



MEXICO ENERGY REFORM

OVERVIEW PRESENTATION

August, 2014



CONTENTS

- I. **Secondary Energy Reform Laws**
- II. Top Achievements of the Energy Reform
- III. Round 0 and Round 1
- IV. Main Challenges for the Mexican Government



SECONDARY ENERGY REFORM LAWS (1 OF 2)

Includes nine new laws and twelve amendments to existing laws. They were issued and approved by the Mexican President Enrique Peña Nieto on August 11th 2014.



1. Hydrocarbons

- Creation of the Hydrocarbons Law.
- Amendments to the Law of Foreign Investment, the Mining Law and the Law of Public-Private Partnerships.

2. Electricity

- Creation of the Electric Industry Law.

3. Coordinated Regulatory Energy Entities

- Creation of the Law of the Coordinated Regulatory Energy Entities.
- Amendments to the Law of the Federal Public Administration.

4. Productive State Enterprises

- Creation of the Pemex Law and the Federal Electricity Commission Law.
- Amendments to the Federal Law of Semi-Public Entities; the Law of Acquisitions, Leasing, and Public-Sector Services; and the Law of Public Works and Related Services.



SECONDARY ENERGY REFORM LAWS (2 OF 2)

Includes nine new laws and twelve amendments to existing laws. They were issued and approved by the Mexican President Enrique Peña Nieto on August 11th 2014.



6. National Agency for Industrial Safety and Protection of the Environment of the Hydrocarbon Sector

- Creation of the Law of the National Agency for Industrial Safety and Protection of the Environment of the Hydrocarbon Sector

7. Geothermal Energy

- Issue of the Geothermal Energy Law.
- Amendments to the National Waters Law.

8. Fiscal

- Hydrocarbons Revenue Law.
- Amendments to the Federal Government Fees Law and to the Fiscal Coordination Law.

9. Mexican Petroleum Fund for Stabilization and Development

- Enactment of the Law of the Mexican Petroleum Fund for Stabilization and Development.

10. Budget

- Amendments to the Federal Law of Budgeting and Financial Responsibility and to the General Law of Public Debt.



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Scope of Energy Reform was significantly larger than initially proposed.



1. Opening of the E&P sector

- Ownership of the resources remains with Mexico but legal framework would allow for financial and accounting reporting of different types of contracts.
- Different contracts depending of the type of E&P activity (service, revenue sharing, production sharing, licenses).
- Round 0, new Pemex JVs and Round 1

2. Opening of the Downstream activities

- The refining industry is now open to private investors, either for construction or operation.
- The distinction between basic and secondary petrochemical activities was removed, the Mexican State and private investors will participate in equal terms.

3. Optimization of the Midstream activities

- The Energy Regulator Commission (CRE) will award permissions for the storage, transportation and distribution of oil, natural gas and other hydrocarbons moved exclusively in pipelines.
- The National Center for Natural Gas Control (CENEGAS) was created.

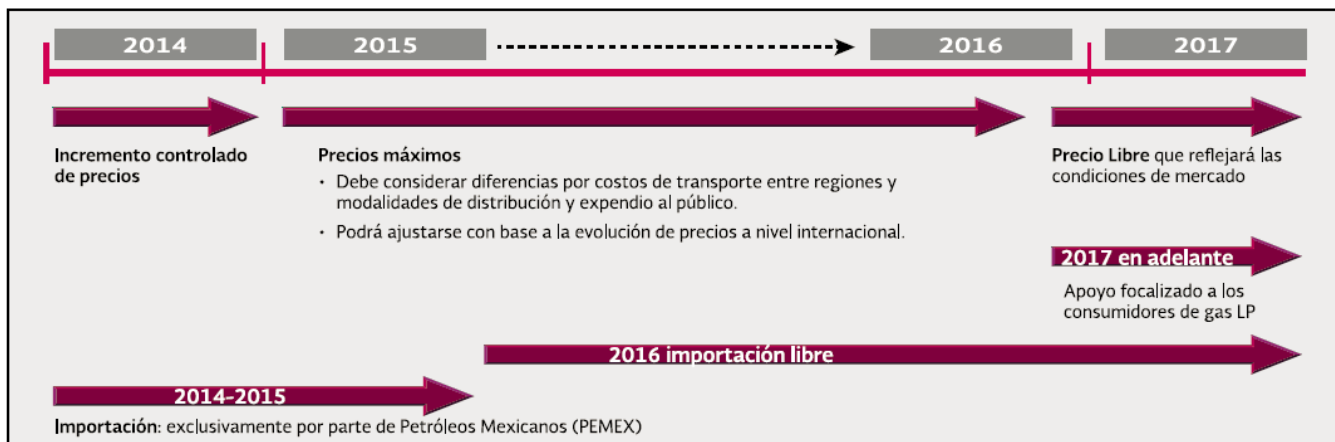


TOP ACHIEVEMENTS OF THE ENERGY REFORM (2 OF 3)

