INDIMEX GROUP

CHANGES IN THE MEXICAN MARKET & FOREIGN INVESTMENT

WPTF NEW YORK CITY ROUNDTABLE
NEW YORK STOCK EXCHANGE
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Presentation by

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Introduction to Indimex

- Founded: 2018, with first transactions in 2019
- Headquarters: Mexico City, Mexico
- Core Focus: Procurement, marketing, trading, and optimization of refined products and liquefied gases across Mexico and Latin America

Mission

To enhance infrastructure, supply, and provision of fuels, liquiefied gas, natural gas and power throughout the Americas, while fostering local talent and supporting communities

Key Services

- Asset Optimization | Hedging | Logistics Management | Marketing | Risk Management | Trading | Advisory

Current Focus

- Investing in and operating physical assets in Mexico and the U.S.
- Expanding into renewable fuels and hydrogen markets
- Power market advisory

Topics of Discussion

- Update: Power Markets
- Update: Natural Gas Markets
- Review: Mexican Economy (FDI)
- Final Thoughts

Mexican “Leyes Secundarias” - Secondary Laws

In March of this year, Mexico's Chamber of Deputies has approved a package of secondary laws supporting the country's Energy Reform, passing with 270 votes in favor and 93 against.

The legislation introduces eight new laws and modifies two others, prioritizing PEMEX and CFE over private companies to strengthen national energy sovereignty and security. The approved laws include:

- Law of the Public State Company for CFE
- Law of the Public State Company for PEMEX
- Electric Sector Law
- Hydrocarbons Sector Law
- Energy Planning and Transition Law
- Biocombustibles Law
- Geothermal Energy Law
- Federal Energy Commission Law

Mexican “Leyes Secundarias” - Secondary Laws

Key measures include:

✅ Guaranteeing CFE at least 54% of electricity injected into the grid, protecting basic service supply and capping rates to inflation

✅ Giving PEMEX preference in exploration/extraction and simplifying its fiscal regime with a unified “Petroleum Right for Well-being”

✅ Establishing the National Energy Commission (CNE) to improve sector regulation and define private participation

Mexican Power Markets

<u>Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives</u>

Most of the contents of the proposed LSE are identical to those of the current Electricity Industry Law ("LIE").

Fundamental change:

the LIE is to "promote the sustainable development of the electricity industry"

whilst

the LSE's primary objective would be to "preserve the Nation's energy security and self-sufficiency".

Mexican Power Markets

Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives

Context & Legislative Framework

Scope: Part of a broader package of eight new laws to align with:

- 'Reformas constitucionales de octubre de 2024'
- 'Estrategia Nacional de Energía de noviembre de 2024'

Main Objective

Transition from market liberalization to energy sovereignty, security, and equity (i.e., from 'Ley de la Industria Eléctrica' - LIE to 'Ley del Sector Eléctrico' - LSE)

Mexican Power Markets

Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives

Strategic Reorientation

From: "Fomentar el desarrollo sustentable de la industria eléctrica" - LIE Art. 2
To: "Preservar la seguridad y autosuficiencia energéticas de la Nación" - LSE Art. 2 (propuesta)

Additional

- "Accesibilidad" as a new public benefit/priority in the 'Sistema Eléctrico Nacional (SEN)'

Result

- Refocus on national control and energy equity ('justicia energética' y 'pobreza energética')

Mexican Power Markets

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Market Participation and the Role of the State

- The 'prevalencia del Estado' is mandated in the Constitution (Art. 25 y 28)
- The LSE defines this as CFE holding at least 54% of energy injected into the grid annually (LSE propuesta - Capítulo II, Art. 7).

