



NEWSLETTER.

BUSINESS PLAN OF PETRÓLEOS MEXICANOS AND ITS PRODUCTIVE SUBSIDIARIES 2019-2023

On July 16 of 2019, the director of Petroleos Mexicanos ("**PEMEX**"), Octavio Romero, announced the Business Plan of PEMEX and its Productive Subsidiaries for 2019-2023 (the "**Business Plan**"). In this regard:

A.

Principal milestones for 2023.

The Business Plan has three main objectives: (i) to reduce taxes for Pemex; (ii) to reduce its financial debt; and (iii) to increase the production of oil. Such goals would be achieved through increasing budgetary funds for PEMEX and obtaining tax reductions, in order for PEMEX to obtain funds and investment capacity. Furthermore, such Company will focus on reducing the time between the discovery of fields and the first production of fields. Production will focus mainly on shallow waters (easier and more affordable) where Pemex is more experienced.

B.

PEMEX's current situation

PEMEX's director indicated that PEMEX has revenues of approximately two trillion pesos and its tax and duty expenses reach approximately one trillion pesos. PEMEX's crude production has decreased from 3.4 million barrels per day in 2004 to 1.7 million barrels per day in May of 2019. PEMEX has a liability of approximately 106 billion dollars and "Fitch Ratings" has reduced its rating to BB+, below investment grade.

C.

Tax Reduction

The Business Plan is forecasting that from 2020 to 2022 the oil Company will have a tax reduction of 128 billion pesos and will receive an 141 billion pesos subsidy from the Mexican Government through budgetary funds. As a result of the tax reduction and transfer of federal funds, 300 billion pesos will be contributed to the oil Company in the first three years in order to increase crude production to 2.7 million barrels per day by the end of this presidential six year term.

The tax reduction would be achieved through an amendment to the Hydrocarbon Revenue Law in order to reduce the tax rate for shared earnings (DUC). Such rate will be gradually reduced from 65% to 58% for 2020 and to 54% for 2021, pursuant to which PEMEX estimates savings of 45 billion pesos for 2020 and 83 billion pesos for 2021.

D.

Private Sector

PEMEX confirmed opening up to business structures with the private sector "under strict care of its interests, with fair and transparent agreements." Private investment will be made through the Exploration and Extraction Integral Services Contracts ("**Cesiees**"), leaving out of its Business Plan farmouts or joint ventures.

F.

Principal Projects 2019-2023

The main projects of the Business Plan are the following: (i) Accelerated development of new fields; (ii) the new "Dos Bocas" refinery; (iii) the transitsmic project (use of pipelines as part of the development of the *Istmo de Tehuantepec*); (iv) Cesiees; (v) use of residuals of Tula refinery to increase its refining capacity; (vi) peninsular Project (transport and storage in the Yucatan Peninsula); (vii) "Tolteca" Project (Storage in Tula); and (viii) use of humid gas with high nitrogen content.

G.

Expert opinions

In the last couple of days, different sectors of private parties have given their opinion regarding the Business Plan. Among the negative aspects mentioned, the Business Plan does not offer something different and puts pressure on public finances. Additionally, comments have been made in the sense that an important effort was made, but it does not solve the current debt problem of the company. In the same sense, experts believe that the solution is not based on tax reductions and subsidizing through budgetary funds, but rather increasing the production of crude oil and its profitability. Positive comments have considered that the tax reduction on the oil company is a good initiative. Likewise, the private sector has expressed that Cesiees will allow Pemex to virtually invest in the extraction and production in fields without having to allocate funds to such investments.

The Business Plan was published July 16, 2019 through different government websites, mainly, on the website of Petr6leos Mexicanos. <http://www.pemex.com/acerca/plan-de-negocios/Paginas/default.aspx>

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