

MEXICO

BUSINESS REVIEW



HIGHLIGHTS 2018





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2018

Despite bumps along the way, Mexico took further steps in 2017 on its path toward greater prosperity. The country's central bank lifted its growth forecast for the year to between 2.0 percent and 2.5 percent. It had previously expected a 1.5-2.5 percent expansion. The optimism flies in the face of the uncertainty that plagued the country at the start of the year. At that point, rising US protectionism, a weakening peso and higher fuel prices had put a cloud firmly over the country's economy. But you know what they say about clouds. The silver lining is the awakening effect these early difficulties have had on both the public and private sectors. When the US threatened to derail NAFTA, the first reaction south of the border was a ringing of hands accompanied by a rise in nationalism. But calmer minds determined that this could be just what the country needs. It is high time, many believe, for Mexico to reconsider its alliances and broaden its reach. With numerous commercial agreements already in hand, the conclusion of many industry insiders, both in the public and private sectors, is that now is the time to diversify and modernize. In the opinion of diverse political leaders and businesspeople, the dependence on a single commercial partner is simply no longer sustainable. The goal to diversify goes hand in hand with the need to modernize. Industries such as automotive and aerospace are racing to implement advancements that are reducing costs and improving performance, but other sectors are lagging due to lack of investment and competition. Still, the implementation of new technologies in sectors such as agribusiness, health, energy and oil and gas, could be game changers. While opportunities abound, the country also has its fair share of challenges to sort out. In particular, investors are wary of what the 2018 presidential elections will bring.

It is against this backdrop that the inaugural edition of Mexico Business Review 2018 is presented, offering a broad vision of the economy, with success stories, new projects and areas of opportunity. Through 14 chapters, the economy and its major players are brought to light, showcasing Mexico's offer amid a murky global environment.



ENSURING MEXICO'S INTERNATIONAL COMPETITIVENESS

ILDEFONSO GUAJARDO

Minister of Economy

Q: How is the Ministry of Economy ensuring Mexico remains a competitive destination for FDI?

A: Mexico is among the most open economies to international trade and investment. The set of structural reforms carried out by President Peña Nieto's administration have paved the way to attract domestic and foreign investments in strategic sectors. The Ministry of Economy has implemented several measures to ease doing business in Mexico. For example, it has worked to reduce regulations and facilitate investment in sectors where FDI was previously restricted, such as telecommunications and energy; it has increased accessibility and transparency at the Public Registry of Commerce and Property and we have promoted the use of electronic platforms to ease processes related to FDI registry.

Q: What are the government's priorities for establishing trade agreements with Asian and Latin American countries?

A: The Asia-Pacific region is a priority for Mexico. However, since TPP's entry into force is uncertain, Mexico is exploring alternate paths. For instance, in March 2017 in Viña del Mar, Chile, the Pacific Alliance established the "Associate State" category, with the objective of negotiating trade agreements with countries in the Asia Pacific region. Australia, Canada, New Zealand and Singapore are the first 4 candidates to become Associate States of the Pacific Alliance. Within the framework of APEC, leaders of the Pacific Alliance engaged in two discussions with Asian economies in which they explored common cooperation areas, namely SMEs and trade facilitation.

Q: What strategies does the government plan to implement to help companies diversify their operations outside the US?

A: President Peña Nieto's administration expects to diversify Mexico's trade agenda with potential markets. We are modernizing our 15-year-old trade agreements with both

the EU and the European Free Trade Association countries. In Latin America, we are deepening existing agreements with Brazil, Argentina and the Pacific Alliance.

Q: What strategies is the Ministry of Economy following to relaunch and position the *Hecho en México* program?

A: In the last two decades, Mexico's global integration has been a keystone for economic growth. We certainly want more Mexican products to be exported but at the same time we want to consolidate our domestic market. *Hecho en México* aims to foster national production and competitiveness, as well as being a symbol of confidence and high quality for consumers. The Ministry of Economy, through ProMéxico, is promoting the program beyond Mexico's borders. At the end of April 2017, I visited Hannover, Germany, to attend a ceremony where Mexico was formally announced as the partner country for the Hannover Messe 2018. Being the most important manufacturing event worldwide, the fair will be a major window to promote the *Hecho en México* program and portray Mexico's innovative products, processes and industries.

Q: What initiatives is the Ministry of Economy favoring to support the entrepreneurial ecosystem?

A: An example of the Ministry of Economy's efforts to support Micro Small and Medium Enterprises (MSMEs) is the role of the Federal Commission for Regulatory Improvement (COFEMER) in reducing the regulatory burden and unnecessary bureaucratic procedures. One of the most meaningful measures undertaken is the 2x1 regulation scheme. Through this scheme, all public agencies wanting to implement a new regulation that implies costs for the population are obliged to eliminate two existing regulations. Another example is ProMéxico's involvement in promoting exports from Mexican MSMEs. These companies are offered consultancy from trade experts who facilitate the completion of export requirements to foreign markets. Additionally, ProMéxico undertakes promotional activities to increase the visibility of products and services from MSMEs abroad. In terms of international trade, we have strived to include specific chapters on MSMEs into our most recent FTAs, such as the Pacific Alliance and the TPP. We will do the same while updating NAFTA.

Ildefonso Guajardo is the Mexican Minister of Economy, member of the PRI party. He has worked in the Ministry of Tourism, Foreign Affairs and Trade, as well as congressman. He is the top negotiator for NAFTA's renegotiation

FURTHERING FINANCIAL INCLUSION AND CREDIT EXPANSION

ERNESTO TORRES

CEO of Citibanamex



Q: What is Citibanamex's proposal for the Mexican banking system?

A: The main challenges for the Mexican financial system are financial inclusion and credit expansion. The objective should be to consolidate a system that amplifies and facilitates access to financial services and provides more loans under better conditions. To increase access, we must move forward simultaneously in different directions: using the most advanced technology and new digital channels and taking advantage of social media and Big Data; expanding and modernizing our infrastructure; establishing a network of correspondents to reach more clients; providing products and services that best fit the needs of each client; offering new channels, especially through the use of technology and digital devices; and promoting the use of electronic and digital payments. To increase credit, we must maintain the country's macroeconomic stability, provide customers with products that meet the needs of each segment, disseminate existing options and advantages of credit and create a closer relationship with the public.

Q: How will the digital transformation of the traditional banking system impact financial inclusion?

A: The transition to a digital banking system has pushed forward financial inclusion in Mexico but there is still a lot of untapped potential. The best example is mobile banking. Five years ago, we launched *Transfer* in alliance with América Móvil and Inbursa, the first payment platform for cellphone services. In 2013, *Transfer* had 1 million active clients and by the end of 2017 we expect to have 6 million. It has been growing at an annual rate of 57 percent. The number of transactions made in *Transfer* in 2013 was 9 million and this year we expect to reach 310 million.

Q: What strategies should be put in place to encourage the use of digital payment methods and reduce the use of cash?

