

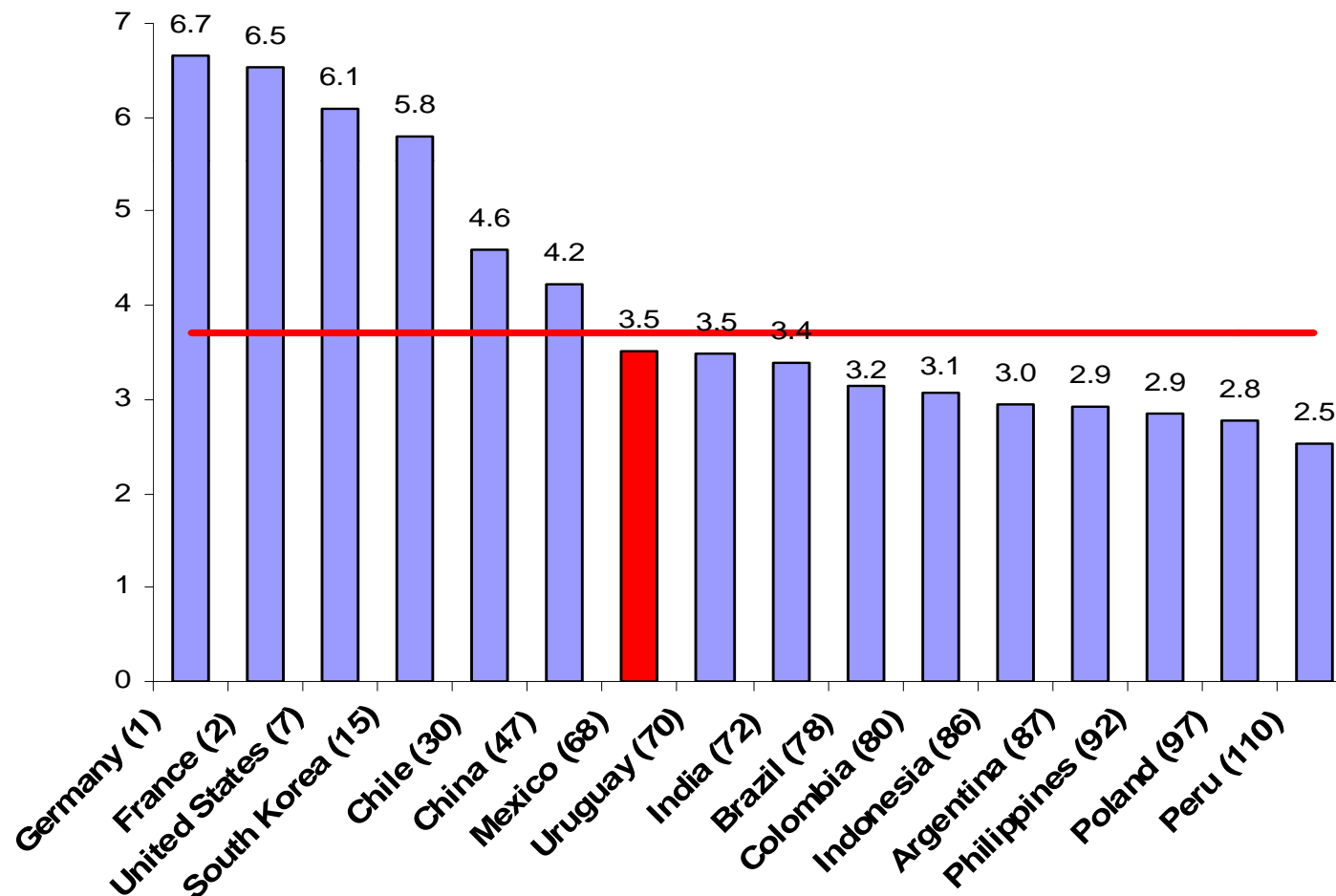
Ministry of Finance and Public Credit



Financing Infrastructure in Mexico

November 19th, 2009

Infrastructure is a key driver of competitiveness, economic growth and overall social development



The National Infrastructure Program 2007-2012 lays out an ambitious strategy which contains the **objectives, goals and actions** that shall be implemented in order to improve and expand infrastructure assets:

1. To increase the coverage, quality and competitiveness of infrastructure
2. To make Mexico a well established global logistics platform
3. To improve access to public services, particularly among the most disadvantaged
4. To promote balanced regional development without reducing the growing competitiveness in the north
5. To create more and better paid jobs through investment in infrastructure
6. To promote sustainable development through projects that take care of the environment
7. To promote the infrastructure required to increase tourist activities

National Infrastructure Program

Investment Requirements and Goals by Sector



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Sector	Investment (USD)	% of Total	Featured Goals for 2012
Highways	26.49	11.3%	Build or modernize 17,600 kilometers
Railroads	4.52	1.9%	Build 1,418 kilometers
Ports	6.55	2.8%	Build five new ports and modernize 22
Airports	5.45	2.3%	Build three new airports and increase the capacity of other 31
Telecommunications	26.12	11.2%	Fixed and mobile line coverage of 24 and 78 lines per every 100 inhabitants, respectively. Increase internet usage to 70 million users
Water & Sewerage	18.64	8.0%	Coverage: potable water 92% and sewerage 88%
Electricity	35.07	15.0%	Increase generation capacity to 6.8 Gigawatts
Hydrocarbons	110.85	47.4%	Oil production 2.5 million barrels per day (bpd) Natural gas production 5 billion cubic feet per day Increase refinery capacity to 1.4 million bpd
TOTAL	233.69	100%	

National Infrastructure Program

Private Investment



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Sector	Funding (USD billion)			Private Share
	Public	Private	Total	
Highways	14.67	11.82	26.49	44.6%
Railroads	2.49	2.03	4.52	44.9%
Ports	1.48	5.07	6.55	77.4%
Airports	2.95	2.49	5.44	45.7%
Telecommunications	1.75	24.37	26.12	93.3%
Water and Sewerage	13.29	5.35	18.64	28.7%
TOTAL	36.64	51.13	87.77	58.3%

National infrastructure Program so far (2007-2009)



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Sector	US\$ billion		% Advance	
	PNI 2007-2012	Real 2007-2009*		
Highways	26.49	10.79	41%	Public & Private Sources
Railroads	4.52	2.05	45%	
Ports	6.55	1.89	29%	
Airports	5.45	0.82	15%	
Telecommunications	26.12	7.77	30%	
Water, Sewerage & Flood Control	18.64	7.70	41%	
Subtotal	87.77	31.02	35%	
Electricity	35.07	11.99	34%	Public Sources
Hydrocarbons	110.85	51.17	46%	
Total	233.69	94.18	40%	

