Petróleos Mexicanos HR A- (G)

Rule 17g-7 Information Disclosure Form

Corporates
September 23, 2019

Ratings

PEMEX	HR A- (G)
Outlook	Negative

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Definition

The long-term global rating assigned to Pemex is HR A- (G). This indicates that the issuer or issue with this rating offers acceptable safety for timely payment of debt obligations and maintains low credit risk on a global scale basis. The negative sign means a relative weakness into the assigned rate.

Rule 17g-7 Information Disclosure Form

The Rating Action Commentary (RAC) associated with this disclosure form is an integral part of the form.

1. **Symbol, Number, or Score in the Rating Scale used by HR Ratings as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

Entity/Instrument	Rating Action	Rating Type	Rating Code
Pemex 6.49% Notes due 2027 ISIN: US71654QCQ38	Assigned	Long Term Rating	HR A- (G) / Negative
Pemex 6.84% Notes due 2030 ISIN: US71654QCT76	Assigned	Long Term Rating	HR A- (G) / Negative
Pemex 7.69% Bonds due 2050 ISIN: US71654QCW06	Assigned	Long Term Rating	HR A- (G) / Negative

2. **Version of the Procedure or Methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

The rating assigned by HR Ratings to the entity and its notes / issues is based in accordance with the following methodologies established by the rating agency:

- Corporate Debt Credit Risk Evaluation, May 21st, 2014
  https://www.hrratings.com/docs/metodologia/Corporate%20Debt%20Credit%20Risk%20Evaluation%20Final.pdf
- General Methodological Criteria, March 28th, 2019
  https://www.hrratings.com/docs/metodologia/GMC%20March%202019.pdf
- Sovereign Debt Methodology, May 19th, 2017
  https://www.hrratings.com/docs/metodologia/0Sovereign%20Debt%20Methodology.pdf

3. **Main assumptions and principles used in constructing the procedures and methodologies to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The methodology is founded upon the analysis performed under a base case and stress case scenario, which are primarily based on the entity's historic, current and projected financial statements. The credit risk analysis reflects our view of the entity's ability and willingness to make interest and principal payments promptly and in full. The ratings do not reflect expected recoveries in the event of default, nor do they incorporate views about non-credit factors that may impact the trading price of the entity's issues.

HR Ratings' methodology for Corporate Debt Credit Risk evaluates relative credit risk across different entities within an asset class.

The rating process consists of two basic components:

a) Determination of the Initial Rating (IR) or Quantitative analysis:

HR Ratings makes a quantitative analysis of annual audited reports and intra-annual financial statements that provides insight of the financial administration of the entity. Taking in consideration the historical analysis and guidance given by the entity, HR Ratings projects for the next three years the financial statements in a base and a stress scenario. In order to validate guidance given by the entity, it is compared with historical data and guidance given in past years. Ideally, this methodology assumes the existence of five years of historical data to serve as the basis for making projections. However, in the absence of such history, the analysis committee will decide whether, within the context of each entity or asset class, the information available is minimally acceptable in order to proceed with a rating.

The base case scenario represents HR Ratings' estimate of the most likely evolution over time of the entity's financial position. It considers guidance provided by the entity's senior management team, but we don´t incorporate that guidance as a given. The stress case scenario assumes a less favorable mix of assumptions compared to those utilized in the base case scenario.

Stress case assumptions are determined in relations to those of the base case and are standardized for the asset class in question. The stress case scenario may also incorporate different assumptions that are unique to a specific entity. For example, the stress case may consider less favorable outcomes of a major acquisition, or a significant increase in debt burden after embarking on a sizeable project that could severely affect an entity's financial position.

The main purpose of this methodology is an evaluation of the credit quality of an entity and its debt whose normal servicing is not given any *structured preference* relative to other forms of debt. However, the final credit ratings of specific debt obligations may be adjusted based on preferences that it might enjoy in situations of distress. For its part, *preferred structure* debt will generally be serviced by all or part of a specific revenue stream and will have priority (via a cash *waterfall*) in the receipt of these funds. To insure the prioritization a trust or special purpose vehicle may be created.

