



Mexico's Energy Reform

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25
YEARS

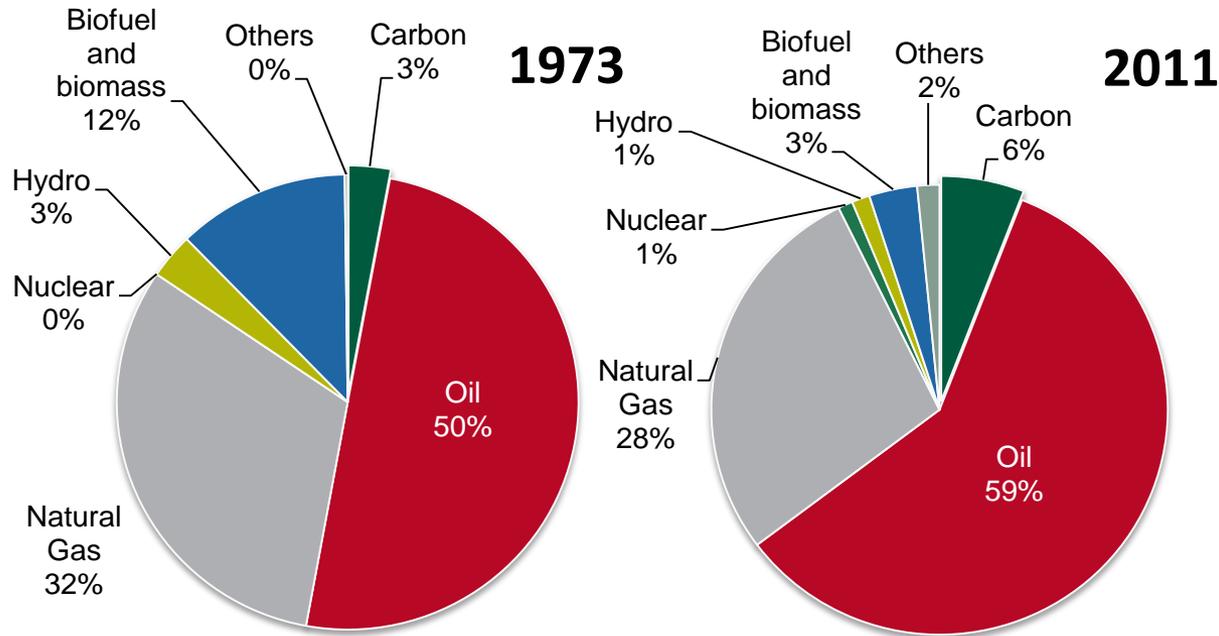


PMI
GROUP

Content

- **Mexico's Energy Market**
- PMI's Role
- Mexico's Energy Reform
 - A New Pemex
 - E&P
 - Midstream and downstream
 - Next steps
 - Expected Benefits

Energy Supply in México



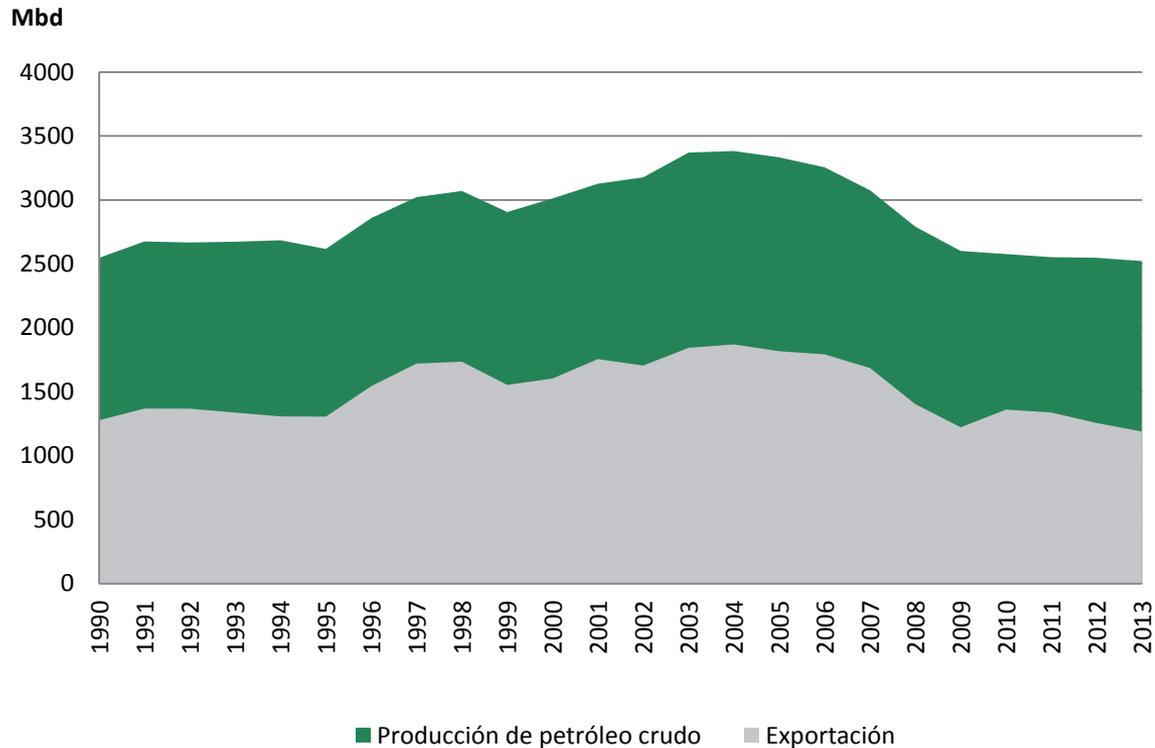
- **Oil and natural gas in 1973 accounted for 82% of primary energy sources. By 2011 it rose to 87%.**
- **In the same period, oil production rose from 47% of the primary balance in 1973 to 65% in 2011.**

