

MAYER • BROWN

Mexico Round 1 Update

Dallas Parker
Francisco Mendez
Gabriel Salinas

February 9, 2016

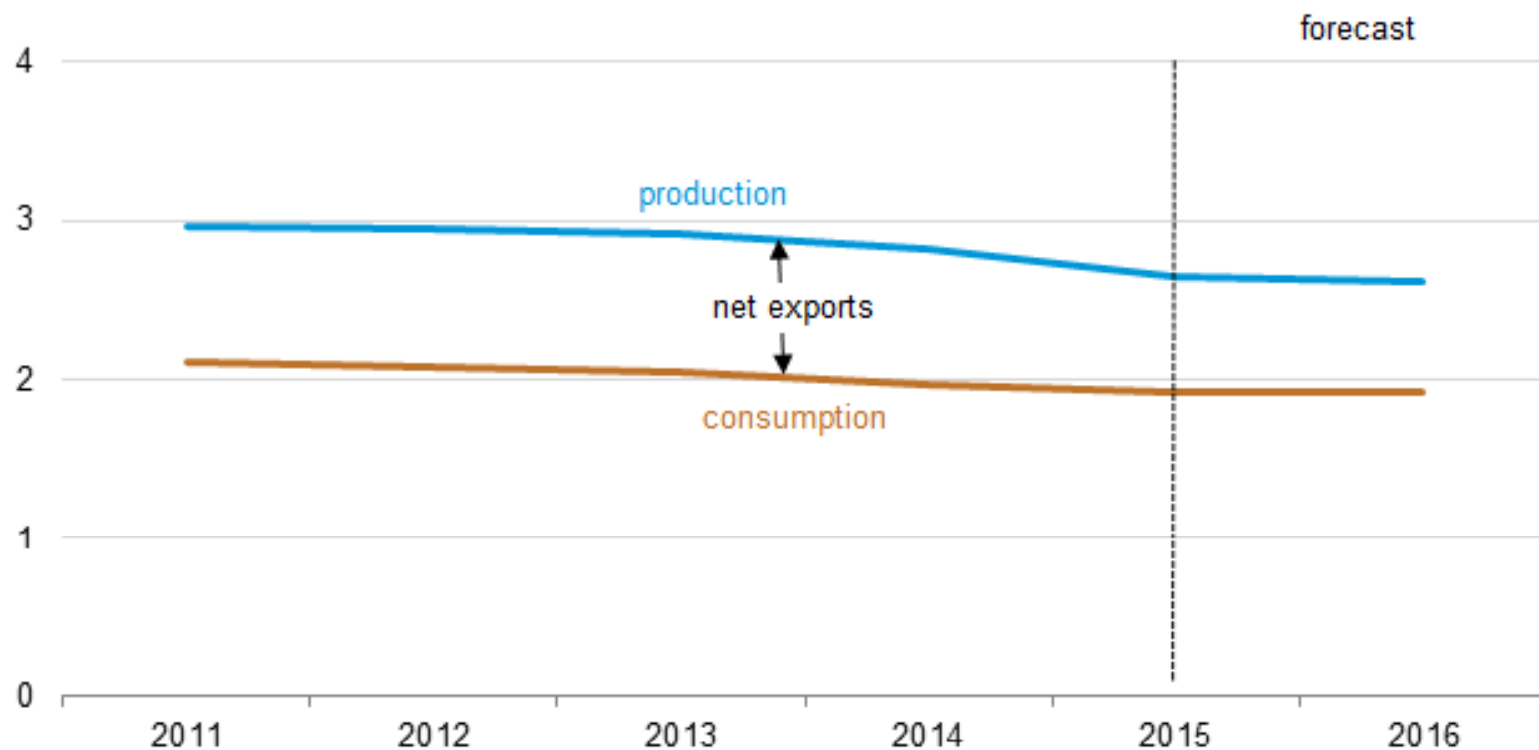


Mexico Energy
Reforms

Critical Time for Mexico's Energy Industry

Mexico Energy Reforms

Mexico's petroleum and other liquids production and consumption
million barrels per day



