

# Round Zero

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April, 2014

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## Sixth Transitory Article of the Constitutional Reform Decree

The Ministry of Energy (SENER), with the technical assistance of the National Hydrocarbons Commission, will be in charge of awarding to PEMEX the leases mentioned in the seventh paragraph of article 27th of the Mexican Constitution.

PEMEX shall request to the Ministry of Energy for the allocation of leases for exploratory areas and producing fields, according to its operational capabilities. Therefore, PEMEX shall prove that it has the technical, financial and execution capacities to explore and produce hydrocarbons in a competitive and efficient way. The request must be filled within the following ninety days since the entry into force of this Decree.

1. Strengthen PEMEX by providing the necessary resources to ensure its production levels efficiently, and the adequate replacement of hydrocarbon reserves. This will be the first step to transform PEMEX into a State Productive Enterprise.
2. Multiply investments for oil and gas exploration and production in Mexico, through Bidding Rounds in which the petroleum industry will participate, and where PEMEX will also be able to compete.

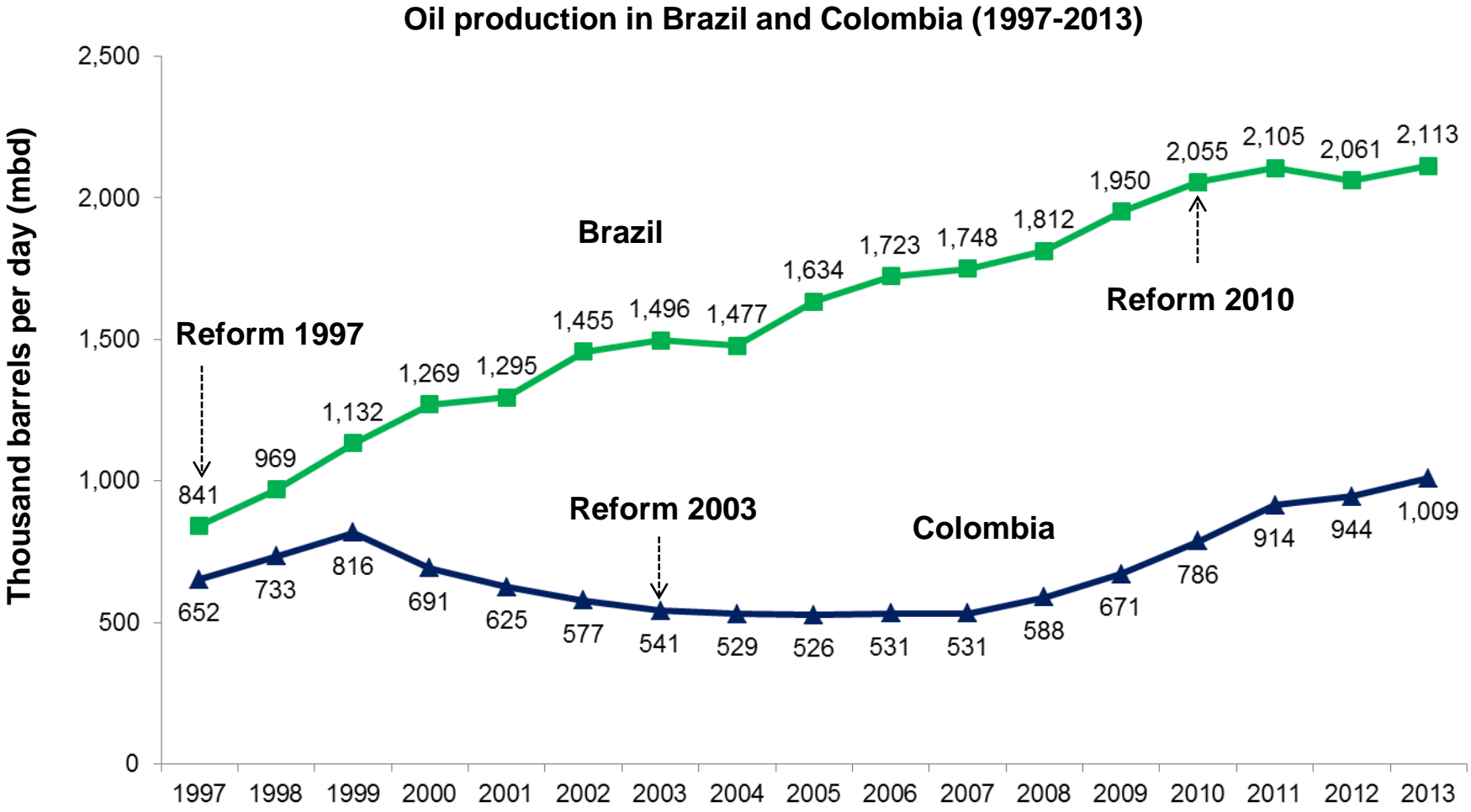
**Round Zero aims to reach a balance between the resources that PEMEX will operate, and those in which the State will manage and grant by subsequent bidding rounds.**

