



México

Proposed Reforms for the O&G Industry

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Introduction



Asociación Mexicana de
Empresas de Servicios
Petroleros A.C.

Was created in 2009 to bring together private companies that perform O&G services for Pemex

Looks to concur, integrate and promote the views and proposals of its associates to improve its positioning in the industry

Main initiatives:

- Promote local content
- Encourage the development and improvement of the supply chain
- Support the formation of local technical resources
- Sponsor the formation of regional clusters
- Look for alternative financial sources for local companies

Since the Mexican O&G constitutional amendments were enacted, it has kept an active role with congress, government agencies and private organizations to promote its initiatives

One of its key targets is to drive capable local companies to become industry operators

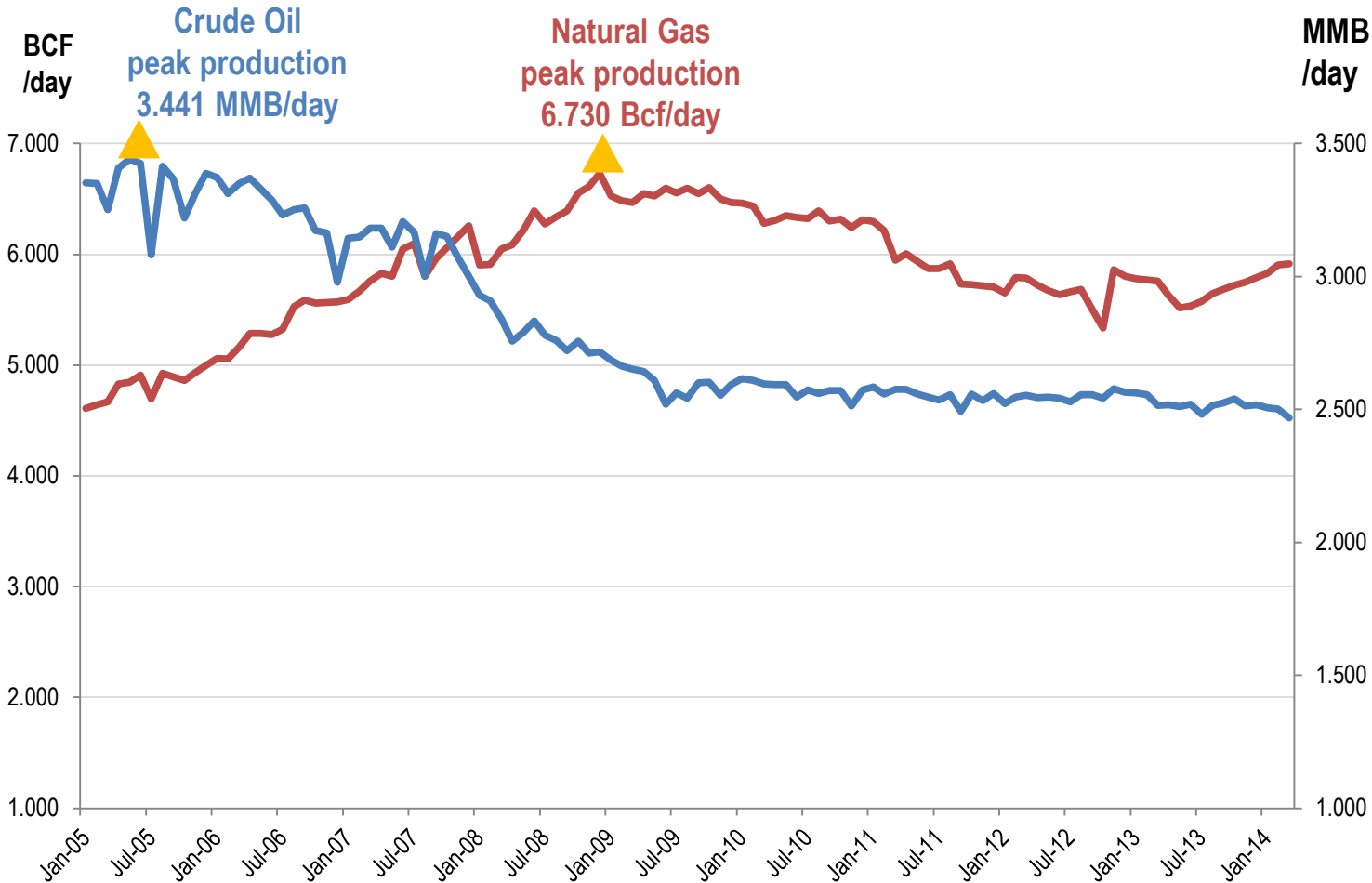
Mexico Hydrocarbon Resources under Round 0