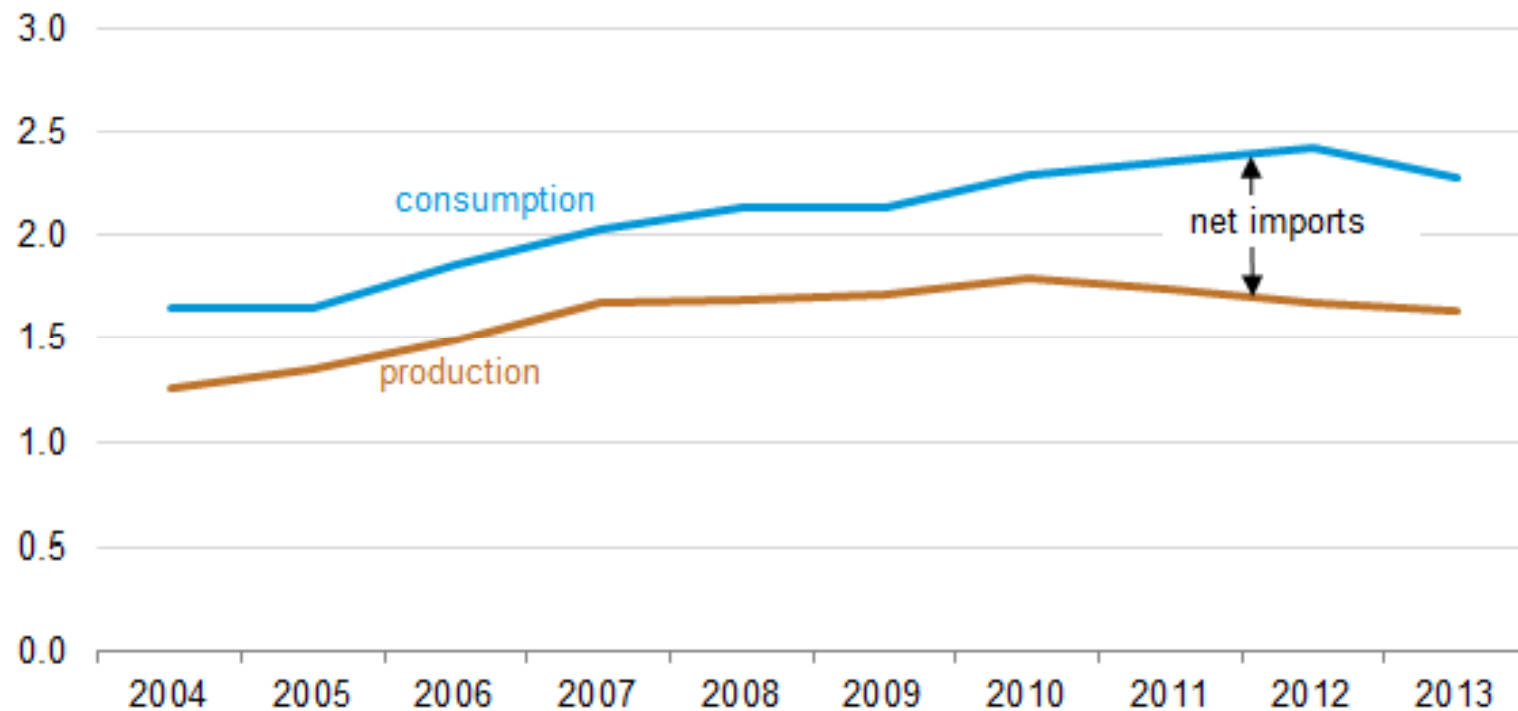
Source: EIA Short-Term Energy Outlook, August 2015