**PEMEX will rely on important petroleum resources, in order to keep a level of investment in exploration, development and sustainable production, being able to access new areas as a result of the Bidding Rounds where it will participate.**

**The State will promote investments in exploration and production through open bidding rounds for the oil and gas industry. This will reinforce Mexico's energy security.**

# International Experience

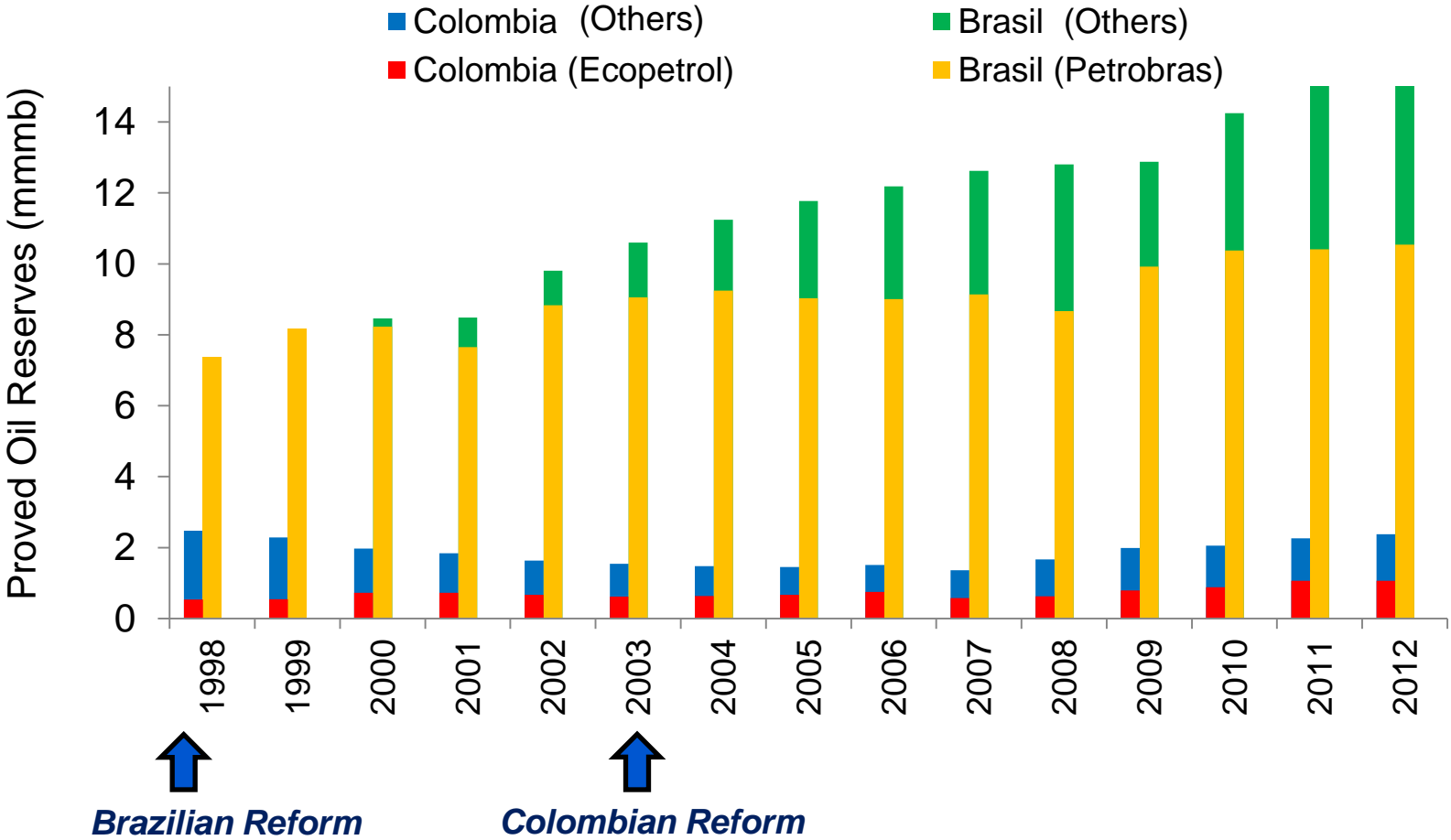
- Round Zero is a mechanism that strengthens state companies and stimulates the participation of other companies: more production and more oil revenue.



