field exploration and depletion reserve is established to cover current and future exploration and drilling costs. As oil and gas are extracted from existing wells, the reserve is increased based on a budgeted exploration and drilling cost per barrel, with a corresponding amount charged to cost of sales. Actual exploration and drilling costs in turn are applied as reductions to the reserve. Accumulated drilling costs related to successful wells are capitalized as fixed assets and a corresponding amount is added back to the reserve.

During 1995, as a result of the findings of a technical study of budgeted exploration costs per barrel, PEMEX increased the budgeted exploration and drilling cost per barrel from Ps.1.47 to Ps.2.92 (Ps.1.27 to Ps.1.47 in 1994). This increase resulted in an additional charge to cost of sales of Ps.1,792,006 (Ps.250,000 in 1994).

e. Exploration and Drilling Costs.

The successful efforts method of accounting is followed through the specific oil field exploration and depletion reserve as discussed in Note 2d.
f. Inventory Valuation.

Crude oil for export is valued at net realizable value, determined on the basis of average export prices less a provision for distribution expenses and shrinkage.

Crude oil inventories for domestic sales, refined products and petrochemicals are valued at costs calculated based on realizable market prices.

Materials, spare parts and supplies are restated at the last purchase price. In 1994 and 1993, the values of materials, spare parts, supplies and the related cost of sales were not restated for the effects of inflation, but were valued at an average price considering the 1993 base prices and 1994 purchases. The effect of the policy followed in 1994 and 1993 did not differ materially from the use of the last purchase price.

g. Properties.

PEMEX's assets are initially recorded at acquisition or construction cost. Exchange losses arising from the impact of foreign currency fluctuations on the value of foreign currency denominated debt and incurred interest costs are capitalized as part of the cost. The book values of these assets are restated annually based on appraisals made by the IMP, a Decentralized Public Entity of the Federal Government of Mexico. The recorded value of these assets cannot exceed the annual appraisals made by the IMP. In the case of capitalized lease assets, the carrying cost is the sum of the lease payments less interest, subject to revaluation based on appraisals.

Property, plant and equipment are depreciated using the straight-line method at annual rates based on studies performed by appraisers. The depreciation rates used by PEMEX are as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>3</td>
</tr>
<tr>
<td>Plant, wells and drilling equipment</td>
<td>3 - 5</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>10</td>
</tr>
<tr>
<td>Offshore platforms</td>
<td>4</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>4 - 20</td>
</tr>
<tr>
<td>Pipelines</td>
<td>2</td>
</tr>
</tbody>
</table>

F-9
h. Foreign Currency Balances and Transactions.

Transactions in foreign currency are recorded at the exchange rates in effect on the date the transactions are closed. Assets and liabilities in foreign currencies are stated in pesos at the rates in effect at the balance sheet date. Exchange losses arising from the impact of foreign currency fluctuations on the value of the foreign currency denominated debt and incurred interest costs are capitalized as part of fixed assets. Foreign exchange losses or gains that are not capitalized are charged or credited to income, generating exchange gains of Ps.1,601,151 and Ps.2,603,216 in 1995 and 1994, respectively, and an exchange loss of Ps.64,554 in 1993.

i. Retirement Benefits and Seniority Premiums.

In 1989, PEMEX established a pension plan for retirement and seniority premiums for its employees. The related liability and contribution to the fund are calculated by the projected unit credit method established by Bulletin D-3 of Mexican Generally Accepted Accounting Principles ("Mexican GAAP").

Payments for seniority pensions and premiums are debited to the reserve created for that purpose.

Payments for indemnities to dismissed personnel are charged to income in the year in which they are paid.

j. Net Sales and Cost of Sales.

PEMEX records sales when products are shipped to customers. Cost of sales is determined by adding to the beginning inventories the increase in the reserve for exploration and depletion of oil fields (a fixed charge per extracted barrel), the operating cost of oil fields, refineries and plants, and purchases of crude oil and refined and other products, and deducting the ending inventories.

k. Taxes and Federal Duties.

PEMEX is subject to special tax laws, which since they do not generate temporary differences, do not result in deferred income tax. Petróleos Mexicanos and Subsidiary Entities are not subject to the Ley del Impuesto Sobre la Renta (Income Tax Law) or the Ley del Impuesto al Activo (Assets Tax Law). Some of the Subsidiary Companies are subject to the income tax but they do not generate material current deferred taxes.
PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1995, 1994 and 1993
(Thousands of pesos and thousands of U.S. dollars)

Petróleos Mexicanos and Subsidiary Entities are subject to the following duties and taxes: hydrocarbon extraction duties, tax on oil income and a special tax on production and services (IEPS tax).

Effective January 1, 1994, hydrocarbon extraction duties are calculated at a rate of 52.3% on the net cash flows of the difference between crude oil sales and extraction costs and expenses. Extraordinary and additional hydrocarbon extraction duties are calculated at a rate of 25.5% and 1.1%, respectively, on the same basis. The sum of the hydrocarbon extraction duties must equal 60.8% of Petróleos Mexicanos and Subsidiary Entities' annual sales revenues to third parties (and an additional 39.2% of the portion of revenues in respect of crude oil sales at prices in excess of US$13.60 per barrel).

For the 1993 fiscal year, hydrocarbon extraction duties were calculated at a rate of 55% on the net cash flows of the difference between crude oil sales and extraction costs and expenses, and extraordinary duties were calculated at a 20% rate on the same basis. The transitory tax legislation provided that the 55% rate was adjusted to meet a targeted taxation level similar to that which was obtained under tax laws applicable during 1992.

The hydrocarbon extraction duties and the special tax on production and services are reflected in the income statement under the caption costs and operating expenses.


The special tax on production and services is a tax on the sales of gasolines, diesel and jet fuel. The applicable rates depend, among other factors, on the product, producer’s price, freight costs, commissions and the region in which each product is sold.

Net sales include amounts collected from customers for special tax on production and services for 1995, 1994, and 1993.

m. Financial Statement Presentation.

The statement of changes in financial position discloses the sources and applications of funds derived from operating, financing and investing activities.

n. Risk Management Instruments.

The income statement effects of entering into “swap” transactions are recorded as incurred and the settlement amounts are known. The income statement effect of other derivative instruments, including premiums paid or received, is recognized at the date of receipt or payment.

F-11
Such amounts are included in the income statement as Interest, net. See Note 9 for further disclosure regarding derivative instruments.

o. Use of Estimates.

The consolidated financial statements are prepared in conformity with Mexican GAAP, which require management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent liabilities as of the financial statement date and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

p. Convenience Translation.

United States dollar amounts shown in the balance sheets, the income statements and the statements of changes in financial position have been included solely for the convenience of the reader. Such amounts are translated from pesos, as a matter of arithmetic computation only, at an exchange rate of 7.6425 pesos per U.S. dollar, which is the December 31, 1995 exchange rate for the settlement of obligations in foreign currencies provided by Banco de México and the Ministry of Finance and Public Credit. 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.

3. FOREIGN CURRENCY POSITION:

PEMEX and Subsidiary Companies participate in international markets and carry out transactions in different currencies.

All of PEMEX and Subsidiary Companies’ transactions are recorded at the exchange rate required to settle obligations denominated in foreign currencies payable in Mexico, provided by Banco de México and the Ministry of Finance and Public Credit. PEMEX’s foreign currency transactions are all handled by Banco de México.

PEMEX and Subsidiary Companies has the following assets (in addition to crude oil inventories for export) and liabilities denominated in foreign currencies which are stated in pesos at the exchange rate at December 31, 1995 and 1994:
PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

<table>
<thead>
<tr>
<th>Currency</th>
<th>Exchange Rates (stated in pesos) at December 31,</th>
<th>Amounts (thousands of pesos) at December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. dollars</td>
<td>Ps. 7.6425</td>
<td>Ps. 5.3250</td>
</tr>
<tr>
<td>Dutch guilders</td>
<td>4.7682</td>
<td>3.0699</td>
</tr>
<tr>
<td>Other currencies</td>
<td>Various</td>
<td>Various</td>
</tr>
</tbody>
</table>

LIABILITIES

<table>
<thead>
<tr>
<th>Currency</th>
<th>Exchange Rates (stated in pesos) at December 31,</th>
<th>Amounts (thousands of pesos) at December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. dollars</td>
<td>Ps. 7.6425</td>
<td>Ps. 5.3250</td>
</tr>
<tr>
<td>Pounds sterling</td>
<td>11.8612</td>
<td>8.3363</td>
</tr>
<tr>
<td>Japanese yen</td>
<td>0.0741</td>
<td>0.0533</td>
</tr>
<tr>
<td>Deutsche marks</td>
<td>5.3397</td>
<td>3.4389</td>
</tr>
<tr>
<td>Austrian schillings</td>
<td>0.7589</td>
<td>0.4883</td>
</tr>
<tr>
<td>Other currencies</td>
<td>Various</td>
<td>Various</td>
</tr>
</tbody>
</table>

As of March 19, 1996, the Mexican peso/U.S. dollar exchange rate was Ps.7.5242 = US$1.00.

F-13
4. ACCOUNTS AND NOTES RECEIVABLE:

Accounts and notes receivable are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic (a)</td>
<td>Ps. 8,929,695</td>
<td>Ps. 6,527,740</td>
</tr>
<tr>
<td>Foreign</td>
<td>5,843,864</td>
<td>3,776,005</td>
</tr>
<tr>
<td>Mexican Federal Government:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advance payments on minimum guaranteed dividends (Note 12)</td>
<td>4,289,362</td>
<td>1,661,025</td>
</tr>
<tr>
<td>Other accounts receivable</td>
<td>3,299,546</td>
<td>2,779,946</td>
</tr>
<tr>
<td>Less, allowance for doubtful accounts</td>
<td>(661,505)</td>
<td>(652,647)</td>
</tr>
<tr>
<td></td>
<td>Ps. 21,700,962</td>
<td>Ps. 14,092,067</td>
</tr>
</tbody>
</table>

(a) Balance includes loans to gas station operators for the purchase of gasoline from PEMEX. The operators can borrow the cost of four days' worth of gasoline sales. The loans are for terms of six months and are generally renewed. At December 31, 1995 and 1994 the balance of such loans was Ps.905,000 and Ps.593,000, respectively.

5. INVENTORIES:

Inventories are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil, refined products, derivatives and petrochemical products</td>
<td>Ps. 7,439,588</td>
<td>Ps. 4,464,173</td>
</tr>
<tr>
<td>Materials and supplies in stock</td>
<td>4,546,280</td>
<td>4,666,879</td>
</tr>
<tr>
<td>Less allowance for slow-moving inventory and obsolescence</td>
<td>(2,245,754)</td>
<td>(2,288,982)</td>
</tr>
<tr>
<td></td>
<td>2,300,526</td>
<td>2,377,897</td>
</tr>
<tr>
<td>Materials in transit</td>
<td>458,000</td>
<td>163,645</td>
</tr>
<tr>
<td></td>
<td>Ps. 10,198,414</td>
<td>Ps. 7,005,715</td>
</tr>
</tbody>
</table>

F-14
6. OTHER ASSETS:

Other assets include long-term investments as follows:

<table>
<thead>
<tr>
<th>Shares of other non-consolidated subsidiaries and affiliates</th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ps.1,268,947</td>
<td>Ps.1,421,855</td>
</tr>
</tbody>
</table>

In 1994, Petróleos Mexicanos sold its air transportation equipment to Servicios Aéreos Especializados Mexicanos, S.A. de C.V. ("SAEMSA"), from which it recorded a gain of Ps.340,969 (recorded in other income in the statement of income). In addition, PEMEX received a 49% interest in the capital of the aforementioned Company, which is being accounted for under the cost method.

During 1993, PEMEX entered into a joint venture with Shell Oil Company, from which PEMEX obtained a 50% interest in a petroleum refinery located in Deer Park, Texas. The investment is accounted for under the equity method and amounts to Ps.714,155 as of December 31, 1995 (Ps.878,843 in 1994). During 1995 and 1994 PEMEX recorded Ps.549,017 and Ps.179,095, respectively, of its equity in the losses of the joint venture. During 1995, 1994 and 1993, PEMEX paid the joint venture Ps.677,813, Ps.349,771 and Ps.310,250, respectively, for the processing of petroleum. During 1995, PEMEX, through its subsidiary, paid Ps.417,464 to the joint venture under terms of the contract which call for contributions from PEMEX based on the refinery’s operating margin. During 1994 PEMEX, through its subsidiary, paid Ps.104,118 to its joint venture partner under the same terms of the contract.

During 1993, PEMEX made an investment in Mexicana de Lubricantes, S.A. de C.V. ("MexLub"). PEMEX invested Ps.176,204 to obtain a 49% investment in the Company. Since January, 1995, this investment is accounted for under the cost method (equity method until 1994), and amounts to Ps.238,093 as of December 31, 1995.

Other subsidiaries and affiliates are not consolidated as their effect on the financial position and results of operations are not material. The effect of such non-consolidated subsidiaries and affiliates on the 1995, 1994 and 1993 consolidated equity and earnings are less than 1% in each of the three years.

In 1992, Petróleos Mexicanos exercised the option for the acquisition of up to 5% of the shares of Repsol, S.A. (established in Spain) through its subsidiary company P.M.I. Holdings, B.V. During 1994, through a finance transaction amounting to US$467,000 (approximately Ps.1,597,000), Petróleos Mexicanos sold 99.97% of its Repsol shares to a
FETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

trust. PEMEX has the right of first refusal to reacquire the shares within 18 months. PEMEX also retained the voting rights associated with the Repsol shares.

7. PROPERTIES:

a. The components of this caption are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Ps. 15,503,431</td>
<td>Ps. 10,449,897</td>
<td>Ps. 6,661,326</td>
</tr>
<tr>
<td>Buildings</td>
<td>14,957,968</td>
<td>12,762,591</td>
<td>11,761,448</td>
</tr>
<tr>
<td>Wells and drilling equipment</td>
<td>66,758,271</td>
<td>56,868,922</td>
<td>46,595,055</td>
</tr>
<tr>
<td>Plants</td>
<td>105,776,324</td>
<td>92,492,536</td>
<td>64,846,115</td>
</tr>
<tr>
<td>Pipelines</td>
<td>69,096,828</td>
<td>62,663,911</td>
<td>51,508,423</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>7,206,030</td>
<td>6,944,786</td>
<td>6,826,095</td>
</tr>
<tr>
<td>Land, air and river transportation equipment</td>
<td>7,706,242</td>
<td>7,538,080</td>
<td>6,061,813</td>
</tr>
<tr>
<td>Offshore platforms</td>
<td>29,850,463</td>
<td>24,782,454</td>
<td>17,389,239</td>
</tr>
<tr>
<td>Leased equipment</td>
<td>1,788,095</td>
<td>1,419,487</td>
<td>794,740</td>
</tr>
<tr>
<td></td>
<td>313,643,652</td>
<td>278,922,664</td>
<td>212,444,254</td>
</tr>
</tbody>
</table>

Less, accumulated depreciation and amortization

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>153,410,961</td>
<td>134,404,572</td>
<td>107,989,633</td>
</tr>
<tr>
<td>Other</td>
<td>160,232,691</td>
<td>141,518,061</td>
<td>104,474,621</td>
</tr>
<tr>
<td>Other</td>
<td>2,011,183</td>
<td>2,159,492</td>
<td>2,210,089</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>20,339,187</td>
<td>15,759,498</td>
<td>15,832,551</td>
</tr>
<tr>
<td></td>
<td>Ps.182,583,061</td>
<td>Ps.159,437,081</td>
<td>Ps.122,517,261</td>
</tr>
</tbody>
</table>

b. For 1995 and 1994, fixed assets, including accumulated depreciation, were restated for the effects of inflation and currency devaluation using appraisals made by the IMP. The appraisals are prepared using the specific price index method.

In 1993, except for the Pemex-Petroquimica plants, the appraisal values of fixed assets did not vary from the 1992 appraisal values. Appraisal values did not fluctuate significantly between 1993 and 1992 because the Mexican inflation level was relatively low as a result of a stable economy. The book value of the petrochemical plants was restated due to international conditions in the petrochemical industry and resulted in a writedown of Ps.3,591,438 in 1993.

c. Debt interest costs capitalized as part of construction in progress were: Ps.3,757,791 in 1995, Ps.1,547,273 in 1994 and Ps.1,081,457 in 1993. Foreign currency losses associated with PEMEX's debt are capitalized as part of the cost of fixed assets. Foreign currency losses capitalized in 1995 and 1994 were Ps.20,951,523 and Ps.21,099,000, respectively. In 1993, foreign exchange losses were not capitalized as part of fixed assets since PEMEX did not restate the value of its fixed assets due to the immateriality of the inflation and exchange rate variations.

F-16
Depreciation and amortization expenses recorded for 1995, 1994 and 1993 were Ps.9,385,382, Ps.6,612,575 and Ps.6,765,214, respectively.

PEMEX is considered within the Federal Government’s privatization program announced by the Secretaria de Hacienda y Credito Publico. PEMEX’s participation in any divestiture related to such program would be in the area of secondary and tertiary petrochemical manufacturing plants currently owned by PEMEX.

8. **BORROWINGS:**

During 1995, PEMEX obtained several dollar denominated lines of credit totalling approximately US$1,757,000 (Ps.11,406,444). Such lines of credit have various maturities ranging from one to five years. Also during 1995 PEMEX issued Swiss Francs 150 million (Ps. 996,885) of 9.255% fixed rate bonds maturing in two years. During the year PEMEX also increased by US$65,000 (Ps.421,980) its commercial paper programs.

In 1994, two new bankers’ acceptance lines were established in the U.S. market totaling US$1,127,000 (Ps.6,001,275). Both 180 day revolving lines matured during 1995.

During 1994, Petróleos Mexicanos placed four bond issues, two in the Euro-dollar market, one in the U.S. market and one in the Japanese market, for a total amount of US$1,054,300 (Ps.5,614,150). The first issue was placed in March for US$300,000 (Ps.1,597,500) with a 5-year maturity. The second issue consisted of two series of US$200,000 (Ps.1,065,000) bonds each placed in April; the third for US$150,000 (Ps.798,750) which was placed in July. These two issues have a 3-year maturity. The last issue was placed in November for 20 billion Japanese yen, US$204,300 equivalent (Ps.1,087,900) with a 4-year maturity.

In July 1994, a new commercial paper line was established in the U.S. market for US$300,000 (Ps.1,597,500) with average renewals of 35 days and a final maturity in July 1995.

As of December 31, 1995 and 1994, long-term debt is as follows:
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

9. Financial Instruments:

Risk management activities:

PEMEX uses derivative financial instruments to reduce the volatility of financing costs, and manage interest and currency risk. These instruments involve, to varying degrees,
elements of market risk and credit risk which are not reflected in the consolidated balance sheet.

Market risk is defined as the exposure to potential loss through holding interest and exchange rate positions and commodities in the face of absolute and relative price movements and interest rate and currency volatility. Credit risk is defined as the possibility of sustaining a loss because the counterparty to a financial instrument fails to perform in accordance with the terms of the contract. Derivative instruments which are held by PEMEX, with the exception of foreign currency swaps and forward contracts are commonly bought and sold in notional amounts which do not represent the actual amounts of cash flows to be exchanged by the parties. The amounts exchanged are based on the notional amounts and other terms of the contract. PEMEX’s maximum exposure to credit loss in the event of nonperformance by the counterparty is represented by the premium paid for the instrument and any unrealized gains on the instrument.

For financial derivatives, the counterparty’s default risk is monitored on an ongoing basis and the credit risk is minimized by dealing with major financial institutions as counterparties, maintaining a diversified portfolio of counterparties and requiring credit information for new counterparties.

PEMEX’s hedging committee, composed of representatives of PEMEX, Banco de México, the Ministry of Finance and Public Credit and PMI Comercio Internacional, S.A. de C.V., authorizes PEMEX’s hedging strategy and supervises the hedging activities carried out by PEMEX’s Finance Department.

PEMEX’s risk management portfolio includes instruments used for hedging and non-hedging activities. The classes of instruments used by PEMEX in these two categories are described in the following sections.
Hedging Activities:

*Interest rate instruments:* PEMEX enters into various types of interest rate contracts in managing its interest rate risk. Approximately 77% of the aggregate of PEMEX’s debt and the minimum guaranteed dividend rate on the Certificates of Contribution “A” have floating interest rate terms that re-price approximately every three months based on LIBOR. PEMEX’s management and its hedging committee have adopted various strategies for interest rate risk management that aim to achieve a desired interest rate mix (fixed versus floating). Interest rate derivatives allow PEMEX to modify the characteristics of their liabilities in a cost-efficient manner. At December 31, 1995, the interest rate on approximately 70% of PEMEX’s debt was at fixed rates as either stipulated in the debt agreements or through the use of derivatives. Approximately 95% of such derivatives were interest rate swaps.

An interest rate swap is an agreement in which two parties agree to exchange, at specified intervals, interest payment streams calculated on an agreed-upon notional principal amount. Under these agreements PEMEX is obligated to make payments based on the fixed interest rate and entitled to receive payments generally based on the three month LIBOR interest rate, thereby reducing PEMEX’s exposure to floating interest rate payments due on the related debt and Certificates of Contribution “A”.

PEMEX has also purchased interest rate caps to reduce its exposure to floating interest rates. An interest rate cap entitles the holder to receive the amount, if any, by which the three month LIBOR interest rate exceeds the rate specified in the cap agreement on the exercise date of the cap. PEMEX entered into these transactions to take advantage of a reduction in interest rates and to be protected if they rise.

*Foreign currency instruments:* A significant portion of PEMEX’s revenues is derived from exports of crude oil and oil products, which are denominated and payable in U.S. dollars. In addition, the domestic revenues that PEMEX retains (i.e., does not pay to the government in the form of IEPS taxes) in respect of its sales of oil products and petrochemicals are related to the international prices of these products, which are denominated in U.S. dollars. Because a significant portion of PEMEX’s revenues is denominated in U.S. dollars, PEMEX’s borrowings are generally denominated in dollars. To the extent that, since 1991, PEMEX has borrowed in currencies other than U.S. dollars, PEMEX generally enters into currency swaps to hedge against movement in exchange rates. Substantially all of PEMEX’s currency swaps are entered into with its creditors on the underlying debt.

In addition, since a significant portion of PEMEX’s revenues are dollar-denominated while hydrocarbon duties paid to the federal government are peso-denominated,
PEMEX from time to time enters into forward contracts with Mexican banks for the sale of dollars in exchange for pesos. All those contracts expired in 1995.

