MEXICO
OIL & GAS REVIEW

HIGHLIGHTS 2017

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2017

Mexico's Energy Reform set in motion a series of changes that continue to revolutionize the country's oil and gas industry. With vast untapped hydrocarbon reserves, increasing demand from a growing population and economy and a new regulatory framework, Mexico is quickly becoming one of the most exciting markets for oil and gas companies along the entire supply chain. Despite production declines of more than a decade, PEMEX remains Mexico's oil and gas heavyweight, as the eighth largest oil producer, eighth largest drilling company and 15th largest refining company in the world. But its decades-long monopoly is over and new private and international companies are entering Mexico's upstream market through CNH's licensing rounds, while others have started to capitalize on midstream infrastructure and downstream gasoline distribution opportunities. PEMEX itself has set a clear path forward with a five-year business plan to stabilize and boost reserves and production as it faces the challenge of private competition.

While previous years were marked by expectation, concrete results defined 2016 and early 2017. The completion of the country's first deepwater licensing round was the highlight of Round One, which attracted expected investments totaling US$49 billion. With this success behind it, the industry now awaits Round Two with optimism. The same year saw Australia's BHP Billiton become PEMEX's first-ever partner through a farm-out and together they will develop the deepwater Trion block. Four more farm-outs have already been announced: another in deepwater, two onshore and one in shallow waters. PEMEX also showed its competitiveness in the licensing rounds when it won a deepwater block in partnership with Chevron and INPEX in Round 1.4. Exciting projects are already up and running in the midstream segment, and others are planned. The past year also delivered the liberalization of gasoline prices in Mexico, the final stage in the process toward a competitive fuel distribution market with both Mexican and international companies competing for business.

THE YEAR IN REVIEW

Mexico's oil and gas revolution continued unabated in 2016 and through the first half of 2017. The country's unfolding Energy Reform bore fruit across segments and resulted in historic firsts: the first deepwater round, the first farm-out and the first foreign IOC to strike oil in the country's shallow waters

There is no doubt that since 2014's Energy Reform, the industry has undergone a profound transformation. The end of PEMEX's near 80-year monopoly over the country's hydrocarbon reserves and its transition into a productive state enterprise has resulted in far-reaching consequences for every part of the oil and gas value chain; from upstream exploration and production, to midstream logistics and downstream refining and gasoline commercialization, and all associated business services.

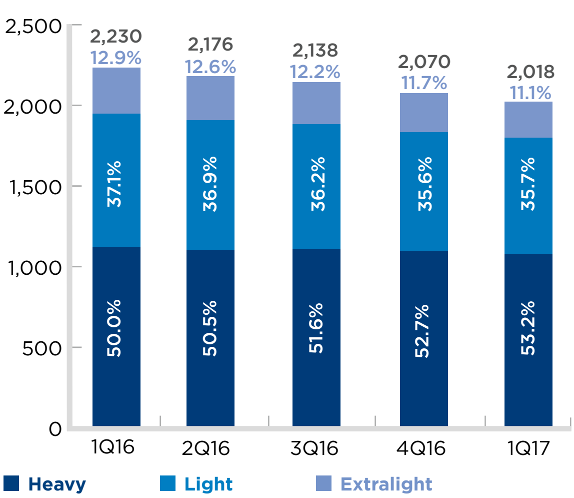
Invitations to bid on deepwater and onshore unconventional areas will be released in the first half of the year; shallow water and onshore conventional will be held in the second. The actual bidding will be carried out about six months after the invitation to bid is announced. Welcomed by operators and hailed as "industry-friendly," the changes to the Five-Year Plan demonstrate Mexico's oil and gas authorities' willingness to incorporate the voice of the industry into policy, which remains fluid as the Energy Reform continues to unfold.

"All this gives us a chance to think about scaling up our process so that through the nomination and standardization we can get to greater volumes of production and exploration," says Aldo Flores, Deputy Minister of Hydrocarbons.

PRODUCTION GOALS

Increasing oil exploration and production is the main objective of Five-Year Plan, with a target of stabilizing PEMEX's production at 2 million b/d. Flores believes this is already achievable. "The target for 2017 is around 1.94 million b/d, so with the private sector's contribution to production we should reach close to 2 million b/d," he says. He is backed up by the results of the deepwater round, which attracted an estimated investment of US$34.4 billion over the next 35 years from the private sector.

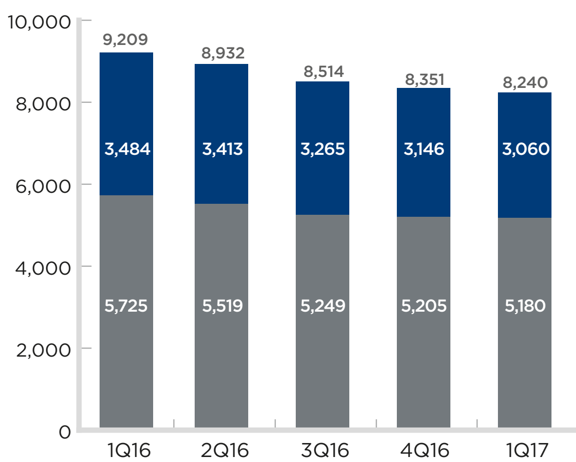
CRUDE OIL PRODUCTION (thousand b/d)



Source: PEMEX

The private sector's participation is accelerating at an impressive rate. By March 2017, a total 4,329 miilion boe of the country's prospective resources and 273 million boe of its 2P reserves had been auctioned off through Round One, representing 4.9 percent and 9.5 percent, respectively, of all available resources under state control. Should the process continue at the same rate, the ministry says, it would take between 20 and 40 years to get through all of Mexico's identified resources.

AVERAGE OPERATING WELLS



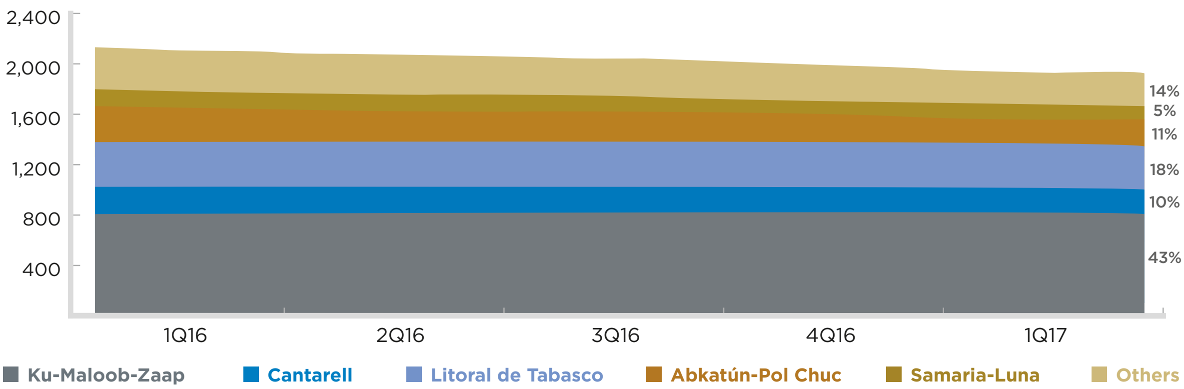
Source: PEMEX

CRUDE PRODUCTION IN DECLINE

One area of concern is Mexico's crude oil production, which has been in decline for over a decade. In 2016 total production averaged 2.155 million b/d; a drop of 5 percent on year. Production of crude oil has seen a steady decrease since peaking at 3.383 million b/d in 2004.

A 13.5 percent reduction in light oil is noted as a contributing factor to the over decrease That is put down to the natural decline of the NOC's Chuhuk, Chuc, Ixtal and Onel fields from the Abkatún-Pol-Chuc asset and also the aging Tsimin field in the Litoral de Tabasco area. A 16.6 percent fall in super-light crude oil has also been cited, given the maturation and increase in fractional water flow at its Bellota-Jujo, Samaria-

TOTAL CRUDE PRODUCTION (million b/d)



Source: PEMEX

Luna, Macuspana-Muspac and Litoral de Tabasco areas. Heavy crude production also fell but less significantly, by 3.8 percent, given the fractured nature of Cantarell's deposits.