Source: Energy Information Administration, Department of Energy of the United State, march 2014.

# International Experience

## Increase of proved oil reserves



# International Experience

Concept	Brazil (Petrobras) <sup>1</sup>	Colombia (Ecopetrol) <sup>2</sup>	Mexico (Pemex) <sup>3</sup>
<b>Exploration criteria</b>	Areas with proven financial capacity or with commercial discoveries.	All operating areas, subject to proposal and implementation of an Activities Plan.	Areas with commercial discoveries or exploratory investment.
<b>Extraction criteria</b>	All fields with current production.	All fields in operation.	All operating fields by December 21 <sup>st</sup> of 2013.
<b>Area return criteria (exploration)</b>	When development and extraction goals are not reached within 3 years.	Immediate, in case of unjustified suspension of activities.	When commercial discovery is not reached within three years, extendable for two years.

1/Law N° 9.478 published on august 6 of 1997.

2/Presidential Decree 1760 and 2288, submitted on June 26 of 2003 and July 15 of 2004, respectively.

3/Sixth Transitory of the Energy Reform Decree.

# Reserves and Resources of Mexico

## Reserves and Prospective Resources (Thousands of millions of oil crude equivalent)



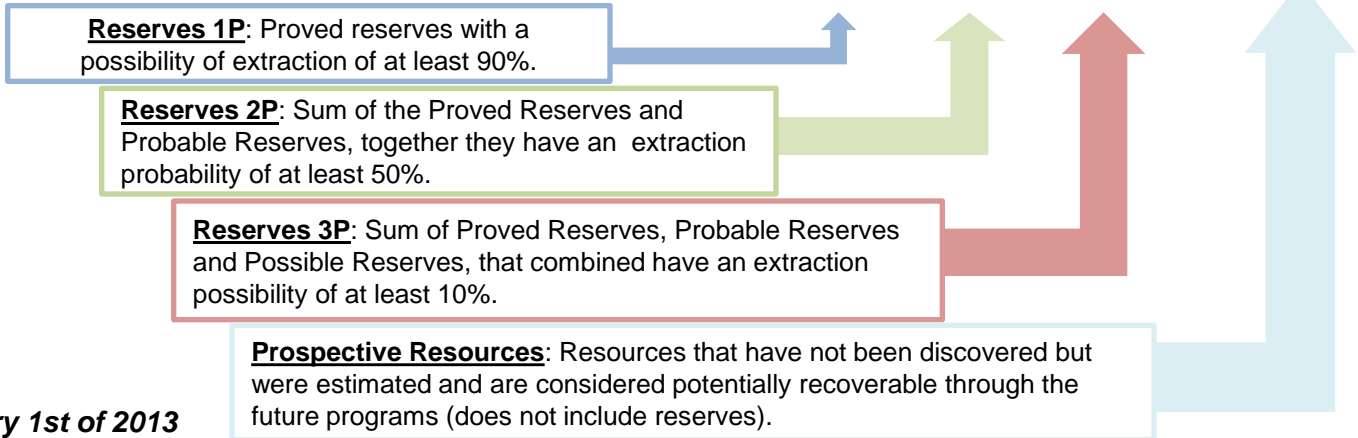
Basin	Cumulative Production	Reserves			Prospective resources	
		1P	2P	3P	Conv.	Unconv. and Deep waters
Southeast	45.4	12.1	18.0	24.4	20.1	
Tampico Misantla	6.5	1.2	7.0	17.4	2.5	34.8
Burgos	2.3	0.4	0.5	0.7	2.9	15.0
Veracruz	0.7	0.1	0.2	0.3	1.6	0.6
Sabinas	0.1	0.0	0.0	0.1	0.4	9.8
Deep Waters	0.0	0.1	0.4	1.7		26.6
Yucatan Platform					0.5	
<b>Total</b>	<b>55.0</b>	<b>13.9</b>	<b>26.2</b>	<b>44.5</b>	<b>28.0</b>	<b>86.8</b>

**Reserves 1P:** Proved reserves with a possibility of extraction of at least 90%.

**Reserves 2P:** Sum of the Proved Reserves and Probable Reserves, together they have an extraction probability of at least 50%.

