Fitch Upgrades PEMEX and Related Entities; Rating Watch Positive

Fitch Ratings-Chicago-20 September 2007: Fitch Ratings has upgraded the Foreign Currency Issuer Default Rating (FC IDR) and all outstanding internationally rated debt securities of Petroleos Mexicanos (PEMEX) to ‘BBB’ from ‘BBB-’. In addition, Fitch has upgraded PEMEX’s Local Currency (LC) IDR to ‘BBB+’ from ‘BBB’. Fitch has also affirmed the National long-term rating and all related nationally rated debt securities at ‘AAA(mex)’. In conjunction with these upgrades, Fitch has placed PEMEX’s IDRs and internationally rated securities on Rating Watch Positive.

In association with these rating actions, Fitch has upgraded PEMEX Project Funding Master Trust and all outstanding debt securities of to ‘BBB’ from ‘BBB-’. Fitch has also upgraded the IDR of PEMEX Finance Ltd. and all related debt securities issued from the trust to ‘A’ from ‘A-’. In conjunction with these upgrades, Fitch has placed all of these ratings on Rating Watch Positive.

These ratings changes follows Fitch’s upgrade of the United Mexican States’ (UMS) FC IDR to ‘BBB+’ from ‘BBB’ and its LC IDR to ‘A-’ from ‘BBB+’. The upgrade of the sovereign’s credit ratings comes on the heels of the recent passage of a new fiscal tax regime by the Mexican Congress, which should be passed into law by President Calderon in the near future. Additional factors underpinning the upgrade of Mexico’s ratings include a strengthening policy framework, its continued resilience in the current unfavorable external environment, as well as its prudent public debt liability management that has strengthened the depth of the local capital markets.

As a state-owned oil company, PEMEX’s foreign currency rating remains highly linked with the sovereign. Fitch has rated PEMEX one notch lower than the UMS since 2005. The notching between the rating of PEMEX and the UMS was incorporated due to the government’s fiscal regime which virtually stripped away all of the PEMEX’s free cash flow and resulted in the steady erosion of PEMEX’s equity capital and required PEMEX to fund its large and growing capital investment program with debt. The company’s debt increased to MXP 537 billion at the end of 2005 from MXP 219 billion at the end of 2001 and net worth declined to

MXP -27 billion from MXP 123 billion. PEMEX’s debt is not guaranteed by the government.

The Rating Watch Positive reflects the possibility that the recently passed legislation, along with prior tax reform passed in 2006, could slow the growth in PEMEX’s debt level as it copes with challenges relating to reversing production declines. The Watch is likely to be resolved upon the enactment of the legislation and a full review of financial consequences upon PEMEX. Continued rapid growth of the debt levels at PEMEX and absent further expected fiscal reforms at UMS would likely lead to the maintenance of the existing ratings.

Expected passage of a new fiscal regime would lower PEMEX’s ordinary duty on hydrocarbons to 74% from 79% beginning in 2008, until reaching 71.5% in 2012. The company expects annual tax savings of USD$2.0 to USD$3.0 billion. These tax savings are in addition to those obtained under the Current Fiscal Regime valid since 2006. They, along with other measures and a new approach by the current administration, could allow PEMEX to make needed investments with cash flow, as opposed to debt.

For more information on Fitch’s upgrade of UMS please see the Sept. 19, 2007 press release ‘Fitch Ratings Upgrades Mexico to 'BBB+'’ available on the Fitch Ratings web site ‘www.fitchratings.com’.

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