



NAFTANEXT
Investment Climate in Mexico
April 2014

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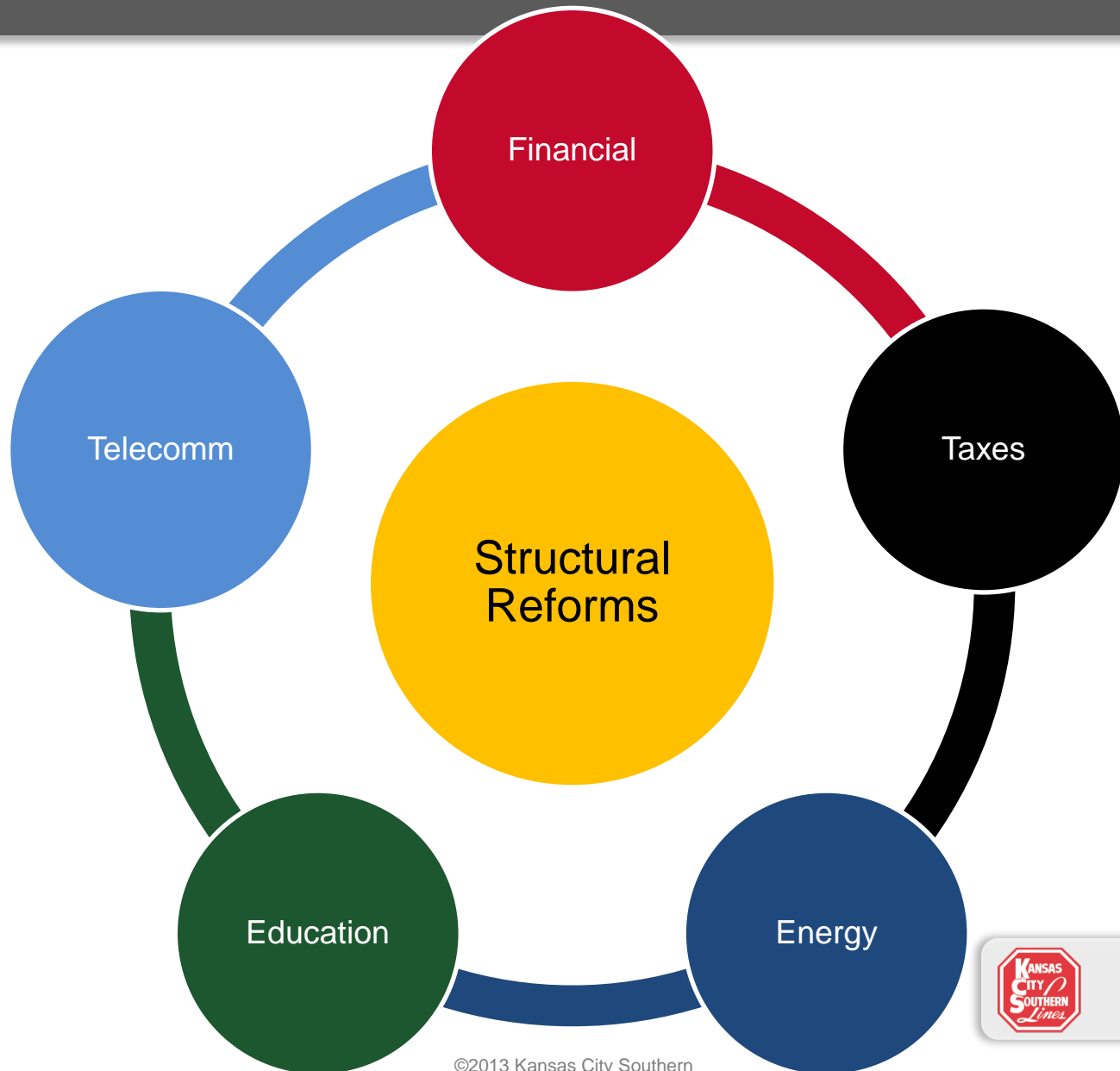


Index

1. Structural Reforms
2. 2013 GDP's behavior during 2013
3. Mexican stock exchange behavior during 2013
4. Foreign investment
 - KCS investment
5. Economic impact of the Tax Reform
6. Mexico's main political actors that influence the business climate
7. KCS as a case of success



1. Structural Reforms



The 2013 reforms will open key sectors of the economy...

- Competition
- Telecommunications
- Energy



Sources of images: <http://www.stevewiens.com/wp-content/uploads/2013/05/COMPETITION-1.jpg>; <http://www.yoursharepointexperts.com/PublishingImages/pages/Telecom/telecom.jpg>; http://petroleum.mst.edu/media/academic/petroleum/images/oseberg_sor_platform_PE.jpg



And improve the quality and/or availability and cost of inputs

- Education
- Financial
- Labor: from the final days of the prior Administration

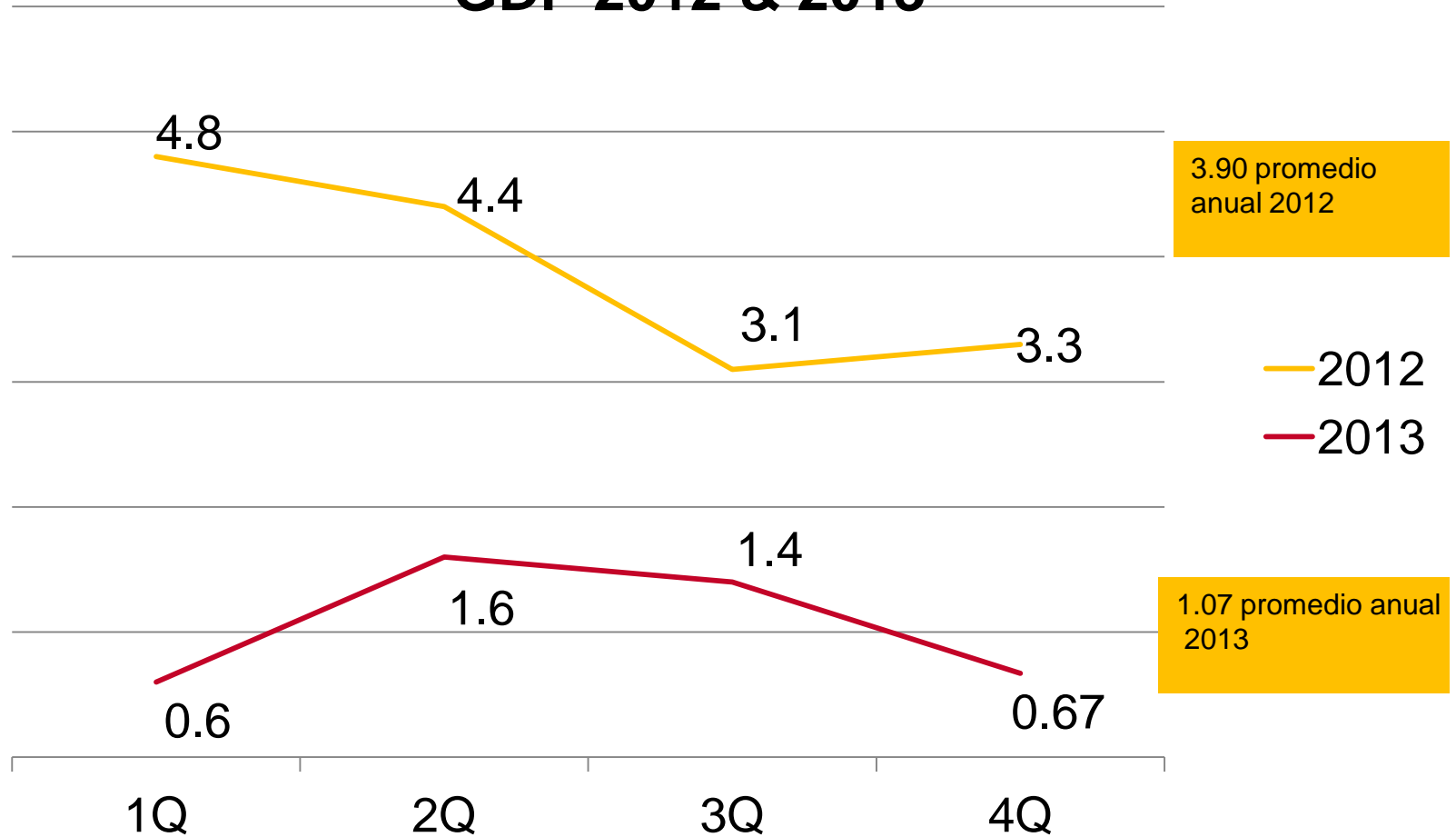


Sources of images: <http://mexicotoday.org/sites/default/files/sites/mexicotoday.org/files/i9jy6jULIfUo.jpg?1352923199>;
<http://mexicoinstituteonelections.files.wordpress.com/2011/06/education-mexico.jpg>; http://www.unomaha.edu/college-of-business-administration/finance-banking-real-estate/_files/images/finance1.jpg