Critical Time for Mexico's Energy Industry

Mexico Energy Reforms

Mexico's dry natural gas production and consumption

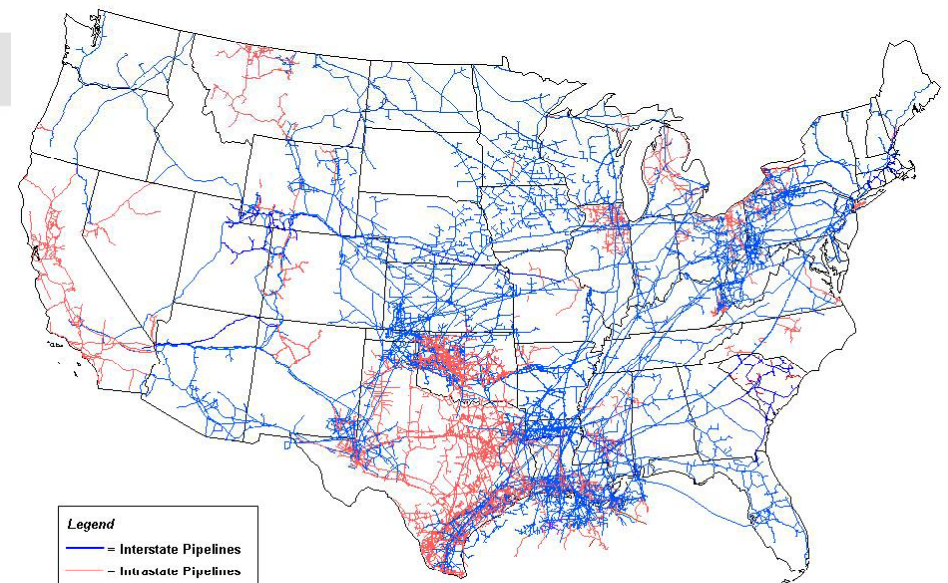
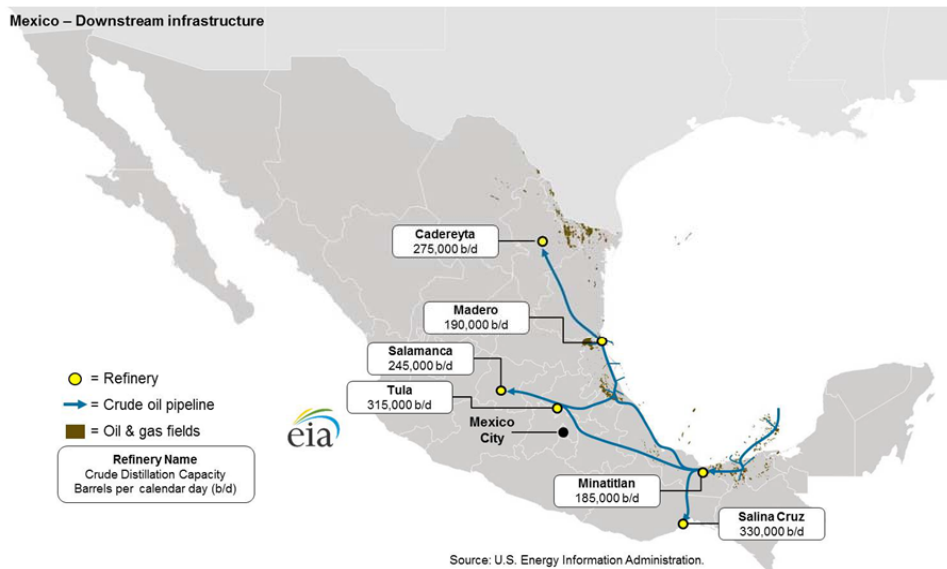
trillion cubic feet



Source: U.S. Energy Information Administration

Critical Time for Mexico's Energy Industry

Mexico Energy Reforms



Source: Energy Information Administration, Office of Oil & Gas, Natural Gas Division, Gas Transportation Information System

