FitchRatings

# FITCH AFFIRMS PEMEX'S FC AND LC IDRS AT 'BBB/BBB+'; OUTLOOK STABLE

Fitch Ratings-Buenos Aires-08 July 2011: Fitch Ratings has affirmed the foreign currency Issuer Default Rating (FC IDR) and all outstanding internationally rated debt securities of Petroleos Mexicanos (PEMEX) at 'BBB'. The rating affects approximately USD44 billion of international debt issuances. Fitch has also affirmed PEMEX's local currency (LC) IDR at 'BBB+' and its National long-term rating 'AAA(mex)'.

Further, Fitch has withdrawn the ratings of issuances related to transactions that have been repaid in full or exchanged for new notes, including those that were originally issued by 'PEMEX project Funding Master Trust' (Trust) and 'Fideicomiso Irrevocable de Administracion F/163'. Fitch has also assigned a 'BBB' rating to several notes that had been formerly issued by the Trust and have been transferred to PEMEX as obligor - all of which has now been reflected in Fitch's website.

The Rating Outlook is stable.

PEMEX's ratings reflect its linkage to the government of Mexico and the company's fiscal importance to the sovereign. The ratings also reflect the company's solid pretax income, export-oriented profile, and its dominant domestic market position. The ratings are tempered by PEMEX's significant adjusted debt levels, sizable but declining proven hydrocarbon reserves, negative net worth position, substantial tax burden, large capital investment requirements, and exposure to political interference risk.

Strong Linkage to the Government
As a state-owned entity, PEMEX's ratings are linked to the credit profile of Mexico, whose FC and LC IDRs are 'BBB' and 'BBB+', respectively. PEMEX is the nation's largest company and one of its major sources of funds. Over the past five years, its transfers to the government have averaged 54.8% over sales, or 119.5% of operating income. As a result, PEMEX's balance sheet has weakened as reflected by a negative net worth. Despite pari passu treatment with sovereign debt in the past, PEMEX's debt lacks an explicit guarantee.

Strong Pre-tax Credit Metrics
In the latest 12-month (LTM) period ended in March 2011, PEMEX reported an EBITDA (excluding pension expenses) of approximately USD63.5 million, up from USD49.9 million in 2009. This reflects higher realization of crude oil prices (USD92 per barrel in March 2011; USD72 in 2010; USD57 per barrel in 2009) that compensated for the negative margin of the refining segment. Funds from operations amounted to USD12 billion as transfers to the government also increased. LTM capital expenditures as of March 2011 were USD15.3 billion and free cash flow was negative USD4.3 billion.

PEMEX is expected to continue implementing sizable capital investments in an attempt to sustain and potentially increase current production volumes. The company's historical significant tax burden, however, has limited access to internally generated funds, forcing a growing reliance on external borrowings. As of March 2011, total debt was $54.5 billion and leverage (Debt/EBITDA) was 1.0 times (x) compared to 0.7 in 2008. Adjusting for the underfunded pension plan and other post employment benefits (OPEBs), debt practically doubled to USD111.1 billion, and adjusted leverage increased to 1.7x compared to 1.0x in 2008.

Production Still Declining But at Lower Rates
In 2010, PEMEX's crude oil production continued to decrease to 2,580 million barrels per day (Mbpd), but at a slower rate than in past years. In 2010 production decreased 1%, compared to a decrease of 6.8% in 2009 and 9.2% in 2008. This trend continued through the first quarter of 2011 and is mostly the result of a more intensive use of technology in the Cantarell field and increased

drilling activities in several strategic oil fields including Ku-Maloob-Zaap, Crudo Ligero Marino, Ixtal-Manik and Delta del Grijalva.

The stabilization of the production platform is positive, although it is too early to decisively discount the possibility of future declines in oil production. Budgetary constraints and capacity issues could still derail the planned stabilization/increase of oil production. PEMEX is expected to continue to focus on diversifying its portfolio. The company is contracting private oil companies to conduct research and test new technologies to capitalize on the potential of existing areas. After considerable delays in getting approval for the incentive-based contracts that will be used to attract private investment in the oil sector, PEMEX expects to announce the first round of such contracts in the third quarter of 2011. Although the need to engage the private sector is biggest in deep-sea exploration, such contracts are likely to be used initially for attracting investment in mature fields. It is unclear at present how successful such contracts will be in boosting private investment in the sector.

As of December 2010, PEMEX's hydrocarbon reserves were 13.8 billion barrels of oil equivalent (boe) (1.4% below 2009 levels) which represents an average reserve life of 10 years. PEMEX' reserve replacement rate has increased from 26% in 2005 to 88% in 2010.

PEMEX, Mexico's state oil and natural gas company, is the nation's largest company and ranks among the world's largest vertically integrated petroleum enterprises. As of December 2010, it reported oil production of 3.8 million boe daily, refining capacity of 1.5 million bpd, proven hydrocarbon reserves of 13.8 billion boe (74% oil and 17% natural gas and 9% of condensates and liquids), 68% of which are developed as of December 2010.

Fitch has assigned 'BBB' ratings to the issuances detailed below, the majority of which were originally issued under the Trust:

Senior Unsecured Notes due 15-Nov-11; USD187,7 million; 8,00%
Senior Unsecured Notes due 01-Feb-22; USD160,2 million; 8,63%
Senior Unsecured Notes due 05-Dic-23; JPY 30 billion; 3,50%
Senior Unsecured Notes due 15-Dic-14; USD365,1 million; 7,38%
Senior Unsecured Notes due 24-Feb-25; EUR1000 million; 5,50%
Senior Unsecured Notes due 15-Dic-15; USD234,9 million; 5,75%
Senior Unsecured Notes due 15-Jun-35; USD2750 million; 6,63%
Senior Unsecured Notes due 03-Dic-12; USD687,1 million; Variable
Senior Unsecured Notes due 01-Mar-18; USD2488,7 million; 5,75%
Senior Unsecured Notes due 15-Jun-38; USD496,7 million; 6,63%
Senior Unsecured Notes due 05-Ago-13; EUR500 million; 6,25%
Senior Unsecured Notes due 05-Ago-16; EUR850 million; 6,38%
Senior Unsecured Notes due 01-Dic-23; USD131 million; 8,63%
Senior Unsecured Notes due 15-Sep-27; USD328 million; 9,50%
Senior Unsecured Notes due 30-Mar-18; USD116,8 million; 9,25%
Senior Unsecured Notes due 13-Oct-14; CHF500 million; 3,50%
Senior Unsecured Notes due 02-Jun-41; USD1250 million; 6,50%.

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Additional information is available at 'www.fitchratings.com'

Available Criteria and Related Research:
'Corporate Rating Methodology' Aug. 16, 2010;
'Oil and Gas Sector Exploration and Production Rating Methodology' Apr. 7, 2010.

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Oil and Gas Sector Exploration and Production Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=509845