Non-hedging activities:

To achieve its desired interest rate mix, PEMEX’s hedging committee determined that it would remove some of the protection provided by its interest rate swaps by writing interest rate caps. As the writer of these caps, in exchange for receiving a premium, PEMEX is obligated to pay the holder the amount, if any, by which the three month LIBOR interest rate exceeds the rate specified in the cap agreement on the exercise date of the cap. PEMEX only writes interest rate caps to synthetically terminate the protection provided by existing interest rate swaps.

During 1994 and 1995, PEMEX sold swaptions which, in exchange for a premium, provide the holder the right to enter into an interest rate swap agreement, on an agreed future exercise date, which would obligate PEMEX to make fixed interest rate payments. The swaptions are a means to synthetically extend the life of PEMEX’s existing interest rate swaps. However, the underlying debt and Certificates of Contribution “A” funding are in place during the maturities of the swaptions so they do not create an additional funding risk.

During 1994, PEMEX also purchased interest rate floors to synthetically remove the fixed rate leg of the swaps once market interest rates decrease below the swap fixed rate. The interest rate floor entitles the holder to receive the amount, if any, by which the three month LIBOR rate is less than the rate specified in the floor agreement on the exercise date of the floor.

Mexican GAAP accounting policies:

Through December 31, 1994, for accounting purposes, premiums paid or received with respect to financial derivatives were reported in income on a cash basis. PEMEX also records the amounts paid or received pursuant to the terms of derivative contracts on a cash basis on each contractual payment date. Effective January 1, 1995, PEMEX changed its method of accounting for interest rate swaps from a cash basis to an accrual basis. The effect of this change was recognized prospectively, as the cumulative effect of the change was not material.

The instruments utilized by PEMEX to achieve its risk management objectives are noted in following table along with their notional amounts, average maturities, average rates and fair values.
Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

<table>
<thead>
<tr>
<th>(1) Notional amounts at December 31, 1995 (Ps.)</th>
<th>Weighted average maturity (years)</th>
<th>Weighted average pay rate</th>
<th>Weighted average receive rate</th>
<th>(2) Fair values at year end (Ps.) Gain/(Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedging instruments: (3)</td>
<td></td>
<td></td>
<td></td>
<td>December 31, 1995</td>
</tr>
<tr>
<td>Interest rate swaps(5)</td>
<td>57,318,750</td>
<td>3.1</td>
<td>6.28%</td>
<td>5.78%</td>
</tr>
<tr>
<td>Interest rate caps (purchased)</td>
<td>8,406,750</td>
<td>1.5</td>
<td>7.27%</td>
<td>5.79%</td>
</tr>
<tr>
<td>Foreign currency exchange swaps(4)</td>
<td>6,523,220</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency forward contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-hedging instruments: (3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate caps (sold)</td>
<td>18,342,000</td>
<td>1.6</td>
<td>7.93%</td>
<td>5.81%</td>
</tr>
<tr>
<td>Interest rate floors (purchased)</td>
<td>5,349,750</td>
<td>3.0</td>
<td>5.60%</td>
<td>5.70%</td>
</tr>
<tr>
<td>Interest rate swaptions (sold)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate floors (sold)</td>
<td>3,057,000</td>
<td>3.0</td>
<td>5.30%</td>
<td>5.68%</td>
</tr>
</tbody>
</table>

(1) The notional amounts (actual amounts with respect to foreign currency exchange contracts) shown for the contracts represent the underlying amounts upon which the instruments are based and do not represent the amounts exchanged by the parties to the instruments. In addition, these amounts do not measure PEMEX's exposure to credit and market risks.

(2) Quoted market prices are used as the fair values of financial instruments. If quoted market prices are not available, fair values are estimated on the basis of pricing models, or quoted prices for financial instruments with similar characteristics.

(3) The carrying values of these instruments are all nil under Mexican GAAP because PEMEX records premiums paid and received in the income statement.

(4) Foreign exchange swaps are denominated in the currency of the underlying debt. At December 31, 1995, open contract amounts were as follows: 299,580,256 Swiss franc, 1,095,087,500 Austrian schilling, 743,625,000 French franc, 75,000,000 Pound sterling, 98,852,500 Canadian dollars and 19,886,000,000 Japanese yen. Such amounts have been converted to a U.S. dollar denominated liability of US$853,558. These foreign exchange swaps mature between 1997 and 2003.

F-22
(5) Included in interest rate swaps are instruments with forward starting dates and notional amounts of Ps.8,406,750.

10. **RESERVE FOR RETIREMENT PAYMENTS, PENSIONS AND SENIORITY PREMIUMS:**

PEMEX has labor obligations for seniority premiums and pensions, according to regulations established by the Federal Labor Law, and provisions in the individual and collective labor contracts. These compensations are only payable after the worker or employee has worked a certain number of years. Benefits are based on the employee's compensation as of his retirement date, as well as years of service (Note 2i). In 1995 PEMEX increased certain of its postretirement benefits to existing and future retirees. As a result of such increase, such benefits have been included in the determination of the reserve for labor obligations and the related charge to earnings at December 31, 1995 was Ps. 2,400,701, of which Ps.1,101,180 represented 1995 costs and Ps.1,299,521 represented prior service costs.

As of December 31, 1995 and 1994, the amount of the benefits projected for pensions and seniority premiums, determined by independent actuaries according to Bulletin D-3, is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obligations from current benefits</td>
<td>Ps. 30,914,282</td>
<td>Ps. 24,682,857</td>
</tr>
<tr>
<td>Additional amount from projected benefits</td>
<td>10,157,739</td>
<td>5,959,644</td>
</tr>
<tr>
<td>Obligations from projected benefits</td>
<td>41,072,021</td>
<td>30,642,501</td>
</tr>
<tr>
<td>Less plan assets (trust fund)</td>
<td>2,537,208</td>
<td>2,336,411</td>
</tr>
<tr>
<td></td>
<td>38,534,713</td>
<td>28,306,090</td>
</tr>
<tr>
<td>Transition liability to be amortized in 15 years, for retirement payment and seniority premium and other effects of the actuarial calculations</td>
<td>22,585,088</td>
<td>17,037,456</td>
</tr>
<tr>
<td>Net projected liability</td>
<td>15,945,625</td>
<td>11,268,634</td>
</tr>
<tr>
<td>Additional liability derived from the excess of obligations from current benefits over plan assets and net projected liability</td>
<td>12,767,825</td>
<td>11,668,709</td>
</tr>
<tr>
<td>Accumulated obligation</td>
<td>Ps. 28,715,450</td>
<td>Ps. 22,937,343</td>
</tr>
</tbody>
</table>

The additional liability is offset by recording an intangible asset and, accordingly has no impact on income or equity. The trust fund to meet the obligations derived from the pension and seniority premium plan amounts to Ps.2,537,308 as of December 31, 1995.

F-23
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

(Ps.2,336,411 in 1994). The net cost of the plan amounted to Ps.6,992,412 in 1995, which includes the Ps. 1,299,521 of prior service costs referred to above (Ps.4,033,982 in 1994).

11. COMMITMENTS AND CONTINGENCIES.

Economic Stabilization Agreement

Under the Economic Stabilization Agreements (the "Agreements") entered into in 1995 between the Government of the United States of America and México providing the latter with financial resources, Petróleos Mexicanos and certain of its affiliates have agreed to instruct foreign buyers of crude oil and oil derivatives, with specific exceptions, to make payments to designated accounts of PEMEX with a bank in New York and to instruct such bank to transfer the amounts received to the account of Banco de México with the Federal Reserve Bank of New York (FRBNY). Simultaneously, Banco de México credits the accounts of PEMEX and its affiliates for such deposits. Although the FRBNY, as fiscal agent for the United States, has the right of set-off against the account of Banco de México with the FRBNY, any amounts due and unpaid from Mexico to the United States under the Agreements do not confer upon the United States any right over PEMEX’s assets and do not affect the volume of production, the destination of exports or the setting of crude oil prices.

Environmental Contingencies

PEMEX is subject to the Ecological Balance and Environmental Protection Law. To comply with this law, PEMEX is in the process of contracting environmental audits in all of its operating, storage and transportation facilities. To date, audits of refineries, secondary petrochemical plants and certain other facilities have been concluded.

Following the completion of such audits, PEMEX has reached agreement with the Federal Agency of Environmental Protection ("PROFEPA") to implement remediation plans. Such plans consider remediation for environmental damages caused as well as related investment in equipment, maintenance, labor and materials.

In 1995, a provision for remedial expenses amounting to Ps.1,674,852 was established corresponding to the concluded audits, which is presented in the Reserve for Sundry Credits and Others.

PEMEX estimates a three-year period to fully comply with the signed PROFEPA agreements.
Payroll Withholding Taxes

The Secretaría de Hacienda y Crédito Público is completing an audit of PEMEX’s "Impuesto Sobre Productos del Trabajo" (payroll withholding taxes) payable by PEMEX. At December 31, 1995, the results of such audit are not known; PEMEX management believes that the results will not be significant to PEMEX’s operating results or financial condition.

Turn-Key Contracts

The Subsidiary Entity Pemex-Exploración y Producción has entered into turn-key contracts with various contractors for the exploration and drilling development of oil wells. As of December 31, 1995, the Entity has potential obligations for these contracts amounting to approximately Ps.442,000, which will be paid during 1996, provided that the terms set forth in the contracts are met.

12. EQUITY AND INCOME:

On December 31, 1990, certain debt owed to the Mexican Government was capitalized as equity. This capitalization amounted to Ps.22,334,195 (US$7,577,000) and was authorized by the Board of Directors of Petróleos Mexicanos. The capitalization agreement between Petróleos Mexicanos and the Mexican Government stipulates that the Certificates of Contribution "A" constitute permanent capital which is not to be diminished. As a condition of this capitalization, Petróleos Mexicanos agreed to pay a minimum guaranteed dividend ("rendimiento mínimo garantizado") to the Mexican Government equivalent to the debt service, for the capitalized debt. The minimum guaranteed dividend comprises the payment of principal and interest in the same terms and conditions as those originally agreed upon with creditors, at the exchange rates in effect as of the date they are made. Such payments must be approved annually by the Board of Directors.

On June 28, 1995, the Board of Directors approved the financial statements for the year ended December 31, 1994, and the payment made in 1994 to the Mexican Government of the minimum guaranteed dividend of Ps.1,661,022.

During 1995, Petróleos Mexicanos paid Ps.4,289,362 (Ps.1,661,022 during 1994) to the Mexican Government in advance payments on account of the minimum guaranteed dividend. These payments will be applied to the final amount that the Board of Directors approves for 1995.

On May 26, 1994, the Board of Directors approved the financial statements for the year ended December 31, 1993, and the payment of Ps.2,981,656, to the Mexican
Government for 1993 through the offset of advance payments on account of the minimum
guaranteed dividend by Ps.1,208,805 and the offset of accounts receivable from the Mexican
Government by Ps.1,772,851.

On August 31, 1994, Ps.8,041,000 of the reserve for oil field exploration and
depletion was transferred to prior year's retained earnings. The reduction of the reserve was
supported by studies that show planned exploration and development activities in the following
years. The transfer was authorized by the Board of Directors.

On August 31, 1994, accounts receivable from the Mexican Government were
offset against prior year's retained earnings. The offset amounts to Ps.6,372,000 and was
authorized by the Board of Directors and the Mexican Government.

On May 27, 1993, the Board of Directors approved the financial statements for
the year ended December 31, 1992 and the payment of Ps.3,313,394 to the Mexican

The excess of revenues over total costs and operating expenses is considered
income or "rendimiento" under Mexican Law.

13. **EFFECTS OF INFLATION ON THE FINANCIAL INFORMATION:**

The recognition of inflation in the financial statements of PEMEX is made in
accordance with guidelines of NIF-06 BIS/A applicable to public sector entities. These
guidelines differ from Mexican GAAP Bulletin B-10 in the following manner:

(a) NIF-06 BIS/A does not require the recognition of a monetary
gain or loss; Bulletin B-10 requires the gain or loss to be reflected in the income
statement caption: "integral cost of financing".

(b) The capitalization of interest and exchange gains or losses are
allowed by NIF-06 BIS/A; Bulletin B-10 requires them to be reflected in the
income statement caption: "integral cost of financing".

(c) NIF-06 BIS/A does not require the restatement of the equity
accounts, Bulletin B-10 requires such restatement.

(d) The effects of inflation on fixed assets, inventories and cost of
sales under NIF-06 BIS/A are recognized in an equity account "revaluation
surplus". Bulletin B-10 requires effects of inflation to be reflected in the
following accounts:

F-26
PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

Restatement of equity, result from accumulated monetary position, equity monetary results, result from holding non-monetary assets, in equity and result from operating monetary position in the income statement.

The following table reflects the approximate effects of inflation on PEMEX’s financial information in accordance with Bulletin B-10 (Restated Amounts columns). The Basic Financial Statements column is prepared in accordance with NIF-06 BIS/A.

<table>
<thead>
<tr>
<th>EQUITY</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic Financial Statements</td>
<td>Restated Amounts</td>
<td></td>
</tr>
<tr>
<td><strong>Certificates of Contribution “A”</strong></td>
<td>Ps. 22,340,513</td>
<td>Ps. 22,340,513</td>
<td>Ps. 22,340,513</td>
</tr>
<tr>
<td>Reserve for oil field exploration and depletion</td>
<td>9,260,253</td>
<td>9,260,253</td>
<td>8,421,110</td>
</tr>
<tr>
<td>Revaluation surplus</td>
<td>82,008,530</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Accumulated earnings:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior years</td>
<td>3,184,059</td>
<td>(13,424,894)</td>
<td>6,507,680</td>
</tr>
<tr>
<td>Income for the year</td>
<td>9,808,628</td>
<td>5,642,993</td>
<td>(18,271,552)</td>
</tr>
<tr>
<td>Restatement of equity</td>
<td>12,992,697</td>
<td>(7,781,901)</td>
<td>(11,763,872)</td>
</tr>
<tr>
<td><strong>Loss from accumulated monetary position</strong></td>
<td></td>
<td>—</td>
<td>277,158,149</td>
</tr>
<tr>
<td>Equity monetary result</td>
<td>—</td>
<td>—</td>
<td>172,110,133</td>
</tr>
<tr>
<td>Accumulated deficit from holding non-monetary assets</td>
<td>—</td>
<td>(143,661,469)</td>
<td>(52,666,045)</td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>(174,375,021)</td>
<td>(72,876,318)</td>
</tr>
<tr>
<td><strong>Ps. 126,601,993</strong></td>
<td><strong>Ps. 126,601,993</strong></td>
<td><strong>Ps. 118,231,566</strong></td>
<td></td>
</tr>
</tbody>
</table>

**EFFECT ON INCOME**
Integral cost of financing:
- Interest and exchange loss capitalized in fixed assets: Ps. 24,709,314; Ps. 23,044,501
- Gain from operating monetary position: 20,543,669; 1,446,696

Ps. (4,165,645) Ps. (21,597,81) |

The above table was prepared using the following procedures and assumptions:

F-27
(a) Exchange differences arising from the impact of foreign currency fluctuations on the foreign currency denominated debt, and interest capitalized as part of fixed assets under NIF-06 BIS/A are, because of the restatement, charged to income for the year under Bulletin B-10. The aforementioned items are part of the integral cost of financing.

(b) The result from monetary position represents the effect that inflation has produced on the monetary assets and liabilities. Holding these assets produces a loss; holding such liabilities, a gain.

The initial accumulated result arising from the restatement is presented in equity. The result for the year is applied to the integral cost of financing, including interest and exchange losses.

(c) The Certificates of Contribution “A” have been restated by applying the factor derived from the NCPI Index to the contributions according to the year in which they were made, in order to present them in terms of the same purchasing power. The same procedure was applied to the equity reserves and retained earnings. The figure for these items is presented under the caption Restatement of Equity.

(d) The deficit or surplus from holding non-monetary assets represents the result of comparing these assets, restated as discussed in Note 2c, to the result from applying indexes to them (by comparison with the general level of inflation).

The balance sheets as of December 31, 1995 and 1994 are stated in pesos with a purchasing power as of those dates and the related statements of income in pesos of average purchasing power for those years, and prepared in accordance with NIF-06 BIS/A (Note 2c).

14. **SUBSEQUENT EVENT:**

As of March 23, 1996, the date of issuance of the financial statements as of December 31, 1995, the average prices of Mexican crude oil exports have increased approximately 13% compared to the average prices as of the closing date of 1995, and 17% compared to the average prices prevailing during 1995.
15. **DIFFERENCES BETWEEN MEXICAN GAAP AND U.S. GAAP:**

A summary of the significant differences between accounting principles followed by PEMEX and generally accepted accounting principles in the United States ("U.S. GAAP") is presented below.

The accompanying financial statements have been prepared in accordance with Mexican GAAP, and, as to the recognition of inflation, in accordance with NIF-06 BIS/A applicable to public sector entities which differ in certain respects from U.S. GAAP. Such differences involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by U.S. GAAP.

I. **Differences in measurement methods:**

The principal differences between Mexican GAAP and US GAAP are disclosed below. Income represents pre-tax income, because PEMEX is not subject to Mexican income taxes, and is reconciled as follows:

<table>
<thead>
<tr>
<th>Annual income reported under:</th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexican GAAP</td>
<td>Ps. 9,808,638</td>
<td>Ps. 3,326,259</td>
<td>Ps. 3,024,670</td>
</tr>
<tr>
<td>Approximate U.S. GAAP adjustments:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exploration and drilling costs (a)</td>
<td>1,782,782</td>
<td>774,671</td>
<td>405,806</td>
</tr>
<tr>
<td>Pensions and seniority premiums (b)</td>
<td>1,121,045</td>
<td>780,905</td>
<td>(985,014)</td>
</tr>
<tr>
<td>Post-retirement benefits (b)</td>
<td>(574,208)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Accrued vacation (c)</td>
<td>(14,660)</td>
<td>(9,085)</td>
<td>24,854</td>
</tr>
<tr>
<td>Inflation accounting (d)</td>
<td>—</td>
<td>—</td>
<td>190,793</td>
</tr>
<tr>
<td>Fixed asset depreciation (d)</td>
<td>2,421,193</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Foreign currency exchange (e)</td>
<td>(20,951,523)</td>
<td>(21,099,000)</td>
<td>—</td>
</tr>
<tr>
<td>Capitalization of interest (f)</td>
<td>(1,447,595)</td>
<td>(1,071,825)</td>
<td>(676,372)</td>
</tr>
<tr>
<td>Environmental matters (g)</td>
<td>1,535,286</td>
<td>(1,535,286)</td>
<td>(68,500)</td>
</tr>
<tr>
<td>Accounting for derivatives (h)</td>
<td>244,398</td>
<td>(124,667)</td>
<td>—</td>
</tr>
<tr>
<td>Sale of shares of Repsol (i)</td>
<td>—</td>
<td>(242,408)</td>
<td>—</td>
</tr>
<tr>
<td>Sale of air transport assets (j)</td>
<td>41,113</td>
<td>(322,406)</td>
<td>—</td>
</tr>
<tr>
<td>Total approximate U.S. GAAP adjustments, net</td>
<td>(18,084,259)</td>
<td>(24,410,911)</td>
<td>(1,108,433)</td>
</tr>
<tr>
<td>Approximate annual (loss) income under U.S. GAAP</td>
<td>Ps.(8,275,621)</td>
<td>Ps.(21,084,652)</td>
<td>Ps.1,216,237</td>
</tr>
</tbody>
</table>

F-29
PETRÓLEOS MEXicanos, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

Equity is reconciled as follows:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity under Mexican GAAP</td>
<td>Ps. 126,601,993</td>
<td>Ps. 118,231,566</td>
</tr>
<tr>
<td>Approximate U.S. GAAP adjustments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced payments on minimum guaranteed dividend (k)</td>
<td>(4,289,362)</td>
<td>(1,661,025)</td>
</tr>
<tr>
<td>Exploration and drilling costs (a)</td>
<td>1,532,052</td>
<td>588,416</td>
</tr>
<tr>
<td>Pensions and seniority premiums (b)</td>
<td>(2,728,043)</td>
<td>(1,606,998)</td>
</tr>
<tr>
<td>Postretirement benefits (b)</td>
<td>(574,208)</td>
<td></td>
</tr>
<tr>
<td>Accrued vacation (c)</td>
<td>(62,106)</td>
<td>(47,446)</td>
</tr>
<tr>
<td>Inflation accounting - fixed assets valuation (d)</td>
<td>(10,795,602)</td>
<td>(11,411,934)</td>
</tr>
<tr>
<td>Foreign currency losses - fixed asset depreciation (d)</td>
<td>2,421,193</td>
<td></td>
</tr>
<tr>
<td>Foreign currency losses (e)</td>
<td>(42,171,390)</td>
<td>(21,219,786)</td>
</tr>
<tr>
<td>Capitalization of interest (f)</td>
<td>(7,170,391)</td>
<td>(5,722,796)</td>
</tr>
<tr>
<td>Environmental matters (g)</td>
<td>(68,500)</td>
<td>(1,603,786)</td>
</tr>
<tr>
<td>Accounting for derivatives (h)</td>
<td>119,731</td>
<td>(124,667)</td>
</tr>
<tr>
<td>Sale of shares of Repsol (i)</td>
<td>(242,408)</td>
<td>(242,408)</td>
</tr>
<tr>
<td>Sale of air transport assets (j)</td>
<td>(281,293)</td>
<td>(322,406)</td>
</tr>
<tr>
<td>Total approximate U.S. GAAP adjustments, net</td>
<td>(64,310,246)</td>
<td>(43,374,836)</td>
</tr>
<tr>
<td>Approximate equity under U.S. GAAP</td>
<td>Ps. 62,291,747</td>
<td>Ps. 74,856,730</td>
</tr>
</tbody>
</table>

Explanation of Reconciling Items:

a) Exploration and Drilling Costs

As discussed in Notes 2d and 2e, under Mexican GAAP, exploration and drilling costs are charged to the equity reserve for exploration and depletion of oil fields. Exploration and drilling costs related to successful oil wells are credited to the equity reserve and recorded as fixed assets. Cost of sales is recognized by recording a per-barrel quota charge in the income statement and recording a credit to the equity reserve. The equity reserve may be increased by a charge to earnings. Capitalized costs of wells and related equipment are amortized on a straight-line basis over a period of 30 years.

Under U.S. GAAP, costs of drilling exploratory wells and exploratory-type stratigraphic test wells are initially capitalized and are charged to expense if proved reserves are not found. Development costs, including the costs of drilling
development wells and development-type stratigraphic test wells are capitalized. The capitalized costs of wells and related equipment are amortized as the related oil and gas reserves are extracted on a unis-of-production method; costs of unproved properties are assessed periodically and a loss is recognized if the properties are impaired. PEMEX measures impairment of its oil and gas assets based on the undiscounted estimated future cash flows associated with estimated proved reserves on a country basis. PEMEX has accordingly adjusted income and equity to reflect the impact of U.S. GAAP on exploration and drilling costs.

