Mexican Energy Sector
Investment Opportunities Post Reform

Eagle Ford Consortium 3rd Annual Conference

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AMESPAC

Binational Center Library / Texas A&M International University
It was created in 2009 to bring together private companies that perform O&G services for Pemex.

It 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 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.
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 27% since it’s peak in May 2005.

Natural gas production has dropped 12% since December 2008.

*Excludes nitrogen

Source: Pemex
In 2013, gasoline imports accounted for 46% of local consumption.
Mexico’s oil and products trade balance

The gap between oil exports and oil product imports in volume terms is closing.

*Includes natural gas imports converted to fuel oil equivalent.
Mexican O&G industry under the new constitutional amendments

**Mexican State**
- Exclusive ownership of Mexican O&G underground resources
- Full ownership of Pemex
- O&G operations will remain "strategic activities" with preference over all others, facilitating the use of land and water resources
- Royalties and taxes will be charged for O&G resources exploitation
- A Sovereign Mexican Oil Fund will be created to manage excess revenues (over 4.7% of GDP) of E&P activities

**Pemex**
- New legal status as a State Owned Productive Company
- Will keep current O&G developed fields and infrastructure (inland and shallow waters) and some exploratory plays assigned through a Round Zero
- Will maintain ownership of current mid and downstream assets

**Regulatory agencies**
- Energy Ministry (SENER)
- National Hydrocarbons Commission (CNH)
- Energy Regulatory Commission (CRE)
- Natural Gas Management Center (CENAGAS) Independent operator of the natural gas pipeline network
- Industrial Safety and Environmental Protection Agency

**Pemex and/or private companies**
- E&P activities through licenses and contracts
- New O&G transportation and storage projects
- New downstream projects: refineries, gas processing units, petrochemical plants
- Will be able to report the economic interest of the O&G underground assets for accounting and financial purposes
- Local content requirements for E&P licenses and contracts, complying with international Trade Agreements.

There are at least 26 secondary laws that are been revised to enact this changes
E&P contracts

Services:
- Company performs services on behalf of the State
- Payments are in cash

Profit sharing:
- Profits after taxes and royalties are shared between the State and the company
- Payments are in cash

Production sharing:
- Production is shared between the State and the company after taxes and royalties
- Payments are in product

Licenses:
- Company is authorized to perform E&P activities on behalf of the State
- Payments are in product

Mid & downstream permits

- Companies will be granted a permit to build and operate O&G processing, storage, and pipeline facilities
Mexican O&G exploration and production contracting process

1. Selection of contractual area with technical assistance of CNH

2. SENER
   - Technical features of bidding rounds
   - Technical design of contracts

3. Fiscal terms of contracts

4. CNH
   - Management of bidding rounds
   - Selection of winners

5. Contract assignment on behalf of the State

6. CNH
   - Technical management of contracts
   - Contract performance supervision

7. The Mexican Oil Fund will manage the State oil revenues and payments

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Mexican Oil Fund for Stabilization and Development

Royalties and payments as stated in E&P contracts and assignments

Federal Government Expenditure Budget (4.7% of GDP as fixed rate)

Fund Long Term Savings (up to 3% of GDP)

Surplus income will be distributed as follows:

- **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

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E&P investment opportunities

**Exploration & Production**
- Licenses and contracts
- Seismic for Pemex, CNH, and private operators
- Exploratory drilling

**Deep water projects**
- Drilling and well services
- Subsea development projects

**Conventional land and marine projects**
- Drilling and well services
- Gathering & transportation

**Shale Gas and Oil**
- Drilling, well services and hydraulic fracturing

**EPC of infrastructure**

**EOR projects**

**Field Development**

**Midstream**
- O&G pipelines
- Storage Ships/Terminals
- Distribution equipment: tankers/trucks
Mid & downstream investment opportunities

### Natural Gas
- Pipelines
- Dry gas and liquids trading
- Gas and liquids storage
- Gas processing
- Gas & liquids distribution and marketing

### Refining
- Gasoline/diesel trading and distribution
- Service stations acquisitions and operation
- EPC projects for existing refineries
- New oil/products pipeline projects
- New liquids storage terminals
- New refining facilities

### Petro-chemicals
- New petrochemical projects
- Storage and distribution facilities
### Mexico oil & gas potential CAPEX

**Billion USD**

<table>
<thead>
<tr>
<th>Year</th>
<th>Pemex CAPEX</th>
<th>Total private investment</th>
<th>Pemex CAPEX/GDP</th>
<th>Pemex+PI /GDP</th>
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**GDP current prices (Trillion USD)**

- 2012: 1,207
- 2013: 1,220
- 2014: 1,269
- 2015: 1,320
- 2016: 1,433
- 2017: 1,491
- 2018: 1,550
- 2019: 1,612
- 2020: 1,677

**Dif:** 2.9

**Midstream**

- Mature fields: 22
- Deep water: 22
- Shale gas: 18
- New refining capacity: 18
- Gas pipelines: 16
- Petrochemicals: 13
- Midstream: 16

**Total private investment**: 130

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