Fuente: SIE, SENER Balance Nacional de Energía por fuente de energía primaria

*Petróleo incluye condensados, Biocombustibles incluye Bagazo de caña, leña y biogas
Otros incluye solar, energía eólica y geoenergía

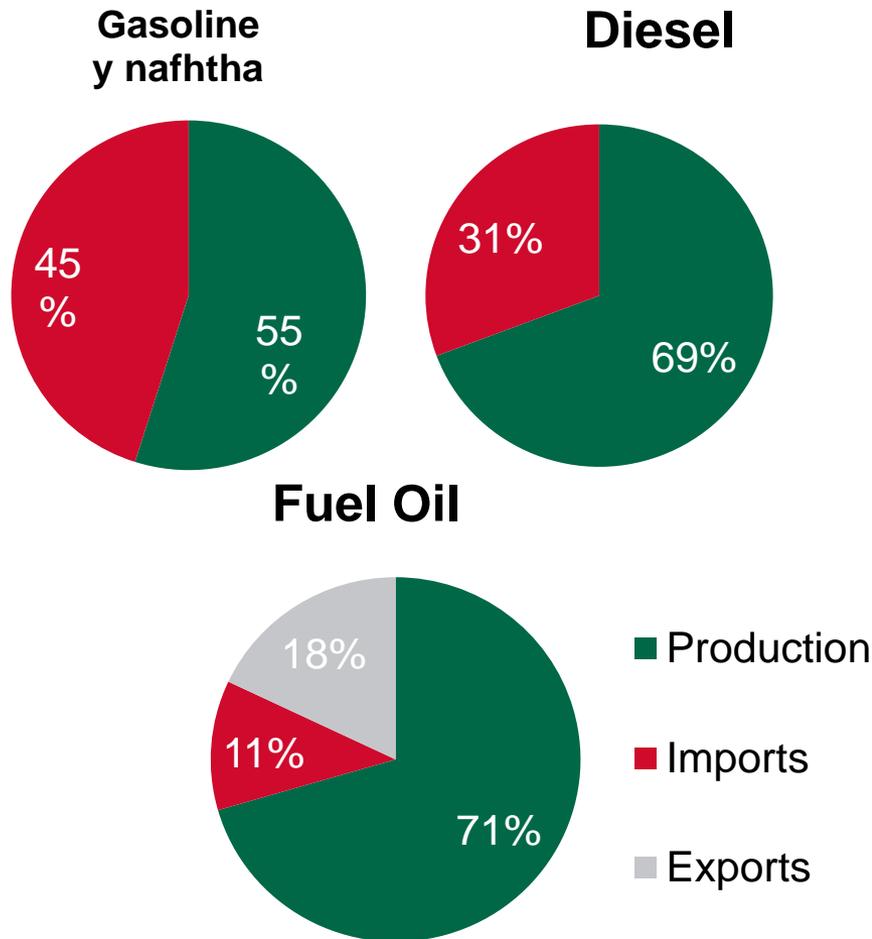
Commercial balance of crude in Mexico

Production and exports of crude oil



➤ Mexico is the 12th oil exporter in the world.

Production and trading of products in 2013



- Around 40% of the consumption of gasoline and diesel is covered with imports.
- Pemex has become a major exporter of fuel oil and marine fuels

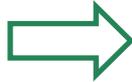
Content

- Mexico's Energy Market
- **PMI's role**
- Mexico's Energy Reform
 - A New Pemex
 - E&P
 - Midstream and downstream
 - Next steps
 - Expected Benefits