(b) Pensions Seniority Premiums and Other Postretirement Benefits

Bulletin D-3 was issued in 1992 by the Mexican Institute of Public Accountants. It established the procedures for measuring the expenses and liabilities for pension plans and seniority premiums. The primary difference between PEMEX's application of Bulletin D-3 and SFAS No. 87 consists of differences in actuarial assumptions and implementation dates. PEMEX has accordingly adjusted income and equity to reflect the application of SFAS No. 87. The reconciliation of equity as of December 31, 1994 has been revised to reflect the liability existing at the end of the year of adoption of SFAS No. 87 (December 31, 1989), as well as the appropriate amortization of the transition obligation which was recorded upon adoption.

Under U.S. GAAP, effective January 1, 1995 PEMEX adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," in accounting for hospitalization and other non-pension benefits provided to retirees. SFAS No. 106 requires the accrual of the expected cost of providing such benefits to employees during the years that the employees render service. Under Mexican GAAP, prior to January 1, 1995, PEMEX recorded all such benefits on a pay-as-you-go basis. Effective January 1, 1995, PEMEX began accruing for hospitalization benefits under its Bulletin D-3 calculations. PEMEX continues, however, to account for other non-pension retiree benefits on a pay-as-you-go basis under Mexican GAAP.

(c) Accrued Vacation

Under Mexican GAAP, vacation expense is recognized when taken rather than in the period earned by the employee, which is required under U.S. GAAP. PEMEX has accordingly adjusted income and equity for each year presented.
(d) Inflation Accounting

U.S. GAAP does not require the recognition of inflation. As mentioned in Note 2c, PEMEX's financial statements recognize the effects of inflation according to NIF-06 BIS/A which requires that nonmonetary assets, including inventories of materials and supplies and fixed assets be restated to their net realizable value through appraisals made by independent appraisers or by using the SPI; the difference is recorded as a revaluation surplus.

Since NIF-06 BIS/A is not deemed to be a comprehensive method of accounting for inflation (as discussed in Note 13), PEMEX has eliminated, retroactively to 1992, the effect of revaluation of fixed assets, inventories and costs of sales from the reconciliation of income and equity. PEMEX has not adjusted the depreciation effect of prior year fixed asset revaluation under NIF-06 BIS/A for the reconciliation of income and equity. For U.S. GAAP purposes, the 1992 balances became the historical basis of the fixed assets under an accommodation granted by the U.S. Securities and Exchange Commission.

(e) Foreign Currency Losses and Gains

Under Mexican GAAP, exchange variations arising from debt are capitalized; the net amount of the rest of exchange differences is either debited to operating expenses or credited to revenues.

To conform with U.S. GAAP, all exchange fluctuations have been recognized in results of operations for 1995, 1994 and 1993 in the reconciliation of income and equity. In addition, under U.S. GAAP foreign currency transaction gains or losses would be included as other (income) expense.

(f) Capitalization of Interest

Under Mexican GAAP, interest is capitalized to property, plant and equipment based upon total interest cost incurred on loans associated with construction projects.

Under U.S. GAAP, interest is capitalized based upon total interest incurred in proportion to additions to construction in progress. PEMEX has accordingly adjusted income and equity to reflect the U.S. GAAP requirements for capitalizing interest.
Interest costs for the years ended December 31, 1995, 1994 and 1992, for Mexican GAAP and U.S. GAAP purposes were allocated as follows:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Under Mexican GAAP:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest capitalized in fixed assets</td>
<td>Ps. 3,184,997</td>
<td>Ps. 1,547,223</td>
<td>Ps. 1,081,457</td>
</tr>
<tr>
<td>Interest in the specific reserve for exploration and depletion</td>
<td>572,794</td>
<td>400,197</td>
<td>394,973</td>
</tr>
<tr>
<td>Interest expense</td>
<td>2,626,338</td>
<td>1,786,189</td>
<td>719,078</td>
</tr>
<tr>
<td><strong>Total interest cost</strong></td>
<td>Ps. 6,384,129</td>
<td>Ps. 3,733,609</td>
<td>Ps. 2,195,508</td>
</tr>
<tr>
<td><strong>Under U.S. GAAP:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest capitalized in fixed assets</td>
<td>Ps. 1,264,196</td>
<td>Ps. 475,398</td>
<td>Ps. 405,085</td>
</tr>
<tr>
<td>Interest expense</td>
<td>5,119,933</td>
<td>3,258,211</td>
<td>1,799,423</td>
</tr>
<tr>
<td><strong>Total interest cost</strong></td>
<td>Ps. 6,384,129</td>
<td>Ps. 3,733,609</td>
<td>Ps. 2,195,508</td>
</tr>
</tbody>
</table>

(g) Environmental Matters

In 1993, partly as a result of the enactment of new environmental laws by the Mexican Government, PEMEX began to develop an internal structure to better identify and quantify restoration, dismantlement and abandonment costs. In connection with the new structure, in 1994 under the direction of the Mexican Government PEMEX contracted with external engineers for the performance of 33 operational audits which included environmental assessments of the sites being audited. These assessments include cost estimates for remedying any shortfall in compliance with Mexican environmental laws. Such remedies can include improving operating efficiency of plants, clean up of contaminated land and water and investing in capital expenditures to minimize the effect of PEMEX’s operations on the environment. Once such audits are completed, they are sent to the Mexican Government for approval. After approval by the Mexican Government, PEMEX reviews the audits and determines which findings can be resolved by changing current plant or drilling operations and implementing the current capital expenditures plan. In addition, PEMEX recalculates the estimated cost of environmental cleanups using national labor rates instead of the higher international labor rates used by the engineers in calculating such costs. Having completed such an analysis, PEMEX adjusts the estimated costs to bring the plant into compliance with Mexican environmental law and then negotiates an agreement with the Mexican Government stipulating the term, amounts to be expended.
and the steps to be taken to bring the site into compliance with Mexican environmental laws.

For U.S. GAAP purposes, environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable and the costs can be reasonably estimated.

At December 31, 1994, under U.S. GAAP, PEMEX established accruals for restoration and removal costs identified in the 33 operational audits completed in 1994 and early 1995. On the basis of its internal evaluation of the environmental findings in the operational audits and ongoing negotiations with the Mexican government regarding the resolution of such findings, PEMEX recorded liabilities because remedial efforts are probable and the amounts can be reasonably estimated. The amount and timing of such expenditures are subject to further negotiations with the Mexican government.

For Mexican GAAP purposes, prior to 1995, PEMEX recorded environmental expenditures, including restoration, dismantlement and abandonment costs, on the pay-as-you-go basis and classified such expenses in its cost of sales. During 1995, under Mexican GAAP, PEMEX established a reserve for remediation costs identified through ongoing environmental audits.

Management of PEMEX believes that its operations are in substantial compliance with current Mexican environmental laws as such laws have been historically interpreted and enforced.

PEMEX has contracted insurance policies to cover the cost of environmental contingencies. The accruals for U.S. and Mexican GAAP purposes are not reflected net of any amounts forthcoming under such policies.

(h) Accounting for Derivatives:

Written instruments: Under Mexican GAAP, PEMEX records income on its written options as the premiums are collected. Gains and losses on written options are recognized on a cash basis on each contractual payment date (see also Note 9). Under U.S. GAAP, PEMEX records option premiums as deferred income when
received and marks to market the value of the option with gains and losses recorded currently in income.

Purchased instruments: Under Mexican GAAP, the cost of premiums on purchased options are expensed when paid. Gains and losses on purchased options are recognized on a cash basis on each contractual payment date. Under U.S. GAAP, the premiums paid for interest rate options and cap agreements purchased are amortized to interest expense over the terms of the agreements. In addition, purchased options which are non-hedging instruments are marked to market with gains and losses recorded currently in income. Amounts receivable or payable under purchased instruments are recognized as an adjustment to interest expense.

(i) Sale of Shares of Repsol

In 1994, under Mexican GAAP and as discussed in Note 6, PEMEX recorded a Ps. 242,408 gain on the transfer of its Repsol S.A. shares to a trust. For U.S. GAAP purposes, the transfer of the shares does not meet the criteria for sale recognition and accordingly, the gain has been reversed and the transfer of the shares treated as a financing transaction.

(j) Sale of Air Transport Assets

As discussed in Note 6, under Mexican GAAP, during 1994, PEMEX recorded a gain of Ps. 340,969 on the sale of its air transport division to the newly created company, SAEMSA, in exchange for a 49% ownership interest in such company plus other consideration of Ps. 291,103. Under Mexican GAAP, the gain was calculated by including the imputed fair value of the 49% interest in SAEMSA which was received by PEMEX as part of the sale proceeds. PEMEX will continue to have more than a minor use of the property through a leaseback. Under U.S. GAAP, a gain of Ps. 198,923 was realized, calculated as the excess of the fair value of PEMEX's interest in the assets sold over the cost basis of such interest, plus an additional gain to the extent that cash received in excess of the fair value of the assets sold exceeded the remaining cost of PEMEX's interest in such assets. Further, under U.S. GAAP, this transaction is treated as a sale-leaseback, and the realized gain is deferred. The amortization of the deferred gain during 1995 amounted to Ps. 41,113.

(k) Advanced Payments on Minimum Guaranteed Dividend

Under Mexican GAAP, advanced payments on the minimum guaranteed dividend, derived from the capitalization of debt as described in Note 12, are recorded
as an account receivable which is reserved against retained earnings upon formalization by the Board of Directors.

Under U.S. GAAP, such balances are considered as a reduction in equity. PEMEX has accordingly adjusted equity to reflect such U.S. GAAP reduction in equity.

The effective rate used to calculate the minimum guaranteed dividend is LIBOR plus 0.8125% which was 6.453% and 5.24% for 1995 and 1994, respectively. The scheduled maturities on the capitalized debt over the next five years is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>Ps. 1,366,388</td>
</tr>
<tr>
<td>1997</td>
<td>992,371</td>
</tr>
<tr>
<td>1998</td>
<td>1,413,637</td>
</tr>
<tr>
<td>1999</td>
<td>1,631,881</td>
</tr>
<tr>
<td>2000</td>
<td>1,952,610</td>
</tr>
<tr>
<td>Thereafter</td>
<td>14,293,344</td>
</tr>
</tbody>
</table>

(1) Special Tax on Products and Services

Under Mexican GAAP, the special Tax on Products and Services is reflected in revenue when charged to customers and, at the same time, as an operating expense.

Under U.S. GAAP, this tax would have no net effect on revenues or operating expense, as both the amount charged to customers and the amount accrued as payable to the tax authorities would be reflected in revenues.

As a result, under U.S. GAAP, revenues and operating expense would have been less than those reflected under Mexican GAAP by Ps. 17,703,170, Ps. 21,796,946 and Ps. 17,449,500, for the years ended December 31, 1995, 1994 and 1993, respectively.
II. Additional Disclosure Requirements:

a. Cash Flow Information

Under Mexican GAAP, PEMEX presents statements of changes in financial position. In contrast with the statements of cash flows required by U.S. GAAP, PEMEX’s statements of changes in financial position do not include certain information relating to the three major categories of sources and uses of funds: funds from operating, financing and investing activities.

Under U.S. GAAP the following information would be disclosed separately in reconciling income for the year to funds provided by operations: changes in hydrocarbon extraction duties, changes in allowances for doubtful accounts and slow-moving inventories, net exchange gains or losses and accrued interest income from affiliates. Additionally, under U.S. GAAP borrowings and repayments of debt would be presented separately in arriving at funds from financing activities, and investments in and the proceeds from the sale of property, wells, plants and transportation equipment would be presented separately in arriving at funds from investment activities. In the statements of changes in financial position, PEMEX has disclosed information within the financing and investment categories on a net basis.

The following table details the effects discussed above using Mexican GAAP measurement methods and U.S. GAAP presentation:
### Income for the year plus or less charges or credits not requiring the use of cash:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under Mexican GAAP</td>
<td>Ps. 31,477,373</td>
<td>Ps. 15,813,005</td>
<td>Ps. 15,468,423</td>
</tr>
<tr>
<td>Under U.S. GAAP</td>
<td>- 30,460,176</td>
<td>4,873,225</td>
<td>8,016,780</td>
</tr>
<tr>
<td>Difference(1)</td>
<td>Ps. 1,017,197</td>
<td>Ps. 10,939,780</td>
<td>Ps. 7,451,643</td>
</tr>
</tbody>
</table>

### Financing:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>New long-term financing</td>
<td>Ps. 18,332,100</td>
<td>Ps. 18,060,341</td>
<td>Ps. 13,631,248</td>
</tr>
<tr>
<td>Interest payable (interest payments), net</td>
<td>155,426</td>
<td>98,212</td>
<td>94,513</td>
</tr>
<tr>
<td>Financing payments</td>
<td>(16,955,333)</td>
<td>(17,423,440)</td>
<td>(14,017,595)</td>
</tr>
<tr>
<td>Net (decrease) increase in financing under U.S. GAAP</td>
<td>1,532,193</td>
<td>735,113</td>
<td>(291,834)</td>
</tr>
<tr>
<td>Foreign currency exchange loss</td>
<td>22,028,000</td>
<td>21,099,000</td>
<td>57,000</td>
</tr>
<tr>
<td>Net (decrease) increase in financing under Mexican GAAP</td>
<td>Ps. 23,560,192</td>
<td>Ps. 21,834,113</td>
<td>Ps. (234,834)</td>
</tr>
</tbody>
</table>

### Investment:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of fixed assets</td>
<td>Ps. 14,366,084</td>
<td>Ps. 8,027,485</td>
<td>Ps. 9,110,730</td>
</tr>
<tr>
<td>Disposal of fixed assets</td>
<td>(2,169,913)</td>
<td>(2,100,548)</td>
<td>(641,286)</td>
</tr>
<tr>
<td>Net investment at cost in property, wells, plants and transportation equipment under U.S. GAAP</td>
<td>12,196,171</td>
<td>5,926,937</td>
<td>8,469,444</td>
</tr>
<tr>
<td>Capitalized exchange loss</td>
<td>20,951,253</td>
<td>21,099,000</td>
<td>8,469,444</td>
</tr>
</tbody>
</table>

### Net investment at cost in property, wells, plants and transportation equipment under Mexican GAAP (including capitalized exchange loss and interest)

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ps. 33,147,694</td>
<td>Ps. 27,025,937</td>
<td>Ps. 8,469,444</td>
</tr>
</tbody>
</table>

(1) The items that are excluded from the determination of cash flows under SFAS No. 95 are:
the foreign currency translation gain on accounts receivable, the adjustments in hydrocarbon extraction duties, dividends paid to the Federal Government, the offset of accounts receivable from the Federal Government against prior years' retained earnings, as well as the increase in the allowances for both doubtful accounts and obsolete inventories.
Supplemental information for the Statement of cash flows:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash payments for interest:</td>
<td>Ps. 6,228,703</td>
<td>Ps. 3,635,396</td>
<td>Ps. 2,100,955</td>
</tr>
</tbody>
</table>

(b) Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid instruments purchased with an original maturity of three months or less.

c) Pensions and Seniority Premiums and Post-retirement Benefits

Statement of Financial Accounting Standard No. 87 (SFAS No. 87), "Employers' Accounting for Pensions", is followed by PEMEX for calculation of seniority premium and pension expense under U.S. GAAP.

The calculation of pension cost and benefit obligations under SFAS No. 87 requires considerable judgment with respect to choosing actuarial assumptions. Each significant assumption should reflect the best estimate of the plan's future experience solely with respect to that assumption. Assumed discount rates and compensation levels often have the greatest effect on pension cost and benefit obligations and are related because both are affected by some of the same economic factors. The discount rate should be based upon the current prices for settling the pension obligation, referred to as the "settlement rate." Assumed compensation levels should reflect the best estimate of actual future compensation levels for the individuals involved and be consistent with assumed discount rates to the extent that both incorporate expectations of the same future economic conditions, such as inflation.

Applying these provisions of SFAS No. 87 in a historically high inflation environment, such as Mexico, creates unique problems, which are complicated by the economic events since December 1994. The opportunity for a company to settle a pension obligation at any particular point in time may not exist; long term financial instruments may not exist in Mexico as they do in the United States and volatile inflation rates may make it difficult to predict compensation progression.

SFAS No. 87 does not include specific guidance under these conditions. PEMEX believes it is appropriate to use actuarial assumptions which include an estimate of long term inflation (nominal rates). PEMEX has determined its discount rate and salary progression rate for SFAS No. 87 including a long-term inflation rate.
An alternative approach to actuarial assumptions where benefits are indexed to inflation (which is not generally the case in Mexico) would be to eliminate the effect of inflation in the assumptions (i.e., use real rates). PEMEX believes that the effect on the U.S. GAAP reconciliation of net income would not be materially different under this approach. However, the “accumulated benefit obligation” and the related minimum liability for pensions can be affected by the discount rate used. Under SFAS No. 87, the accumulated benefit obligation is the present value of expected future benefit payments based upon an employee’s service to date without assuming any increase in the employee’s compensation. If the accumulated benefit obligation were calculated using an assumed real discount rate of 6%, the accumulated benefit obligation calculated under SFAS No. 87 would be Ps.32,755,854.

The components of net seniority premium and pension plan cost, calculated in accordance with SFAS No. 87, consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost: benefits earned during the year</td>
<td>Ps. 937,690</td>
<td>Ps. 894,452</td>
<td>Ps. 906,562</td>
</tr>
<tr>
<td>Interest cost on projected benefit obligation</td>
<td>3,778,963</td>
<td>2,800,732</td>
<td>2,852,817</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(303,733)</td>
<td>(216,263)</td>
<td>(211,598)</td>
</tr>
<tr>
<td>Net amortization and deferral</td>
<td>177,664</td>
<td>213,806</td>
<td>247,630</td>
</tr>
<tr>
<td>Amortization of net transition obligation</td>
<td>1,122,160</td>
<td>1,122,160</td>
<td>1,122,160</td>
</tr>
<tr>
<td>Net cost under U.S. GAAP</td>
<td>5,712,744</td>
<td>4,814,887</td>
<td>4,917,571</td>
</tr>
<tr>
<td>Net cost under Mexican GAAP</td>
<td>4,591,699</td>
<td>4,033,982</td>
<td>3,932,557</td>
</tr>
<tr>
<td>Additional expense that would be recognized under U.S. GAAP</td>
<td>Ps. 1,121,045</td>
<td>Ps. 780,905</td>
<td>Ps. 985,014</td>
</tr>
</tbody>
</table>

Actuarial assumptions used in the calculation of net seniority premium and pension plan cost under U.S. GAAP as of December 31 are:

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>14.00%</td>
<td>13.00%</td>
<td>10.30%</td>
</tr>
<tr>
<td>Rates of increase in compensation levels</td>
<td>11.00%</td>
<td>9.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Expected long-term rate of return on assets</td>
<td>15.00%</td>
<td>13.00%</td>
<td>11.00%</td>
</tr>
</tbody>
</table>

The combined seniority premium and pension plan liability as of December 31, 1995 and 1994 under SFAS No. 87 is as follows:

F-40
Actuarial present value of benefit obligations:  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vested benefit obligation</td>
<td>Ps. 23,019,087</td>
<td>Ps. 19,224,073</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>Ps. 25,478,639</td>
<td>Ps. 23,150,522</td>
</tr>
</tbody>
</table>

Projected benefit obligation  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ps. 34,421,540</td>
<td>Ps. 30,026,395</td>
</tr>
</tbody>
</table>

Plan assets at fair value  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,537,308</td>
<td>2,336,411</td>
</tr>
</tbody>
</table>

Projected benefit obligation in excess of plan assets  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>31,884,232</td>
<td>27,689,984</td>
<td></td>
</tr>
<tr>
<td>(5,104,952)</td>
<td>(3,692,832)</td>
<td></td>
</tr>
</tbody>
</table>

Unrecognized net gain  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,099,451</td>
<td>11,221,610</td>
<td></td>
</tr>
</tbody>
</table>

Unrecognized transition obligation  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>(92,834)</td>
<td>100,090</td>
<td></td>
</tr>
</tbody>
</table>

Prior service cost  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>16,773,663</td>
<td>12,875,632</td>
<td></td>
</tr>
</tbody>
</table>

Accrued liability under U.S. GAAP  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>14,045,620</td>
<td>11,268,634</td>
<td></td>
</tr>
</tbody>
</table>

Accrued costs recognized in the consolidated balance sheet under Mexican GAAP  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,728,042</td>
<td>1,606,993</td>
<td></td>
</tr>
</tbody>
</table>

Net U.S. GAAP adjustment to seniority premium and pension plan liability  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,167,668</td>
<td>7,938,480</td>
<td></td>
</tr>
</tbody>
</table>

Additional minimum liability  

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>The plan assets consist primarily of cash, investments, and an interest in a real estate joint venture.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In accordance with the provisions of SFAS No. 87, PEMEX has reflected, for U.S. GAAP purposes, an additional minimum liability at the end of each year representing the excess of the accumulated benefit obligations over the fair value of plan assets and accrued pension liabilities. The additional minimum liability is offset by recording an intangible asset and, accordingly, has no impact on income or equity.

PEMEX has implemented SFAS No. 106 effective January 1, 1995, using the transitional recognition method. PEMEX's previous practice was to expense these costs on a pay-as-you-go basis.

In addition to pensions, PEMEX makes supplemental payments and provides health care benefits to retired employees. PEMEX regularly determines the level of its supplemental payments considering inflationary conditions. Health care is provided through a
regional network of PEMEX hospitals and medical centers, which also provide care to active PEMEX employees. No commitments have been made regarding the level of such contributions in the future.

For Mexican GAAP purposes PEMEX has included the projected costs associated with the supplemental payments in its determination of pension obligation under Bulletin D-3, but has excluded the costs associated with medical care, which is accounted for on a pay-as-you-go basis. There are no plan assets for postretirement benefits.

