Deloitte.


**Tax Flash 64/2014 | Taxes and Legal Services | December 24, 2014**

# Mexico deploys Round One with 14 bids for production sharing contracts

The publication of Round One is the beginning of oil production by the private sector in Mexico, thus increasing production through better technology, resources and investment.

Amid the lowest oil prices in 5 years, the government proposes new rules, a flexible fiscal regime and transparency. It is expected that the process will culminate in mid-2015, when Pemex plans to agree on 10 associations, as well as to convert incentive contracts and initiate new rounds.

This document summarizes the timing of the process, certain pre-qualifications and relevant aspects of the contract released on the webpage http://www.ronda1.gob.mx.

## Background

On Thursday December 11, 2014, the National Hydrocarbons Commission announced the bidding process, the model contract formats and other relevant information for the auction process for 14 exploration blocks in shallow water.

## Relevant dates and amounts:

- Physical data room with technical information shall open on January 15, 2015 at a cost of $ 5,300,000 pesos per participant (approximately $ 360,000 US dollars).
- Registration is available at a cost of $ 280,000 pesos (approximately $ 20,000 US dollars) until March 31, 2015, with an appointment requested before March 16, 2015.
- Questions about the data room, prequalification and biding proposals will be accepted via internet.
- Submission of tenders shall occur by July 15, 2015. The winning bid will be announced before July 17 and the contract shall be signed before August 21, 2015.
-

## Contractor requirements and assignment criteria

**Experience criteria:** Among others, it is required that the operator demonstrate experience in exploration and extraction activity in the period 2010-2014 (The above through its participation as operator of at least 3 projects, or projects which together represent at least a $ 1 billion US dollar investment) and experience in offshore projects (accredited as an operator offshore or project partner in at least two offshore projects in the last five years).

**Financial criteria**: Overall, the operator must have total assets of at least $ 10 billion US dollars and an investment grade credit rating or net worth of at least $ 1 billion US dollars.

**Assignment criteria:** The contractual area will be assigned to the bidder with the highest value proposal. Such value will be weighted in 90% by the percentage of operating income offered to the state and 10% by the factor of additional investment to the minimum investment commitment.
It is worth mentioning that more than one super major (those with average production of 1.6 million barrels equivalent per day) cannot be part of the same consortium. A bidder may not submit proposals for more than five contractual areas.

## Relevant contractual conditions

**Taxation**: The consideration for the contractor will be delivered at the point of measurement in kind, to the contractor no later than the 17th of the subsequent period concerned. Thus, the contractor will receive the full amount of the eligible costs during the recovery period and the corresponding participation in the previous period with adjustments as appropriate. The contractor must pay the royalties and the contractual fee for the exploratory phase.

**Consideration as a percentage of operating income:** For each period, operating income is obtained by subtracting the contractual value of the hydrocarbons, minus recovery of costs and royalties paid in that period. This amount shall be multiplied by the percentage offered by the contractor, this being the consideration of the State. The remainder corresponds to the contractor.

Annex 3 establishes the mechanism for determining contract prices to reach the contractual value of production.

The recoverable costs are those listed in Annex 4, which amount shall be limited in each period to a percentage (in this case the Annex indicates 60%) of the contract value of the hydrocarbons during a given month. Unrecovered costs will be transferred to subsequent months without indexation, and will be identical in duration to the contract term.

It should be noted that the consideration as a percentage of operating income will be subject to modification according to an adjustment mechanism based on a metric of profitability. If the contractor's return exceeds 15%, it will receive a reduced consideration, which will gradually decrease as profits increase up to a yield of 30%, at which point the contractor shall only receive 20% of the percentage originally offered.

**Royalties**: In adherence to the provisions of the Revenue Law on Hydrocarbons (LIH), royalties are determined for oil, associated natural gas, non-associated natural gas or condensate products, applying the fee at the contractual value of oil produced in the month.

**Contractual fee in the exploratory phase**: With regard to the contractual fee for the exploratory phase it is clarified that the values provided in Annex 4, previously established by the LIH, shall be updated from the second half of January of each year in accordance with the Mexican Consumer Price Index.

**Local content requirements:** Contractors must meet a minimum local content which gradually increases from 13% (exploration phase), to 25% (phase of development until 2025), and will finally be set at 35% (from the year 2025 through the end of the contract).

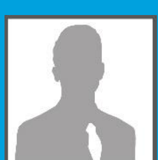
**Contract Term:** The term of the contract is proposed in 25 years, which can be extended on 2 occasions. 3 of the years of the contract correspond to the exploration phase, which may also be extended up to 2 times.

**Minimum work commitments:** Estimates of minimum work commitments of contractual areas ranging between $ 57 and $ 171 million US dollars.

**Governing Law and Dispute Resolution:** The contract shall be governed by the laws of Mexico, conflict resolution will be held in Mexican courts and the rules of UN arbitration will apply.