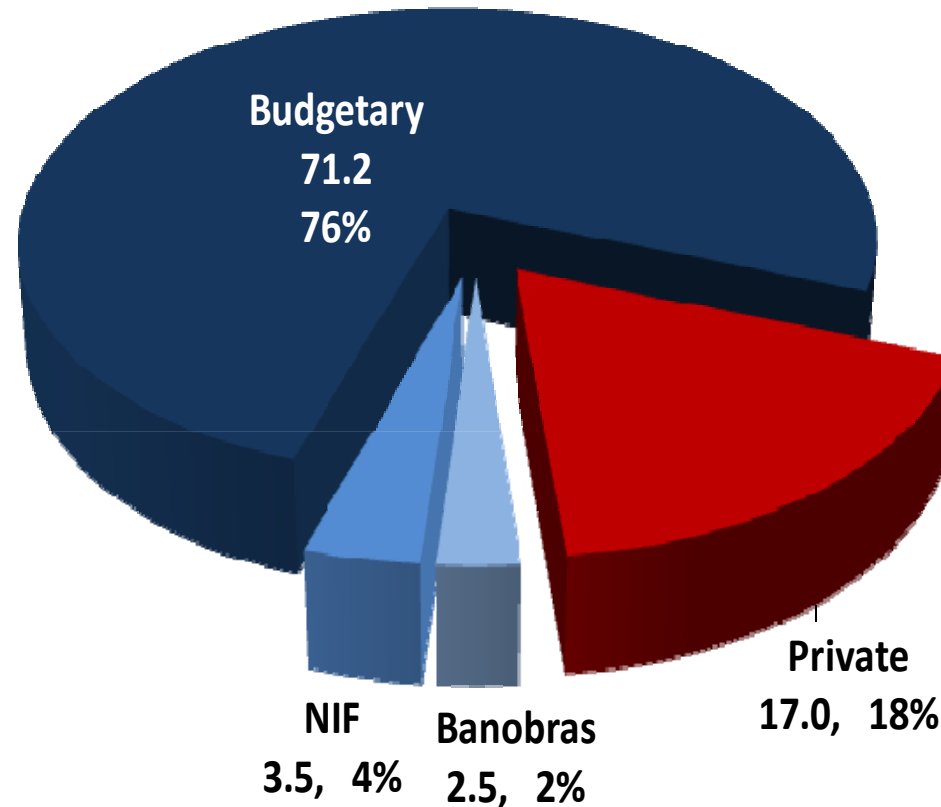
* Information for 2007 and 2008 is observed, for 2009 is expected

National infrastructure Program so far (2007-2009)



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82% of infrastructure investment registered during the first half of the Administration corresponds to Public Resources which include Budgetary Investment, NIF resources and Banobras loans, for a total of USD 77.2 billion



The financial strategy established to ensure the funding of the ambitious goals contained in the National Infrastructure Program contemplates:

1. Guarantee economic and financial stability through sustainable fiscal and monetary policy,
2. Create the fiscal space to substantially increase public investment in infrastructure,
3. Development of local financial markets and institutional investors,
4. Promotion of long term domestic savings

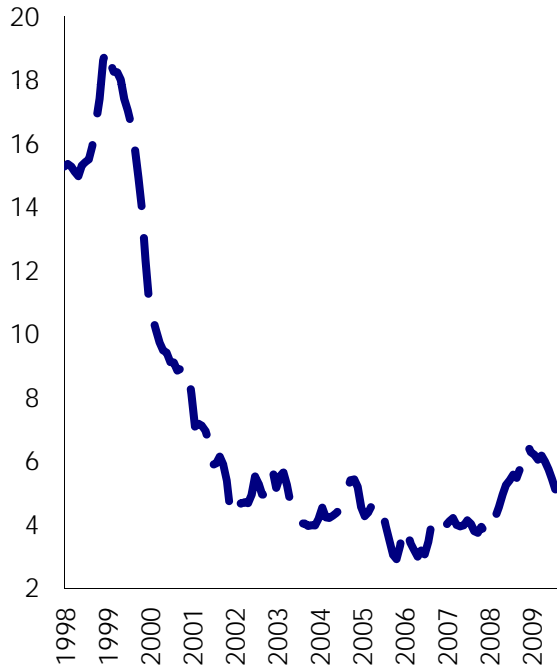
Financial Preconditions

Macroeconomic Stability



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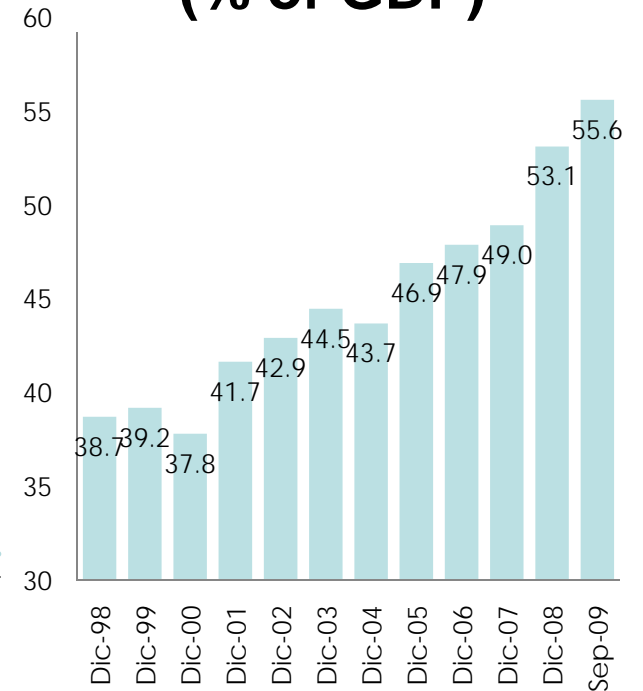
Inflation (YoY, %)



Domestic interest rates (1y, %)



Domestic Financial Savings (% of GDP)