The components of other postretirement benefits expense consist of the following for the year ended December 31, 1995:

<table>
<thead>
<tr>
<th>Service cost</th>
<th>Supplemental Payments</th>
<th>Health Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ps. 145,334</td>
<td>Ps. 189,968</td>
<td>Ps. 335,302</td>
</tr>
<tr>
<td>Interest cost</td>
<td>966,252</td>
<td>1,199,843</td>
<td>2,166,095</td>
</tr>
<tr>
<td>Amortization of transition obligation</td>
<td>418,019</td>
<td>518,346</td>
<td>936,365</td>
</tr>
<tr>
<td>Net expense under U.S. GAAP</td>
<td>1,529,605</td>
<td>1,908,157</td>
<td>3,437,762</td>
</tr>
<tr>
<td>Expense under Mexican GAAP</td>
<td>2,400,692</td>
<td>462,862</td>
<td>2,863,554</td>
</tr>
<tr>
<td>Additional (less) expense under U.S. GAAP</td>
<td>(871,087)</td>
<td>1,445,295</td>
<td>Ps. 574,208</td>
</tr>
</tbody>
</table>

Actuarial assumption used in the calculation of other postretirement benefits under U.S. GAAP as of December 31 are:

- Discount rate 1995: 14.00%
- Health Care Cost Trend Rate: 10.00%

Since the other postretirement benefits are not based on level of compensation, it is not necessary to use salary increase assumptions to determine expenses. The effect of a 1% increase in the health care cost trend rate is to increase net expense for postretirement benefits by Ps. 289,821 and increase the accumulated postretirement benefit obligation by Ps. 1,774,498.
PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

The other postretirement benefit liability as of December 31, 1995 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Supplemental Payments</th>
<th>Health Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated unfunded postretirement benefit obligation:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirees</td>
<td>Ps. 5,604,972</td>
<td>Ps. 8,022,205</td>
<td>Ps. 13,627,177</td>
</tr>
<tr>
<td>Fully eligible active participants</td>
<td>161,407</td>
<td>195,949</td>
<td>359,356</td>
</tr>
<tr>
<td>Other active plan participants</td>
<td>1,834,327</td>
<td>2,551,887</td>
<td>4,386,214</td>
</tr>
<tr>
<td>Total</td>
<td>7,620,706</td>
<td>10,770,041</td>
<td>18,390,747</td>
</tr>
<tr>
<td>Unamortized actuarial losses</td>
<td>440,891</td>
<td>(617,532)</td>
<td>(176,641)</td>
</tr>
<tr>
<td>Unamortized transition obligation</td>
<td>(7,014,687)</td>
<td>(8,721,214)</td>
<td>(15,735,901)</td>
</tr>
<tr>
<td>Net postretirement benefit liability recorded for U.S. GAAP</td>
<td>Ps. 1,068,910</td>
<td>Ps. 5,445,295</td>
<td>Ps. 2,474,205</td>
</tr>
</tbody>
</table>

d) Leases

During 1995, 1994 and 1993 PEMEX’s rent expense under operating leases amounted to Ps.333,944, Ps.152,808 and Ps.391,389, respectively.

PEMEX enters into noncancelable lease arrangements for equipment used in the normal course of business. The following table shows the future minimum obligations under lease commitments in effect at December 31, 1995:

<table>
<thead>
<tr>
<th>(in thousands of pesos)</th>
<th>Capital Leases (a)</th>
<th>Operating Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>373,981</td>
<td>190,275</td>
</tr>
<tr>
<td>1997</td>
<td>472,592</td>
<td>87,859</td>
</tr>
<tr>
<td>1998</td>
<td>294,525</td>
<td>33,225</td>
</tr>
<tr>
<td>1999</td>
<td>264,762</td>
<td>33,225</td>
</tr>
<tr>
<td>2000</td>
<td>221,673</td>
<td>16,613</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,926,876</td>
<td>-</td>
</tr>
</tbody>
</table>

(a) includes Ps.1,360,407 of imputed interest

(e) Business Segment 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 three business segments: Exploration and Production, Refining, and Gas and Petrochemicals.

F-43
Petróleos Mexicanos, Subsidiary Entities and Subsidiary Companies

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

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

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Exploration and Production</th>
<th>Refining</th>
<th>Gas and Petrochemicals(1)</th>
<th>Corporate and Other</th>
<th>Intersegment Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 1995: Sales:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>Ps. 47,931,205</td>
<td>Ps. 72,098,770</td>
<td>Ps. 25,792,012</td>
<td>Ps. 11,527,311</td>
<td>Ps. —</td>
<td>Ps. 157,369,598</td>
</tr>
<tr>
<td>Intersegment</td>
<td>51,965,973</td>
<td>5,368,864</td>
<td>11,173,541</td>
<td>73,001,177</td>
<td>(144,133,557)</td>
<td>157,209,518</td>
</tr>
<tr>
<td>Total net sales</td>
<td>201,897,278</td>
<td>78,060,634</td>
<td>36,965,553</td>
<td>84,534,888</td>
<td>(144,133,557)</td>
<td>157,209,518</td>
</tr>
<tr>
<td>Income (loss):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>7,888,113</td>
<td>(2,371,945)</td>
<td>4,436,391</td>
<td>(448,347)</td>
<td>304,424</td>
<td>9,809,638</td>
</tr>
<tr>
<td>Acquisition of fixed assets</td>
<td>4,567,816</td>
<td>2,254,743</td>
<td>2,388,833</td>
<td>173,990</td>
<td>9,385,382</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>7,043,829</td>
<td>5,943,689</td>
<td>1,126,324</td>
<td>135,291</td>
<td>4,468,025</td>
<td>5,213,084</td>
</tr>
<tr>
<td>December 31, 1994: Sales:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>Ps. 22,777,722</td>
<td>Ps. 52,168,804</td>
<td>Ps. 15,097,506</td>
<td>Ps. 5,825,749</td>
<td>Ps. —</td>
<td>Ps. 95,159,781</td>
</tr>
<tr>
<td>Intersegment</td>
<td>31,189,834</td>
<td>2,321,090</td>
<td>7,332,679</td>
<td>29,400,252</td>
<td>(70,742,955)</td>
<td>—</td>
</tr>
<tr>
<td>Total net sales</td>
<td>53,967,556</td>
<td>54,489,894</td>
<td>22,920,185</td>
<td>35,226,001</td>
<td>(70,742,955)</td>
<td>93,159,781</td>
</tr>
<tr>
<td>Income (loss):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>5,934,485</td>
<td>(3,703,223)</td>
<td>805,247</td>
<td>241,154</td>
<td>68,596</td>
<td>3,326,539</td>
</tr>
<tr>
<td>Acquisition of fixed assets</td>
<td>2,270,696</td>
<td>1,344,510</td>
<td>1,115,468</td>
<td>287,421</td>
<td>6,618,095</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>3,508,181</td>
<td>3,359,058</td>
<td>1,150,679</td>
<td>109,298</td>
<td>8,027,465</td>
<td>4,623,170</td>
</tr>
<tr>
<td>December 31, 1993: Sales:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>Ps. 20,041,016</td>
<td>Ps. 48,990,138</td>
<td>Ps. 12,056,337</td>
<td>Ps. 2,602,964</td>
<td>Ps. 62,442,047</td>
<td>Ps. 82,790,455</td>
</tr>
<tr>
<td>Intersegment</td>
<td>25,513,413</td>
<td>1,558,220</td>
<td>9,068,488</td>
<td>25,941,926</td>
<td>0</td>
<td>82,790,455</td>
</tr>
<tr>
<td>Total net sales</td>
<td>45,554,429</td>
<td>49,548,358</td>
<td>21,104,823</td>
<td>28,544,890</td>
<td>(62,442,047)</td>
<td>82,790,455</td>
</tr>
<tr>
<td>Income (loss):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,091,560</td>
<td>751,995</td>
<td>(839,740)</td>
<td>235,498</td>
<td>15,337</td>
<td>3,024,670</td>
</tr>
<tr>
<td>Acquisition of fixed assets</td>
<td>3,243,826</td>
<td>1,379,507</td>
<td>1,759,813</td>
<td>280,668</td>
<td>6,761,214</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>5,335,386</td>
<td>2,731,402</td>
<td>1,519,457</td>
<td>516,166</td>
<td>9,785,884</td>
<td>7,785,486</td>
</tr>
</tbody>
</table>

(1) The Gas and Petrochemicals segment includes the balances and operations of PEMEX - Gas y Petroquímica Básica and PEMEX-Petroquímica.

F-44
(f) Significant Risks and Uncertainties

Environment

The ultimate costs to be incurred in relation with PEMEX’s environmental contingencies may exceed the total amounts reserved, since some of the sites are relatively early in the stages of remedial investigation or feasibility. Additional liabilities may be accrued as the assessment work is completed and formal remedial plans are formulated.

In many cases, investigations are not yet at a stage where PEMEX is able to quantify the liability or estimate a range of possible exposure. In such cases, the amounts of PEMEX’s liabilities are indeterminate due to the unknown magnitude of possible contamination, the imprecise and conflicting engineering evaluations and estimates of proper cleanup methods and costs, the unknown timing and extent of the corrective actions that may be required, and the present state of the law.

Government

The operations and earnings of PEMEX have been, and may in the future be, affected from time to time in varying degree by political developments and laws and regulations, such as forced divestiture of assets, restrictions on production, price controls, tax increases, cancellation of contract rights, refined product specifications, environmental, health and safety regulations. Both the likelihood of such occurrences and their overall effect upon PEMEX are not predictable.

Labor

PEMEX has employees that belong to the Union of Petroleum Workers of the Mexican Republic which represent 77% of the workforce. They have a collective bargaining agreement which is renegotiated every two years and has no firm expiration date.

Product

Since PEMEX’s major products are commodities, significant changes in the prices of oil and gas and chemical products could have a significant impact on PEMEX’s results of operations in any particular year. Crude oil represents approximately 50% of PEMEX’s revenues which makes it reasonably possible that the Company is vulnerable to near-term severe impacts from fluctuations in prices.
PETRÓLEOS MEXICANOS, SUBSIDIARY ENTITIES AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1995, 1994 and 1993
(In thousands of pesos and thousands of U.S. dollars)

General

PEMEX has certain other contingent liabilities with respect to litigation, claims and contractual agreements arising in the ordinary course of business. Although these contingencies could result in expenses or judgments that could be material to the Company's results of operations for a given reporting period, on the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgments are not expected to have a material adverse effect on the Company's financial condition or liquidity.

(g) Recent Accounting Pronouncement

In 1995, the U.S. Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." Adoption of SFAS No. 121 will take place in 1996 for purposes of determining and recognizing the permanent impairment, if any, of long-lived assets. Under SFAS No. 121, assets whose carrying amounts are not expected to be fully recovered by future use or disposition must be written down to their fair values.

Under SFAS No. 121, the applicable carrying value will be tested against the undiscounted projection of net future pre-tax cash flows. Currently, PEMEX measures impairment of its oil and gas assets on a country-wide basis. Under U.S. GAAP, PEMEX will be required to perform such tests on an individual field basis. For other depreciable investments, the applicable grouping of assets is based on the lowest practicable levels of identifiable cash flows, consistent with the manner in which those assets are managed. If an impairment exists, the carrying amount is adjusted to fair value.

The impact of the adoption of this standard is not known or reasonably estimable at this time. As such, PEMEX cannot currently estimate the non-cash charge that will result from adoption of SFAS No. 121 in 1996.
Exhibit

Number

1

Reglamento de Gas Natural (Natural Gas Regulation), effective November 9, 1995 together with a convenience English translation thereof.
REGULATORY LAW
OF THE CONSTITUTIONAL
ARTICLE 27 ON PETROLEUM AND
THE REGULATION OF NATURAL GAS
CHAPTER I.- GENERAL PROVISIONS

Article 1.- Purpose and Scope

This Regulation implements the Regulatory Law of Article 27 of the Constitution in the Petroleum Area and regulates first-hand sales and other natural gas activities and services not reserved to the Nation in order to ensure efficient supply.

Article 2.- Definitions

For purposes of this Regulation, the following terms shall mean:

I. Purchaser: One who contracts or seeks to contract for the purchase of gas of national origin.

II. Storage: The activity of receiving, holding, and delivering gas at fixed facilities other than pipelines.

III. Commission: The Comisión Reguladora de Energía.

IV. General conditions for the provision of service: Document setting forth rates and rights and obligations of permittees in relation to users.

V. Director: Provisions of general applicability issued by the Commission, such as criteria, guidelines, and methodologies to which first-hand sales and gas transportation, storage, and distribution activities shall be subject.

VI. Distribution: The activity of receiving, transmitting, delivering, and, if applicable, marketing of gas through pipelines in a geographic zone.

VII. Distributor: Holder of a distribution permit.

VIII. Pipelines: Pipes and facilities for transmission of gas.

IX. Gas or natural gas: A mixture of hydrocarbons consisting principally of methane.


XI. Permittee: Holder of a permit for transportation, storage, or distribution.

XII. Petroleos Mexicanos: Petroleos Mexicanos and any of its subsidiary bodies pursuant to the terms of its Organic Law.
XIII. Ministry. The Ministry of Energy.

XIV. System. The set of pipes, compressors, regulators, meters, facilities, and auxiliary equipment for transmission or storage of gas.

XV. Rates. Charges for each type and class of service provided by a permittee.

XVI. Transportation. The activity of receiving, transmitting, and delivering gas through pipelines to those that are not final users within a geographic zone.

XVII. Transporter. The holder of a transportation permit.

XVIII. Route the layout of a transportation system from one or more points of origin to one or more points of destination.

XIX. User. One that uses or seeks to use the services of a permittee.

XX. Final User. One that acquires gas for their own consumption.

XXI. First-hand Sale. The first sale of gas of natural origin by Petroleos Mexicanos to another party for delivery in the national territory.

XXII. Geographic Zone. A territory with boundaries defined by the Commission for distribution.

Article 3. Foreign Trade.

The import and export of gas may be freely carried out pursuant to the Law of Foreign Commerce.

Importers and exporters shall provide information to the Commission relative to their foreign trade activities in accordance with applicable directives.

Article 4. Coordination Agreements

The Ministry shall promote protocols or agreements with federal and local authorities to encourage the development of projects, to foster private investment, and to coordinate the activities within their jurisdictions regarding construction, operation, and maintenance of systems, and the application of safety measures.

Article 5. Consumers

Without prejudice to other available actions, disputes among between permittees and users who are consumers pursuant to the Federal Law of Consumer Protection shall be under the jurisdiction of the Consumers Protection Agency and shall be resolved pursuant to such Law.

Article 6. Unduly Discriminatory Treatment

For purposes of this Regulation, it shall be considered unduly discriminatory to deny the same treatment to similar users or purchasers, in similar conditions.

It shall not be considered unduly discriminatory if differences in treatment result from:

1. Different classes and types of service;
2. The location of users or purchasers; or,
3. The differences among categories of users or purchasers.
Article 7.- Application and interpretation

The Commission shall apply and interpret this Regulation for administrative purposes.

CHAPTER II. - First-hand Sales

Article 8.- Price Regulation

For purposes of this Regulation, the maximum price of first-hand sales shall be set in accordance with directives issued by the Commission. The price calculation methodology shall reflect gas opportunity costs, competitive conditions in international markets, and the place where the sale is made.

The maximum price of gas shall not affect the right of the purchaser to negotiate more favorable conditions in the purchase price.

This article shall not apply to the price of imported gas.

Article 9.- Terms and Conditions

Petróleos Mexicanos shall file, for approval by the Commission, the general terms and conditions that shall govern first-hand sales, which shall conform to the commercial, financial, and international trade and customs observed in the purchase and sale of gas.

In no case shall Petróleos Mexicanos be unduly discriminatory to purchasers.

To verify compliance with this chapter, Petróleos Mexicanos shall provide information with respect to first-hand sales to the Commission as established in directives, which information may be published by the Commission.

Except as provided in the previous paragraph, the information contained in contracts provided by Petróleos Mexicanos to the Commission shall be confidential.

Article 10.- Contracts

In first-hand sales, Petróleos Mexicanos shall offer purchasers, for a specified quantity, at least two price quotations that shall be considered offers to sell and shall include the following terms and conditions for the sale of gas:

I. At the point of exit from a processing plant, and

II. At a point or points of delivery specified by the purchaser that shall separately state the transportation rate and the gas price at the point of exit from the processing plant, as well as any other services offered by Petróleos Mexicanos.

Article 11.- Discounts

Petróleos Mexicanos may give discounts, pursuant to terms and conditions approved by the Commission, for different volumes or contract terms and conditions, provided that such discounts are not unduly discriminatory to any purchaser.

Article 12.- Workable Competition

When the Federal Competition Commission finds that workable competition exists, the terms and conditions and price for first-hand sales may be freely established by agreement of the parties.

If workable competition has been found, and the Federal Competition Commission thereafter finds that anticompetitive practices have arisen at the time of any first-hand sale, such Commission shall reestablish the terms provided by Petróleos Mexicanos.
Article 16.- Holding Different Permits

Transportation, storage, and distribution permits pursuant to this Regulation may be held by the same entity.

Article 17.- Vertical Integration

For service in a geographic zone, transportation and distribution permits shall not be granted or transferred to the same person or persons who directly or indirectly hold such permits or who have an interest in such permits, except as provided in the Article 31.

The Commission may authorize exceptions to the prohibition established in the previous paragraph when, in its judgment:

I. It will result in improved efficiency gains and returns on investment with respect to the provision of service, provided that in no event may there be controlling interests between the transporter and the distributor.

II. It is strictly necessary because there is an absence of transportation infrastructure to develop a particular geographic zone and there are no other parties interested in such transportation or distribution projects. This exception shall only be authorized for a twelve-year period. The procedure for the transfer of either the distribution or the transportation permit after the twelve-year period shall be established in a directive issued by the Commission.

Article 18.- Procedure for Economic Competition Purposes

Parties interested in obtaining a permit shall notify the Federal Competition Commission of
their interest by providing to such commission a copy of their application for a permit or their bid proposal as referenced in Section Five and Six of this chapter, for purposes of the Federal Law of Economic Competition.

**Article 19 - Duration of Permits**

Permits shall be valid for 30 years from the date they are granted and may be renewed, if applicable, pursuant to article 53.

**Article 20 - Requirements of Permits**

Permits shall include the following information:

I. In all cases:
   a) The permittee's name and address in Mexico;
   b) Purpose of the permit;
   c) Description and characteristics of the project;
   d) The programs and minimum investment commitments and the schedule for their implementation;
   e) The deadline to commence service for each stage of development of the project;
   f) The general conditions for the provision of service;
   g) A general description of the safety methods and procedures for operation and maintenance of the systems, to be replaced in a period specified by the Commission by a detailed plan with specifications;
   h) Insurance that the permittee must provide; and,
   i) Any other information that the Commission may consider necessary or appropriate;

II. In the case of transportation, in addition to the requirements in paragraph I:
   a) The route; and,
   b) Capacity of the project.

III. In the case of storage service, in addition to the requirements in paragraph I:
   a) Location of facilities;
   b) Receipt and delivery points; and,
   c) Capacity of the project.

IV. In the case of distribution, in addition to the requirements in paragraph I:
   a) The boundaries of the geographic zone;
   b) Receipt points;
   c) Where applicable, the exclusivity period; and,
   d) Where applicable, the minimum program of coverage and development in the geographic zone.
Article 28.- Geographic Zone Exclusivity

The first distribution permit for a geographic zone shall be granted through public bidding pursuant to Section Six of this chapter and shall confer exclusivity rights for twelve years on the construction of the distribution system and the receipt, transmission, and delivery of gas within a geographic zone.

The exclusivity period referred to in the previous paragraph shall commence on the date the Commission grants the permit.

Distribution permits shall not confer exclusive rights to market gas within a geographic zone.

Article 29.- Permits After the Period of Exclusivity

Permits effective after a period of exclusivity shall be granted pursuant to Section Six of this chapter and shall not confer exclusivity.

Article 30.- Marketing in a Geographic Zone

Users in a geographic zone may enter into gas supply contracts with any party in which case the distributor must allow non-discriminatory open access to its distribution system pursuant to Article 65 upon payment of the relevant rate.

Article 31.- Transportation Within Geographic Zones

When a geographic zone is determined, and a transportation system delivery point is allocated in such zone, the transporter may obtain the exclusive distribution permit for such zone pursuant to the bidding procedure of Section Six of this chapter.

If the transporter obtains the distribution permit, such transporter may hold both transportation and distribution permits for the period of exclusivity. If the transporter does not obtain the distribution permit, it may not expand or expand its system, and it may only provide service within the geographic zone as and until its contracts, executed prior to the determination of the relevant geographic zone, with final users expire.

Section Five.- Procedure for Granting Permits Upon Application

Article 32.- Application

A party interested in obtaining a distribution permit after the period of exclusivity transportation, or storage permit shall file an application with the Commission that shall include:

1. in all cases:
   a) Name and address of the applicant;
   b) Certified copy of the incorporation charter with any amendments to it, as well as documentation establishing its legal existence;
   c) Documents evidencing legal capacity and authority of the legal representative;
   d) The purpose, description, and technical specifications of the project;
   e) A general description of the safety methods and procedures for operation and maintenance of the system;
f) Documentation demonstrating the technical feasibility of the project;

g) Documents establishing the administrative, financial, and technical capabilities of the applicant;

h) The programs and minimum investment commitments, as well as the schedule for their implementation;

i) Proposed general conditions for the provision of service;

j) Copy of the entire referred to in article 10;

l) Description of the operating conditions, computer systems, mechanisms, and equipment to be used to provide open access to others; and,

m) Date when service shall commence, specifying where applicable each stage of the project development.

II. In the case of transportation, in addition to paragraph l:

a) Proposed route;

b) Capacity of the project;

c) Description of the types of services to be rendered and their markets.

d) Justification of potential demand;

e) Gas supply sources;

f) If applicable, transportation agreements with specific users;

g) Gas flow diagrams; and,

h) If applicable, the effects of the project on relevant transportation systems.

III. In the case of storage, in addition to paragraph l:

a) Project location and characteristics, and;

b) Capacity of the project.

IV. In case of nonexclusive distribution, in addition to paragraph l:

a) Geographic zone of the proposed project;

b) The policies to extend distribution to new final users within the relevant geographic zone, including any cases in which final users shall pay connection charges, and;

c) Supply sources.

Article 33.- Review

The Commission shall review an application within one month. If the application fails to satisfy the requirements in the preceding article, the Commission shall so notify the applicant who shall have one month to correct such deficiencies, or the application shall be dismissed.

Article 34.- Public Notice

When an application satisfies the relevant requirements, the Commission shall evaluate the application pursuant to the following article and shall publish within ten days a notice in the Official Gazette of the Federation.
CRE

I. Identification data and address of the interested party.

II. Documents establishing the technical, financial, and administrative capabilities of the interested party.

III. Information concerning potential partners or shareholders interested in the project.

IV. General description of the project.

V. Geographic zone where the project is proposed to be developed or, if not, the proposal for determining such zone.

VI. Potential supply sources and.

VII. Demand forecast.

Within two months, the Commission shall evaluate and respond to a party who has submitted a statement of interest.

