The recently enacted energy reform marks a landmark in Mexico's governmental stance in this matter. Historical background and patriotic sentiments nourished a closeness perspective in this field (specially in the oil matters) that lasted for nearly more than 75 years.

The energy reform allows the participation of private parties (and Mexican public companies) in upstream activities; these economic agents may organize in corporate vehicles as permitted by the applicable mercantile laws, hence, the association legal mechanisms are broad and not specifically limited.

Even with the reform the ownership of oil and solid, liquid and gas hydrocarbons in the subsoil, remains exclusively of the Nation, the contracts' value for exploration and exploitation may be recorded for accounting and/or financial purposes.

The several types of contracts contemplated by the reform entail specific taxes and other consideration payments, creating obvious consequences in ascertain the profitability of these agreements.

We expect you find these comments useful.

Best regards,

Turanzas, Bravo & Ambrosi
Abogados Tributarios

Index

Chapter I
Overview of the Energy Reform on the Matter of Hidrocarbons

The Federal Executive submitted the bill with the constitutional amendment for the Energy Reform on August 12, 2013; the same was approved by the Upper Chamber (Cámara de Senadores) on December 11, 2013 and by the Lower Chamber (Cámara de Diputados) on December 12 of that same year. Said reform was approved by all legislative branches of the different Federal Entities and was finally published in the Federal Official Gazette (DOF, for its initials in Spanish, Diario Oficial of the Federación) on December 20, 2013.

In connection with this reform, paragraphs Fourth, Sixth and Eight of Article 25 of the Political Constitution for the United States of Mexico (CPEUM, for its initials in Spanish, Constitución Política de los Estados Unidos Mexicanos) were amended, as well as paragraph Sixth of Article 27, and paragraphs Fourth and Sixth of Article 28; additionally, a paragraph Seventh was added to Article 27 and a paragraph Eighth was added to Article 28.

On August 11, 2014, the following 9 secondary laws on energy matters were published in the DOF, supporting the Energy Reform:

a) Hydrocarbon Revenue Law.

b) Law on the Mexican Oil Fund for Stabilization and Development.

c) Power Industry Law.

d) Geothermal Energy Law.

e) Law on Coordinated Regulatory Entities on Energy Matters.

f) Law of the National Agency for Industrial Safety and Environmental Protection in the Hydrocarbon Sector.

g) Hydrocarbon Law.

h) Law on Petróleos Mexicanos.

i) Law of the Federal Electricity Commission.

Resulting from the Energy Reform, the following existing 12 secondary laws were amended:

a) Foreign Investment Law.

b) Mining Law.

c) Law on Public Private Associations.

d) Law on National Waters.

e) Federal Law on State-Owned Entities.

f) Law on Acquisitions, Leases and Services for the Public Sector.

g) Law on Works and Services Related Therewith.

h) Organic Law on Federal Public Administration.

i) Federal Law on Fees.

j) Tax Coordination Law.

k) Federal Law on Budget and Treasury Liabilities.

l) General Law on Public Debt.

Finally, in connection with the Energy Reform, the following 9 regulations have been issued:

a) Internal Regulations of the Ministry of Energy.

b) Regulations of the Geothermal Energy Law.

c) Regulations of the Hydrocarbon Law.

d) Regulations of the Hydrocarbon Revenue Law.

e) Regulations of the Law of the Federal Electricity Commission.

f) Regulations of the Power Industry Law.

g) Regulations of the Law on Petróleos Mexicanos.

h) Regulations of the activities set forth in Title Third of the Hydrocarbon Law.

i) Internal Regulations of the National Agency for Industrial Safety and Environmental Protection in the Hydrocarbon Sector.

Following is a brief description of those items of the Energy Reform that we consider core matters:

1. Strategic Areas

Paragraph Fourth of Article 28 of the CPEUM provides that Exploration and Extraction of Oil and other Hydrocarbons constitute strategic activities that shall be exercised exclusively by the State, which shall not constitute a monopoly.

Pursuant to Paragraph Fourth of Article 25 of the CPEUM, the Federal Government shall maintain ownership and control of organizations and State-Owned Companies (EPE, for its initials in Spanish, *Empresas de Participación Estatal*) that have the purpose of Exploring and Extracting oil and other Hydrocarbons.

Article 5 of the Hydrocarbon Law (LH, for its initials in Spanish, Ley de Hidrocarburos) provides that only the Nation shall carry on with the activities of Exploration and Extraction of Hydrocarbons, through Assignees and Contractors.

That same Article, however, provides that Reconnaissance and Surface Exploration activities may be carried on by PEMEX, any other EPE or state-owned company, as well as by any other person who obtains prior authorization or permit.

2. Ownership by the Nation

Paragraph Sixth of Article 27 of the CPEUM provides that the Nation maintains direct ownership over any kind of Hydrocarbons, and that this ownership is inalienable and non-lapsable.

Paragraph Seventh of this Article provides that ownership of oil and solid, liquid and gas Hydrocarbons in the subsoil, is exclusively of the Nation and no concessions will be granted to private parties in connection with such Hydrocarbons. This situation must be stated in the Assignments and Contracts that are granted in connection therewith.

These principles are strengthened and extended by Article 1 of the LH, which provides that the Nation owns the direct, inalienable and non-lapsable property of all Hydrocarbons that are in the subsoil of national territory, including the continental shelf and the exclusive economic zone located outside the territorial sea and adjacent to it, in beds or fields, whatever their physical state may be.

3. Social Interests and Public Order

Transitory Article eight of the Decree of Constitutional Reform provides that the activities of Exploration and Extraction of Hydrocarbons (upstream) are considered of public order and social interests, based on which they shall be preferred over any other activity that implies benefiting from the subsoil surface and affected plots of land.

Article 25 of the LH provides that acts relative to the tender and awarding process for the Exploration and Extraction of Hydrocarbons (*upstream*) are also regarded of public order and social interests.

4. Participation of private entities and EPE in upstream operations

In order to obtain income for the State, Exploration and Extraction Activities of Hydrocarbons (upstream) shall be carried on through Assignments to be granted to EPE, and Contracts that will be awarded to EPE and/or private parties. In order to comply with Assignments, EPEs may retain private parties.

Pursuant to Transitory Article Third of the Decree for constitutional reform, PEMEX and CFE, currently de-centralized bodies, shall be converted into EPE.

4.1. Assignments

Transitory Article Sixth of the Decree for constitutional reform enables SENER (Ministry of Energy, for its initials in Spanish, *Secretaría de Energía*), assisted by the CNH (National Hydrocarbon Commission, for its initials in Spanish, *Comisión Nacional de Hidrocarburos*), to award Assignments to PEMEX, for which such EPE shall provide evidence that it has technical, financial and execution capabilities required to Explore and Extract Hydrocarbons in an efficient and competitive manner.

Article 6 of the LH provides that Assignment titles shall contain the following requirements:

a) Assignment Area.

b) Terms and conditions that must be observed in the Exploration and Extraction of Hydrocarbons.

c) Conditions and mechanisms to reduce or return the Assignment Area.

d) The term, as well as conditions, for extension.

e) Procurement of guarantees and insurance.

f) Minimum percentage of National content.

g) The term for the Assignee to submit to the CNH, for approval, the Exploration plan or the Extraction development plan, as the case may be.

Pursuant to the provisions set forth in Article 9 of the LH, the Federal Executive, PEMEX and the other EPEs, may enter into service contracts with private entities, under schemes that allow them the most productivity and profitability, provided the resulting consideration is paid in cash.

Once the Assignment has been granted, PEMEX may propose to SENER the migration of the Assignment to any of the Contracts for Exploration and Extraction of Hydrocarbons. In such cases, the CNH shall carry on with the corresponding tender so that private parties may take part in such Contracts.

We believe it is correct that in case PEMEX decides to migrate an Assignment to a Contract, it is not such EPE who appoints the private parties who will take part in such Contract, but that such scenario is decided by means of a tender held by the CNH.

Upon prior approval from the SENER and notice to the CNH, Assignees may also waive their rights to the Assignment.

SENER may revoke an Assignment and recover the Assignment Area whenever any of the following serious grounds occurs:

a) Whenever Assignee fails to begin or suspends

the activities set forth in the Exploration plan or Extraction development plan in the Assignment Area for more than 180 consecutive calendar days, without justified cause or authorization from the CNH in the terms set forth in the Assignment title.

b) In case the Assignee fails to meet the minimum work commitment, without justified cause, pursuant to the terms and conditions set forth in the Assignment granted.

c) Whenever serious accidents occur caused by deceit or fault of the Assignee, which cause damage to the facilities, casualties and loss of production.

d) Whenever Assignee in more than one occasion deceitfully or unjustifiably delivers false information or false or incomplete reports, or hides them from the SENER, the SHCP (Ministry of the Treasury and Public Credit, for its initials in Spanish, *Secretaría de Hacienda y Crédito Público*) or the Ministry of Economy, the CNH or the National Agency for Industrial Safety and Environmental Protection in the Hydrocarbon Sector, regarding the production, costs or any other relevant aspect of the Assignment.

e) Any other grounds set forth in the Assignment title.

Article 10 of the LH provides an administrative proceeding that Assignees may follow as means of defense in case the Assignment is revoked.

4.2. Contracts for the Exploration and Extraction of Hydrocarbons

Only the Mexican State, through the CNH, may grant Contracts for Exploration and Extraction of Hydrocarbons, by previously following a tender subject to the general rules set forth in Article 23 of the LH; the indirect injunction proceeding (*juicio de amparo indirecto*) is the only defense recourse available against resolutions appointing the winner of a tender.

Said Contracts shall have the purpose of carrying on with the activities of Exploration and Extraction of Hydrocarbons (upstream), on behalf of the Nation, and the State itself shall define the most suitable contractual model for each specific case, always maximizing the Nation's income.

Article 27 of such law provides that Contracts for Exploration and Exploitation of Natural Gas may be awarded directly to mining concessionaires, without prior tender.

Transitory Article Fourth of the Decree for constitutional reform provides the following modes for contracting:

a) Services.

b) Shared Profits or Shared Production.

c) License.

That same Transitory Article provides the following modes for the considerations:

a) In cash, for Service Contracts.

b) A percentage of the profits, for Contracts of Shared Profits.

c) A percentage of production obtained, for the Contracts of Shared Production.

d) Transfer of Hydrocarbons for a fee once these have been extracted from the sub-soil, in the case of License Contracts.

e) Hybrid, that is, any combination of the above-mentioned modes.

Pursuant to the provisions set forth in Article 19 of the LH, Contracts for Exploration and Extraction of Hydrocarbons, shall contain the following minimum clauses:

a) Definition of the Contractual Area.

b) Exploration and Extraction development plans, including the term for their submission.

c) Minimum work and investment program, as the case may be.

d) Contractor's obligations and undertakings, including economic and tax terms.

e) The term, as well as conditions, for its extension.

f) Procurement of guarantees and insurance.

g) The existence of an external audit system to supervise the effective recovery, as the case may be, of costs incurred and the other accounting involved in the contract's operation.

h) Causes of termination for the contract, including early termination and administrative termination.

i) Transparency obligations that enable access to information under the Contracts, including disclosure of considerations, contributions and payments set forth in the contract itself.

j) The minimum percentage of National content.

k) Conditions and mechanism to reduce or return the Contractual Area.

l) Conflict solving, including alternative means to solve conflicts.

m) Applicable penalties in case of default of contractual obligations and undertakings.

n) The Contractor and the operator's liabilities pursuant to best international practices. In case of an accident, Contractor's or operator's liability shall not be limited if their willful misconduct or fault is proven.

o) Observance of best international practices for operating the Contractual Area.

5. Regime applicable to information obtained

Article 32 of the LH provides that geological, geophysical, petro-physical and petrochemical information belongs to the Nation and, in general, any information obtained or that has been obtained from Superficial Reconnaissance and Exploration activities, as well as from Exploration and Extraction activities, carried out by PEMEX, any other EPE or any other person.

The CNH shall be in charge of the supply, custody, use, administration and update, as well as publication of the above-mentioned information, through the National Center of Hydrocarbon Information (*Centro Nacional de Información de Hidrocarburos*).

It is prohibited for those holding information to publish, deliver or obtain any information through means other than those set forth in the LH or without the CNH's prior consent.

Notwithstanding the above, pursuant to the provisions set forth in Article 33 of the LH, those holding information shall be entitled to the commercial exploitation of information obtained in connection with their activities, within the terms set forth for such purpose by the CNH.

6. Mexican Oil Fund for Stabilization and Development

Paragraph Sixth of Article 28 of the CPEUM provides that the State shall have a public trust denominated Mexican Oil Fund for Stabilization and Development (*Fondo Mexicano del Petróleo para la Estabilización y el Desarrollo*), with the Banco de México as trustee.

