

Energy Alert

February 1, 2018

Key Points

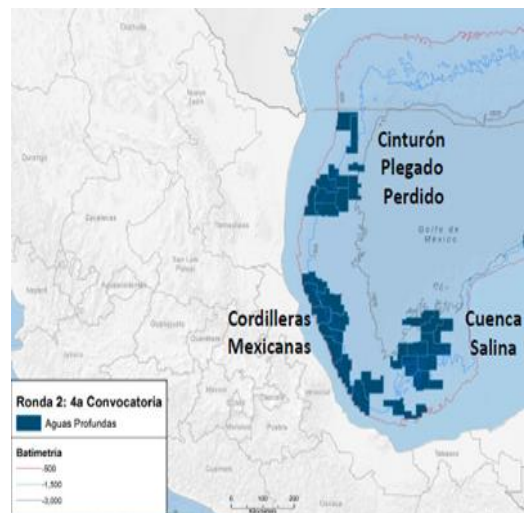
- Round 2.4 exceeded expectations by awarding 18 of 29 (62 percent) of available contract areas
- Biggest winners were Royal Dutch Shell, with nine contract areas, and PC Carigali, with seven contract areas
- Investments over \$100 billion in Mexico's energy sector expected in the upcoming years

Mexico's Energy Industry

Round 2.4: Mexico's Deep Water Success

On January 31, 2018, the Comisión Nacional de Hidrocarburos ("**CNH**") completed the Presentation and Opening of Bid Proposals for the Fourth Tender of Round Two ("**Round 2.4**"), which was first announced on July 20, 2017. Round 2.4 attracted 29 oil and gas companies from around the world including Royal Dutch Shell, ExxonMobil, Chevron, Pemex, Lukoil, Qatar Petroleum, Mitsui, Repsol, Statoil and Total, among others.

Round 2.4 included 60% of all acreage to be offered by Mexico under the current Five Year Plan. Blocks included 29 deep water contract areas (shown in the adjacent map) with an estimated 4.23 billion Barrel of Oil Equivalent (BOE) of crude oil, wet gas and dry gas located in the Perdido Fold Belt Area, Salinas Basin and Mexican Ridges. The blocks were offered under a license contract, similar to the deep water form used by the CNH in Round 1.4. After witnessing the success that companies like ENI, Talos Energy, Inc., Sierra and Premier have had in Mexico over the last several years, Round 2.4 was the biggest opportunity yet for the industry. Some of these deep water contract areas were particularly appealing because they share geological characteristics with some of the projects in the U.S. Gulf of Mexico (U.S. GOM) where these companies have already had success.



The results for Round 2.4 exceeded expectations by awarding 18 of 29 contract areas (62% of the available areas) to companies with significant experience in the exploration and development of deep water projects in the U.S. GOM. Mexico again was able to find exactly the right balance in terms of the geology, assets and contract terms up for bid. The biggest winners in Round 2.4 were Royal Dutch Shell with nine contract areas and PC Carigali with seven

contract areas. Industry experts forecast that the contract areas in Round 2.4 could garner over US\$100 billion in investments and development for Mexico in the upcoming years. While there will be celebrations in Mexico City today, Mexico again was able to find exactly the right balance in terms of geology and assets it put out for bid, on further inspection, however, Round 2.4 could have been disastrous. All but a handful of blocks received only one or two bids, which means without Shell and PC Carigali, the results would have been substantially different. Regardless, the Mexican market has taken another step to building a robust, competitive market with all of the key industry players now being involved.

The CNH evaluated the bids based on proposed additional royalty and investment factors. The results of the bidding process are shown in the following chart:

Area	Winner	Surface (km2)	Projected Volume (MMboe)	Minimum Work Program Units	Minimum Royalty	Additional Royalty	Investment Factor (x)
Perdido Fold Belt							
1	No Bids	1988.0	171	10,400	5.00%	-	-
2	Royal Dutch Shell & Pemex ¹	2146.2	76	10,400	5.00%	15.02%	1.0
3	Royal Dutch Shell & Qatar Petroleum ²	2061.8	115	10,400	5.00%	10.03%	0.0
4	Royal Dutch Shell & Qatar Petroleum ³	1900.2	40	10,400	5.00%	10.03%	1.0
5	Pemex	2732.7	252	10,400	5.00%	6.23%	1.0
6	Royal Dutch Shell & Qatar Petroleum	1890.6	171	10,400	5.00%	20.00%	1.5
7	Royal Dutch Shell & Qatar Petroleum ⁴	1967.9	17	10,400	5.00%	20.00%	1.5
8	No Bids	2061.7	13	10,400	5.00%	-	-
9	No Bids	2008.6	92	10,400	5.00%	-	-
Mexican Mountain Ridges							
10	Repsol, PC Carigali & Ophir ⁵	1999.3	100	6,100	3.10%	20.00%	1.5
11	No Bids	2001.5	182	6,100	3.10%	-	-
12	PC Carigali, Ophir & PTTEP ⁶	3099.4	215	6,100	3.10%	20.00%	1.0
13	No Bids	1967.0	179	6,100	3.10%	-	-
14	Repsol & PC Carigali ⁷	2241.8	180	6,100	3.10%	19.98%	0.0
15	No Bids	2041.9	180	6,100	3.10%	-	-
16	No Bids	2047.4	131	6,100	3.10%	-	-

¹ The second place winner, China Offshore Oil Corporation E&P Mexico, offered 11.45% additional royalty and 0.0 investment factor.

² The second place winner, Pemex & China Offshore, offered 7.01% additional royalty and 0.0 investment factor.

³ The second place winner, Pemex E&P, offered 5.95% additional royalty and 0.0 investment factor.

⁴ The second place winner, China Offshore & PC Carigali, offered 5.01% additional royalty and 1.0 investment factor.

⁵ The second place winner, Shell & Qatar Petroleum, offered 11.03% additional royalty and 1.0 investment factor.

⁶ The second place winner, Shell & Qatar Petroleum, offered 9.03% additional royalty and 1.0 investment factor.

⁷ The second place winner, Shell & Qatar Petroleum, offered 5.03% additional royalty and 1.0 investment factor.

Area	Winner	Surface (km2)	Projected Volume (MMboe)	Minimum Work Program Units	Minimum Royalty	Additional Royalty	Investment Factor (x)
17	No Bids	3009.7	131	6,100	3.10%	-	-
18	Pemex	2917.1	412	6,100	3.10%	7.11%	1.0
19	No Bids	3003.1	281	6,100	3.10%	-	-
Salinas Basin							
20	Royal Dutch Shell ⁸	2079.5	199	11,700	5.00%	20.00%	1.5
21	Royal Dutch Shell ⁹	2029.7	327	11,700	5.00%	20.00%	1.5
22	Chevron, Pemex & Inpex ¹⁰	2879.0	101	11,700	5.00%	18.44%	1.0
23	Royal Dutch Shell ¹¹	1852.8	131	11,700	5.00%	10.08%	1.0
24	Eni & Qatar Petroleum	1921.9	100	11,700	5.00%	9.53%	1.0
25	PC Carigali	2107.0	12	11,700	5.00%	19.98%	0.0
26	PC Carigali ¹²	2030.4	67	11,700	5.00%	20.00%	1.0
27	No Bids	2118.1	68	11,700	5.00%	-	-
28	Royal Dutch Shell ¹³	2118.1	106	11,700	5.00%	20.00%	1.5
29	Respol, PC Carigali, Sierra & PTTEP ¹⁴	3253.6	176	11,700	5.00%	20.00%	1.5

⁸ The second place winner, Pemex, offered 6.11% additional royalty and 0.0 investment factor.

⁹ The second place winner, Chevron, Pemex & ONGC Videsh offered 20.00% additional royalty and 1.5 investment factor (same as the first place winner). However, the contract was awarded to Shell based on tie-breaker bonus.

¹⁰ The second place winner, BHP Billiton, offered 6.55% additional royalty and 0.0 investment factor.

¹¹ The second place winner, Chevron, Pemex & Inpex, offered 13.44% additional royalty and 0.0 investment factor.

¹² The second place winner, BP & Statoil, offered 13.37% additional royalty and 1.0 investment factor.

¹³ The second place winner, PC Carigali, offered 19.98% additional royalty and 0.0 investment factor.

¹⁴ The second place winner, Eni, Qatar Petroleum & Citla Energy offered 20.00% additional royalty and a 1.5 investment factor (same as the first place winner). However, the contract was awarded to Respol consortium based on tie-breaker bonus.

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