As part of the credit risk evaluation process, the analysis committee may distinguish among preferred, non-preferred and subordinated sub-categories. The committee may also give different ratings to specific debt that is strengthened by credit enhancement mechanisms such as guarantees from financial institutions and development banks. The credit rating process of an entity also takes into consideration related group obligations. This refers to the impact on an entity's debt obligations of credit events on the debt of related parties. In these instances, the ratings may be negatively affected by the relationship to the debt of related parties with lower credit ratings. This extends to other liabilities that might be activated by credit events occurring in related entities.

In measuring the amount of debt, this methodology requires analysts to endeavor to adopt a relatively broad definition such as relevant off-balance sheet obligations or liabilities that may trigger a default. Where appropriate, the Methodology Committee will create more precise definitions tailored to a specific asset class.

Once projections are made, our model calculates the Free Cash Flow (FCF), which is the core concept in order to calculate the four metrics that determine the initial rating. These four metrics are: i) Debt Service Coverage Ratio ("DSCR"), ii) DSCR with cash, iii) Years of Payment of Net Debt and iv) Marketable Assets to Liability Coverage Ratio ("MALC"). The model calculates a weighted average between these metrics and between years in both base and stress scenarios. The weighted sum of the normalized metric values for the two scenarios will determine the IR as converted to a letter grade using HR Ratings' credit risk scale.

The committee also evaluates the trend in the evolution of the key metrics used in the quantitative component of the rating process. Furthermore, a sharp increase in debt amortizations following the conclusion of the forecast period might be viewed as negative and in certain circumstances could justify a decision on the part of the analysis committee to extend the time horizon of the forecast period and recalibrate the relative weights for each year in the measurement of the metrics.

For this analysis a technical note was considered, explaining the adjustment made to Pemex´s taxes in the Free Cash Flow calculation. The main reason behind this adjustment is based on the high level of taxation that has been imposed on Pemex, as a state entity, operating as a virtual public utility monopoly extracting resources that ultimately belong to the State and not to Pemex, hence, we add back a portion of its taxes. This is done in order to evaluate its FCF as if it were a "normal" corporate entity. This gives us an Adjusted Free Cash Flow measure. Also, the technical note clarifies why Pemex debt is considered Sovereign, as a qualitative adjustment.

b) Qualitative Adjustments to the initial rating:

Once the IR is determined, the methodology then evaluates the adjustments that might be needed based on the incorporation of a variety of additional qualitative factors. The final adjustment may be multi-notch, either raising or lowering the IR. It is not possible to give a predetermined individual relative weight to any qualitative factor. The analysis committee will determine each factor's impact as neutral, positive or negative. Also, the qualitative component takes into consideration the quality of the information provided and the penalization, if any, of a limited period of historical data.

Among the main qualitative factors that are likely to be highly relevant to all entities are:

i. **Corporate Governance:** This includes factors such as the presence of independent members on the Board of Directors and procedures to provide adequate compliance with locally appropriate regulations regarding internal operations.

ii. **Liquidity and Credit Lines:** Although an entity may be structurally solvent, it could also have liquidity issues not entirely reflected in the DSCR measures. Alternatively, an entity could have access to credit lines that would provide it with liquidity. In evaluating credit lines, it is important to incorporate the degree of commitment that a lending institution has to extend the credit even in times of financial stress.

iii. **Industry Risk:** This includes factors such as the industry's future prospects, the pace of technological change, barriers to entry and cyclicality.

iv. **Company Market Position:** Here we consider whether an entity is a strong or weak participant within the industry, whether or not that position is changing or at risk of changing (e.g., technology, loss of patents), and whether or not a company depends upon a limited number of customers.

v. **Regulatory Risk:** This includes such factors as whether the industry is highly regulated such that participants might face sanctions, and whether the regulation is subject to change such that it could harm or benefit the entity being rated. Political and labour relations risks are also considered here.