The main purpose of the above-mentioned public trust shall be to receive, manage and distribute income from Assignments and Contracts for Exploration and Extraction of Hydrocarbons (*upstream*), except taxes.

Transitory Article Fourteenth of the Decree for constitutional reform provides the following order or precedence for the management and distribution of income received by the Mexican Oil Fund for Stabilization and Development:

a) Make payments set forth in the Assignments and Contracts. This matter will be explained later, in the section corresponding to income by the State.

b) Make transfers to the Funds for Stabilization of Oil Income and Stabilization of Income for the Federal Entities (*Fondos de Estabilización de los Ingresos Petroleros y de Estabilización de los Ingresos de las Entidades Federativas*). Once the Fund for Stabilization of Oil Income, or its equivalent, has reached its maximum limit, resources allocated to the Fund shall be allocated to long term savings, as set forth in item e) below.

c) Make transfers to the Fund for Hydrocarbon Extractions; the research funds on Hydrocarbons and energy sustainability, and on oil tax overview.

d) Transfer required funds to the Federal Treasury so that oil income of the Federal Government allocated to cover the Federal Expense Budget each year, is maintained within 4.7% of the GNP, corresponding to the ratio equal to the one observed from oil income for the year 2013.

e) Allocate funds to long-term savings, including investment in financial assets.

Only when the balance of investments on long-term savings is equal to or higher than 3% of the GNP of the immediately preceding year, the Fund's Technical Committee may allocate resources of the Fund's accrued balance to the following:

a) Up to an amount equal to 10% of the increase observed in the preceding year in the balance of long term savings, to the Fund for universal pension system.

b) Up to an amount equal to 10% of the increase observed in the preceding year in the balance of long term savings, to finance investment projects in science, technology and innovation, and in renewable energies.

c) Up to an amount equal to 30% of the increase observed in the preceding year in the balance of long term savings, in funding an investment vehicle specialized in oil projects, with several fields based on SENER and, as the case may be, infrastructure investments for national development.

d) Up to an amount equal to 10% of the increase observed in the preceding year in the balance of long term savings; in scholarships to train human capital in universities and postgraduate studies; in projects to improve connectivity; as well as the industry's regional development. Except for the scholarship program, no funds may be used for current expenses.

A specific rule is provided in case there is a significant reduction of public income in connection with a drop in the

GNP, a severe reduction in oil price or a drop in the oil production platform, and once resources in the Fund for Stabilization of Oil Income or its equivalent, the Lower Chamber (*Cámara de Diputados*) may approve, by vote approved by two-thirds of members present, integration of resources from public savings to the Budget of Federal Expenses, even when the balance of long-term savings is reduced below 3% of the GNP for the preceding year.

Regarding its organic structure, the Mexican Fund for Stabilization of Oil and for Development has a Technical Committee formed by three members representing the State and four independent members.

Members representing the State shall be: the heads of the SENER, of the SHCP, as well as the Governor of the Banco de México. Independent members shall be appointed by the head of the Federal Executive, with the approval of two-thirds of members present of the Senate of the Republic. The head of the SHCP shall be appointed as Chairman of the Technical Committee.

The Technical Committee of the Mexican Fund for Stabilization of Oil and for Development shall have, amongst others, the following attributions:

a) Determine the investment policy for long-term savings funds.

b) Instruct the trustee to carry on with the transfers that may be applicable to the Federal Treasury.

c) Recommend the Lower Chamber (*Cámara de Diputados*), no later than on February 28 of each year, the Assignment of the amounts corresponding to general items set forth in the above-mentioned sections a), b), c) and d).

7. Constitutional capacities of the Agencies and Bodies on energy matters

Transitory Article Tenth of the Decree for constitutional reform provides the following key capacities of the Agencies and Bodies on energy matters:

a) SENER.- Is empowered to establish, direct and coordinate energy policy, the award of Assignments and selection of areas that may be subject to the Contracts for Exploration and Extraction of Hydrocarbons; the technical design of such Contracts and technical guidelines that must be observed in the tender processes; as well as granting permits to treat and refine oil and process natural gas.

b) CNH.- Is empowered to provide technical consulting to SENER; compile geological and operative information; authorize reconnaissance and surface exploration services; carry on with the tenders, Assignment to winners and execution of Contracts for Exploration and Extraction of Hydrocarbons (upstream); management of Assignments and Contracts for technical purposes; supervising extraction plans that maximize productivity of the field in time and regulate the Exploration and Extraction of Hydrocarbons (*upstream*).

c) CRE.- Is empowered to regulate and grant permits for the storage, transport and distribution of pipes for oil, gas, oil bearing and petrochemical products; regulate access of third parties to the transportation pipes and storage of Hydrocarbons and its by-products, and regulate first-hand sales of such products.

d) SHCP.- Is empowered to establish the economic conditions of the tenders and of the Contracts for Exploration and Extraction of Hydrocarbons (*upstream*), regarding tax terms that allow the Nation to obtain, in time, income that contribute to its long-term development.

8. Others

a) Coordinated Regulatory Bodies on Energy Matters.- Paragraph Eighth of Article 28 of the CPEUM provides that the Executive Power shall have the following two coordinated regulatory bodies on energy matters: CNH and CRE.

b) State workers' labor rights.- Transitory Article Second of the Decree for constitutional reform provides that the labor rights of workers that render services in the Bodies, Agencies and Entities of the Federal Public Administration of the Hydrocarbons sector shall be observed at all times.

c) Report for accounting and financial purposes.- Transitory Article Fifth of the Decree for constitutional reform provides that EPE and private parties that have executed Contracts for Exploration and Extraction of Hydrocarbons, may report the corresponding Assignment or Contracts for accounting and financial purposes, as well as their expected benefits. Such rule is also set forth in Article 45 of the LH.

Chapter II
Income by the State from Activities of Exploration and Extraction of Hydrocarbons (*upstream*)

The State shall receive income from activities in connection with the Exploration and Extraction of Hydrocarbons, including general concepts: ***(i)*** fees and ***(ii)*** taxes, and ***(iii)*** specific: Sign-in bonus, contractual fee, Royalties, specific Considerations set forth in the Contracts, and state Dividend by PEMEX and its EPS.

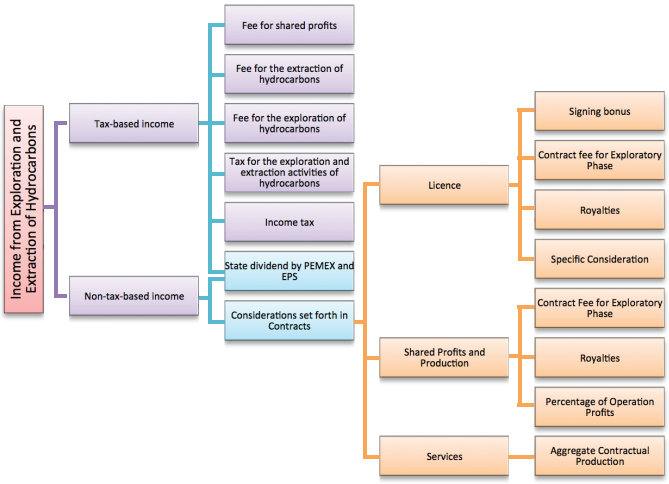
We believe a classification that provides a practical understanding of such income has been proposed by Carlos

Giuliani Fonrouge[1] within the scope of Financial Law, which classifies income in tax-based and non-tax-based, depending on the legal tax income of their origin or source.

Tax-based income are those that arise from the legal-tax relationship, that is, taxpayers' obligation to contribute part of their income, profits or yielding to be contributed towards public expense; whereas non-tax based income are those that have another origin or source, they are not generated from the above-mentioned legal-tax relationship.

The regime of tax-based and non-tax-based income for activities in connection with the Exploration and Extraction of Hydrocarbons is established mainly by the LISH, the LPEMEX, and their corresponding regulations.

1. General scheme of tax-based income and non-tax-based income from activities related with the Exploration and Extraction of Hydrocarbons



2. Tax-based Income

Contributions on energy matter arising from activities related to Exploration and Extraction of Hydrocarbons.

The following five are contributions on energy matters arising from activities related to Hydrocarbons:

a) Fee for shared profits.

b) Fee for extraction of Hydrocarbons.

c) Fee for exploration of Hydrocarbons.

d) Tax on the activities of Exploration and Extraction of Hydrocarbons.

e) Income tax for profits arising for Contractors and Assignees.

The three above-mentioned Fees (Fee for shared profits, Fee for the extraction of Hydrocarbons and Fee for exploration of Hydrocarbons), are contributions especially designed for Assignees, which are regulated in the LISH.

Let us be reminded that the only subject that can act as Assignees[2] are PEMEX or any other EPE that is holder of an Assignment and operator of an Assignment Area; understanding as Assignment the administrative act by which the Federal Executive grants the right to carry on with Exploration and Extraction activities of Hydrocarbons in the Assignment Area, exclusively to an Assignee, for a given duration.

Taxes for Exploration and Extraction activities of Hydrocarbons are a contribution set forth for Contractors and Assignees, that are also regulated in the LISH; while Income Tax caused by Contractors and Assignees for income arising in connection with their Exploration and Extraction activities shall be caused and determined pursuant to the rules set forth in the LISR, with certain specific rules for their determination set forth in the LISH.

All of the above-mentioned tax-based income, with the exception of the Income Tax, shall be received by the Mexican Fund for Stabilization of Oil and for Development and is exempt from concentration rules contained in the Law on Federal Income.

Let us be reminded that concentration rules contained mainly in Article 12 of the LIF, essentially refer that income collected by agencies of the Federal Public Administration or their de-concentrated administrative bodies for the different concepts set forth in the LIF itself, shall concentrate in the Federal Treasury on the business day following that of their reception and shall, whichever their nature, be reflected both in the records of the Treasury itself, as in the Account of the Federal Public Treasury.

2.1. Fee for shared profits

a) Subjects and Purpose.- The subjects that shall pay the Fee for shared profits are the Assignees, that is, PEMEX or any other EPE that holds an Assignment and is operator of an Assignment Area.

In case SENER authorizes migration of an Assignment to Contracts for Exploration and Extraction, PEMEX or the EPE that acted as Assignee, shall immediately forfeit its quality as subject that shall pay the Fee for shared profits, since such migration implies the extinction of the administrative act of the Assignment giving rise to the applicable legal-tax regime for Contracts for Exploration and/or Extraction.

This same scenario occurs with the rest of the contributions (tax-based income) that an Assignee has obligation to pay.

This Fee has the purpose of taxing the extraction of Hydrocarbons made by Assignees during the corresponding tax year.

[1] Giuliani, Carlos, Derecho Financiero, Ed. Fondo Editorial de Derecho y Economía, Buenos Aires, Argentina.
[2] This, consistent with the Administrative Law principle under which entities of public order may hold Assignments inasmuch as private entities of concessions.

b) Grounds.- The grounds for this Fee is the (positive) difference between the value of Hydrocarbons extracted in the corresponding year (including their consumption by the Assignee, as well as any waste for spillages or burn of said products) and permitted deductions.

- Deductible items:

Article 40 of the LISH provides the Fee for extraction of Hydrocarbons actually paid, costs and expenses, the original amount of certain investments as items subject to being deducted from the value of Hydrocarbons extracted in the term, with the following relevant provisions:

(i) Extraction fee for Hydrocarbons actually paid during the corresponding term.

(ii) Costs and expenses.

For the purpose of determining the grounds for this Fee, costs and expenses are the disbursements required for the extraction from the Oil or Natural Gas fields determined in accordance with the Mexican Financial Information Provisions, in the understanding that the only costs and expenses that can be deducted are those of the Exploitation, transportation and delivery of Hydrocarbons.

An exception is set forth for those investments which original amount is also subject to being deducted, which are not considered costs and expenses; this is consistent and avoids duplicity in the deduction.

The rule regarding the time of deduction of costs and expenses is the same set forth for Income Tax purposes, in which these items shall be deducted when they have been effectively paid in the term for which payment is made.

Assignees have a formal obligation to keep record of Exploration and Extraction costs and expenses for each Hydrocarbon's Extraction field, as well as the specific types of Hydrocarbons obtained, which shall be sent regularly to the Lower Chamber (Cámara de Diputados) and the Tax Administration Service (SAT, for its initials in Spanish, Servicio de Administración Tributaria). Such record shall be integrated in accordance with the general rules that are issued for such purpose.

Rule 10.3 of the Miscellaneous Tax Resolution 2015 (RMF 2015, for its initials in Spanish, Resolución Miscelánea Fiscal) provides that Assignees shall submit to SAT information included in the cost and expenses record of exploration and extraction of each Hydrocarbons' extraction field, as well as the type of Hydrocarbons obtained, no later than on February 15 of each year.

(iii) Original investment amount.

