

PEMEX Business Plan – Focus on profit maximization with credible assumptions along with MoF and union’s support

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- Pemex CEO, Jose Antonio Gonzalez Anaya, presented the company’s new business plan for 2016-2021
- In our view, this is the first time that Pemex presents a business plan with a focus on profits and not in output maximization
- Moreover, we believe that it has conservative and credible assumptions with the endorsement of the Ministry of Finance and the workers union
- In the short-term, the main goal is to reduce costs and adapt business to a low price environment
- In the medium-term, the aim is to take advantage of the new instruments allowed by the energy reform, *farm-outs* in particular, where the fiscal regimen is better for Pemex
- In 2016, the company will comply with its MXN100bn adjustment, as well as with its financial goals
- For 2017, they aim to have a primary surplus in the area of MXN8.4bn, with production at 1.9mbd

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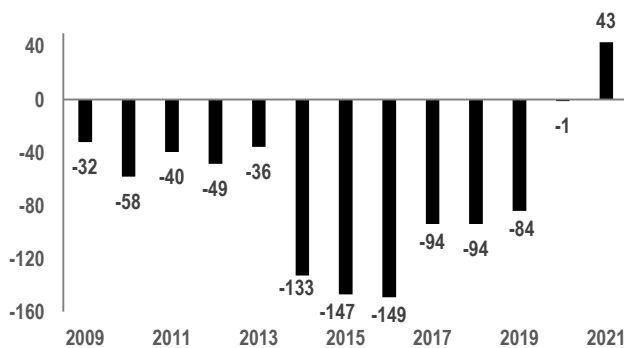
A 5-year plan focused on profitability for the first time in history and not on output maximization. In the short term, the aim is to adjust the cost structure and the business strategy to a low oil price environment. The medium-term goal is to try to maximize the use of all the instruments and flexibility the energy reform provided them. In the first case, Pemex aims to reduce costs to become more efficient. Cost reductions will be applied throughout the company’s structure, with special focus direct allocations. In the refining sector, they aim to reduce the frequency of unplanned outages, by partnering with external suppliers to deal with auxiliary services. By doing so, the company plans to turn around losses of MXN108.9bn by 2017 to profits in the area of MXN29.4bn by 2025. All of the budget cuts are combined are expected to generate a primary surplus of MXN8.4bn by next year. It is worth mentioning that the plan is already being executed. In 2016 Pemex will fulfill its MXN100bn adjustment plan that was announced on February, even surpassing the savings target as a result of austerity measures for MXN35bn, MXN6bn above target. Moreover, last year’s total liabilities have already been settled or are programmed to be paid. Also, corporate restructuring has already taken place, reducing 40% of 2015’s upper management workforce.

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Plan with conservative assumptions. According to the document presented by Pemex, the plan does not take into account additional revenue by divestments. Additionally, the cost reduction achieved in 2016 will remain and productivity increases are contemplated in a case by case manner, such as the company’s investment flow liberation, destined to improve the financial future of Pemex. Finally, oil prices are estimated in line with Brent future prices, adjusted for the Mexican oil mix (around 55bps), as well as rising interest rates according to market futures. For FX, Pemex made the same assumptions made by the Ministry of Finance in the economic package for next year.

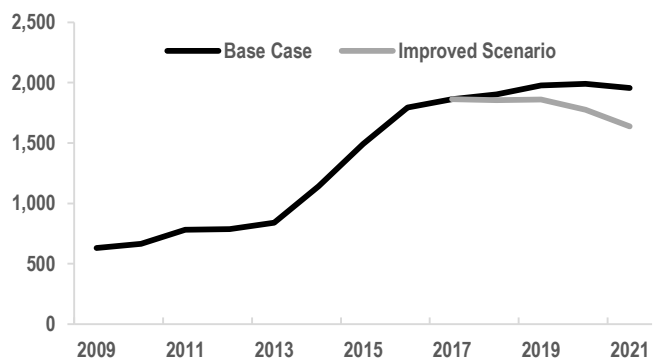
Strategic partnerships in both exploration and production, as well as with perforation services. In *Pemex Exploration and Production*, the plan is based on profitable projects after taxes. In *Pemex Industrial Transformation*, focus will be on private partnerships for auxiliary services and refinery reconfiguration. By transferring certain segments of the productive process to third party companies and working together with them, productivity and cost reduction are expected to occur. By 2017, the oil production is expected to reach 1.944 million barrels a day, but considering the proposed improvements, it could reach 2.2 million barrels a day by 2021. For the other subsidiaries, existing resources will be exploited and the necessary supply of raw materials will be guaranteed. In this scenario, the financial balance will recover gradually to reach a surplus in 2021, while consolidated debt stops its upward trend, as presented in the next graph. It is worth mentioning that Pemex also proposes an “improved scenario”, in which the company expects an aggressive *farm-out* development and the exploitation of profitable oil fields. Additionally, they shared the growth of tax collection between Pemex and the Federal Government generated by the increase in production due to the *farm-outs*. The Federal Government increases its collection in real terms with regard to 2017.

Financial Balance
MXNbn



Source: Pemex

Consolidated Debt
MXNbn



Source: Pemex

The financial stability of PEMEX will be achieved through liability management as well as cuts in costs. After the recent liquidity injection of MXN73bn from the federal government and recent international debt issuance, the company has been able to pay most of its short term liabilities, which in turn has reduced its risk as reflected in a ~152bps appreciation of its 5-year CDS since early February.

In our opinion, the new business plan will help Pemex become a productive company. We consider that Pemex has always been a viable company, with a transitory liquidity problem amid a difficult backdrop. However, changes that have already started this year will put the company on the road to efficiency. This, in turn, will allow it to face new challenges in the coming years and also to take advantage of the opportunities created by energy reform, such as the case of the *farm-outs*, which present fiscal benefits. It is worth mentioning that this is the first business plan focused on optimizing benefits, and not on tax generation for the Federal Government and it has the endorsement of both the Ministry of Finance and the workers union.

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