Previously Mexico's most productive oilfield, Cantarell's production fell to an all-time low of 216,000mbd in 2016, down from a peak of 2.123 million b/d in 2004. The most productive of the area's 10 oil fields, Akal, accounted for 31.7 percent of Cantarell's production in January 2017, at an average 63,240b/d. But two years ago, Akal's production stood at 120,310b/d, meaning it almost halved in the 24 months from January 2015.

In 2009, Ku-Maloob-Zaap overtook Cantarell as Mexico's most productive oil field and its 2016 production output was 867,000b/d. This figure has been relatively steady since 2010, varying by only 25,000b/d since that year.

NATURAL GAS PRODUCTION

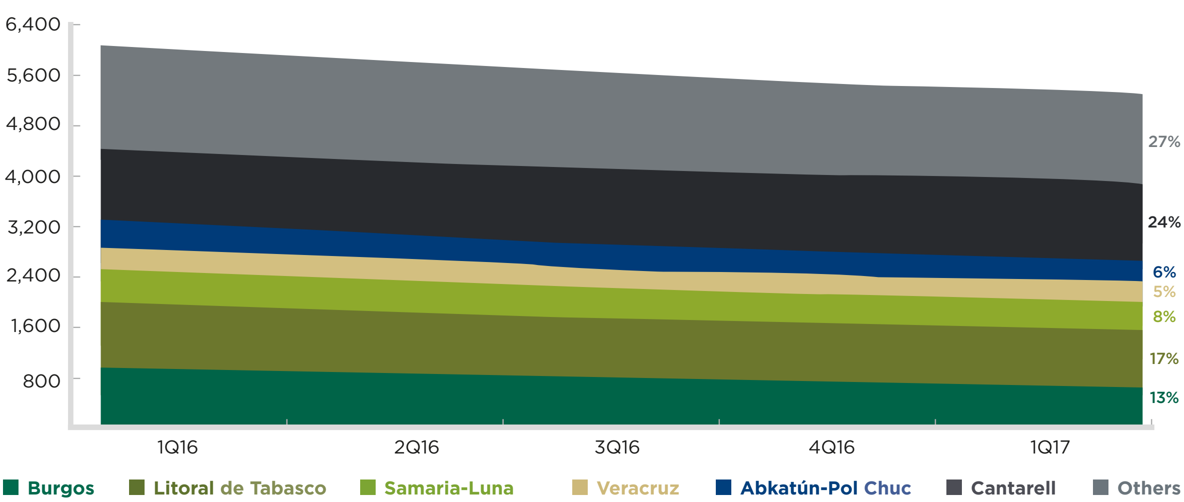
The year 2016 saw Mexico's average daily natural gas production drop to 5,825mmcf/d, the first time in a decade that production was below 6,000mmcf/d. In the last quarter of the year it dropped even further, reaching 4,580mmcf/d. In its 2016 yearly report, PEMEX cited the natural decline of its Litoral de Tabasco and Abkatún-Pol-Chuc fields as a contributing factor to lower natural gas production, where the drop in crude oil production led to an increase in fractional water flow. It also mentioned the natural decline of fields in the Macuspana-Muspac, Ballota-Jujo and Samaria-Luna assets as an additional factor.

In the final quarter of 2016, natural gas production originated almost evenly between onshore and offshore fields, with 49 percent and 51 percent produced from each type of field, respectively.

ROUND ONE

With the completion of Round One, a total of 38 E&P contracts had been signed, including one between PEMEX and a third-party operator. After getting off to a sobering start with shallow-water Round 1.1 in 2015, which saw only two out of 14 contractual areas awarded, things started to look up with Round 1.2, when three out of the five shallow-water blocks up for grabs were awarded to three bidders:

NATURAL GAS PRODUCTION BY ASSET (MMcf/d)



Source: PEMEX

one independent and two consortiums. One notable difference between the two rounds was the fact that Round 1.1's blocks offered only exploratory potential, while Round 1.2 was an extraction round, increasing certainty and reducing risks for vying companies.

The first categorical success of CNH's licensing rounds came in December 2015, when 25 onshore extraction blocks were awarded to a range of predominantly Mexican companies through Round 1.3. Of the 25 contracts, which were all signed by August 2016, 18 were signed by wholly Mexican companies, three by consortiums including a Mexican entity, and four by a foreign company. With production underway on several of the blocks, and others awaiting permits and approval, the development marks an exciting step forward for the Energy Reform, with several examples of completely new Mexican companies taking on E&P challenges, as well as established service companies such Grupo Diavaz diversifying to become operators.

If Round 1.3 was a goldmine for national companies, Round 1.4 was the equivalent for international businesses. Mexico's first-ever deepwater licensing round lead to the successful allocation of eight out of 10 available blocks to an impressive range of IOCs, NOCs and independents. Thrusting Mexico into the global oil and gas limelight, the round attracted an estimated US$34.4 billion in investments over the next 35 years, and 13 companies from nine countries are counted among the winners. PEMEX won one block in partnership with US company Chevron and Japan's INPEX. The NOC was joined by Sierra Oil & Gas as one of two Mexican companies to experience deepwater success.

Besides BHP Billiton, 2016 was defined by an influx of some of the world's largest IOCs into the Mexican market. France's Total, the UK's BP, the US's Chevron and Exxon and Norway's Statoil are some of the big names which feature among Round 1.4's winners. China Offshore Oil Corporation took away two blocks in the same round and stood out for the high-royalty rates it bid to snatch them up. Sierra Oil & Gas, Murphy, Ophir, INPEX and Petronas were also among the winners.

Along with the eight blocks awarded in the round, the same day marked PEMEX's first-ever farm-out, which involved the deepwater Trion block, won by Australian operator BHP Billiton. Taking on 60 percent of the share, BHP will enter into a production-sharing agreement with Mexico's NOC to exploit the block, which has 3P reserves totaling 485 million barrels of crude oil equivalent. To win, the Australian heavyweight bid an additional royalty rate of 4 percent, on top of the 7.5 percent base rate, and offered a US$625 million after tying with BP. The amounts contributed by BHP mean that in four years PEMEX will not have to contribute any of its budget to the Trion project.

With Round One completed, the industry now awaits Round Two with baited breath. Shallow-water Round 2.1 and onshore Rounds 2.2 and 2.3 are scheduled to be held in mid-2017, while an unconventional and deepwater stage is due to be held later in the year.

CNH Commissioner, Gaspar Franco, says a higher number of blocks with unconventional and deepwater fields are expected in future rounds. "Areas in Round 2.1 are 1.6 times bigger than those from Round 1.1 and 1.2, while areas from Round 2.2 are 14 times bigger than those in Round 1.3," he says. The larger sizes of the blocks involved could lead to the involvement of bigger, more capital-intensive companies in the rounds as compared to the corresponding rounds in Round One.

Three more farm-outs with PEMEX are scheduled for 2017. The shallow-water Ayín-Batsil field will be auctioned off at the same time as Round 2.1's winners are announced in June 2017, while the onshore Cárdenas-Mora and Ogarrio fields are due to be auctioned off on Oct. 4, 2017.

FUEL MARKET LIBERALIZATION

Mexico's declining refinery infrastructure is leading to an increasing reliance on imported fuel from the US, but it is hoped this can be turned around as the country's own gasoline market is fully opened to foreign participation. Fuel prices were liberalized in January 2017 after years of subsidization and price control. Despite public outcry as gasoline prices rose from one day to the next, the news was welcomed by the industry as a big step toward creating a competitive gasoline market in Mexico. One palpable change that has already transpired is the appearance of international brand BP in the country, which inaugurated its first Mexican gas station in March 2017 and plans to roll out 1,500 in the coming five years.