## Further information


**Miguel Llovera**
Co-Leader for Energy and Resources Industry from Tax and Legal Services
Tel: +52 (55) 5080-6000
**mllovera@deloittemx.com**


**Luis Liñero**
Knowledge Management
Tel: +52 (55) 5080-6000
**llinero@deloittemx.com**


**Visit Deloitte Mexico**
**www.deloitte.com/mx**

**Taxes**
**www.deloitte.com/mx/impuestos**

**Aguascalientes**
Universidad 1001, piso 12-1, Bosques del Prado
20127 Aguascalientes, Ags.
Tel: +52 (449) 910 8600, Fax: +52 (449) 910 8601

**Cancún**
Avenida Bonampak SM 6, M 1, lote 1, piso 10
77500 Cancún, Q. Roo
Tel: +52 (998) 872 9230, Fax: +52 (998) 892 3677

**Chihuahua**
Av. Valle Escondido 5500, Fracc. Des. El Saucito E-2, piso 1,
31125 Chihuahua, Chih.
Tel: +52 (614) 180 1100, Fax: +52 (614) 180 1110

**Ciudad Juárez**
Baudelio Pelayo No. 8450
Parque Industrial Antonio J. Bermúdez
32400 Ciudad Juárez, Chih.
Tel: +52 (656) 688 6500, Fax: +52 (656) 688 6536

**Culiacán**
Calz. Insurgentes 847 Sur, Local 103, Colonia Centro Sinaloa
80128 Culiacán, Sin.
Tel: +52 (667) 761 4339, Fax: +52 (667) 761 4338

**Guadalajara**
Avenida Américas 1685, piso 10, Colonia Jardines Providencia
44638 Guadalajara, Jal.
Tel: +52 (33) 3669 0404, Fax: +52 (33) 3669 0469

**Hermosillo**
Blvd. Francisco E. Kino 309-9, Colonia Country Club
83010 Hermosillo, Son.
Tel: +52 (662) 109 1400, Fax: +52 (662) 109 1414

**León**
Paseo de los Insurgentes 303, piso 1, Colonia Los Paraísos
37320 León, Gto.
Tel: +52 (477) 214 1400, Fax: +52 (477) 214 1405

**Mazatlán**
Avenida Camarón Sábalo 133, Fraccionamiento Lomas
de Mazatlán
82110 Mazatlán, Sin.
Tel: +52 (669) 989 2100, Fax: +52 (669) 989 2120

**Mérida**
Calle 56 B 485 Prol. Montejo Piso 2
Colonia Itzimna 97100 Mérida, Yuc.
Tel: +52 (999) 920 7916, Fax: +52 (999) 927 2895

**Mexicali**
Calzada Francisco López Montejano 1342, Piso 7 Torre Sur
Fraccionamiento esteban cantú
21320 Mexicali, B.C.
Tel: +52 (686) 905 5200, Fax: +52 (686) 905 5232

**México, D.F.**
Paseo de la Reforma 489, piso 6, Colonia Cuauhtémoc
06500 México, D.F.
Tel: +52 (55) 5080 6000, Fax: +52 (55) 5080 6001

**Monclova**
Blvd. Ejército Nacional 505, Colonia Los Pinos
25720 Monclova, Coah.
Tel: +52 (866) 635 0075, Fax: +52 (866) 635 1761

**Monterrey**
Lázaro Cárdenas 2321 Poniente, PB, Residencial San Agustín
66260 Garza García, N.L.
Tel: +52 (81) 8133 7300, Fax: +52 (81) 8133 7383

Carr. Nacional 85, 5000, local S-6 Colonia La Rioja
64988, monterrey, N.L.
Tel. +52 (631) 320 1673
Fax: +52 (631) 320 1673

**Nogales**
Apartado Postal 384-2
Sucursal de Correos "A"
84081 Nogales, Son.
Tel: +52 (631) 320 1673, Fax: +52 (631) 320 1673

**Puebla**
Edificio Deloitte, Vía Atlixcayotl 5506, piso 5, Zona Angelópolis
72190 Puebla, Pue.
Tel: +52 (222) 303 1000, Fax: +52 (222) 303 1001

**Querétaro**
Avenida Tecnológico 100-901, Colonia San Ángel
76030 Querétaro, Qro.
Tel: +52 (442) 238 2900, Fax: +52 (442) 238 2975, 238 2968

**Reynosa**
Carr. Monterrey-Reynosa 210-B, PA
Fracc. Portal San Miguel
88730 Reynosa, Tamps.
Tel: + 52 (899) 921 2460, Fax: +52 (899) 921 2462

**San Luis Potosí**
Av. Salvador Nava Martínez 3125, 3-A
Fracc. Colinas del Parque
78294 San Luis Potosí, S.L.P.
Tel: +52 (444) 1025300, Fax: +52 (444) 1025301

**Tijuana**
Misión de San Javier 10643, Piso 8,
Zona Urbana Rio Tijuana. Tijuana B.C., 22010
Tel: +52 (664) 622 7878, Fax: +52 (664) 681 7813

**Torreón**
Independencia 1819-B Oriente, Colonia San Isidro
27100 Torreón, Coah.
Tel: +52 (871) 747 4400, Fax: +52 (871) 747 4409

# deloitte.com/mx