Result

- Clarity and constitutional alignment without outright banning private participation

Mexican Power Markets

Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives

Dispatch and Grid Operations

Cost of Dispatch

Defined as: "Despacho económico de carga" - LSE Art. 40 :

- Cost minimization ("minimizar costos variables")
- Reliability ("confiabilidad")
- Ownership neutrality ("sin importar propiedad de las centrales")

CENACE Independence Maintained

'Centro Nacional de Control de Energía (CENACE)' remains a separate operator - Art. 38 y 39 LSE

Result

- Supports investor trust and technical neutrality
- Moves away from 2021 law that prioritized CFE dispatch

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Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives

Generation Options and Self-Consumption

Three Categories Defined:

1. "Generación distribuida"
2. "Generación para autoconsumo" (aislado o interconectado)
3. "Generación para el Mercado Eléctrico Mayorista (MEM)"

- Exempt capacity increased: de 500 kW a 700 kW - Art. 22 LSE
- Simplified permitting for 700 kW - 20 MW, with priority for renewables - Art. 24 LSE

Result

- Favors flexible, decentralized, and renewables asset development

Mexican Power Markets

Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives

CFE and Public Service Supply

- 'Suministro Básico' remains a strategic activity (only CFE may provide it) - Art. 36 LSE (regulated retail service that delivers power to residential customers and small-to-medium commercial users whose peak demand is below 1 MW)
- CFE not subject to legal unbundling - only "separación funcional y operativa" - Art. 27 LSE

Procurement

- Bilateral or "mecanismos competitivos de adquisición" (no longer called 'subastas') - Art. 30 LSE

Result

- Clarifies role of CFE as public service provider without eliminating flexible market tools

Mexican Power Markets

Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives

Grid Access

- From: "acceso abierto y no indebidamente discriminatorio" - Art. 33 LIE - To: "cuando sea técnicamente factible" - Art. 32 LSE

Storage

- Defined in Art. 21 LSE as: "Conjunto de componentes que permiten almacenar energía para su uso posterior o inyección a la red" - Permit requirement per 'SENER' and compensated per 'CNE'

Result

- Institutionalizes storage as part of the power value chain

Mexican Power Markets

Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives

MEM

- "Mercado Eléctrico Mayorista" remains the operative platform - Art. 44 LSE

Clean Energy Certificates (CELs)

- No longer dependent on date of generation - Art. 45 LSE
- Validity = 30 months
- New obligations determined annually for a three-year window

Result

- Improves liquidity and transparency in CEL markets
- Opens clean energy credit system to older or repowered assets

Mexican Power Markets

<u>Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives</u>

Authorities and Governance

- SENER gains broader authority
  - Authorize 'importaciones y exportaciones de electricidad' - Art. 47 LSE
  - Approve 'evaluación de impacto social (EVIS)' - Art. 48 LSE - CNE (Comisión Nacional de Energía): deconcentrated from SENER, handles "planificación vinculante" and regulation - Art. 50 LSE

Result

Elevates the planning function while retaining core institutional independence (esp. CENACE)

Mexican Power Markets

Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives

Transitional Provisions and Legacy Framework

'Régimen transitorio':

- LIE-derived regulations remain valid "en lo que no contravengan la LSE"
- Existing contracts and permits remain enforceable - Disposiciones Transitorias

- Legacy schemes acknowledged:
  - Members of 'empresas de autoabasto' may opt out of legacy permits/contracts

Result

Provides legal certainty and procedural clarity to investors and developers

Mexican Power Markets

<u>Mexico's Proposed Electricity Sector Law (LSE) – Key Power Market Changes & Positives</u>

Conclusion:

✅ Positive Evolution in a Strategic Realignment

✅ Despite the ideological pivot toward state primacy, the draft LSE: - Retains technical-economic dispatch principles

✅ Continues MEM structure and CEL markets

✅ Balances sovereignty with regulated competition

✅ Brings overdue attention to energy access, equity, and planning

Mexican Natural Gas Markets

Synopsis

Under Sheinbaum's administration, Mexico has undertaken major energy reforms, aiming for energy sovereignty and state-led control, especially strengthening Pemex and CFE.

Major changes include the creation of the National Energy Commission (CNE), the replacement of the 2014 Hydrocarbons Law with a new Hydrocarbons Sector Law, and a set of initiatives to increase domestic natural gas production, expand pipeline infrastructure, and reduce reliance on U.S. imports.