	Cumulative Production	Certified Reserves up to 2013			Prospective resources	Total
		1P	2P	3P		
Billion Boe						
Total resources	55.0	13.9	12.3	18.3	114.8	159.3
Pemex proposal Round 0		13.5	10.2	13.0	35.6	72.3
Resources to be contracted		0.4	2.1	5.3	79.2	87.0
Percentages						
Pemex proposal		97	83	71	31	45
Resources to be contracted		3	17	29	69	55
		100	100	100	100	100



Oil & Gas Plays

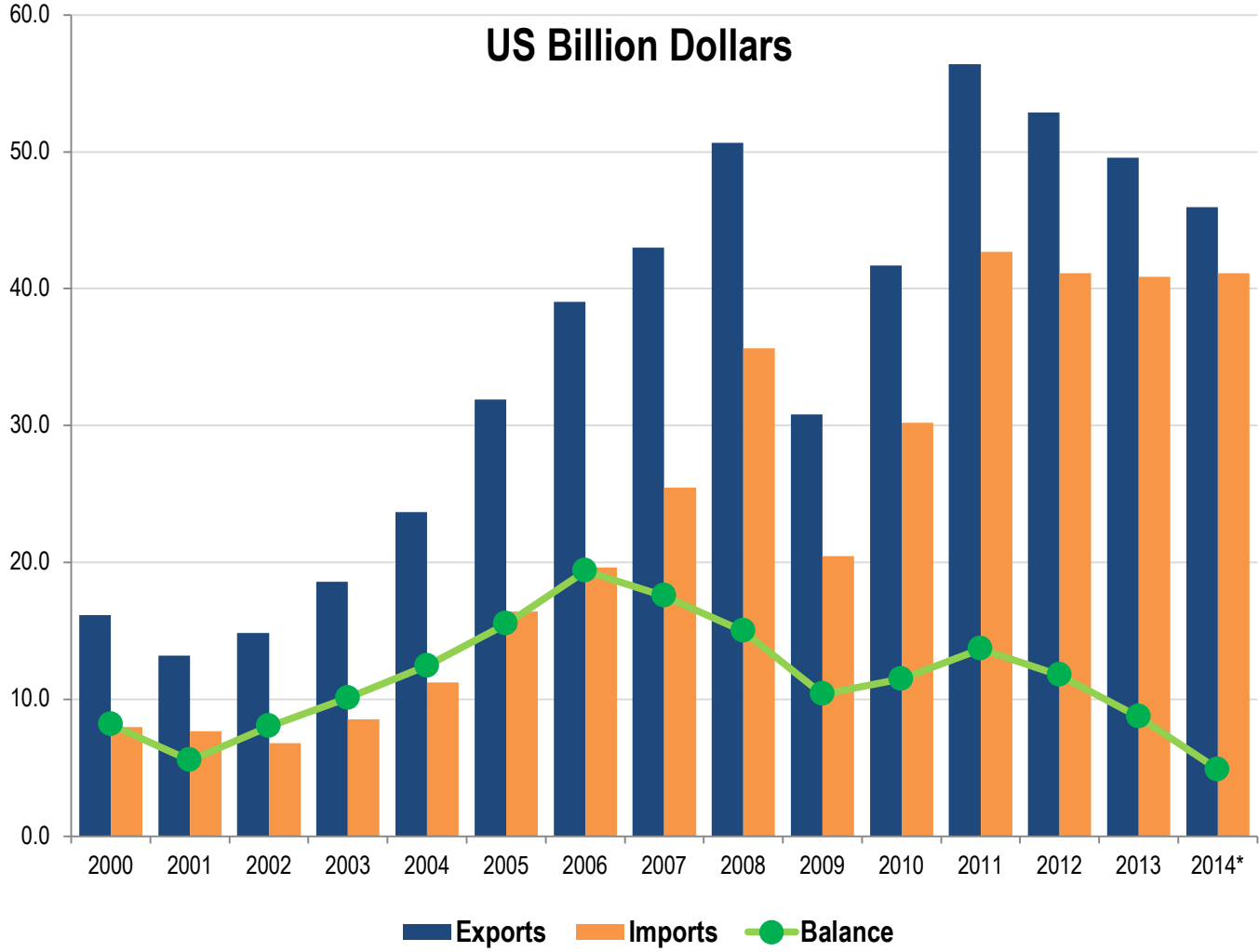
- Pemex proposal for Round 0 is still under consideration by SENER and CNH
- In addition, there are other plays with hydrocarbons potential that have not been explored so far: Baja California, Mar de Cortés, Chihuahua, Sierra Madre Oriental, Sierra de Chiapas y Progreso



Mexico's average oil monthly production has plummeted 28% since it's peak in May 2005