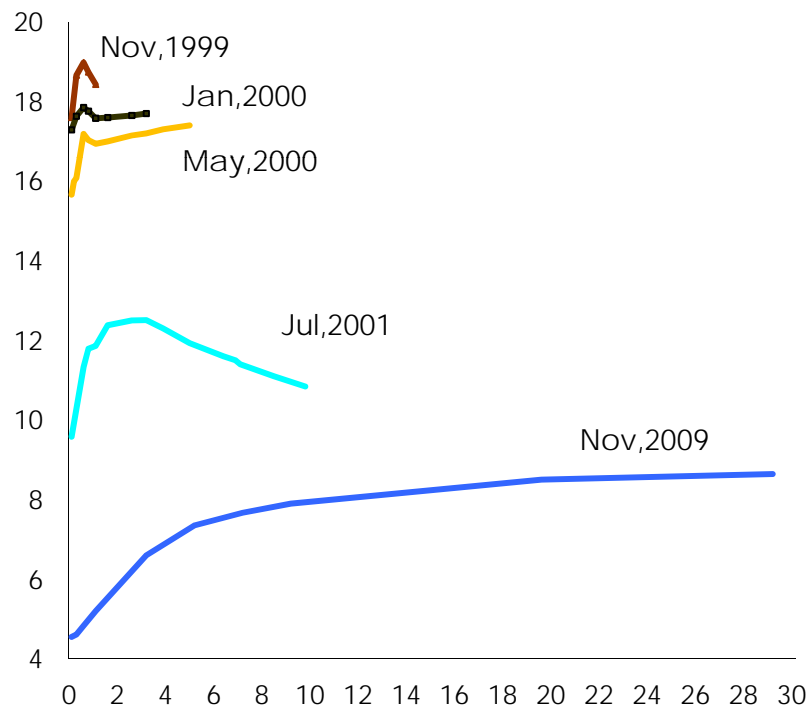
Financial Preconditions

Long-Term Debt Market

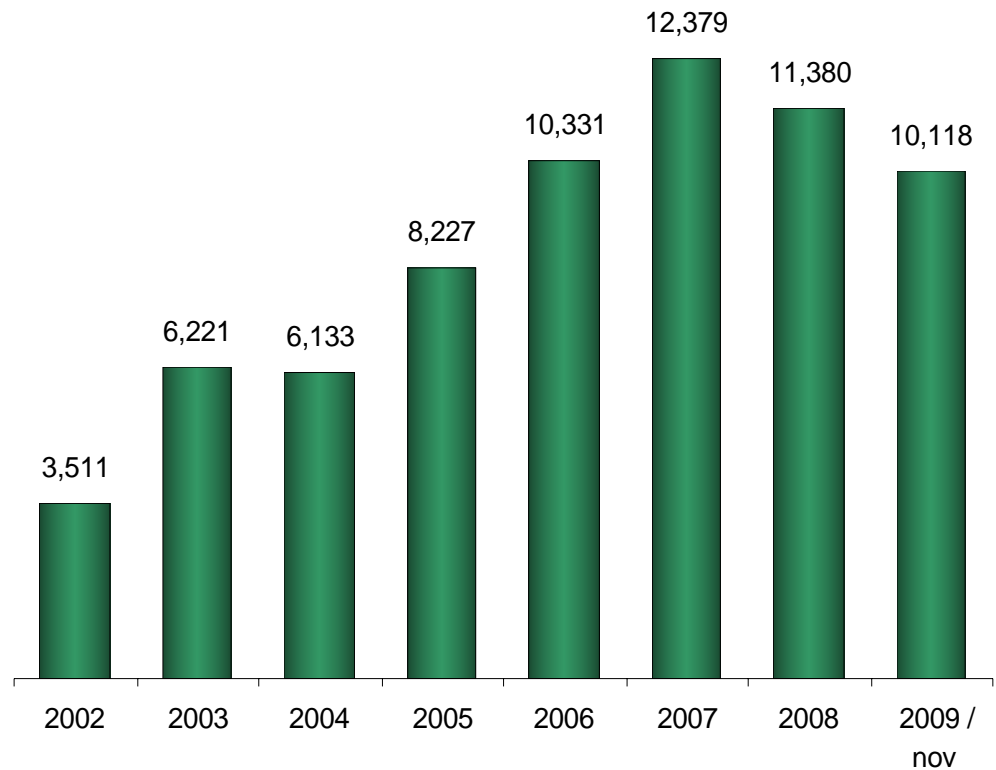


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**Local Yield Curve
(%)**



**Corporate Long Term Debt Issuance
(USD million)**



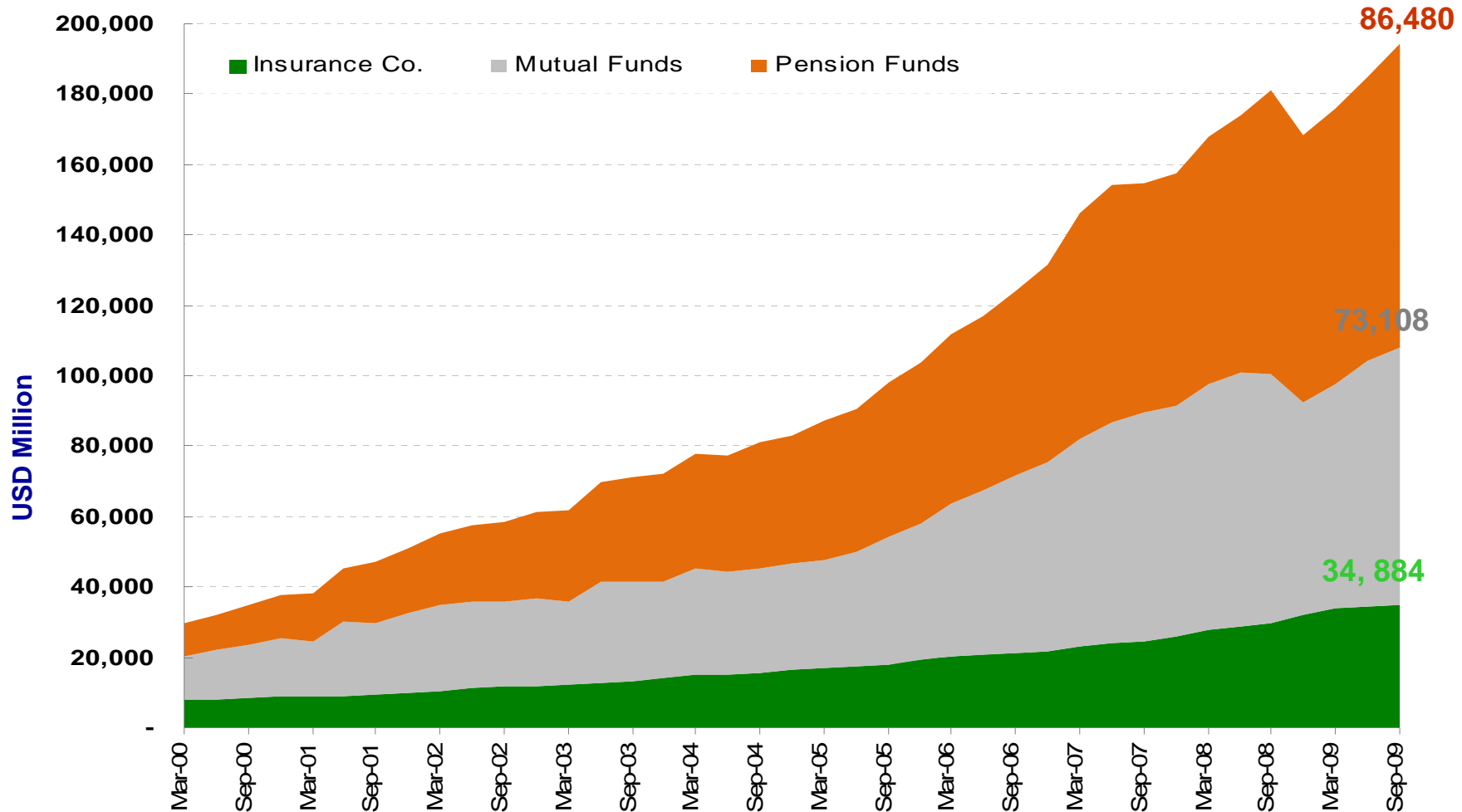
Financial Preconditions

Institutional Investors



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Institutional Investor's Assets Under Management