U.S.–Mexico Cross-Border Pipeline Capacity

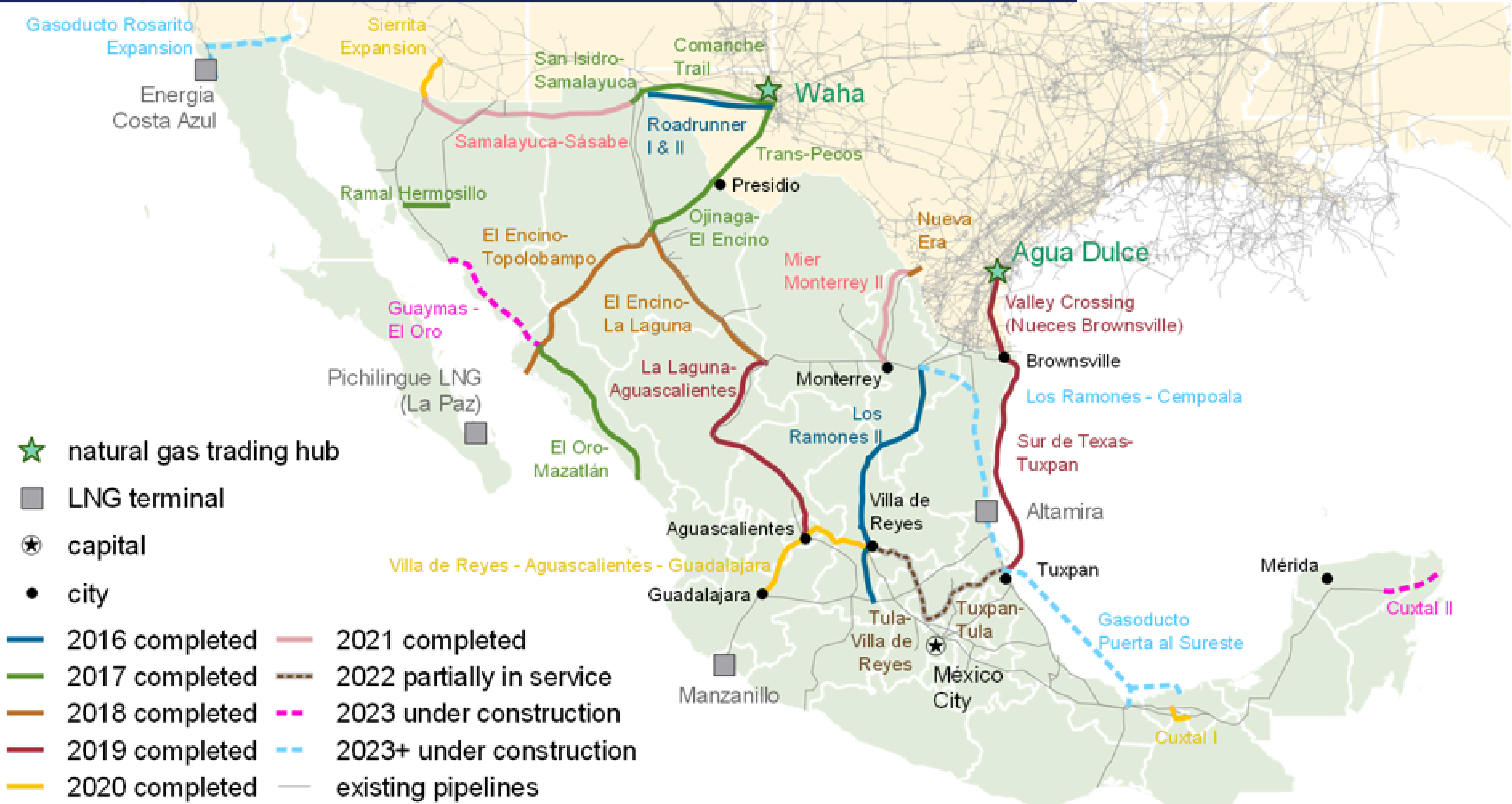
As of 2024, Mexico's cross-border pipeline capacity from the U.S. is approximately 11 Bcf/d, with major pipelines like Sur de Texas–Tuxpan, NET Mexico, and the Wahalajara system.

