

SHCP

SECRETARÍA DE HACIENDA
Y CRÉDITO PÚBLICO

SENER

SECRETARÍA DE ENERGÍA

CNH

Comisión Nacional
de Hidrocarburos

Mexico's Energy Reform: Moving Forward

April, 2015

Mexico's Energy Reform: Brief Update

Regulatory Framework

- 21 Laws
- 26 Regulations

State Productive Enterprises

- Pemex and CFE's transformation into SPEs

Rounds

- Round Zero, Round One Bids

Institutions

- Strengthening of:
CRE & CNH
- Creation of:
ASEA, CENACE,
CENAGAS, FMP

Special Funds

- Investment & National Suppliers Development
- Universal Power Service

Fostering the Local Industry's Development

- Local Content Methodology
- National Industry Development Council (government, industry, academy)
- Human Resources Development Strategic Program
- Modernization of the Mexican Petroleum Institute
- Creation of 3 specialized R&D centers

Transparency and Accountability

The new regime establishes unprecedented transparency standards to provide greater certainty to investors and promote an optimal use of Mexico's natural resources and wealth.

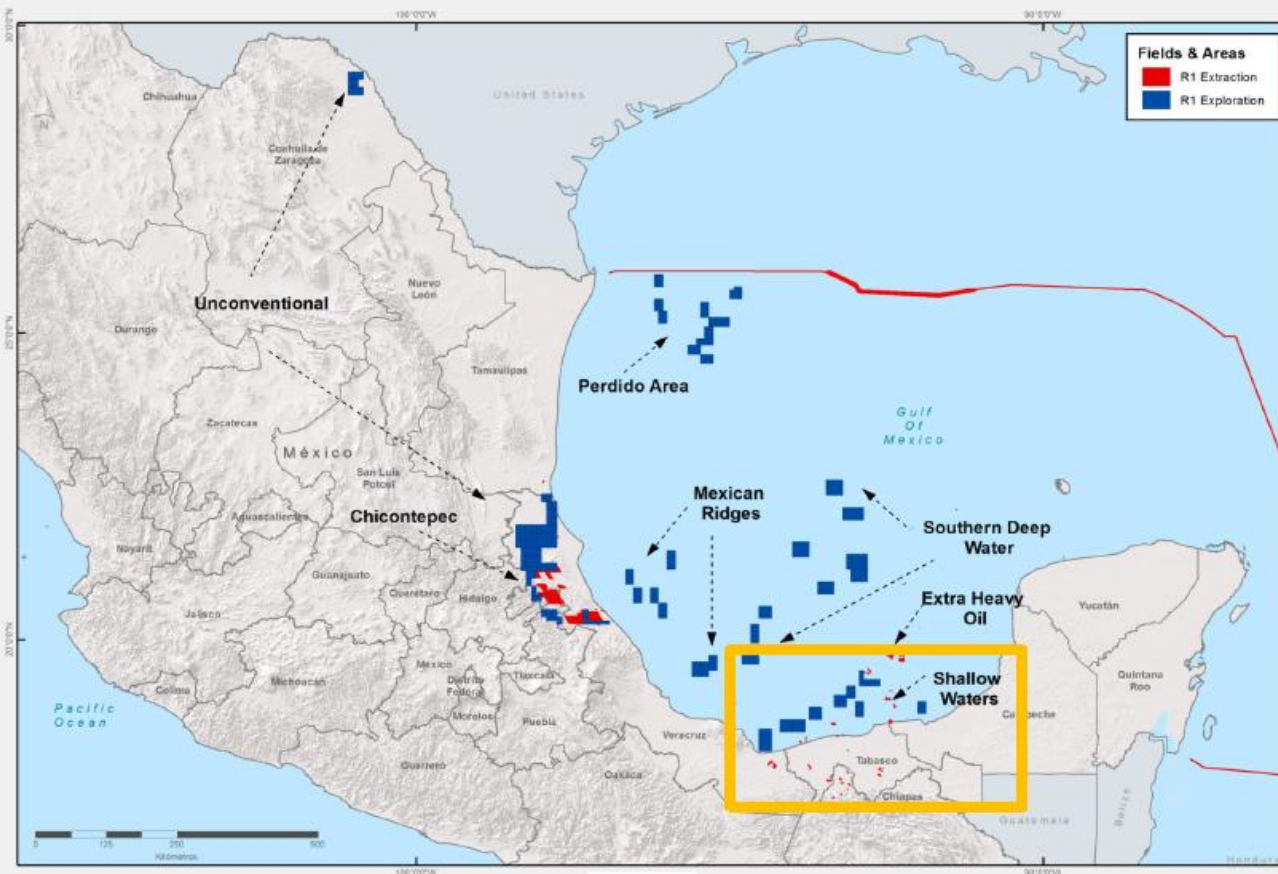
New Tools

- **Checks and balances** amongst institutions.
- **Publicly available information.**
- **Live sessions** (bidding rounds, regulatory agencies meetings)
- **Strict Ethics Codes.**
- **Clear feedback mechanisms** throughout the **bidding process.**
- **Pemex and CFE** will disclose their **financial results** following **Mexican Stock Market Act** .

Mexico is working on its candidacy to join the **Extractive Industries Transparency Initiative (EITI).**