Article 40.- Call for Bids

To commence the bidding process, the Commission shall publish a call for bids in the Official Gazette of the Federation, which shall include at least the following:

I. The subject matter of the bidding, and the relevant route or geographic zone.

II. The term, place, and time when the bid package will be available for interested parties, such term shall not be less than fifteen days nor more than two months; and

III. The cost and method of payment for the bid package.

The cost of the bid package shall be determined by taking into consideration the recovery of all of the expenses incurred in the preparation of such package, public notice of the call for bids, the bid documents, and other costs of the bidding procedure.

Article 41.- Bid Package

The Commission shall prepare the bid package, which shall include at least:

I. The purpose, description, and technical specifications of the project so as to provide interested parties maximum flexibility in the development of their proposals with respect to technology, design, engineering, construction, and operation in relation to the route or geographic zone for the project;

II. The necessary documents required and the term for their submission;

III. Other related requirements to be submitted:

   a) General description of the methods and procedures for sale operation and maintenance of the system;

   b) A list of permits, authorizations, and other administrative actions necessary for construction relevant to the project, as well as the schedule to obtain them;

   c) The notice referenced in Article 18;

   d) Programs and minimum investment commitments for the provision of the service;

   e) Type and coverage of the insurance required; and

   f) Proposed general conditions for the provision of service;
IV. The method by which the applicant must evidence the minimum financial, technical, and administrative capabilities for provision of the service.

V. The form and amount of good faith security shall be given to the Commission.

VI. Methodology for proposed rates.

VII. Procedure for submission of bids.

VIII. Information to be included in the technical and economic bids.

IX. Criteria for granting the permit.

X. Information regarding the place, date, and time of meetings to be held at an interested party’s option to clarify the bid package.

XI. Place, date, and time for submission and opening of bids.

XII. A provision requiring that any modification to the bid package shall be noticed in the same manner as the call for bids at least twenty days prior to the original date for submission and opening of bids.

XIII. Reasons for declaring the bidding void.

XIV. Place, date, and time of the final decision, and the method for notifying the bidders.

The bid package issued by the Commission may only be challenged pursuant to the reconsideration procedure provided for in the Law of the Comisión Reguladora de Energía.

Article 42.- Bid Preparation

No less than three months shall be provided between the date of publication of the call for bids and the receipt of bids and opening of the technical bid for interested parties to prepare the technical, financial, and economic analyses necessary for their bids.

Article 43.- Bid Submission and Evaluation

The bidding process shall be in two stages, one technical and one economic.

The receipt and opening of technical bids shall be as stated in the bid package and before a notary public or referee public.

The Commission shall evaluate the technical bids and reject those that do not satisfy the technical requirements established in the bid package or that are opposed by the Federal Competition Commission.

In the second stage, only the economic bids of the bidders remaining after the technical stage shall be considered.

Article 44.- Commission Decision

The Commission shall issue its decision within three months from the date of submission of the bids or, if applicable, shall declare the bidding void pursuant to the following article.

Article 45.- Voiding the Bidding

The Commission shall declare the bidding void in any of the following cases:

I. No bids were submitted.

II. No bid satisfies, at the Commission's discretion, the conditions established in the bid package, or.
III. The bid, at the Commission's discretion, resulted from fraudulent acts.

Article 46. Granting of Permit and Publication

The Commission shall grant the permit to the bidder who submits the highest bid and who is the most advantageous economic bid in relation to the criteria in the bid package.

The permit shall be granted within one month after the date of the Commission's decision.

Within such period, the Commission shall publish in the Official Gazette of the Federation a description of the permit, the name and address of the winning bidder, and the date when the decision was issued.

CHAPTER IV. TRANSFER, MODIFICATION, TERMINATION, AND REVOCATION OF PERMITS

Article 47. Transfer of Permit

The transfer of a permit shall require prior authorization of the Commission, upon application submitted by the interested parties wherein the proposed permittee evidence:

1. Compliance with the requirements to be a permit holder; and
2. A commitment to fulfill the obligations established in the permit and in the general conditions for the provision of service.

Article 48. Sale of Systems

Systems for the provision of service shall not be sold without also selling the permit, and vice versa, except when a permit has been revoked.

Article 49. Economic Competition in Transfers

A copy of the notice to the Federal Competition Commission shall be included in the application to transfer a permit.

Article 50. Transfer Procedure

When applicants fail to comply with the article 47 or the information submitted is insufficient, the Commission shall notify such applicants who shall correct the deficiencies within one month, or the application shall be rejected.

Once the requirements are satisfied, the Commission shall authorize the transfer of the permit within one month.

Article 51. Security Obligations

A transportation, storage, or distribution permittee may pledge the permit and the rights derived therefrom to secure obligations or financing directly related to the provision, extension, and operation of the service, with prior notice to the Commission at least ten days prior to giving any such security obligation. When the permit or the rights derived therefrom are pledged for other purposes, prior authorization of the Commission shall be required.

Such systems shall not be pledged without also pledging the permit, and vice versa.

When it appears that foreclosure proceedings may be undertaken, the permittee shall immediately notify the Commission.

The permittee shall notify the Commission of any proceeding challenging the ownership of the system within three days of the permittee having knowledge of any such proceeding.
In any foreclosure proceeding, the holder of the security interest shall designate an operator that, in the Commission's judgment, has sufficient terminal capability to provide the service.

**Article 52.- Modification of Permit**

Modification of permits may be upon the request of the permittee and shall be pursuant to the procedures provided in a directive issued by the Commission.

When capacity is increased by construction of pipelines, modification of the permit shall be required.

**Article 53.- Renewal of Permits**

Permits may be renewed pursuant to the following:

i. At least two years before expiration of the original term of the permit or before expiration of any renewal term that has been authorized, the permittee shall submit an application for renewal to the Commission.

ii. The procedure for permit renewal shall be pursuant to procedures provided in a directive issued by the Commission.

iii. Permit renewal shall be granted for a period of fifteen years.

**Article 54.- Termination of Permits**

Permits shall be terminated due to:

i. Expiration of the original term or of an authorized renewal term of the permit, or

ii. Early termination requested by the permittee and granted by the Commission pursuant to this Regulation.

iii. Revocation pursuant to law, or

iv. Operation of administrative or judicial order or law.

**Article 55.- Early or Partial Termination**

Permittees shall apply to the Commission for authorization for early or partial termination of a permit no less than twelve months prior to the proposed date of such early or partial termination.

The procedure for early or partial termination of a permit shall be pursuant to procedures in a directive issued by the Commission.

**Article 56.- Abandonment of Service**

Abandonment of service occurs when a permittee partially or totally ceases to provide service without prior authorization of the Commission for early or partial termination.

**Article 57.- Revocation of Permit**

The Commission may revoke a permit for any of the reasons established in article 13 of the Law.

**Article 58.- Continuity of Service**

Permittees shall ensure continuity of service in cases of transfer and pursuant to paragraphs ii, iii, and iv of article 54 and shall not suspend operations until such operations are assumed by a new permittee who shall acquire the relevant system.

In case of revocation of a permit or abandonment of service, the Commission shall request the Energy Ministry to take the necessary actions to ensure the continuity of the service pursuant to applicable provisions.
CHAPTER V.- PROVISION OF SERVICE

Section One.- General Provisions

Article 59.- Nature of Transportation Service
Transportation service includes the receipt of gas by the transporter at a point on the transportation system and the delivery of a similar amount at a different point of the system.

Article 60.- Nature of Storage Service
Storage service includes the receipt of gas at a certain point of the facilities of the storage system and the delivery, in one or several actions, of a similar amount at the same or a nearby point of the same system.

Article 61.- Nature of Distribution Service
Distribution service includes:

I. The delivery and marketing of gas by a distributor to a final user in a geographic zone, or;

II. The receipt of gas at one or more receipt points of the distribution system and the delivery of a similar amount at a different point of the same system.

Article 62.- General Conditions for the Provision of Service
The provision of services shall be subject to the general conditions for the provision of service and to directives issued by the Commission.

General conditions for the provision of service shall be approved by the Commission, be part of the permit, and include:

I. The rates for the provision of services,

II. Terms and conditions for access to and for the provision of different types of services,

III. The rights and obligations of the permittee, and,

IV. The dispute settlement procedure proposed by the permittee, to resolve controversies arising from the provision of services pursuant to the law of the Commission.

Section Two.- Access to Services

Article 63.- Open Access Obligation
Permittees shall provide open access, not unduly discriminatory service on their systems in accordance with the following:

I. Not unduly discriminatory open access shall be limited to the permittee’s available capacity;

II. Available capacity, referenced in the preceding paragraph, shall mean capacity not being used; and,

III. Not unduly discriminatory open access service shall only be available to users by contract with permittees, except as provided in article 59.
If a permittee with available capacity refuses service to a user or offers service unduly discriminatorily, the affected party may request the Commission's intervention. With respect to available capacity, the permittee shall make proof that capacity was not available when service was denied.

**Article 64.** Interconnection Between Permittees

Permittees shall allow the interconnection of other permittees to their systems provided that:

1. Available capacity exists to provide the requested service and;
2. The interconnection is technically feasible.

The method for paying interconnection costs, referenced in the article 84, shall be agreed upon by the parties. This article shall not apply to distributions during the period of exclusivity referred to in Article 28.

**Article 65.** Extensions and Expansions

Distributors shall extend and expand their systems within their geographic zones at the request of a non-permitting party, provided that such service is economically viable.

Transporters shall extend and expand their systems at the request of a party, provided that:

1. The service is economically viable, or;
2. The cost of pipelines and other facilities incurred in such extension and expansion is resolved by agreement.

The term to perform the extension or expansion by the permittee shall be agreed upon by the parties.

**Article 66.** Unbundling of Services

Permittees that offer more than one class of service under the Regulation, shall separate every service without condition a one on the other or on the purchase of gas, separating in the relevant invoice the purchase price and rates for each service offered pursuant to directives issued by the Commission.

**Article 67.** Prohibition of Cross Subsidies

Permittees shall not, directly or indirectly, subsidize the provision of service with rates for other service or for the marketing of gas or subsidize the marketing of gas with rates for other service.

Permittees shall inform the Commission of the terms and conditions of their marketing operations pursuant to Article 109.

**Article 68.** Separate Accounting Systems

For purposes of the preceding article, permittees must separate, if applicable, the financial information relevant to the provision of transportation, storage, and distribution services, as well as the marketing of gas, in such a way as to clearly identify income, costs, and operational expenses of each of them.

Petroleos Mexicanos shall also identify financial information relative to unbundled first-hand sales, and, in each case, the price of gas at the processing plants, the relevant transportation rate, and other services provided pursuant to the article 10.
To facilitate control and transparency of regulation of the permitted services and first hand roles, the Commission shall issue directives with respect to accounting systems to be followed by permits.

**Article 69.- Secondary Market for Capacity**

Users may assign directly their capacity rights or may authorize the transferee to do so. The capacity so assigned shall be published in the information system that the Commission may implement thereof.

**Section Three.- Obligations**

**Article 70.- Safety Obligations of Permitters**

With respect to safety, permits shall have the following obligations:

I. To immediately notify the Commission and relevant authorities of any event resulting from the permitted activities that may endanger public health and safety; such notice shall include the possible causes of the event, as well as the measures taken and planned to be taken to address it,

II. To submit to the Commission within ten days after a hazardous event has been brought under control, a detailed report on the reasons for such event and the measures taken to control it,

III. To submit annually a program, consistent with applicable official Mexican standards, for maintenance of the system and to certify compliance with such program by an accredited verification unit.

IV. To maintain a log for the supervision, operation, and maintenance of works and facilities that shall be available at the Commission's request;

V. To train their personnel for the prevention of and response to accidents;

VI. To provide the assurance requested by relevant authorities in case of emergency or disaster; and,

VII. Any others established by official Mexican standards.

**Article 71.- Specific Obligations for Provision of Services**

Permitters shall have the following obligations, with respect to the provision of services:

I. Provide an efficient service consistent with the principles of uniformity, homogeneity, regularity, safety, and continuity;

II. Timely publish, as required by Commission directives, information concerning available capacity and capacity that is not contracted for;

III. Serve prompt notice on the Commission concerning any event that implies the modification of the conditions for the provision of service;

IV. Obtain and maintain current insurance as established in the permit sufficient to cover liabilities that may arise;

V. Implement a permanent service to receive complaints and emergency reports;
VI. Give immediate attention to emergency reports of final users;

VII. Timely report to the Commission any circumstance that adversely affects or may adversely affect the provision of service;

VIII. Do not engage in unduly discriminatory practices, and;

IX. Answer all requests for service within one month of such request as to transporters and within ten days of such request as to distributors.

Article 72.- Economically Viable Demand

Distributors shall satisfy all economically viable demands for service in accordance with their general conditions for the provision of service and this Regulation.

Article 73.- Leak Control

Distributors shall provide, directly or indirectly, leak control services to final users, who shall pay the expenses incurred for any leaks occurring in their facilities.

Article 74.- Commencement of Construction and Service

Permittees shall commence construction within six months after the date of issuance of the permit and shall notify the Commission of such commencement no less than fifteen days prior thereto.

Permittees may request an extension from the Commission, providing the reasons for such extension. The Commission shall decide the request within one month and may grant the requested extension for up to six months.

Before commencing operations, permittees shall have the certification of a duly qualified verification unit pursuant to the terms of applicable law and shall notify the Commission of the service commencement date.

Article 75.- Filing of Contracts

Permittees may be required by the Commission to file contracts signed with users, which shall not be disclosed.

Section Four: Interruption of Service

Article 76.- Interruption Without Liability

A permittee shall not be liable for service interruptions that result from:

I. An act of god or force majeure;

II. Failures in or defective operation of the users' facilities;

III. Necessary work for maintenance, expansion, or modification of works and facilities with prior notice to users;

IV. Failure of users to meet their contractual obligations.

Article 77.- Interruption, Reduction, or Modification of Service

When, due to an act of god or force majeure, the permittee must interrupt, restrict, or modify service, it shall so notify users through the media reaching the largest audiences in the affected area and stating the extent and duration of the interruption or restriction, the date and time of such, and the affected areas.

71
if the interruption, restriction, or modification has to be extended for more than five days, the permittee shall submit a plan to be adopted in such a situation to the Commission for approval.

Such plan shall be designed to reduce as much as possible the inconvenience to users and shall describe the applicable criteria for allocation of available gas among different distributions and types of users.

**Article 78.** Notice of Interruptions

When an interruption arises from events in paragraph III of article 76, the permittee shall notify users through the mass media in the relevant area and by sending individual notice on industries and hospitals. Such notice shall clearly state the affected area and shall be served at least forty-eight hours prior to commencement of work, stating the date, time, and duration of the service interruption and the approximate time when the service will be resumed. Failure to provide such notice shall give rise to permittee liability.

A permittee shall try to perform the work mentioned in the preceding paragraph on days and at times when gas consumption is lowest so as to minimize effects on users.

**Article 79.** Credits due to interruptions

In case of interruption of service resulting from an event other than those stated in the article 76, the permittee shall credit the user at the time of issuance of the relevant invoice, an amount equal to five times the cost of the service that would have been available if the interruption had not occurred, and that the user would have had to pay. The estimate of such amount shall be based on the consumption and average price in the preceding invoice. This method shall be stated in the general conditions for the provision of service.

**Article 80.** Claims and Complaints

A permittee shall answer the claims and complaints of users within ten days. If the claim or complaint is not responded to within such term, users that are not considered consumers pursuant to article 5, may file their complaint before the Commission.

The Commission shall adopt procedures necessary to process the receipt and follow-up of complaints and claims filed by users referenced in the preceding paragraph and shall publish an annual report on such process.

**CHAPTER VI. RATES**

**Article 81.** Methodology for the Calculation of Rates

The Commission shall issue, by directives, the methodology for the calculation of initial rates and for their adjustment.

The methodology shall allow those permittees that use their resources rationally in the case of initial rates and those efficient permittees in the case of adjustments to rates, to obtain sufficient revenue to recover operation and maintenance costs, taxes, and depreciation applicable to the service, and a reasonable return on investment.
The application of this methodology shall not guarantee the recovery of revenue, costs, or returns expected by the permittee.

Such methodology shall not be required when competitively competitive conditions exist according to the Federal Competition Commission. Permittees may request the Federal Competition Commission to declare that competitively competitive conditions exist.

Article 82.—Maximum Rates

Rates for the provision of transportation, storage, and distribution services shall be maximum rates.

Permittees may freely agree upon a rate for a particular service different from the maximum rate, provided that the agreed-upon rate is not lower than the variable cost of providing the service as established in accordance with the methodology referred to in the previous article. Permittees shall not condition the provision of service on the establishment of agreed-upon rates.

The Commission shall assure that the rates facilitate reliable, safe, and quality service to all users.

Article 83.—Unduly Discriminatory Rates

Rates shall not be unduly discriminatory or be conditioned on the provision of other services.

Article 84.—Rate Components

Rates for each service under a permit shall include all items and charges applicable to the service.

The rate may include different types of charges to users, such as:

I. Connection charge, portion of the rate based on a fixed amount for connection to the system that may be paid in one or more installments.

II. Capacity charge, portion of the rate based on capacity reserved to meet maximum demand over a defined period, and.

III. Consumption charge, portion of the rate based on the amount of service used.

Article 85.—Types of Rates

Rates proposed by permittees may establish differences according to:

i. Type of service;

ii. Category and location of user;

iii. Service conditions; and,

iv. Other generally accepted factors in the industry.

Article 86.—Adjustments

Permittees may adjust rates periodically, according to the methodology referred to in the articles 81, pursuant to the following factors:

I. Price indicators reflecting changes in value of the goods and services related to the permittee’s activities.

II. Changes in the tax system applicable to services under the permit and.
CHAPTER VII.- SELLING PRICE TO FINAL USER

**Article 90.- Price**

The price charged by distributors to the final user shall be composed of:

i. The acquisition price of gas;

ii. Transportation rate;

iii. Storage rate; and,

iv. Distribution rate

In accordance with the directives issued by the commission, the parties may freely agree upon a different price for the preceding components provided that it is not unduly discriminatory. Such price shall not be lower than the variable cost of providing the service as established in directives issued by the Commission.

In the charge to final users, distributors shall state separately the acquisition price of the gas at the point or points of receipt by the distributor and the distribution rate.

**Article 91.- Price and Rate Changes**

Distributors may charge final users any changes in the acquisition price of gas and the transportation and storage rates, according to the general conditions for the provision of such distribution services.

The Commission shall issue directives on the methodology to be used by distributors when estimating acquisition prices of gas and on the procedures for charging final users.
Article 92.- Price Verification

The Commission, on its own initiative or at the request of a party, may verify acquisition prices of gas charged to final users during a six-month period preceding the initiation of such verification.

This verification shall include at least a review of the acquisition prices of gas reported by the distributor, the cost and terms and conditions of viable supply alternatives to the distributor, and the acquisition prices of gas charged by other distributors to other final users.

If the Commission determines that the prices charged are excessive, the distributor shall credit to the final users an amount equal to that portion of the price determined to be excessive.

Article 93.- Price Information

Distributors shall periodically report to the Commission their prices for and terms and conditions of the acquisition of gas and their prices charged to final users.

The Commission may publish the prices charged to final users.

CHAPTER VIII.- TRANSPORTATION AND STORAGE FOR SELF USE

Section One.- General Provision

Article 94.- Special Regime

When the activity of receiving, transmitting, and delivering gas by pipeline is exclusively to satisfy the needs of the applicant, the Commission may grant a transportation for self-use permit.

When storage activity is exclusively to satisfy the needs of the applicant, the Commission may grant a storage for self-use permit.

Transportation and storage for self use permits shall be subject to the provisions of this chapter and shall not confer any right to provide service to other parties, except as provided in article 96.

Holders of self use permits shall have the obligations referenced in article 70.

Section Two.- Transportation for Self Use

Article 95.- Transportation for Self Use Permits

Permits for transportation for self use shall be granted for a specific capacity and defined route, and only final users or self consumption groups may be the holders of such permits.

Article 96.- Self Consumption Groups

Only final users that consume gas for industrial, commercial, or service uses may constitute or be members of self consumption groups.

Self consumption groups may only deliver gas to their members.

Article 97.- Transportation for Self Use in Geographic Zones

When an application for a transportation for self use permit is submitted within the first two years of exclusivity of a distributor’s geographic zone where the applicant or any of the members of the self consumption group are located, an average annual consumption of
sixty thousand cubic meters of gas, or its equivalent, per day on an annual basis shall be required to be established by the applicant or by the aggregate consumption of the members of the self-consumption group.

When the application referred to in the previous paragraph is submitted during the third and fourth years of the exclusivity period, the quantity requirement shall be reduced to an average annual consumption of thirty thousand cubic meters of gas, or its equivalent, per day.

The granting of transportation for self use permits within a geographic zone will not be conditioned on minimum consumption volumes beginning with the fifth year of the period of exclusivity of the distributor.

**Article 98.** Prior Notice to Distributor

When a party interested in obtaining a transportation or self use permit is receiving service from a distributor, such party shall notify the distributor three months before the application for such permit is submitted.

The holder of a transportation or self use permit or a final user who is a member of a self consumption group may contract again for distribution services, in which case the distributor may charge for such reconnection as established in its general conditions for the provision of service.

**Section Three. Storage for Self Use**

**Article 99.** Storage for Self Use Permits

Storage for self use permits shall be granted for a specific location and defined capacity.

**Article 100.** Restrictions to Transporters and Distributors

Transporters or distributors shall not be holders directly or indirectly of a storage for self use permit.

**Section Four.** Procedures for Granting and Modifying Permits for Self Use

**Article 101.** Permit Applications

A party interested in obtaining a transportation or storage for self use permit shall submit an application to the Commission that shall contain:

1. Name and address of the applicant.
2. If applicable, a certified copy of the incorporation charter with any amendments to it or documentation that establishes the applicant's legal existence.
3. Documents establishing the legal capacity and authority of the legal representative.
4. The purpose, description, route of location, and technical specifications of the project.
5. If applicable, the average daily consumption on an annual basis.
6. A general description of the safety systems and procedures for operation and maintenance of the system.
7. Capacity of the project, and
8. If applicable, a copy of the notice referenced in article 98.
Article 102.- Review and Grant

The Commission shall review the application within one month. If the application does not satisfy the requirements established or if the information submitted is insufficient, the Commission shall notify the applicant, who shall correct such deficiencies within one month, or the application shall be dismissed.

Once all requirements are met, the Commission shall issue the permit within one month.

Article 103.- Procedure for Modification of Permits

The modification of permits for self-use shall be in accordance, as applicable, with the two prior articles.