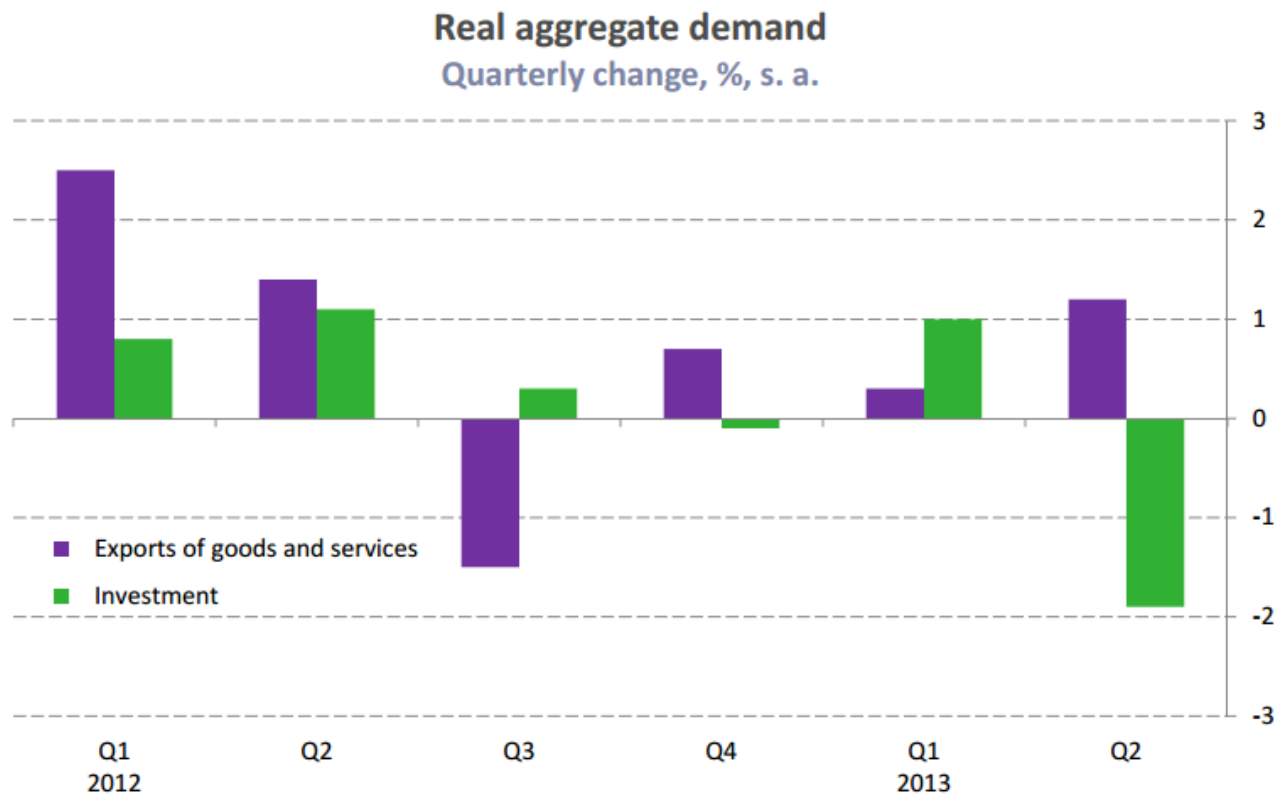
2. GDP's behavior during 2013

GDP 2012 & 2013



2. GDP's behavior during 2013

- The origin of the declining growth seems to have lied first in softer external demand and then in a contraction of domestic investment



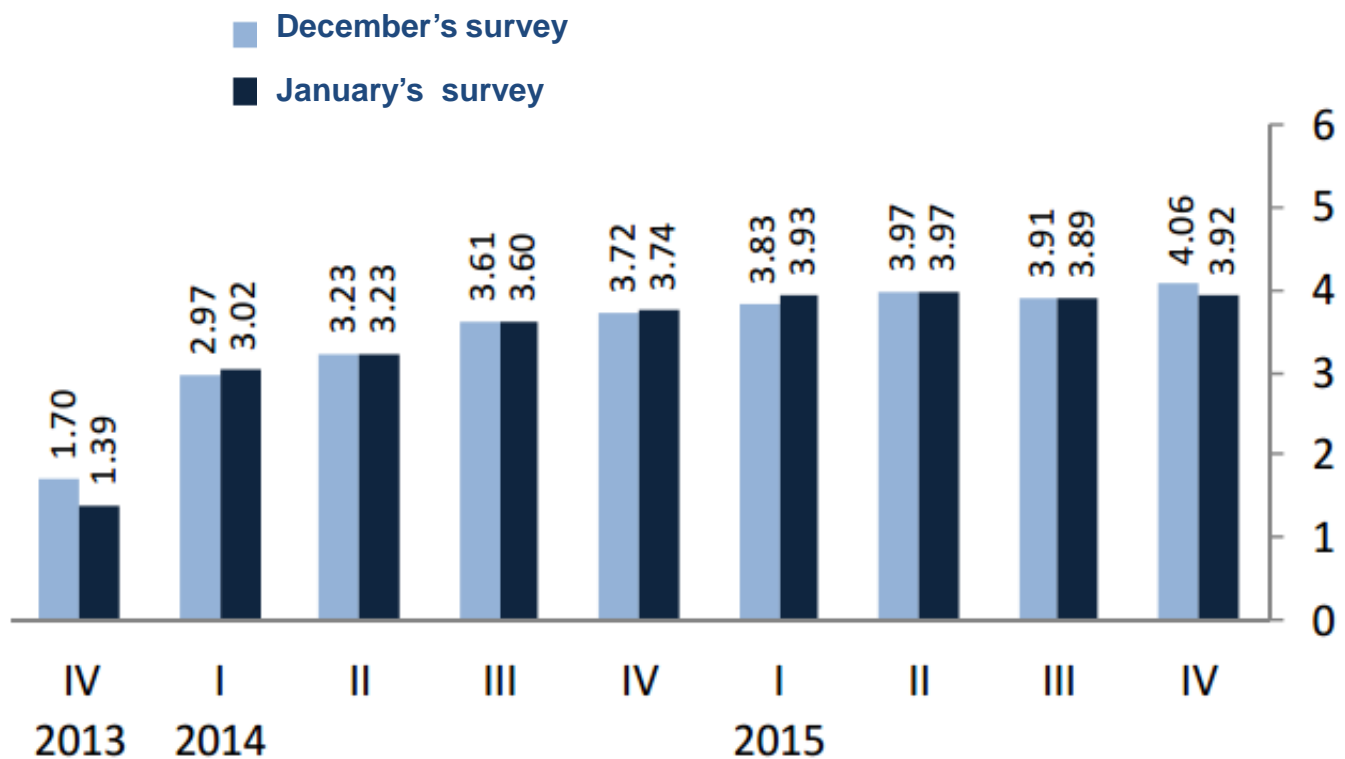
s. a. / Seasonally adjusted
Source: INEGI



GDP's expectation for 2014 and 2015

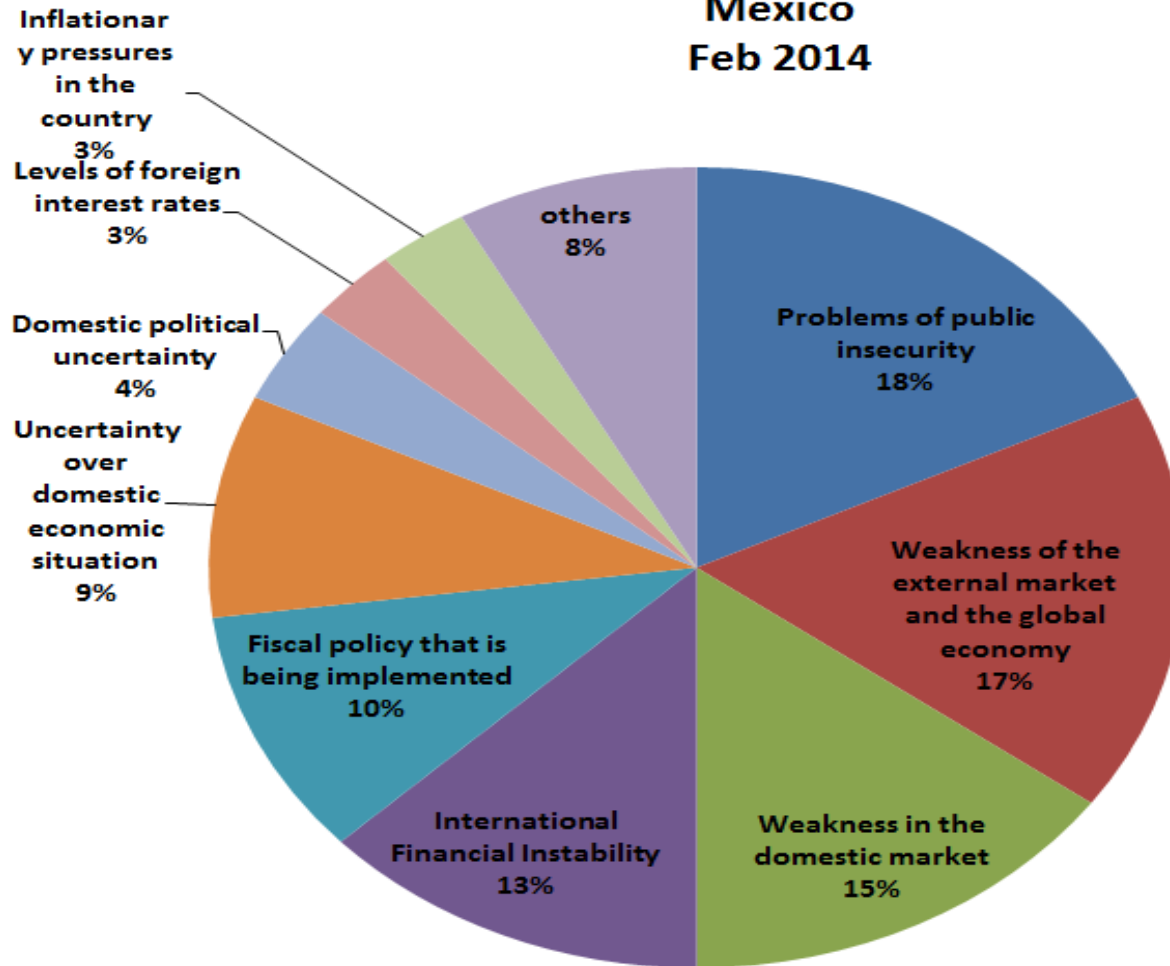
Forecast variation of GDP by quarter 2014 and 2015