vi. **Accounting Risk:** Although this methodology generally assumes the accuracy of information audited by reputable accounting firms, the analysis committee has the prerogative to penalize a rating if it believes that the quality of the information is low, but enough to evaluate the financial evolution of the entity.

vii. **Project and Financial Risk:** Under this factor we review if the company is currently engaged in a new venture or acquisition and if it is it exposed to exchange rate volatility.

viii. **Group Risk:** This refers to factors apart from those included in the debt covenants. An entity might be linked to a powerful group of shareholders that can provide it with financial resources in times of stress. Or, it might be linked to businesses that are weakening and shareholders might decide to transfer resources (via dividends or inter-company loans) from the entity being rated to weaker elements of the group.

ix. **Property enhancements:** Debt may be backed by liens on assets held by the entity. The existence of such enhancements may have a positive impact on the final rating depending upon the legal nature of the lien, the valuation of the property and the prospects of monetizing the asset.

On the other hand, the Analysis Committee has the faculty of deciding if an entity or issuance will enjoy the same level of credit risk as the sovereign risk of the entity where it resides, or if applicable determine to what degree such entity or issuance counts with the support of the federal government, currently and in the future, to be able to respond as a guarantor. The assignment of sovereign risk to an entity is justifiable when it:

a) Provides substantial financial support or income to the Federal or Central Government, consequently a default will immediately deprive the public sector of important revenue flows.
b) Substantial harm to the economy in the case of default of the entity thus places significant burdens on the government such that it will feel obliged to support the entity to avoid non-payment.
c) Significant political influence such that authorities will feel compelled to intervene in order to prevent default.

In those cases, in which an entity or issue is deemed to enjoy sovereign risk status, the rating process, as reflected in the report, will consist of:

a) A discussion as to why the entity or issue merits sovereign risk status.
b) Definition of relevant macroeconomic and business variables, including full financial projections, including a complete stress case analysis.

A technical note was prepared, including two fundamental principles regarding the credit rating that HR Ratings applies to Pemex. The first one is the Adjusted Free Cash Flow, which we explained in the Quantitative Analysis section. The second one is in relation to our we believe that the Federal Government has an implicit guaranty to support Pemex debt, hence, the rating given to Pemex must be the same as the rating we give to the Mexican Sovereign Debt. This Sovereign Debt rating is not a rating for Mexico's Federal Government, as such, but rather a rating for the bulk of the debt included in Mexico's Federal Public Sector. Formally, Mexico's Federal Public Sector debt includes the debt of: 1) The Federal Government, 2) The Productive State

Enterprises (*Empresas Productivas del Estado*) and 3) the Development Bank sector (*Banca de Desarrollo*). Pemex is included within the second as a Productive State Enterprise.

4. **Potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7**

- HR Ratings does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.
- Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default.
- The credit ratings do not opine on the liquidity of the issuer's securities or stock.
- The credit ratings do not consider the possible loss severity on an obligation default.
- The credit ratings are not an opinion of the market value of any issuer's securities or stock, or the possibility that this value suffer a deterioration.

5. **Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7**

The Analysis Committee noted no material limitations on the reliability, accuracy and quality on the data relied on in determining the credit rating.

The Analysis Committee noted no material limitations on the scope of historical data or on the accessibility to certain documents or other information that would have better informed any credit rating listed in this disclosure form.

The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

6. **Use of third party due diligence services as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7**

HR Ratings did not use third party due diligence services for its rating actions.

7. **Use of servicer or remittance reports to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7**

HR Ratings does not use Servicer or Remittance Reports to conduct surveillance of its rating actions.

8. **Description of types of data about any obligor, issue, security or money market instrument relied upon for determining credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7**

Among the main information sources used for the rating is:

- Annual Audited reports obtained from public record, regulatory filings and PEMEX.
- Inter-annual financial statements and operational results.
- Reserves report issued by a specialized third party.
- Projections, budget and guidelines provided by the Federal Government and the entity.
- Presentations issued by the Company.
- Legal documentation of the entity's debt obtained from public sources and PEMEX.
- Global reports related to the Petroleum Industry issue by governments and specialized information providers.
- Pemex's institutional database.
- Federal Government Annual budgets and programs.
- Relevant events published by the entity.