The original amount of the following investments may be deducted:

- 100% of the original investments made in connection with the Exploration, secondary recovery and non-capitalized maintenance, in the year in which they are made.
- 25% of the original amount of investments made in connection with the development and extraction of Oil or Natural gas fields, in each year.
- 10% of the original amount of investments made in Storage and transportation infrastructure essential to carry on with the activities under the Assignment, such as oil pipes, gas pipes, terminals or Storage tanks, in each year.

The LISH provides that the original amounts of investments mentioned in items "b" and "c" shall be adjusted pursuant to the ad hoc provisions of the Income Tax, which implies that Assignees must update such original amounts in accordance with the rules set forth for such purpose in Article 31 of the LISR.

Unlike the rule for determining the original amount of investment set forth in the LISR, which provides several items that compose such original amount of investment, the LISH only provides two items to conform said amount: the price of the corresponding investment; and foreign trade duties actually paid in connection with such investments.

It is questionable that the LISH limits or shortens the determination of the original amount of such investments so drastically, because such restrictions imply a determination of a concept that does not match with the economic reality to obtain them.

We want to note that the fact of considering only foreign trade duties actually paid in connection with such investments constituting objects of deduction, as part of the original amount of investment, excludes the possibility of considering DTA as part of such original amount, because their nature is different to that of taxes.

Regarding the moment in which the Assignee can begin to deduct the above-mentioned original amount of investments, the LISH provides a rule that differs from the one set forth in the LISR. Actually, while the latter provides that the taxpayer can begin to deduct investments from the year in which the authorization for the asset begins, or from the following year; the LISH provides that the Assignee may begin to deduct from the moment in which the disbursement is made to acquire the investments, or from their use; we find this rule to be logical and fair, by acknowledging that the right to begin deducting such items is from the moment in which the taxpayer made the disbursement for their acquisition, said rule conforms to the Assignee's economic reality.

Article 41 of the LISH provides the following limitations to deduction of the above-mentioned costs, expenses and investments, in the sense that only the following amounts may be deducted:

(i) 12.500% of the annual value of Hydrocarbons other than Non-Associated Natural gas and their Condensates, extracted in land areas.

(ii) 12.500% of the annual value of Hydrocarbons other than Non-Associated Natural gas and their Condensates, extracted in sea areas with depth below five hundred meters.

Transitory Article Second, paragraph VII of the LISH, provides the following specific percentages, which differ from those set forth in items "1" and "2" above, which shall be applicable during the years 2015 to 2018:

Tax Year	Percentage
2015	10.600%
2016	11.075%
2017	11.550%
2018	12.025%

(iii) 80% of the annual value of Non-Associated Natural gas including, as the case may be, annual value of Condensates extracted from Non-Associated Natural gas fields.

(iv) 60% of the annual value of Hydrocarbons other than Non-Associated Natural gas and their Condensates, extracted in sea areas with depth above five hundred meters.

(v) 60% of the annual value of Hydrocarbons other than Non-Associated Natural gas and their Condensates, extracted in the Chicontepec Paleo-Channel.

- <u>Non-Deductible items:</u>

Articles 41 and 43 of the LISH provide the following non-deductible items from the value of Hydrocarbons extracted in the term:

(i) Interests of any kind payable by the Assignee, the exploration reserve, sales expenses, pension payments that are made against the labor reserve and any other expense, cost or investment related to the Contracts.

(ii) The following costs and expenses:

- Financial costs.
- Any costs incurred in connection with the negligence or willful misconduct of the Assignee or anyone acting on its behalf.
- Costs and expenses related to rights-of-way, rights-of-pass, temporary or permanent occupations, leases or the acquisition of land, indemnifications and any other analogous figure that derives from the provisions set forth in Article 27 and in Chapter IV of Title IV of the LH.
- Commissions paid to agents.
- Costs related with the marketing or transport of Oil or Natural gas beyond the delivery points.
- Economic fines or sanctions incurred in connection with the infringement of legal or contractual obligations or undertakings.
- Expenses related to using an independent expert in order to solve any disputes.
- Donations.
- Costs incurred in legal and consulting services, except for those set forth in the general provisions issued by the SHCP.
- Expenses in connection with the infringement of applicable provisions on risk management.
- Expenses regarding training or training program that do not comply with the general provisions issued for such purpose by the SHCP.
- Expenses arising from the infringement of any conditions for security, as well as those resulting from the acquisition of assets that do not have manufacturer's guarantee or its representative against any manufacturing defects, in accordance with practices generally used by the oil industry.
- Reductions in the value of assets not used in the oil industry.
- Taxes associated with the Assignee's workers.
- Amounts recorded as provisions and fund reserves, except those set forth in the general provisions issued for such purpose by the SHCP.
- Credits in favor of the Assignee which debtors are in proceedings for suspension of payments, until

conclusion of the corresponding trials in which debtors are declared bankrupt.

- Payments made as Considerations, as well as any expenses, costs or investments corresponding to Contracts.
- Legal costs for any arbitration generated by a dispute between the Assignee, and its Contractors or Sub-Contractors.
- Costs, expenses and investments above benchmarks or reasonable market prices, in accordance with the provisions set forth in the rules and basis for recording costs, expenses and investments set forth by the SHCP.
- Those that are not strictly indispensable for the activities that the Assignee is obliged to pay in connection with this Fee.

c) Rate and Time of Payment.- Assignees shall apply a rate of 65% to the basis determined pursuant to the above-mentioned procedure.

Transitory Article Second, paragraph VIII of the LISH, provides the following specific rates that shall be applicable to the years from 2015 to 2018:

Tax Year	Rate
2015	70.00%
2016	68.75%
2017	67.50%
2018	66.25%

The Fee for shared profit is a fee of annual nature, that is paid in the same terms as the Income Tax, that is, by filing a return before authorized offices no later than on the last business day of the month of March of the year following that for which payment is made.

There are monthly provisory payments of such Fee, which may be credited against determination of the annual payment.

Provisory payments must be paid no later than on the last business day of the month following that for which provisory payments are made, applying the rate of 65% to the value of Hydrocarbons extracted in the term comprised from the beginning of the year and until the last day of the month for which payment is made, reducing the value of the following items:

(i) The Fee for exploration of Hydrocarbons and the Fee for the extraction of Hydrocarbons actually paid.

(ii) Costs, expenses and the proportional part of investments corresponding to the same period, which do not exceed maximum amounts in the following terms:

- 12.500% of the value of Hydrocarbons other than the Non-Associated Natural gas and their Condensates, extracted in the term comprised from the beginning of the year and until the last day of the month for which payment is made, in land areas.
- 12.500% of the value of Hydrocarbons other than Non-Associated Natural gas and their Condensates, extracted in the term comprised from the beginning of the year and until the last day of the month for which payment is made, extracted in sea areas with depth below five hundred meters.
- 80% of the value of Non-Associated Natural gas including, as the case may be, the annual value of Condensed extracted, in the term comprised from the beginning of the year and until the last day of the month for which payment is made, in Non-Associated Natural gas fields.
- 60% of the value of Hydrocarbons other than Non-Associated Natural gas and their Condensates, extracted in the term comprised from the beginning of the year and until the last day of the month for which payment is made, extracted in sea areas with depth above five hundred meters.
- 60% of the value of Hydrocarbons other than Non-Associated Natural gas and their Condensates, extracted in the term comprised from the beginning of the year and until the last day of the month for which payment is made, in the Chicontepec Paleo-Channel.

Any provisory payments of this same Fee paid in the previous months of this same year must be deducted from provisory payment; the difference being the amount resulting of the monthly provisory payment payable by the Assignee.

Let us be reminded that Article 7, paragraph I, of the LIF, provides a specific regime for payments on account of the monthly provisory payments of this Fee, which was dealt with in connection with PEMEX' tax regime.

Article 42 of the LISH provides that in case the tax return for provisory payment or annual return shows a favorable balance, this may be settled against future payments of this same Fee.

This rule may be construed as an exception to the universal settlement principle set forth in Article 23 of the CFF, which provides that taxpayers may settle amounts in their

favor against those it has the obligation to pay on its own behalf or those withheld from third parties, provided both derive from federal taxes other than those caused in connection with imports, are managed by the same authorities and do not have a specific purpose.

In spite of that, we believe said rule must be understood in a facultative sense, that is, that such provision creates a right in favor of Assignees to be able to settle such balances in their favor; but this must not be construed in a restrictive manner, in the sense of preventing the Assignee from requesting the return of such favorable balance pursuant to the terms set forth for such purpose in the CFF.

2.2. Fee for extraction of Hydrocarbons

a) Subjects and Purpose.- The subjects that shall pay this Fee are the Assignees, that is, PEMEX or any other EPE that holds an Assignment and is operator of an Assignment Area.

This Fee has the purpose of taxing the extraction of Hydrocarbons made by the Assignee during the corresponding month.

The purpose of this Fee coincides with that of the Fee for shared profits, which could imply an apparent problem of double taxation; however, the Fee for extraction of Hydrocarbons is a diminishable item to determine provisory payments of the Fee for shared profits and is also a deductible item for the annual determination of this Fee.

b) Grounds, Rate and Time of payment.- The grounds is the value of extracted Hydrocarbons, without allowing any deduction to be made; while rates depend on the nature of Hydrocarbons extracted, whether Oil, Natural gas, Non-Associated Natural gas or Condensates, in accordance with the following:

- The following rate shall be applied to the value of Oil:

Whenever the Oil price is below 48 Dollars of the United States of America per Barrel, of 7.5%.

- Whenever the Oil price is higher than or equal to 48 Dollars of the United States of America per Barrel:

$$\text{Rate} = [\ (0.125 \times \text{Oil price}) + 1.5\ ]\ \%$$

- The following rate shall be applied to the value of Natural gas:

- In the case of Associated Natural gas:

$$\text{Rate} = \frac{\text{Price of Natural gas}}{100}$$

- In the case of Non-Associated Natural gas:

  - Whenever the price of Natural gas is below or equal to 5 Dollars of the United States of America per million BTU, of 0%.

  - Whenever the price of Natural gas is above 5 but less than 5.5 Dollars of the United States of America per million BTU:

$$\text{Rate} = \frac{[(\text{Price of Natural gas} - 5) \times 60.5]}{\text{Price of Natural gas}}\ \%$$

  - Whenever the price of Natural gas is above or equal to 5.5 Dollars of the United States of America per million BTU:

$$\text{Rate} = \frac{\text{Price of Natural gas}}{100}$$

- The following rate shall be applied to the value of Condensates:

  - Whenever the price of Condensates is below 60 Dollars of the United States of America per Barrel, of 5%.

  - Whenever the price of Condensates is above or equal to 60 Dollars of the United States of America per Barrel:

$$\text{Rate} = [\ (0.125 \times \text{Price of Condensates}) - 2.5\ ]\ \%$$

To determine the different above-mentioned rates, Assignees shall consider the effects of variations in the Product Price Index of the United States of America or whichever replaces it.

This Fee is of monthly nature. Article 52 of the LISH provides that Assignees shall pay this fee by an electronic transfer to the Mexican Oil Fund for Stabilization and Development. Receipts of payment issued by the Mexican Oil Fund for Stabilization and Development must be attached to the returns for payment of fees that are filed through electronic mechanisms established for this purpose by the SAT.

Rule 10.5 of the RMF 2015 provides that payment return for this fee shall be submitted no later than on the 17th calendar day of the month immediately following that for which payment is made.

2.3. Fee for exploration of Hydrocarbons

a) Subjects and Purpose.- Subjects that shall pay this Fee are the Assignees, that is, PEMEX or any other EPE that holds an Assignment and is operator of an Assignment Area.

This Fee has the purpose of taxing exploration of Hydrocarbons in the part of the Assignment Area that is not in a production phase.

b) Grounds, Rates and Time of payment.- The grounds for this Fee has a temporary nature, inasmuch the applicable fee will depend on the number of months of the term of the Assignment, as described below:

During the first 60 months of the term of the Assignment	$1,150 per km^2
After 61st month of the term of the Assignment and thereafter	$2,750 per km^2

The above-mentioned fees shall be updated in the month of January of each year, in accordance with variations to the National Consumer's Price Index for the immediately preceding year.

Rule 10.7 of the RMF 2015 provides that when this fee should be determined by a fraction of a month, the fee corresponding to such fraction shall be calculated dividing the amount of the fee by 30; the result obtained shall be multiplied by the number of days of the term of the Assignment, and the amount obtained shall be the fee payable for such fraction of the month.

This Fee is of monthly nature. Article 52 of the LISH provides that Assignees shall pay this fee by electronic transfer to the Mexican Oil Fund for Stabilization and Development. Receipts of payment issued by the Mexican Oil Fund for Stabilization and Development must be attached to the returns for payment of fees that are filed through the electronic mechanisms established for this purpose by the SAT.