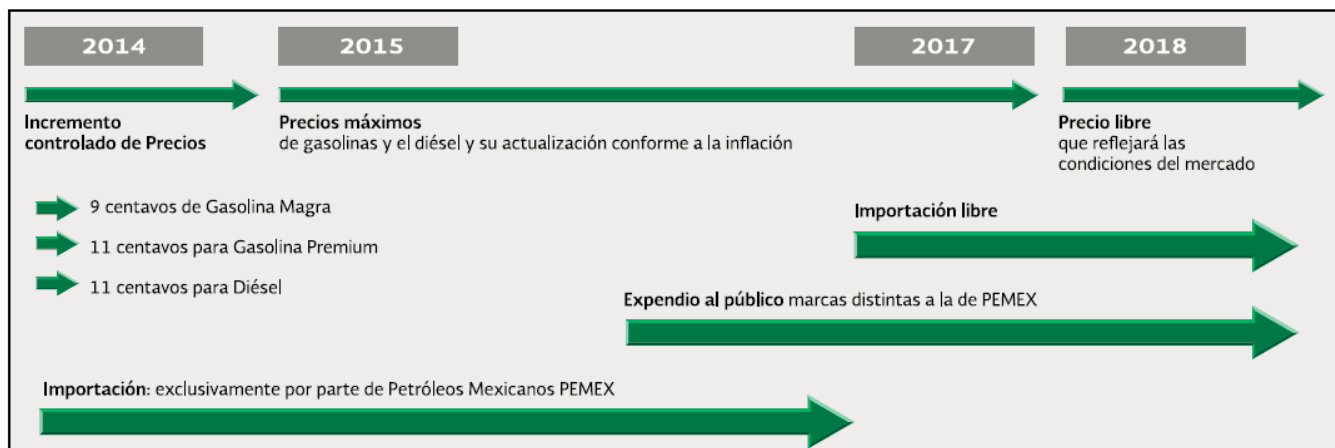
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Opening of the Gas and Diesel markets



Opening in the Liquid Petroleum Gas (LP)



Scope of Energy Reform was significantly larger than initially proposed.



4. Potential to transform Pemex and CFE (Empresa Productiva)

- New regime for Pemex and CFE to provide them with more independence for a new competitive environment
- Regime seeks to promote behavior as companies with a value creation mandate

5. Power generation market and new contracts for transmission and distribution

- CENACE becomes an independent dispatching entity
- Possibility to develop IPP-equivalent schemes for transmission and distribution assets

6. Establishment of a Mexican Petroleum Fund

- Petroleum Fund for incremental revenues beyond taxes
- Long term goals for Fund searching for macroeconomic stability

7. Strengthening of CRE and CNH

- Changes in legal framework for regulatory agencies
- Increment in resources, budget and attributions



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ROUND ZERO

On March 21st 2014 Pemex formalized its requests for hydrocarbons allocations; this Round Zero was unveiled on August 13th.



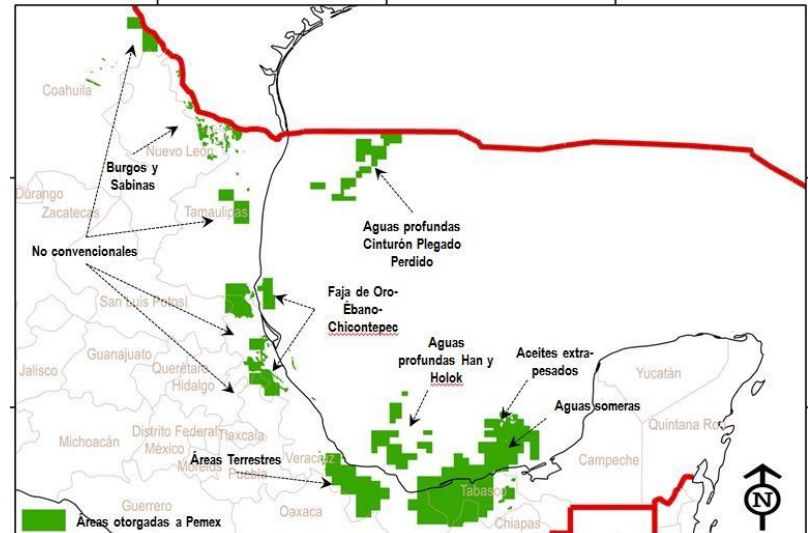
- 1. The Mexican State decided to grant Pemex with this allocations to ensure it has significant oil resources to maintain an investment level in exploration, development and sustainable extraction.**
- 2. Pemex was assigned 83 percent of Mexico's proved and probable (2P) oil reserves, or its entire 2P request from March (20,589 MMbbl).**
- 3. Pemex was assigned 21 percent of the country's prospective resources (22,126 MMbbl), versus the 31 percent the company had asked for.**
- 4. This assigned area covers around 90,000 square kilometers.**
- 5. Pemex will maintain its production capacity for additional 20.5 years.**
- 6. After this resolution, the company is located in fifth place in terms of proved reserves.**

It is established in the Hydrocarbons Law that Pemex could celebrate alliances or associations with other corporations, in order to operate the selected assignments as contracts.