A: The strategy to promote payments through electronic platforms includes different actions. First, supporting the inclusion of millions of workers in the formal economy; second, continuing to facilitate access to banking services, especially through new channels; and third, to facilitate internet access. In addition, it is necessary to facilitate and expand the installation

of the necessary infrastructure in shops and businesses that allows them to receive payments, not only with cards, but from mobile devices, and to promote a wider use of online and mobile banking. All these actions must be complemented with different programs to foster financial education.

Q: What opportunities does Citibanamex see for the finance sector as a result of the NAFTA renegotiations?

A: Citibanamex is the best example within the financial sector of the mutual benefits that can be obtained through the cooperation between Mexico and the US. The finance industry plays an important role in achieving the economic integration of the three countries and driving the competitiveness of the region. The high degree of economic integration between Mexico and the US has increased the already big number of clients that interact, trade and execute cross-border operations. Enhanced integration of the finance sector will allow us to better serve millions of clients in the NAFTA countries bringing benefits to communities across the region.

Q: Beyond NAFTA, what is Mexico's value proposition to the world?

A: NAFTA is an important factor in the country's evolution but it is not the only one. There are many other elements that make of Mexico one of the countries with the best growth perspectives among emerging markets; for example, a large and dynamic internal market. According to the WB the average income of Mexico's population is medium high, which creates great opportunities. The economy is also becoming more productive and competitive thanks to the approval and implementation of structural reforms in key sectors such as education, telecommunications and energy. In addition, Mexico has an outstanding export platform and different commercial agreements across the world. Finally, the country maintains great macroeconomic stability, responsible management of public finances and a solid and growing financial sector.

Citibanamex is a multibanking institution and a member of Grupo Financiero Banamex, a subsidiary of Citigroup Inc., an American multinational investment banking and financial services corporation



REGULATION AND TRUST, THE NEW REVOLUTION

VICENTE FENOLL

CEO and Founder of kubo.financiero

Entrepreneurs are disruptive in the most unimaginable ways. It is no surprise that the business model of kubo.financiero, a fintech startup, is based on three unusual aspects: technology, regulation and trust. Vicente Fenoll, CEO and Founder of kubo.financiero, says the disruption caused by companies such as his is a result of an entrepreneur's DNA. "As entrepreneurs, we need to think in business models entirely different to that which we know."

Through a digital marketplace, the company puts investors or lenders in direct contact with borrowers, which Fenoll says is a kubo.financiero innovation. "As an investor, you can choose in what project to invest. You have access to the person's history and project and decide whether to invest with them or not," he says. However, there is a catch. All loans are made without a guarantee of payment, making trust and very complex mathematic algorithms the investors' best bet to get paid. "The only guarantee our investors have of being paid back is that the person that they are investing in has a history of complying with payments," says Fenoll. That is why kubo.financiero rejects almost 92 percent of the loan applications it receives.

“Regulations generate extra costs and procedures that are not always entirely efficient, but a regulated entity generates more trust”

The rejection rate is based on risk, as calculated by the company's algorithms. "We use very complex mathematical models to assess risk. Our algorithms analyze information from the credit bureau, third parties, behavior on the platform and information people provide us. They then determine if companies qualify to be in our platform. Our algorithms even establish payment plans as well as interest rates," Fenoll says.

While mathematics and algorithms are kubo.financiero's first security filter for its investors, to provide an extra degree of safety they suggest what any other good investors does: diversify their portfolio. "We do not tell investors where to put their money, but we do urge them to invest in at least 200 different projects (on average more than 400). This way, if a lender fails to pay, then investors do not lose all their money," says Fenoll. "A typical investor account at kubo.financiero totals MX\$80,000 allocated to 400 or 500 projects, but we have people participating with MX\$5,000 in 100 projects."

However, kubo.financiero would not be the successful model it is without the technology component. "Our technologic proposal is managed to generate price differentials that favor both investors, with higher rates of return, and borrowers, with lower interest rates." This means that while a traditional investment in a bank yields an average rate of around 2-4 percent, kubo.financiero offers an average 13.8 percent. Interest rates for borrowers are also decreasing. Fenoll says that on average, clients pay 39 percent. In 2012, when the company launched, borrowers were paying a 47 percent interest rate.

Bolstered by its technological component, kubo.financiero's value proposition helped attract US\$7.5 million in an investment round in August 2016, which Fenoll says represents trust in the company, the fintech business model and the management team. He is confident that kubo.financiero is poised to continue growing to reach 10,000 users and 1,500 investors in 2017.

The third element of kubo.financiero's business equation relates to regulation. Fenoll says many entrepreneurs believe that being disruptive means fighting against regulations. On the contrary, he says regulation has been a competitive advantage that has allowed the company to generate trust. It became the first company of its kind to be regulated by the CNBV in 2015. "It is true that regulations generate extra costs and procedures that are not always entirely efficient, but a regulated entity generates more trust, especially when you are handling money from third parties."

DIGITAL CURRENCIES TO PROVIDE TRANSPARENCY

DANIEL VOGEL

Co-Founder and President of Bitso



In 2014, in a good month, the number of bitcoin transactions on exchange platform Bitso amounted to MX\$4 million. In 2017, MX\$4 million represents a slow day. Bitso, which aims to connect Mexico with the world of digital currencies such as bitcoin and ethereum, now oversees daily bitcoin transactions that usually range between MX\$4 million and MX\$15 million.

Daniel Vogel, President of Bitso, is convinced it has not even scratched the surface of the digital currencies' potential in Mexico. "The use of digital currencies will increase competition, lower transaction costs and completely change our paradigm regarding the way we interact with the suppliers of financial services."

One of bitcoin's most unsettling elements for many is that it is not backed by any central authority, bank or institution, "the issuance of new bitcoins is controlled in code. It is not arbitrary and cannot be changed by any individual. We know exactly how many bitcoins are in circulation and how many will be circulating in a particular moment," says Vogel.

Unlike common currency, which is printed or coined by federal governments, bitcoins are created through a process called mining, which is solving math problems. "All the computers connected to the bitcoin network solve equations. Whenever an equation is solved, a block referencing the previous one is created," says Vogel. "Whenever I make a transaction with bitcoins, it is registered in the blockchain and every computer running the software registers the transaction. Every 10 minutes the bitcoin network is updated and transfers this information to the computers running the software."

The intricate system connecting computers and updating the blockchain makes it almost impossible to alter bitcoin. "If you want to alter any bitcoin transaction, it would be necessary to convince all the anonymous computers running the software to change the blockchain," explains Vogel. He says bitcoin must be understood as a protocol. "Just like the internet is a protocol, so is the bitcoin network. Being an open system allows for important innovation opportunities."

Vogel is convinced the most important innovation opportunity for bitcoin and other digital currencies lies with microtransactions. "In the future, you might use bitcoins to skip ads on YouTube or instead of subscribing to a newspaper you will pay fractions of bitcoins to read only the articles you want to read."

Traditional retail would be the go-to option for normalizing the use of digital currencies but Vogel believes the currency offers more interesting opportunities. "Peer-to-peer lending platforms have existed for a long time but they tend to be local. Now, we are seeing people experiment with bitcoin peer-to-peer lending globally," continues Vogel.