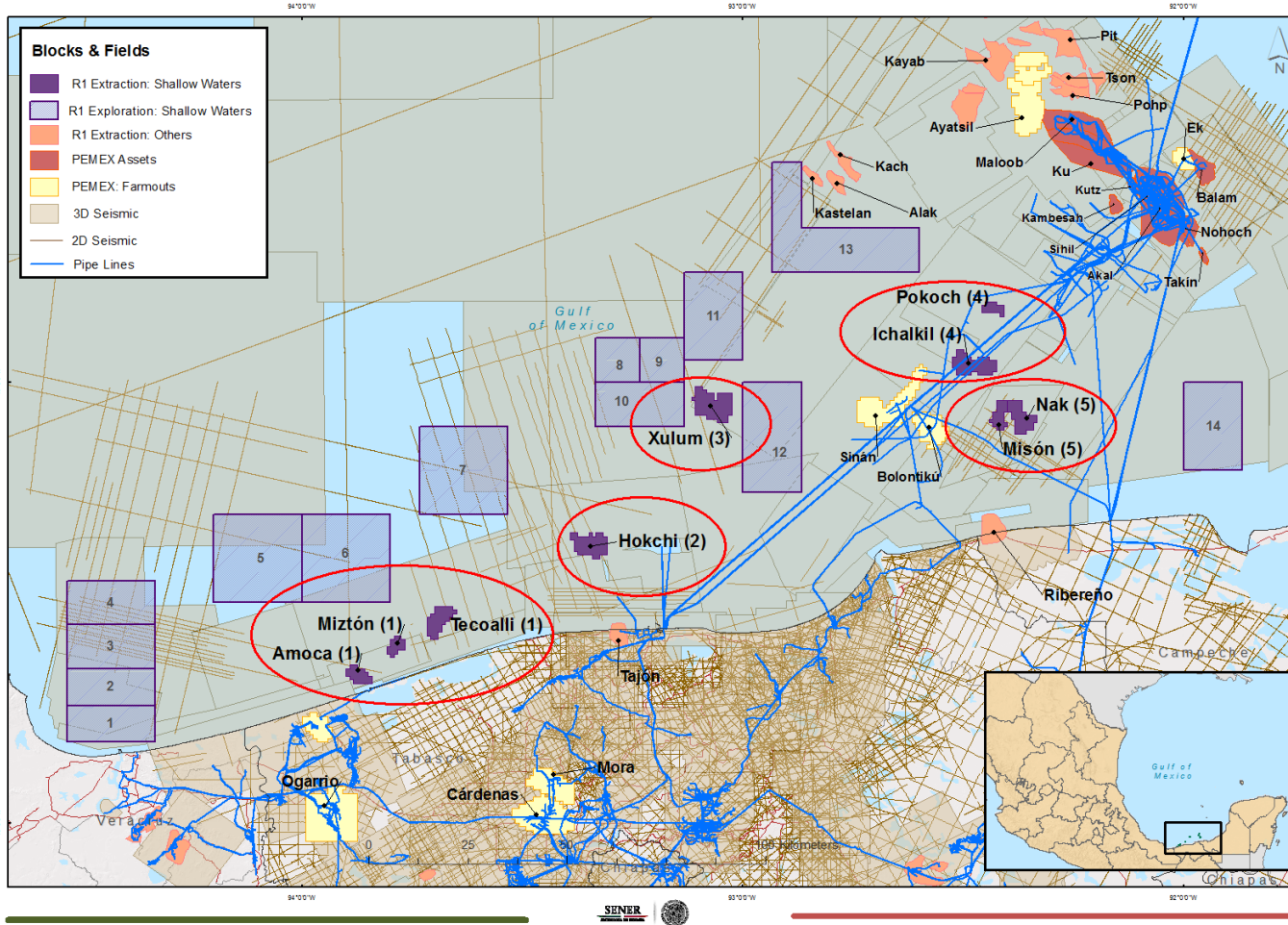


Round 1: First Approach



- **183 blocks**
 - Exploration: 109
 - Extraction: 60
 - Pemex's Farm-outs: 14 (in 10 contracts)
- Surface Area: **11,240 mi² (29,112 Km²)**
- Total estimated resources: **19,945 MMboe***
- **Separate bids** for shallow waters, onshore mature fields, deep waters, unconventional, and Chicontepec will be issued **throughout 2015**.

Round 1: First and Second Bid



FIRST BID

- 14 contractual areas
- Prospective resources: **687 MMbcoe**
- Total surface area: **1630 mi²** (4,222 km²)
- Blocks ranging from: **45 to 193 mi²** (116 to 500 km²)

SECOND BID

- 9 fields in 5 contractual areas
- Certified reserves:
 - 1P: 143 MMboe
 - 2P: 355 MMboe
 - 3P: 671 MMboe
- Blocks ranging from **16 to 26 mi²** (42 to 68 km²)
- 123 mbd

All these areas present low geological risk and have easy access to existing transport infrastructure.

Round 1: Key Changes to the Contract Model

Rescission	Guarantees and Insurance
<ul style="list-style-type: none"> ▪ Administrative: Hydrocarbons Act breaches. Fault remediation grace period and procedures. ▪ Contractual: Unjustified actions. Direct consultations prior to an arbitrage process (UNCITRAL rules). 	<ul style="list-style-type: none"> ▪ Guarantor: parent company or a controlling company ▪ Compliance: Covers MWC and the Investment Increment. ▪ Insurance: Can be issued by an affiliate with an investment grade rating.
Minimum Work Commitment (MWC)	Duration
<ul style="list-style-type: none"> ▪ Working Units allows for greater flexibility ▪ Carrying forward work beyond MWC. 	<ul style="list-style-type: none"> ▪ First bid: 30 years that can be extended for two additional 5-year periods for the production stage, and 4 years + 2 for exploration. ▪ Second bid: 25 years that can be extended for two additional 5-year periods for the production stage, and 2 years + 1 for appraisal. ▪ Extensions: authorized based on additional investment commitments.

Round 1: Key Changes to the Contract Model

Procedure Simplification	Plans' Approval