Natural gas production has dropped 12% since December 2008

*Excludes nitrogen
Source: Pemex



Mexico's trade balance of O&G products is narrowing



Oil & Gas industry reforms

21 new Laws or Law amendments

Energy

Hydrocarbons

- **Ley de Hidrocarburos***
- Ley de Inversión Extranjera
- Ley Minera
- Ley de Asociaciones Público Privadas
- **Ley de la Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos***
- **Ley de Petróleos Mexicanos***

Regulatory Agencies

- **Ley de los Órganos Reguladores Coordinados en Materia Energética***
- Ley Orgánica de la Administración Pública Federal
- **Ley del Fondo Mexicano del Petróleo para la Estabilización y el Desarrollo***

Electricity

- **Ley de Industria Eléctrica***
- **Ley de Comisión Federal de Electricidad***
- **Ley de Energía Geotérmica***
- Ley de Aguas Nacionales

Federal Administration

State Productive Companies

- Ley Federal de las Entidades Paraestatales
- Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público
- Ley de Obras Públicas y Servicios Relacionados con las Mismas

Fiscal

- **Ley de Ingresos sobre Hidrocarburos***
- Ley Federal de Derechos
- Ley de Coordinación Fiscal

Federal Budget

- Ley Federal de Presupuesto y Responsabilidad Hacendaria
- Ley General de Deuda Pública

*Indicates a new Law

SENER

- Selects contractual areas
- Receives requests to develop new E&P areas.
- Approves long term bidding plans
- Establishes contracting models for each area
- Designs technical terms and conditions of contracts
- Approves E&P developing plans

CNH

- Technical assistance to SENER for selecting contractual areas
- Proposes long term bidding plans
- Issues bidding and awarding rules
- Carries out bidding rounds
- Promotes bidding rounds
- Assigns, manages and supervise contracts
- Supports SHCP on costs auditing
- Approves investment and operation plans

SHCP

- Sets economic and fiscal conditions
- Determines economic terms for awarded bidders
- Revises and audits fiscal compliance

Assignments:

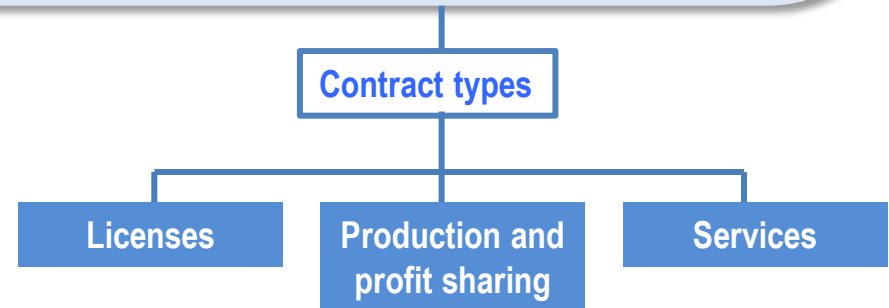
- Issued by SENER exclusively to Pemex and State Productive Companies (SPC's)

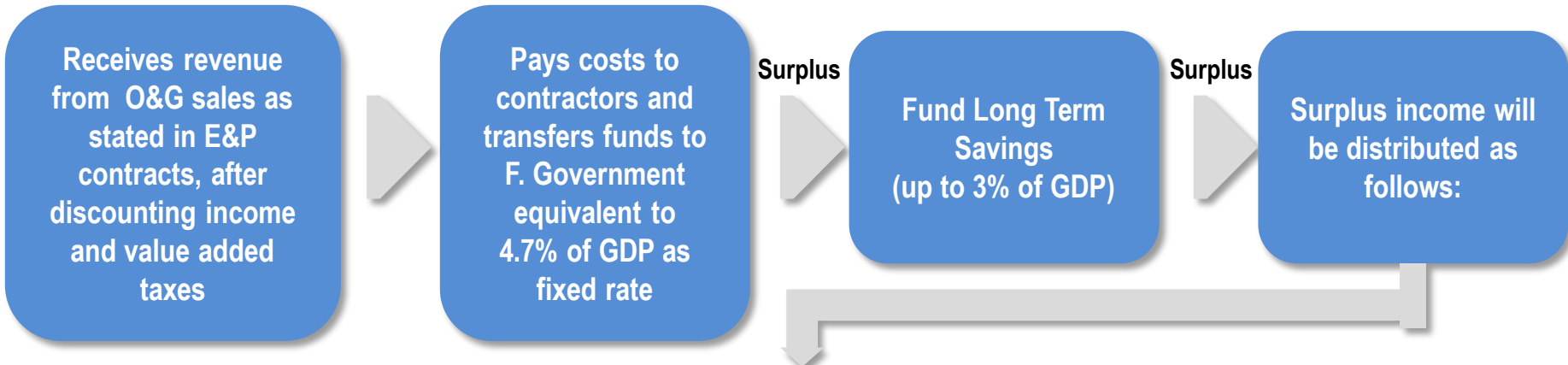
Exploration and Production contracts (Round 1 and subsequent)