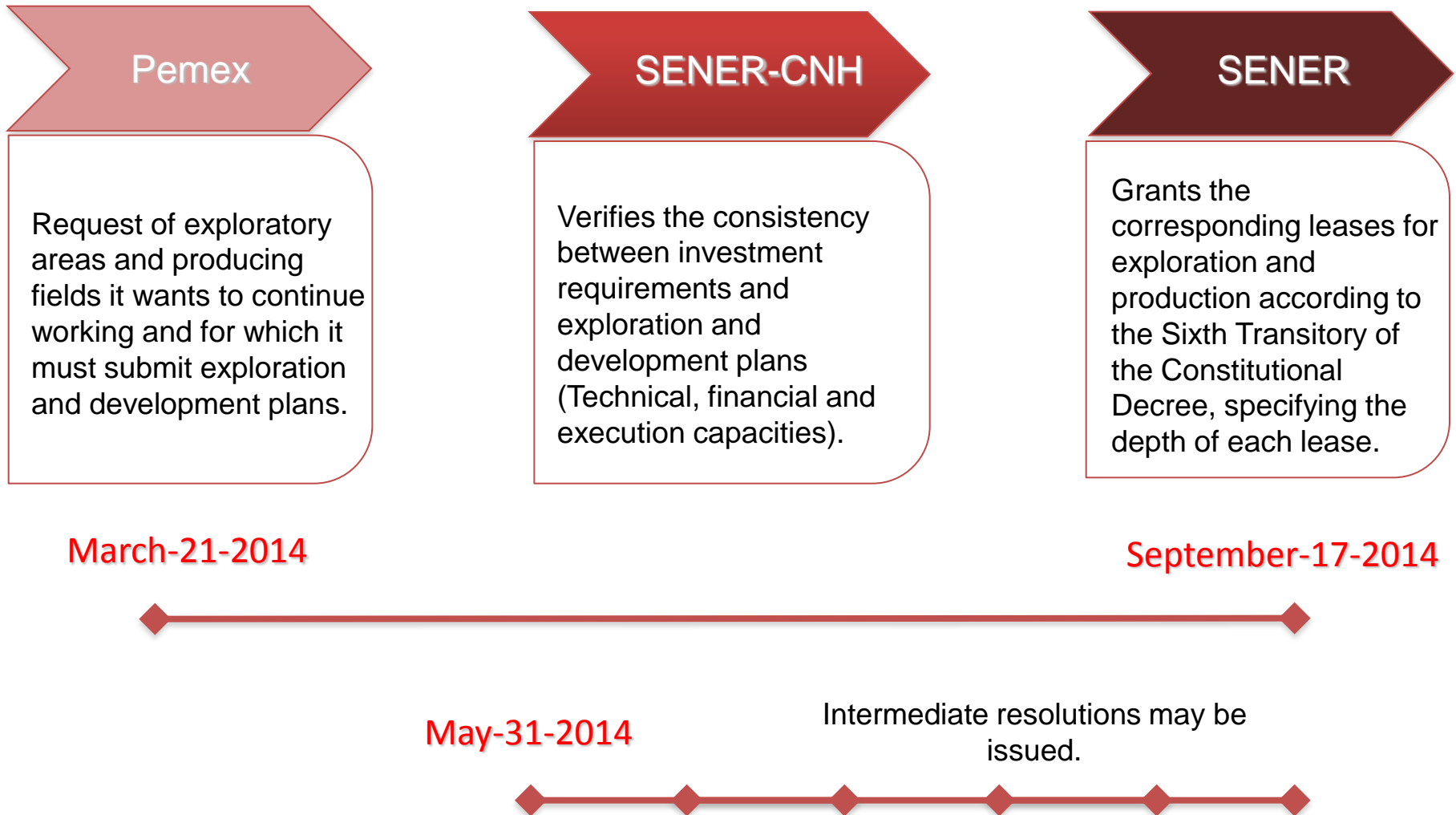
**Reserves 3P:** Sum of Proved Reserves, Probable Reserves and Possible Reserves, that combined have an extraction possibility of at least 10%.

**Prospective Resources:** Resources that have not been discovered but were estimated and are considered potentially recoverable through the future programs (does not include reserves).





# Timetable: Exploration and Extraction



Pemex's request includes the following:

## Extraction:

- Pemex has requested the production fields it wishes to keep.