Annual percentage rate



Expected GDP's behavior during 2014

Main factors that could affect economic growth in Mexico Feb 2014



Source: Encuesta sobre las Expectativas de los especialistas en Economía Del Sector Privado, Febrero 2014, Banxico



3. Stock Exchange behavior



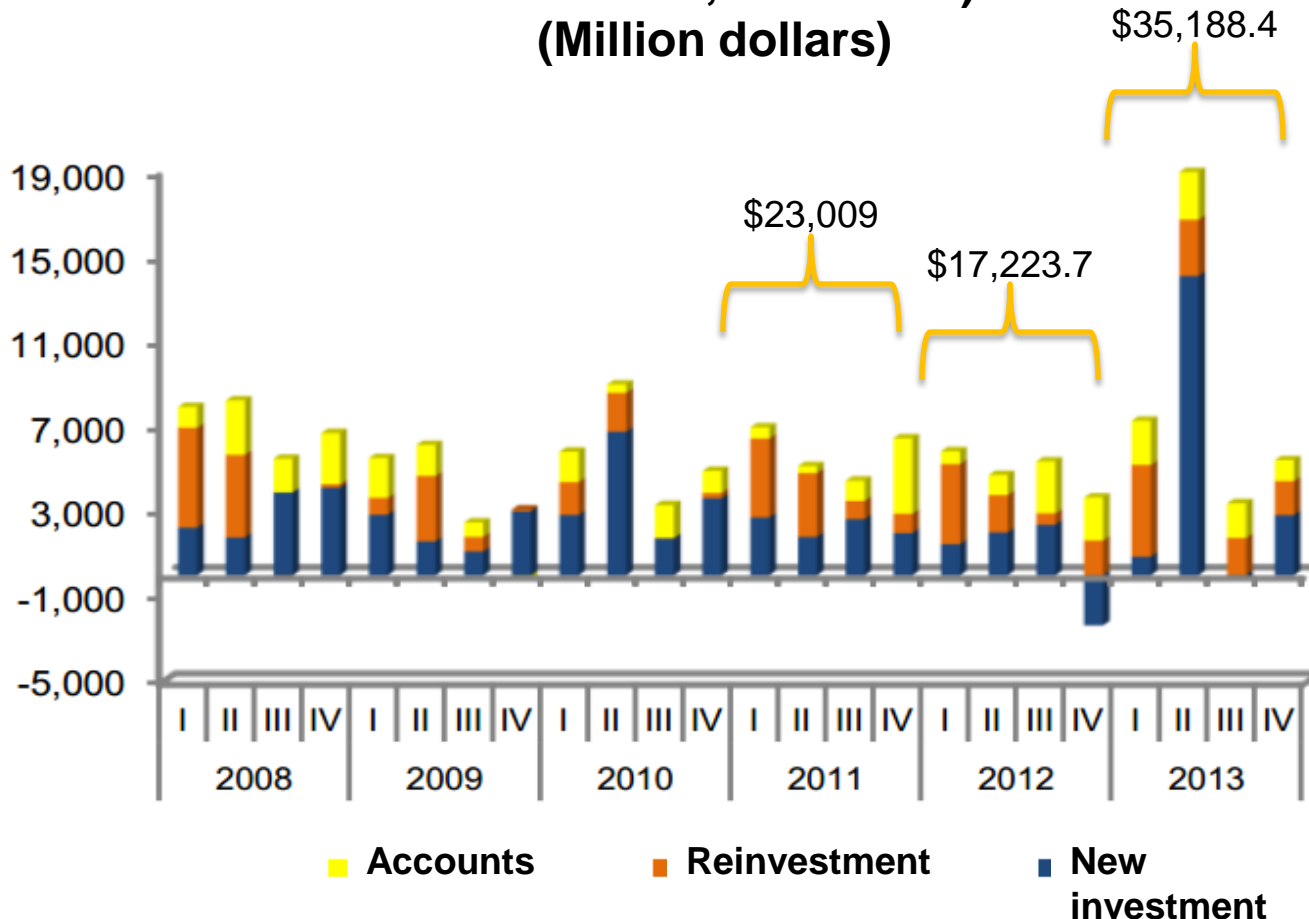
Mexican Stock Exchange opened 2013 with 43,076.86 points and closed with 44,336.04.

2014 close expectations= 45,600 points



4. Foreign investment

**Foreign direct investment flow to Mexico (by kind of investment, 2008-2013)
(Million dollars)**

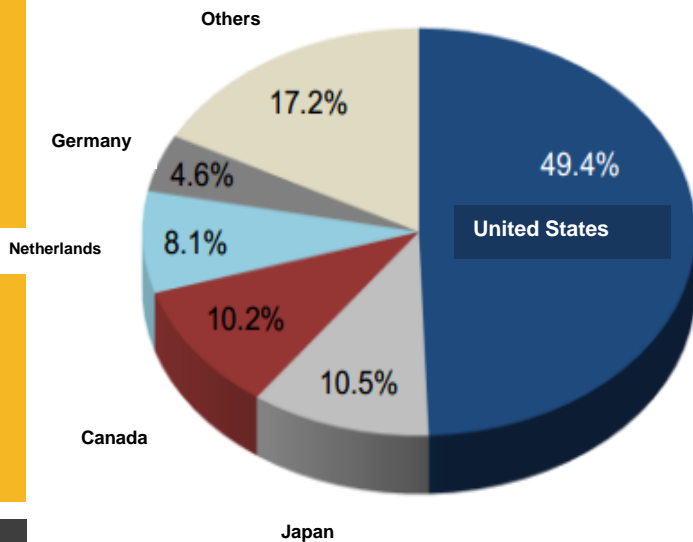


Ministry of Economy
December 31st, 2013

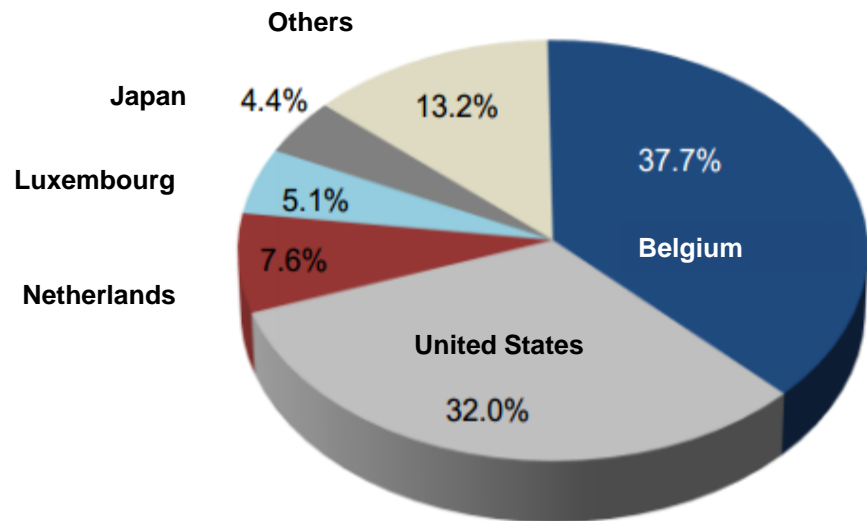


4. Foreign investment

FDI flows to Mexico by country of origin, 2012
(percentage share)



FDI flows to Mexico by country of origin, 2013
(percentage share)