- Issued by CNH under bids
- May be assigned to PEMEX, SPC or private companies
- PEMEX and SPC's will be allowed to partner or establish alliances with private companies
- The State **may** have a share of up to 30%: 1) in international bordering plays; 2) when there is a need to access state of the art technologies; 3) Where there is an strategic interest
- PEMEX and SPC's will have a mandatory share of at least 20% on contracts developed along international border limits
- CNH could hire PEMEX, a SPC or a private company to trade oil and gas produced through contracts
- Companies may report expected economic profits for financial and accounting purposes

Authorizations:

- Contract holders should apply for a permit from CNH to:
 - I. Drill exploratory wells
 - II. Drill deep and ultradeep wells
 - III. Develop well design models
- E&P activities will also require CNH authorization





- At least 40% ▪ Long Term Savings (until they reach 10 of GDP)
- Up to 10% ▪ Federal Pensions Fund
- Up to 10% ▪ Science, technology and renewable energy projects
- Up to 30% ▪ O&G and infrastructure projects fund
- Up to 30% ▪ Regional development and scholarships



- **The policy is focused on setting local content minimums in upstream contracts and mid and downstream permits**
- **In E&P contracts, average local content shall increase from 2015 to reach at least 25% by 2025**
- **Specific local content goals for each contract or permit, will be included in the bidding rules**
- **The Economy Ministry (SE) will develop the methodology to measure local content**
- **SE will define strategies to promote a local supply chain and develop a suppliers registry**
- **A public fund to finance local suppliers will be established**

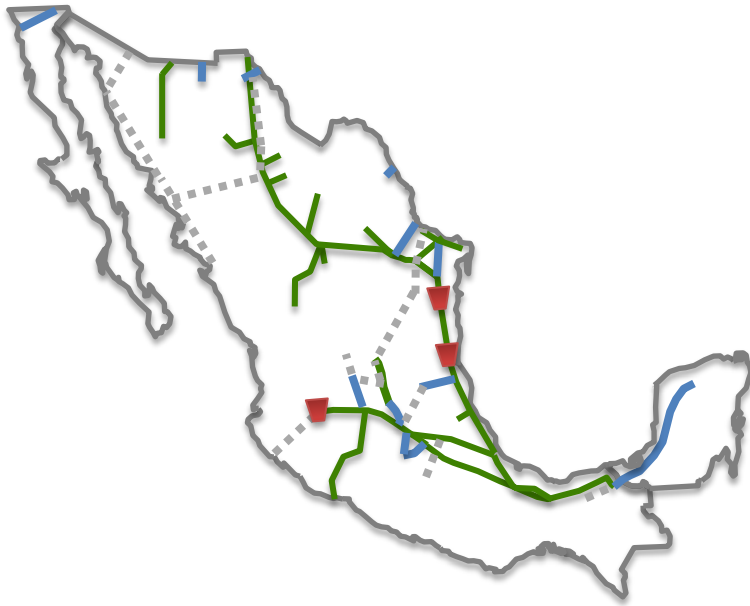
SENER

- Refining permits
- Gas processing permits
- Transport and storage infrastructure not connected by pipeline
- Foreign trade



CRE

- Natural Gas, NGL's and oil liquids transportation, storage and distribution operations
- LNG operations;
- Natural gas, LPG and oil derivatives retailing



CENAGAS

- The National Center for Natural Gas Management (CENAGAS) will handle the national pipeline System
- The System compresses natural gas pipelines, storage and compression facilities and LNG infrastructure belonging to the State
- The Center will offer transport and storage services
- Integration of private natural gas transportation and storage infrastructure to the System will be voluntary
- All NG pipeline and storage operators should obtain a permit from CRE
- The Energy Regulatory Commission (CRE) will supervise the integration and operation of the System



- Authorized companies for natural gas transportation and storage will be required to allow open access to their infrastructure

Licenses

State revenues

- Signature Bonus .
- Exploration quote
- Preogressive Royalties
- Duty on operating income

Contractor benefits:

- Net income on hydrocarbon sales

Production & Profit Sharing Contracts

State revenues

- Exploration quote
- Royalties
- Porcentage on operating income

Contractor benefits:

- Cost recovery
- Net operating income after deducting state returns

Service Contracts

- Cash payments for services provided



Actions	Term
O&G contracts	After the Laws are enacted
Mid and down stream permits	After the Laws are enacted
State control on gasoline and diesel prices	Up to December 2019
Permits to private companies for gasoline and diesel retailing	From January 2017
Permits to private companies for gasoline and diesel trading	From January 2019



Mexican State retains whole ownership of all underground hydrocarbon resources