Mexican Natural Gas Markets

Cross-border capacity has reached ~11 Bcf/d, with major pipelines like:

- Sur de Texas–Tuxpan (2.6 Bcf/d)
- NET Mexico (2.1 Bcf/d)
- Wahalajara system (~3 Bcf/d)

Mexican Natural Gas Markets



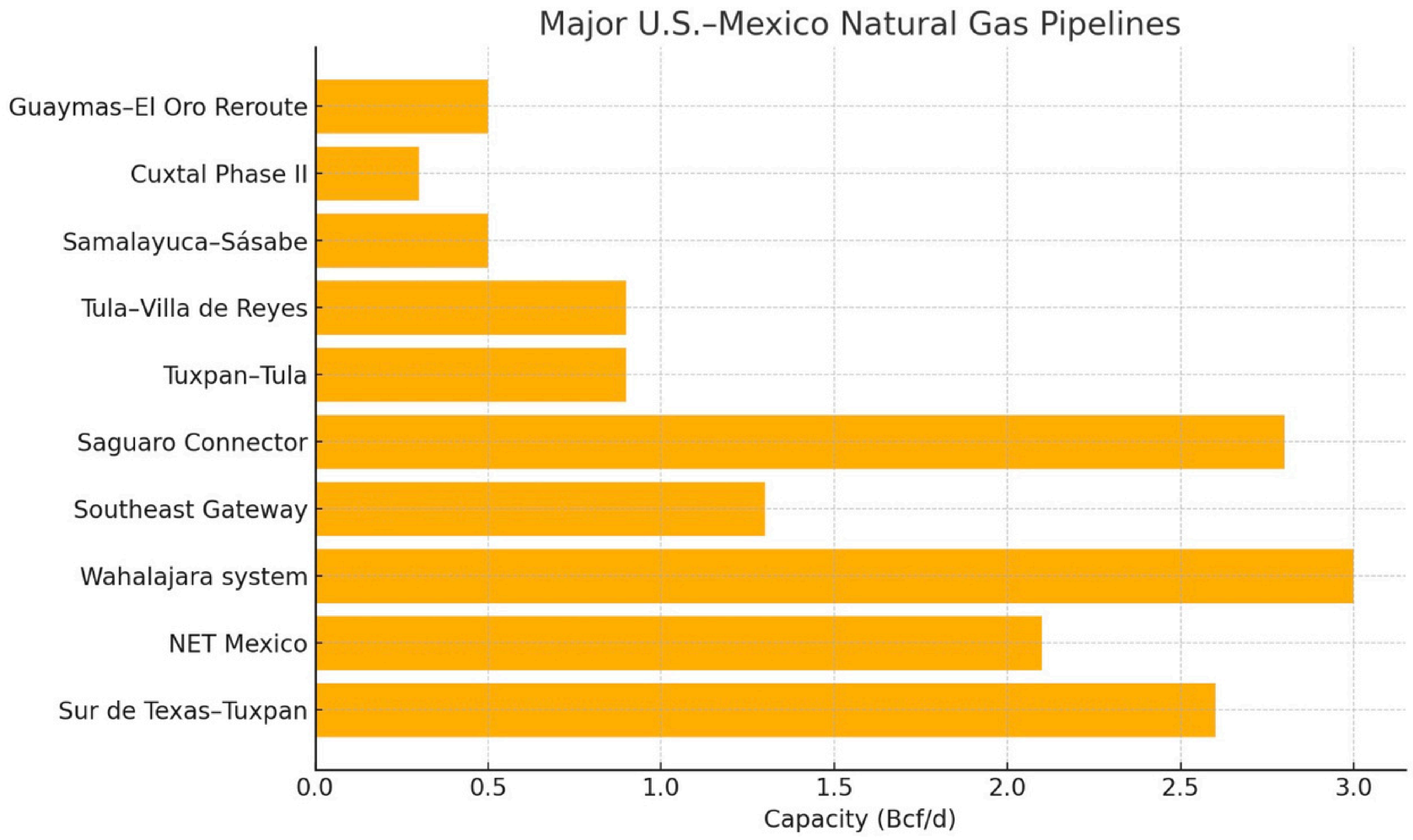
Mexican Natural Gas Markets

Key expansions underway include:

- Southeast Gateway (1.3 Bcf/d, ready mid-2025)
- Saguaro Connector (2.8 Bcf/d, targeted 2025–2026)
- Tuxpan–Tula Pipeline (0.9 Bcf/d, due by 2025)
- Tula–Villa de Reyes (0.9 Bcf/d, online in 2023)
- Samalayuca–Sásabe (0.5 Bcf/d, operational since 2021)
- Cuxtal Phase II (Yucatán connector, ~0.3 Bcf/d, completed 2023)
- Guaymas–El Oro Reroute (restoration pending, 2025 target)

These projects dramatically increase import and distribution capacity, particularly to underserved regions like Yucatán and northwest Mexico.