But not everything about bitcoin is sorted out. Two issues are front and center: the lack of regulation and the use of the currency for illegal activities. Since it is not backed by any institution, it has no regulatory oversight. However, that does not mean that governments have not made an effort to give it an operational framework. In April 2017, the government of Japan recognized bitcoin as a legal payment method, which has sent the value of the digital currency soaring, experts say. The EU and the US treat it as a currency but have imposed a series of regulations that tax any income that people might get from it.

Other common concern is bitcoin's anonymity and thus its use for illegal activities. Though every bitcoin transaction is registered in the blockchain and thus is traceable, users can choose whether their name is revealed or not. That sort of anonymity was taken advantage of in the global cyberattack that took place in May 2017, when payments were demanded in bitcoins. But Vogel says that those who use bitcoins for illegal activities have no understanding of the technology and that never in history has there been such traceability and visibility in the monetary system.

Despite the hurdles, Vogel is confident that the benefits the currency could offer surpass its perils. "In the same way that in the 1990s people could not understand the role the internet would have in the monetary system, people do not entirely get what bitcoin will do for them in the coming years," Vogel says.



RAPID INNOVATION, TECHNOLOGIES HELP EXPAND REACH

LUZ ADRIANA RAMÍREZ

Director General of Visa México

Q: What role does Mexico play in Visa's global operations?

A: Visa México works with a strong vision: be the best way to pay and be paid for everyone, everywhere. Our mission is to connect the world through the most innovative, reliable and secure digital payment network that enables individuals, businesses and economies to thrive. We connect businesses, financial institutions and customers and allow them to make payments safely and efficiently. Mexico is the second-largest economy in Latin America, making it the second-most important country for Visa in the region.

Q: 3Q17 results showed that its volume of payments grew 38 percent over the previous year. What contributed to this growth?

A: Rapid innovation is encouraging the proliferation of technologies that improve and expand our reach. Visa was built on the notion of universal access and we are making it even more open. Visa has been working to become the leader in electronic payments through a radical transformation of its business model. Clients, fintech companies, equipment manufacturers and other players now have access to the Visa Development Platform and the Application Programming Interfaces (APIs) to co-create customized solutions. We have also developed seven innovation centers around the world in which we apply a human-centered design methodology.

Q: How does consumer behavior influence Visa's innovation?

A: We are living through a commercial revolution driven by the IoT. In Mexico, as in the rest of the world, consumers want to make transactions anytime, anywhere and through any device. For this reason, we are developing an infrastructure for mobile payments. Supporting these advancements are Visa Digital Solutions and Visa Innovation Centers that provide the tools and environments for rapid innovation. Visa Digital Solutions is a growing portfolio of Visa payment services and authentication technologies that

enable tokenization, online commerce and person-to-person payment services to be securely embedded in new products in a plug-and-play mode. In Mexico, we are building POS terminals for Near Field Communication (NFC) payments and by the end of 2017 we expect that 30 percent of the POS terminals in Mexico will have NFC capability. Visa also established an alliance with IBM Watson to provide more secure payments. A combination of Visa's global payment capacities and Visa Token Services with IBM cognitive computing and data analysis capabilities of Watson's IoT, will make possible contactless payments with devices like home electronics, automobiles and daily wearables.

Q: How is Visa helping to increase Mexico's low rate of financial inclusion?

A: In developing economies, mobile money systems are bringing secure digital payments to millions of people previously excluded from the financial mainstream. Financial inclusion is one of Visa México's main priorities because our biggest challenge and competitor is cash. Only 15 percent of the country's Personal Consumption Expenditure (PCE) is made through digital payments and in Mexico only 40 percent of the adult population has access to a bank account or a formal financial service. For this reason, we are approaching this area of opportunity through two lines: special products aimed at the unbanked population and infrastructure for businesses that accept only cash. Together with OXXO and Citibanamex, we have developed products such as the Saldazo debit card, a card that can be used for savings and deposits. So far there are approximately 7 million Saldazo cards circulating in the country and for almost 42 percent of the users of this service it is their first experience with a financial product. Regarding infrastructure, we are trying to increase the acceptance of cards at businesses that only take cash. With Grupo Bimbo we have included POS terminals in more than 70,000 small supermarkets.

In Mexico, financial exclusion has the same geographical distribution as economic development and our inclusion efforts include working with the government. Finally, we have been working with Grupo Genera, which traditionally has offered credit to SMEs led by women.

Visa is a technology payments company present in 200 countries. It is one of the world's leading commercial networks and financial services providers. Visa offers different payment products to connect consumers, businesses and governments

FUNDING NEW OPPORTUNITIES IN MEXICO

PABLO COBALLASI

Managing Director of PC Capital



Q: Which economic sectors have the greatest potential for development in Mexico?

A: Thanks to the Energy Reform and to the investments secured through the governmental tenders, energy is among the best positioned. We expect billions of dollars of investment to flow into the sector over the next five to 10 years. Another interesting sector is business services, given the impressive growth of the domestic market and the demand that has generated, especially when compared to some European or emerging economies. At the macroeconomic level, Mexico is growing at around 2 percent, which for us is not high but at the global level is a healthy and respectable rate. This has fueled growth in domestic consumption of between 8 and 10 percent.

PC Capital specializes by sector and we have done business in the most interesting segments of the Mexican economy. In energy, for example, we have created a strategy for both our investment banking division and in private equity.

We also run a private equity fund that focuses on what we see as the three pillars for Mexico's development. The first is financial services, which in Mexico has great potential as shown by the performance of large international banks in the country and the lack of penetration of financial services at the base of the pyramid. The second is education. Because the government does not have the budget to guarantee a quality education for the entire population, it has opened a great window of opportunity for the private sector. The third pillar is sustainability. The country is becoming more aware of environmental preservation, which is reflected in consumption trends.

Q: How do sustainability and the exploitation of hydrocarbons coexist in your portfolio?

A: Oil demand is huge worldwide and renewable energy has one drawback: its high costs. The world is not going to stop working without oil overnight, so there is a great opportunity in both sectors. Renewables will grow stronger as technology advances and generation costs fall. In the short and medium term, both will be complementary; that is, they

will not compete with each other but will coexist. Still, the world's mentality is shifting toward greater protection of the environment. A perfect example is the automotive industry. Not everyone can buy a 100 percent electric car, although they exist, but more and more people can buy a hybrid.

Q: What protocol does PC Capital follow when choosing its investments?

A: Mexico is a country where small and medium businesses prevail. We select those that have a robust management team, with a proven business model and that need additional capital to continue growing. The goal is to make the leap from small and medium enterprises to large companies that have access to other markets. Another important characteristic of our investments is that the quality of our partners is high, not only in business terms but also in ethical and moral terms, which allows us to create deeper relationships and partnerships that are also based on trust.

Q: How would you describe entrepreneurship in Mexico and how does PC Capital participate in this area?

A: Entrepreneurship in Mexico is experiencing great growth. The country has never had so much support from the public and private sectors to generate so many businesses. INADEM was born with several purposes: to help small businesses grow, to create an economic ecosystem in the sector and to fund projects.