Article 104.- Other Applicable Provisions

Articles 11, 17, 50, 52, 53, and, if applicable, 54 and 57, shall apply to permits for self-use.

CHAPTER IX.- PENALTIES

Article 105.- Punishable Conduct

Any violation of the provisions of this Regulation shall be punished administratively by the Commission, taking into consideration the severity of the failure, pursuant to the following:

1. Failure to submit information required by the Commission pursuant to Article 101 and failure to comply with provisions of Articles 52, paragraphs V through V of 78, paragraph of 71, 82, and 82 shall be punished with a fine from one thousand to twenty thousand times the minimum wage.

2. Failure to comply with provisions of Articles 51, 66, paragraph V of 15, paragraphs II, VIII, VII, VII, VIII, and VIII of 71, 72, 73, and 79 shall be punished with a fine from one thousand to fifty thousand times the minimum wage.

3. Failure to comply with provisions of Articles 58, 63, 64, 65, 67, 68, paragraph IV of 71, 73, 74, and 83 shall be punished with a fine from one thousand to one hundred thousand times the minimum wage; and,

4. Performance of gas transportation, storage, and distribution activities without a relevant permit previously granted by the Commission, as well as the interruption of transportation, storage, and distribution services for causes different from those referred to in Article 76, shall be punished with a fine from twenty thousand to one hundred thousand times the minimum wage.

For purposes of this chapter, the minimum wage shall be the minimum daily wage in effect in the Federal District at the time a violation occurs.

Article 106.- Civil or Criminal Liability

All penalties established in this chapter shall be applied without prejudice to any civil or criminal liability that may arise and, if applicable, to revocation of the permit.

CHAPTER X.- FINAL PROVISIONS

Article 107.- Public Benefit

The grant of permits for the provision of gas transportation and distribution services shall be
Article 108.- Information Requirements

The Commission shall require that Petróleos Mexicanos, gas importers and exporters, and permittees provide adequate and sufficient information established by directives with respect to:

I. First-hand sales;
II. Prices and rates;
III. Volumes of sales other than first-hand sales;
IV. Volumes of gas transmitted and stored;
V. Corporate, accounting, and financial information;
VI. Information on contracts executed by permittees with respect to the provision of services;
VII. Circumstances that adversely affect or may adversely affect the provision of service;
VIII. Capacity of systems and allocation of capacity;
IX. Maintenance and safety programs;
X. Other obligations established in this Regulation, official Mexican standards, and directives; and,
XI. Any other matters considered necessary by the Commission.

Article 109.- Annual Report

The Ministry shall publish an annual report on the outlook for the domestic gas market. This document shall be prepared following a strict methodology and taking into consideration the most reliable and latest information available.

The outlook shall describe and analyze, over a ten-year period, the country's requirements for gas and shall include:

I. Forecasts of national and regional demand;
II. Existing and expected production capacity and;
III. Existing transportation and distribution capacity, as well as any requirements for expansion, rehabilitation, modernization, replacement, or interconnection of such capacity.

Article 110.- Procedure for Issuing Directives

When the issuance of directives is done through the public consultation procedure, the following shall be observed:

I. The Commission shall publish in the Official Gazette of the Federation the subject that will be regulated by such directive, the topics to be covered, a description of the information required for its preparation, or, if applicable, the draft directive if the draft directive is published, paragraphs II and III of this article shall not apply.

II. Within two months after the date of publication referred to in the previous
paragraph, interested parties may submit their comments to the Commission, expressing their points of view, and information they consider relevant, or the contents of any draft they have prepared.

II. The Commission shall study the comments, the information, and any drafts received and shall prepare a draft of the directive to be published in the Official Gazette of the Federation within one month after the date of expiration of the period for receiving comments.

IV. Any interested party may submit their comments to the Commission on the draft directive in a period of time to be established, which shall not be less than one month after the publication of the draft directive, and,

V. Within the month following expiration of the period referred to in the previous paragraph, the Commission shall study the comments received and may issue the directive, which shall be published in the Official Gazette of the Federation at least one month before its effective date.

At any stage of the procedure the Commission may request interested parties to participate in hearings to secure knowledge about their requirements and points of view on the purpose and contents of the directive.

TRANSITION ARTICLES

First.- This Regulation shall become effective on the day after its publication in the Official Gazette of the Federation.

Second.- Within twelve months after the effective date of this Regulation, the Ministry shall issue an official Mexican standard describing all characteristics and specifications of natural gas to be injected into transportation, storage, and distribution systems.

Third.- Within twelve months after the effective date of this Regulation, the Commission shall issue directives related to first third sales and rates for the provision of transportation, storage, and distribution services.

Fourth.- For purposes of article 69, an electronic information system shall be in operation on January 1, 1998. Until then, permittees shall publish released capacity on their own information systems.

Fifth.- Petroleos Mexicanos shall have 12 months from the effective date of this Regulation to submit to the Commission information about natural gas transportation and marketing activities, which shall include:

I. Annual statistics on volumes, prices, sales, imports and exports;

II. Geographic location and system characteristics;

III. Terms and conditions of purchase, sale and supply contracts in force on the effective date of this Regulation with users and suppliers;

IV. Any other information related to natural gas that is requested by the Commission.
Sixth. Upon the effective date of this Regulation, Petróleos Mexicanos shall, if technically feasible, provide transportation service in accordance with this Regulation. Parties interested in obtaining such service may submit a written request for such service to Petróleos Mexicanos and provide a copy of such request to the Commission. Petróleos Mexicanos shall respond to such request within one month.

Petróleos Mexicanos may refuse to provide the requested service if there is no available capacity or if there are technical impediments, in which case Petróleos Mexicanos shall provide its reasons for refusing in writing to the party with a copy to the Commission which may intervene pursuant to applicable law.

Petróleos Mexicanos shall have 24 months after the effective date of this Regulation to implement the information systems, mechanisms, and equipment necessary to guarantee open access to other parties to its transportation system and fully comply with this Regulation. Petróleos Mexicanos shall submit for approval to the Commission within six months after the effective date of this Regulation a detailed program for gradually providing open access to other parties during the time period referred to in the previous paragraph. Such program shall give priority to those markets with higher competitive potential.

Seventh. Petróleos Mexicanos shall continue its natural gas transportation activities pursuant to the Law and this Regulation. For such purposes a provisional permit shall be considered as granted to Petróleos Mexicanos, which shall comply with all provisions of this Regulation related to transportation as applicable. Petróleos Mexicanos shall submit to the Commission the application referenced in paragraphs I and II of article 32 within eight months after the effective date of this Regulation. Once this application has been submitted, the Commission shall issue the relevant transportation permits within four months.

Eighth. All individuals performing natural gas distribution on the date this Regulation becomes effective may continue such activities. The Commission shall grant within one month after the effective date of this Regulation a twelve-month provisional permit.

The individuals referred to in this article shall request from the Commission within six months after the effective date of this Regulation initiation of the bidding process in Section Six of chapter III or shall file an application to obtain a distribution permit without bidding.

Applications for distribution permits without bidding to be filed by the individuals referred to in the previous paragraph must comply with the requirements in paragraphs I and IV of the article 32 and shall include:

I. Proposed geographic zone;
II. System location and characteristics;
III. Terms and conditions of purchase and sale and supply contracts in force with users and suppliers;
IV. Accounting and financial information;
V. Overdue obligations as of the date this Regulation becomes effective or the contracts securing payment of such obligations.
VI. Direct or indirect control of the corporation; and,

VII. Any other information related to natural gas that is requested by the Commission.

The procedure for granting permits referenced in the preceding paragraph shall be subject to articles 33, 34, 35, 36, and 37. These permits may confer exclusivity rights for the construction of the system and the provision of the service of receipt and delivery of natural gas within the relevant geographic zone for a period of time not more than five years from the date such permits are granted.

Ninth.- All individuals performing natural gas transmission activities different from those in the previous articles, may continue such activities. The Commission shall grant within one month after the effective date of this Regulation a provisional permit for twelve months.

Within six months after the effective date of this Regulation, parties referred to in this article shall apply to the Commission for the relevant permit.

Tenth.- Until regulations are issued, this Regulation and its Transition articles shall govern, where applicable, transportation and distribution of liquid petroleum gas in a gaseous state by pipeline.

English translation provided solely for convenience. The Spanish version shall prevail in all respects.
REGLAMENTO de Gas Natural.

Al margen un sello con el Escudo Nacional, que dice: Estados Unidos Mexicanos - Presidencia de la República.

ERNesto ZEDErro PONCE DE LEON,
Presidente de los Estados Unidos Mexicanos, en ejercicio de la facultad que me confiere la fracción I del artículo 89 de la Constitución Política de los Estados Unidos Mexicanos y con fundamento en los artículos 40., 80., 10, 13, 14, 15 y 16 de la Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo, tercero transitorio del Decreto por el que se reforman y adicionan diversas disposiciones de la misma Ley, publicado en el Diario Oficial de la Federación del 11 de mayo de 1995, y 2, 3, 8, 9, 10 y 11 de la Ley de la Comisión Reguladora de Energía, he tenido a bien expedir el siguiente

REGLAMENTO DE GAS NATURAL.
CAPITULO I: DISPOSICIONES GENERALES

Artículo 1.- Objeto y ámbito de aplicación
Este ordenamiento reglamenta la Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo, con el objeto de regular las ventas de primera mano, así como las actividades y los servicios que no forman parte de la industria petrolera en materia de gas natural, a efecto de asegurar su suministro eficiente.

Artículo 2.- Definiciones
Para los efectos de este Reglamento, se entenderá por:

I. Adquirente: La persona que celebre o solicite celebrar un contrato que tenga por objeto una venta de primera mano.

II. Almacenamiento: La actividad de recibir, mantener en depósito y entregar gas, cuando el gas sea mantenido en instalaciones fijas distintas a los ductos.

III. Comisión Reguladora de Energía: La Comisión Reguladora de Energía.

IV. Condiciones generales para la prestación del servicio. El documento que establece las tarifas y los derechos y obligaciones de un permiso a los usuarios.

V. Directiva: Disposiciones de carácter general expedidas por la Comisión, tales como criterios, lineamientos y metodologías, a que deben sujetarse las ventas de primera mano y las actividades de transporte, almacenamiento y distribución de gas.

VI. Distribución: La actividad de recibir, conducir, entregar y, en su caso, comercializar gas por medio de ductos dentro de una zona geográfica.

VII. Distribuidor: El titular de un permiso de distribución.

VIII. Ductos: Las tuberías e instalaciones para la conducción de gas.

IX. Gas o gas natural: La mezcla de hidrocarburos compuesta principalmente por metano.

X. Ley: La Ley Reglamentaria del Artículo 27 Constitucional en el Ramo del Petróleo.

XI. Permit: El titular de un permiso de transporte, almacenamiento o distribución.

XII. Petróleos Mexicanos: Petróleos Mexicanos y cualquiera de sus organismos subsidiarios en los términos de su Ley Orgánica.

XIII. Secretaría: La Secretaría de Energía.

XIV. Sistema: El conjunto de ductos, conterresores, reguladores, medidores y otros equipos para la conducción o almacenamiento de gas.

XV. Tarifas: La lista de precios para cada clase y modalidad de servicio que preste un permisorario.

XVI. Transporte: La actividad de recibir, conducir y entregar gas por medio de ductos a personas que no sean usuarios finales localizados dentro de una zona geográfica.

XVII. Transportista: El titular de un permiso de transporte.

XVIII. Trayecto: El trayecto de un sistema de transporte de uno o más puntos de origen a uno o más puntos de destino.

XIX. Usuario: La persona que utiliza o solicita los servicios de un permisorario.

XX. Usuario final: La persona que adquiere gas para su consumo.

XXI. Venta de primera mano: La primera enajenación de gas de origen nacional, que realice Petróleos Mexicanos a un tercero para su entrega en territorio nacional.

XXII. Zona geográfica: El área delimitada por la Comisión para efectos de distribución.

Artículo 3.- Comercio exterior
La importación y la exportación de gas podrán ser efectuadas libremente, en los términos de la Ley de Comercio Exterior.

Los importadores y exportadores deberán presentar a la Comisión la información relativa a sus actividades de comercio exterior, de acuerdo con las directivas que para tal efecto expida.

Artículo 4.- Acuerdos de coordinación
La Secretaría promoverá la celebración de bases o acuerdos de coordinación con las autoridades federales y locales, a fin de impulsar el desarrollo de proyectos, en el ámbito de sus respectivas atribuciones, en lo relacionado con la construcción, operación y mantenimiento de sistemas y la aplicación de medidas de seguridad.

Artículo 5.- Consumidores
Sin perjuicio de las acciones que procedan, las controversias que surjan entre los permisorarios y los usuarios que tengan el carácter de consumidores en los términos de la Ley Federal de
Protección al Consumidor serán resueltas por la Procuraduría Federal del Consumidor conforme a dicha ley.

Artículo 6.- Prácticas indebidamente discriminatorias

Para efectos de este Reglamento, se considerarán indebidamente discriminatorias negar un trato semejante a usuarios o adquirentes similares en condiciones similares.

No se considerarán indebidamente discriminatorias las diferencias en el trato que puedan existir como resultado de:

I. Las distintas clases y modalidades de servicio;
II. La localización de los usuarios o adquirentes, o
III. Las distinciones por categorías de usuarios o adquirentes.

Artículo 7.- Aplicación e interpretación

Corresponde a la Comisión Federal de Competencia el poder de interpretar este Reglamento para efectos administrativos.

CAPITULO II.- VENTAS DE PRIMERA MANO

Artículo 8.- Regulación de precios

Para los efectos de este Reglamento, el precio máximo del gas objeto de las ventas de primera mano será fijado conforme a lo establecido en las directivas expedidas por la Comisión. La metodología para su cálculo deberá reflejar los costos de oportunidad y condiciones de competitividad del gas, respecto al mercado internacional y al lugar donde se realice la venta.

El precio máximo del gas no afectará la facultad del adquirente para negociar condiciones más favorables en su precio de adquisición.

Lo dispuesto en este artículo no se aplicará al precio del gas importado.

Artículo 9.- Términos y condiciones

Petróleos Mexicanos presentará a la Comisión, para su aprobación, los términos y condiciones generales que regirán las ventas de primera mano, los cuales deberán ser acordes con los usos comerciales, nacionales e internacionales, observados por las empresas dedicadas a la compraventa de gas.

En ningún caso Petróleos Mexicanos discriminará indebidamente entre los adquirentes. Petróleos Mexicanos informará a la Comisión, en la forma que ésta determine mediante directivas, los términos de las ventas de primera mano realizadas, con la finalidad de que ésta verifique el cumplimiento de las disposiciones de este capítulo y previa su publicación.

Con excepción de lo dispuesto en el párrafo anterior, la información contendrá en los contratos que Petróleos Mexicanos presente a la Comisión tened caráctar confidencial.

Artículo 10.- Contratos

En las ventas de primera mano, Petróleos Mexicanos deberá ofrecer al adquirente, para el volumen que éste desee contratar, cuando menos dos tipos de cotizaciones que constituirán ciertas de venta e incluirán los términos y condiciones para la venta del gas.

I. A la salida de las plantas de proceso, y

II. En el punto o puntos de entrega que determine el adquirente, distinguiendo de manera desagregada la tasa de transporte y el precio del gas a la salida de las plantas de proceso, así como otros servicios que ofrezca Petróleos Mexicanos.

Artículo 11.- Descuentos

De conformidad con los términos y condiciones generales aprobados por la Comisión, Petróleos Mexicanos podrá otorgar descuentos por volumen o condiciones contractuales diferentes, siempre que no incurre en prácticas indebidamente discriminatorias.

Artículo 12.- Competencia efectiva

Cuando a juicio de la Comisión Federal de Competencia existan condiciones de competencia efectiva, los términos y condiciones para las ventas de primera mano y el precio del gas podrán ser pactados libremente.

Si existiendo condiciones de competencia efectiva, la Comisión Federal de Competencia determina que al realizar las ventas de primera mano se acude a prácticas indebidamente discriminatorias, la Comisión establecerá la regulación de precios y de los términos y condiciones a que dichas ventas deban sujetarse.

Artículo 13.- Suspensión del suministro

Petróleos Mexicanos podrá suspender el suministro de gas de primera mano a quienes no cumplan con sus obligaciones contractuales.

CAPITULO III.- PERMISOS

Sección Primera.- Disposiciones generales

Artículo 14.- Régimen de permisos

La realización de las actividades de transporte, almacenamiento y distribución requerirá de permiso previo otorgado por la Comisión en los términos de este Reglamento.

Sin perjuicio de los permisos que se otorguen a Petróleos Mexicanos y demás organismos descentralizados del sector energético, los permisos para la prestación de los servicios sólo serán otorgados a empresas del sector local y sociedades mercantiles.

Petróleos Mexicanos y los demás organismos descentralizados del sector energético estarán sujetos a las disposiciones de este Reglamento.

Artículo 15.- Restricciones societarias

Sin perjuicio de lo dispuesto por la legislación aplicable, las sociedades mercantiles titulares de permisos de transporte y distribución,

I. Tendrán como objeto social principal la prestación de los servicios de transporte en el caso de los transportistas, y de distribución en el caso de los distribuidores, y las demás actividades relacionadas para la consecución de dicho objeto, y

II. Incluirán en sus estatutos sociales la obligación de tener un capital social mínimo fijo, sin derecho a reír, equivalente a dos por ciento de la inversión propuesta en el proyecto de que se trate.
Artículo 16.- Titularidad de distintos permisos

Una misma persona podrá ser titular de los permisos de transporte, almacenamiento y distribución en los términos de este Reglamento.

Artículo 17.- Integración vertical

Para servir a una zona geográfica, los permisos de transporte y distribución respectivos no podrán ser otorgados o transferidos a una misma persona ni a personas que directa o indirectamente resulten titulares de ambos permisos o que lancen la participación en las sociedades que resultarían permutacionales, salvo en el supuesto previsto en el artículo 31.

La Comisión podrá autorizar excepciones a la prohibición que establece el párrafo anterior cuando, a su juicio:

I. Resulte en ganancias de eficiencia y rentabilidad en la prestación del servicio,

II. Sea estrictamente necesario por no existir la infraestructura de transporte requerida para desarrollar una zona geográfica determinada y no existan otros interesados en llevar a cabo el proyecto de transporte o distribución; este excepción será autorizada sólo para el periodo de exclusividad. El procedimiento a que se sujetería el permisionario para transferir el permiso de transporte o distribución, una vez terminado dicho periodo, será el previsto en la directiva que para tal efecto expida la Comisión.

Artículo 18.- Tránsito para efectos de competencia económica

Los interesados en obtener un permiso deberán manifestar su intención a la Comisión Federal de Competencia y presentar, según sea el caso, copia de la solicitud de permiso o de la propuesta de licitación a que se refieren las secciones quinta y sexta de este capítulo, para los efectos de la Ley Federal de Competencia Económica.

Artículo 19.- Duración del permiso

Los permisos tendrán una vigencia de treinta años, contados a partir de la fecha de su otorgamiento, y serán renovables, en su caso, en los términos del artículo 63.

Artículo 20.- Título del permiso

Los títulos de los permisos deberán contener:

I. En todos los casos:
   a) La razón social o denominación y domicilio del permisionario en el territorio nacional;
   b) El objeto del permiso;
   c) La descripción y las características del proyecto;
   d) Los programas y compromisos mínimos de inversión, así como las etapas y los plazos para llevarlos a cabo.

II. La fecha límite para iniciar la prestación del servicio en cada etapa de desarrollo del proyecto.

III. Las condiciones generales para la prestación del servicio.

IV. La descripción genérica de los métodos y procedimientos de seguridad para la operación y el mantenimiento de los sistemas, que será sustituida por el plan detallado con especificaciones en el plazo que para tal efecto señale la Comisión.

V. Las seguros que deberá contratar el permisionario y cualquier otra información que la Comisión considere conveniente.

II. En el caso del servicio de transporte, el título deberá contener, además de lo indicado en la fracción anterior:

   a) El trayecto y;
   b) La capacidad de conducción del proyecto.

III. En el caso del servicio de almacenamiento, el título deberá contener, además de lo indicado en la fracción I:

   a) La localización de las instalaciones;
   b) Los puntos de recepción y entrega del gas;
   c) La capacidad de almacenamiento del proyecto y.

IV. En el caso del servicio de distribución, el título deberá contener, además de lo indicado en la fracción I:

   a) La delimitación de la zona geográfica;
   b) Los puntos de recepción del gas;
   c) En su caso, el periodo de exclusividad, y
d) En su caso, el programa mínimo de cobertura y desarrollo en la zona geográfica.

Artículo 21.- Aceptación de las obligaciones establecidas en el permiso

El otorgamiento de un permiso implica la aceptación incondicional del permisionario de las obligaciones contenidas en el título del mismo.

Artículo 22.- Otros permisos y autorizaciones

El otorgamiento de un permiso implica la autorización de la Comisión para realizar las obras correspondientes, sin perjuicio de las autorizaciones que el permisionario deba obtener de otras autoridades federales y locales.

Sección Segunda.- Disposiciones Específicas

Artículo 23.- Trayecto

Cada permiso de transporte será otorgado para una capacidad y un trayecto determinados, mediante el procedimiento establecido en la sección quinta de este capítulo, salvo lo dispuesto en el artículo siguiente.

El trayecto autorizado quedará registrado en la Comisión. En cualquier punto del trayecto se podrá entregar y recibir gas. El permisionario deberá dar
Los usuarios ubicados en una zona geográfica podrán contratar el suministro de gas con personas distintas al distribuidor en cuyo caso el distribuidor deberá permitir el acceso abierto y no indebidamente discriminatorio a su sistema en los términos del artículo 63, mediante el pago de la tarifa correspondiente.

Artículo 31.- Transporte dentro de zonas geográficas

Cuando un punto de destino del trayecto de un sistema de transporte quede comprendido dentro de una zona geográfica determinada con posterioridad, el transportista podrá obtener el permiso de distribución con exclusividad a través del procedimiento de licitación a que se refiere la sección sexta de este capítulo.

En caso de obtener el permiso de distribución, el transportista podrá ser titular de ambos permisos durante el periodo de exclusividad. En caso de no obtener el permiso de distribución, el transportista sólo podrá continuar suministrando gas dentro de la zona geográfica, sin extender o ampliar su sistema, durante la vigencia de los contratos celebrados con los usuarios finales con anterioridad a la determinación de la zona geográfica.