Mexican Natural Gas Markets



Mexican Natural Gas Markets

Private Sector Access to Pipeline Capacity

Most capacity is contracted long-term by CFE and Pemex, leaving limited firm capacity for the private sector. Private companies can access capacity via:

1. Open seasons run by CENAGAS (e.g., the 2024 auction offering ~0.62 Bcf/d)
2. CFE's new capacity release auctions
3. Interruptible service on underutilized lines
4. Joint ventures with state firms

Challenges include regulatory and policy uncertainty, dominance by state companies, underdeveloped secondary markets, and reliance on intermediaries like CFEnergía. While frameworks for open access exist, the reality is shaped by CFE's and Pemex's dominant positions.

Mexican Natural Gas Markets

Recent 2025 Regulatory Changes

The new Hydrocarbons Sector Law grants Pemex preferential upstream rights, allows easier private partnerships, and emphasizes energy sovereignty.

Secondary regulations are due by September 2025.

Notably, the government is reconsidering fracking to boost domestic shale gas production, signaling a policy shift toward reducing U.S. dependence.

Mexican Natural Gas Markets

Opportunities

- Exist for private firms in pipeline development (in partnership with CFE), LNG terminals, and industrial supply via CFEnergía.
- Requires navigating a system where most capacity is controlled by state entities, and where regulatory centralization may prioritize national goals over private competition.
- Expansion of cross-border pipelines and domestic connectors in 2025–2026 presents a window for private investment, especially if secondary markets mature and more flexible access rules are introduced.

FDI to México

Historical Overview and Context

- Over the past five years (2019–2024), Mexico has emerged as one of Latin America's most attractive FDI destinations, consistently ranking among the top three in the region, alongside Brazil and Chile

- This positioning reflects its large domestic market (over 130 million people), manufacturing backbone, competitive labor costs, and proximity to the United States.

- Crucially, the US–Mexico–Canada Agreement (USMCA), which replaced NAFTA in 2020, has provided updated trade and investment protections that continue to anchor investor confidence

FDI to México

Five-Year Trends: Detailed FDI Evolution

FDI inflows averaged $32–36 billion/year. COVID-19 caused a dip in 2020 (~$27 billion), but by 2023–2024, inflows hit record highs (~$36–37 billion).

Sector shares: Manufacturing 49–54%, Financial services 15–20%, Trade/logistics/tourism 15%, Mining/natural resources 4–7%, Energy declining to ~6%.

Two-Year Trends (2023–2024)

Manufacturing surged with Tesla's gigafactory and BMW EV expansions. Energy lagged, marked by Iberdrola's $6 billion divestment.

FDI composition in 2024: Reinvested profits $28.7B (78%), New investments $3.3B (9%), Inter-company loans ~$5B (13%).

One-Year Trends (2024)

2024 saw record-high inflows but fragile new project launches

Strong: Automotive, electronics, finance, logistics
Weak: Energy and mining, hurt by policy uncertainty

FDI to México

Energy Sector Analysis

- Oil/gas private investment stalled; government favors Pemex
- Renewable projects (solar, wind) face legal and regulatory barriers
- Energy FDI fell from $5–6B/year (mid-2010s) to ~$2.8B/year (2019–2023), with net negative flows in 2023 due to major foreign exits

Sector Comparison: Energy vs. Other Sectors (2024)

- Manufacturing (~54% of total FDI): Led by automotive, electronics, aerospace.
- Financial services (~18%): Banks, fintech expansion.
- Logistics and trade (~10%): Ports, freight, e-commerce hubs.
- Tourism/hospitality (~7%): Hotel chains, resorts.
- Mining (~5%): Lithium, copper, gold, facing regulatory caution.
- Energy (~6%): Declining, marked by foreign divestment.