PMI

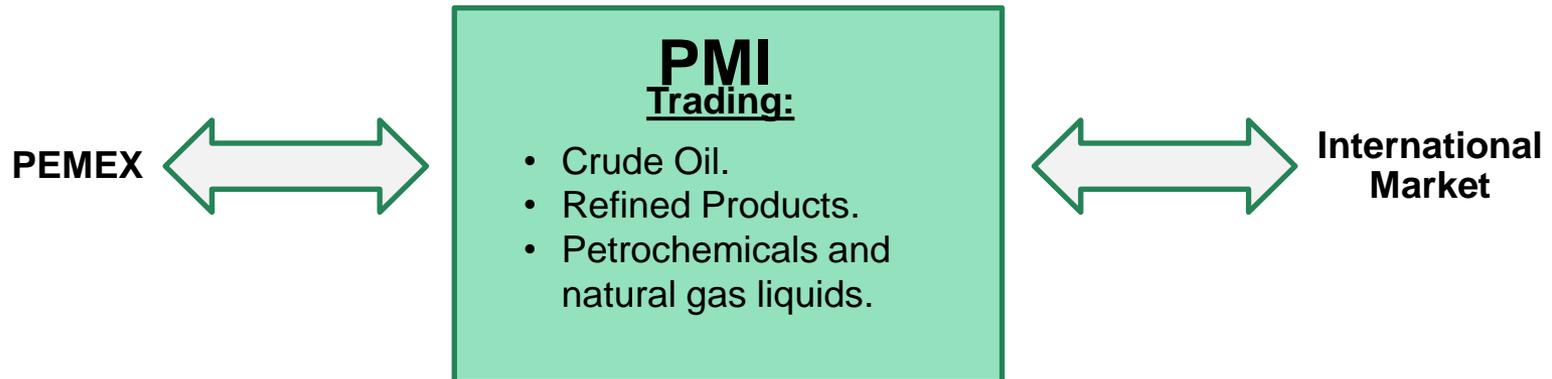
PMI is the commercial arm of PEMEX in international markets.

Our mission is to maximize the value of Pemex through efficient and competitive operations in international markets and other activities related to the value chain of Pemex.

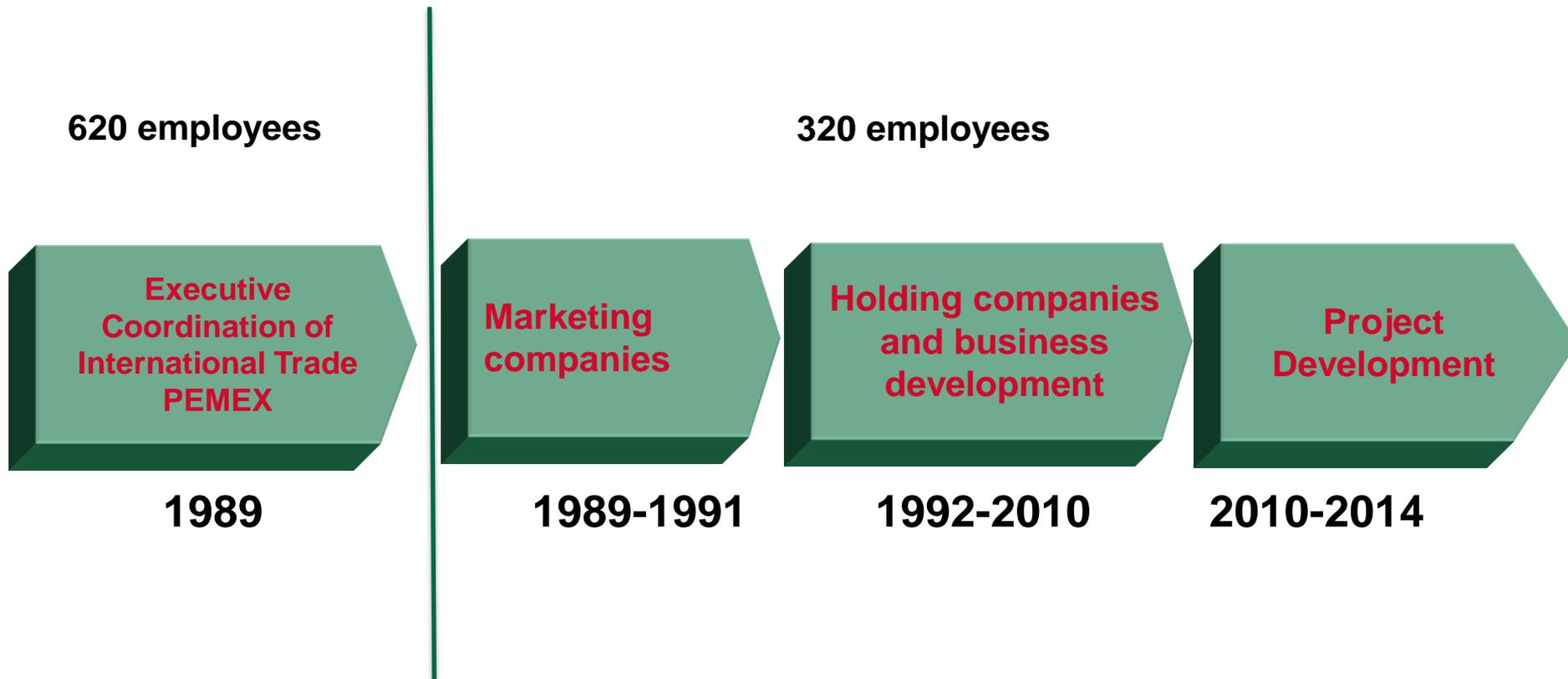


Benefits

- Commercial and operational flexibility to operate in an open market.
- It has extensive experience that has allowed us to create synergies with major oil companies in the world, as well as long-term business ties.