Source: Central Bank of Mexico

Financial Preconditions

Institutional Investors



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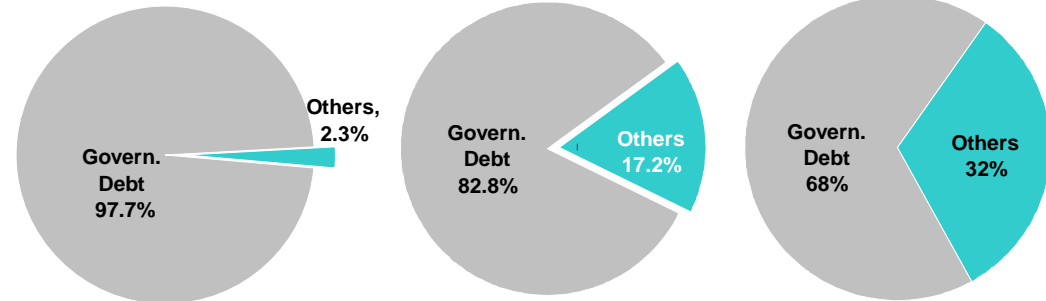
The evolution of the Institutional Investors Investment Regime has resulted in more money being channeled to productive investments

Institutional Investors' Portfolio

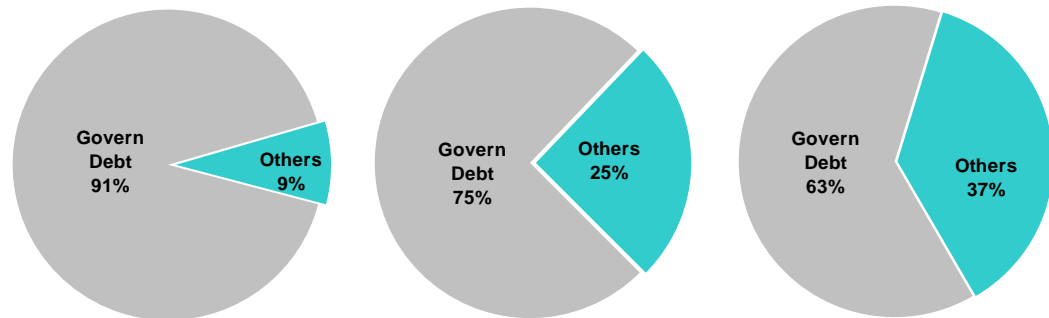
(Percentage Distribution)

January 1998 September 2005 October 2009

AFORES



All Institutional Investors



(Afores + Insurance + Mutual Funds)

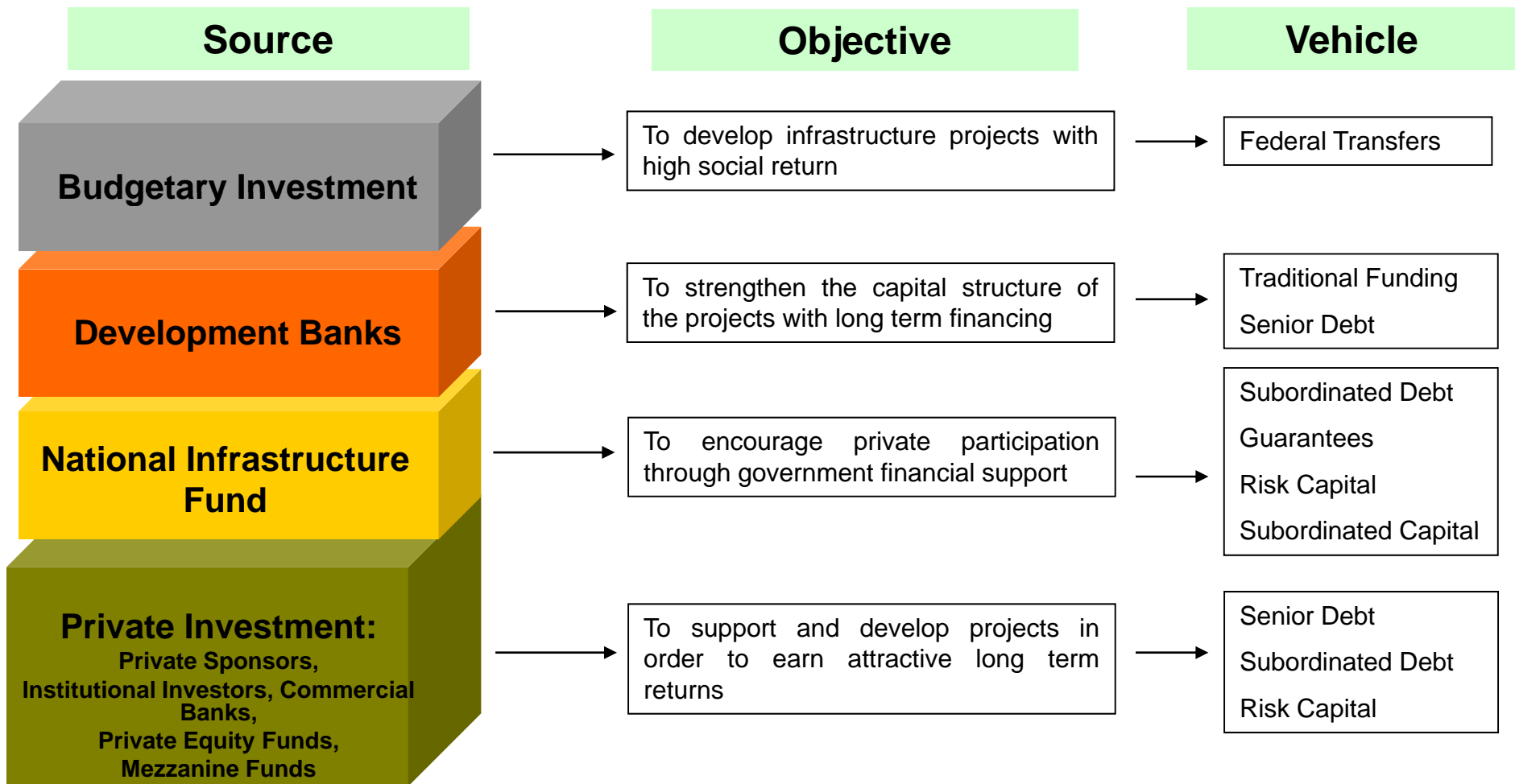
Financial Vehicles

Funding Sources



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Several financial vehicles currently exist in Mexico that facilitate the channeling of resources to infrastructure investments