"In Mexico, we expect our planned 1,500 stations will lead to a 15-18 percent market share," says Paul Augé, Vice President of New Businesses for Latin America at BP Downstream. As the first international company to sell fuel in Mexico, for the time being BP will be supplied by PEMEX's gasoline before developing capabilities to import or produce its own products.

As well as eventually introducing different fuel qualities and prices into the market, the entry of international firms will transform the consumer experience, says Juan Gallástegui, President of Gallástegui Armella Franquicias. He says it will take more than just more competitive pricing to attract clients in the new look market. "Companies should also invest in creativity to provide added value to consumers. When people start seeing new brands, they will be loyal to the brand that provides the best service."

BUILDING ON ROUND ONE TO SPEED UP, SCALE UP

JUAN CARLOS ZEPEDA
President Commissioner of CNH

Q: How is CNH building on the results from the bidding rounds and preparing to move forward?

A: At the moment CNH is right in the middle of the transition from innovation to standardization of its bidding rounds. We finished Round One, which was successful, and now we want to build upon that experience. From what we have learned through this round and from industry feedback, we believe we can speed up and scale up the investment process and make it more efficient. So far, CNH has put 55 contracts up for bidding and we have awarded 39. We have 49 companies involved, including PEMEX, from 14 countries. CNH is now working on 2017's shallow-water Round 2.1, to be held on June 19, 2017. The blocks involved are not all in very shallow waters, with some reaching more than 300m in depth, which requires submersible rigs rather than jackups. There is a lot of interest, with 27 companies already signed up. On July 12 we will hold two onshore bidding rounds and we are also running three farm-outs for PEMEX, one in shallow water and two onshore. PEMEX has already announced another deepwater farm-out, which we will also begin working on.

Q: What has been learned through Round One regarding the royalty rate and investment plan balance in bids?

A: It is the Ministry of Finance's responsibility to define the weighting given to royalty rates and proposed workplan. Through the four stages of Round One, the Ministry of Finance has tipped the weight towards weight commitment and away from royalties. That was a very smart move because the biddings are not for a fixed object but for different future projects. A company may bid a low royalty rate so it can develop a huge project, while another could bid a high royalty rate and just take advantage of the most profitable part of the field. As the government arm responsible for the state's fields, we want them to be developed fully and to maximize the recovery factor. We do not only want the maximum royalty possible but also the biggest projects. Finding the correct weighting between these two variables is an ongoing process but we are heading in the right direction. In Round 1.4 more emphasis was on the number of proposed exploration wells. The result was successful, ending with four promised deepwater exploration wells in addition to the Trion farm-out.

Q: What is the industry's main suggestion for increasing the competitiveness of the bidding rounds?

A: Through different conferences, seminars and panels, we have received industry feedback centered on one suggestion: that CNH could and should scale-up the bidding process. This means that we should offer more rounds and especially include more blocks in each round. Our goal now is to implement that advice, mainly through two elements. Firstly, we want to increase the acreage we offer through the licensing rounds. Through Round One, CNH offered an acreage amounting to 30,000km^2. Brazil offered more than four times this in its last bidding round, although it is a much larger country than Mexico. Colombia, on the other hand, is much smaller and has less hydrocarbon potential than Mexico but it offered six times what Mexico did in its last round. Looking at the US, comparing the Gulf of Mexico on both sides, it is offering more than nine times the amount we are.

Q: How will the standardization for prequalification impact companies interested in bidding on the licensing rounds?

A: Another comment we received from the industry was that CNH needs to make the prequalification process more efficient. Compared to other countries, our prequalification process is very thorough. We check financial strength, net worth, balance sheets, technical capabilities, contracts held in other countries, safety and environment standards and even ask for a special file to assess the lawful origin of the resources they intend to invest in Mexico. Up to now, companies have gone through this prequalification process every time they wanted to bid. At any point in the year, companies will be able to approach CNH and request prequalification for one of the four categories: onshore conventional, onshore unconventional, shallow water and deepwater. After prequalifying, the companies will receive a certification confirming they have certain capabilities, valid for five years. They will only need to update CNH with their financial statements and any other relevant updates.

The National Hydrocarbons Commission (CNH) *was set up as a result of the Energy Reform. Its duties include the handling, regulation and oversight of the oil and gas bidding rounds in Mexico*

MEXICO ATTRACTS US$49 BILLION IN ROUND ONE

PEDRO JOAQUÍN COLDWELL
Minister of Energy

Q: What is the Ministry of Energy's perspective on the results of Round One and which parameters are used to measure its success?
A: In spite of the volatility of international crude oil markets, the results obtained in Round One were successful, transparent and highly competitive. With the four bidding rounds and the first PEMEX farm-out concluded with Trion, we have achieved a result of 70 percent of the available areas awarded, well above the registered rate in the region. In addition, the best conditions have been guaranteed by the state, which will be receiving a 60 percent average profit during the commercial life of the contracts. The US$49 billion investment commitment by the 48 companies from 14 countries reflects the confidence of new operators in the Mexican bidding system, which has also been recognized by international experts.

> With the **four bidding rounds** and the **first PEMEX farm-out** concluded with **Trion**, we have achieved a result of **70 percent** of the available areas **awarded**

The Energy Reform opened the hydrocarbons industry to private participation and achieved certainty in the rules, transparency in the allocation of contracts and in tenders and free competition for both PEMEX and private operators. Private investments are expected to complement those that PEMEX has been making over the past seven decades to access deep, ultradeep, unconventional and mature fields, in which Mexico has resources that it was previously unable to take advantage of. In transport, storage and marketing of oil, private participation will allow us to expand the existing infrastructure and strengthen the country's energy security.

Q: What is the expected result from the decision to allow companies to nominate areas in Round Three?
A: We expect to receive feedback from those that have shown interest in tenders and to ultimately increase the number of blocks to be auctioned, based on technical justifications regarding potential production. The industry selects areas in which it is interested in carrying out exploration and production activities and proposes the configuration of areas with a greater surface area to reduce geological risk. With the information received and the technical support of CNH, the Ministry of Energy analyzes the nominations to include them in the tenders, considering the investment strategy of the industry and the viability of the projects.

Q: What are the objectives of the licensing rounds planned for each year?
A: One of the objectives we have in hydrocarbons is to create a diversified industrial system, in which companies of different sizes, origins and specialties coexist. Under this premise, we have carefully designed the rounds so that every tender targets specific goals, either to boost the domestic industry, such as Round 1.3, or to attract the world's largest oil companies that have the proven ability to venture into deep and ultra-deepwaters, as in Round 1.4.

For the remainder of this administration, we will design two new tenders for Round Two: one in deepwater and one in unconventional onshore. We will then start Round Three, which will include a tender for shallow waters and conventional onshore areas and another for deepwater and unconventional onshore areas.

Q: Why prioritize exploration areas with reserves over pure exploration areas for future licensing rounds?
A: In Mexico, the production of crude oil from mature fields represents between 40 percent and 60 percent

The Ministry of Energy *is charged with executing energy policy to ensure the competitive, sufficient, high-quality, economically viable and environmentally sustainable supply of energy required for the development of the nation*

The Five-Year Hydrocarbons Plan 2017-2021 incorporates the following improvements over the Five-Year Plan 2015-2019, which will facilitate the selection of blocks:

1. Area to be tendered: grows by 2 percent, compared to the previous round. It goes from 235,000km^2 to more than 239,000km^2.

2. Prospective resources: increased by 10 percent, from 38.884 billion to 42.681 billion boe, distributed across all the oil basins of our country.

3. Block size: is now standardized by project type. For deepwater, the area is 1,000km^2, 400km^2 for shallow water, 300km^2 for conventional onshore areas and 200km^2 for unconventional onshore areas.

4. Nominations: All oil areas will be open to industry nominations. To facilitate the nomination of areas, the Hydrocarbons Undersecretary developed an interactive map, which will allow companies to identify and propose the areas that are of interest to them. The map will be available to interested parties during the predefined deadlines for each tender.

