

Oil bidding process 1.2 – Great result

September 30, 2015

- **The National Hydrocarbon Commission announced today the winners of the second tender under Round 1.2**
- **Three out of the 5 blocks tendered (60%) were allocated, in line to what the government was expecting which**
- **The results of the third tender, out of the five comprising Round 1, will be announced in December**

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Round 1.2. The *National Hydrocarbon Commission* (CNH) announced the winners of the second tender under the so-called Round 1 (a.k.a. Round 1.2). We highlight that this round represents the second effort by the government to allow private-sector investments into full-blown oil-related projects. This second package of projects included 5 blocks, equivalent to 2.7 billion barrels of oil. These blocks comprise 2,785 square kilometers of shallow water exploration located in the Gulf of Mexico, as shown in the table below. According to the Ministry of Energy, these regions are expected to have light crude oil with low production costs. The projects will be developed under production sharing contracts with a time horizon between 3-4 years.

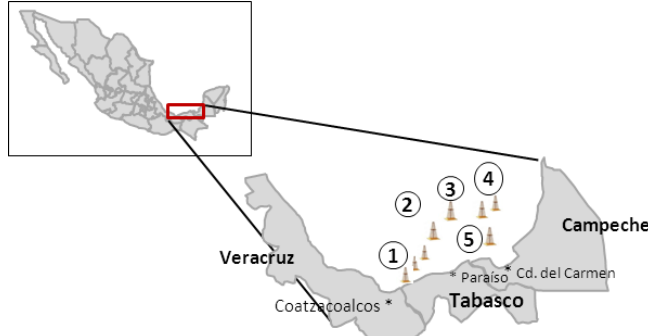
Fixed income and FX Strategy

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Blocks tendered in Round 1.2



Source: Ministry of Energy

Second bidding process

	Winner	Fields	Reserves Volume 3P*	Area in km2
Area 1	ENI International	Amoca, Mitzon y Teocali	788.1	67.2
Area 2	Pan American Energy /E&P	Hockchi	419.4	39.6
Area 3	Null	Xulum	633.4	58.8
Area 4	Petrobal	Ichalkil y Pokoch	693.3	58
Area 5	Null	Misón y Nak	264.7	54.9

Source: Ministry of Energy
Millions of barrels

Allocation in line with expectations. Three of the 5 blocks (60%) tendered were allocated. This number was in line to what the government was expecting, amid an environment of falling oil prices. Moreover, it is worth noting that the initial investment required to invest in conventional onshore fields is much less than what is required to explore and produce in shallow water fields, despite their low operating costs.

Participants of the second public bidding process. A total of 14 participants – 10 individual companies plus four consortiums-, submitted documents to pre-qualify, although five of them decided to leave the process. At today's process, only nine bidders submitted their envelopes with proposals: (1) *DEA Deutsche Erdoel AG* (Germany); (2) *Statoil E&P México* (Norway); (3) *ENI International* (Italy); (4) *LUKOIL Overseas Netherlands* (Netherlands/Russia); (5) *CNOOC International* (British Virgin Islands/China); (6) *Pan American Energy LLC* in consortium with *E&P* (USA/Argentina/Mexico); (7) *Petronas Carigali International E&P*, in consortium with *Galp Energia E&P* (Netherlands, Malasia/Portugal); (8) *Fieldwood Energy*, in consortium with *Petrobal* (USA/Mexico); and (9) *Talos Energy* in consortium with *Sierra Oil & Gas and Carso Oil & Gas* (USA/Mexico).

The results of the third tender, out of the five comprising Round 1, will be announced in December. This tender includes 25 production blocks in onshore fields divided into 3 main areas -north, central and south- covered a total area of 7,776 km². Moreover these zones contain hydrocarbons such as dry gas, oil, gas and condensate. The next couple of rounds, whose bidding processes are yet to be defined, include deep-sea water exploration, as well as in the Chicontepec field and non-conventional resources.

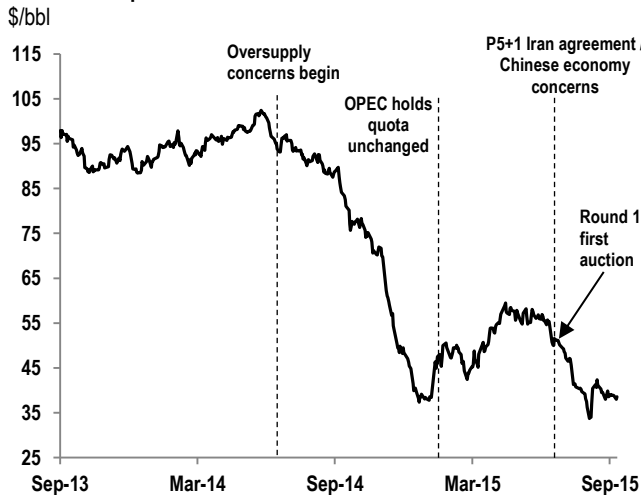
Excellent result. We believe that shallow water fields are currently less appealing for companies, especially in light of persistently low oil prices. In fact, anecdotal evidence suggest that large global companies are more interested in deep-water wells, while smaller or *niche* companies are focused on conventional onshore wells, particularly because a lot of these were abandoned prematurely by Pemex in the early eighties –when the exploitation of Cantarell just started-, but that are becoming more attractive given new technologies that reduce extraction costs. We also believe that the changes made by the federal government to the bidding process –particularly, making available the minimum price of each bloc-, were very important in improving the bidding mechanisms.