PC Capital participates in this segment through several channels, including participation in business accelerators such as Endeavor. For entrepreneurs, we act as mentors but we also participate as investors helping businesses that are beyond the start-up stage, that are profitable, that are growing and that need another investor to keep injecting capital into their business to continue growing at accelerated rates.

PC Capital is the leading midmarket financial advisory firm in Mexico. As exclusive partner to Clairfield International, it has access to the group's offices in more than 20 countries worldwide, which helps PC Capital do cross-border transactions



15 YEARS GROWING IN MEXICO'S RISING TELECOM INDUSTRY

CARLOS MORALES

CEO of Telefónica Movistar México

It has been 15 years since the Spanish firm Telefónica Movistar arrived to the Mexican telecommunications market. Back then, Mexico was waking up to its potential and trying to figure out how to provide connectivity for its massive population. Throughout this time, the firm has positioned itself as one of the top telecommunications companies in Mexico, while the telecoms market has been growing along with a population that demands connectivity as a priority.

The request for internet and communication access is not just a priority for the Mexican market. "There is exponential global growth in connectivity, with 7.4 billion subscribers to personal internet for mobile devices and 3.2 billion daily internet users," says Carlos Morales, CEO of Telefónica Movistar Mexico. "Today, we are experiencing the digitalization of society through changes in products, consumer habits and different channels of communication. Everything is focused on data consumption."

The growth of digital society is demanding the creation of new business models. Movistar's model, *Elegimos todo*, integrates three value propositions: "Unique and simple products, excellent connectivity through LTE services and the company's core values that provide the best experience and client satisfaction." Morales says Telefónica trusts Mexico's potential. The company will continue working on its growth plans with investments above 13 percent of its annual income; so far, the company has an accumulated investment of US\$13 billion. Its growth plan is focused on the expansion of its network, which has more than 10,500 radio bases. Telefónica has also invested US\$50 million in its Data Center in Parque Tecnológico de Ixtlahuaca. "We are a key player in the market, with 26.6 million clients and coverage in 90 percent of the urban population," says Morales.

Telefónica is also promoting its B2B portfolio of integrated digital solutions to help Mexican companies increase their productivity. Morales says its ideal portfolio includes cloud solutions for storage, hosting and unification of communications, security solutions for management of devices, cybersecurity and threat detection, connectivity solutions like IoT and the development of applications for

specific industries. The IoT program will be delivered to industries such as energy, healthcare and banking. "Telefónica is helping its partners increase their productivity and efficiency by offering integrated digital solutions that optimize their processes and reduce their investment budgets."

According to GMSA, Mexico is the second-largest mobile communication market in Latin America and one of the Top 15 in the world. Telefónica Movistar sees great potential in the Mexican market due to the size of the young population and the creation and arrival of new businesses. According to INEGI, 70 percent of internet users are 35 years old or younger, and almost 40 percent of homes have an internet connection. "Our present world demands permanent connectivity and this digital revolution pushes us to work harder on providing better standards and services every day," says Morales.

“ One of the challenges includes creating a more cost-effective spectrum to meet the growing demand for digital services in Mexico ”

Telefónica is also focused on growing its customer service. In 2017, it will be opening more than 100 stores in cities such as Cuernavaca, Guadalajara, Monterrey, Tijuana, Leon, Puebla, Baja California and Merida. "At Telefónica Movistar, we offer our clients a different experience. We are proud to be the mobile telecommunication company with the fewest claims from our customers," says Morales.

Despite the company's success, market obstacles have restrained the company's development. "From the beginning, one of our priorities was the definition of a competitive environment for all players in the telecommunications sector. Around 15 years later, we still face significant challenges from a regulatory point of view," says Morales. "One of the challenges includes creating a more cost-effective spectrum to meet the growing demand for digital services in Mexico."

IT SERVICES HELP USHER IN THE DIGITAL REVOLUTION

FEDERICO CASAS-ALATRISTE

Managing Director of T-Systems Mexico



Q: What role does Mexico play in your global strategy?

A: T-Systems complements the offering of IT outsourcing services that was dominated by US companies for several years. We provide an alternative, with a different DNA and with an important focus on high-quality technology, procedures and predictability. We are an alternative to help companies begin their process of digital transformation.

T-Systems provides assistance to companies in these two areas, ensuring the maintenance of their traditional operations while accompanying them in their business transformation process toward new technologies that include the cloud, mobility and IoT. When it comes to IT services, if you provide good services, no one notices and that is what is all about.

Q: Why has the country become a hub for T-Systems' operations?

A: Mexico is the 12th-largest economy in the world. But more importantly, its prospects are even better. According to several sources, the Mexican market and economy will scale the world's rankings by 2025, when the country is expected to be among the Top 10 economies in the world.

Among our clients in Mexico are companies that are also clients of Deutsche Telekom in other parts of the world, such as Volkswagen, Daimler, Shell and Heineken. The original reason for being in a market is that there are several clients that require services in that specific location, which is why we came to Mexico in the first place.

Mexico has contributed heavily to our growth. In 2015 and 2016, revenue here expanded an average 30 percent annually. Repeating this pace in the coming years will be complicated but we expect to continue growing at an accelerated rate. We have a strong presence in the industrial sector and we have a significant but selective presence in the public sector. In the health and financial industries we have a very small presence. However, we expect to increase our share in both sectors and thus continue growing.

Q: What is your view of the pace at which Mexico is adopting digitalization?

A: Mexico needs to speed up its transformation. At first, it was hard for the business community in Mexico to understand certain concepts such as the cloud. However, the cloud is the entry ticket to digital transformation. It is impossible to conceive this transformation without it.

Until a few years ago, companies in Mexico thought that having control or exclusivity of their technological resources was of extreme importance since it belonged to their core business. Today, few companies have their own data center, since it makes no sense for them to have one. From a cost perspective, IT has become a variable, rather than a fixed, cost, which has viability repercussions, particularly for investment projects.

One of the most common concerns for the business community regarding the use of the cloud was related to security. The truth is that the level of information security companies can have when using our services versus the security level they can have in an in-house data center with more limited conditions cannot be compared.

Q: Is the country's workforce prepared to face the challenges of the digital era?

A: Human capital is a critical issue. Mexican technicians are extraordinarily good and competitive worldwide. The fact that we provide services from Mexico to more than 30 different countries means that our human capital can perform world-class services. Universities are producing competitive professionals and technicians. While the technical skills of graduates are at a good level, the English level students have needs improvement. In the telecoms industry, people must be able to at least read in English and interact with clients in English.

T-Systems is a global IT services and consulting company. It specializes in providing cloud services, M2M solutions and communication services, among others, helping companies construct a digital platform



SPIRITS MARKET AN ATTRACTIVE OPPORTUNITY

ERIK SEIERSEN

Managing Director of Diageo Mexico

Q: Diageo has been in Mexico for more than two decades.

How is the company positioned for growth?