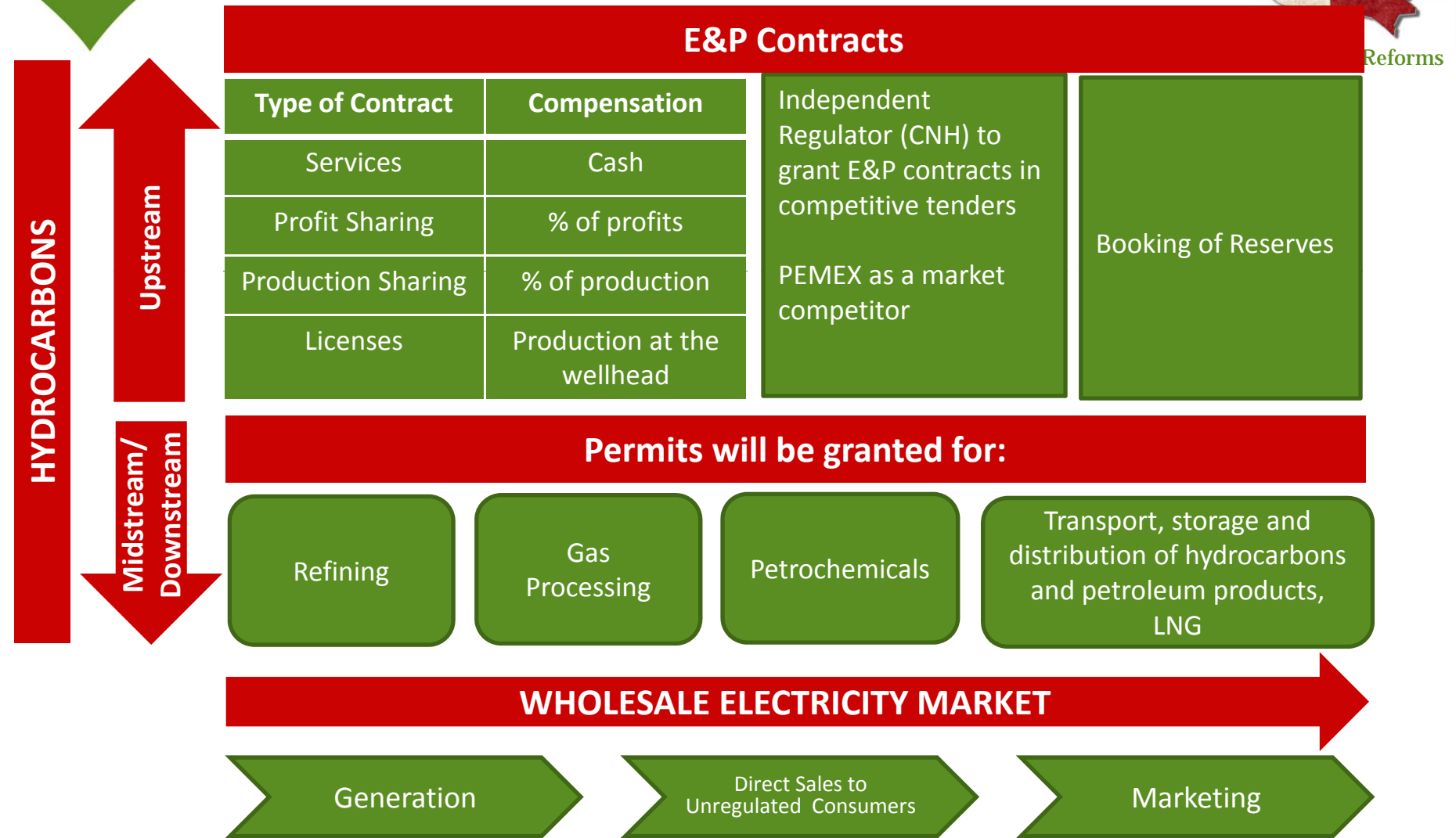
Source: EIA

Constitutional Reform

Mexico Energy Reforms

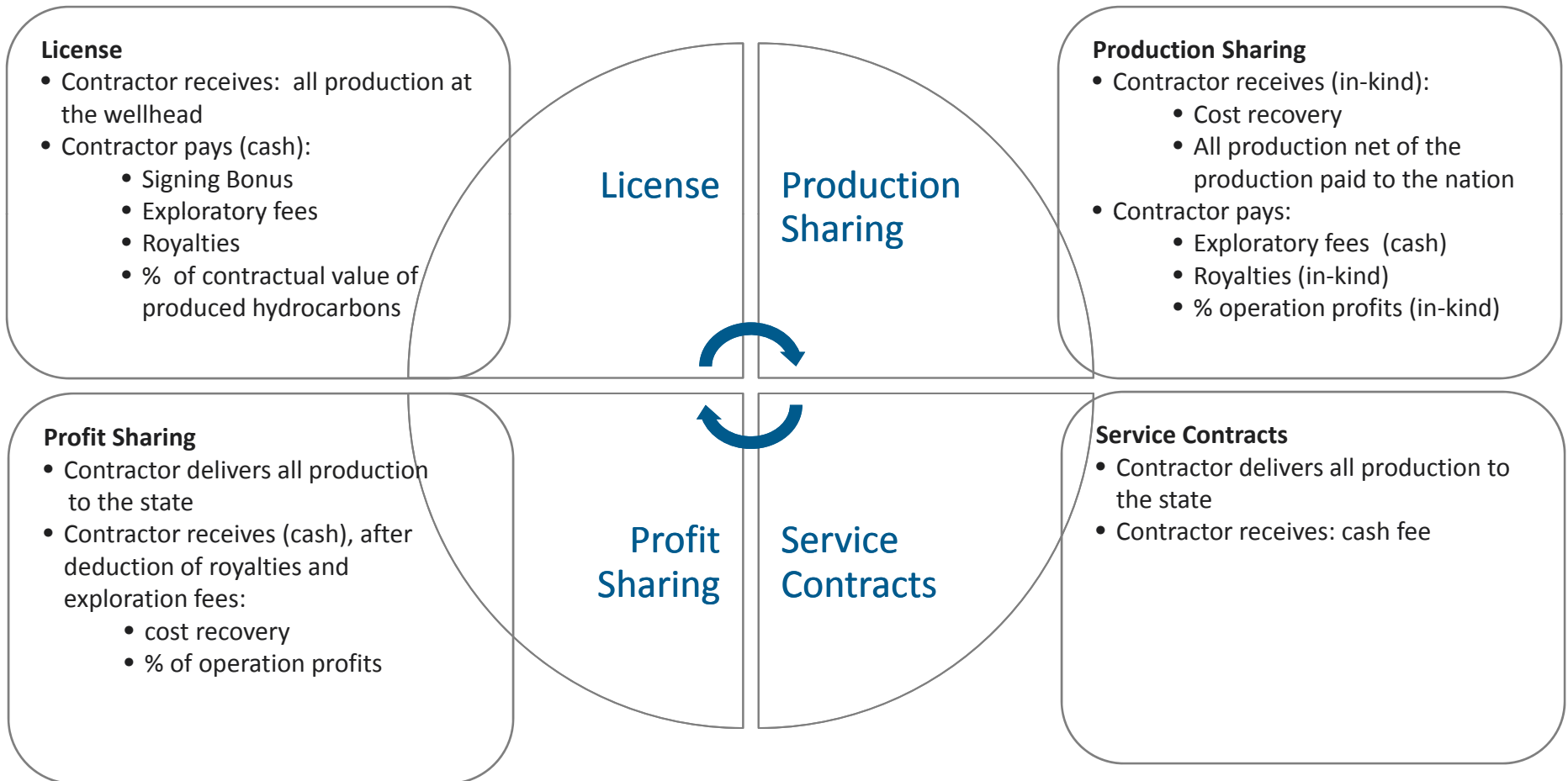
- On December 21, 2013, the constitutional reform was passed, opening Mexico's energy industry to the participation of the private sector.
- Prior to the Reform, Mexico had one of the most restrictive energy legal frameworks.
- On August 12, 2014, a package of legislation to implement the constitutional reform became effective in Mexico (with amendments to other laws).

Scope of Reform



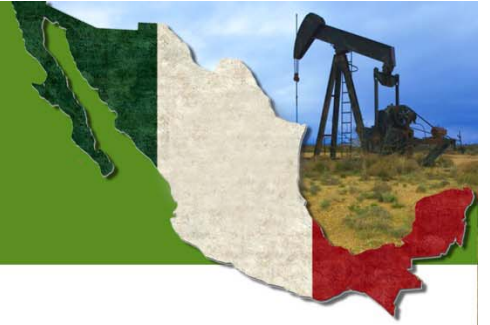
E&P Contracts

Mexico Energy Reforms



In addition to Mexican income Tax, new E&P tax for states and municipalities and other applicable taxes.