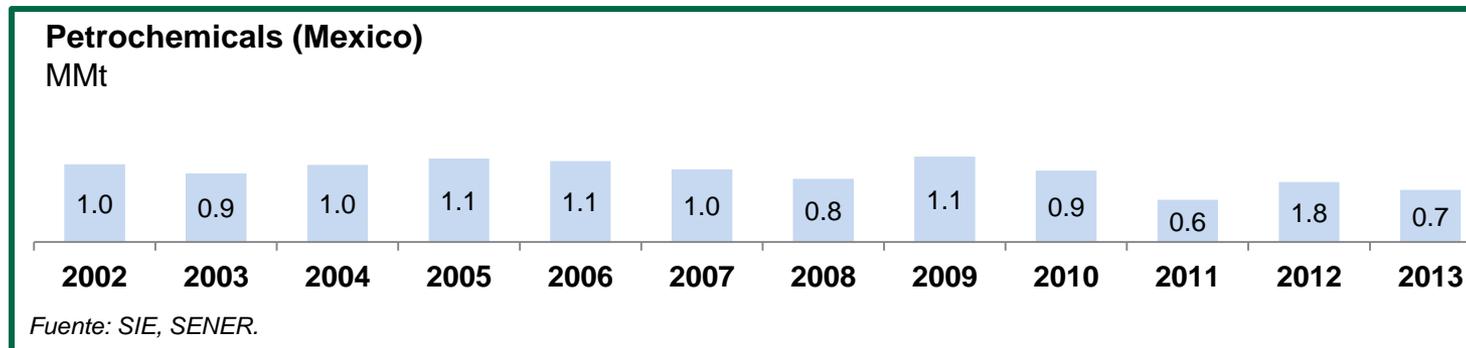
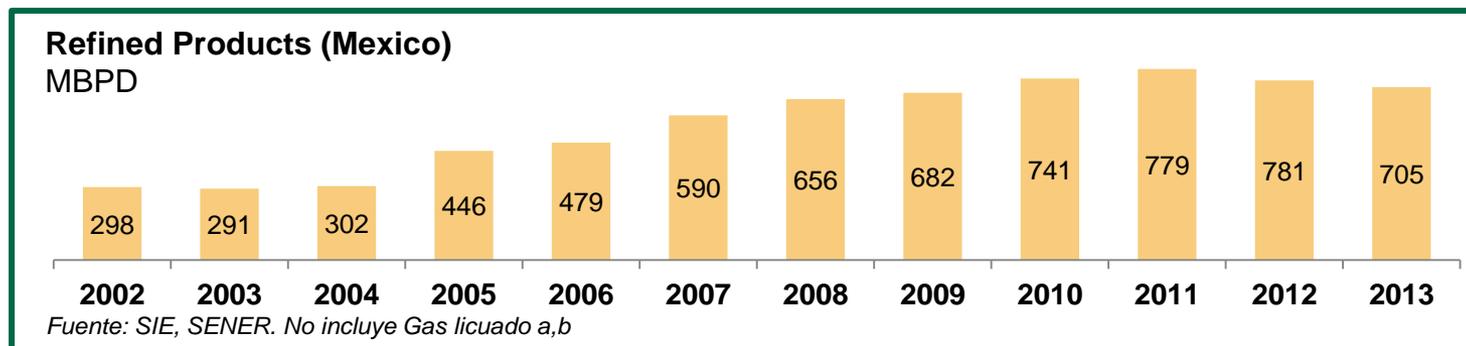
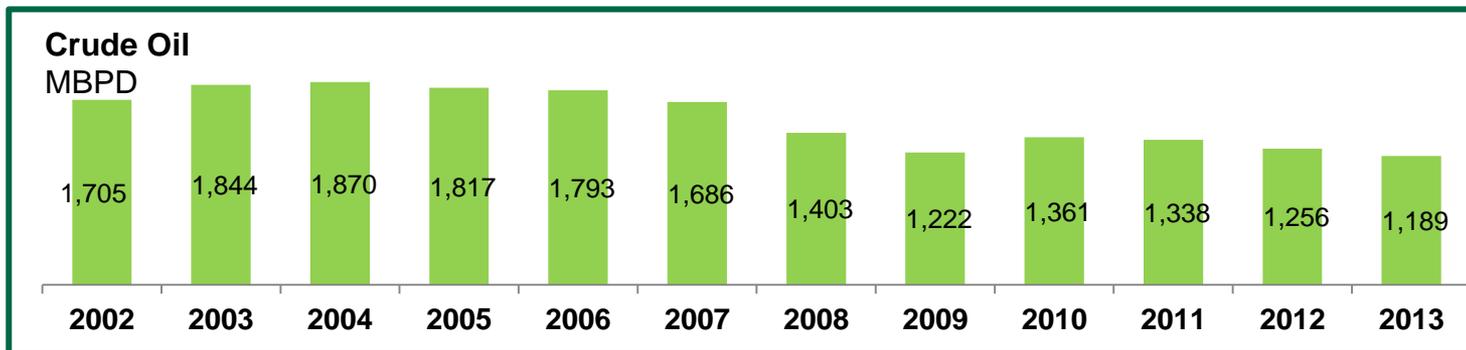


Evolution of PMI Group



- Contributes to maximizing the value of Pemex, through international trade.
- Pemex's link between domestic and international markets.
- In the 25 years of its existence, the PMI Group has positioned itself in the market as a good business partner for customers and suppliers.