A: Mexico is among the 10 most important markets for the company. We have seven of our top 20 brands here and we have achieved the leading position in the industry thanks to our whiskey brands and variants and the acquisition of Don Julio in 2015. Our best-selling products are Johnnie Walker Red Label, Johnnie Walker Black Label, Buchanan's 12 and Tequila Don Julio 70, but we have other popular brands such as Zacapa, Captain Morgan, Tanqueray, Black & White, Smirnoff, Ciroc, Ketel One and Baileys. We hold a leading market share in value of 30.7 percent in the on trade and 28.5 percent in the off trade. The spirits category in Mexico represents an attractive opportunity and Diageo is well-positioned to capture this potential.

Q: How has Diageo's strategy to position the brand in the country evolved?

A: Diageo is building a reputation as one of the best performing, most trusted and respected consumer products companies in the world. Regarding our brand portfolio, we are prepared to be ahead of market trends. For example, whiskey has become an attractive product for Mexican consumers due to its good quality and internationality. The tequila market has also evolved and the consumer is now turning to premium products. In general, Mexico is becoming more formal, people have more purchasing power and seek quality; our brands offer this quality in different categories and products. We are building a portfolio that has breadth and depth across categories and price points, and the correct distribution to allow us to meet consumer demand for a range of products, from standard scotch to super-premium tequila.

Q: What role do acquisitions play in Diageo's strategy?

A: At the global level, we are always looking for fast-integration acquisitions with growing brands. In 2015, Diageo

acquired Tequila Don Julio and committed to increasing advertising and promotional spending on the brand to further build its global presence and also to expand bottling and water treatment facilities in Mexico, among other activities. This plan, together with the acquisition costs of Tequila Don Julio, will bring Diageo's expected investment in Mexico to around US\$400 million over five years. We also recently announced the acquisition of Casamigos, an ultra-premium tequila that has been very successful in the US. We are always looking for opportunities that strengthen our portfolio, either through acquisitions or by innovating with our brands to make sure we surprise consumers and remain ahead of trends.

Q: What is Diageo's role to address the market for illicit alcohol in the country?

A: According to studies, illicit trade in spirits in Mexico is 36 percent. As president of the Spirits and Wine Industry Commission (CIVyL) in Mexico, we have led initiatives to address illicit trade and reduce it to OECD levels. Within this context, recently the federal tax revenue and consumer protection agencies and CIVyL, along with trade associations representing modern trade, wholesalers, restaurants and small businesses, signed a "Pact for Formality," which is meant to address illegality and tax evasion in our industry.

Q: How does Diageo contribute to the promotion of responsible drinking?

A: Diageo also has a leading role regarding responsible drinking in the country. Its program *Actuando Mejor* (Model Cities) aims to improve the ways in which alcohol is sold and consumed in Mexico. The program has reached more than 118 million people through campaigns, training and law enforcement to reduce underage drinking, binge drinking and drinking and driving. Recently, *Actuando Mejor* has focused on reducing underage drinking by training people who sell alcohol and partnering with the Education Ministry of Queretaro to provide information to students about the dangers of underage drinking and how to make healthy lifestyle choices. Police officers in 113 cities have received training through the program to help prevent alcohol-related car accidents.

Diageo is a British alcoholic beverages company. Diageo's brands include Johnnie Walker, Buchanan's, Baileys, Tanqueray, Smirnoff and Guinness. In 2015, the company bought tequila maker Don Julio and established a bottling plant for exports

SOWING THE FUTURE

“Back in 1991, there was little interest in the Mexican countryside. Land ownership was a sensitive issue and no one could imagine the commercialization opportunities NAFTA would bring”

Enrique Portilla,
Director General of Grupo Agros

Good fortune and nature gave Mexico two of the most competitive advantages any country could ask for: a diverse climate that favors a wide variety of crops and a border with the world's largest consumer market, the US. Add in the start of NAFTA negotiations and Enrique Portilla had the recipe for a new company. “Back in 1991, when we founded Grupo Agros, there was little interest in the Mexican countryside. Land ownership was a sensitive issue and no one could imagine the commercialization opportunities NAFTA would bring,” says Portilla, Director General of Grupo Agros.

Armed with the competitive advantages the country offers, Grupo Agros began operating with two crops: greenhouse cultivated tomatoes in Queretaro and rubber trees in Chiapas. However, it was not long before Portilla realized that the country's natural advantages themselves were not enough to succeed. “When it comes to growth, we have been very cautious. We have faced a steep learning curve and in the process we favored a long-term equilibrium. We have sought high productivity that enables us to be competitive at an international level.”

Portilla says that most people believe that agribusiness is just growing a crop but there is more than meets the eye. “It goes well beyond just planting and pruning. There are diseases that affect trees and crops, there are several fungi and you have to know how to commercialize adequately.”

An inability to sufficiently conquer these areas is one reason many agricultural companies do not succeed, particularly when trying to export their products. “You have to know your buyer and what are their main concerns. For instance, Walmart is concerned about human rights,

so they constantly audit their suppliers, making sure that we do not employ children, that all workers have social benefits and that the work environment complies with safety measures,” he explains.

Commercialization is not the only challenge for companies; exporting agricultural products also represents a hurdle. “In addition to constantly attending fairs to find new clients, you have to learn about logistics, obtain all the needed certifications and comply with FDA and C-TPAT requirements,” says Portilla. FDA regulations touch upon production, packaging, storage and the handling of products, while C-TPAT regulations address security concerns regarding the import of products.

As strict as FDA regulations might appear, Portilla says that SENASICA's requirements are similar in that both demand high-quality standards.

An important key to success for companies looking for export opportunities is to produce all year round. To avoid the vagaries of climate, Grupo Agros has led the way in the production of greenhouse tomatoes and lettuce. “We were pioneers in greenhouse crop production. We have around 21ha of greenhouses. Although we might not be the largest company, we certainly led the way,” says Portilla.

Growing tomatoes in greenhouses permits Grupo Agros to have a constant supply of crops, which has facilitated the task of exporting to the US. “We export 90 percent of our tomato production, of which almost 40 percent is bought by Walmart,” says Portilla.

Grupo Agros' business plan focuses on market niches, with lettuce being a good example. “We started growing hydroponic lettuce almost 17 years ago. Lettuce is a competitive market, so we have specialized in the production of products such as arugula, watercress, spinach, kale and basil.”

To determine which products to specialize in, the company analyzed not only what products were fit for export, but also which could meet with domestic demand. Portilla says rubber trees are a case in point. “In the case of latex, there is no local production; it is all imported from Malaysia. Grupo Agros has almost 3,000ha of rubber trees and we have already acquired processors and centrifuges. We add value to the rubber we obtain from the trees and generate latex. It is a niche where there is no local competition,” says Portilla.



BOOSTING MEXICO'S TOURISM POTENTIAL

ENRIQUE DE LA MADRID

Minister of Tourism

Q: What can be done to boost tourism investment in Mexico?

A: To drive investment, it is necessary to establish an attractive institutional framework on issues such as regulation, security, environment and fiscal policy. We need investment in basic infrastructure from the public and private sectors, as well as policies to promote destinations and ensure a permanent flow of investment from lodging, transportation and entertainment companies. Investments can be increased by creating added value in the tourist experience, such as an attractive gastronomic offer, guided tours, cultural and sports activities or theme parks. Value can be added to any type of tourism: business, health or meetings and conventions. Today, travelers are more interested in having in-depth knowledge about their destinations and not just spending time inside a hotel, and we must be prepared to take advantage of this trend.