THE FIVE-YEAR HYDROCARBONS PLAN 2017-2021

of total production. Due to our urgency in reversing the decline in production, tenders have focused on areas where we know there is better potential for success. This is why we follow the logical path to tackling this problem through seeking to increase reserves with exploration activities.

There may now be exploration in areas with more data available just as there may be exploration that involves greater risks due to lack of information that would reduce those risks. However, it is important to note that this does not mean that there is no value in other areas but until now we just could not carry out the proper evaluations with the data we had at hand.

However, the operations of the new companies in Mexico, the new information obtained by exploration companies and all the new eyes looking at Mexico allow us to glimpse new horizons. This new environment will compel us to turn to those areas in which new potential is detected based on new information and naturally to take another step: to expand exploration into frontier areas.

Q: What is the Ministry of Energy's perspective on the progress made by PEMEX in its transformation into a productive enterprise of the state?

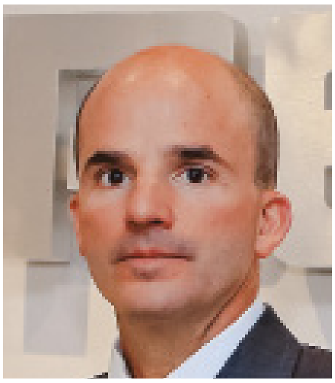
A: The new legal nature that the Energy Reform granted to PEMEX laid the foundations of a more modern, competitive and a stronger company. Now, the NOC is free to choose the business priorities that its directors feel would have the potential to generate the greatest economic value and to partner with other companies to share geological risks, attract capital, human resources and state-of-the-art technology to consolidate itself in the international market. PEMEX is efficiently taking advantage of all the investment tools and opportunities that the current regulatory framework allows to enhance the development of the assignments it was granted in Round Zero. It can now compete, in equal conditions and on an equal footing, with other private companies and oil Majors entering Mexico for the oil areas that the state is putting up for auction.

Q: What will be done to accelerate the migration of COPFs and CIEPs and what role should this play in reversing Mexico's declining oil production?

A: The migration of the existing exploration and production service contracts: Financed Public Work Contracts (COPFs) and Integral Exploration and Production Contracts (CIEPs) to the new modalities of Hydrocarbons Exploration and Production Contracts definitely allows PEMEX to establish more profitable alliances. Moreover, they allow PEMEX to establish alliances with those players who normally only act as contractors, allowing it to share risks, technology, skills and knowledge.

The migration of these contracts has entered a stage of greater mutual understanding between PEMEX and its contractors. In addition, a number of operational issues have been addressed that were not originally considered because PEMEX controlled all processes from exploration to commercialization, a situation that is very different under the new contractual scheme with a new partner.

These alliances are focused on allowing PEMEX to counteract the natural decline in field production and at the same time accelerate the pace of reserves replacement. All these contracts are in known, developed and in some cases even mature areas, where raising the levels of production and reserves replacement can take place over a period of months, which is why it is crucial to complete these migrations.



A STEADY HAND ON THE TILLER

JOSÉ ANTONIO GONZÁLEZ ANAYA
CEO of PEMEX

José Antonio González Anaya is a Harvard graduate who has worked in a number of high-profile public and private sector positions. Before becoming Director General of PEMEX, he was Deputy Minister of Income at the Ministry of Finance and Public Credit and Director General of the Mexican Institute of Social Security (IMSS) from 2005 to 2016.

The key to PEMEX's transformation is in the implementation of the 2017-2021 Business Plan, which clearly outlines profitability as the guiding principle of the company across all its business lines. This plan meets the dual mandate that President Enrique Peña Nieto gave me by appointing me CEO: accelerate the implementation of Energy Reform and improve the finances of the company.

In 2016, a great effort was made to implement austerity and discipline and operational adjustments were made to take advantage of the alliances that, thanks to the Energy Reform, we can now participate in. The results are beginning to be seen and today PEMEX has stable — improvable but stable — finances.

Recently, rating agency Moody's acknowledged the company's financial efforts and its track record in the past year and awarded PEMEX an overall PAA3 foreign currency credit rating. In addition, PEMEX recorded a positive net financial result for two consecutive quarters, something that had not been achieved in six years. This is mainly due to the recovery of crude oil prices, the recognition of logistics costs in the price formula for gasoline and diesel and the decrease in the company's operating costs.

With respect to crude oil production, PEMEX will reach its annual target. During the first few months of the year, a considerable recovery was achieved in the crude oil process compared to the end of 2016. Thanks to the strengthening of exploration and extraction processes, it has been possible to maintain an average of around 2 million b/d. Ku-Maloob-Zaap has maintained its production volume of above 860,000b/d, helping to counteract the natural decline of other fields. Together with the evolution of assets such as the Litoral de Tabasco, Tsimin-Xux and the Xanab fields, this has led to a combined increase in production of more than 156,000 barrels, excluding Cantarell.

The Energy Reform is advancing and PEMEX is getting stronger.

PEMEX'S BUSINESS PLAN

The Business Plan, presented at the end of 2016, is a realistic plan focused on profitability. This plan establishes the actions required to enable the company to achieve financial strength, as well as to stabilize production and subsequently increase it. It is a plan that includes, as a priority, the establishment of alliances and strategic partnerships across the value chain as a mechanism to increase investments, increase operational efficiency and share financial and technological risks.

This plan is already underway and its first results have already been very successful. Last March PEMEX formalized its partnership agreements with the US company Chevron and the Japanese company INPEX, with which we jointly won the CNH tender for the exploration of deepwater Block 3 North. We also signed the contract with Australia's BHP Billiton, winner of the first farm-out in PEMEX history. Through this partnership, the Trion block will be explored and developed in the Cinturón Plegado Perdido in the ultra-deepwaters of the Gulf of Mexico. These are the first of many partnerships with which PEMEX will consolidate itself as a major oil company.

Three other farm-outs are scheduled for the coming months: in shallow waters, the Ayín and Batsil fields; the Ogarrio and Cárdenas-Mora onshore fields; and in deepwater, Maximino and Nobilis, also located in the Perdido area. Recently, PEMEX also completed the first migration to the new production contracts for the Ek Balam field in the Campeche Sound. This new scheme will allow us to generate greater economic value for the project.

MIDSTREAM, DOWNSTREAM AND DISTRIBUTION

In terms of refining, PEMEX has initiated the forming of alliances in order to increase the profitability of operations.

Centenario platform, Gulf of Mexico, Veracruz, PEMEX

At the beginning of this year the first partnership for the supply of hydrogen to the Tula refinery with the French company Air Liquide was finalized. This will reduce the number of unscheduled shutdowns, as well as increase the production of gasoline and generate savings of more than 30 percent in this service. Air Liquide also plans to invest in the construction of a second hydrogen plant at the refinery in order to meet the total demand from the expansion at the Tula refinery. The plant's construction is expected to be completed by the end of 2019.

As part of the efforts to allocate more resources to the central refining processes, we are also forming alliances for the supply of auxiliary services and the reconfiguration of the Salina Cruz and Salamanca refineries in Oaxaca and Guanajuato, respectively. The objective is that PEMEX focuses on the primary activities that allow it to generate more resources.

In terms of logistics and complying with the norm established by CRE, PEMEX is carving out its position as a pillar of the new energy environment. In May, the first phase of the Open Season was carried out, whereby PEMEX allocated storage and pipeline capacity for the states of Baja California and Sonora. One hundred percent of the capacity offered was assigned and the winner was the US company Tesoro. The interest shown by 22 companies registered in the auction confirms the confidence of the private sector in both these processes, and in PEMEX and its operational capacity. It certainly constituted an important step in the creation of an efficient and competitive market to efficiently satisfy national demand, to the benefit of consumers. Over the next few months, the next steps will be taken to cover the rest of the country. In addition to promoting the investment of new participants in the sector, this scheme will allow PEMEX to generate resources for its growth.