Financial Vehicles

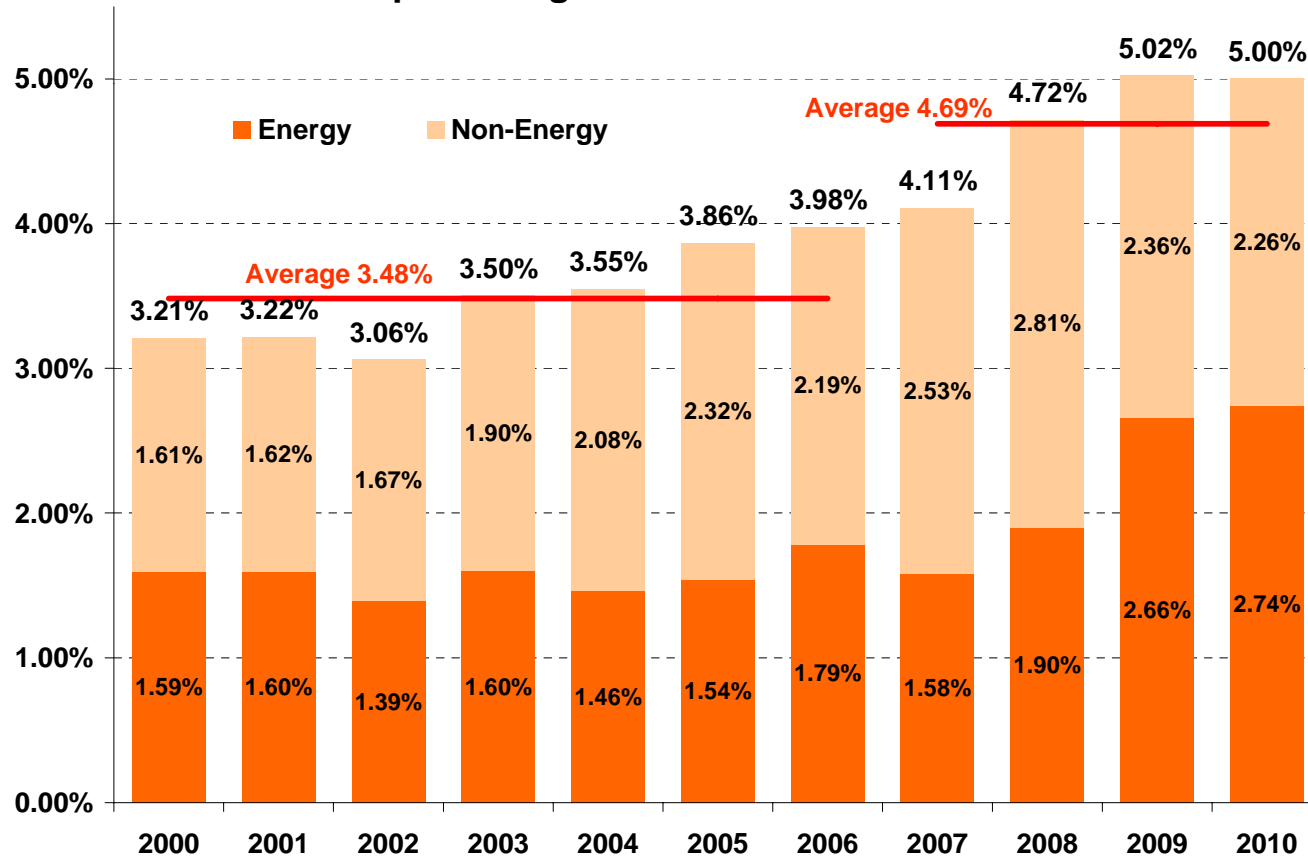
Public Resources



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Over the past 6 years, the Mexican Government has continuously increased the amount of budgetary resources to Infrastructure development, specially from 2007 to 2010