Mexico Round 1 Update



Mexico Energy Reforms



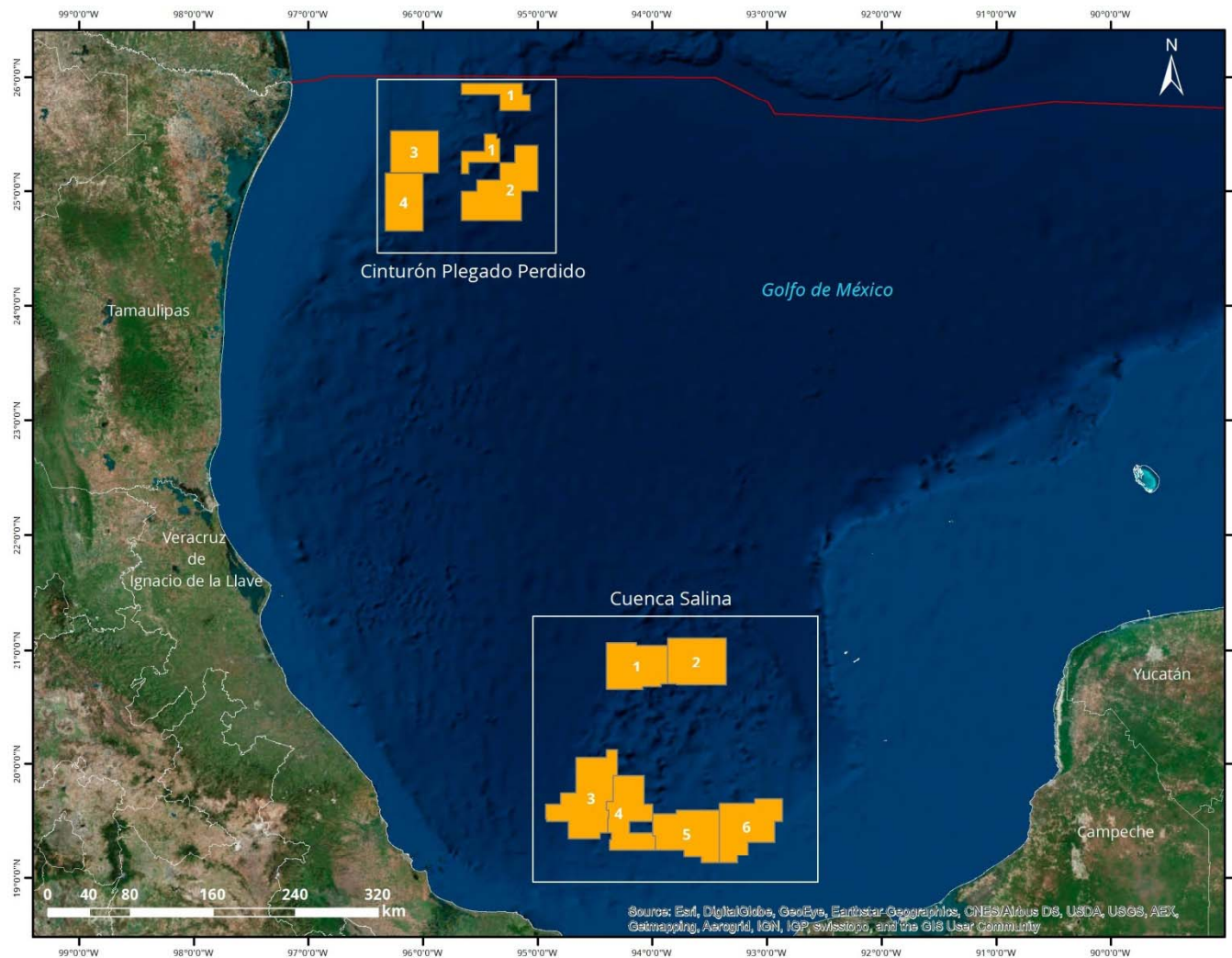
Round One Results so far...

Mexico Energy Reforms

	Bidding Invitation	Bidding Submission	Areas Awarded
1.1 – Shallow waters (exploration)	Dec. 2014	Jul. 2015	2 out of 14
1.2 – Shallow waters (production)	Feb. 2015	Sep. 2015	3 out of 5
1.3 – Onshore	May 2015	Dec. 2015	25 out of 25
1.4 – Deep Waters	Dec. 2015	TBD	10 offered
Chicontepec Basin and Unconventional	TBD	TBD	TBD

Round 1.4 Deep Water Contract Areas

Mexico Energy Reforms



Round 1.4 Bidding Process

Mexico Energy Reforms

Phase	Date
Publication of the bidding invitation and terms	Dec. 17, 2015
Access to the information data room	From Jan. 6, 2016
Clarification to the bidding terms and contract	From Dec. 17, 2015 to Oct. 26, 2016
Prequalification of companies	From Jan. 6, 2016 to July 1, 2016
Delivery and opening of proposals	TBD
Contract Execution	Within 90 days of award publication

Round 1.4

Registration and Data Room Access

Mexico Energy Reforms

- Data room access: MXN38,500,000 (approximately, US\$2,260,000) – mandatory for parties intending to qualify as operators
 - Waived for parties who individually or jointly purchased certain data (R, I, S, K, M, N, P1 or P2) from the National Hydrocarbons Information Center for an equal or higher amount.
- Registration: MXN280,000 (approximately, US\$16,500) - mandatory for all interested parties.
- Parties intending to qualify as non-Operators may access data through Operators.