Rule 10.6 of the RMF 2015, provides that payment return for this fee shall be submitted no later than on the 17th calendar day of the month immediately following that for which payment is made.

2.4. Tax for Exploration and Extraction activities of Hydrocarbons

a) Subjects and Purpose.- There are 2 kinds of taxpayers. In first place, Contractors, understanding as such PEMEX or any other EPE or legal entity executing a Contract for Exploration and Extraction with the CNH; let us be reminded that such execution may be made on an individual basis, in consortium or joint venture. In second place, Assignees are subjects of this tax.

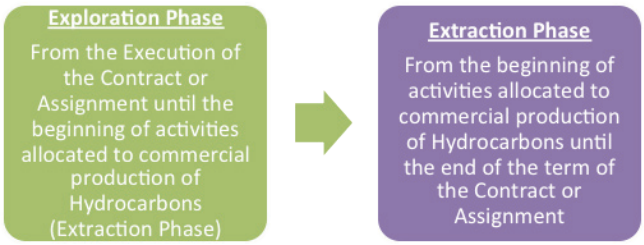
This Tax has the purpose of taxing Exploration and Extraction of Hydrocarbons, based on the Contractual Area or the Assignment Area, defined in the Contract or Assignment, as the case may be.

Even though this contribution is named as "tax" ("impuesto"), we believe it has the nature of a "fee" ("derecho"), which has implications on its legal interpretation but specifically, constitutional, of several sorts.

b) Grounds, Rates and Time of payment.- The grounds for this Tax are determined by the number of square kilometers that constitute the Contractual Area or the Assignment Area, as the case may be; for which the following fees shall be applied:

During the exploration phase	$1,500 per km^2
During the extraction phase	$6,000 per km^2

Only for purposes of the Tax for Exploration and Extraction activities of Hydrocarbons, Exploration Phase comprises from the execution of the Contract or the Assignment until the beginning of the Extraction Phase (next phase in the process), which comprises from the beginning of activities allocated to commercial production of Hydrocarbons until the end of the term of the Contract or the Assignment.



In those cases in which the Contractual Area or the Assignment Area is conformed by fractions of square kilometers, such areas shall be regarded up to the hundredth, for purposes of determining this Tax.

Article 55 of the LISH provides that this Tax shall not be caused on Exploration and Extraction activities of Hydrocarbons in cases the taxpayer (Contractor or Assignee) is prevented from carrying on with the Exploration and Extraction activities. For such purpose, the taxpayer shall justify the existence of causes not attributable to it that prevent it from carrying on with such activities.

Said Article also contains an enabling clause in order to enable the SAT to regulate the exemption from said contribution on an administrative level, in case such scenario takes place.

We consider the wording of such Article to be conflicting, because in spite of the fact that it initially provides that the Tax is not caused in case such scenario occurs, thereafter it provides an enabling clause, enabling the SAT to regulate the exemption of such tax on an administrative level, that is, the LISH at the same times classifies the same factual occurrence as non-causing for the Tax, and an exemption thereof.

In our opinion, such hypothesis must be classified as a Tax exemption granted on Exploration and Extraction activities of Hydrocarbons, considering that such tax is caused by the mere fact of being a Contractor or Assignee, over grounds determined based on the Contractual or Assignment Area considering the phase in which the corresponding project is; that, regardless of the fact that those subject to its payment carry on (or not) with Exploration and Extraction activities of Hydrocarbons. Based on the above, in case the Contractor or the Assignee is prevented from developing Exploration and Extraction activities for justifiable causes, it shall be understood that the Tax is actually caused, because the generating fact takes place, but its payment may not be enforced by the State, because of the existence of a cause that so justifies.

This is of monthly nature, and the taxpayer shall determine it by month or fraction thereof, and must pay it no later than on the 17th day of the month immediately following that for which payment is made.
Rule 10.9 of the RMF 2015 provides that when this fee should be determined by a fraction of a month, the fee

corresponding to such fraction shall be calculated dividing the amount of the fee by 30; the result obtained shall be multiplied by the number of days of the term of the Assignment, and the amount obtained shall be the fee payable for such fraction of the month.

c) Specific allocation of funds obtained / Tax coordination.- Pursuant to the provisions set forth in Article 2 of the Tax Coordination Law, the collection by the Federation of any federal collections from all its taxes, as well as any mining fees, minus the aggregate of returns for such contributions, is subject to distribution.

Article 57 of the LISH provides that any funds obtained from collecting the Tax on Exploration and Extraction activities of Hydrocarbons shall not be included in the federal collections subject to distribution. The restriction to consider this Tax as part of the federal collections subject to distribution is also set forth in paragraph X of Article 2 of the Tax Coordination Law.

Collections in connection with this tax shall be contributed to the Mexican Fund for Federal Entities and Municipalities that Produce Hydrocarbons (Fondo Mexicano para Entidades Federativas y Municipios Productores de Hidrocarburos); and shall be distributed in accordance with the criteria set forth for this purpose in Article 57 of the LISH:

(i) In case Contractual Areas or Assignment Areas are located in land regions, 100% of the resources collected shall be allocated to the federal entity where such areas are located. Federal entities must distribute at least 20% of those funds to municipalities where the Contractual Areas or Assignment Areas are located, considering their extension regarding the aggregate of the corresponding federal entity.

(ii) In case Contractual Areas or Assignment Areas are located in sea regions, 100% of the resources collected shall be allocated to the federal entity in which territory such areas are located. Federal entities must distribute at least 20% of those funds to municipalities that register damages to the social and ecological environment derived from Exploration and Extraction activities of Hydrocarbons.

(iii) Distribution of funds between federal entities and municipalities shall be determined based on the aggregate amount collected and the procedure set forth in the operation rules set established for such purpose by the SHCP.

(iv) All the resources must be allocated to infrastructure investment to remedy, amongst others, damages to the social and ecological environment. Federal entities and municipalities may allocate up to 3% of the funds to carry on with studies and project assessment that comply with the specific purposes of the Mexican Fund for Federal Entities and Municipalities that Produce Hydrocarbons.

Federal entities may only be entitled to receive the funds from the Tax on Exploration and Extraction activities of Hydrocarbons if they refrain from establishing any local or municipal taxes on the production, preservation, or restoration of the ecological balance and environmental protection and control, that impose taxes on Exploration and Extraction activities of Hydrocarbons, or the benefits or considerations under any Contracts or Assignments.

The wording of local or municipal taxes which federal entities must refrain from establishing to be entitled to receive funds collected from the Tax on Exploration and Extraction activities of Hydrocarbons is somehow limited, because it leaves an open door for federal entities to establish contributions that tax the benefitting or exploitation of Hydrocarbons themselves.

In case federal entities establish any contributions that tax the benefit or exploitation of Hydrocarbons themselves, said contributions would be anti-Constitutional, due to the fact that pursuant to the provisions of number 2nd of paragraph XXIX of Article 73 of the CPEUM, only the Federation is enabled to establish contributions on the benefit and exploitation of natural resources set forth in Article 27 of the CPEUM (which includes Hydrocarbons), and state legislative powers are not entitled to establish any such contributions.

2.5. Income Tax payable by Contractors and Assignees

Contractors and Assignees must pay the corresponding Income Tax for income received for activities carried on in connection with Exploration and Extraction of Hydrocarbons.

Income Tax caused in connection with such activities shall be determined pursuant to the general rules set forth in the LISR for such purpose, considering any specific rules set forth in the LISH, which shall be commented in the section on tax implications of the Income Tax.

Income Tax in connection with Exploration and Extraction activities of Hydrocarbons is, therefore, an income of tax nature in favor of the Mexican State.

Article 2, paragraph I of the Tax Coordination Law provides that Income Tax from Contracts and Assignments for Exploration and Extraction of Hydrocarbons does not constitute part of the federal collection subject to distribution and is, therefore, not a part of the General Distribution Fund (Fondo General de Participaciones).

3. Non-Tax-Based Income

State Dividend and Considerations set forth in Contracts for Exploration and Extraction.

3.1. State dividend payable by Petróleos Mexicanos and its Subsidiary Productive Companies

Article 97 of the LPEMEX provides that PEMEX and its EPS shall provide a state dividend to the Federal Government on an annual basis. Said dividend shall be determined by

the SHCP based on the following rules:

a) In the month of July each year, the Board of Directors of Petróleos Mexicanos shall send a report to the SHCP regarding: (i) PEMEX' and its EPS' financial situation; (ii) Any investment and financing plans, options and perspectives for the immediately following year and five years thereafter, together with an analysis of the profitability of such investments, and projections for the corresponding financial statements.

   PEMEX shall publish the above-mentioned report through electronic means.

b) Based on the information above, the SHCP, upon prior favorable opinion of the Executive Committee of the Mexican Oil Fund for Stabilization and Development, shall determine the proposed amount that PEMEX and its EPS shall deliver to the Federal Government as state dividend.

   Actually, Article 54 of the Regulations of the LPEMEX[3] provides that in order to comply with the above, the SHCP shall provide the Executive Committee of the Mexican Oil Fund for Stabilization and Development with its dividend proposal payable by PEMEX and each one of its EPS, no later than on August 15th of each year.

   The Executive Committee of the Mexican Oil Fund for Stabilization and Development shall issue its opinion within ten calendar days following receipt of such proposal, which shall otherwise be deemed accepted.

c) The state dividend shall be included in the bill of the LIF for the corresponding tax year, to be approved by the Union congress, which may only be reviewed by reducing.

d) PEMEX and its EPS shall pay the state dividend approved by the LIF to the Federal Treasury, in the form and terms set forth by the SHCP.

The remaining amount that is not delivered as state dividend shall be reinvested according to decisions taken by PEMEX' Board of Directors, and PEMEX has the obligation to publish resolutions adopted by the Board through electronic means.

We believe that while the Board's empowerment is wide, it is limited to reinvesting of the resulting balance, so that the Board would not be empowered to allocate such amount to any purpose other than reinvestment.

3.2. Considerations set forth in Contracts for Exploration and Extraction of Hydrocarbons

The following are Contracts for Exploration and Extraction of Hydrocarbons:

a) License Contracts.

b) Contracts of Shared Profits and Contracts of Shared Production.

c) Service Agreements.

The LISH provides several kinds of considerations in favor of the State under the above-mentioned Contracts, which have the legal nature of non-tax-based income.

3.2.1. Considerations under License Contracts

Considerations in favor of the State under License Contracts are the following four: (i) Sign-in bonus; (ii) Contract Fee for Exploratory Phase; (iii) Royalties; and, (iv) Specific considerations.

Article 9 of the LISH provides that in those cases in which an Assignment is migrated to a License Contract, the SHCP shall determine the economic terms (non-tax-based income) of such contract, ensuring that income received by the State in time is not below that which would have been obtained under the original Assignment.

Although not the purpose of this Chapter, let us not forget mentioning that the consideration in favor of Contractor under the License Contract is the transfer for money of Hydrocarbons once they have been extracted from the subsoil.

a) Sign-in bonus.- The sign-in bonus shall be determined by the SHCP. The amount and its payment conditions must be included in the basis for the tender for its award or in the Contracts resulting from the migration of an Assignment.

The Contractor shall pay the sign-in bonus to the Mexican State in cash through the Mexican Oil Fund for Stabilization and Development.

b) Contract Fee for Exploratory Phase.- License Contracts shall set forth a Contract Fee for Exploratory Phase which shall be paid on a monthly basis to the State based on the Contractual Area that is not in production phase, pursuant to the following fees set forth in Article 23 of the LISH:

During the first 60 months of effectiveness of the Contract	$1,150 per km^2
From the 61st month of effectiveness of the Contract and thereafter	$2,750 per km^2

The Contract Fee for Exploratory Phase shall be paid in cash by the Contractor to the Mexican State, in each term as set forth in the Contract; this term shall be per month in

[3] Transitory Article First of the Regulations of the LPEMEX provides that Article 54 of such provisions shall be effective as of January 1st, 2016.

accordance with the provisions set forth in Article 23 of the LISH.

c) Royalties.- Royalties are considerations in favor of the Mexican State, determined based on the Contractual Value of Natural gas, the Contractual Value of Condensates or the Contractual Value of Oil.

Article 24 of the LISH provides the following rules to determine the Royalties based on the respective type of Hydrocarbon:

- The following rate shall be applied to the Contractual Value of Oil:

  - Whenever the Contractual Price of Oil is below 48 Dollars of the United States of America per Barrel, of 7.5%.

  - Whenever the Contractual Price of Oil is above or equal to 48 Dollars of the United States of America per Barrel:

Rate =[(0.125 x Contractual Price of Oil) + 1.5]%

- The following rate shall be applied to the Contractual Value of Natural gas:

  - In the case of Associated Natural gas:

$$\text{Rate} = \frac{\text{Contractual price of Natural gas}}{100}$$

  - In the case of Non-Associated Natural gas:

    - Whenever the Contractual Price of Natural gas is below or equal to 5 Dollars of the United States of America per million BTU, of 0%.