OUTLOOK

In its almost 80 years of activity, PEMEX has accumulated knowledge and experience. It is currently the eighth largest oil producer in the world and a leader in shallow waters. The Energy Reform passed by President Enrique Peña Nieto in 2013 imposed on PEMEX the challenge of transforming itself into a productive state enterprise. In the period that I have been leading the company, since February 2016, I have verified the capabilities of our workers to drive the required changes to face the complex challenges of the new international environment.

The international industry is aware of PEMEX's new way of operating and there is a considerable interest in establishing alliances with us. Mexico and, specifically, PEMEX, represent important investment opportunities across various business lines in the hydrocarbons sector. PEMEX is the strategic partner with which to invest in Mexico. I am sure that it will continue to be a pillar of the national industry and the flagship company of the country.

HORIZONS EXPANDING IN OFFSHORE LICENSING ROUNDS

IVÁN SANDREA
CEO of Sierra Oil & Gas

Q: What are the highlights of Sierra Oil & Gas' upstream activities in the past year?
A: Sierra has become an important player in the offshore area. We consider it to be a major achievement because we have managed to become number one in terms of blocks assigned and net acreage. This has given us a level of maturity and recognition in Mexico and across the industry.

Q: What were your initial concerns after winning two blocks in the shallow-water Round 1.1?
A: After winning blocks two and seven in Round 1.1 Sierra immediately started performing environmental baseline work, seismic reprocessing and overall preparations to drill. Now we expect to start drilling the first exploration well in the country, which is an important step for Sierra, its partners and Mexico.

Sierra bid on Block Seven because it saw several strong prospects with the right quality. These prospects have even been categorized by consulting companies such as Wood Mackenzie as being among the top 10 global prospects in the oil and gas industry and I believe among the top five for oil alone. We will start drilling Block Seven in May 2017 with a semi-submergible rig that worked the US side of the Gulf of Mexico. We will start drilling a vertical well to hit two targets. First results should be available by July or August.

Block 2 is also pretty exciting. Although all our efforts and energy are focused momentarily on Block Seven, we will finish the Authority for Expenditure (AFE) for Block 2 by the third quarter, with the hope of being ready to start operations six months later.

Q: What is Sierra's role in the consortium with Murphy and Petronas that won a deepwater block in Round 1.4?
A: Everybody in the partnership contributed but Sierra's strengths focused on commercial, technical and legal expertise. Specifically, Sierra offered an important source of regional knowledge to the group thanks to our dataset covering over 60,000km^2 of 3D seismic, which we believe was one of the decisive factors that allowed us to win Block Five. Sierra also had the advantage of knowing how the regulatory processes and economics work in Mexico, therefore having the ability to offer our partners insight into how to work on their own processes. We see ourselves as an early stage developer, screener and technical partner and now that operations are about to start, Sierra can have a more supportive role, helping partners get established in Mexico by providing experience and assistance.

Q: What are your thoughts about local content in the oil and gas industry?
A: It is hard to talk about local content in the exploration sector. Having only one shot to drill a well, investors want to make sure they have the security of working with the very best international and local companies using the latest technology and equipment.

Local content is easier to implement in the production phase than the exploration phase, where activities are more repetitive. Having said this, we will exceed the local content required by the contracts by 15 percent.

Sierra is aware of the harsh conditions local companies have been exposed to because of PEMEX's budget. At the same time Mexico has become a very competitive environment. Sierra Oil & Gas and its partners ran a tender for environmental studies for Block 7 and 2, inviting local and international players but sadly, prices from local companies were three times higher than those from international companies. To solve this issue local content needs to be more proactive, ensuring it can compete both in quality and price against international companies and most importantly, make sure to promote itself because most companies are not aware of the multitude of service companies that are present in Mexico.

Sierra Oil & Gas *is focused on opportunities arising from Mexico's Energy Reform. Its activities cover upstream and midstream with a team averaging 25 years of experience in the Mexican oil industry*

DUO VENTURES INTO SHALLOW WATERS

CARLOS MORALES
CEO of PetroBAL

Q: What was the significance of PetroBAL's success in winning the Ichalkil and Pokoch blocks with Fieldwood in Round 1.2?
A: In our view Round 1.2 was the best round so far, from every angle. In fact, both Round 1.1 and 1.2 saw high-level bids from experienced companies such as Statoil, Sierra Oil & Gas, Talos Energy, Premier Oil, Eni and Renaissance. Looking at the bids, we were all more or less in the same range. Winning a block was a very exciting experience for us and the transparency with which CNH conducted the rounds made us feel secure about bidding. Some may think we should have submitted a lower bid in hindsight but the market set the bidding levels at the time. That was especially evident in Round 1.3, when the government bids were set at a much lower level than what the market offered in the end. Basically, we think the market is setting the bar for the bidding rounds.

Q: What made Fieldwood the right partner for PetroBAL?
A: Fieldwood is the largest private operator in the US Gulf of Mexico, with more than 600 production platforms. The Fieldwood management team has a long track record of operating for several companies so they bring a lot of experience to the table. Although PetroBAL has many experienced individuals, we lack the operational experience required by CNH for participation in the bidding rounds. Fieldwood has this experience, while PetroBAL has extensive geological knowledge of Mexico's basins. These factors made our synergy with Fieldwood an excellent option.

Q: What surprised you the most about working with a private partner?
A: It did not surprise us because we view it like any other relationship. Our motto is: "we have to live with others." We must endeavor to understand others and be prepared to compromise. Our relationship with Fieldwood has gone very well so far. We have talked out any differences and have come to an agreement every time. PetroBAL undoubtedly has more responsibilities and participation in geological and geophysical activities as well as evaluation and analysis plans. We also contribute a lot to the procurement process since we know the market conditions and suppliers very well.

Q: Are you planning to participate in Round Two?
A: We are definitely interested in the second phase of Round Two. Our final decision will be based on the conditions of each block and we will come to reasonable offers once we determine how attractive each one is. We must consider not only what the government asks of us but also what the market demands. PetroBAL's strategy is to diversify its portfolio. Round 1.2 included proven reserves but Round 2.1 will be completely exploration based. We must assess the blocks in light of this information because the exploratory nature of the blocks will add more time to the project. There is no doubt that PetroBAL would be interested in partnering with PEMEX in a farm-out and we would most probably bid together with Fieldwood again.

Q: How can the authorities improve terms in the coming rounds and make things easier for interested companies?
A: We recognize that the government has to be careful when selecting the companies it allows to participate in each bidding round. From our point of view financial credentials are important. A company cannot invest US$50 million in a well without the proper knowledge and financial backing.

Q: What conditions should be set for possible partners with PEMEX to make a partnership more attractive?
A: There are three requisites for the successful development of any project: access to reserves, financial capabilities and the right people. A partnership between PEMEX and PetroBAL would be complementary, especially given our synergy with Fieldwood. The government's stake could be an issue but it is the market that will decide this. The government does not act unilaterally when making decisions, instead it reacts to market demands.

***PetroBAL**, founded in March 2015, focuses on hydrocarbon exploration and production. It forms part of Grupo BAL, a group of Mexican companies active in various industries including mining, insurance, financial services and retail*

WILDCAT SHOWS POTENTIAL OF MEXICAN FIELDS

TIMOTHY DUNCAN
President and CEO of Talos Energy

Q: How have Talos' expectations for the two blocks it won in Round 1.1 with Sierra Oil & Gas changed?

A: Our expectations have actually increased over the last year. When we signed our Professional Services Contract with CNH for blocks two and seven in Round 1.1 in the Southeast Basin, the regulators provided previously shot seismic data, which lets us reprocess and re-image it instead of having to conform to the current product output. With this information, we are going to drill the Zama-1 prospect, which is globally recognized by companies such as Statoil, Eni, Hunt and Murphy, companies that also bid on the block.