1. In the short term, Pemex will form ten associations in fields that due to their technical complexity and high Capital Demand, require the incorporation of private operators.
2. The 2P and 3P (proved, probable and possible) reserves for this short term associations will be for 1,565.5 MMbbl and 2,664.0 MMbbl respectively.
3. It is expected that this associations forming process will begin in November 2014 and will be formalized during the next 13 months; additional investments of \$4.1 billion USD/year are expected.

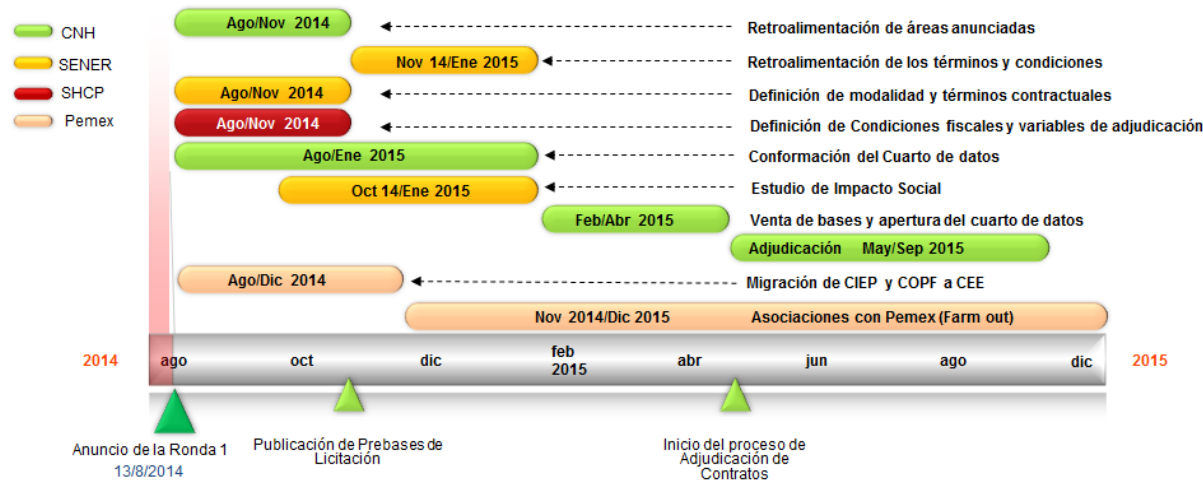
Projects

- 📍 **Mature onshore fields: Rodador, Ogarrío y Cárdenas – Mora.**
- 📍 **Mature offshore fields: Bolontikú, Sinán y Ek.**
- 📍 **Extra-heavy oil offshore fields: Ayatsil – Tekel – Utsil.**
- 📍 **Deep water giant gas fields: Kunah – Piklis.**
- 📍 **Perdido Area: Trión and Exploratus.**



Pemex is to compete on equal terms with other operators for additional contract areas (possibility to participate independently).

1. In this Round 169 blocks will be quoted, 109 correspond to exploration projects and 60 to production projects.
2. This blocks cover an area of 28,500 squared kilometers (91% for exploration and 9% for extraction).
3. The 2P reserves and Prospective Resources that will go out for bid represent a volume of 3,782 and 14,606 Mmbbl respectively.
4. Additional investments for \$ 8.525 billion USD are expected between 2015 and 2018.
5. The Round One will adjust to the following calendar:





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MAIN CHALLENGES FOR THE MEXICAN GOVERNMENT

Several definitions are still required and critical in the implementation stages of the Energy Reform



1. Development of E&P contracts and licitation processes

- Economic model of the contracts should consider the significant differences among the potential areas
- Rules for financial and accounting reporting by private companies
- Contract framework and clauses need to be redesign. Existing contracts clauses are an entry barrier for new competitors (e.g. termination, environmental, dispute, etc.)

2. Permits for Downstream activities

- Requirements and awarding processes for sector specific permits need to be defined
- Need to clarify role of Energy ministry vs. regulatory agencies

3. Pricing policies

- Elimination of subsidies that allow for a market driven sector
- Fiscal implications, macroeconomic considerations (inflation, volatility)

4. Issues with the NG market

- CENEGAS



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5. Corporate Governance of Empresas Productivas

- Board of Directors (political appointments)
- Conflict of interest

6. Conflict of interests

- PEMEX
- Mexican Treasury

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