Q: What are the main challenges facing the development of the tourism industry in Mexico?

A: The tourism industry in Mexico is so large and diverse that the challenges are different depending on the location. However, the main challenge is to remain attractive in a changing world with an increasing number of competitors. To achieve this, some elements are necessary: an innovative attitude to introduce the products tourists seek, infrastructure that allows us to receive tourists with demanding and diverse objectives and more destinations to provide more options and generate benefits for more Mexicans. All these elements will help build a robust and successful tourism sector.

Q: What efforts have been made in infrastructure to boost the sector's growth?

A: The Ministry of Tourism (SECTUR) has a budget allocated to meet specific needs in tourist destinations that runs under a program in which local authorities contribute a proportionate amount. These budgets are determined by the Congress through the Federal Budget but the investment in infrastructure that the tourist sector requires is bigger, so the sector benefits from investment from other entities. For example, investments made by

the SCT generate benefits for the industry by increasing connectivity, reducing transfer times and lowering mobility costs. The New Mexico City International Airport (NAICM) has no budget from SECTUR but there is no doubt this project will boost the sector. This is also the case for urban equipment projects of local and municipal governments. The private sector also invests in infrastructure through projects such as marinas, cruise liner piers, convention centers, sports venues and malls, among other projects.

Q: What strategies can be applied to attract visitors from regions such as Asia or emerging countries such as Russia?

A: New technologies allow us to develop direct and targeted campaigns for a specific country or region. Improving the country's connectivity is a priority since advertising campaigns do not work if tourists cannot reach their destination. We believe the key elements to diversify tourism are investment in infrastructure, an air transportation market with efficient and competitive operators and a modern regulation. Ease of travel is a fourth element, by making migration and customs formalities more efficient and less restrictive. This can be achieved by increasing bilateral agreements on visa waiver programs and by automating customs procedures.

Q: How can the tourism industry improve the social development of communities in Mexico?

A: Through the development of the tourism industry we can bring growth and wealth to more communities in Mexico, as tourism impacts a community with employment, infrastructure development, provision of basic services and environmental protection.

President Peña Nieto's vision is to strengthen tourism to create economic growth and to generate development opportunities for the Mexican population. He believes tourism contributes to the creation and growth of the middle class in regions with tourism potential. However, to experience this impact it is necessary to involve the members of the community. This is the objective of the program *Conéctate al Turismo*, which helps SMEs connect with players in the industry to become service providers.



Todos Santos, Baja California Sur

Q: What strategies are being implemented to develop the potential of future tourist sites?

A: It is important for each destination to identify its vocation, its main attractions and how to create a product that is commercially attractive to the tourist. That is how Baja California's wine region, the tequila area in Jalisco and the route of *haciendas henequeneras* in Yucatán have developed so well.

The creation of thematic routes was the growth path for those destinations which by themselves would hardly have an impact. This is the idea behind the Mayan route in the southeast, the circuit of colonial cities in the center of the country and the independence route in The Bajío region. Branding also helps increase tourism in locations that have a particular kind of attraction, such as *Pueblos Mágicos*.

Q: How can the tourism industry offer products with greater added value?

A: As with any other sector, the tourism industry is subject to changes. We have seen that the offer has evolved from beach holidays to more sophisticated options. In addition,

keeping an open sector with healthy competition between service providers stimulates creativity and innovation. We have innovative proposals on adventure and sports tourism, theme parks and health and wellness, but staying on top of the tourist mind goes beyond a renewed narrative, it needs substance.

By highlighting our cultural and gastronomic wealth we can attract more visitors; the *Día de Muertos* parade in Mexico City is an example of what can be achieved. At the same time, it is important for communities to identify with the sector and recognize how it opens opportunities for them to improve their lives. This is how we can permanently guarantee a quality service, despite trends and changes. In the end, the possibility of creating added value is directly related to the service.

Enrique de la Madrid is a UNAM graduate, with a Master's in Public Administration from Harvard University. He has been a Federal Deputy and Director General of *Financiera Rural*. In 2015 he was named Minister of Tourism



CREATING EXTRAORDINARY EXPERIENCES

MIGUEL CANTÚ

Director General of the Corporation for Touristic Development of Nuevo Leon (CODETUR NL)

Q: Nuevo Leon has traditionally been seen as an investment destination. What strategies is CODETUR following to also position the state as a tourism destination?

A: We are working on a campaign called *Nuevo Leon Extraordinario*, which offers visitors extraordinary experiences in a number of areas, including sports, nature, culture, health, adventure, urban and well-being, which is basically medical tourism. It also targets meetings and reunions. The purpose is to showcase the state's best tourism assets.

Adventure tourism also aims to highlight the state's natural resources and eco-tourism activities that can be found in the southern part of the state. Our urban experience is particularly important because it highlights our metropolitan areas and caters to our business tourism, which makes up around 70 percent of the state's visitors. We are using social media to promote the campaign. However, our efforts to promote tourism in the state do not stop there. The private sector is also an important participant in this effort since it is the main generator of investment and employment in the industry.

Q: What impact have these efforts had on tourism rates?

A: The number of tourists to Nuevo Leon increased 16 percent in the first six months of 2017 when compared to the same period in 2016 and the arrival of passengers to Monterrey airport increased 9 percent during the same period. This growth has been accompanied by the opening of new flights and destinations. One of the most representative examples is the direct flight that Aeroméxico has just launched between Monterrey and Seoul, South Korea.

Q: What infrastructure developments will help boost the tourism industry?

CODETUR NL is a decentralized public organism working under Nuevo Leon's Ministry of Economy. It is in charge of designing and coordinating public policy strategies for the promotion and development of the state's tourism sector

A: One project in particular will help to formalize tourism in Nuevo Leon: the De la Boca dam, which is an asset that we have yet to capitalize on. It is a really nice place but lacks the regulations and development required to make it a tourist destination. It is a long-term development, led by the Ministry of Economy and Labor of Nuevo Leon with support from the federal Ministry of Tourism. It is expected to cost over MX\$2 billion.

Q: How can Nuevo Leon capitalize on the business tourism that the state usually receives?

A: We have three particular objectives regarding these visitors. The first is for them to return with their families. The second is to convince them to stay an additional night when they come on business trips. Our third objective is more related to the local population. People from Nuevo Leon travel a lot, so we want them to travel around the state and get to know all we have to offer. We are also developing our *Pueblos Mágicos* offering through several projects that will boost the visibility of these towns.

Q: Is there a particular area that has potential but which the state has yet to capitalize on?

A: In Mina, there is an archeologic area that we want to position as a tourism destination. The zone has been protected by the National Institute of Anthropology and History (INAH) and we want this area to be designated as a protected area by UNESCO. The existence of petroglyphs in the state represents a breakthrough in the sense that the northern region of the country usually does not have archeological features.