Talos' seismic imaging led to a discovery at **around 21,500 feet subsea**. The first well is flowing over **15,000b/d**

Before commencing drilling, we are improving the imaging of salt bodies in the area because we recognized there is potential sub-salt. Remapping the contracted land position after our reprocessing efforts has grown our inventory from two to more than 10 ideas, dramatically increasing its resource potential. The first well is important because it will reveal the petro-physical and geophysical significance of these salt basins. One challenge we face is the geological age of the area. The upper, middle and lower Miocene is dominated by local salt, which lacks well control in Mexico -- understandable given that the Mexican Southeast Basin wells were built on a carbonate platform while those in the US were built on salt-dominated systems.

For this reason, our Zama well is important on several levels. Not just because of its prospective size but also because of what it will tell us regarding future inventory. We are using the exact same team to do the data imaging in the US and in Mexico. This is the kind of technology transfer the Energy Reform is allowing by opening the market. There is a reason Wood Mackenzie named Zama one of the "15 wildcats to watch in 2015." The well is not just important for us but also for the Energy Reform and Mexico because it shows that there is plenty of potential in the Mexican fields.

Q: Why did you choose Premier Oil and Sierra Oil & Gas as partners for the bidding rounds?

A: We wanted to be present in the Mexican market early, to learn the rules and bid in the first sale before the bidding became even more competitive. By establishing ourselves as a credible operator, we wanted to create more partnering opportunities. The fact that a company like Premier Oil, which has investments in Iraq and the North Sea, was interested in our working portfolio in Mexico gave us a lot of confidence. Sierra Oil & Gas helped us by guiding us through the regulatory process and providing additional resources about the local geology. We have been here now for several years and are confident in our team, our presence and relationships, so we are starting to consider more ambitious projects. We took our role as the first operator in the reforms very seriously and I am proud of our team's effort.

Q: What plans do you have for 2018 in Mexico?

A: Originally, we planned to drill Block 7 before Block 2 in 2018. We might drill another, separate prospect other than Zama on Block 7 before turning to Block 2 but this could change as we continue to work on the reprocessed data. Our lease lasts until the middle of 2019 and we want to test several independent prospects on each block before the end of the primary term. Depending on the drilling results, we will see a significant level of activity between the middle of 2018 and middle of 2019, which will go well beyond the minimum work program. We want to be in the position of making sure we get the right amount of data to back the government and file any appropriate extensions that show our commitment for future work.

Talos Energy *is an oil and gas company based in Houston and focused on offshore exploration and production. Its expertise includes a strong emphasis on asset optimization, exploitation and exploration in the Gulf of Mexico*

MEXICAN SERVICE COMPANY HAS OPERATING GOALS

LUIS VÁZQUEZ
Chairman of the Board for Diavaz

Q: How has Diavaz developed alongside the Mexican oil and gas industry and how will it continue to evolve?

A: On March 2017 Diavaz celebrated its 44th birthday and although we plan to grow we will still offer the same services as all those years ago. The only difference will be an offshoot company we have created called DEP Petróleo y Gas. This company will manage Diavaz's three oil fields and three gas fields. In five years Diavaz will be two completely separate companies.

Diavaz waited many years for the Energy Reform and we seized every opportunity we could before it was implemented. In 2003 we partnered with Petrobras and Japanese company Teikoku to operate the Cuervito and Fronterizo gas fields. In 2006, we participated in the Multiple Service Contracts with PEMEX. We won our first production CIEP to provide all necessary services at PEMEX's Ebano and Miquetla fields together with China's Sinopec.

Although we had been active in the Mexican oil and gas industry for many years, that contract taught us that a service company has a different mentality than an operator. We realized Diavaz had a lot to learn to become a full-fledged operator. For that reason, Diavaz and our new company, DEP, will have two different strategies and leadership teams. We have been preparing to separate the organization into these two branches since the Energy Reform was announced and have been legally separated into two companies since April 2016. Adhering to CNH's transparency rules and to ensure a competitive market, DEP will be able to contract any service company for the blocks it operates.

Q: What opportunities will DEP pursue?

A: DEP's mission is to seize new opportunities where perhaps Diavaz lacks experience. For example, we plan to join with a foreign company to bid in the offshore rounds in June and July 2017, a move that will allow DEP to learn vital offshore skills. Partners are not choosing DEP because they lack money or technology; they are entering into partnerships with us because of our excellent reputation and experience in Mexico. We offer vital knowledge of the Mexican oil and gas industry to incoming international players, which realize that through our previous work with PEMEX we developed skilled personnel and invaluable expertise.

Q: What is the outlook for Diavaz's six fields?

A: Once our four current contracts are fully migrated, they will produce 28 million b/d. The Barcodón and Catedral fields we won in Round 1.3 will also allow us to boost production and we expect to launch drilling operations there soon. We are now deciding which wells to drill first and are negotiating the sale of petroleum and gas to PEMEX. CNH has been receptive to our plans for the two fields. Our three-year target is to produce a total 45,000b/d of crude equivalent at the Barcodón and Catedral fields. Development of Diavaz's six fields will require investment of around US$2 million over the next three years. After winning Barcodón and Catedral in Round 1.3, we contracted a company to certify the reserves because without this certification the fields are worth zero. We plan to fully certify the reserves at those two fields in the first quarter of 2017. The other four fields we operate are already certified.

Q: How have delays in contract migrations impacted Diavaz's business?

A: The Energy Reform has been a success so far, especially the deepwater round in December 2016, which featured many international winners. We applaud the interest of foreign players in Round 1.4, which attracted impressive amounts of money. Despite this, of the 22 contract migrations, zero have been completed so far. We know they will be migrated but CNH is already two years behind schedule, due to the length of negotiations. The delay is problematic and led to financial losses for PEMEX and Diavaz last year. Since we could not advance on the fields involved in the contracts, we lost around US$15 million and the NOC lost US$98 million.

***Diavaz** is a 100 percent Mexican oil and gas services provider, covering areas from engineering and well design to directional drilling and field profiling, as well as off-shore platform maintenance, among other services*

TECHNOLOGY TOPS LIST FOR EFFICIENCY DRIVE

ESAÚ SASSO

Mexico Country Director of Baker Hughes

Q: Which objectives have guided Baker Hughes in an operating environment characterized by low oil prices?

A: Due to the challenging market conditions in Mexico and elsewhere, we had to make some adjustments to our business. However, we continue to invest in technology because we believe it is key to improving efficiency gaps in the industry and we also believe it is the main road to lower oil and gas production costs. Discipline is essential for every company to compete and the downturn is evidence that we must collaborate across all levels of the supply chain to improve performance. Most importantly, we must retain the talent of our people. For the past year, we have developed a great deal of local talent. Our employees truly understand our customers' needs, which is essential for us because our most important goal is to meet their objectives.

Q: How has your strategy in Mexico changed given the reforms and the opening of the energy sector?

A: Baker Hughes' main strategy is to provide technology and solutions that help our customers build more efficient wells, optimize production and ultimately improve recovery. Our goal is to build on our strategy in more profitable markets. In Mexico's case, we have been impacted by low oil prices and the reduction in Mexico's NOC drilling activity. We reorganized our business to better support more active areas in the region such as the offshore market, which demands the most advanced technology. Starting in 2014, we evaluated our footprint and redistributed activity to better support the offshore market. We have provided significant value to our customers through advanced applications of technology and the expertise of our people and we have helped our customers remain sustainable during the downturn. We have three main objectives in Mexico, focused on technology, people and processes. We will always combine these with ethical business, which creates long-term relationships.

***Baker Hughes** is a leading supplier of oilfield services, products, technology and systems to the oil and natural gas industry, working in over 80 countries to help customers find, evaluate, drill, produce, transport and process hydrocarbon resources*

Q: How does the contract renegotiation affect your relationship with PEMEX?

A: The concept of contract renegotiation was something that all service companies had to adjust to. There is a trend to move toward integrated services contracts rather than discrete services, something in which we were very strong. Baker Hughes had the opportunity to participate in the first integrated services tenders and we were awarded one of the contracts. We also continue to provide discrete services as needed and our relationship with our customers has improved greatly because of our performance.