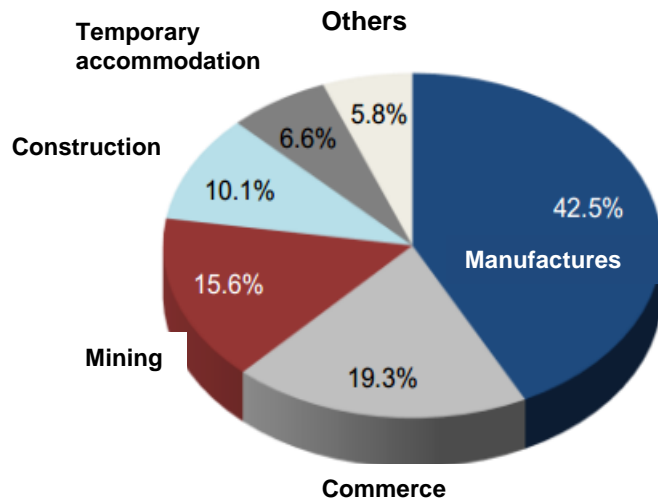


Source: Ministry of Economy
To December 31, 2013

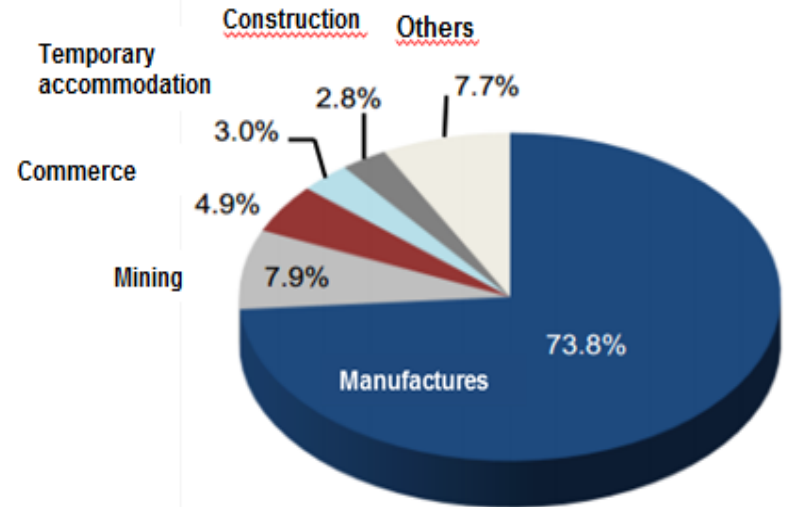


4. Foreign investment

FDI flows to Mexico by target sector 2012 (percentage share)



FDI flows to Mexico by target sector 2013 (percentage share)

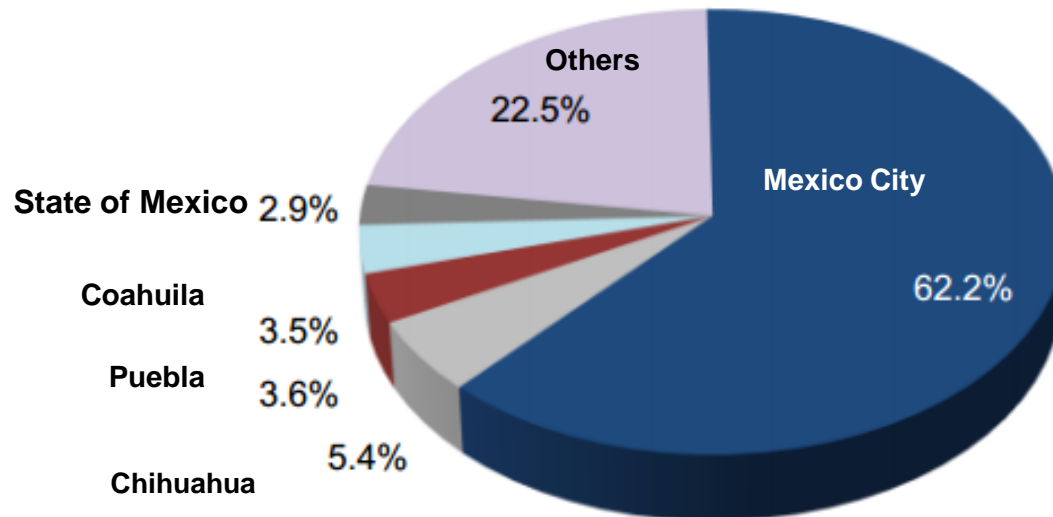


Source: Ministry of Economy
To December 31st, 2013



4. Foreign investment

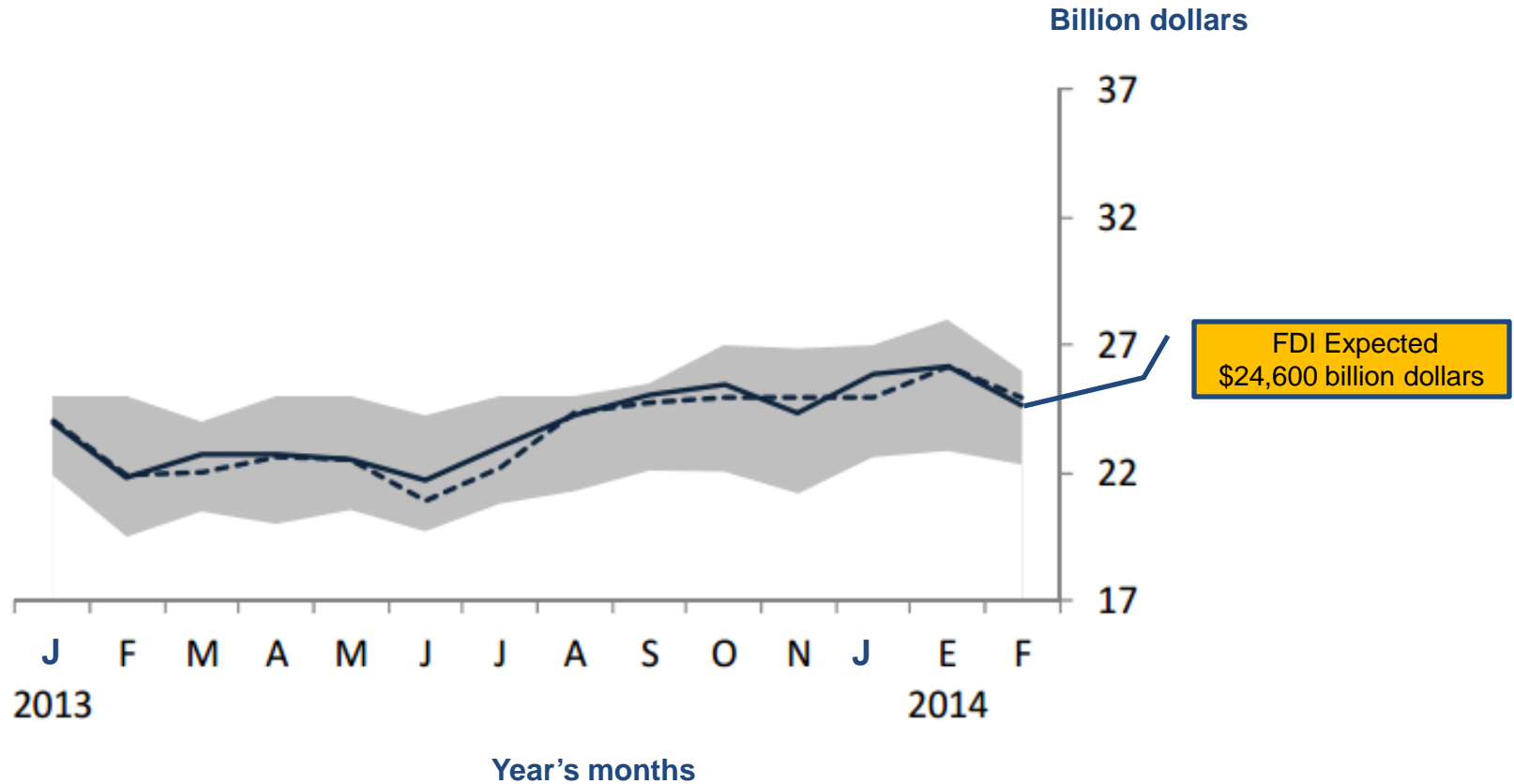
COMPOSITION OF FDI INTO MEXICO BY STATE, 2013*/ (percentage share)