    - Whenever the Contractual Price of Natural gas is above 5 and below 5.5 Dollars of the United States of America per million BTU:

$$\text{Rate} = \frac{[(\text{Contractual Price of Natural gas} - 5) \times 60.5]\%}{\text{Contractual Price of Natural gas}}$$

    - Whenever the Contractual Price of Natural gas is above or equal to 5.5 Dollars of the United States of America per million BTU:

$$\text{Rate} = \frac{\text{Contractual Price of Natural gas}}{100}$$

- The following rate shall be applied to the Contractual Value of Condensates:

  - Whenever the Contractual Price of Condensates is below 60 Dollars of the United States of America per Barrel, of 5%.

  - Whenever the Contractual Price of Condensates is above or equal to 60 Dollars of the United States of America per Barrel:

Rate =[(0.125 x Contractual Price of Condensates) – 2.5] %

The Contractor shall pay Royalties in cash to the Mexican State, for each term as set forth in the Contract.

d) Specific considerations.- Specific considerations shall be determined in the Contracts by applying a rate to the Contractual Value of Hydrocarbons. Let us be reminded that such contractual value is the result of the following:

(+)	Contractual Value of Oil	Result of multiplying the Contractual Price of Oil[4] by the volume of Oil in Barrels at the Point of Measurement [5] of the Contractual Area.
	Contractual Value of Natural gas	Result of multiplying the Contractual Price of Natural gas[6] by the volume, in million BTU [7] of Natural gas, at the Point of Measurement of the Contractual Area.
	Contractual Value of Condensates	Result of multiplying the Contractual Price of Condensates [8] by the volume of condensates in Barrels, at the Point of Measurement of the Contractual Area.
Contractual Value of Hydrocarbons		

The rate applicable to the contractual value of Hydrocarbons shall be modified through the Adjustment Mechanism to be included in the Contract and in the tender basis for their award, or in the Contracts that are result of a Migration.

[4] Contractual Price of Oil: the Price of Oil produced in the Contractual Area, in Dollars of the United States of America per Barrel, determined for each Term at the Point of Measurement, in accordance with the provisions set forth in Article 25 of the LISH, pursuant to the mechanism set forth in each Contract.

[5] Point of Measurement: point determined in accordance with the provisions set forth in each Contract, in which the following shall take place: (i) Measurement of each kind of Hydrocarbon extracted under the Contract, pursuant to the provisions issued for this purpose by the CNH; and, (ii) Determination of contractual prices for each kind of Hydrocarbon, in accordance with the provisions set forth in Article 25 of the LISH.

[6] Contractual Price of Natural gas: the Price of Natural gas produced in the Contractual Area, in Dollars of the United States of America per million BTU, that is determined for each Period in the Point of Measurement, in accordance with the provisions set forth in Article 25 of the LISH, pursuant to the mechanism set forth in each Contract.

[7] BTU: British thermal unit, representing the amount of energy required to raise temperature of a pound of water (0.4535 kilograms) one degree Fahrenheit (0.5556 degrees Centigrade), in normal atmospheric conditions.

[8] Contractual Price of Condensates: the Price of Condensates produced in the Contractual Area, in Dollars of the United States of America per Barrel, that is determined for each Period in the Point of Measurement, in accordance with the provisions set forth in Article 25 of the LISH, pursuant to the mechanism set forth in each Contract.

The above-mentioned Adjustment Mechanism is nothing but a formula set forth by the SHCP in each Contract, from Contractor's profitability for each Period that increases Considerations in favor of the State, by amending some of the parameters that determine Considerations under the Contract.

Such mechanism has the main purpose of enabling the State to share in the extraordinary profitability generated under the Contract.

The Contractor shall pay this specific consideration in cash to the Mexican State, for each term as set forth in the Contract.

3.2.2. Considerations under Contracts of Shared Profits and Contracts of Shared Production

The following three are the State's non-tax based coming from the Contracts of Shared Profits and Contracts of Shared Production:

a) Contract Fee for Exploratory Phase.

b) Royalties.

c) A Consideration to be determined as a percentage of the Operating Profit.

The Contract Fee for Exploratory Phase and Royalties received by the State for activities under the Contracts of Shared Profits and Contracts of Shared Production, have the same characteristics as explained for License Contracts.

The Operating Profit ratio that shall be paid as consideration to the State shall be determined and modified by an Adjustment Mechanism which shall be included in the basis for the tender to award the Contract or in the Contracts that result from a migration.

Pursuant to the provisions set forth in Article 17 of the LISH, Operating Profit shall be determined for each period and shall be the result of reducing the following concepts form the Contractual Value of Hydrocarbons:

a) The amount of Royalties actually paid by the Contractor in the corresponding Period.

b) The corresponding Consideration to recovery of costs (this item in particular shall be dealt with further in the section corresponding to implications on income tax).

Operating Profit is the result of subtracting from the Contractual Value of Hydrocarbons the different items specified for each type of Contract, so that in the case of Contracts of Shared Profits and Contracts of Shared Production, the Operating Profit shall be the result of subtracting from the Contractual Value of Hydrocarbons the amount of Royalties, as well as the Consideration corresponding to cost recovery.

Article 14 of the LISH sets forth the obligation by the SHCP to determine the economic terms (non-tax based income) of the Contracts of Shared Profits or Contracts of Shared Production that have been the result of a migration, ensuring that income received by the State in time is not below that which would have been obtained under the original Assignment.

3.2.3. Considerations under Service Contracts

Consideration in Service Contracts is all of the Contractual Production to the State, understanding as such any Hydrocarbons extracted from the Contractual Area, measured in accordance with provisions issued by the CNH in the Point of Measurement.

The Contract Fee for Exploratory Phase or payment of Royalties are not applicable to Service Contracts, and the only direct income received by the State under a Service Agreement is the above-mentioned payment in kind.

Consideration in favor of Contractors shall always be in cash and be determined contractually considering the energy industry's standards or uses. The Mexican Oil Fund for Stabilization and Development shall pay this consideration with funds received in connection with the trade of the Contractual production under a Service Agreement.

Chapter III
PEMEX' Tax Regime

We have said that as a result of the Energy Reform, PEMEX changed its legal nature from a decentralized state-owned company (organismo descentralizado) to an EPE. Pursuant to the provisions set forth in Article 2 of the LPEMEX, said company is the exclusive property of the Federal Government, with its own legal capacity and own assets and estate, and has technical, operative and managerial autonomy.

PEMEX will have EPS and affiliate companies. EPS are State-owned productive companies, with their own legal capacity and own assets and estate; while affiliated companies are those in which PEMEX participates, directly or indirectly, in more than 50% of their stock capital, regardless of whether they are incorporated in accordance to Mexican or foreign laws; these affiliate companies shall not be State-owned entities and shall have the legal nature and be organized according to the private laws of the place of their incorporation or creation.

1. General considerations of the tax regime

Before the Energy Reform, PEMEX and its subsidiary companies had a special tax regime, set forth mainly in the LIF. Currently, PEMEX and its EPS shall pay taxes pursuant to the general rules applicable to commercial legal entities, with the exception of specific rules, which shall be analyzed in this work.

PEMEX' affiliate companies shall also pay taxes according to the general rules applicable to commercial legal entities; however, since such companies are of private entities, they are not subject to tax rules (unlike PEMEX and its EPS).

2. Tax effects of the first corporate restructure

Transitory Article Eighth, section A, paragraph V of the LPEMEX provides that the transfer of assets, rights and obligations arising from PEMEX' first corporate restructure shall not be regarded as a sale for tax purposes. Additionally, said transfer and the other transactions that derive directly from the corporate restructuring are not subject to any federal tax.

Said rule follows a language similar to that of Article 14-B of the CFF, and it must thus be construed in the sense that the transfer of assets, rights and obligations that takes places as a result of the first corporate restructure shall have no tax consequences whatsoever, even if a sale takes place for other legal purposes.

We also consider that such rule provides that any civil, corporate and commercial acts in general, present and future, shall have no effect for tax purposes when they are required to implement (for one first occasion) the corporate chart approved by PEMEX' Board of Directors.

There is doubt regarding whether PEMEX' affiliate companies are also subject to the rule of no tax effects from the first corporate restructure. In our opinion, said rule should be applicable to affiliate companies since, in first place, pursuant to the interpretation principle set forth in Article 3 of the LPEMEX, the interpretation that best privileges the best achievement of PEMEX' purpose and objectives must be preferred, so that it can compete effectively in the energy industry; this occurs by granting such preferential treatment to affiliate companies.

In second place, we support the above with a systematic interpretation of the provisions of Transitory Article Ninth of the Regulations of the LPEMEX, which is noted below and makes express reference to certain tax effects in the affiliate companies arising from the first corporate restructure.

Actually, such Transitory provision sets forth that EPS and PEMEX' affiliate companies shall consider the market value of the assets, rights, obligations and undertakings at the time in which the transfer made in connection with the first corporate restructure, for all tax effects that may arise after such transfer.

Such article also empowers the Board of Directors to establish, upon prior opinion from the Special Committee, the methodologies to determine the market value of assets, rights and obligations and undertakings that are transferred in the above-mentioned terms.

3. Workers' Share in the Profits of the Company

Article 118 of the LPEMEX provides that profits obtained by PEMEX and its EPS have the purpose of increasing the Nation's income to be allocated to financing public expense, and that such profits shall not be distributed to their workers; the above, notwithstanding the fact that pursuant to labor law, they can grant any kind of incentive, benefit, bonus, gratuity or commission to their workers for executing their work.

Said article reflects what the Federal Judicial Power has previously resolved, in the sense that PEMEX has no obligations to pay workers' share in the profits of the company (PTU, for its initials in Spanish, Participación de los Trabajadores en las Utilidades) to its workers or employees.

It is important to distinguish that workers of PEMEX' affiliate companies will be entitled to receiving PTU, inasmuch said affiliate companies belong to the realm of private law; Notwithstanding the above, workers or employees of such companies may freely waive the benefit to such share in the profits.

4. Specific rules set forth in the LIF 2015

4.1. Payment on account of provisory payments of the Fee for shared profits

Article 7, paragraph I of the LIF 2015, provides that PEMEX, by itself and on behalf of its EPS that are considered Assignees, shall make a monthly payment on account of monthly provisory payments of the Fee for shared profits, PEMEX, in accordance to the following chart:

Month	**Payment** (Million pesos)
January	34,323
February	32,580
March	38,401
April	33,742
May	34,323
June	37,820
July	34,323
August	38,401
September	33,742
October	34,323
November	37,820
December	34,323

These monthly payments shall be made no later than on the 19th day of each month; in case such day is not a business day, payments shall be made on the following business day, and must be paid to the Mexican Oil Fund for Stabilization and Development.

Such monthly payments shall be transferred and concentrated in the Federal Treasury by the Mexican Oil Fund for Stabilization and Development, no later than on the next day following their receipt.

Rule 10.4 of the RMF 2015 provides the following specific rules applicable to the provisory payment of this fee:

a) Assignees shall not file returns for the monthly advance payments made in accordance with the provisions set forth in Article 7, paragraph I of the LIF.

b) Against provisory monthly payments set forth in Article 42 of the LISH, they can subtract monthly advance payments set forth in Article 7, paragraph I of the LIF, effectively paid in the preceding months for the corresponding tax year.

4.2. Exemption of special tax on products and services

Paragraph II of Article 7 of the LIF 2015, provides that whenever in a place or region of the country there are surcharges to the prices of gasoline or diesel, PEMEX and/or its EPS shall not be subject to payment of the Special Tax on Products and Services (IEPS, for its initials in Spanish, Impuesto Especial sobre Productos y Servicios) over such surcharges in the sale of these fuels.

4.3. Payments on account of income tax

Paragraph III of Article 7 of the LIF 2015 provides that on account of the Income Tax for 2015, for income obtained for Exploration and Extraction activities of Hydrocarbons, monthly payments of $1 billion pesos shall be made, which shall be paid no later than on the 17th day of the month immediately following that to which payment corresponds.

Such monthly payments effectively paid shall be credited against the resulting Income Tax for the fiscal year 2015.

4.4. Payments on account of income tax

Paragraph IV of Article 7 of the LIF 2015 contains the obligation to file tax returns, make payments and comply with the obligations to withhold and pay contributions payable by third parties to the Federal Treasury, through the scheme to file returns set forth for such purpose by the SAT.

4.5. SHCP Empowerment

The SHCP is empowered to amend the amount of monthly payments and, as the case may be, to determine suspension of such payments, in case there are changes in PEMEX' income and/or those of its EPS that so deserve it, and to issue specific rules for the enforcement and compliance of the provisions set forth in this Article.