PMI Trading



Content

- Mexico's Energy Market
- PMI's role

▪ Mexico's Energy Reform

- A New Pemex
- E&P
- Midstream and downstream
- Next steps
- Expected Benefits

Mexico's Energy Reform

Background:

- On August 12, 2013, President Peña Nieto submitted his proposed Energy Reform Bill which was passed by the Mexican Congress on December 20, 2013.
- The reform includes amendments to articles **25**, **27** and **28** of the Mexican Constitution and 21 transitional articles that detail how the Congress and the Executive are to implement the Constitutional changes through secondary legislation.
- The reform eliminates a restrictive legal framework limiting private investment and participation in Mexico's energy industry for more than 75 years.
- Prior to the reform, the Constitution granted Pemex a monopoly over every step of the crude oil value chain, including exploration, production, distribution, storage, refining and marketing of oil and refined products.

The 5 principles of Constitutional Reform

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graph LR; A[The 5 principles of Constitutional Reform] --- B[1. The Nation retains ownership of hydrocarbons in the subsurface.]; A --- C[2. Open market and competition between State-owned and private enterprises in E&P, downstream, midstream and electricity.]; A --- D[3. Strengthening of regulatory agencies and transformation of PEMEX and CFE to productive entities.]; A --- E[4. Transparency and accountability.]; A --- F[5. Environmental Protection, promotion of clean energy and sustainability.];
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1. The Nation retains ownership of hydrocarbons in the subsurface.

2. Open market and competition between State-owned and private enterprises in E&P, downstream, midstream and electricity.

3. Strengthening of regulatory agencies and transformation of PEMEX and CFE to productive entities.

4. Transparency and accountability.

5. Environmental Protection, promotion of clean energy and sustainability.

General Overview of Constitutional Reform

- Opens the upstream oil and gas sector to private investment by ending Pemex monopoly, and introduces a new contractual framework for E&P activities.
- Provides Pemex an opportunity to retain acreage under the “Round Zero”.
- Allows private parties to book reserves.
- Opens downstream and midstream sectors to private investment and competition.
- Introduces corporate governance changes and more financial independence to Pemex.
- Creates the Mexico Oil Fund, a sovereign fund, to manage, distribute and invest oil revenues.

Content

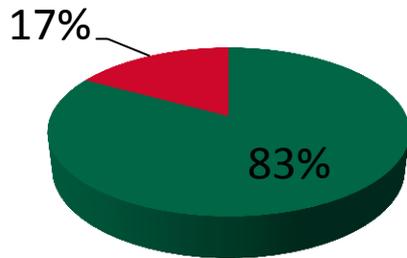
- Mexico's Energy Market
- PMI's role
 - Mexico's Energy Reform
 - **A New Pemex**
 - E&P
 - Midstream and downstream
 - Next steps
 - Expected Benefits

A New Pemex

- **Pemex will be converted into a “productive” state-owned company** (government ownership with an entrepreneurial approach).
- **Pemex’s main objective will be to create economic value and increase Mexico’s revenue**, which differs from current objective of supply assurance.
- **Pemex will be managed by a new board of directors** appointed by the President, composed of **5 independent members and 5 members of the federal government**, removing workers union representation from the board.
- **Pemex’s budget and investment opportunities will be approved by its Board of Directors not by the Ministry of Finance**, acquiring flexibility (comparable to private companies).
- Pemex will adopt best industry practices in its organization, administration and corporate structure, including special regimes related to public debt, internal control and auditing, purchase of goods and services, construction and procurement.

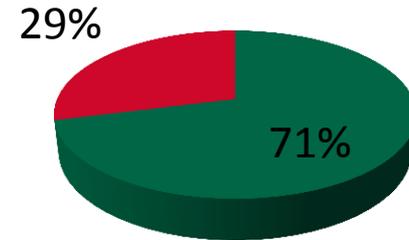
Pemex's Requests under ground zero

2P Reserves



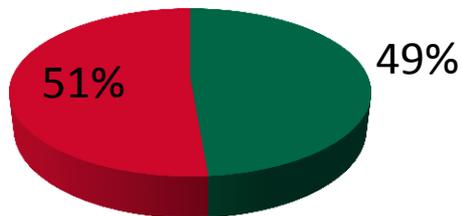
■ Requested areas ■ Non-requested areas

3P Reserves



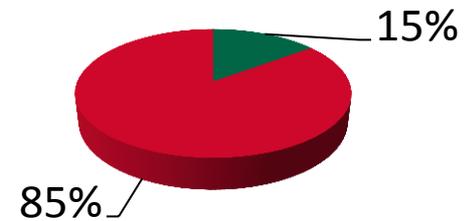
■ Requested areas ■ Non-requested areas

Conventional Resources



■ Requested areas ■ Non-requested areas

Non-conventional resources



■ Requested ■ Non requested

Mexico's Energy Reform

Proposed Energy Laws:

- On April 30, 2014, President Peña Nieto introduced to the Mexican Congress 9 new bills and amendments to 13 existing bills to implement the constitutional reform.
- Principal provisions included in the new proposed Hydrocarbons Law related to **E&P**:
 - In regards with assignments to Pemex, Pemex may only enter into services contracts with private parties in exchange for cash compensation
 - Pemex may migrate from an assignment to an E&P contract, with prior approval from the Ministry of Energy; and in such case may partner with private companies in developing contractual areas through a bidding process directed by the National Hydrocarbons Commission
 - E&P contracts will be executed by the National Hydrocarbons Commission with Pemex or private corporations organized under Mexican law, always awarded through bidding rounds
 - Pemex may partner with private operators to execute E&P contracts and develop a contractual area
 - Pemex will participate with at least a 20% investment in trans boundary oil fields
 - E&P activities will include a national minimum content of 25% to be adjusted on a case by case basis
 - The compensation in respect of E&P contracts will be determined in the Hydrocarbons Revenue Law

Content

- Mexico's Energy Market
- PMI's role
 - Mexico's Energy Reform
 - A New Pemex

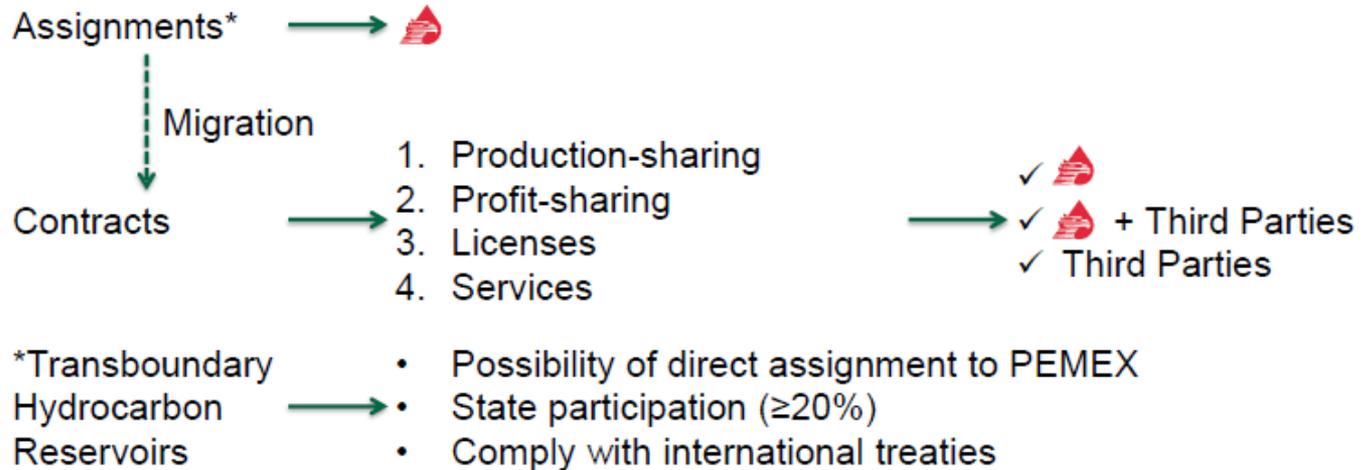
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- Midstream and downstream
- Next steps
- Expected Benefits