## Exploration:

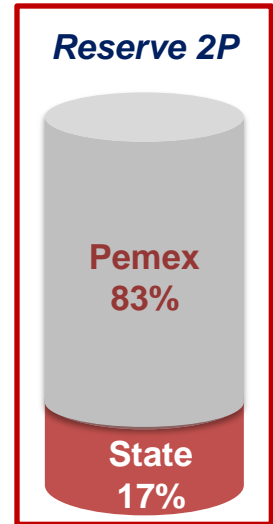
- Pemex requests to operate in areas where it has commercial discoveries, including the **deep waters** in the Gulf of Mexico.
- In the **southeastern basins**, Pemex requests the main areas of exploration that match with fields in production, and where it has exploratory investments.
- In **Chicontepec**, Pemex releases important areas for private participation in future rounds, keeping comprehensive contracts with third parties.
- In **shale areas**, Pemex requests a fraction of the prospective resources of the country in order to develop technological capabilities for the future.

# Pemex's Request: Extraction

- In 2P reserves (proven and probable), the request means:

Pemex would have enough 2P reserves to guarantee 15 years of current production in Mexico

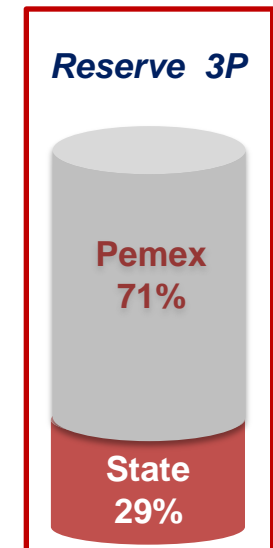
The State will administrate 2P reserves, that add-up to 3 years of current production in Mexico.



- In 3P reserves (proven, probable and possible), the request means:

Pemex will have enough 3P reserves to ensure 23 years of current production in Mexico.

The State will administrate 3P reserves, that add-up to 9 years of current production in Mexico.

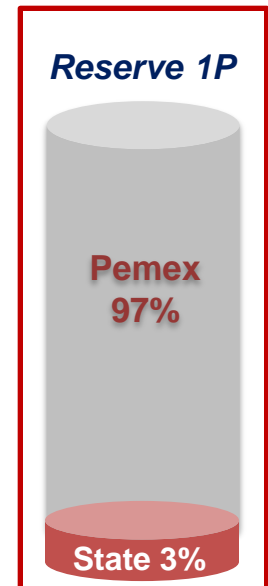


# Pemex's Request: Extraction

- Compared to international companies, Pemex is currently on a competitive rank in proved reserves. With the application of Round Zero it will continue to be in that rank.

Petroleum Proved Reserves (2012)

Company	Country	Petroleum Reserve (mmb)	Company
CNPC	China	25,003	NOC
Exxon Mobil	United States	12,228	IOC
Petrobras	Brazil	10,804	NOC
BP	United Kingdom	10,585	IOC
<b>Pemex</b>	<b>Mexico</b>	<b>10,073</b>	<b>NOC</b>
Gazprom	Russia	9,742	NOC
Chevron	United States	6,455	IOC
Royal Dutch Shell	Netherlands	6,048	IOC
Total	France	5,784	IOC
Statoil	Norway	2,389	NOC
Ecopetrol	Colombia	1,371	NOC



If Pemex request is approved, it will have enough proved reserves to ensure 10 years at the current production level in Mexico.

# Pemex's Request: Exploration

- In exploration, Pemex requested a larger proportion of prospective resources where it has more experience.

Category		Area Km <sup>2</sup>	Prospective Resources MMMbpce	Total Resources Percentage*
<b>Pemex Application</b>	Shale	13,163	8.9	15%
	Deep waters	47,000	8.1	29%
	Shallow waters	36,000	9.5	63%
	Onshore	65,000	8.0	82%
	<b>Total</b>	<b>161,163</b>	<b>34.5</b>	<b>31%</b>

Note: Calculation based on the last prospective resources estimation of Pemex (March 2014)

\* Percentages updated on March 27, 2014.

# Pemex's Request

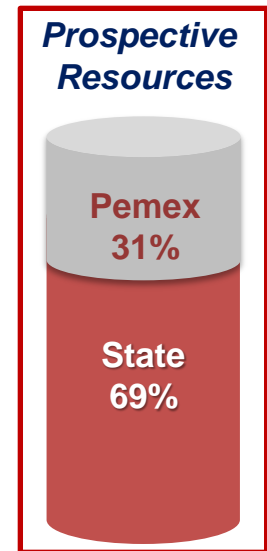
- Pemex's request opens an important opportunity for the performance of future bidding rounds. Only on prospective resources the request implies:

**Pemex will have prospective resources equivalent to:**

- 31% of the accumulated production of Mexico in all of its history\* or
- 13 years at the current production level in Mexico.