The SHCP shall report and explain any changes to the amount that impact the monthly payments set forth in this article, due to extraordinary income or a descent thereon, in a report to be submitted to the Commission on Treasury and Public Credit and the Center for Studies on Public Finance, both in the Lower Chamber (Cámara de Diputados).

Chapter IV
Implications on Income Tax of Exploration and Extraction activities of Hydrocarbons

1. Accruable income for Contractors under Contracts for Exploration and Extraction of Hydrocarbons

Pursuant to the provisions set forth in Article 31, paragraph II of the LISH, Contractors must have as their sole corporate purpose the Exploration and Extraction of Hydrocarbons; this matter is extremely relevant to determine the origin of accruable income that such entities are enabled to receive.

As a result of this restriction in their corporate purpose, Contractors may not carry on with any kind of activity other than Exploration and Extraction of Hydrocarbons, which from the Income Tax perspective implies that such entities will only receive accruable income from these activities, and cannot receive any other kind of income for any other activities.

Accruable income from the Exploration and Extraction of Hydrocarbons are the considerations received according to the nature of each of the Contracts in which Contractors take part; it is therefore essential to analyze the several considerations set forth in each one of those Contracts for this purpose, since these considerations will constitute accruable income when they represent a positive change in the Contractor's assets and estate.

That in the understanding that pursuant to the provisions set forth in Article 29 of the LISH, the consideration that Contractor is entitled to receive for its participation in the Contracts for Exploration and Extraction of Hydrocarbons, shall be paid once the Contractual Production is obtained; understanding as such these Hydrocarbons extracted in the Contractual Area, measured pursuant to the provisions issued by the CNH in the Point of Measurement, for the corresponding Period. Until there is such Contractual Production, Contractor is not entitled to receive any consideration or advance payment whatsoever.

While the Contractors' corporate purpose is limited to Exploration and Extraction of Hydrocarbons, the above does not imply such Contractors are prevented from carrying out any other activities that are required for the adequate compliance of such corporate purpose; therefore, such entities may well acquire real estate properties, obtain credits, subscribe credit instruments and, in general, carry on with any activity geared to the full execution of its corporate purpose.

The above opens the possibility to accidental or extraordinary acts that cause accruable income, such as the sale of those real estate properties; in which case, the Contractor must accrue such accidental or extraordinary income to those coming from the Exploration and Extraction of Hydrocarbons and, consequently, determine the corresponding Income Tax pursuant to the general rules set forth in the LISR.

1.1. Consideration from License Contracts

Consideration in favor of the Contractor under License Contracts is the transfer of Hydrocarbons once they have been extracted from the subsoil for money. For such consideration to be paid, the Contractor must be current in payment of the considerations set forth in favor of the State (non-tax-based income).

The price fixed for the transfer of Hydrocarbons in favor of Contractor for money must be attractive for Contractor, because after receiving those Hydrocarbons, this shall resell them for profit, and such resale contains the essence or economic benefit under the License Contract.

There are two positions regarding whether the Consideration under License Contracts is or not an accruable income in favor of Contractor.

a) Not an accruable income.- The first view gears in the sense that the transfer of Hydrocarbons for money does not constitute accruable income for Contractor, inasmuch this has paid an economic consideration for the transfer of property of Hydrocarbons, but this does not cause a positive amendment to its assets or estate; that in the understanding that Contractor shall cause the respective Income Tax until it actually receives a profit for the resale in the domestic or international market of Hydrocarbons acquired under the License Contract.

b) Accruable income.- The second view gears in the sense that the transfer of Hydrocarbons for money does constitute an income in credit for Contractor, in the proportion that the price fixed for such transfer is below the Hydrocarbon's market value. The above in other words, the economic benefit (difference between the preferential price and market value) that the Contractor receives for the transfer of Hydrocarbons for money that is made in its favor under the License Contract represents a positive change in its assets or estate, by creating an income in credit.

1.2. Consideration from Contracts of Shared Profit and Contracts of Shared Production

In the Contracts of Shared Profit and Contracts of Shared Production there are two considerations in favor of Contractors. The first of them is a specific consideration; while the second is the recovery of costs incurred in by Contractor.

- Specific considerations.

In the Contracts of Shared Profits, Contractors shall deliver all of the Contractual Production to the Trader (Comercializador), which shall deliver income from the trade of Hydrocarbons to the Mexican Oil Fund for Stabilization and Development.

The Mexican Oil Fund for Stabilization and Development shall retain considerations corresponding to the State (non-tax-based income) and pay to Contractor its respective consideration pursuant to the terms set forth in the Contract of Shared Profit. These considerations shall be the remainder of the Operating Profit after paying the Specific considerations in favor of the State (non-tax-based income).

The consideration delivered to the Contractor by the Mexican Oil Fund for Stabilization and Development shall have the legal nature of an income in cash that will have to be accrued by the Contractor in order to determine the corresponding Income Tax.
In the Contracts of Shared Production, on the other hand, the consideration in favor of the Contractor shall be paid in kind, with a ratio of the Contractual Production de Hydrocarbons that is equal to the value of the consideration set forth. This consideration shall be the remainder of the Operating Profit after paying the Specific considerations in favor of the State (non-tax-based income).

The consideration in kind delivered to Contractor shall have the legal nature of income in assets, which would have to be accrued by Contractor in order to determine the corresponding Income Tax, but the LISH fails to establish the parameters to accrue such income in assets.

There are several parameters to determine the amount for income in assets; the most relevant ones are appraisal value, market value and value set forth in a contract. We consider that the ideal method to determine the amount for income in assets under this Contract must be the value set forth in the contract, since payment in kind that shall be made to Contractor shall be determined based on the value of Hydrocarbons set forth in the contract.

- Cost recovery.

Recovery of costs is the second kind of consideration in favor of Contractors under the Contracts of Shared Profit and the Contracts of Shared Production. Said consideration shall be the amount equal to recognized costs, expenses and investments pursuant to guidelines issued for such purpose by the SHCP.

Said consideration, in each term, may not be above the Limit for Recovery of Costs, understanding as such the result of multiplying the Cost Recovery Ration by the Contractual Value of Hydrocarbons. The product of such multiplication shall determine the maximum ration of the Contractual Value of Hydrocarbons that may be allocated to cost recovery in each Period.

Recognized costs, expenses and investments that exceed the Limit for Recovery of Costs and that, therefore, are not paid to Contractor as considerations, shall be included in the consideration for subsequent periods.

Article 19 of the LISH provides that the following concepts may not constitute part of the consideration for cost recovery:

a) Financial costs.

b) Costs incurred in due to negligence or fraud of Contractor, or any person acting on its behalf.

c) Donations.

d) Costs and expenses related to rights-of-way, rights-of-pass, temporary or permanent occupations, leases or the acquisition of land, indemnifications and any other analogous figure.

e) Costs incurred in consulting services, except those set forth in the guidelines issued by the SHCP.

f) Expenses in connection with the infringement

of applicable provisions, including risk management.

g) Expenses regarding training or training program that do not comply with the guidelines issued by the SHCP.

h) Expenses arising from the infringement of any conditions for security, as well as those resulting from the acquisition of assets that do not have manufacturer's guarantee or its representative against any manufacturing defects, in accordance with practices generally used by the oil industry.

i) Expenses, costs and investments for use of own technologies, except those that have a transfer price study pursuant to the applicable legal provisions.

j) Amounts recorded as provisions and fund reserves, except those for the abandonment of facilities as set forth in guidelines issued by the SHCP.

k) Legal costs for any arbitration or dispute involving the Contractor.

l) Commissions paid to agents.

m) Payments for Royalties and Contractual Fees for the Exploration Phase under the Contract, as well as payment of the corresponding Considerations, expenses, costs and investments under other Contracts.

n) Costs, expenses and investments above benchmarks or reasonable market prices, pursuant to the rules and basis for registration of costs, expenses and investments under the Contract.

o) Those that are not strictly essential to execute the purpose of the Contract, those that are set forth in each Contract considering its circumstances or specific circumstances set forth in the guidelines issued for such purpose by the SHCP.

We consider that this consideration, due to the fact that it is cost recovery, must not be considered as an accruable income in favor of Contractor, because far from changing its assets and estate, it seeks to create a neutral effect thereon, by the recovery of costs.

Notwithstanding the above, there can be a double benefit in favor of Contractors, in case these deduct such costs for Income Tax purposes, because they are disbursements strictly indispensable to carry on with its Exploration and Extraction activities of Hydrocarbons and, additionally, they recover (without accruing) these expenses as contractual consideration. According to this view, it could then be argued that recovery of costs must be accrued by Contractor in order to create a neutral effect; however, due to the fact that the LISR does not establish the same catalog of non-deductible costs as Article 19 of the LISH establishes as non-recoverable, there would be a sensible distortion that would damage Contractors.

1.3. Consideration from Service Contracts

Pursuant to the provisions set forth in Article 21 of the LISH, considerations in favor of Contractor under Service Contracts shall be in cash and be set forth in each Contract, considering the industry's standards or uses.

The Mexican Oil Fund for Stabilization and Development shall pay such consideration to Contractor with funds from the trade of the Contractual Production arising from the respective Service Contract.

The consideration delivered to Contractor by the Mexican Oil Fund for Stabilization and Development shall have the legal nature of an income in cash, which will have to be accrued by Contractor in order to determine the corresponding Income Tax.

2. Special Income Tax Regimes

2.1. Special Regimes for Contractors

2.1.1. General rules

Article 31 of the LISH also provides that both EPE and legal entities can take part in the tenders, by any of the following forms:

a) Individually.

b) In consortium.

c) In Joint Venture.

Regardless of the form used to take part, the basis for the tender of Contracts and the Contracts themselves must set forth that they can only be executed by EPE and legal entities complying with the following requirements:

a) Be residents for tax purposes in Mexico.

   Let us be reminded that pursuant to the provisions set forth in Article 9, paragraph II of the CFF, legal entities acquire Mexican residence for tax purposes when they have established the main administration of their business or effective management place in Mexico.

   Pursuant to the provisions set forth in Article 6 of the RCFF, it is considered that a legal entity has established the main administration of their business or effective management when the place where the individual or individuals who take or execute decisions for the control, direction, operation or management of the legal entity and any activities that it takes is located in Mexican territory.

b) Have as sole purpose the Exploration and Extraction of Hydrocarbons.

We have stated before that restricting the corporate purpose of Contractors prevents them from taking part and developing any kind of activities other than Exploration and Extraction of Hydrocarbons; in the understanding that such restriction does not imply that said Contractors are prevented from carrying on any other activities that are required for the adequate compliance of such corporate purpose, and that they can ben acquire real estate properties, obtain credits, execute credit instruments and, in general, carry on with any other activity towards the full compliance of their corporate purpose.

c) Not pay taxes under the optional regime for groups of companies set forth under Chapter VI of Title Second of the LISR.

Such optional tax regime is the integration, which at least from the conceptual standpoint replaced the tax consolidation as of the tax year of 2014; it claims to justify its existence by granting companies organizational flexibility, as well as their ability to compete with foreign investors.

Each one of the companies that constitute the integration regime may differ, for a term of three years, a certain part of the Income Tax for the corresponding year, pursuant to certain specific rules for calculation.

Unlike in the tax consolidation, it is not possible to differ the tax due in connection with distribution of profits or dividends that do not come from the CUFIN in the integration regime; in addition to the fact that there are certain limitations regarding the reduction of tax losses.

2.1.2. Individual participation

Contractors who, individually, execute one or more Contracts for the Exploration and Extraction of Hydrocarbons, must determine Income Tax against them by applying specific rules on depreciation of investments and amortization of tax losses.

2.1.2.1. Depreciation of investments

Instead of the depreciation ratios for tangible and intangible assets set forth in Articles 33 and 34 of the LISR, Contractors who take part individually in the Exploration and Extraction activities of Hydrocarbons, shall apply the following depreciation percentages:

a) 100% of the original amount of investments made for the Exploration, secondary and improved recovery, and non-capitalized maintenance, in the year in which they are made.

b) 25% of the original amount of investments made for the development and exploitation of Oil or Natural gas fields, each year.

c) 10% of the original amount of investments made in infrastructure for Storage and indispensable transportation to execute the Contract, such as oil pipes, gas pipes, terminals, transportation or Storage tanks required to take the Contractual Production to points of delivery, measurement or inspection determined in each Contract, each year.

A rule is set forth in case the Contractor uses assets from the above-mentioned investments that have not been deducted entirely pursuant to Title Third of the LISH (Corresponding to income under the Assignments), only the balance pending depreciation of the assets under such Contract may be deducted in the terms issued for such purpose by the SHCP.