Q: What challenges do you see for the consolidation of the state's tourism sector?

A: The main challenge is to increase investment. We know the industry is expanding and that one of the best ways for the industry to continue growing is to continue investing in it, but the investment has to come from both the public and private sectors. Unfortunately, federal budget funding has been fairly limited in the last few years. Nevertheless, we believe that in four years we will have positioned Nuevo Leon as a tourism center with a well-known and appreciated brand.

HORIZONS EXPANDING IN OFFSHORE LICENSING ROUNDS

IVÁN SANDREA
CEO of Sierra Oil & Gas



Q: What are the highlights of Sierra Oil & Gas' upstream activities in the past year?

A: Sierra has become an important player in the offshore area. We consider it to be a major achievement because we have managed to become number one in terms of blocks assigned and net acreage. This has given us a level of maturity and recognition in Mexico and across the industry.

Q: What were your initial concerns after winning two blocks in the shallow-water Round 1.1?

A: After winning blocks two and seven in Round 1.1 Sierra immediately started performing environmental baseline work, seismic reprocessing and overall preparations to drill. Now we expect to start drilling the first exploration well in the country, which is an important step for Sierra, its partners and Mexico.

Sierra bid on Block 7 because it saw several strong prospects with the right quality. These prospects have even been categorized by consulting companies such as Wood Mackenzie as being among the top 10 global prospects in the oil and gas industry and I believe among the top five for oil alone. We started drilling Block Seven in May 2017 with a semi-submergible rig that worked the US side of the Gulf of Mexico. We started drilling a vertical well to hit two targets. First results were available in the second half of 2017.

Block 2 is also pretty exciting. Although all our efforts and energy are focused momentarily on Block 7, we finished the Authority for Expenditure (AFE) for Block 2 by the third quarter of 2017, with the hope of being ready to start operations six months later.

Q: What is Sierra's role in the consortium with Murphy and Petronas that won a deepwater block in Round 1.4?

A: Everybody in the partnership contributed but Sierra's strengths focused on commercial, technical and legal expertise. Specifically, Sierra offered an important source of regional knowledge to the group thanks to our dataset covering over 60,000km² of 3D seismic, which we believe was one of the decisive factors that allowed us to win

Block Five. Sierra also had the advantage of knowing how the regulatory processes and economics work in Mexico, therefore having the ability to offer our partners insight into how to work on their own processes. We see ourselves as an early stage developer, screener and technical partner and now that operations are about to start, Sierra can have a more supportive role, helping partners get established in Mexico by providing experience and assistance.

Q: What are your thoughts about local content in the oil and gas industry?

A: It is hard to talk about local content in the exploration sector. Having only one shot to drill a well, investors want to make sure they have the security of working with the very best international and local companies using the latest technology and equipment.

Local content is easier to implement in the production phase than the exploration phase, where activities are more repetitive. Having said this, we will exceed the local content required by the contracts by 15 percent.

Sierra is aware of the harsh conditions local companies have been exposed to because of PEMEX's budget. At the same time Mexico has become a very competitive environment. Sierra Oil & Gas and its partners ran a tender for environmental studies for Block 7 and 2, inviting local and international players but sadly, prices from local companies were three times higher than those from international companies. To solve this issue local content needs to be more proactive, ensuring it can compete both in quality and price against international companies and most importantly, make sure to promote itself because most companies are not aware of the multitude of service companies that are present in Mexico.

Sierra Oil & Gas is focused on opportunities arising from Mexico's Energy Reform. Its activities cover upstream and midstream with a team averaging 25 years of experience in the Mexican oil industry



ETILENO XXI: CONSOLIDATING EARLY SUCCESS

STEFAN LEPECKI
CEO of Braskem IDESA

Q: What has Braskem IDESA achieved in the Mexican market?

A: Braskem IDESA is an association founded at the beginning of 2010 to lead the Etileno XXI project. We started operations in April 2016, with our first plant transforming ethane into ethylene using the cracking process. In mid-2016 we started production at three other polyethylene plants, two of which focus on high-density polyethylene and the other on low-density polyethylene. As of April 2017, we have achieved 95 percent operability, when comparing average production to the nominal designed production, and have also introduced our product to the local market, which is an important achievement.

Prior to production we were importing products from Braskem and other companies and selling them in the Mexican market. Now we are selling our own product. We faced some difficulties in achieving stability, mainly because of bottlenecks at PEMEX plants, which made the pipeline unstable. To address the issue, our technical and managerial teams worked with their counterparts at PEMEX to ensure a constant supply.

Q: What are the main challenges Braskem IDESA faces as a producer?

A: We face the challenge of convincing customers to replace the products they are accustomed to using with ours. Instilling in them the confidence to change requires that we exhibit production stability and quality but that takes time. To speed up adoption, we incorporated potential customers and their customers into our pre-marketing stage to understand their needs, worries and expectations. This strategy has delivered strong results and a high-quality product that is becoming widely known in the market. Not many companies follow this approach because most petrochemical companies treat their products as commodities, especially US companies that are geographically far away from their clients. We try to work

with our clients as closely as possible, which has proven extremely important in the qualification and certification processes.

Another important challenge is the logistics of distribution. With exports to over 40 countries and a production of millions of tons of polyethylene, we have to develop a flexible and adaptable delivery process, including a variety of transportation methods, such as railroads, trucks or boats. Developing this network, for both imports and exports, has been a major challenge.

Q: How does Braskem IDESA illustrate its commitment to Mexico?

A: We like to work with local content. During the construction phase of our petrochemical complex, we focused on hiring and training people from the region. At a certain point, we had more than 26,000 people working onsite. Armed with a premarket study, we started hiring personnel for our future operations and bringing specialists from Braskem Brazil to train them. We started with a group of 60 people from Brazil doing this task and now have fewer than 20 still in the country, which shows the skill of the local talent pool and the positive way in which they have accepted the challenge.

Q: What are your plans for the long term?

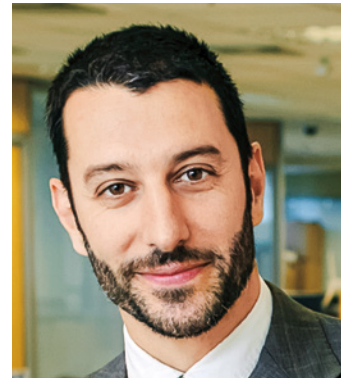
A: Thanks to our combined efforts we have achieved a constant supply of ethane from PEMEX. Nevertheless, we are aware that PEMEX suffers from a lack of investment and we understand how that could affect us. Having a long-term commitment to Mexico we are looking for ways to positively work together with PEMEX and other companies to ensure a proper supply of ethane. To that end, we need an appropriate level of investment, mainly because of the lower oil prices and financial difficulties faced by the country. The Energy Reform is not tackling the problems the petrochemical industry faces because the reform is mainly focused on upstream. But we are confident that once the Energy Reform starts showing results the country will work to improve the situation and we will be working together to create a positive result for the country.