Budgetary Investment in Infrastructure as a percentage of GDP 2000 - 2010



Financial Vehicles

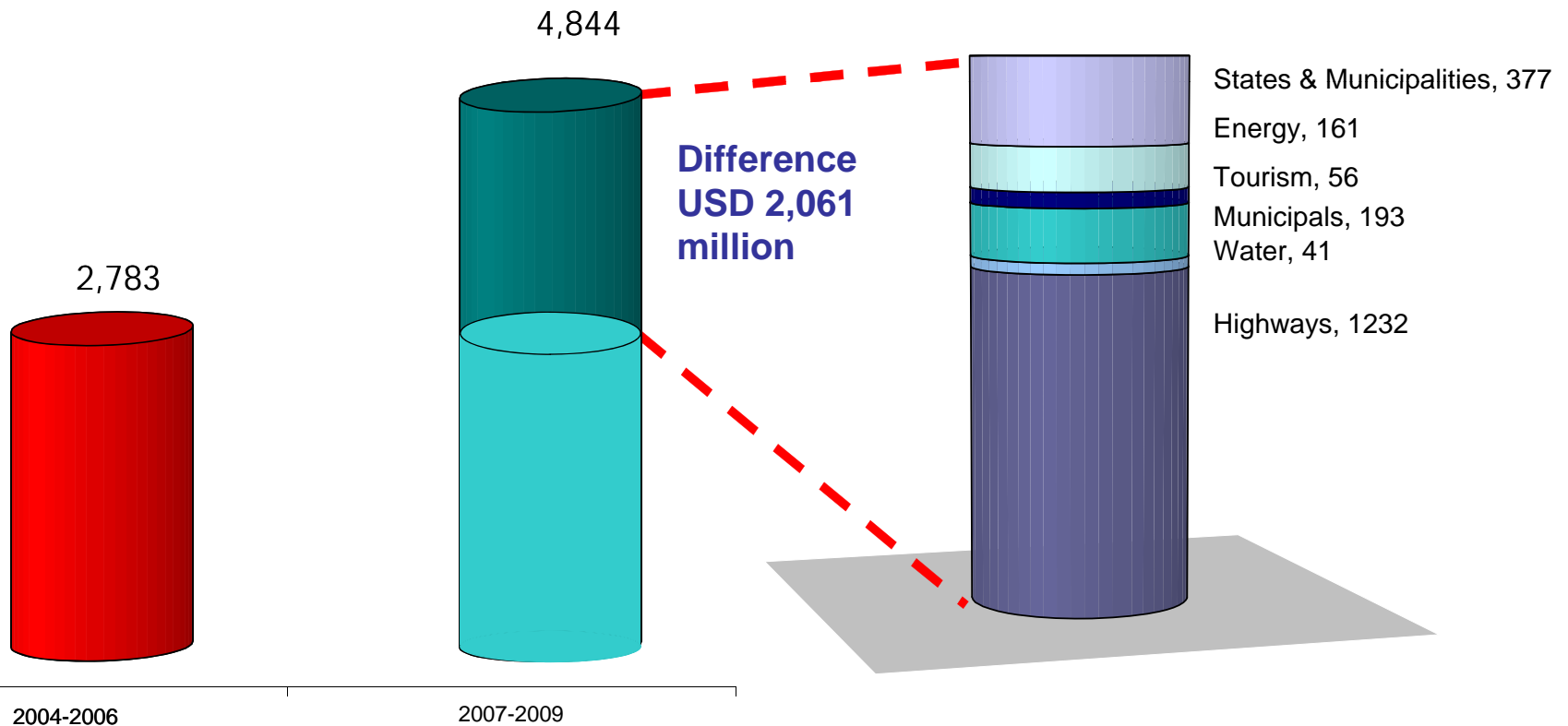
Development Banks



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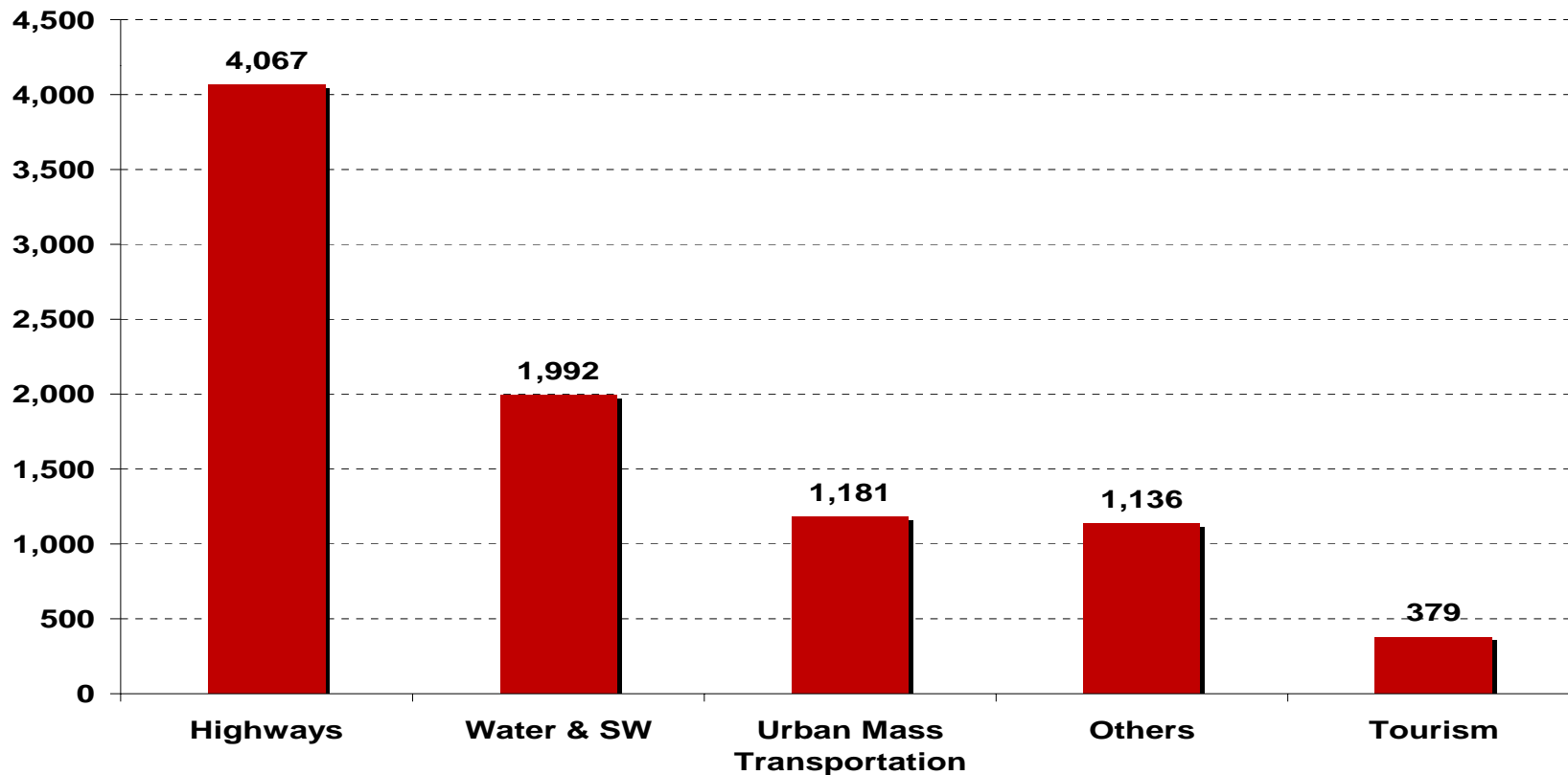
Development Banks have also played a key roll stimulating investment in infrastructure projects

Credit Allocation 2004-2006 & Credit Allocation 2007-2009
(USD million)



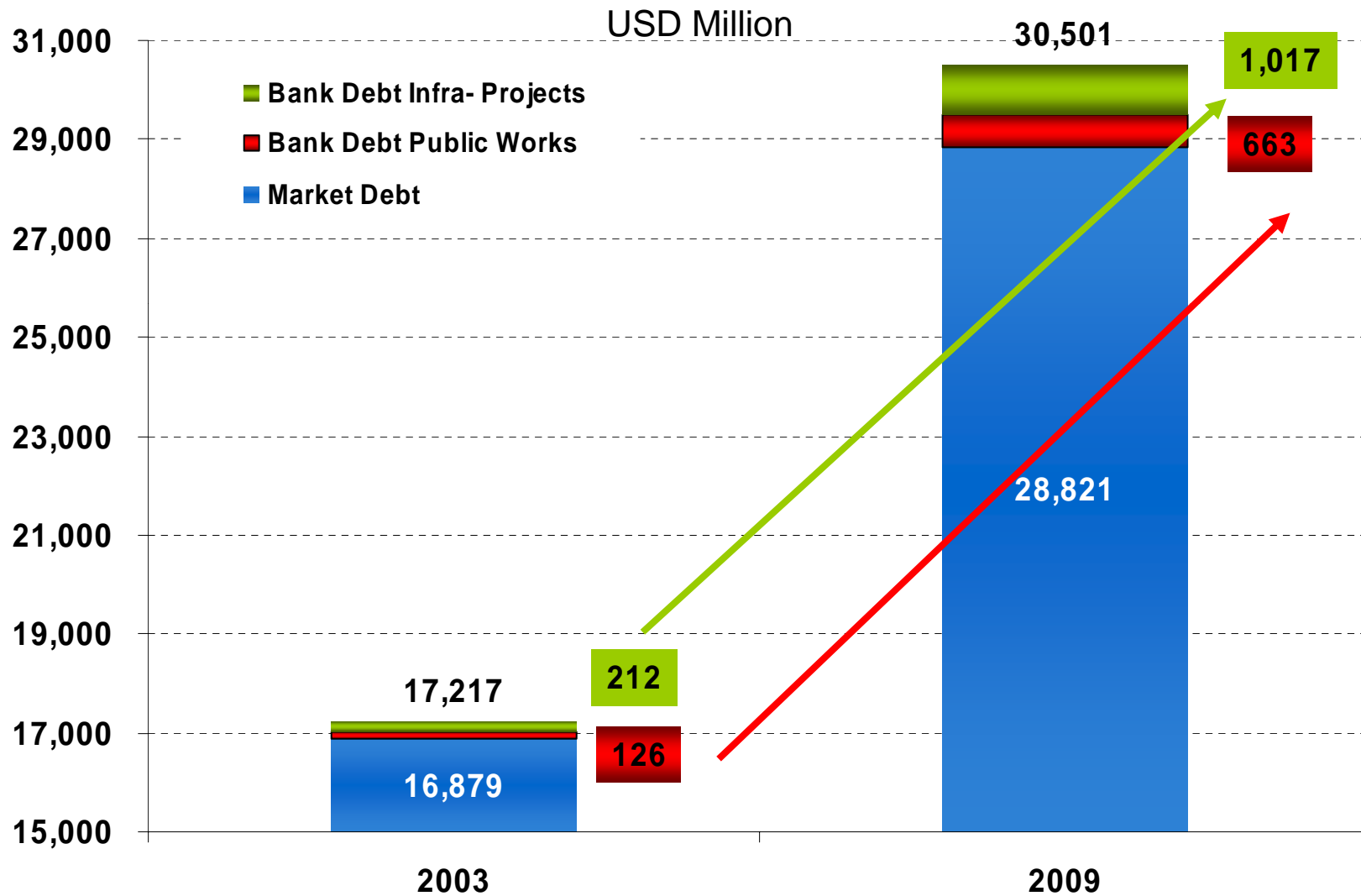
The National Infrastructure Fund (NIF) was created to be the main vehicle of the Federal Government to boost private investment in infrastructure