*/ Information at December 31, 2013.
Source: Ministry of Economy

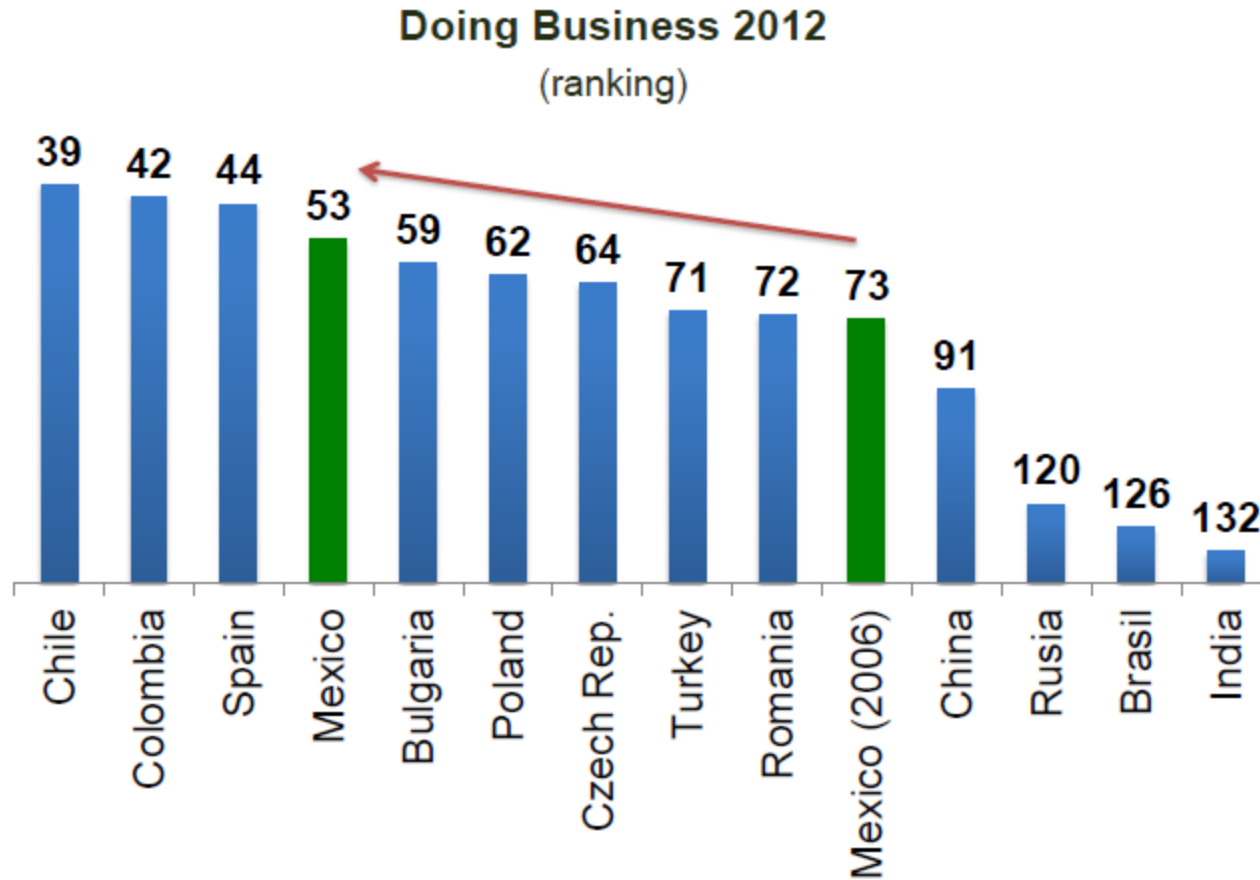


Foreign Direct investment forecast for 2014



Competitiveness

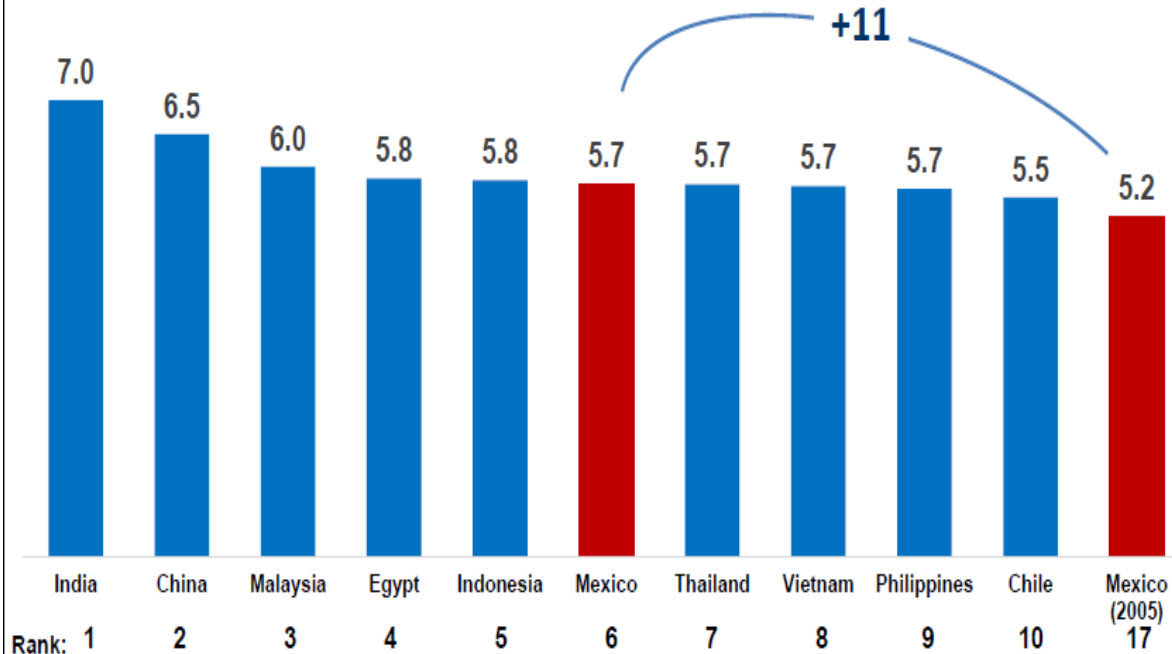
Mexico advanced 20 places in the World Bank *Doing Business* index.



Competitiveness

México a place of offshore opportunities amid economic turbulence

Global Services Location Index*, 2011
(score and ranking)



This index includes:

- Financial attractiveness: tax and regulatory costs, infrastructure cost, compensation cost
- People skills and availability: education and language, attrition risk, labor force availability, remote services sector experiences and quality ratings
- Business environment: infrastructure, cultural exposure, country environment, security of intellectual property.

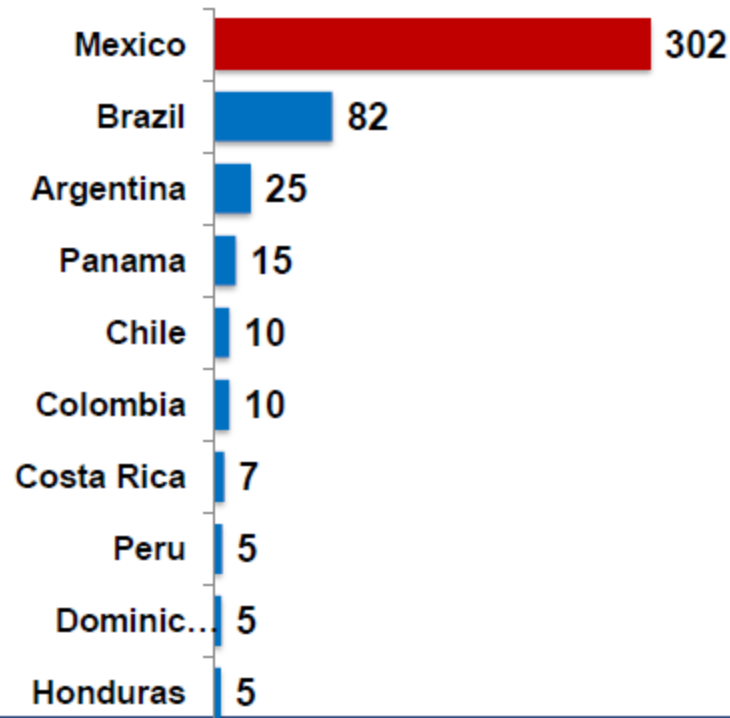
*Index metric: *Financial attractiveness, people skills and availability and business environment.*