FDI to México

<u>Legal and Economic Frameworks</u>

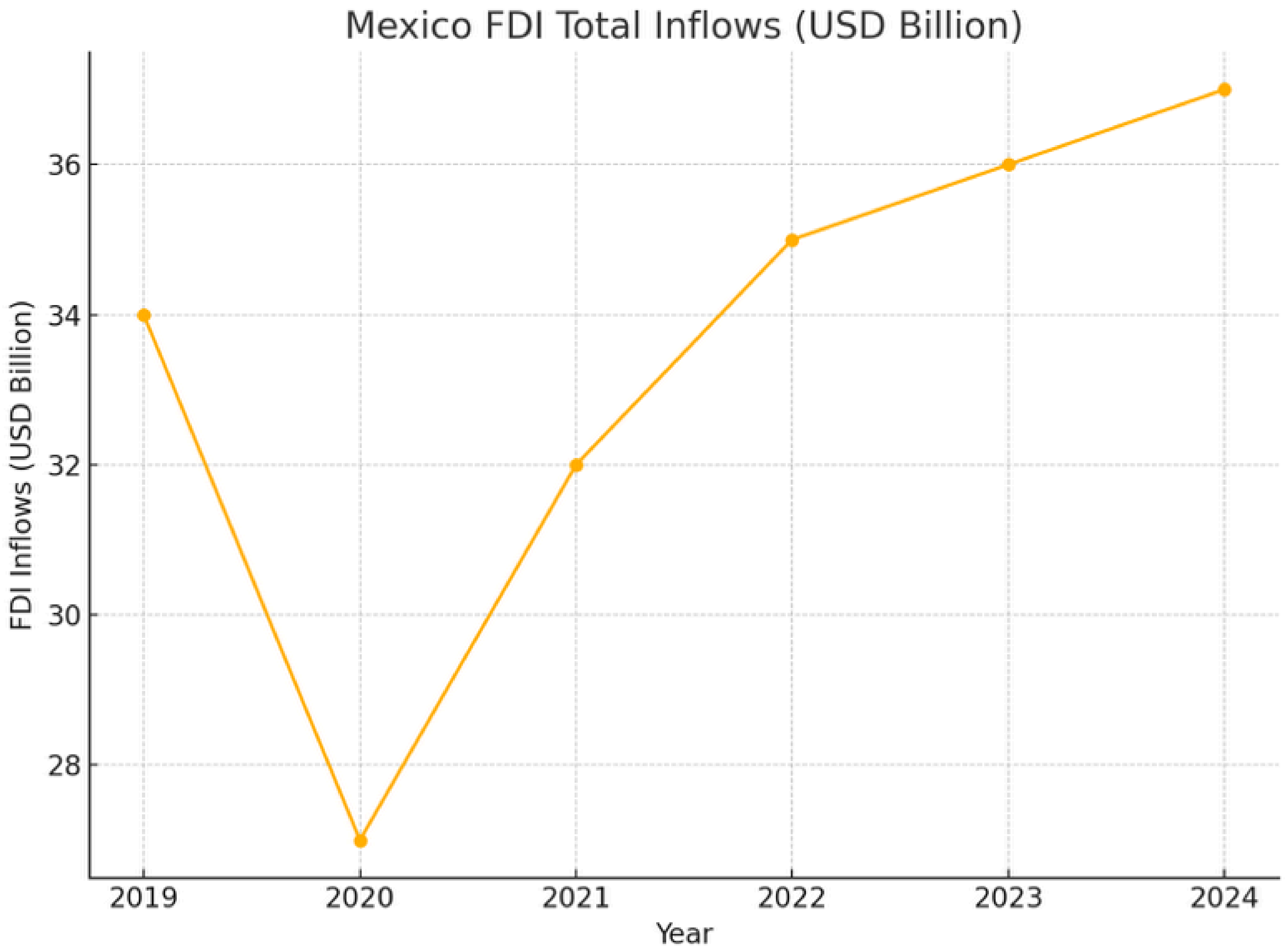
USMCA provides dispute mechanisms and protections. However, Mexico's reversal of 2013 energy reforms complicates private participation, raising legal tensions under the treaty.