Total Investment-Driven by Sector
National Infrastructure Fund 2006 - 2009
(USD million)



*Source: National Infrastructure Fund

Private Credit Portfolio in Infrastructure

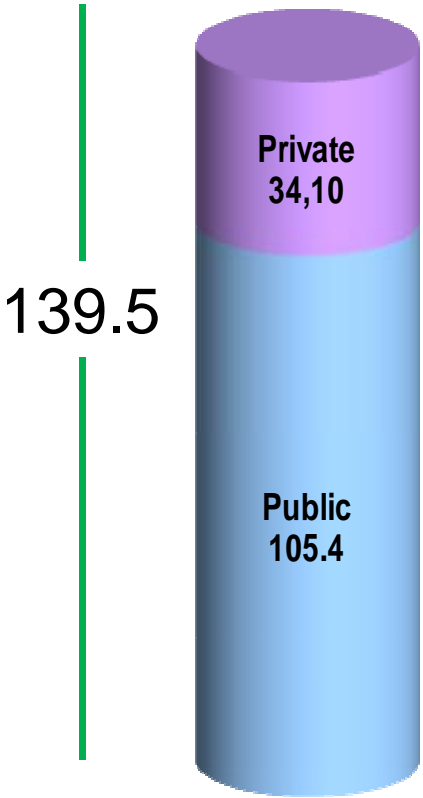




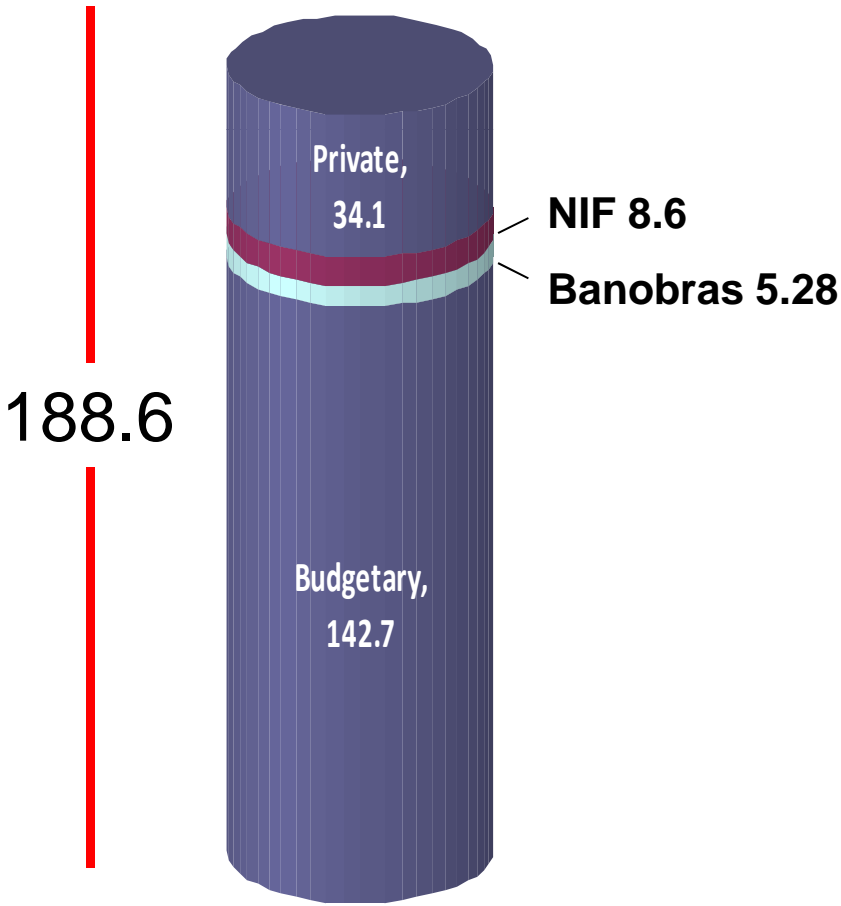
2010-2012 Perspectives

Financial Requirements & Estimates

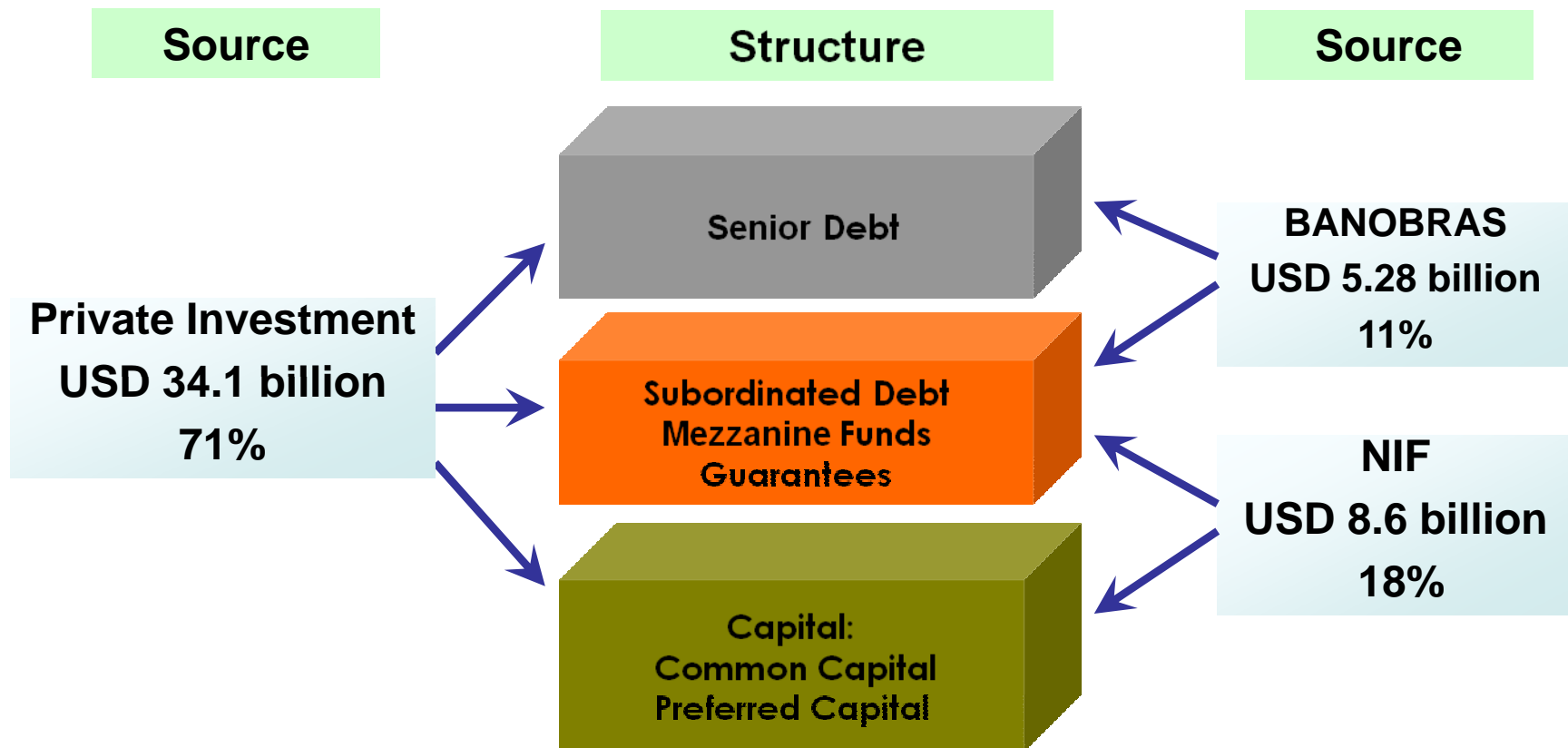
NIP's Financial Requirements (USD Billion)