Q: Which of Baker Hughes' past projects with Chevron in deepwater highlight your capabilities?

A: Baker Hughes has worked with most of the major companies working in deepwater fields worldwide and we have the relevant experience that will be required to exploit Mexico's deepwater fields. Baker Hughes has already proven itself as a services expert, now we simply need to replicate that success in Mexico. A major challenge will be how fast the oil can be extracted to begin commercialization. A balance will need to be found between capitalizing on private sector expertise and maintaining control within these partnerships.

Q: How do you expect Baker Hughes' technology to evolve in Mexico?

A: We are very strong in drilling and completing wells with some of the best tools and technology being delivered in the Mexican market, providing services and value combinations to our customers and maximizing their results. Our well drilling services include technology in drill bits and directional drilling tools, drilling fluids and wireline services. For well completion we are a leading provider in completion and wellbore intervention products, as well as in cementing services. Baker Hughes will soon introduce self-adjusted cutting structure bits to the market, as well as a new-generation of more robust hybrid–Kymera drill bits and hole-opener devices that can be activated on demand in real time. We are also developing new technology in Electrical Submersible Pumps (ESP) for production.

BROAD MARKET KNOWLEDGE, BOTH ABOVE AND BELOW SURFACE

JESÚS LAMAS

General Manager of Schlumberger Mexico

Q: What technical and managerial capabilities has Schlumberger developed during its 80 years in Mexico?

A: Schlumberger has acquired a broad knowledge of the market, both below and above surface. We have developed Mexican technical and managerial talent to assure that all the services offered by Schlumberger Mexico are aligned with our global standards. The combination of our global expertise and R&D investment with our local experience is our most valuable strength. We have partnered with PEMEX in many important projects and we are sure that we can help the new customers coming to Mexico to reduce the learning curve and accelerate their results

I would also like to shine a light on our high-pressure and high-temperature technologies for well testing. CERTIS is a high-integrity reservoir test isolation system that combines many features of a conventional retrievable packer, including a built-in floating seal assembly that eliminates the need for slip joints and drill collars to set the packer. On the other hand, IRDV, is an intelligent remote dual-valve that combines two fullbore multicycle valves — a tester valve and a circulating valve — that can be cycled independently or sequentially for increased flexibility. Within Production Group, the VDA (viscoelastic diverting acid) enables the stimulation of the oil and gas carbonate reservoirs, of reservoirs with multiple layers, long production intervals or permeability variation and horizon and vertical wells.

Q: How has the Energy Reform impacted multiclient opportunities in Mexico?

A: All the multiclient investment originated from the regulatory changes in Mexico and the Energy Reform that opened opportunities to new operators to participate in the oil and gas business in Mexico. This market opening came as a unique opportunity for multiclient investment, where we could capitalize from our knowledge of the challenges in the country that drove our selection of the areas and the specific technologies to be used.

Our WAZ project has had a major impact in the market, helping support the promotion of the license rounds and helping our customers to make better-informed decisions at the time of selecting the best area to bid in comparison with companies using the vintage data. We are planning to reprocess nearly the totality of the offshore 3D data acquired historically in Mexico. In total, combined with our existing WAZ, somewhere in the neighborhood of 200,000km^2 of seismic will be processed and reprocessed. We have acquired and processed 70,000km^2 of new WAZ seismic and reprocessed over 100,000km^2 of vintage data. Undoubtedly, it is the largest-ever imaging and re-imaging campaign embraced by a company in a single go.

Schlumberger announced recently that PEMEX had signed an agreement to license data from the WesternGeco Campeche wide-azimuth (WAZ) multiclient seismic survey in the Salina del Istmo province in the southern Gulf of Mexico. The agreement also includes collaboration with WesternGeco in the seismic processing phase of the project as well as for future technology collaborations.

This multiclient contract is the first of its kind for PEMEX in Mexico and provides access to 3D WAZ seismic data in the province. The data license covers deep and shallow-water areas in the basin close to prolific geological trends with well-established hydrocarbon systems, including the Cantarell and Ku-Maloob-Zaap reservoirs.

Q: How does Schumberger provide added value through corporate social responsibility?

A: Schlumberger's core value of giving back to the local communities through a variety of different programs allows the company to aid those communities in which we are present. Through these programs we can bring progress and development to these communities and contribute to the education of young students. It is also an opportunity to give back in some way to society and very specifically to the communities in which we work and live every day.

Schlumberger *is the world's leading provider of technology for reservoir characterization, drilling, production and processing to the oil and gas industry. Schlumberger works in more than 85 countries and employs about 100,000 people*

DOWNSTREAM FOCUS ON MARKET SHARE

PAUL AUGÉ
Vice President of Business Development for Latin America at BP Downstream

Q: Why did BP focus on downstream for Mexico?

A: One reason we put a strong focus on downstream was the 2014 drop in oil prices. That showed us the importance of having a balanced portfolio, which helped the company weather hard times. We have restructured our business to include a larger number of assets in the downstream area, making us more efficient and strategy-oriented. We now consider downstream to be a critical business segment.

When the Energy Reform was enacted in 2013 we thought it was the perfect opportunity to tackle an important market that had been on our radar for a long time. We were quite cautious at the beginning. Our business development team here held talks with government agencies, asking whether deregulation was going to happen, creating close relationships and developing feasibility studies for our entrance. We now see the bones of a structured reform and the will of the government to keep pushing it.

BP's goal is to achieve a material market share so the strategy regarding the number and location of the stations it manages varies greatly depending on the country. In Mexico, we expect our planned 1,500 stations will lead to a 15-18 percent market share. Our goal is to be among the top three brands in Mexico during the next five years. BP is working hard to build local capabilities that can handle that growth and also provide local expertise. Locations are determined by several factors such as demand, competition intensity and expected customer growth but of course regulation will remain a strong external factor.

Q: What will differentiate BP as it competes against PEMEX and other brands that also enter the market?

A: We really wanted to bring a differentiator and concluded that the best differentiator would be our technology. We are extremely proud of our investment in technology and how to improve our additives. Bringing that technology to Mexico was no easy task because it involved plenty of negotiations with PEMEX and other regulatory institutions that in the end allowed us to put the additives in their assets and transport them to our locations. This has really proved to be a key asset for us because consumers in Mexico are used to regular fuels that do nothing to improve their cars' performance. Market reaction has been extremely encouraging. We have seen lineups to fill up at our stations and that will allow us to further invest in the network.

For us the trust of our customers is the most important thing, and trust can be lost in a day, so we are putting everything in place to make sure we meet their expectations, first on customer trust basis and then by adding in our technologies such as additives and digitalization. In Mexico, consumers are accustomed to very basic services. Simply looking at our Facebook page we can already see people commenting on how their cars are running further with BP fuels and how they enjoy the experience we provide, which is proof of how the Mexican market has embraced our presence.

We are working on apps that will make the entire customer experience friendlier and faster. One solution we already have in other markets is the BPme app, with which customers can pay, receive invoices and manage other services. In a place like Mexico City, where there is always a rush, this will be another key differentiator for our brand. We consider Mexico to be an excellent market for our digitalization services because it has more mobile phones per person than any of our markets. BP wants to implement the digital experience as soon as possible, maybe even as soon as the third quarter of 2017.

Q: How do BP's additive technologies impact the environment?

A: From a regulatory perspective, allowing the inclusion of additives will enable Mexico to easily reach its goal of contamination reduction and fuel efficiency. For the additives to have a real impact on contamination and efficiency levels, consumption must grow. For that to happen infrastructure is a must.