Upstream: Oil and Gas



Upstream

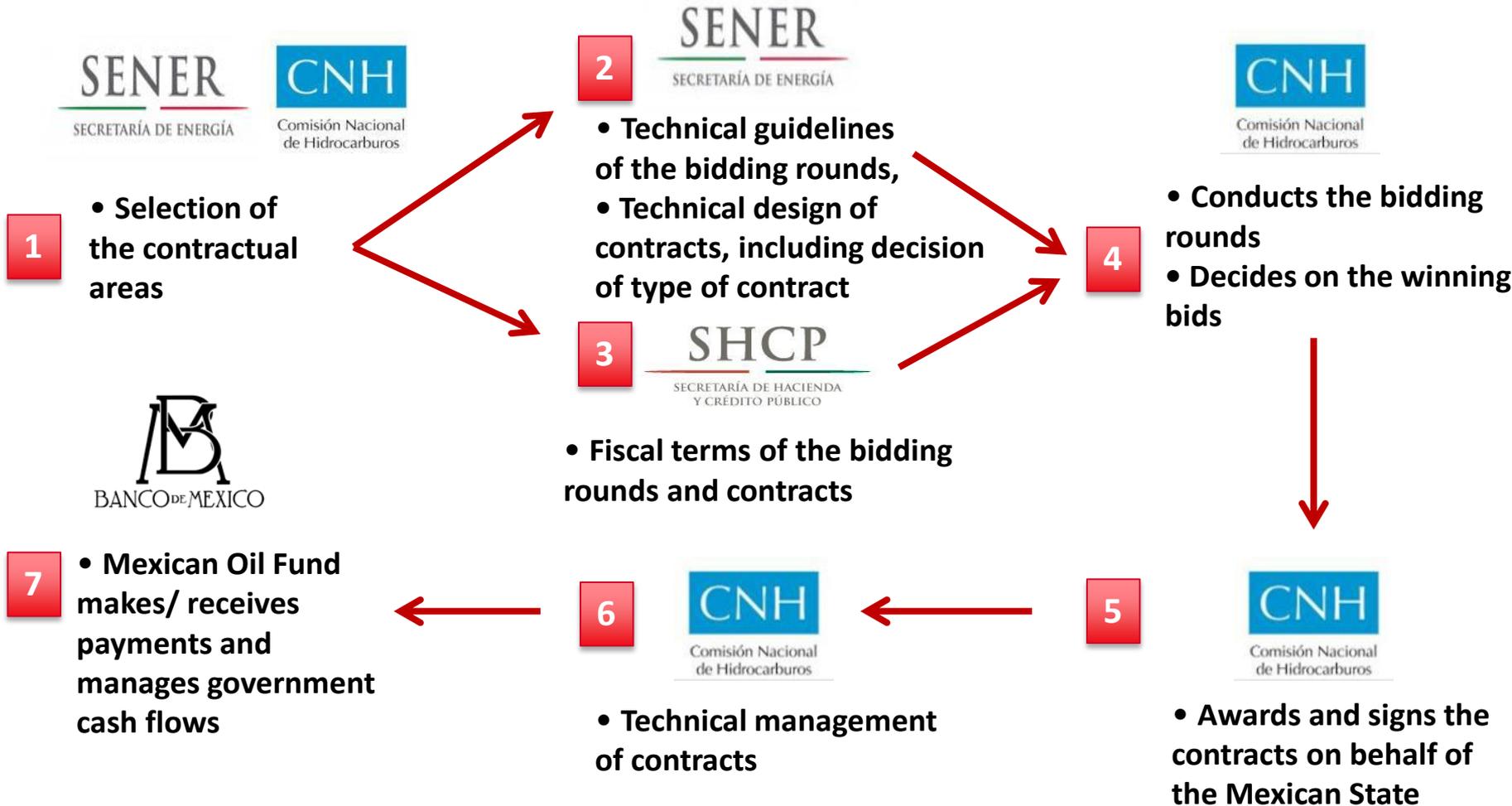


- New contract framework for E&P activities includes:
 - Allotments or assignments to be granted to Pemex.
 - Production-sharing contracts, profit-sharing contracts, licensing contracts, services contracts or a combination of them to be entered by the Mexican State.
- Ministry of Energy and National Hydrocarbons Commission charged with granting oil and gas rights, selecting areas for public bidding, establishing technical requirements for bidders and awarding contracts.
- Creation of the National Agency of Industrial Security and Environmental Protection of the Hydrocarbon Sector (similar to EPA) to regulate oil and gas operations to protect the environment.

Upstream: Important concepts

- **“Round Zero”**, assignments granted to Pemex to retain acreage already under its production or active exploration. After “Round Zero”, Pemex will compete with other operators to obtain additional contract areas. Pemex has already submitted its “Round Zero” requirements and the Ministry of Energy has to provide approval by September 2014. “Round One” expected mid-2015.
- **Booking of reserves** in the form of reporting, for accounting and financial purposes, the E&P contracts and their expected benefits with the caveat that while the hydrocarbons remain in the subsoil, ownership resides with the Mexican state.
- **Mexico Oil Fund**, to be administered by Mexico’s central bank as trustee, will be entrusted with receiving, administering and distributing all government oil revenues (with the exception of taxes paid by the oil companies). The funds will be distributed to federal budget, sovereign debt payment and long term savings, investments in infrastructure projects and pension funds.

E&P Role Distribution



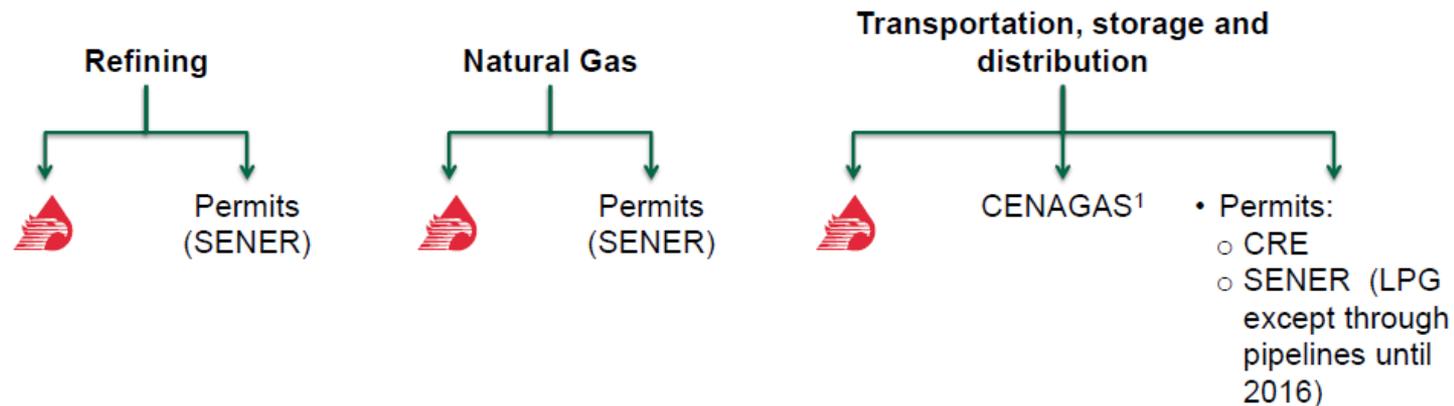
Content

- Mexico's Energy Market
- PMI's role
 - Mexico's Energy Reform
 - A New Pemex
 - E&P
- **Midstream and downstream**
- Next steps
- Expected Benefits

