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National Content Rules for the Oil & Gas Sector in Mexico

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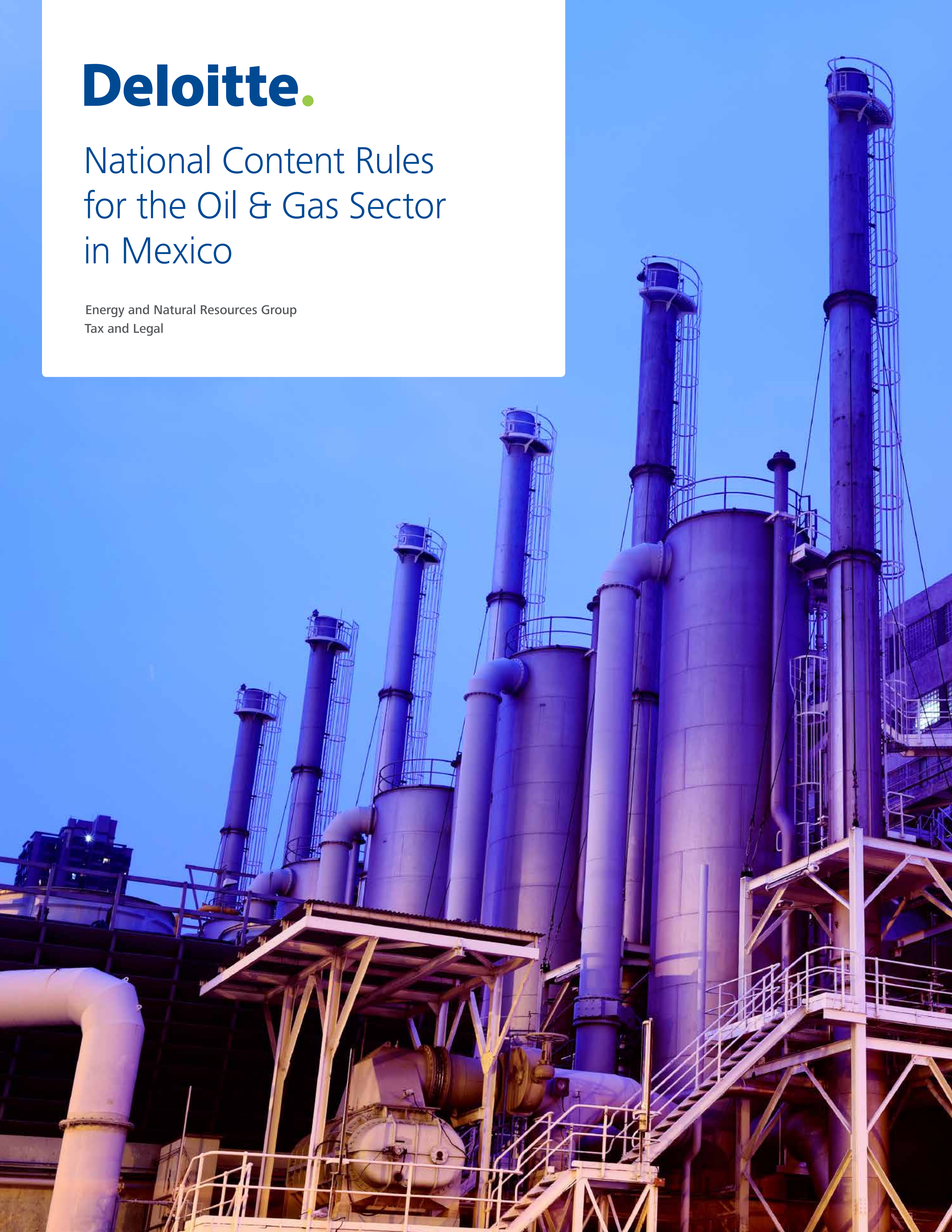

National Content Rules for the Oil & Gas Sector in Mexico

On August 11, 2014 the Law on Hydrocarbons was enacted, which, in articles 46 and 126 states that companies holding contracts for the exploration and production of Hydrocarbons should use in their operations a minimum percentage of domestic content.

The minimum percentage to be met for 2015 is 25%, which will gradually increase to 35% in 2025. This measure excludes deep and ultra-deep water projects, the minimum percentage for which will be determined on a case by case basis.

For the determination of local content, the Ministry of Economy published on November 13, 2014 an agreement establishing the methodology for measuring local content based on 5 principles, considering criteria that do not generate undue advantages which may affect the competitive position of Assignees or Contractors:

1. The origin of goods and services
   a) Goods: This includes the value of Mexican goods used by the producer, including the proportion of domestic materials incorporated into the goods and excluding the value of imported materials as well as the value of materials produced locally but that do not qualify as Mexican. There is an option to consider the total cost of a material when it is not possible to determine the value.

   To fulfill this requirement, the authority allows for the application of concepts related to the change in tariff classification of materials, minimum value rule, designation of intermediate materials, use of inventory control methods for consumables as well as the average values of local content.

   b) Services: Includes the value of property used, the leasing of property, salaries or fees paid to domestic workers employed by the service provider and subcontracted services.

2. Local labor force: includes the value of wages, salaries, fees and benefits paid in Mexico to national workers according to the number of man hours incurred in the activities.

3. Training: Includes the value of training to national workers granted by the assignee or contractor.

4. Investment in local physical infrastructure: Includes the value of the total expenditure incurred in the territory in order to improve the urban and rural environment (including construction and maintenance of highways, roads, bridges and public transit routes, hospitals, schools, housing, drinkable water supply systems, sanitation and drainage, public and sports parks.

5. Transfer of technology: Includes building and operational costs of research and development centers related to the sector in the territory, technology development as well as financing of new techniques in the hydrocarbon sector as well as the value of patents developed in the territory.

Note that the contracts will establish the obligation that contractors include in their plans for exploration and development, a local content compliance program, noting deadlines and stages, which will be reviewed by the National Hydrocarbons Commission with input from the Ministry of Economy.

Monetary sanctions for noncompliance with the percentages of required local content are provided, by means of payment of contractual penalties through the Mexican Petroleum Fund for Stabilization and Development, equivalent to a percentage of the value of the concepts outlined in the methodology. Such sanctions may gradually increase every year.

Contacts

Tax and Legal, Energy and Natural Resources Industry Co-leaders

Miguel Llovera
Tel: +52 (55) 5080 6535
mllovera@deloittemx.com

Simón Somohano
Tel: +52 (664) 622 7872
ssomohano@deloittemx.com

International Tax Leader

Eduardo Barrón
Tel:+52 (55) 5080 6452
edbarron@deloittemx.com

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