Manufacturing powerhouse

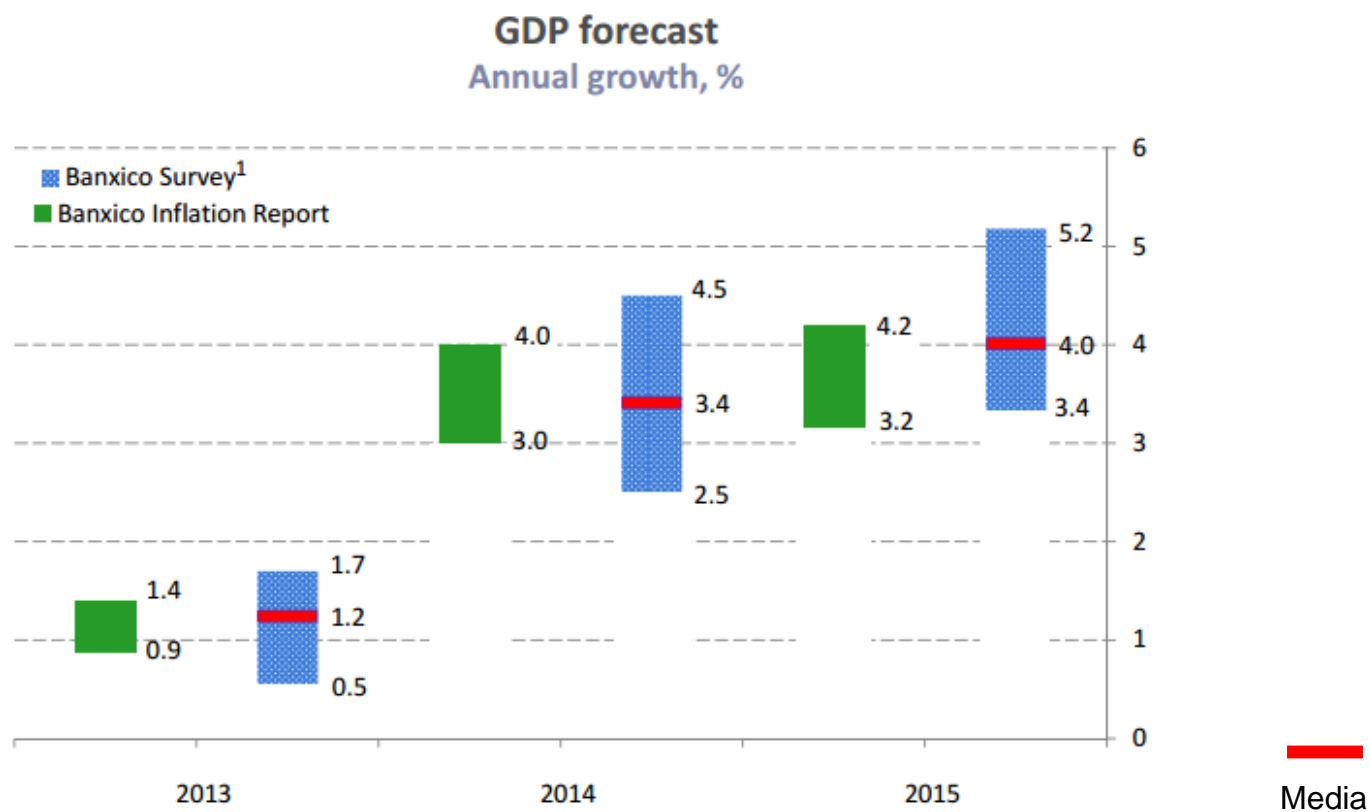
Mexico exports more manufactured goods than the rest of Latin America and the Caribbean combined.

Exports of Manufactured Goods from Latin America and the Caribbean 2012
(billion USD)



5. Economic impact of the Fiscal reform

- According to Mexico's Central Bank, the 2014 fiscal package will impact inflation, economic activity, and the use of financial resources.
- The economy is expected to recover gradually in 2014 and 2015.



1/ Maximum, average and minimum

Source: Banco de México (2013), *Encuesta sobre las expectativas de los especialistas en economía del sector privado*, October; Banco de México (2013), *Informe sobre la Inflación Julio – Septiembre 2013*, November; and Latin-American Consensus Forecasts. October

6. Mexico's main political actors that influence the business climate



Enrique Peña Nieto
President



Luis Videgaray Caso
Secretary of Finances



Ildefonso Guajardo Villarreal
Secretary of Economy



Francisco Nicolás González Díaz
Chief Executive of ProMéxico

6. Mexico's main political actors that influence the business climate



Pedro Joaquín Coldwell
Secretary of Energy



Emilio Lozoya Austin
PEMEX Chief Executive



Alfonso Navarrete Prida
Secretary of Labor



Gerardo Ruiz Esparza
Secretary of Communications and
Transportations



Carlos Fernando Almada López
Undersecretary of Transportations.