9. Overall assessment of quality of information available and considered in determining credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

The quality of the information provided by the entity is considered to be consistent with the quality observed within the asset class.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, and (iii) the procedure and process of voting on our Analysis Committee. The Analysis has been performed with complete independence from the received fees or any other business relation with the entity and in absolute concordance with the applicable methodologies.

The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

11. Explanation or measure of potential volatility to the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule17g-7

The main factors that could lead to the volatility of the rating are:

- The Mexican Government reduces its implicit support to the Company through capital injections or policies that will contribute to improve its financial and operative results.
- Pemex could not reverse the observed negative trend on the crude oil production and could not achieve the defined production levels, which is the key factor of its New Business Plan and an important revenue generator (through taxes) in the Federal Government Forecast.
- The Company implements several of the initiatives it has announced: mechanism to determine gasolines prices seeking to reflect international prices, reduce the crude oil steal at its pipelines, cost and expenses controls and profitable segments looking to maintain a no increase of net indebtedness until 2021, and a gradual reduction of its debt for the years to follow.
- Recovery or deterioration of the international crude oil prices.
- Lower recovery rates of its reserves due to the natural decline of *Cantarell* and the low substitution of its production with new fields.
- Higher presence of water-oil contacts and fractional flow on wells at some shallow water offshore fields which could develop into higher extraction costs.
- Higher pressure on the entity's liquidity due to investment restrictions, inefficiencies in its industrial transformation segment and its current high tax burden.
- Deterioration of the relationship between Mexico and the United States of North America which could result in a reduction of crude oil exports impacting the Company's main source of income.
- Disagreements with its Labor Union that could derive in a reduction of its operational levels due to strikes or higher cost due to inefficiencies.
- Higher non-scheduled shutdown in its refineries and delays in the implementation and go-live of the new planned Refinery of Dos Bocas, coupled with a higher investment cost than planned.
- The Company doesn't adjust its operations to face the new competition due to the liberalization of gasoline and gas prices through the arrival of other companies.
- Reduction of access to international markets for funding of its monetary requirements or an increased debt service cost due to higher interest rates, which could also impact the debt structure of the entity by reducing the maturity term of its debt.
- Higher pressure from the Federal Government to reduce its liabilities with suppliers and on the other hand, the possible desertion of some key suppliers due to harsher terms of payments and tariffs.

12. Historical performance and expected probability of default and expected loss in event of default as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

The rating assigned to Pemex is aligned with HR Ratings' sovereign rating for Mexico since HR Ratings assumes that Pemex's debt enjoys a sovereign de facto status given its strategic importance for the Federal

Government and the Mexican economy. Therefore, any deterioration or improvement of the sovereign rating for Mexico will directly impact Pemex's rating.

For historical performance of each rating listed in the disclosure form, click on the link in the ratings table presented on the first page.

Our credit ratings need to be understood as rankings of the relative creditworthiness of different entities or credits. Creditworthiness takes into consideration both the ability and willingness to meet debt obligations in the manner prescribed in the relevant documentation. Default refers to the noncompliance of previously agreed obligations.

As our ratings measure relative creditworthiness they do not necessarily reflect any specific statistical probability of default. In order to make more valid rankings of creditworthiness our different methodologies will apply stress case scenarios to complement our base case analysis.

13. Assumptions made by HR Ratings in determining announced credit ratings and examples of how assumptions impact the rating as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

Status of Sovereign Debt. Pemex's debt enjoys a sovereign status de facto because we consider them to be a relevant income generator for the Mexican Federal Government and due to its importance to Mexico's economy. This assumption is relevant since the stand alone rating of Pemex, based only on its IR, is lower than Mexico's sovereign rating.