Sección Quinta.- Procedimiento para el Otorgamiento de Permisos a Solicitud de Parte

Artículo 32.- Solicitud

El interesado en obtener un permiso de distribución después del periodo de exclusividad, de transporte o de almacenamiento, deberá presentar a la Comisión una solicitud que contendrá:

1. En todos los casos:
   a) La razón social o denominación y domicilio del solicitante.
   b) La copia certificada de la escritura constitutiva con sus reformas o la documentación que acredite su existencia legal.
   c) Los documentos que acrediten la personalidad y las facultades del representante legal.
   d) El objeto, la descripción y las especificaciones técnicas del proyecto.
   e) La descripción genérica de los métodos y procedimientos de seguridad para la operación y el mantenimiento del sistema.
   f) La documentación que acredite la viabilidad técnica del proyecto.
   g) Los documentos que acrediten la capacidad técnica, administrativa y financiera del solicitante.
   h) Los programas y compromisos mínimos de inversión, así como las etapas y los plazos para llevarse a cabo.
   i) La propuesta de condiciones generales y tarifas para la prestación del servicio.
   j) La copia del aviso a que se refiere el artículo 16.
k) La descripción de las condiciones de operación, los sistemas de información y los mecanismos y equipos que se utilizaran para el acceso abierto a terceros, y
l) La fecha para iniciar la prestación del servicio, especificando, en su caso, cada etapa del desarrollo del proyecto.

II. En el caso del servicio de transporte, la solicitud deberá contener, además de lo indicado en la fracción anterior:
a) El trayecto propuesto;
b) La capacidad de transporte del proyecto;
c) La descripción de las modalidades de servicio y su precio;
d) La justificación de la demanda potencial;
e) Las fuentes de suministro del gas;
f) En su caso, los convenios de transporte establecidos con usuarios específicos.

III. En el caso del servicio de almacenamiento, la solicitud deberá contener, además de lo indicado en la fracción I:
a) La localización y características del proyecto;

IV. En el caso del servicio de distribución sin exclusividad, la solicitud deberá contener, además de lo indicado en la fracción I:
a) La zona geográfica donde se pretenda desarrollar el proyecto;
b) Las políticas para extender a nuevos usuarios finales los servicios de distribución dentro de la zona geográfica correspondiente, incluyendo los casos en que dichos usuarios finales deberán cubrir los costos de conexión y;
c) Las fuentes de suministro.

Artículo 33.- Prevenciones

La Comisión examinará las solicitudes en el término de un mes. Cuando las solicitudes no cumplan con los requisitos establecidos en el artículo anterior, la Comisión lo comunicará al solicitante, quien contará con un plazo de un mes para cumplir los requisitos o presentar la información adicional de no hacerlo, la solicitud será desechada de plano.

Artículo 34.- Anexo al público

Cuando la solicitud cumpla con los requisitos, la Comisión procederá a evaluarla en los términos del artículo siguiente, publicará en el Diario Oficial de la Federación, en el término de diez días, un extracto del proyecto propuesto y establecerá un plazo de dos meses para recibir otras solicitudes, objeciones o comentarios con relación a dicho proyecto.

La publicación a que se refiere el párrafo anterior no interferirá en el trámite de la solicitud inicial.

Artículo 35.- Evaluación

La Comisión realizará la evaluación del proyecto en el término de tres meses, considerando:
I. La capacidad técnica, administrativa y financiera del interesado;
II. La confiabilidad de la fuente de suministro;
III. En su caso, los efectos de la interconexión con otros sistemas;
IV. Los métodos y procedimientos de seguridad para la operación y mantenimiento del sistema;
V. La propuesta de condiciones generales para la prestación del servicio;
VI. Las especificaciones técnicas del proyecto;
VII. En el caso de transporte, la justificación de la demanda potencial.

En la evaluación del proyecto, la Comisión podrá realizar investigaciones, recabar la información que considere necesario, efectuar consultas con las autoridades federales, estatales y municipales, celebrar audiencias y, en general, realizar cualquier acción que considere necesaria para resolver sobre el otorgamiento del permiso.

Artículo 36.- Modificación del proyecto

Como resultado de la evaluación a que se refiere el artículo anterior, la Comisión podrá requerir a los solicitantes la modificación del proyecto, para lo cual señalará un plazo no mayor a tres meses.

Artículo 37.- Otorgamiento de permisos

En su caso, el permiso será otorgado en el término de un mes a partir de la fecha en que haya concluido la evaluación y se hayan satisfecho las modificaciones requeridas.

En el término establecido en el párrafo anterior, la Comisión publicará en el Diario Oficial de la Federación una descripción del objeto del permiso y el nombre y domicilio del propietario del mismo.

Si, como resultado de la publicación a que se refiere el artículo 34 se presentan otras solicitudes, la Comisión otorgará permisos a todos aquellos que satisfagan los requisitos establecidos en esta sección.

Sección Tercera. Procedimiento para el Otorgamiento de Permisos Medianti Licitación

Artículo 38.- Inicio del procedimiento

El procedimiento de licitación será iniciado por la Comisión cuando a su juicio existan elementos suficientes para justificar la realización de un proyecto de distribución y, en su caso, la determinación de una zona geográfica.

Cuando se trate de proyectos de transporte promovidos por el Gobierno Federal o los gobiernos de los estados, se observará lo dispuesto en esta sección, sin que sea necesario tramitar la manifestación de interés a que se refiere el artículo siguiente.
Artículo 39. - Manifestación de interés
Para los efectos del primer párrafo del artículo anterior, cualquier persona podrá presentar a la Comisión una manifestación de interés que contenga como mínimo:

I. Los datos de identificación y domicilio del interesado;
II. La documentación que acredite la capacidad técnica, financiera y administrativa del interesado;
III. La información respecto a los posibles asociados o accionistas interesados en el proyecto;
IV. La descripción genérica del proyecto;
V. La zona geográfica donde se pretenda desarrollar el proyecto o, en su defecto, la propuesta para la determinación de la misma;
VI. Las posibles fuentes de suministro, y
VII. La proyección de la demanda esperada.

La Comisión evaluará y dará respuesta a todas las manifestaciones de interés en el término de dos meses.

Artículo 40. - Convocatoria
Para iniciar el procedimiento de licitación, la Comisión publicará la convocatoria en el Diario Oficial de la Federación, la que contendrá como mínimo:

I. El objeto de la licitación y el trayecto o zona geográfica de que se trate;
II. El plazo, lugar y horario en que estarán a la disposición de los interesados las bases para la licitación; el plazo no podrá ser menor de quince días ni mayor a dos meses; y
III. El costo y forma de pago de las bases.

El costo de las bases será fijado en razón de la recuperación de las erogaciones por su elaboración, la publicación de la convocatoria y los documentos que se entreguen, y demás gastos inherentes al procedimiento de licitación.

Artículo 41. - Bases
La Comisión elaborará las bases de licitación, que señalaran como mínimo:

I. El objeto, la descripción y las especificaciones técnicas del proyecto, que serán tales que permitan a los interesados expresar con la mayor flexibilidad el contenido de sus propuestas, en lo relativo a la tecnología, diseño, ingeniería, construcción y ubicación con relación al trayecto o la zona geográfica de que se trate;
II. La documentación necesaria y el plazo para su entrega;
III. Los requisitos relativos a la presentación de:
   a) La descripción genérica de los métodos y procedimientos de seguridad para la operación y mantenimiento de los sistemas;
   b) La relación de permisos, autorizaciones y demás actos administrativos necesarios para llevar a cabo las obras relativas al proyecto, así como el programa previsto para obtenerlos;
   c) El aviso a que se refiere el artículo 18;
   d) Los programas y compromisos mínimos de inversión para, la prestación del servicio;
   e) El tipo y la cobertura de los seguros requeridos; y
   f) La propuesta de las condiciones y requisitos para la prestación del servicio.

IV. La forma de acreditar la capacidad financiera, técnica y administrativa mínima que deba satisfacer el solicitante para la prestación del servicio;
V. La forma y el monto de las garantías de seriedad de las propuestas;
VI. La metodología para proponer las tarifas;
VII. El procedimiento para la presentación de las propuestas;
VIII. La información que deberá incluirse en las propuestas técnicas y económicas;
IX. El criterio para la adjudicación del permiso;
X. La información relativa al lugar, fecha y hora de las junta de aclaración de las bases, espectativas para los participantes;
XI. Lugar, fecha y hora para el acto de presentación y apertura de propuestas;
XII. La mención de que cualquier modificación a las bases deberá publicarse por el mismo medio que la convocatoria, cuando menos con veinte días de anticipación a la fecha señalada originalmente para la presentación y apertura de propuestas.
XIII. Las causas para declarar desierta la licitación, y
XIV. Lugar, fecha y hora del fallo, así como la forma en que éste se comunicará a los participantes.

Las bases que expida la Comisión podrán ser impugnadas mediante el recurso de reconsideración previsto en la Ley de la Comisión Reguladora de Energía.

Artículo 42. - Elaboración de propuestas
Entre la fecha de publicación de la convocatoria y el acto de recepción de propuestas y apertura de ofertas técnicas, deberá mediar un plazo suficiente, que en ningún caso podrá ser menor a tres meses, para que los interesados realicen los estudios técnicos, financieros y económicos necesarios para integrar sus propuestas.

Artículo 43. - Presentación y evaluación de las propuestas
La licitación se llevará a cabo en dos etapas, una técnica y otra económica.

El acto de recepción y apertura de propuestas técnicas se realizará conforme a lo establecido en las bases de licitación, ante notario o corredor público.
La Comisión evaluará las propuestas técnicas y desechará las que no cumplan con los requisitos técnicos establecidos en las bases de licitación y las propuestas de los licitantes cuya participación haya sido objeto por la Comisión Federal de Competencia.

En una segunda etapa se considerarán sólo las propuestas económicas de los vencedores que hayan superado la etapa técnica.

Artículo 44.- Fallo
La Comisión emitirá su fallo en el término de tres meses a partir de la recepción de las propuestas o, en su caso, declarará desierta la licitación en los supuestos del artículo siguiente.

Artículo 45.- Licitación desierta
La Comisión declarará desierta la licitación en cualquiera de los supuestos siguientes:

I. No se haya presentado propuesta alguna.
II. A su juicio, ninguna propuesta satisfaga las condiciones estipuladas en las bases de licitación.
III. A su juicio, las propuestas presentadas hayan sido resultado de conformidad.

Artículo 46.- Otorgamiento del permiso y publicación
La Comisión otorgará el permiso a quien, habiendo superado la etapa técnica, ofrezca la propuesta económica más ventajosa conforme al criterio establecido en las bases de licitación.

El permiso será otorgado en el término de un mes a partir de la fecha de emisión del fallo.

En el mismo término, la Comisión publicará en el Diario Oficial de la Federación una descripción del objeto del permiso, el nombre y domicilio del titular acreedor del permiso y la fecha de emisión del fallo.

CAPÍTULO IV. TRANSFERENCIA. MODIFICACIÓN, EXTINCIÓN Y REVOCACIÓN DE LOS PERMISOS

Artículo 47.- Transferencia de los permisos
La transferencia del permiso sólo podrá efectuarse previa autorización de la Comisión, a solicitud de los interesados, cuando el posible permiso:

I. Reuna los requisitos para ser titular del permiso.
II. Se comprometa a cumplir, en sus términos, las obligaciones consignadas en el permiso y, en su caso, en las disposiciones generales para la prestación del servicio.

Artículo 48.- Enajenación de sistemas
El sistema no podrá ser enajenado independientemente del permiso ni viceversa, salvo que el permiso correspondiente hubiere sido revocado.

Artículo 49.- Competencia económica en transferencia
La solicitud de autorización de transferencia de un permiso deberá ir acompañada de copia del acto a la Comisión Federal de Competencia sobre el cambio en la titularidad del mismo.

Artículo 50.- Procedimiento de transferencia
Cuando los solicitantes no acrediten lo dispuesto en el artículo 47, o la información presentada resulte insuficiente, la Comisión se les notificará, a fin de que subsanen las deficiencias en el plazo de un mes; de no hacerlo, la solicitud será desechada de plano.

Una vez satisfechas los requisitos, la Comisión otorgará la autorización de transferencia del permiso en el término de un mes.

Artículo 51.- Gravámenes
El titular de un permiso de transporte, almacenamiento o distribución podrá gravar el permiso y los derechos derivados del mismo para garantizar obligaciones o financiamientos directamente relacionados con la prestación y extensión del servicio, así como deudas de su operación, previo aviso a la Comisión con diez días de anticipación al otorgamiento de la garantía. Cuando el permiso o los derechos derivados del mismo sean gravados para otros fines, se requerirá de la autorización previa de la Comisión.

Los sistemas no podrán ser gravados independientemente de los permisos, ni viceversa.

Cuando sea previsto un procedimiento de ejecución del gravamen, el permisor deberá avisar inmediatamente a la Comisión.

El permisorará deberá dar aviso a la Comisión de cualquier hecho o acto que ponga en riesgo su posesión o propiedad sobre los sistemas, en un plazo de tres días a partir de que tenga conocimiento de ello.

Durante el procedimiento de ejecución de la garantía, el adjudicatario deberá designar un operador que, a juicio de la Comisión, tenga la capacidad técnica necesaria para la prestación del servicio en nombre y por cuenta de aquél.

Artículo 52.- Modificación de los permisos
La modificación de los permisos podrá iniciarse a instancia del permisor o se sujetará al procedimiento previsto en la directiva que al efecto expida la Comisión.

La capacidad establecida en el título del permiso de transporte podrá ampliarse mediante el incremento de la comparación en necesidad de modificar el permiso. En tal caso, el permisor deberá dar aviso a la Comisión dentro del mes siguiente a que tenga lugar dicha ampliación.

Cuando la extensión o ampliación de la estabilidad implique la construcción de nuevos ductos se requerirá la modificación del permiso.

Artículo 53.- Renovación de los permisos
Los permisos podrán renovarse una o más veces conforme a lo siguiente:

I. El permisorará presentará a la Comisión la solicitud de renovación por lo menos dos años antes del vencimiento del permiso o de cada una de las ampliaciones que, en su caso, le hubieren sido autorizadas.
II. El procedimiento a que se sujetará la renovación de los permisos será el previsto en la directiva que al efecto expida la Comisión.
III. Cada renovación se otorgará por un periodo de quince años.

Artículo 54. - Extinción del permiso

Los permisos se extinguirán por:

I. El vencimiento del plazo establecido en el permiso o de la renovación que, en su caso, se hubiere autorizado;

II. La terminación anticipada solicitada por el permisionario y autorizada por la Comisión conforme a este Reglamento;

III. La revocación en los términos de la Ley, o

IV. El agasajo de una condición resolutoria.

Artículo 55. - Terminación anticipada y extinción parcial

El permisionario solicitará a la Comisión, con doce meses de anticipación, la autorización para la terminación anticipada o la extinción parcial del permiso.

El procedimiento a que se sujete la terminación anticipada o la extinción parcial de los permisos será el establecido en la directiva que al efecto expida la Comisión.

Artículo 56. - Abandono del servicio

Existe abandono del servicio cuando un permisionario deje de prestar el servicio objeto de su permiso en forma total o parcial, sin haber obtenido la autorización para la terminación anticipada o la extinción parcial del permiso.

Artículo 57. - Revocación de permisos

La Comisión podrá revocar el permiso por cualquiera de las causas establecidas en el artículo 13 de la Ley.

Artículo 58. - Continuidad del servicio

En los supuestos de las fracciones I, II y IV del artículo 54 y en caso de transferencia, los permisionarios deberán garantizar la continuidad del servicio, no sucediendo suspender operaciones hasta que se otorgue un nuevo permiso, quien deberá adoptar el sistema correspondiente.

En caso de terminación del permiso o abandono del servicio, a la Comisión solicitará a la Secretaría la aplicación de las medidas necesarias para asegurar la continuidad del servicio en los términos de las disposiciones abiertas.

CAPÍTULO I. ESTACIONES DE LOS SERVICIOS

Servicio Público: Disposiciones Generales

Artículo 59. - Naturaleza del servicio de transporte

El servicio de transporte comprende la recepción de gas en un punto de sistema de transporte y la entrega de la misma en el mismo sistema.

Artículo 60. - Naturaleza del servicio de almacenamiento

El servicio de almacenamiento comprende la recepción de gas en un punto del sistema de almacenamiento, y entrega en uno o varios puntos de una cantidad líquida en el mismo punto o en otro conunto del mismo sistema.

Artículo 61. - Naturaleza del servicio de distribución

El servicio de distribución comprende:

I. La comercialización e inicio del gas por el distribuidor a un usuario final dentro de su zona geográfica o

II. La recepción de gas en el punto a las unidades de recogida del sistema de distribución y la entrega de una cantidad similar en un punto distinto del mismo sistema.

Artículo 62. - Condiciones generales para la prestación del servicio

La prestación de los servicios se sujetará a lo previsto en las directivas que expida la Comisión y en las condiciones generales para la prestación del servicio.

Las condiciones generales para la prestación del servicio serán aprobadas por la Comisión, formarán parte del título del permiso y contendrán:

I. Las tarifas para la prestación de los servicios;

II. Los términos y condiciones para el acceso y la prestación de las diversas modalidades del servicio;

III. Los derechos y obligaciones del prestador del servicio y

IV. El procedimiento arbitral que proporcione el permisionario para la solución de controversias derivadas de la prestación de los servicios en los términos de la Ley de la Comisión Reguladora de Energía, Sección Segunda - Acceso a los Servicios.

Artículo 63. - Obligación de acceso abierto

Los permisionarios deberán permitir a los usuarios el acceso abierto y no indebidenmente discriminatorio a los servicios en sus respectivas sistemas, de conformidad con lo siguiente:

I. El acceso abierto y no indebidenmente discriminatorio estará limitado a la capacidad disponible de los permisionarios.

II. La capacidad disponible en que se refiere la fracción anterior se entenderá como aquélla que no sea efectivamente utilizada.

III. El acceso abierto a los servicios sólo podrá ser ejercido por el usuario mediante la celebración del contrato para la prestación del servicio que se trate, salvo lo previsto en el artículo 60.

Cuando el permisionario niegue el acceso al servicio a un usuario teniendo capacidad disponible u ofrezca el servicio en condiciones indebidamente discriminatorias, la parte afectada podrá solicitar la intervención de la Comisión. En el primer supuesto, el permisionario deberá acreditar la falta de capacidad disponible al momento de negar el acceso.

Artículo 64. - Interconexión entre permisionarios

Los permisionarios estarán obligados a permitir la interconexión de otros permisionarios a sus sistemas, cuando:

I. Exista capacidad disponible para prestar el servicio solicitado y

II. La interconexión sea técnicamente viable.
La forma de cubrir el cargo por conexión a que se refiere el artículo 84 será convenido por las partes. Lo dispuesto en este artículo no será aplicable a los distribuidores durante el periodo de exclusividad a que se refiere el artículo 130.

Artículo 65.- Extensión y ampliaciones
Los distribuidores estarán obligados a extender o ampliar sus sistemas dentro de su zona geográfica, a solicitud de cualquier interesado que no sea permisionario, siempre que el servicio sea económicamente viable.

Los transportistas estarán obligados a extender o ampliar sus sistemas, a solicitud de cualquier interesado, siempre que:

I. El servicio sea económicamente viable, o
II. Las partes celebren un convenio para cubrir el costo de los ductos y demás instalaciones que constituyan la extensión o ampliación.

El plazo para realizar la extensión o ampliación por parte del permisionario será convenido por las partes.

Artículo 66.- Desagregación de servicios
Los permisionarios que se encuentren en posibilidad de ofrecer más de una clase de servicios en los términos de este Reglamento, deberán distinguir cada servicio en forma separada y sin condicionar la prestación de uno respecto a otro o a la adquisición del gas, desagregando en la factura correspondiente el precio de adquisición del gas y las tarifas por cada uno de los servicios, de conformidad con las directivas que expida la Comisión.

Artículo 67.- Prohibición de subsidios cruzados
Los permisionarios no podrán subsidiar, por sí o por interpuesta persona, la prestación de un servicio mediante las tarifas de otro o a través de la comercialización de gas, ni subsidiar ésta mediante tarifas.

Los permisionarios deberán informar a la Comisión sobre los términos y condiciones de sus operaciones de comercialización, conforme al artículo 108.

Artículo 68.- Separación de sistemas contables
Para efectos del artículo anterior, los permisionarios deberán separar, en su caso, la información financiera relativa a la prestación de los servicios de transporte, almacenamiento y distribución, así como a la comercialización de gas, de tal forma que se puedan identificar para cada uno de ellos los ingresos, los costos y los gastos de operación.

Petroleras Mexicanas deberán identificar, además, la información financiera relativa a las ventas de primera mano, desagregando en cada caso el precio del gas en las plantas de proceso, la tarifa de transporte respectiva y otros servicios que proporcione, de conformidad con lo establecido en el artículo 100.

A efecto de facilitar el control y la transparencia en la regulación de los servicios permisionados y las ventas de primera mano, la Comisión expedirá directivas con relación al sistema contable a que deberán sujetarse los permisionarios.

Artículo 69.- Mercado secundario de capacidad
Los usuarios podrán ceder directamente o autorizando al transportador para tal efecto, los derechos sobre la capacidad reservada que no pretendan utilizar. La capacidad que se pretenda liberar se publicará en el sistema de información que para tal fin establezca la Comisión.

Sección Tercera.- Obligaciones
Artículo 70.- Obligaciones de los permisionarios en materia de seguridad
En materia de seguridad, los permisionarios tendrán las obligaciones siguientes:

I. Dar aviso inmediato a la Comisión y a las autoridades competentes de cualquier hecho que, como resultado de sus actividades permisionadas ponga en peligro la salud y seguridad públicas, dicho aviso deberá incluir las posibles causas del mismo así como las medidas que se hayan tomado y planeado tomar para hacerle frente.

II. Presentar a la Comisión, en un plazo de diez días contados a partir de aquél en que el suceso se encuentre controlado, un informe detallado sobre las causas que lo originaron y las medidas tomadas para su control.

III. Presentar anualmente, en los términos de las normas oficiales mexicanas aplicables, el programa de mantenimiento del sistema y comprobar su cumplimiento, con el dictamen de una unidad de verificación debidamente acreditada.

IV. Llevar un libro de bitácora para la supervisión, operación y mantenimiento de obras e instalaciones, que estará a disposición de la Comisión.

V. Capacitar a su personal para la prevención y atención de siniestros.

VI. Proporcionar el auxilio que les sea requerido por las autoridades competentes en caso de emergencia o siniestro, y

VII. Las demás que establezcan las normas oficiales específicas.

Artículo 71.- Obligaciones específicas para la prestación de servicios
En la prestación de servicios, los permisionarios tendrán las obligaciones siguientes:

I. Prestar el servicio de forma eficiente y en conformidad a principios de uniformidad, seguridad y confidencialidad.

II. Trabajar coordinadamente en los términos que sea establezca la Comisión mediante la formulación del plan de formación referente a su capacitación disponible y aquella que próximamente se requiera.