The LISH does not establish the moment from which the taxpayer may begin to deduct the above-mentioned investments, which is questionable.

Said legislative fault intends to be remedied by Rule 10.1 of the RMF 2015, which provides that the taxpayer may choose to begin deducting investments in any of the following moments: (i) in the year in which they are made; (ii) from the year in which the assets begin to be used; or, (iii) from the following year.

This rule also provides that in case the taxpayer begins deducting investments after the terms set forth in paragraph above, it shall forfeit the right to deduct the amounts corresponding to the years elapsed from the moment in which deduction could be made and until such deduction begins.

In our opinion, it is questionable from a legal perspective that tax authorities are enabled to establish the moments as of which a taxpayer can begin investment depreciation, and to establish rules of sanction (forfeiture of the right to deduct) in case the taxpayer begins deducting investments after such terms.

2.1.2.2. Amortization of tax losses

Pursuant to the provisions set forth in Article 57 of the LISR, a tax loss that occurred in a year may be reduced from tax profit corresponding to the 10 following years, until it is exhausted; in the understanding that when the taxpayer fails to reduce such tax loss in a year in which it could have done so, it shall forfeit the right to do it in subsequent years and up to the amount in which it could have done so.

As exception to such rule, the last paragraph of Article 32 of the LISH grants the benefit for taxpayers who carry on with activities in sea lands with a depth of water above five hundred meters, of amortizing tax loss that occurred in a year from the tax profit of the following 15 years, until it is exhausted.

2.1.3. Participation by consortium

We have said that EPE and legal entities may take part in

the tender processes as a consortium. A consortium is an atypical association form in which several companies take part in order to carry on with a joint activity.

Section B of Article 32 of the LISH provides the following specific rules for operation of consortia:

2.1.3.1. Agreement of joint operations

Parties member of the consortium must execute a Joint Operation Agreement, in which the following basic items must be agreed: (i) Appoint one of the members of the consortium as operator; (ii) Accept that tax documents are filed in the name of the operator; and, (iii) Reflect the participation percentage corresponding to each of the members of the consortium.

2.1.3.2. Operator

The LISH provides that the operation shall carry on with transactions in the name and on behalf of the members of the consortium, from which it can be seen that the legal nature of the operator is that of a commercial agent (comisionista mercantil), since it can clearly be seen that the operator acts as agent for the members of the consortium.

The amounts that the operator receives to make expenses on behalf of each one of the members of the consortium shall not be considered accruable income.

In case said amounts are not backed by the tax documents issued for such purpose by the operator, it is set forth, as a sanction, that such amounts shall be regarded as accruable income for the operator.

2.1.3.3. Accruable income

The members of the consortium may choose to receive directly their share of the consideration corresponding to each of them based on their participation in the Contract or, else, that such consideration be delivered to the operator, so that this can distribute it proportionally between the members of the consortium.

In case they choose that the consideration be delivered to the operator, this shall not be regarded accruable income for the operator; additionally, payment made to each one of the members of the consortium shall not be regarded as a deductible item.

Once each one of the members of the consortium receives the corresponding consideration in proportion to the corresponding Agreement, it shall analyze whether such consideration has the nature of accruable income or not for Income Tax purposes, based on the remarks set forth above.

2.1.3.4. Authorized deductions

Each one of the members of the consortium may deduct the part of costs, expenses and investments that are made in connection with the Contract, in the proportional part corresponding to each of them; and for this purpose, they must have the respective tax document covering such proportional part.

Likewise, the operator may only deduct the proportional part corresponding to it pursuant to its participation in the Contract.

2.1.3.5. Tax documents

In the joint operation Agreement, the members of the consortium shall set forth that tax documents that are issued for expenses made in furtherance of the activities required to carry on for the development and execution of the corresponding Contract be issued in the name of the operator.

For such purpose, the operator shall provide each one of the members of the consortium with a list of the transactions it makes, as well as a duplicate of any tax documents that have been issued for such purpose.

The operator shall issue in favor of each of the members of the consortium the tax documents covering expenses made in connection with the execution of the Contract, in proportion corresponding to their participation.

2.1.3.6. Substantive tax obligations

Each one of the members of the consortium shall comply with its tax obligations individually, which is logical and according to this figure, where each of its members assumes its rights, obligations and undertakings individually.

2.1.3.7. Adjective tax obligations

No later than on February 15th of each year, the operator shall provide tax authorities with information of transactions made in the immediately preceding year on behalf of the members of the consortium, identifying for each one the proportional part corresponding of the total of transactions made.

2.1.4. Participation by Joint Venture

Pursuant to the provisions set forth in Article 252 of the LGSM, a Joint Venture is a covenant by which a person grants to others who contribute assets or services, participation in the profits and in the losses of a commercial business or of one or several business transactions.

The Joint Venture does not have legal capacity; and the managing partner acts on its own behalf; there is no legal tie whatsoever between third parties and contributing partners.

The LISH does not include special rules on tax matter for those participating in Contracts for Exploration and Extraction of Hydrocarbons through a Joint Venture, as it does for individual participation and participation by consortium. This lack of specific regulation leads us to conclude that in case of participation in those Contracts by the figure of reference, the corresponding Income Tax must be deter-

mined in accordance with the rules set forth in the LISR, and the special rules set forth in the LISH are not applicable.

This entails several relevant matters, since for tax purposes, a Joint Venture is regarded a legal entity with its own legal capacity. Actually, pursuant to the provisions set forth in Article 17-B del CFF, Joint Ventures have legal capacity for tax purposes when business activities take place in the country, when the agreement that creates a Joint is executed pursuant to Mexican laws or in any of the scenarios set forth in Article 9 of the CFF (scenarios of Mexican residence for tax purposes).

This implies that if it is intended to participate in Contracts for Exploration and Extraction of Hydrocarbons by a Joint Venture, said association should be regarded, for tax purposes, as a legal entity with the obligation to comply with all of its tax obligations, which for Income Tax purposes shall be paid pursuant to Title Second of the LISR.

2.2. Special regime for Assignees

Assignments can only be granted to EPE that are not subject to taxes under the optional tax regime for groups of companies set forth in Chapter VI of Title Second of the LISR, that is, the optional integration regime.

Assignees must pay Income Tax for income obtained from the Exploration and Extraction activities of Hydrocarbons, in accordance with the rules set forth in the LISR and in other applicable provisions.

2.2.1. Depreciation of investments

Instead of the depreciation percentages for tangible and intangible assets set forth in Articles 33 and 34 of the LISR, Contractors participating individually in the Exploration and Extraction activities of Hydrocarbons, shall apply the following depreciation percentages:

a) 100% of the original amount of investments made for the Exploration, secondary and improved recovery, and non-capitalized maintenance, in the year in which they are made.

b) 25% of the original amount of investments made for the development and exploitation of Oil or Natural gas fields, each year.

c) 10% of the original amount of investments made in infrastructure for Storage and indispensable transportation to execute the activities under the Contract, such as oil pipes, gas pipes, terminals, transportation or Storage tanks, each year.

Rule 10.8 of the RMF 2015 provides that instead of applying the deduction percentages set forth in Articles 33 and 34 of the LISR, Assignees may apply 100% of the original amount of investments made for the improved recovery, in the year in which they are made.

The LISH does not establish the moment from which the taxpayer may begin to deduct the above-mentioned investments, which is questionable.

Said legislative fault intends to be remedied by Rule 10.1 of the RMF 2015, which provides that the taxpayer may choose to begin deducting investments in any of the following moments: *(i)* in the year in which they are made; *(ii)* from the year in which the assets begin to be used; or, *(iii)* from the following year.

This rule also provides that in case the taxpayer begins deducting investments after the terms set forth in paragraph above, it shall forfeit the right to deduct the amounts corresponding to the years elapsed from the moment in which deduction could be made and until such deduction begins.

In our opinion, it is questionable from a legal perspective on tax matters that tax authorities are enabled to establish the moments as of which a taxpayer can begin investment depreciation, and to establish rules of sanction (forfeiture of the right to deduct) in case the taxpayer begins deducting investments after such terms.

2.2.2. Special rules for accruable income and authorized deductions

The second to last paragraph of Article 46 of the LISH provides that for purposes of complying with tax obligations generated under the Assignments, income from Contracts shall not be accruable, nor payments for Considerations, expenses, costs or investments corresponding to activities under Contracts may be deducted.

2.2.3. Substantive tax obligations

The last paragraph of Article 46 of the LISH provides that Assignees shall pay fees and amounts set forth for the administration and supervision of the Assignments or supervision and surveillance of activities carried thereunder, made by the CNH and the National Agency of Industrial Safety and Environmental Protection of the Hydrocarbons Sector (Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector de Hidrocarburos).

2.2.4. Adjective tax obligations

For purpose of determining Income Tax, Assignees shall keep separate accounting per type of region for income obtained for their activities. Pursuant to paragraph X of Article 48 of the LISH, there are 5 regions, as follows:

a) Land areas.

b) Sea area with water depth below five hundred meters.

c) Non-Associated Natural gas.

d) Sea areas with water depth above five hundred meters.

e) Chicontepec Paleo-Channel.

No later than on March 31st of the following fiscal year, the

Assignee shall submit before the SHCP an annual investment, cost and expenses report that have been deducted in the corresponding fiscal year. This report must include investments, costs and expenses made in the corresponding year per each field of Extraction of Hydrocarbons, as well as their projections for the two years following those subject to report. In case investments, expenses and costs exceed 10% of the originally projected amount, the corresponding justification shall be provided.

Within such term, the Assignee shall also submit the following information to the SHCP:

a) A data base containing the projects for Extraction of Hydrocarbons including, for each field of Extraction, Reserves and production of Oil, Natural gas and Condensates.

b) Methodology used to prepare projections for Extraction of Hydrocarbons, as well as investments, expenses and costs.

c) Scenarios and assumptions used in the projections, including recovery factors, seismic interpretation, number and techniques for drilled wells, as well as criteria for reclassification of Reserves.

Finally, a general rule is set forth providing that Assignees shall comply with tax obligations separately from those tax obligations created as a result of a Contract. As an exception, it is set forth that Assignees must comply with tax obligations jointly in the scenario set forth in the second paragraph of Section A of Article 32 of the LISH, which provides that whenever a Contractor used assets from investments set forth in such regulatory portion that have not been deducted entirely under the specific regime set forth for Assignees (dealt with in this same section), only the balance pending depreciation of assets under such Agreement may be deducted for purpose of the regime applicable to Contracts, pursuant to guidelines issued for such purpose by the SHCP.

2.2.5. Specific capacities of the SHCP

Article 47 of the LISH provides the following specific capacities of the SHCP in connection with Assignments:

a) The SHCP shall determine the basis and rules for registration of costs, expenses and investments of the Assignment, pursuant to guidelines issued for such purpose.

b) The SHCP shall determine the basis and rules for the procurement of goods and services for activities carried on under an Assignment, pursuant to guidelines that are issued, which shall have the purpose of minimizing costs, expenses and investments, preferring the use of mechanisms that guarantee higher transparency.

c) The SHCP may request Assignees to provide information it requires to comply with its capacities set forth in the LISH.

3. Transactions between related parties

The LISH contains several rules applicable to transactions between related parties that are not only applicable to Income Tax, but are dealt with under this section for methodology purposes.

3.1. Adjustments to determine the Contractual Value of Hydrocarbons

We have said that Contracts for Exploration and Extraction of Hydrocarbons must set forth that Contractual Value of Hydrocarbons must be determined for each period. Each Contract must contain the mechanisms to determine the Point of Measuring of Contractual Prices of Oil, Natural gas and Condensates that reflect market conditions.

Article 25 of the LISH provides that in case any transactions with related parties are made, the above-mentioned mechanisms shall consider, as the case may be, adjustments required based on quality, sulfur content, API degrees, as well as the costs for trading, transportation and logistic, amongst others.

3.2. Sale or trade of Hydrocarbons between related parties

Article 30 of the LISH states that in cases where Contractor carries on with transactions with related parties regarding the sale or trade of Hydrocarbons, as well as for procurement of materials or services, the Guides for Transfer Prices for Multinational Companies and Fiscal Administrations (Guías sobre Precios de Transferencia para las Empresas Multinacionales y las Administraciones Fiscales) approved by the OCDE Council in 1995, or those that replace them, shall be applicable.

The OCDE Guides shall be applicable inasmuch they are consistent with the provisions set forth in the LISH, in the LISR and treaties executed by Mexico.

3.3. Sale of Oil and/or Natural gas by the Assignee to its related parties

Article 51 of the LISH provides that whenever the Assignee sells Oil or Natural gas to related parties, it shall determine the value of such Hydrocarbons, the prices and amounts of considerations as those used with or between independent parties in comparable transactions.

To determine market value, Assignees must use the un-controlled comparable price method set forth in paragraph I of Article 180 of the LISR.