Round 1.4 Prequalification

Mexico Energy Reforms

- Required technical and operational experience for Operators:
 - Experience as Operator during the period 2011-2015 in at least one exploration and/or extraction in a project with a depth greater than 1,000 meters;
 - Aggregate capital investments in exploration and extraction projects of at least US\$2 billion; and
 - Experience in industrial safety and environmental protection within the last five years.

Round 1.4 Prequalification

Mexico Energy Reforms

- Financial requirements for Operators:
 - Demonstrate stockholders' equity of at least US\$2 billion; or
 - Demonstrate total assets with a value of at least US\$10 billion and investment grade rating.
- Financial requirements for non-Operators:
 - Demonstrate stockholders' equity of at least US\$250 million.

Round 1.4

Forms of Participation

Mexico Energy Reforms

- A prequalified Operator may participate both as an individual bidder or one or more joint bidders with another Operator or non-Operator.
- Joint bidders may submit a proposal without the necessity of incorporating a new legal entity.
- CNH consent is required to modify corporate structure, participating interests and/or responsibilities of a joint bidding group up to a certain date.
- Only one bid offer may be submitted per individual bidder or joint bidder for each contract area.

Round 1.4 National Content

Mexico Energy Reforms

- **Exploration and evaluation periods:**
 - 3% during the initial exploration period.
 - increased to 6% for the first additional exploration period.
 - Increased to 8% for the second additional exploration period.
- **Evaluation periods:**
 - Same as in exploration period under which the declaration of discovery was made.
- **Development period:**
 - 4% since from development plan approval until commercial production
 - increased to 10% at commercial production in any development area.

Round 1.4

Delivery and Opening of Proposals

Mexico Energy Reforms

- One proposal per contract area.
- Two sealed envelopes:
 - Envelope 1: economic proposal and a cash offer as an additional compensation in the case of a tie.
 - Envelope 2: bid bond (*garantía de seriedad*) in favor of the CNH.
- Bid Bond: US\$3 million standby letter of credit
 - Delivered by first and second place winners.
 - To remain valid for 100 days.

Round 1.4

Economic Criteria

Mexico Energy Reforms

- Criteria to determine winning bidder per contract:

$$VPO = 4x[Additional\ Royalty + \left(11.5x \frac{Additional\ Royalty}{100} + 3.45\right) x Investment\ Factor]$$

- The Ministry of Treasury to issue minimum acceptable values (additional royalty).

Contract Execution

Mexico Energy Reforms

- Winning individual or joint bidder may incorporate an SPV for the execution of the contract
 - individual bidder or joint bidder member jointly and severally liable.
- Individual bidder or joint bidder members must form part of SPV and maintain control.
- SPV may not include a person who is not a participant in the bidder's corporate group.

Performance Guarantee

Mexico Energy Reforms

- Simultaneously with the execution of a contract, the contractor must deliver:
 - a performance guarantee and
 - a corporate guarantee of each of the participating companies.
- Corporate guarantee to be granted by
 - the ultimate parent of each joint bidder member
 - If the guarantor is not the ultimate parent company, the guarantor must have stockholders' equity of US\$14 billion * participating interest.

MAYER • BROWN

www.mayerbrown.com/Mexico-Energy-Reform/

Dallas Parkerr

dparker@mayerbrown.com

T + 1 713 238 2700

Francisco Mendez

fmendez@mayerbrown.com

T + 1 713 238 2740

Gabriel J. Salinas

gsalinas@mayerbrown.com

T + 1 713 238 2622

Mayer Brown is a global legal services provider comprising legal practices that are separate entities (the "Mayer Brown Practices"). The Mayer Brown Practices are: Mayer Brown LLP and Mayer Brown Europe – Brussels LLP both limited liability partnerships established in Illinois USA; Mayer Brown International LLP, a limited liability partnership incorporated in England and Wales (authorized and regulated by the Solicitors Regulation Authority and registered in England and Wales number OC 303359); Mayer Brown, a SELAS established in France; Mayer Brown JSM, a Hong Kong partnership and its associated entities in Asia; and Tauil & Chequer Advogados, a Brazilian law partnership with which Mayer Brown is associated. "Mayer Brown" and the Mayer Brown logo are the trademarks of the Mayer Brown Practices in their respective jurisdictions.