III. Dar aviso inmediato a la Comisión de la ocurrencia que implique la extinción de las condiciones en la que se han expedido.
IV. Contratar y mantener vigentes los seguros establecidos en el título del permiso para hacer frente a las responsabilidades en que pudieran incurrir.

V. Contar con un servicio permanente de recepción de quejas y reportes de emergencia.

VI. Atender de inmediato las llamadas de emergencia de los usuarios finales.

VII. Informar oportunamente a la Comisión sobre cualquier circunstancia que afecte o pudiera afectar negativamente la prestación del servicio.

VIII. Abstenerse de realizar prácticas indebidamente discriminatorias, y

IX. Responder a toda solicitud de servicio en el plazo de un mes a partir de su recepción, tratándose de los servicios de transporte o almacenamiento, y de diez dias, tratándose de distribuidores.

Artículo 72.- Demanda económicamente viable

Los distribuidores deberán satisfechar toda demanda de prestación del servicio económicamente viable, en los términos de sus condiciones generales para la prestación del servicio y de lo establecido por este Reglamento.

Artículo 73.- Suspensión de fuga

Los distribuidores están obligados a proporcionar directa o indirectamente el servicio de suspensión de fuga a los usuarios finales, quienes cubrirán los gastos ocasionados por aquéllos que se produzcan en sus instalaciones.

Artículo 74.- Inicio de las obras y de la prestación del servicio

Los permisarios deberán iniciar las obras correspondientes en el plazo de los seis meses siguientes a la fecha de expedición del permiso y dar aviso a la Comisión el inicio de dichas obras con quince días de anticipación.

Los permisarios podrán solicitar a la Comisión, por causa justificada, una prórroga para iniciar las obras respectivas. La Comisión resolverá en el término de un mes, sin que en ningún caso la prórroga exceda de seis meses.

Antes de iniciar sus operaciones, los permisarios deberán contar con el dictamen de una unidad de verificación debidamente acreditada en los términos de la legislación aplicable y dar aviso a la Comisión sobre la fecha de inicio de la prestación del servicio, con quince días de anticipación.

Artículo 75.- Presentación de contratos

La Comisión podrá requerir a los permisarios la presentación de los contratos que celebren con los usuarios, cuyo contenido no podrá ser divulgado.

Sección Cuarta.- Suspensión del Servicio

Artículo 76.- Suspensión sin responsabilidad

El permisario no incurre en responsabilidad por suspensión del servicio, cuando ésta se origine por:

I. Causa fortuita o fuerza mayor.

II. Fallas en las instalaciones del usuario o mala operación de su instalación.

III. Trabajos necesarios para el mantenimiento, ampliación o modificación de sus obras e instalaciones, previo aviso a los usuarios, o

IV. Por incumplimiento del usuario a sus obligaciones contractuales.

Artículo 77.- Suspensión, restricción o modificación del servicio

Cuando por caso fortuito o fuerza mayor el permisario se vea en la necesidad de suspender, restringir o modificar las características del servicio, lo hará del conocimiento de los usuarios por los medios de comunicación con mayor difusión en las localidades que se trate, indicando la duración de la suspensión, restricción o modificación, los días y horas en que ocurrirá y las zonas afectadas.

Cuando la suspensión, restricción o modificación de las características del servicio haya de prolongarse por más de cinco días, el permisario deberá presentar para su aprobación ante la Comisión el programa que se aplicará para enfrentar la situación.

Dicho programa procurará que la suspensión, restricción o modificación del servicio provoque los menores inconvenientes para los usuarios y establecerá los criterios aplicables para la asignación del gas disponible entre los diferentes usuarios y tipos de usuarios.

Artículo 78.- Aviso de suspensión

Cuando la suspensión se origine por las causas previstas en la fracción III del artículo 76, el permisario deberá informar a los usuarios, a través de medios masivos de comunicación en la localidad respectiva, y de notificación individual tratándose de industrias y hospitales. En cualquier caso, dicho aviso se dará con no menos de cuatro y ocho horas de anticipación al inicio de los trabajos respectivos, indicándose el día, hora y duración de la suspensión, restricción o modificación del servicio y la hora en que se reanudará, debiéndose indicar con claridad los límites del área afectada. La falta de aviso dará lugar a que el permisario incurra en responsabilidad.

El permisario procurará que los trabajos a que se refiere el párrafo anterior se hagan en las horas y días en que disminuya el consumo de gas, para afectar lo menos posible a los usuarios.

Artículo 79.- Bonificación por faltas o deficiencias

En caso de suspensión del servicio ocasionada por causas distintas a las señaladas en el artículo 76, el permisario deberá beneficiar al usuario, al expedir la factura respectiva, una cantidad igual a cinco veces el importe del servicio que hubiere estado disponible de no ocurrir la suspensión y que el usuario hubiere tenido que pagar. Para calcular dicho importe se tomará como base el consumo y el precio medio de las facturas anteriores. Dicho mecanismo deberá estar escrito en las condiciones generales para la prestación del servicio.

Artículo 80.- Quejas y reclamaciones

El permisario deberá atender las quejas y reclamaciones de s...
Artículo 81. Metodología para el cálculo de las tarifas

La Comisión expedirá, mediante directivas, una metodología para el cálculo de las tarifas iniciales y para su ajuste.

La metodología deberá permitir a los permisionarios que utilicen racionalmente los recursos, en el caso de las tarifas iniciales, y a los permisionarios eficientes, en el caso de su ajuste, obtener ingresos suficientes para cubrir los costos adecuados de operación y mantenimiento, aplicables al servicio, los impuestos, la depreciación y una rentabilidad razonable.

La aplicación de esta metodología no garantizará los ingresos, costos o rentabilidad esperada del permisionario.

Dicha metodología no será obligatoria cuando existan condiciones de competencia efectiva o la voluntad de la Comisión de la Comisión Federal de Competencia. Los permisionarios pueden solicitar a ésta que declare la existencia de condiciones de competencia efectiva.

Artículo 82. Tarifas máximas

Las tarifas para la prestación de los servicios serán tarifas máximas y deberán ser propuestas por los interesados en obtener un permiso.

Las partes podrán pactar libremente un precio basado en la tarifa máxima para un servicio determinado, siempre y cuando la tarifa convencional sea inferior al costo variable de proveer el servicio establecido, determinado conforme a la metodología a que se refiere el artículo anterior. Los permisionarios no podrán fijar la prestación del servicio al establecimiento de tarifas convencionales.

La Comisión deberá asegurar que las tarifas basadas en que los usuarios tengan acceso a los servicios en condiciones de rentabilidad, seguridad, calidad.

Artículo 83. Tarifas indebidamente discriminatorias

Las tarifas que aplican los permisionarios no podrán ser indebidamente discriminatorias o estar basadas en el cobro de otros servicios.

Artículo 84. Comportamiento de las tarifas

Las tarifas para cada servicio permisionado no podrán incluir en sus conceptos y cargos aplicables al servicio, los cargos por conexión, porción de la tarifa basada en un mínimo fijo por el costo de operación del sistema y que podrá ser cubierto en una o más exhibiciones.

II. Cargo por capacidad, porción de la tarifa basada en la capacidad reservada por el usuario para satisfacer su demanda máxima en un periodo determinado, y

III. Cargo por uso de porción de la tarifa basada en la prestación del servicio.

Artículo 85. Reglas de tarificación

Las tarifas propuestas por los permisionarios, podrán establecer diferencias por:

I. Modalidad de la prestación de cada servicio;

II. Categoría y localización del usuario;

III. Condiciones del servicio, y

IV. Otros usos comerciales generalmente aceptados en la industria.

Artículo 86. Ajuste

Los permisionarios ajustarán periódicamente las tarifas de acuerdo con la metodología a que se refiere el artículo 81, que considerará los elementos siguientes:

I. Los indicadores que reflejen los cambios de precios de los bienes y servicios utilizados por los permisionarios;

II. Los cambios en el régimen fiscal aplicable a los servicios permisionados; y

III. Un factor de ajuste que refleje el aumento, en la eficiencia en la prestación de los servicios a los usuarios. Este factor de ajuste no se aplicará a los permisionarios durante los primeros cinco años de vida del permiso.

Las tarifas que resulten del ajuste a que hace referencia este artículo deberán ser sometidas a la aprobación de la Comisión.

Artículo 87. Revisión global

Cuando los permisionarios hayan pactado con los usuarios tarifas diferentes a las autorizadas, deberán informar a la Comisión inmediatamente sobre las tarifas aplicadas durante el período inmediato anterior.

La Comisión podrá publicar información sobre las tarifas convencionales.

Artículo 88. Subsidios gubernamentales

El otorgamiento de subsidios gubernamentales a través de las tarifas que podrán derivarse de disposiciones de las autoridades competentes y deberá cubrirse con recursos que dichas autoridades asignen para tal propósito.

El otorgamiento de estos subsidios no deberá afectar los ingresos de los permisionarios ni representar un costo para los mismos. Su aplicación deberá ser transparente y quedará expuesta en las tarifas cobradas a los usuarios.
CAPÍTULO VII. PRECIO DE VENTA AL USUARIO FINAL

Artículo 90.- Precios

El precio que los distribuidores cobren a los usuarios finales estará integrado por:
I. El precio de adquisición del gas;
II. La tasa de transporte y almacenamiento;
III. La tasa de almacenamiento, y
IV. La tasa de distribución.

De conformidad con las directrices que en su caso expida la Comisión, las partes podrán acordar formas de fijar los precios distintos a la suma de los componentes anteriores, siempre y cuando no se incurra en prácticas indebidamente discriminatorias. Dicho precio no podrá ser inferior al costo variable del servicio, determinado conforme a las directrices citadas.

En el caso al usuario final, los distribuidores deberán desglosar el valor del gas en el punto o puntos de recepción del distribuidor y la tasa de distribución.

Artículo 91.- Variaciones de precios y tarifas

Los distribuidores podrán trasladar a sus usuarios finales las variaciones que sufran el precio de adquisición de gas y las tarifas de transporte y almacenamiento, de acuerdo a lo establecido en las condiciones generales para la prestación del servicio.

La Comisión expedirá, a través de directivas, la metodología que deberán utilizar los distribuidores para el cálculo de los precios de adquisición de gas y para establecer en las condiciones generales para la prestación del servicio.

Artículo 92.- Verificación del traslado de precios de adquisición del gas

La Comisión, o el oficio a que se dé nombre de la Comisión, podrá verificar que los precios de adquisición del gas trasladados a los usuarios finales durante las seis meses anteriores al inicio de la verificación.

Esta verificación deberá incluir, como mínimo, el precio de adquisición del gas asentado por el distribuidor, el costo y condiciones de las alternativas viables de suministro del distribuidor y los precios de adquisición del gas trasladados a otros usuarios finales por otros distribuidores.

Cuando, como resultado de la verificación, la Comisión determine que los precios trasladados son excesivos, el distribuidor acreditará a los usuarios finales una cantidad equivalente a la porción del precio cobrado en exceso.

Artículo 93.- Información de precios

Los distribuidores deberán informar periódicamente a la Comisión sus precios y condiciones de adquisición de gas y los precios trasladados a los usuarios finales.

La Comisión podrá publicar los precios trasladados a los usuarios finales.

CAPÍTULO VIII. TRANSPORTE Y ALMACENAMIENTO PARA USOS PROPIOS

Sección Primera. Disposiciones Generales

Artículo 94.- Régimen especial

Cuando la actividad de recibir, conducir y entregar gas por medio de ductos tenga por objeto satisfacer exclusivamente las necesidades del solicitante, la Comisión podrá otorgar a éste un permiso de transporte para usos propios.

Cuando la actividad de almacenamiento tenga por objeto satisfacer exclusivamente las necesidades del solicitante, la Comisión podrá otorgar a éste un permiso de almacenamiento para usos propios.

Los permisos de transporte y almacenamiento para usos propios se sujetarán a las disposiciones de este capítulo y no confieren derecho a prestar servicios a terceros, salvo lo dispuesto en el artículo 96.

Los titulares de permisos para usos propios tendrán las obligaciones a que se refiere el artículo 70.

Sección Segunda. Transporte para Usos Propios

Artículo 95.- Permisos de transporte para usos propios

Los permisos de transporte para usos propios serán otorgados para una cantidad y en trayecto determinados y sus titulares sólo podrán ser usuarios finales o sociedades de autoabastecimiento.

Artículo 96.- Sociedades de autoabastecimiento

Sólo los usuarios finales que consuman gas para usos industriales, comerciales y de servicios podrán constituir o formar parte de sociedades de autoabastecimiento.

Las sociedades de autoabastecimiento sólo podrán otorgar permisos de gas a los socios que integren.

Artículo 97.- Transporte para usos propios en zonas geográficas

Cuando la solicitud de permiso de transporte para usos propios se presente dentro de los primeros dos años del periodo de exclusividad del distribuidor de la zona geográfica donde se ubique el solicitante o cualquiera de los socios que formen parte de la sociedad de autoabastecimiento, deberá acreditarse un consumo-promedio anual mayor a sesenta mil metros cúbicos diarios de gas o su equivalente por parte del solicitante o de la totalidad de los socios que formen parte de la sociedad de autoabastecimiento.

Cuando la solicitud que se refiere el párrafo anterior se presente dentro del tercer o cuarto año del periodo de exclusividad, se reducirá a treinta mil metros cúbicos diarios de gas o su equivalente el consumo promedio anual requerido.

El otorgamiento de permisos de transporte para usos propios dentro de una zona geográfica no estará condicionada a verificaciones mínimas de consumo a partir del quinto año del periodo de exclusividad del distribuidor correspondiente.

Artículo 98.- Aviso previo al distribuidor

El interesado en obtener un permiso de transporte para usos propios que sea usuario del servicio de distribución deberá dar aviso al distribuidor con tres meses de anticipación a la presentación de la solicitud correspondiente.

El titular de un permiso de transporte para usos propios a los usuarios finales que formen parte de la sociedad de autoabastecimiento.
sociedad de autoabastecimiento podrá recontratar el servicio de distribución, en cuyo caso el distribuidor podrá cobrarle un cargo por recontratación en los términos de sus condiciones generales para la prestación del servicio.

Sección Tercera.-Almacenamiento para Usos Propios

Artículo 59.- Permisos de almacenamiento para usos propios

Los permisos de almacenamiento para usos propios serán otorgados para la localización específica y una capacidad determinada.

Artículo 100.- Restricciones a transportistas y distribuidores

Los transportistas o distribuidores no podrán ser titulares, por sí o por interpuesta persona, de un permiso de almacenamiento para usos propios.

Sección Cuarta.- Procedimiento para el Obtención y la Modificación de Permiso para Usos Propios

Artículo 101.- Solicitud de permiso

El interesado en obtener un permiso de transporte o almacenamiento para usos propios deberá presentar una solicitud a la Comisión, que contendrá:

I. El nombre, razón social, denominación y domicilio del solicitante.
II. En su caso, la copia certificada de la escritura constitutiva con sus reformas o la documentación que acredite su existencia legal.
III. Los documentos que acrediten la personalidad y las facultades del representante legal.
IV. El objeto, la descripción, el trazado o localización y las especificaciones técnicas del proyecto.
V. En su caso, el promedio anual de consumo diario.
VI. La descripción general de los sistemas y mecanismos de seguridad para la operación y el mantenimiento del sistema.
VII. La capacidad de conducción o almacenamiento del proyecto, y
VIII. En su caso, la copia del aviso a que se refiere el artículo 68.

Artículo 102.- Tramitación y otorgamiento

La Comisión examinará la solicitud en el término de un mes. Cuando la solicitud no cumpla con los requisitos establecidos o la información presentada resulte insuficiente, la Comisión lo notificará al solicitante, quien deberá subsanar las deficiencias en el plazo de un mes. De no hacerlo, la solicitud se entenderá desechada de plano.

Una vez satisfecho los requisitos, la Comisión otorgará el permiso correspondiente en el término de un mes.

Artículo 103.- Procedimiento para la modificación de los permisos

La modificación de los permisos para usos propios se sujetará, en lo conducente, a lo dispuesto en los dos artículos anteriores.
Ventas de primera mano.
II. Precios y saldos.
III. Volumen de ventas distintas de las de primera mano.
IV. Volumen de gas conducido y almacenado.
V. Información corporativa, contable y financiera.
VI. Información sobre los contratos que contengan los permisos con relación a la prestación de los servicios.
VII. Circunstancias que afecten o pudieran afectar gravemente la prestación del servicio.
VIII. Capacidad de las sistemas y asignación de la misma.
IX. Programas de mantenimiento y seguridad.
X. Otras obligaciones establecidas en este Reglamento, en las normas oficiales mexicanas y en las directivas, y
XI. Las demás que la Comisión considere necesarias.

Artículo 109. - Información y prospectiva.
La Secretaría publicará anualmente un documento de prospectiva sobre la conformación del mercado nacional de gas. Este documento deberá elaborarse con rigor metodológico y a partir de la información más actualizada y confiable. La prospectiva deberá describir y analizar, para un periodo de diez años, las necesidades previsibles del país en materia de gas y complementar:
I. La evolución futura de la demanda nacional y regional;
II. La capacidad de producción existente y esperada,
III. La capacidad de transporte y distribución existente, así como las necesidades de expansión, rehabilitación, modernización, sustitución o interconexión de capacidad.

Artículo 110. - Procedimiento para la expedición de directivas.
Cuando la expedición de directivas se lleve a cabo mediante el procedimiento de consulta pública, se observará lo siguiente:
I. La Secretaría publicará en el Diario Oficial de la Federación, sin autorizar la revisión, los temas que haya de notar, la descripción de la información que requiera para su elaboración o, en su caso, el proyecto de directiva que al efecto hubiere formulado. En este último caso no se aplicarán al procedimiento las fracciones II y III de este artículo.
II. Los interesados podrán presentar a la Comisión sus comentarios, la información que considere relevante o el contenido del anteproyecto que hubieren formulado, en un plazo de dos meses contados a partir de la publicación de a que se refiere la fracción anterior.

La Comisión establécerá los comentarios, la información y los anteproyectos recibidos y formulará un proyecto de directiva que será publicado en el Diario Oficial de la Federación en el término de un mes a partir de la exposición del plazo para recibir comentarios.

Cuando interesado podrá presentar a la Comisión los comentarios que considere con relación al proyecto de directiva en el plazo que se señale, que en ningún caso podrá ser menor a un mes a partir de la publicación del proyecto.

 Dentro del mes siguiente a la fecha en que termine el plazo a que se refiere la fracción anterior, la Comisión estudiará los comentarios recibidos y, en su caso, expedirá la directiva, la cual será publicada en el Diario Oficial de la Federación por lo menos con un mes de anticipación a su entrada en vigor.

En cualquier caso del procedimiento del artículo 79, la Comisión podrá convocar a audiencias para conocer las necesidades y puntos de vista de los interesados sobre el objeto y contenido de la directiva.

TRANSITORIOS.

Primeros: Este Reglamento entrará en vigor al día siguiente de su publicación en el Diario Oficial de la Federación.

Segundo: Dentro de los cuatro meses siguientes a la entrada en vigor de este Reglamento, la Secretaría expedirá una norma oficial mexicana sobre las características y especificaciones del gas natural que se inyecte a los sistemas de transporte, almacenamiento y distribución.

Tercero: La Comisión deberá expedir, en un plazo de cuatro meses a partir de la entrada en vigor de este Reglamento, las directivas relativas a los precios de ventas de primera mano y a las tarifas para la prestación de servicios de transporte, almacenamiento y distribución.

Cuarto: Para los efectos del artículo 89, el sistema de información deberá entrar en operación el primero de enero de 1988. Mientras tanto, el permisario público, en un sistema de información propio, la capacidad que pretenda liberar los usuarios.

Quinto: Petroleos Mexicanos deberá presentar a la Comisión tan pronto como sea posible, pero en un plazo no mayor a doce meses a partir de la entrada en vigor de este Reglamento, información sobre sus actividades de transporte y comercialización de gas natural, la cual deberá contener:

I. Estadísticas anuales sobre volúmenes transporte, precios, ventas, importaciones y exportaciones;
II. Localización geográfica y características de sus sistemas;
IV. Cualquier información adicional relacionada con el gas natural que solicite la Comisión.

Sexto.- Petróleos Mexicanos deberá prestar, en la medida de sus posibilidades técnicas, el servicio de transporte conforme a las disposiciones de este Reglamento. Los interesados en obtener dicho servicio deberán solicitarlo por escrito a Petróleos Mexicanos, y tendrá copia de la solicitud a la Comisión Reguladora de Energía. Petróleos Mexicanos deberá dar respuesta a dichas solicitudes en el término de un mes.

Petróleos Mexicanos podrá negar el servicio sólo cuando no cuente con capacidad disponible en sus lineamientos y equipo, en cuyo caso deberá manifestar por escrito las razones que justifiquen la negativa y enviará copia de la misma a la Comisión Reguladora de Energía, quien podrá atenerse en los términos de las disposiciones jurídicas aplicables.

Petróleos Mexicanos compartirá con un plazo de veinticuatro meses a partir de la entrada en vigor de este Reglamento, para establecer y poner en operación los sistemas de información y los mecanismos quegarantizan el acceso abierto a lechos en sus sistemas de transporte. Para tal efecto, Petróleos Mexicanos deberá someter a la aprobación de la Comisión, dentro de los seis meses siguientes a la entrada en vigor de este Reglamento, un programa detallado sobre la forma en que obligará gradualmente el acceso abierto a terceros a sus sistemas de transmision durante el periodo que se refiere el párrafo anterior. Dicho programa deberá dar prioridad a aquellos mercados con mayor potencial competitivo.

Séptimo.- Petróleos Mexicanos continuará realizar sus actividades de transporte de gas natural, en los términos de la Ley y este Reglamento, para lo cual se le considerará otorgado un permiso provisional, las disposiciones reglamentarias al tratarse de mediciones, aplicables en lo conducente.

Petróleos Mexicanos deberá presentar a la Comisión una solicitud en los términos del artículo 32, fracciones I y V, dentro de los ocho meses siguientes a la entrada en vigor de este Reglamento, una vez presentada la solicitud de elección, la Comisión expedirá los permisos de transporte correspondientes en un plazo no mayor de cuatro meses.

Octavo.- Las personas que estén realizando actividades de distribución de gas natural a la entrada en vigor de este Reglamento, podrán continuar realizando dichas actividades. La Comisión les otorgará, en el término de un mes a partir de la entrada en vigor de este Reglamento, un permiso provisional por doce meses.