The un-controlled comparable price method essentially lies in considering the price of amount of considerations that would have been agreed with or between independent parties in comparable transactions; for this, the price set forth in controlled transactions (i.e., between related parties) must be compared with the price agreed for an un-controlled comparable transaction (i.e., between independent parties).

3.4. Costs, expenses and investments made or acquired with the Assignee's related parties

Second paragraph of Article 51 of the LISH provides that in the case of costs, expenses and investments made with or acquired from related parties, for these transactions, Assignees shall consider the prices and amounts of considerations it would have used with or between independent parties in comparable transactions, pursuant to the LISR rules that are applicable.

- Assessment of investment projects, determination of the added value in business lines and sale of Hydrocarbons to related parties by the Assignee.

Article 53 of the LISH provides that to assess investment projects, to determine the added value of its business lines and, as may be applicable, to determine the prices of goods and services to the public that are sold to related parties and in case the Assignee sells Hydrocarbons to related parties, it shall determine their value, considering for these transactions, the prices and amount of considerations that would have been used with or between independent parties in comparable transactions.

To determine market value, Assignees must apply the un-controlled comparable price method set forth in paragraph I of Article 180 of the LISR.

Chapter V
VAT Implications

1. Acts subject to 0% VAT rate

Article 33 of the LISH provides that acts or activities that cause VAT for which Considerations set forth in the Contracts for Exploration and Extraction of Hydrocarbons must be paid, shall be subject to the 0% rate for purposes of such tax.

This means that the several considerations that must be paid under such Contracts shall be subject to 0% rate. As a matter of fact, let us be reminded that pursuant to the provisions set forth in Article Transitory Fourth of the Decree for constitutional reform of the Energy Reform, and the LH and the LISH, provide the following regime for contractual considerations:

a) In cash, for Service Contracts.

b) A percentage of the profits, for Contracts of Shared Profits.

c) A percentage of production obtained, for Contracts of Shared Production.

d) Transfer of Hydrocarbons for money, once these have been extracted from the subsoil, for License Contracts.

e) Hybrids, that is, any combination of the above-mentioned.

This way, payment of the above-mentioned considerations shall be taxed with 0% rate, which will regularly create a favorable balance for Contractors of this tax. This is such considering that they may credit all of the VAT that is transferred to them by their suppliers of goods and services against VAT caused at the 0% rate in connection with payment of their respective considerations. Such situation is increased if we consider Contractors have the exclusive activities of participating in upstream projects, and are not entitled to receive ordinary income for any other kind of activities.

The above-mentioned 0% rate regime shall not be applicable to any other kind of Contracts or transactions executed with third parties that take part in the Contracts for Exploration and Extraction of Hydrocarbons.

2. Determination of VAT by members of consortia

We have said that private parties and EPE make take part in Exploration and Extraction operations of Hydrocarbons individually, by consortia or by a Joint Venture agreement.

Regarding individual participation and by consortium, the LISH provides specific regimes on Income Tax matters; however, such legal body fails to establish any rule on VAT, which implies that taxpayers must follow the rules set forth in the LIVA, its Regulations and other applicable provisions, to determine and pay this tax.

Notwithstanding the above, Rule 10.2 of the RMF 2015 contains the following special rules applicable to participation in Exploration and Extraction operations of Hydrocarbons by consortium:

a) Members of the consortium may credit, individually, the corresponding proportional part of creditable VAT. To apply the above, it is essential that the operator issues a tax document covering the amount of the corresponding proportional part for each of the members, complying with the requirements set forth in the applicable legal provisions.

b) In the case of rendering services, the amounts received by the operator to make expenses on behalf of the members of the consortium shall not be considered as a value to determine the VAT base, provided such amounts are backed by tax documents issued by the operators to each of the members of the consortium.

c) The operator may only credit the proportional VAT part that corresponds to it, based on its participation in the consortium.

Chapter VI
Implications on International Tax Matters

1. Permanent Establishment

1.1. Subjects and activities that generate a PE

Article 64 of the LISH provides that a PE is created when-

ever a resident abroad for tax purposes carries on with activities under the LH in Mexican territory or the exclusive economic zone over which Mexico has jurisdiction.

Let us be reminded that pursuant to the provisions set forth in Article 27 of the CPEUM, the exclusive economic zone is that which spans to 200 nautical miles, from the base line from which territorial sea is measured.

We consider that the wording used in Article 64 of the LISH is extremely ambiguous, which in practice may lead to generate several interpretation conflicts.

Actually, the reference to carrying on with "activities under the LH" is so wide that carrying on with any of the activities set forth therein may (verbatim) create a PE; the same also goes for the reference to "whenever a resident abroad", without specifying the scope of such phrase, which implies that any resident abroad, such as a provider of goods and services, would create a PE.

Rule 10.10 of the RMF 2015 attempts to overcome this ambiguity, by establishing that "activities under the LH" are those mentioned in Article 2 of such Law, notwithstanding the quality of the resident abroad that carries on with them. Let us be reminded that the following are activities set forth in such provision:

a) Reconnaissance and superficial exploration, as well as the Exploration and Extraction of Hydrocarbons.

b) Treatment, refining, sale, trade, transportation and storage of oil.

c) Processing, compression, liquefaction, decompression and regasification, as well as transportation, storage, distribution, trade and sale of natural gas to the public.

d) Transportation, storage, distribution, trade and sale of oil derivatives.

e) Transportation of petro-chemical products through pipes, and pipe-related storage.

1.2. Time rule to create a PE

A time rule is set forth to create a PE, which consists in activities made by the resident abroad that are developed in a period that adds, in aggregate, more than 30 days in any given 12-month term.

During such term, activities that are made by the related party of a resident abroad, provided such activities are identical or similar, or constitute part of a same project must be considered.

Article 36 of the Regulations to the LISH provides that calculation of the days of duration of the above-mentioned activities shall be made considering all of the calendar days comprised between the beginning and termination of activities.

Rule 10.11 of the RMF 2015 provides that it shall be considered that activities continue to be carried on until they are completely finished. It shall not be considered that activities have been finished whey they are interrupted in time. Seasonal interruptions or for any other cause must be taken into consideration to calculate the term of duration of activities. Seasonal interruptions include those due to bad weather. Seasonal interruptions may be motivated, amongst others, lack of materials or difficulties with labor.

Said rule also provides that in case due to the nature of activities it is considered that their duration shall exceed 30 calendar days in any 12-month period, the taxpayer shall comply with its obligations pursuant to the provisions set forth in the LISH and in Title II (legal entities) or Chapter II of Title IV (residents abroad) of the LISR, as the case may be, from the beginning of their activities.

1.3. Problem of attributing income to PE

In case a resident abroad creates a PE as set forth above, it shall determine and pay the corresponding Income Tax pursuant to the rules set forth in the LISR, and such resident abroad shall pay taxes as a Mexican legal entity, pursuant to the provisions set forth in Title Second of the LISR.

Notwithstanding the above, the LISH fails to establish any rule specifying which income are attributable to the PE created in our country by the resident abroad carrying on with any of the activities set forth in the LH, so that the rules of the LISR must be applied, which we believe can be equivocal (that is, they allow more than one interpretation).

1.4. Enforcement of treaties to avoid double taxation

We consider treaties to avoid double taxation signed by Mexico are totally applicable on this matter, and each of such treaties must be analyzed in order to determine its scope in connection with the grounds (and exceptions) on the PE, some of which contain reference to the field of Hydrocarbons.

As an example, the Agreement executed between the United States of Mexico and the Kingdom of Norway to Avoid Double Taxation and Prevent Tax Evasion of Income Tax and Assets (Convenio entre los Estados Unidos Mexicanos y el Reino de Noruega para Evitar la Doble Imposición e Impedir la Evasión Fiscal en Materia de Impuesto sobre la Renta y sobre el Patrimonio), published in the DOF on August 26, 1996, contains several specific rules on oil matter.

2. Exploitation of transboundary fields

Transboundary fields are those that are located inside the national jurisdiction and continue beyond the same.

Article 3 of the LH provides that Exploration and Extraction of Hydrocarbons located in transboundary fields may take place in accordance with the terms of treaties and agreements to which Mexico is party.

On this matter, the Agreement between the United States

of Mexico and the United States of America on Transboundary Hydrocarbon Fields in the Gulf of Mexico (Acuerdo entre los Estados Unidos Mexicanos y los Estados Unidos de América relativo a los Yacimientos Transfronterizos de Hidrocarburos en el Golfo de México), signed in Los Cabos on February 20, 2012, which Decree of enactment was published in the DOF on July 18, 2014, provides in its Article 13 "Tax matters" the principle of international law regarding the enforcement of domestic law first and, thereafter, the corresponding treaty to avoid double taxation.

Actually, said article provides that income from the Exploitation of Transboundary Fields must be taxed pursuant to the laws of the United States of Mexico and the United States of America, respectively, as well as the Agreement executed between the Government of the United States of Mexico and the Government of the United States of America to Avoid Double Taxation and Prevent Tax Evasion on Income Tax, executed on September 18, 1992 with its respective amendments (and any possible future amendments) or any Treaty or Convention that the Parties may execute in the future to replace such Agreement.

3. Wages, salaries and similar compensations

Article 64 of the LISH provides that wages, salaries and similar compensations obtained by residents abroad, that are paid by residents abroad without a PW in the country, or that having it, are not related to such establishment, in connection with a work position related to activities of Contractors or Assignees as set forth in the LH, made in Mexican territory or the exclusive economic zone over which Mexico has jurisdiction, within a term that exceeds 30 days in any 12-month period, shall be taxed in accordance with Article 154 of the LISR.

The hypothesis set forth in Article 64 of the LIHS mention work positions related to the activities of Contractors or Assignees, which translates into the fact that wages, salaries and similar compensations that are taxed are limited only to upstream activities.

On this matter, Rule 10.12 of the RMF 2015 provides that the following, amongst others, shall be regarded as work positions related to the activities of Contractors or Assignees as set forth in the LH:

a) In case the service is provided to legal entities, consortia or Joint Ventures that are considered contractor or assignee in accordance with the LH.

b) In case the service is provided to persons considered related parties, pursuant to Article 179 of the LISR, of the entities mentioned in the preceding paragraph.

c) In case the main purpose or activity of whoever makes payments is the reconnaissance of superficial Exploration or the Exploration and Extraction of Hydrocarbons, as set forth in the LH.

Such remission made by Article 154 of the LISR implies that such items shall be taxed under the following rules:

a) There is an exemption for the first $125,900.00 obtained in the corresponding calendar year.

b) A rate of 15% shall be applied to income received in the corresponding calendar year that exceed the amount set forth in the preceding paragraph and that are not above $1,000,000.00.

c) A rate of 30% shall be applied to income received in the corresponding calendar year that exceed $1,000,000.00.

Such article also provides that whoever makes such payments shall withhold the corresponding Income Tax in case it is a resident in the country or a resident abroad with a PE in Mexico to which the service is related. In any other cases, the taxpayer shall pay the corresponding tax by filing a tax return that will be submitted before the authorized offices within 15 days after the income is received.

Finally, Article 251 of the Regulations to the LISR provide the following rules to calculate the days required to cause the tax, which we consider are applicable to Hydrocarbons by analogy:

a) The day of arrival, the day of departure and the other days in the year including Saturdays, Sundays, official holidays, holidays, vacations and labor interruptions of short duration such as strikes and sick leaves shall be taken into consideration.

b) In such calculations, full days in which there is no physical presence in the country, whether due to trips, vacations or for any other caused shall not be taken into consideration. When present in the country during part of a day, this shall be taken into consideration to calculate the term.

Finally, Rule 10.13 of the RMF 2015 provides that for purpose of calculating such days, the following days will be included: part of any day, day of arrival, day of departure and any other day of stay in Mexican territory, including Saturdays, Sundays, days of compulsory rest, official holidays, vacations (taken before, during or after the service), interruptions of short duration (training periods, strikes, closure, delays in receiving supplies), sick leaves and any death or sickness in the family environment.

Said rule also provides that the following shall be excluded from such calculations: days spent in transit in the country during a trip between two places located outside the Mexican territory, as well as full days without physical presence in the country, whether due to vacations, business trips or any other cause.

In case the taxpayer is present in Mexican territory during part of a day, the day shall be regarded as a day with presence in the country for purpose of calculating the

30-day term. In case due to the nature of the employment, it is regarded that its duration shall be over 30 calendar days in any 12-month period, the taxpayer shall comply with its obligations pursuant to the provisions set forth in the LISH and in Title V of the LISR (residents abroad), as the case may be, from the beginning of such employment.

We believe these rules are very adequate, because they clarify several scenarios that can take place in practice, granting legal certainty to taxpayers; however, it is questionable that said rules are set forth in an administrative resolution and not in the law itself.