<ul style="list-style-type: none">▪ Individual bidders can switch to financial partners.▪ Simplified authorization procedure for operator change	<ul style="list-style-type: none">▪ Longer filing periods.▪ CNH approval: Evaluation (60 days) and Development (120 days)▪ Deemed approvals.▪ Measurement point within or outside de contractual area.
Tender Basis	
<ul style="list-style-type: none">▪ Corporate structure: set up to 15 days prior to the awarding date.▪ Data Room Access: 7 months.▪ Additional Investment Variable: quantified in Working Units.	

Round 1:

Key Changes to the Contract Model

Fiscal Terms

- **Measuring point:** located within or outside the contractual area.
- **Adjustment Mechanism:** applicable when profit before tax is **higher than 20%** (before it was at 15%) and **less than 35%** (instead of 30%).
- **Contractor's participation:** will **increase to 25% from the initial %** resulting from the bidding process (compared to 20% established earlier).
- Elements that enhance **certainty:**
 - Procedures to determine payments to the State and the Contractors;
 - Accounting, risk, registration and cost recovery, expenses and investment procedures;
 - Procurement of goods and services' guidelines; and,
 - Procedures related to information and payment submissions to the Mexican Petroleum Fund.
- It's worth noting that **some clarifications have been** made regarding the hydrocarbons' **contract value**, the procedures to determine **monthly payments, activities and tasks that can be registered, abandonment terms, audits and reporting**, amongst others.

Round 1:

Production Sharing Contracts Main Fiscal Terms

The PSC Model selected for Round One's First and Second Bids (shallow waters) has the following parameters:

Elements defined by the Law:

Corporate Income Tax (CIT)	30%
Contractual fee for the exploratory phase	First 60 months: 1,150 MXN per Km ² , 2,750 MXN thereafter
Exploration and production activities tax	1,500 MXN per Km ² during exploration, 6,000 MXN per Km ² during extraction
Royalties	Formula based on hydrocarbons' prices

For CIT, ring-fence applicable to the E&P industry.