<u>Geopolitical Pressures and Risks</u>

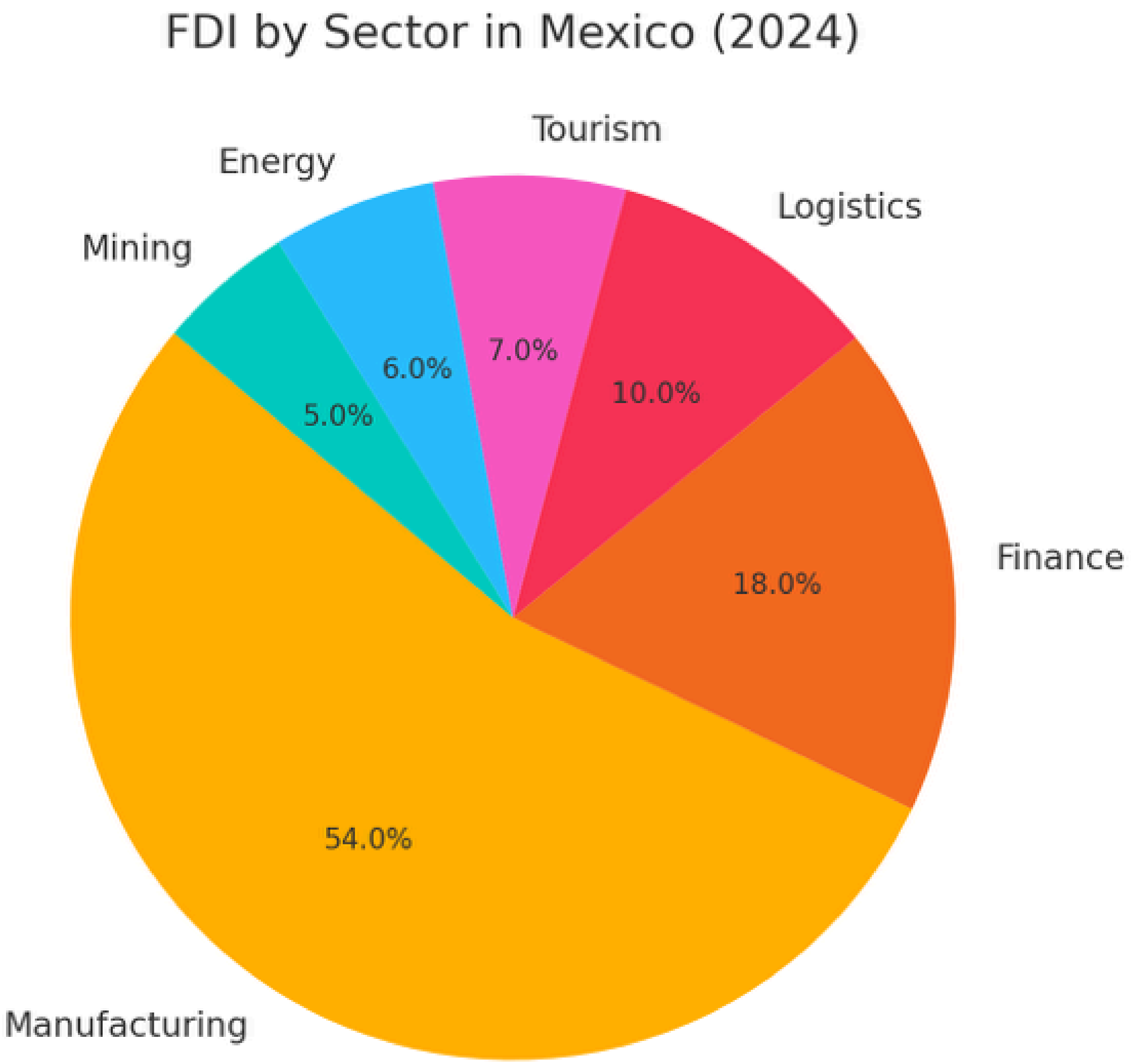
Trump's tariff threats (up to 25%) create uncertainty for export-focused FDI.

U.S.–China tensions accelerate nearshoring into Mexico, while energy transition dynamics shape long-term investment attractiveness.