__BP Downstream__ is the segment of BP, the global upstream, midstream and downstream company based in the UK, that works on the fuels, lubricants and petrochemicals segments. BP Downstream has opened its first gas station in Mexico

LEADING PLAYER ENTERS THE FUELS SPACE

MARTÍN PROSKE
Fuels Director Mexico for ExxonMobil

Q: How is ExxonMobil differentiating itself from other brands coming into Mexico?
A: We started evaluating the Mexican market as soon as the Energy Reform was enacted. We conducted market research to understand the needs of final consumers in Mexico and of the Mexican businessmen who own gas stations and to understand the areas of opportunity so we could satisfy their needs and excel beyond their expectations. With that research concluded, we designed a special offer for Mexico, including an investment commitment of US$300 million over the next 10 years. The strategy for the investment and time relies on three elements. The first and second elements relate to logistics development and product inventory, both of which will ensure a reliable and constant supply of our product. The third element consists of branding and marketing that reflects our Synergy Gasoline product and our special programs that ensure a supreme service.

Q: How is ExxonMobil working to deliver the logistics development and product inventory elements?
A: Designing the infrastructure and product inventory strategy included exhaustive studies and planning. Mexico is in great need of infrastructure. Projections suggest that Mexico will continue growing and to satisfy the accompanying demand there has to be more investment in logistics and infrastructure but that has not happened yet. There are some projects being planned but only a few have started to lay steel on the ground. Developers need commitment because projects require big investments and it takes time to see the results materialize. ExxonMobil's strategy is to offer a long-term commitment to enable, facilitate and support investment in key logistics projects. Through our commitment with infrastructure developers we are going to have a partner in the terminals and have a guaranteed and constant supply. This strategy is a result of our knowledge from other markets where we learned that it is not necessary to own the terminal but to have a professional midstream partner to own and operate the terminal and with which you can make a commitment that enables fuel supply.

Q: How is ExxonMobil guaranteeing the product and service offering at gas stations?
A: ExxonMobil will not own any service station but will establish relationships with local businessmen to provide our products in an efficient and reliable way to final customers. Our Synergy fuel technology consists of a proprietary additive package added to the fuel. Synergy was recently launched in other markets around the world. It will be launched in Mexico from the first day the service station is established. The fact that we have announced the presence of this product in Mexico will make a great difference in the market.

Another part of our investment went toward creating an appealing and refreshing image that will be inviting to the customer. For ExxonMobil a marketing program involves more than advertising. It consists of three points that will help our partners meet and exceed customer expectations, therefore increasing the number of customers coming into their facilities. The first is the Guaranteed Fuel program, which originates at ExxonMobil laboratories and includes inspection visits to retail stations to ensure the quality and quantity being offered to consumers through certifications. The second program is designed for the station owners and consists of training programs for their pump attendants, to ensure they offer a supreme service and invite the final consumer to choose upgrades and additives. The third program is the mystery shopper, which consists of an unidentified consumer who will come to the station and film the whole experience, from the service offered to the appearance of the facilities. The goal is to ensure a consistent image.

Q: What are ExxonMobil's plans in Mexico?
A: The first milestone for 2017 was the announcement that we are entering the fuels space. The next milestone is opening the service station, which will happen before the end of the year. For the long term we want to be a player that enables logistics investment across the country and brings choice to consumers. We are coming to Mexico for the long term.

ExxonMobil *participates in upstream and downstream in Mexico. With local offices in Mexico City and a strong presence through its lubricants and other chemical products, ExxonMobil is now entering the fuel commercialization sector with the Mobil brand*

LONG-TERM VISION FOR DEEPWATER

GENE COLEMAN

Executive Vice President Global Offshore of Murphy Oil Corporation

Q: What potential does Murphy see in the Mexican portion of the Gulf of Mexico?

A: Murphy has been in existence for over 100 years and for over 60 years as a publicly traded company on the New York Stock Exchange. Offshore exploration and development is in our DNA having executed projects around the world, including Southeast Asia, US Gulf of Mexico, West Africa and South America. We recognize the value of the opportunities that are being presented in the Mexican portion of the Gulf of Mexico and see this as the perfect time to invest in an area that has not been accessible to foreign investment for nearly 80 years. We operate three deepwater fields in the US Gulf of Mexico and see Mexico as an extension of these activities. We feel we have the experience to be very successful here and are looking forward to creating a long-term commitment to the country.

Q: What advantages do you see in your partnership for the block won in Round 1.4?

A: We understand the geology of the Gulf of Mexico and we are confident in our knowledge and capabilities to develop deepwater projects safely and cost effectively. Because of this capability, we felt comfortable bidding aggressively to win Block 5. We also feel we have a strong consortium of capable partners with Petronas, Ophir and Sierra. They each bring unique strengths to the table that we can leverage collectively, whether that is subsurface expertise, operational synergies or knowledge of above ground issues. For Round 1.4 we were successful in winning the bid based on the data that was available for everyone, avoiding high-upfront costs in a period of low oil prices. The fact we won the block shows that our partnership possesses the ability to work together and compete with the top names in the industry. We have truly developed a relationship with a collaborative approach, which is always stronger.

***Murphy Oil Corporation** is an international company dedicated to global offshore and unconventional North American onshore activity. Murphy's offshore activity focuses mainly on the Gulf of Mexico, Atlantic Margin, Southeast Asia and Australia*

Q: How would you compare your past projects with what you expect from your assigned block in Mexico?

A: Murphy discovered a 400 million-barrel field in Malaysia, called Kikeh, in 2002. By 2007 we had already initiated production with 120,000b/d. In the last decade, we made discoveries in the US Gulf of Mexico. One is Medusa, in 2,000 feet of water. The other is Thunder Hawk, in 6,000 feet. Both fields were developed safely in short cycle times — within five years from discovery to first production. We feel we can duplicate this success in Mexico and achieve these types of cycle times as well. We feel the potential is high here and there is infrastructure available to quickly take the product to market. While Mexico has just recently opened to foreign investment, it is not as frontier as other parts of the world. We view this as an advantage for Mexico.

Q: What are the main challenges Murphy and its partners face as they embark on deepwater projects in Mexico?

A: Although the Mexican portion of the Gulf of Mexico has some common geological elements with the US side, differences remain. It is a proven oil province but some of the uncertainties include reservoir deliverability, oil quality and trap style due to salt and imaging complexities. Nonetheless, we can leverage our experience in the US Gulf of Mexico as we further build up our knowledge and understanding of the Mexican side. Probably a bigger challenge lies above ground with the significant regulatory framework and the numerous entities to whom we are accountable.

We hear from earlier entrants about the large amount of paperwork required at every stage and the long lead-time for permitting and other approvals. This is expected as some of the agencies are new and still defining their roles. Further, deepwater activity is mostly new to Mexico so many of the processes are just being developed. But for the reform to truly succeed, the regulatory and permitting processes will need to be streamlined. We understand that government and regulators are aware of this and have plans to improve. This positive disposition by the Mexican government has been prevalent throughout the process so we are optimistic about future improvement.

MEXICO OIL & GAS REVIEW 2018

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WHY MEXICO OIL & GAS REVIEW?

In this changing environment, reliable and relevant information is crucial to take full advantage of both current and emerging opportunities within the country's oil and gas industry. By connecting key stakeholders across the Mexican and international public and private sectors, Mexico Oil & Gas Review is dedicated to accelerating the exchange of essential industry information that will drive the industry's development. Published annually, Mexico Oil & Gas Review features the perspectives of the leading players in the industry, providing a comprehensive overview of the latest exploration and investment trends, technological breakthroughs, social and environmental achievements and operational challenges in the Mexican oil and gas industry.

THIS IS HOW WE DO IT

Filtering out the most important information has become a critical success factor for business and political leaders alike. Rather than time or money, attention has become the scarcest resource. As a result, we are committed to delivering the right information to the right people in the right format. This is how we do it:

- Cutting-edge information based on interviews with the industry's most influential stakeholders
- Dedicated editorial team with an in-depth understanding of the **Mexican oil and gas industry**
- Editorial cooperation with the leading voices of the **Mexican oil and gas industry**
- Customized readership ensuring unprecedented reach among key decision-makers in Mexico and around the world
- Available on today's most impactful business intelligence platforms: print, online and iPad