



PEMEX at 5 years from the reform

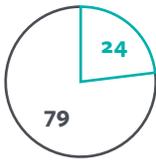
During decades, PEMEX was the only company developing Mexico's E&P activities reaching an outstanding record in some projects (e.g. naturally fractured reservoirs in shallow waters), whereas for some others it has obtained lousy results (e.g. Chicontepec), has no proven experience (e.g. deep water and shale) or not interest at all (e.g. marginal fields or Coal Bed Methane).

With PEMEX's ongoing declining production, 2013 Reform's objective was twofold: (1) increasing its capabilities and (2) complementing them with private technical and financial resources. Below, a hindsight of its performance:

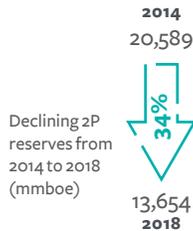
1.- INCREASING PEMEX CAPABILITIES: ROUND ZERO AND FARMOUTS

The new model began by awarding PEMEX 489 Entitlements for E&P activities, allowing the possibility of farming-out any of these areas where there is lack of operative and financial capabilities. According to Constitution, by the third anniversary of Round Zero (Aug 2017) Pemex should have returned the entitlements with unfulfilled work commitment. The following is PEMEX's performance up to date:

Round Zero's entitlements by work commitment fulfillment status (Aug 2017)



● Fulfilled
● Not fulfilled



Farmout	Offers received
Trion (DW)	2
Cárdenas-Mora (OS)	2
Ogarrio (OS)	4
Nobilis-Maximino (DW)	0
Ayin-Batsil (SW)	0

DW: Deepwater, ON: Onshore, SW: shallowwater

PEMEX has failed in using the new mechanisms of the Reform. With only three farmouts awarded and a challenging environment for complying with its investment commitments, it is vital that the new administration focuses in increasing and improving farm-outs that allow PEMEX to multiply its technical, financial and execution capabilities.

2.- COMPLEMENTING E&P NATIONAL INVESTMENT WITH PRIVATE SECTOR PARTICIPATION

Private and public investment are complementary. Successful bidding rounds have been increasing national investment mainly in areas where Pemex is not working.



PEMEX's participation in the bidding processes has been active. It has presented a total of 29 offers individually or as part of a consortium and it has been awarded with 14 blocks (9 in shallow water and 5 in deep water). This seems contradictory as it has failed in accomplishing its commitments of Round Zero entitlements.

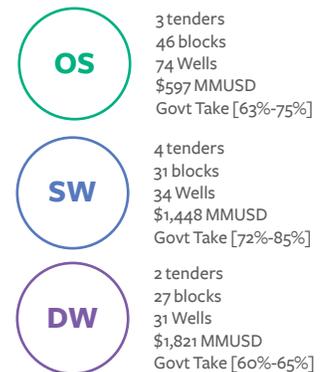


Round Zero's entitlements are PEMEX's better known areas and the new administration shall concentrate in developing them. PEMEX participation in bidding rounds should be fine only if it complies with its entitlements' work commitments. The main objective of the upcoming bidding rounds should be to complement PEMEX with investments and know-how.

Recommendations for the new administration to improve PEMEX production

- Activity in Round Zero's entitlements shall be revisited as there is a big opportunity to improve.
- In order to stop PEMEX's declining production and reserves; it is vital that the new administration focuses in improving and increasing farm-outs allowing PEMEX to multiply its technical, financial and execution capabilities.
- Success in farm-outs requires a change in its terms and conditions (JOA). This will increase tender participation and improve offers in PEMEX's benefit.
- It is urgent to redefine where PEMEX shall participate and where there is a clear necessity for private investment. Areas where PEMEX has no interest nor sufficient capabilities shall come first. The country has an urgent requirement for gas and shale basins that have the largest oil and gas potential for the future.
- Where PEMEX capabilities are limited or where there is no interest by the State Productive Enterprise, CNH must increase the pace of international tenders.

Summary of bidding rounds



ANALYSTS



MARCO COTA is the founder and CEO of Talanza where he assists international energy companies in the design and implementation of tailor-suited strategies for their regulatory compliance adjusted to the applicable geopolitical context, considering current and upcoming regulations.

marco.cota@talanza.energy



MARÍA SERNA is the Head of Legal Services specialized in energy and environmental law. She oversees the implementation of the regulatory compliance strategies procuring the minimum government relationships wear.

maria.serna@talanza.energy

Comprehensive energy regulatory consultancy given by former key officials that participated in the design and implementation of the energy reform.

Paseo de la Reforma 483, 06500, Mexico City.
T. +52 (55) 7316 2228
1200 Smith St, 77002, Houston, Texas.
T. +1 (713) 353 3952

www.talanza.energy