For Contractual payments, ring-fence applicable on a contract by contract basis.

Elements defined in the Rules of Bidding Process

Cost Recovery Limit	60% of income per period
Adjustment mechanism	Defined formula

Element to be defined in the tender:

Government's Production Share

Round 1: Bidding Calendar

Areas and Fields	Shallow Waters Exploration	Shallow Waters Extraction	Mature fields	Deep Waters and Extraheavy Oil	Unconventionals	Chicontepec
Bid launch date	December 2014	February 2015	April 2015	Second Semester 2015		
Data rooms open	January 2015	March 2015	April 2015	Second Semester 2015		
Areas	14 exploration contracts	9 fields in 5 contracts				

Production Sharing Contracts

Award Dates

First Bid: **July 15th, 2015**

Second Bid: **Sept. 30th, 2015**

First Bid update*:

- 49 companies have expressed interest
- 42 have requested access to the Data Room (39 have been approved and paid their access)
- 34 have signed up for the bid

Second Bid update*:

- 16 companies have expressed interest
- 16 companies have requested access to the Data Room (11 have been approved and 7 have paid their access)
- 4 have signed up for the bid

* Last update: April 1st, 2015.

SHCP

SECRETARÍA DE HACIENDA
Y CRÉDITO PÚBLICO

SENER

SECRETARÍA DE ENERGÍA

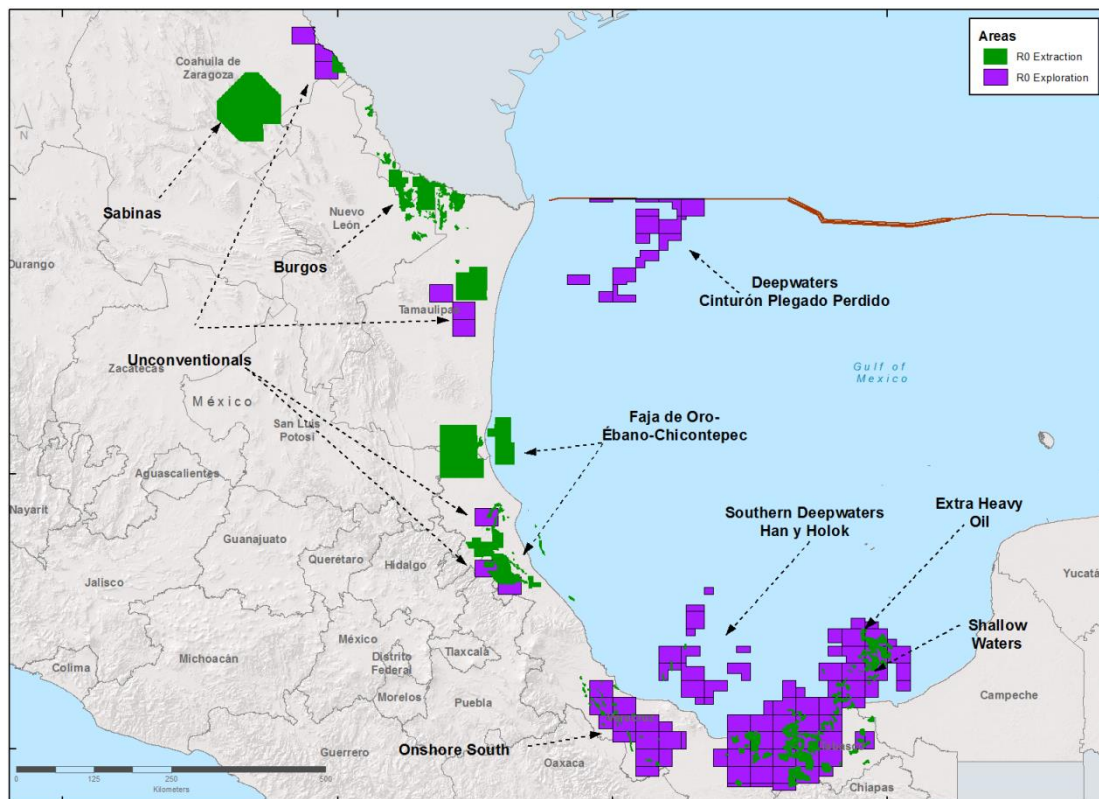
CNH

Comisión Nacional
de Hidrocarburos

www.ronda1.gob.mx

www.energia.gob.mx

April, 2015



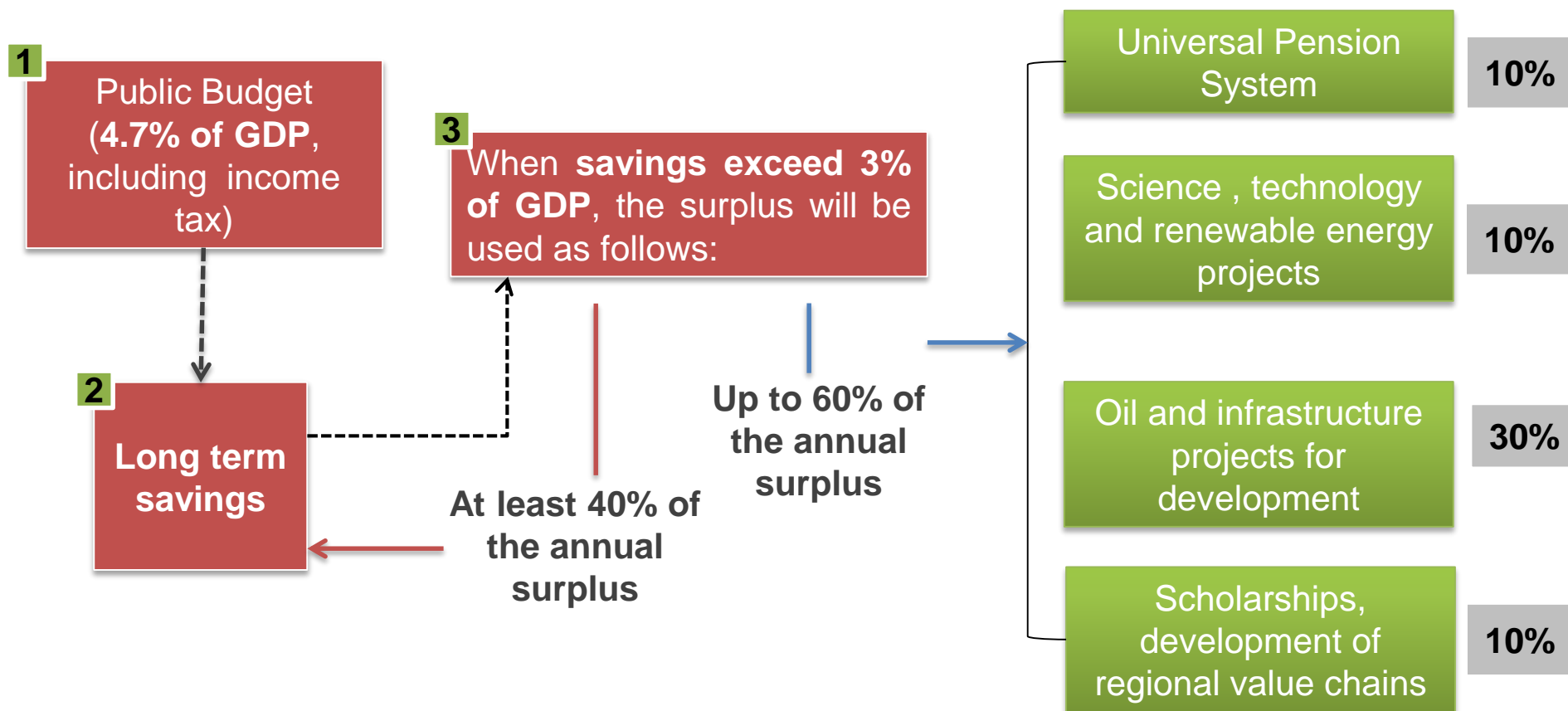
Pemex's Entitlements

- Surface area:
34.7 thousand mi²
(90 thousand Km²)
- **83% of Mexico's 2P reserves**
- **21% of Mexico's prospective resources**
- Production platform:
2.5 MMbd for 20.5 years

Migration of CIEPs & COFPs to the new contract Model

- Pemex has presented **9 migration requests** so far.
- 3P reserves: 672 MMboe
- Prospective resources: 1,225 MMboe
- **13 additional contracts** could migrate in a second stage.

Mexican Petroleum Fund for Stabilization and Development



*The FMP started receiving monthly transfers from Pemex on **Jan. 19th, 2015**, and started the distribution of resources amongst different stabilization funds on **Jan. 20, 2015**. The FMP's financial information can be consulted at:*

www.fmped.org.mx