From our fixed income and FX strategy team

Round One within a complex oil paradigm

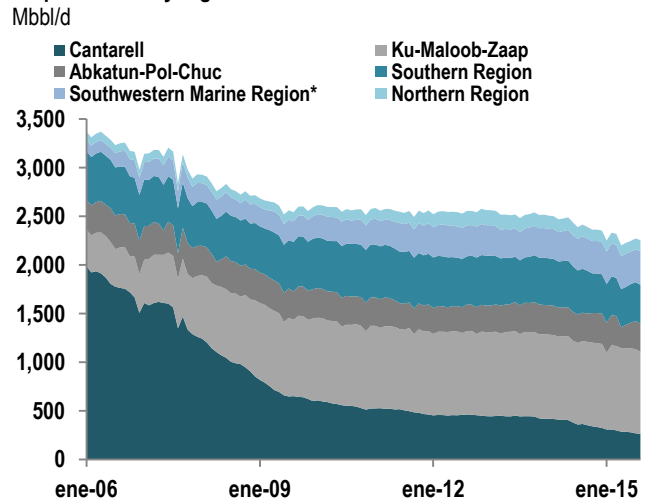
Oil prices remain subdued by the prevailing global oversupply conditions despite new data showing U.S. output and oil rig count falling. Together with the market unbalance, expectations around Chinese economic slowdown (world’s second biggest oil consumer) have contributed to a further deterioration in the horizon. As of today, the world’s most important benchmarks portray a 26% and 29% slump from its 2015-high, for both WTI and Brent. This condition, has led the Mexican mix price to 38.53 \$/bbl, equivalent to a 35% sell-off when compared to its YTD-high and 63% in relation to 102 \$/bbl traded in June-2014. The situation was reflected in Round 1 first auction held in July 15. Since that day, Mexican mix has extended a downward trend, with a 26% loss. It is worth mentioning that local production platform continues on a negative performance, at 2.2 mmb/d vs. the 2.4 mmb/d witnessed the previous year, which compares quite unfavorable with levels registered in late 2005 at 3.4 mmb/d.

Mexican mix performance



Source: Banorte-Ixe with data from Bloomberg

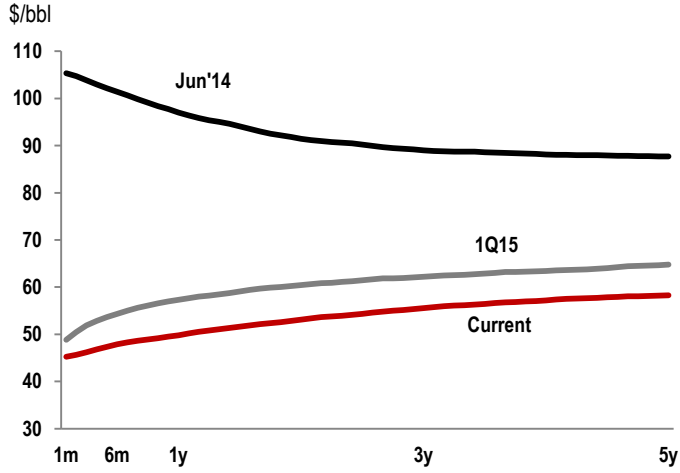
Oil production by region



Source: Pemex *Excludes Abkatun-Pol-Chuc

Going forward, crude oil prices could face a complex scenario, with current dynamics heading towards a new normal. Recent development in terms of nuclear negotiation between Iran and Western countries (mainly the U.S.) could steer a lift in economic sanctions and the possibility of an additional supply shock in tandem with a fading consumption. However these new conditions could take place as far as mid-2016 or even further. In terms of U.S. oil production, price dynamics could steer local firms (mainly shale oil related enterprises) towards a complex scenario of high extraction costs and lower cash flows, despite high efficiency levels. In the aftermath of this situation, oil production will continue its downward trend. All in all, oil futures and market consensus portray a mild recovery in the mid-term, but with a strong conviction that the bumpy road will continue in the short-term.

WTI Futures Curve



Source: Banorte-Ixe with data from Bloomberg

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