Midstream and Downstream Sectors:



Downstream & midstream



- Reform opens the midstream and downstream sectors to private investment and competition through a permitting regime.
- The Energy Regulatory Commission (similar to FERC) will be in charge of regulating and granting permits for the storage, transportation and distribution of crude oil, natural gas, petroleum products, LPG and petrochemicals.
- The Ministry of Energy will be in charge of granting permits for refining and natural gas processing facilities.
- The National Center of Natural Gas Control will be created to own, administer and operate the natural gas pipeline and storage systems. Pemex will transfer ownership of its pipelines and storage facilities and assign contracts related thereto to such Center.

Hydrocarbons Law – Principal Provisions Mid and Downstream Sectors:

- Refining and natural gas processing; transportation, storage, distribution and retail; and importation and exportation of hydrocarbons (crude oil, natural gas, condensate and LNG), petroleum products, LPG and petrochemicals will require a permit from the Ministry of Energy and the Energy Regulatory Commission, as applicable.
- The trading (or middle-market sales) of hydrocarbons, LPG, petroleum products and petrochemicals does not require a permit, but interested parties have to register with the Energy Regulatory Commission and provide all the requested information for statistical purposes.
- The Energy Regulatory Commission will only determine the fees to be paid in respect of any activity requiring a permit when the Federal Economic Competition Commission (similar to FTC) determines the non-existence of competitive conditions. Permit holders may request such Commission to declare the existence of competitive conditions.
- The Energy Regulatory Commission will issue specific regulations for open access and exclusive use of transportation, storage and distribution facilities.

Mid and Downstream Permitting Distribution

Transportation, Storage, Distribution and Sale

National Center for
Control of Natural Gas



New entity to own, operate and manage the natural gas pipeline and storage system (currently owned and manage by Pemex)

Permits for:

- Transportation, storage, distribution and retail of crude oil, natural gas, condensate, LNG, refined products and petrochemicals
- LPG pipeline transportation and LPG storage linked to pipelines

Refining and LNG Processing



Permits for:

- Refining and natural gas processing
- Import and export of crude oil, natural gas, condensate, LNG, refined products, LPG and petrochemicals
- LPG transportation and storage not linked to pipelines; distribution and retail

Specific Conditions for Retail of Gasoline and Diesel

In terms of price:

- Until December 31, 2014, the retail price for regular gasoline, premium gasoline, and diesel supplied by Pemex will be adjusted 9, 11 and 11 cents per month, respectively.
- From January 1, 2015 and until December 31, 2019, the retail price will be adjusted monthly by the Ministry of Finance in accordance with inflation if the international market prices are stable or decrease; otherwise, the retail prices may be increased accordingly.
- From January 1, 2020 the prices will be regulated only if the Federal Economic Competition Commission (similar to the FTC) determines the non-existence of competitive conditions; otherwise, they will be determined by the Executive branch.

Other conditions:

- The permits for retail will be issued by the Regulatory Energy Commission effective January 1, 2017.
- From January 1, 2017 and until December 31, 2017, any private company may conduct retail sales with or without a franchising agreement with Pemex; but through a supply agreement with Pemex with a duration until December 31, 2017.
- From January 1, 2018, interested parties who possess a permit may conduct retail sales without a franchising or supply agreement with Pemex; and may establish their own stations and supply from any source (domestic or import).

Content

- Mexico's Energy Market
- PMI's role
 - Mexico's Energy Reform
 - A New Pemex
 - E&P
 - Midstream and downstream
- **Next steps**
 - Expected Benefits

What's next?

	July 2014	Sept 17 2014	Dec ** 2014 (6 months)	Jan 1 2015	12** months	Dec 20 2015
Approval of proposed energy laws	Red	Cyan	Grey	Grey	Grey	Grey
Approval of "Round Zero" areas	Red	Red	Grey	Grey	Grey	Grey
Regulations of Hydrocarbons Law	Red	Red	Red	Grey	Grey	Grey
Creation Mexico Oil Fund	Red	Red	Red	Red	Grey	Grey
Creation of National Center of Natural Gas Control	Red	Red	Red	Red	Red	Grey
Legal framework: environment	Red	Red	Red	Red	Red	Red

**Once proposed energy laws are in effect

Content

- Mexico's Energy Market
- PMI's role
 - Mexico's Energy Reform
 - A New Pemex
 - E&P
 - Midstream and downstream
 - Next steps
- **Expected Benefits**

