



**EXCLUSIVE COMMUNICATION FOR CLIENTS
OF NADER, HAYAUX & GOEBEL**

**INSURANCE REGULATIONS TO HYDROCARBON INDUSTRY
OVERVIEW ON MANDATORY INSURANCE REQUIREMENTS**

24 May, 2016

As part of the Mexican Energy Reform¹ ("**Energy Reform**"), the Ministry for the Environment and Natural Resources (Secretaría del Medio Ambiente y Recursos Naturales) ("**SEMARNAT**"), through the National Agency of Industrial Security and Ecological Protection in the Hydrocarbon Sector² (Agencia Nacional para la Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos) ("**ASEA**") shall issue regulation on the minimum insurance requirements applicable to companies carrying out construction works or exploration and extraction activities in the hydrocarbon sector, processing and refining of oil and processing of gas (*Disposiciones Administrativas de Carácter General que Establecen las Reglas para el Requerimiento Mínimo de Seguros a los Regulados que Lleven a cabo Obras o Actividades de Exploración y Extracción de Hidrocarburos, Tratamiento y Refinación de Petróleo y Procesamiento de Gas Natural*) ("**Insurance Rules for the Hydrocarbon Industry**").

The Insurance Rules for the Hydrocarbon Industry require all upstream, midstream and downstream companies ("**Companies**") (i) exploring and extracting hydrocarbons, (ii) processing and refining oil, and (iii) processing gas ("**Hydrocarbon Activities**") to obtain the following mandatory insurance coverage subject to article 150 Bis of the Insurance Contract Law³: (x) civil liability insurance, (y) environmental insurance

¹ In December 2013 a number of constitutional amendments were enacted, liberalizing the energy industry in Mexico after more than 70 years of being a Government monopoly. For more information please read 'Mexican Senate Passes Bill on Oil, Gas & Electricity' by Michell Nader S. and José Sifuentes D.: http://www.nhg.com.mx/pdfs/NHG_v7_Propuesta_de_Energia.pdf

² The National Industrial Security and Environmental Protection for Hydrocarbon sector Agency (Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos) is a administrative deconcentrated agency of SEMARNAT created as a consequence of the Energy Reform. It has technical and operational autonomy. Its main purpose is the protection and security of individuals, the environment and hydrocarbon facilities through regulation and supervision.

³ Pursuant to article 150 Bis of the Insurance Contract Law compulsory liability insurance cannot be avoided, rescinded or terminate before the date of termination of the contract. If the insurer indemnifies a third party for the occurrence of an insured peril and proves that the insured fail to disclose relevant information, misrepresented or failed to notify the insurer about an essential aggravation of the risk, in accordance with the applicable provisions of the Insurance Contract Law, the insured may recover directly from the insured.



and, in its case, **(z)** operators extra expense insurance (**"Policies"**) in all stages of their activities and operations.

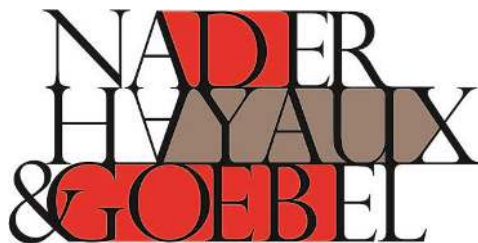
The Insurance Rules for the Hydrocarbon Industry impose a number of obligations to the Companies, among them:

- 1.** Safeguard the information related to the insurance policies available to ASEA for potential inspections and verification.
- 2.** Register the Policies and evidence of the payment of the premium with ASEA within 30 working days from inception of the policy.
- 3.** Upon the renewal of the policies, register with ASEA a copy of the policy and the respective evidence of payment of the premium.
- 4.** File with ASEA all reports and relevant information produced by the insurance and reinsurance companies arising from inspections or verification procedures on the activities of the insured and to the construction works or facilities, including copy of the well design report, within 30 working days following receipt of any such documentation.
- 5.** File with ASEA the reports and relevant information issued by the insurance company regarding the occurrence of a peril, within 30 days following payment of the indemnity.
- 6.** Require all its contractors, subcontractors, employees, suppliers or service providers to have suitable and valid insurance policies in effect.

The Companies shall be liable for any damage resulting from their construction works or activities, even if such damage is not covered by the Policies and shall be liable for any loss caused by their contractors, subcontractors, employees, suppliers or service providers when performing activities for the Companies.

In order to comply with the indemnity limits of the Policies, the Companies may either:

- a)** Comply with the minimum indemnity limits set forth in the Insurance Rules for the Hydrocarbon Industry; or
- b)** Comply with the indemnity limits resulting from a Probable Maximum Loss (PML) assessment performed by an authorized third party, based on the procedures and methods determined by ASEA.



Minimum Amounts according to the Rules

Liability and environmental insurance	
Type of construction and activities	Minimum coverage per event and annual aggregate coverage
Exploration and extraction in onshore wells	USD\$ 100,000,000
Exploration and extraction in onshore wells with a remaining volume of hydrocarbons of less than 100 million barrels of oil equivalent	USD\$ 25,000,000
Exploration and extraction in shallow water (less than 500 meters depth)	USD\$ 500,000,000
Exploration and extraction in deep water and ultra-deepwater (more than 500 meters depth)	USD\$ 700,000,000
Construction works or activities and risks related to processing and refining of oil and processing gas	USD\$ 500,000,000

Operators extra expense insurance (OEE)	
Type of well	Investment percentage of authorized drilling (AFE) and the respective factors to calculate coverage per event and annual aggregate coverage
Onshore	300% of the authorized drilling investment (3 x AFE)
Wells operating with a remaining volume of hydrocarbons of less than 100 million barrels of oil equivalent, including construction works and extraction activities	Drilling investments estimated for wells in operation and the respective 1.5 factor (1.5 x estimated drilling investments for wells in operation)
Shallow water	400% of authorized drilling investment (4 x AFE).
Deep water and ultra-deepwater	600% of authorized drilling investment (6 x AFE). In which case the amount may not exceed USD\$ 800,000,000



Minimum Amounts according to the Rules

Protection and indemnity insurance (P&I)	
Type of boats or mobile platforms used in construction works or in exploration and hydrocarbon extraction, processing and refining oil and processing natural gas	Minimum coverage per event and annual aggregate coverage
Mobile platforms, Jack-Ups or similar (any weight)	USD\$ 300,000,000
Speedboats and Underservice boats (i.e. less than 75 feet length)	USD\$ 5,000,000
Assistants and operators	USD\$ 10,000,000
Floating Production, Storage and Offloading vessel (FPSO), Floating, Storage and Offloading vessel (FSO) and similar (any weight)	USD\$ 1,000,000,000
Any other kind of vessels	USD\$ 100,000,000

Breach to the Insurance Rules for the Hydrocarbon Industry may be penalized with fines ranging from approximately MXN\$ 54,780,000 (approximately US\$3,096,439) to MXN\$ 547,800,000 (approximately US\$30,964,395).

Companies subject to the Insurance Rules for the Hydrocarbon Industry operating shall register their Policies with ASEA within 60 days following the date in which the Rules become effective. Companies subject to the Insurance Rules for the Hydrocarbon Industry starting construction works or activities after the Rules become effective have 60 days to file their Policies with ASEA.

Please note that to the date hereof, the Insurance Rules for the Hydrocarbon Industry are currently in the last stage of the Regulatory Improvement Commission (COFEMER) assessment process and have not yet been published nor enacted and, therefore, are not yet in full force and effect. It is expected that the Insurance Rules for the Hydrocarbon Industry will be published in the Official Gazette beginning of June 2016.

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