FDI to México



FDI to México



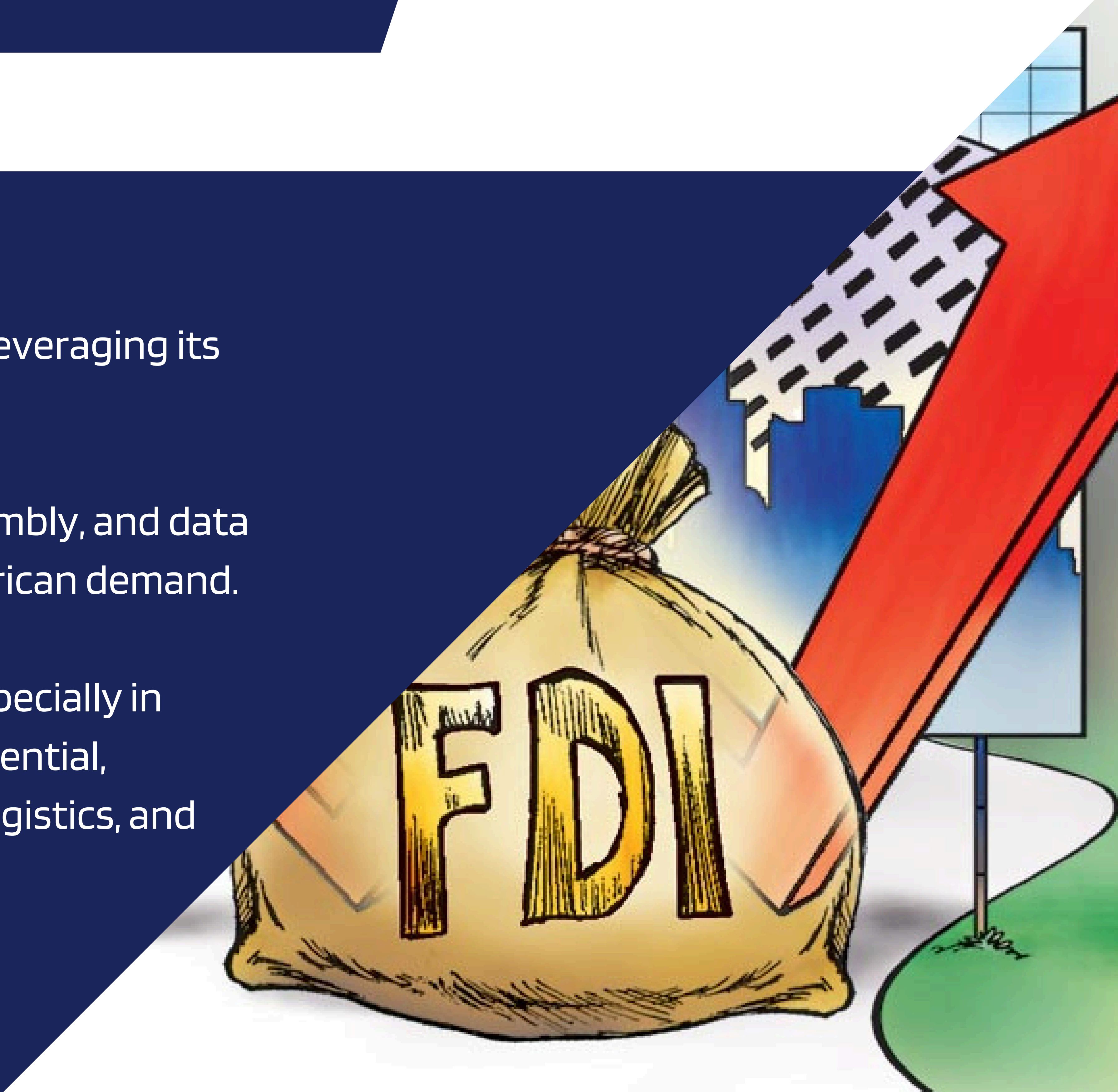
FDI to México

<u>High Potential</u>

✅ Mexico is well-positioned to capture the global nearshoring wave, leveraging its proximity to the U.S. and competitive manufacturing base.

✅ Major growth sectors include electric vehicles, semiconductor assembly, and data centers, where foreign investment is accelerating to meet North American demand.

✅ With targeted policy clarity and infrastructure improvements — especially in energy and power reliability — Mexico can unlock even greater FDI potential, transforming itself into a top-tier hub for advanced manufacturing, logistics, and digital infrastructure.



Changes in the Mexican Market & Foreign Investment

Thank you for your attention!

Open the floor for questions!