**The State will administrate prospective resources equivalent to:**

- 71% of the accumulate production of Mexico in all of its history\* or
- 29 years at the current production level in Mexico.



- With both, prospective resources and the reserves included in its request, Pemex would have guaranteed its operation at current levels for 36 years (until 2050).
- On its side, the State would manage resources equivalent to 38 years of current production.

\* Considering a 50% recovery factor.

Note: Considering a 3.7 million barrels of oil equivalent per day production level.

# Pemex's Request: Exploration

- From a total of 407 thousand square kilometers that were assigned through leases to Pemex previous to the reform, it is proposing to release areas to perform more than 10 rounds of 20 thousand square kilometers each (international practice).

## International Comparison of total area tendered per year (km<sup>2</sup>)

Year	Brazil	Angola	Nigeria	Norway	USA
2010	18,267	106,944	3,174	27,563	77,275
2011	28,888	166,205	7,238	24,963	36,300
2012	50,437	48,324	9,313	18,202	51,350
2013	9,870	42,518	2,110	21,322	n.d.

- SENER, with technical support from CNH, must analyze the information and issue its decision based on the criteria established in the Sixth Transitory Energy Reform Decree, not later than September 17, 2014.
- The leases that will be granted to PEMEX in Round Zero will set the basis of the reserves and prospective resources that it will operate. PEMEX may compete in subsequent rounds.
- The State will tender fields and exploration areas in 2015.



# Round Zero

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April, 2014

# **Appendix**

## Sixth Transitory of the Constitutional Reform Decree

# Sixth Transitory of the Constitutional Reform Decree

The Ministry of Energy will review the petition with technical assistance of the National Hydrocarbons Commission, and will issue the corresponding resolution within a hundred eighty natural days after the day of application by Petróleos Mexicanos, establishing in the same surface, depth and validity of the applicable leases. This must take into account, amongst others, the following aspects:

a) For **leases for hydrocarbon** exploration: in areas in which Petróleos Mexicanos has had commercial discoveries or exploratory investments to the date of entry into force of this Decree, based on its investment capacity and subject to a clearly established plan for exploration of each awarded area, it will be possible to continue with the works in a timeframe of **three years, extendable for a maximum period of two additional years** depending on the corresponding technical features and the completion of the aforementioned plan of exploration, and in case of success, to continue with the extraction activities. In case the exploration plan is not fulfilled, the area in question will be reverted in favor of the State.

b) For **leases for hydrocarbon extraction**: Petróleos Mexicanos will keep its rights in each one of the producing fields to the date of entry into force of this Decree. It shall present a **development plan** for such fields that includes the description of the works and investments to perform, justifying its optimal benefit and an efficient and competitive production.

To determine the features stipulated in each lease for hydrocarbon extraction, coexistence of different fields in a determined area will be considered. Based on this, the specific depth will be established for each lease, in a way that extractive activities can be performed separately in those fields that are located in a same area but at a different depth, with the purpose of maximizing the development of prospective resources in benefit of the Nation.

## Sixth Transitory of the Constitutional Reform Decree

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In case that Petróleos Mexicanos investments are affected as a result of lease adjudication process to perform activities of exploration and extraction of oil and other solid, liquid or gaseous hydrocarbons mentioned in this transitory article, **these shall be acknowledged in their fair economic value** in terms for that effect determined by the Ministry of Energy. The State can determine compensation through the lease. Leases cannot be transferred without the approval of the Ministry of Energy.

Petróleos Mexicanos can propose to the Ministry of Energy **for its authorization to migrate the leases that are adjudicated to contracts referred in article 27**, seventh paragraph of this Constitution. For this effect, the Ministry of Energy will have the technical assistance of the National Hydrocarbons Commission.

In the migration of leases to contracts, when Petróleos Mexicanos chooses to contract with private entities, in order to determine the contracting private entity, **the National Hydrocarbons Commission will perform a public bidding process in terms of what is stipulated by Law**. The Law will foresee, at least, that the Ministry of Energy will establish the technical and contractual guidelines, and that the Ministry of Finance will be in charge of establishing the tax conditions. In these cases, the administration of the contract will be subjected to the same authorities and control mechanisms applicable to the contracts subscribed by the State.