Forecasted Resources (USD Billion)



An estimated USD 48 billion to finance infrastructure could come from Non Budgetary Sources



1. Modernization of the legal framework for infrastructure development
2. PEMEX Reform / New Contracts
3. Changes in the investment regimes of institutional investors
4. Auction of roads during 2010: 625 kilometers of brownfield and 344 kilometers of greenfield
5. Auctions in the Telecommunications sector: wireless communications and CFE fiber optic

1. Modernization of the Legal framework

A new law on Public Private Partnerships and diverse amendments to infrastructure legislation

Potential Benefits:

- Reduction of 15% in construction costs
- Speed up the preparation of the projects:
 - Reduction of 30% in project execution time
 - Reduction in implementation time of 4-6 months for new projects due to the possibility of assigning studies directly
- Certainty to investors:
 - The concession can be adjusted during the life of the project
 - Extension of the concession term. Future cash flows could be allocated to finance present projects

The 2008 Energy Reform gave PEMEX a more flexible legal framework that will allow it to operate more as a company and to conduct business with third parties. Main elements of the new regulation are:

- **New contracts.** They will increase operational and financial capacity of Pemex. The contracts are:
 - Incentive-based.
 - More flexible.
- **New corporate government.**
- **New Procurement process.**
- **Higher level of transparency and market discipline.**
- ***Citizen Bonds***

With the recent adjustments to AFORES Investment Regime applicable to the structured instruments, it will be possible to channel up to USD 6 billion for new infrastructure projects.

The recently created financing alternatives will bring funds to develop infrastructure and productive projects through different mechanisms:

1. Investments in individual stocks that are not part of an Index, opening the possibility of participating in IPOs
2. Structured Instruments that provide capital directly to projects or through Private Equity Funds

- Currently, Mexico has the necessary conditions of macroeconomic stability and financial market development to continue with its aggressive infrastructure agenda
- The required funding for new projects has been assured, through Banobras and the National Infrastructure Fund
- Even though the implementation of the planned infrastructure projects is assured by domestic funding sources, participation of foreign investors represents an opportunity to strengthen the financial structure and accelerate completion of projects
- Due to the investment that has taken place in early stage projects, the speed under which projects are being structured has increased. In this way, the pipeline has grown considerably
- The proposed adjustments to the legal and institutional framework will also contribute to speed up licitation processes and give more certainty to private investors
- The new Pemex contracts for exploration and production have an enormous potential to generate efficient new investments in the energy sector

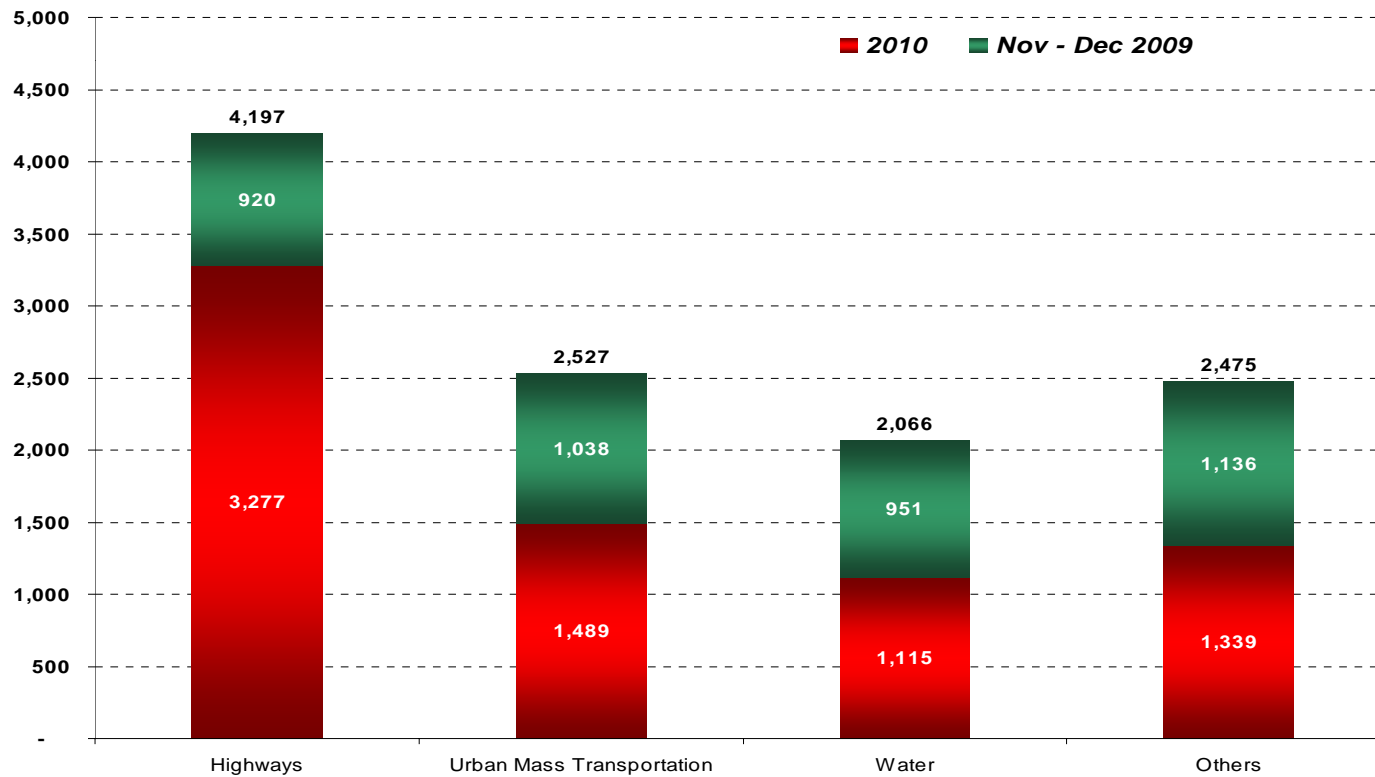
Current Pipeline of Projects with Private Participation



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For the rest of the present year and during 2010, 46 new infrastructure projects with private sector participation will be launched. These projects will detonate new investments of more than **USD 11.3 billion** during the next years with the sponsorship of the National Infrastructure Fund.

Total investment by Sector by NIF
Nov - Dec 2009 / 2010
(USD million)



*Source: National Infrastructure Fund