6. Mexico's main political actors that influence the business climate



Miguel Ángel Osorio Chong
Secretary of Interior



Luis Enrique Miranda Nava
Undersecretary of the Interior

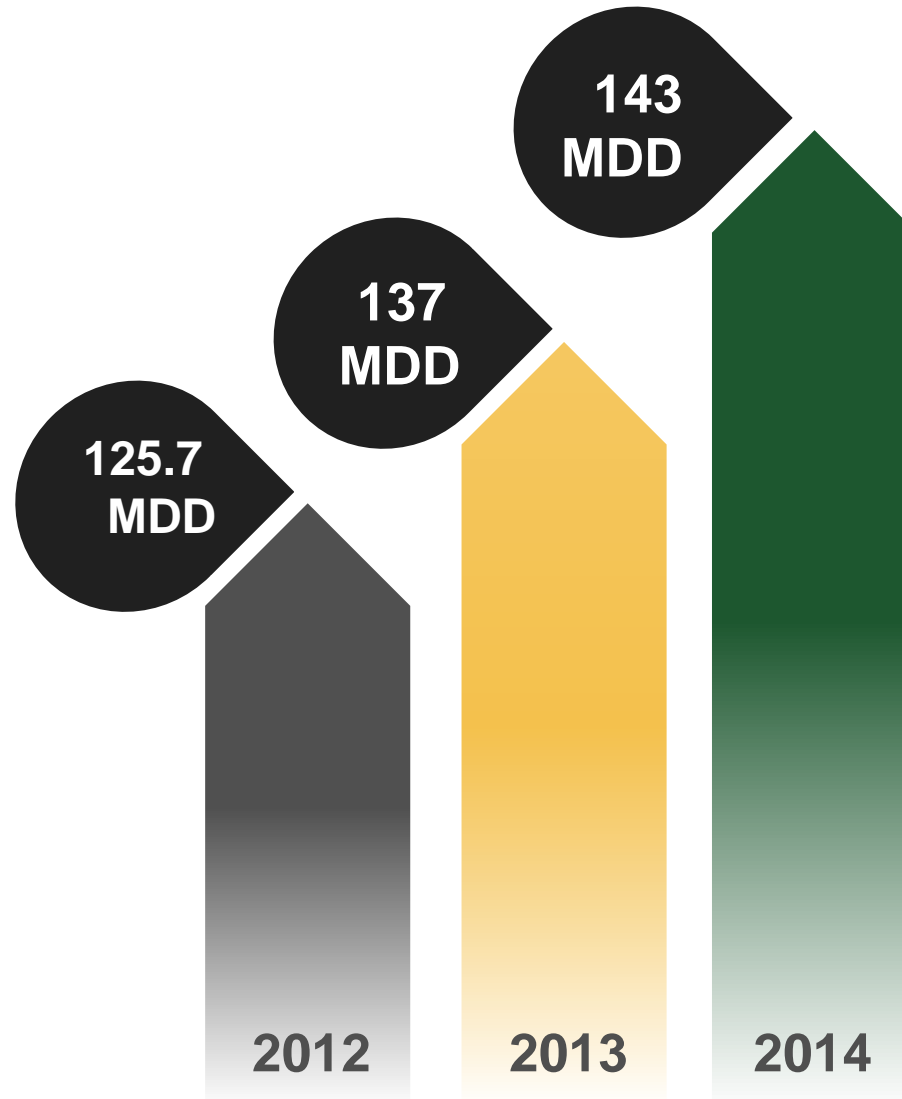


Monte Alejandro Rubido García
National Security Commissioner

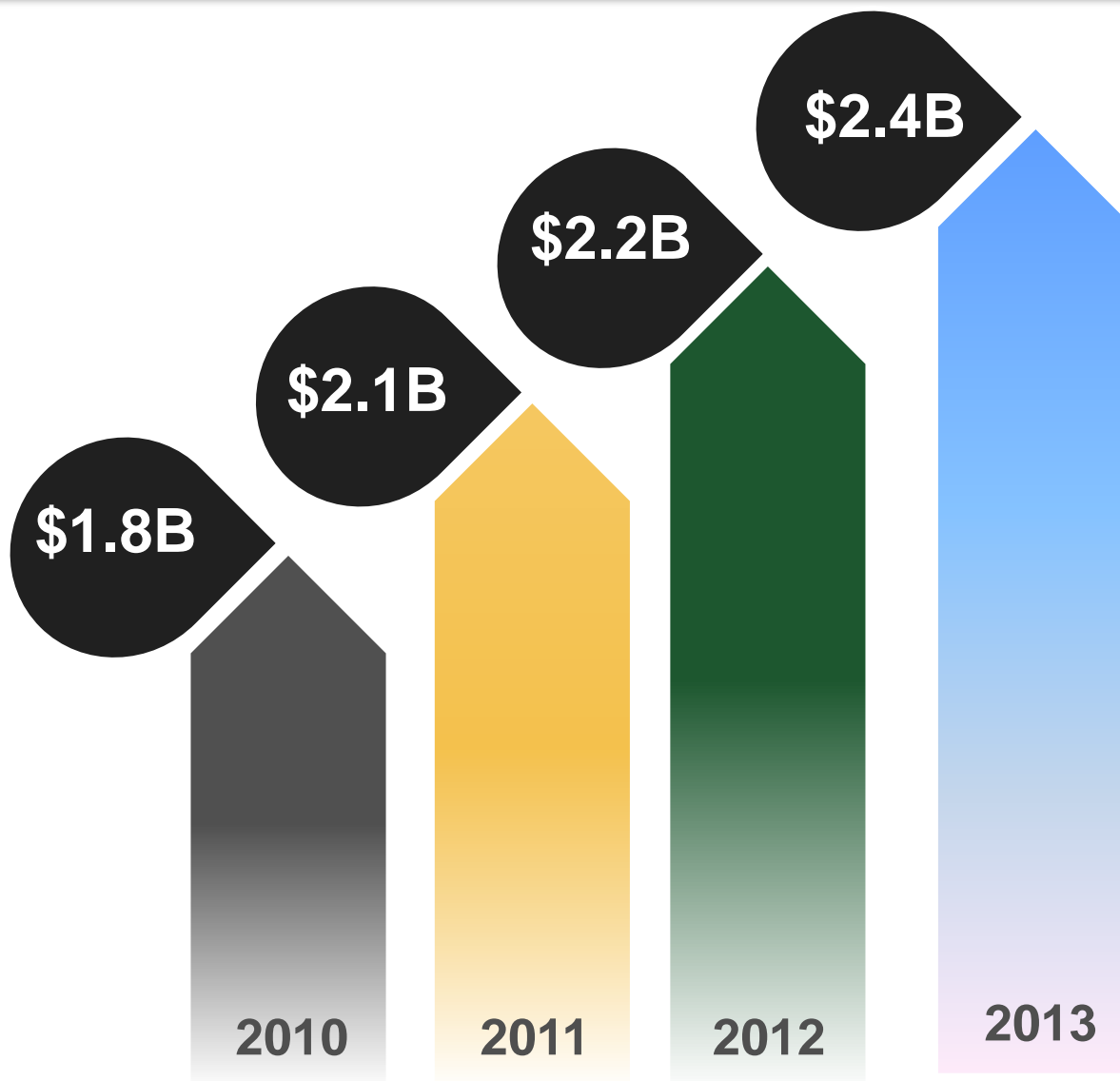


Jesús Murillo Karam
Mexico's Attorney General

7. KCS is a successful case of investment in Mexico

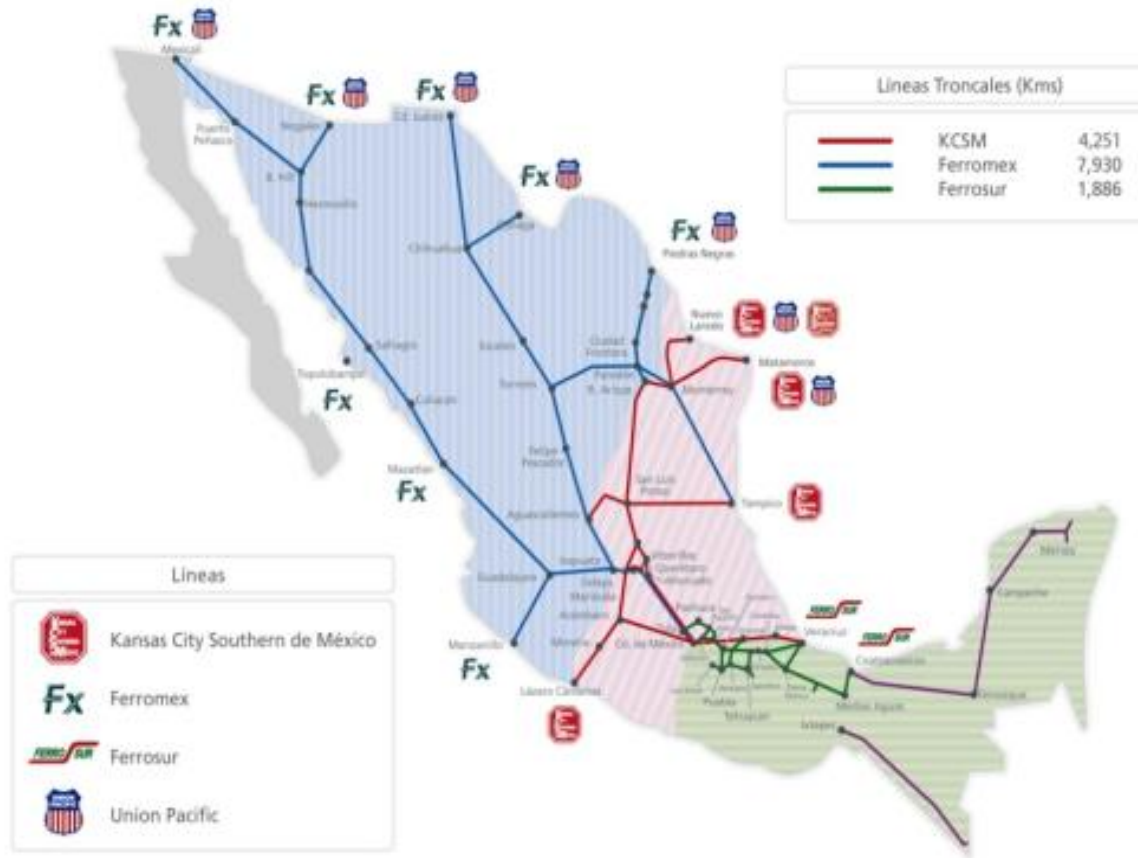


KCS incomes

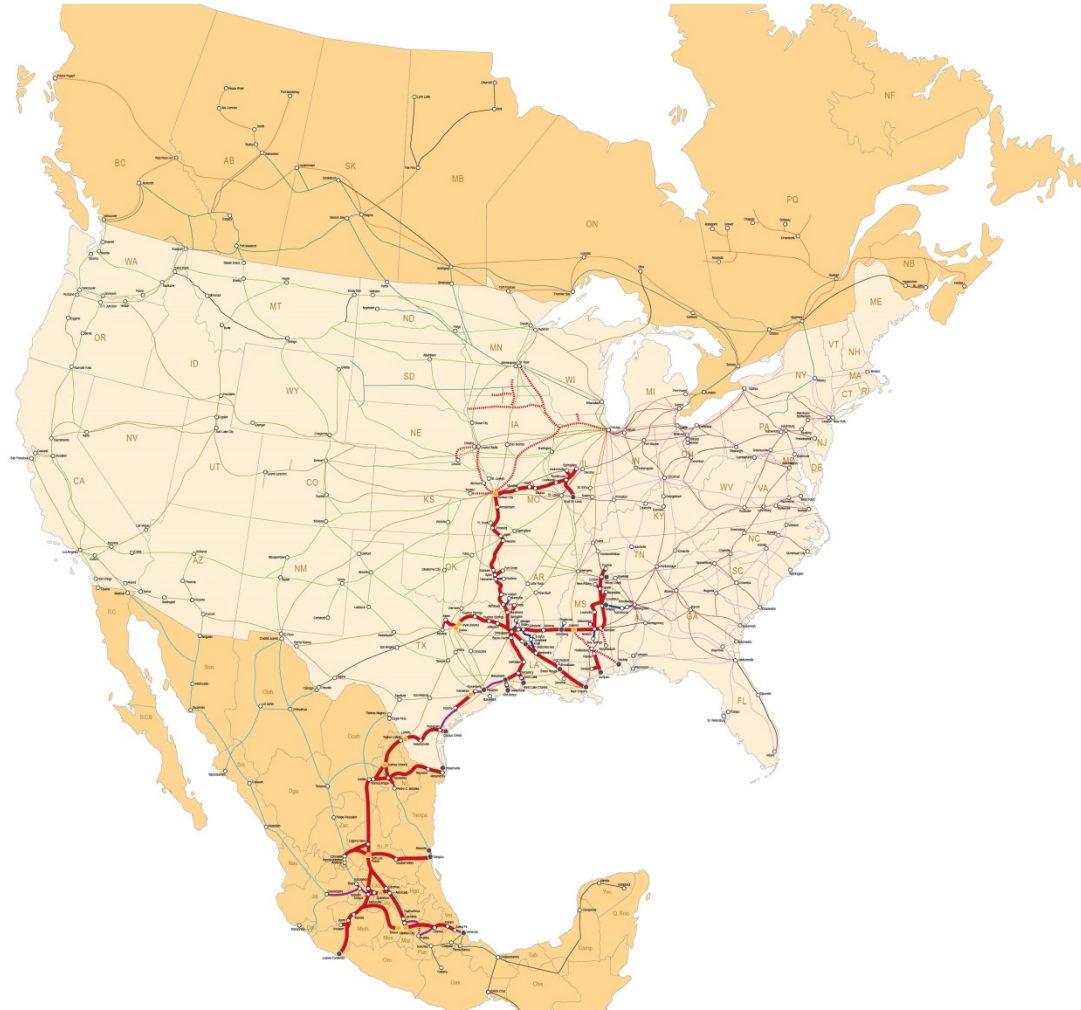


Mexican Railway System

Sistema Ferroviario Mexicano



KCS Rail Network



Mexican Railway System



Mexico rail trends



Automotive Supply Chain Ripple Effect



Rail Transportation and Energy Transformation in Mexico



Auto production plants in Mexico







KCS is well-positioned to benefit from growth in Mexican automotive plants

KCS currently has access to nine automotive plants in Mexico:

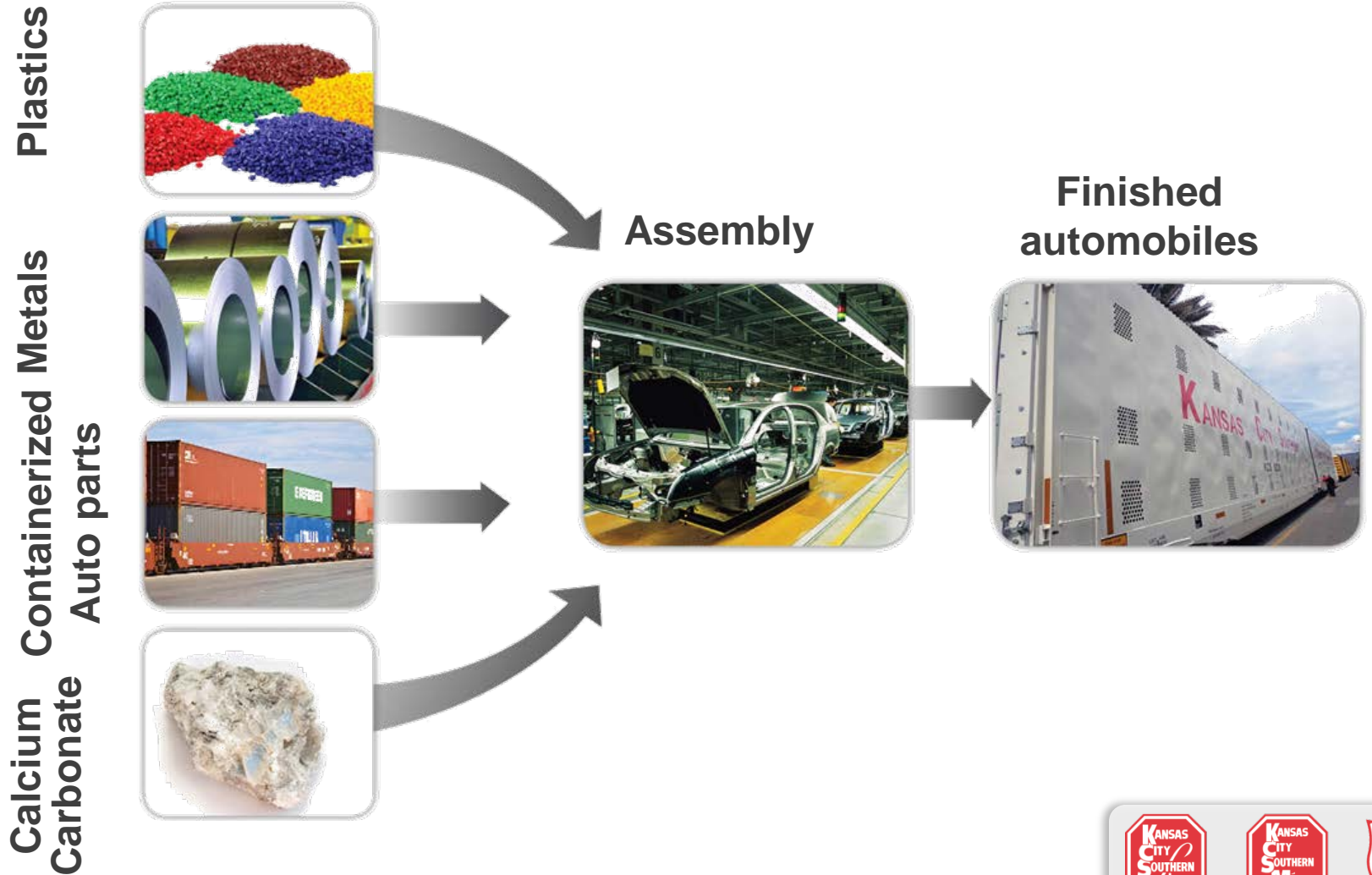
-  Chrysler Fiat (Toluca)
-  Chrysler (Encantada)
-  Ford (Cuautitlán)
-  GM (San Luis Potosí)
-  GM (Rojas)
-  GM (Silao)
-  Nissan (Aguascalientes)
-  Nissan (Cuernavaca)
-  VW (Puebla)

Additional plant openings in 2013-14:

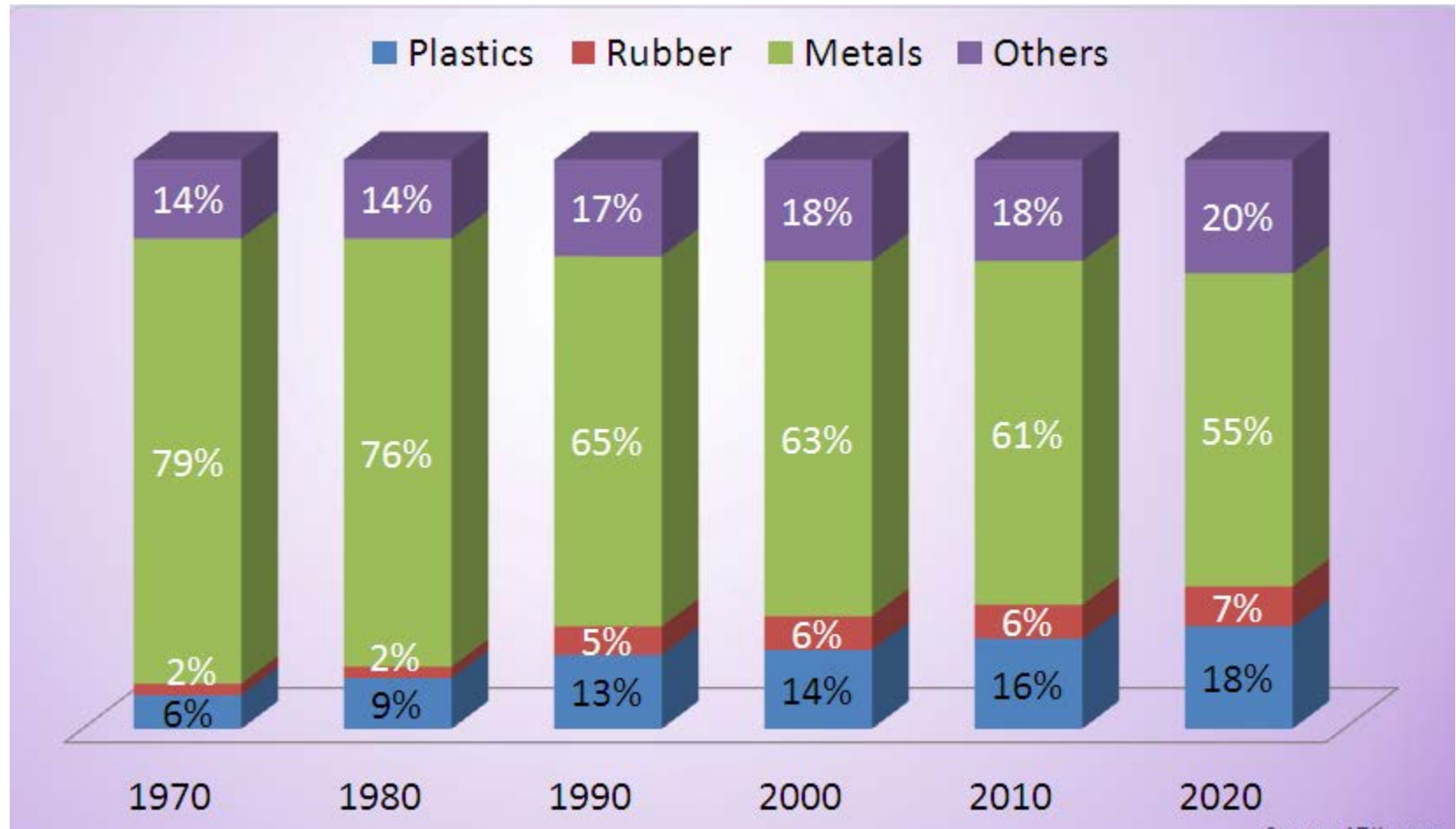
-  Honda (Celaya)
-  Mazda (Salamanca)
-  Nissan (Aguascalientes)
-  Audi (near Puebla)



Automotive ripple effect



The ripple effect... percentage of average vehicle weight of each raw material



Is 5% growth feasible?

- YES
- But it depends on...
 - How the reforms are implemented
 - Secondary legislation
 - Implementing regulations
 - Implementation
 - World growth, particularly growth in the US



Conclusions

- The rail industry is key to Mexico's economic growth and industrial capacity.
- Mexico is generating the conditions to become more competitive, though its structural law reforms.
- A sustained economic recovery requires external demand and the improvement of international financial conditions.
- Structural reforms have raised the credit rating of the public debt of Mexico, meaning that the country possesses solid and attractive conditions for investment