Crude Production growth and Reserves restitution. The main element that supports the strategy of the current administration and future revenue generation for the Federal Government is the reversion of the decline trend on the crude oil production, hence, our estimates considers a gradual growing trend of the production levels, taking into consideration the observed investments and works that the Pemex has already done in the development of new fields, however, we projected that the reserves restitution ratio will be under pressure.
Price estimates. The Mexican crude oil export mix average has showed a declining trend, that we estimate will continue in the periods to follow, as they will be impacted by weaker global indicators, the possible extension of OPEC agreement and geopolitical conflicts in Middle East and Latin America, coupled with growing production level in the United States of America.

Indebtedness levels. Taking into consideration the planned support from the Federal Government to Pemex, we considered that the entity will achieve its defined short-term objective of no increase of net indebtedness between 2019 and 2021, and a gradual reduction of its debt in the years to follow, however, the success of this target will depend on the crude oil production levels and efficiencies that the entity could achieve.

National Refining System. The crude oil processing at the NRS continue showing lower levels, however, is expected that Pemex will fully reactivate the six refineries in a short-term. But there is a risk that the refining margin will not improve if Pemex cannot reduce its no programed stops, increase their utilization ratio and actualize them to process more profitable product.

Adequate relationship with Union: The entity has maintained an adequate relationship with its Union achieving the reform in its Pension fund. HR Ratings assumes that this good relationship will prevail.

Professionalization of its Corporate Governance and focusing on elevating its efficiency. HR Ratings assumes that the current administration is focused on improving the proficiency of its operations to transform into a State Productive Enterprise with the freedom to define its strategies and business plan.

14. Representations, warranties and enforcement mechanisms available to investors as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7

The reporting of representations, warranties, and enforcement mechanisms does not apply to the credit rating listed in this disclosure form as it is not assigned to an asset-backed security.

15. Attestation as required by Paragraph (a)(1)(iii) of Rule 17g-7

With respect to each credit rating in this disclosure form, José Luis Cano, who served on the rating committee and is thus a person with responsibility for each credit rating action announced in the associated Rating Action Commentary, state that to the best of their knowledge:

- No part of the credit rating was influenced by any other business activities;
- The credit rating was based solely upon the merits of the obligor, security or money market instrument being rated and any relevant credit enhancement; and
- The credit rating was an independent evaluation of the risks and merits of the obligor, security or money market instrument and any relevant credit enhancement

This attestation is based on (i) all relevant material reviewed by the committee chair in connection with each rating action announced in this RAC; (ii) the committee chair's participation in the rating committee that determined each credit rating action announced in this RAC; and (iii) attestations provided to the committee chair by all other voting members of the rating committee as part of the rating process.

Mexico City, September 2019

/s/ José Luis Cano, Corporates Executive Director / ABS

José Luis Cano Mendoza, Executive Director / Corporates ABS
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The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, and (iii) the procedure and process of voting on our Analysis Committee.

HR Ratings' ratings and/or opinions are opinions of credit quality and/or regarding the ability of management to administer assets; or opinions regarding the efficacy of activities to meet the nature or purpose of the business on the part of issuers, other entities or sectors, and are based exclusively on the characteristics of the entity, issuer or operation, independent of any activity or business that exists between HR Ratings and the entity or issuer. The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. HR Ratings, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information. Most issuers of debt securities rated by HR Ratings have paid a fee for the credit rating based on the amount and type of debt issued. The degree of creditworthiness of an issue or issuer, opinions regarding asset manager quality or ratings related to an entity's performance of its business purpose are subject to change, which can produce a rating upgrade or downgrade, without implying any responsibility for HR Ratings. The ratings issued by HR Ratings are assigned in an ethical manner, in accordance with healthy market practices and in compliance with applicable regulations found on the www.hrratings.com rating agency webpage. There Code of Conduct, HR Ratings' rating methodologies, rating criteria and current ratings can also be found on the website.

Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The rating fee that HR Ratings receives from issuers generally ranges from US$1,000 to US$1,000,000 (or the foreign currency equivalent) per issue. In some instances, HR Ratings will rate all or some of the issues of a particular issuer for an annual fee. It is estimated that the annual fees range from US$5,000 to US$2,000,00 (or the foreign currency equivalent).