Braskem IDESA is an association of Brazil's Braskem and Mexico's IDESA, which was created in 2010. The association leads the Etileno XXI petrochemical project for the production of polyethylene and other chemical derivatives in the state of Veracruz

SOWING SEEDS AND REAPING SUCCESS

PAOLO ROMANACCI

Director General of Enel Green Power Mexico



We have bet on Mexico for many years now. Currently, we operate 729MW of installed capacity through wind, hydro and solar power plants. The Energy Reform has been a complete success because it has brought stability and many benefits to the country's renewables market. We are now the largest player in the sector by installed capacity and project portfolio and our business will continue to grow at the same speed as the Mexican energy market, as long as the rules continue to be clear and transparent as they have been and as long as the level of competitiveness remains.

Given the price levels in the last two long-term power auctions and an upward trend in the cost of gas, our expectation is that the government will create a higher penetration of renewables, which makes Mexico an even more important market for our global business strategy. The Enel Group entered the Mexican renewables market in 2007, when it acquired three hydropower plants with a total installed capacity of 53MW in the country's western states of Guerrero, Michoacan and Jalisco. In addition to these plants, today we operate 675MW of wind power. Overall, we have invested around US\$1.5 billion since our arrival in the country.

Private off-takers are key to our local business strategy, as we are leaders in energy self-supply. We had great success in Mexico's long-term power auctions in 2016 and we are working to enter the short-term energy market in the near future. All three business models are extremely exciting for us and we are already planning the feasibility of other projects for the coming years. The latest auctions showed that the system works and we expect the other two models (self-supply and short-term market) will share the same success to have an adequately liquid market. This is only going to be achievable as long as the country pushes for more renewables, clear rules and the lowest prices possible.

During the last 10 years, energy auctions with clear and transparent rules have been globally demonstrated to be the most efficient system with which to achieve a

diversified energy mix and ensure competitive prices. In Mexico, the implementation of the Energy Reform and the success of the latest long-term power auctions are boosting the development of the country's energy sector and have quickly established Mexico's energy regulatory system as a best practice worldwide. For auctions to work and contribute to the creation of a healthy and competitive energy industry, they have to be backed by robust and strong planning to avoid price distortions that could occur due to limitations on the grid, reserve conditions and energy congestion. Regulatory authorities have to take into account that renewables are capital intensive and require long-term policy and price stability.

One of the major improvements that took place between Mexico's first and second long-term auctions was the decrease in tariffs produced by the adjustment factors of generation zones. The prequalification and bid process evaluation was faster and linear, which clearly showed the experience acquired between the tenders. Another positive aspect is that the general rules of participation remained, proving the overall scheme is extremely successful. Some improvements can still be made with regards to participation criteria, such as assessment of the development status of projects prior to their participation in the auction.

We will continue to work to keep growing in the renewables generation sector. As a consequence of the Energy Reform, we expect the market to open up even more and present new opportunities which we will be ready to take advantage of. As more participants appear in the energy sector with an increase in competition, we can expect a decrease in costs related to energy management and growing liquidity in the market in terms of suppliers and users, not just generators.

We are a global operator with a well-balanced and diversified portfolio. As far as Mexico is concerned, the latest auctions demonstrated that the most promising renewable technologies are mainly solar and wind. Our goal is to continue developing our business in those areas.



REGULATORY HOLD-UP SLOWS PROCESSES

JOSÉ PABLO FERNÁNDEZ

CEO of Grupo Dragón

Q: To what extent have you advanced in your plans to become a qualified supplier?

A: We have made great advancements in our energy trading plans, but it has been challenging to launch a definitive project, as there are still regulations pending. We have already acquired the necessary permits from CRE to be a qualified supplier, but we are still waiting for CENACE to define the final market rules. Most private companies are in a similar situation, but we expect the market to take off eventually. As a strategy to reach off-takers, we are offering self-supply plans with permits acquired under the previous regulatory framework. We have two self-supply projects under construction and they can migrate to the new regulations at any time.

Q: What other areas of opportunity have you identified in the Mexican power sector?

A: We see a great potential in energy forecasting and the use of thermography for energy applications. The evaluation of market dynamics and the identification of energy usage in different industries will differentiate successful companies from the rest. All electric utilities sell the same product, a flow of moving electrons, so differentiating factors will be related to aspects such as quality customer service. In this new landscape, customer data regarding electricity usage will be crucial for companies wanting to have a competitive advantage. We have the software and hardware needed to perform these tasks. Our group is one of the companies in Mexico investing the most in data storage devices. We see a barrier in this sector as most Mexican companies do not have real-time metering devices. The Law of the Electricity Industry says that private investment in electricity transmission and distribution infrastructure is only allowed under certain conditions with CFE or their subsidiaries. We would be highly interested in investing more in this sector, but we are discouraged by the existing constraints.

Q: What investments has Grupo Dragón already made in electricity transmission and distribution?

A: We have allocated US\$215.5 million in a smart grid project. It focuses on advanced metering devices and is one of the largest initiatives in Mexico in this regard. We are working with CFE in this project as stated by Mexican law, which says that private players must establish joint ventures with the state-owned company for transmission and distribution initiatives. We have identified a number of business opportunities in improving the Mexican electricity network, and we consider advanced energy metering as a suitable starting point. Efficient and accurate interpretation of energy data is one of Grupo Dragón's strengths, as we have over six years' experience over our competitors in this area.

Q: What allowed Grupo Dragón to win the first private concession for a geothermal project in Mexico?

A: It is impossible to complete a geothermal project in less than five years as it requires large investments and long exploratory and drilling periods. It is not a challenge exclusive to Mexico. Our project has been operating for one year, meaning it was planned at least six years ago. Because of this, when we acquired our permits, the project was under the self-supply scheme from the previous regulatory framework. This transition period brought uncertainty to our project as we were not sure that our previously acquired permit would migrate to the new law but we managed to change our concession. We bet strongly on geothermal as we considered it a promising and clean energy technology in spite of the risks involved. This all happened before the Energy Reform.

We do not consider the new regulations to be particularly advantageous for geothermal development. They complicated the bureaucratic processes for us. We had the advantage of being the only private company participating in the sector at that time, which allowed us to establish a direct dialogue with the government and ease the transition process. The outcome would have been completely different in the wind energy industry, where several private companies were already operating. In the long term, however, we do not exclude the possibility of new geothermal developments benefiting from the new regulations.

Grupo Dragón is a Mexico City-based electricity solutions company with proven expertise in the generation, operation and maintenance of large-scale renewable energy projects, as well as efficiency consulting services, among others

MINING CAN FOLLOW AUTOMOTIVE EXAMPLE

FERNANDO ALANÍS

Director General of Industrias Peñoles



Q: What must Mexico do to become a more attractive jurisdiction to the global investment community?

A: Mexico has enormous potential. It is estimated that at least 70 percent of the territory has not yet been explored. States including Guerrero and Oaxaca have strong geology but very little mining activity because there is no efficient policy in place to promote and support the sector. A few years ago the country had a dream of becoming a global automotive hub. The administration worked toward that goal and now Mexico is the seventh most prolific car manufacturer in the world. We have to acknowledge the geological potential, the skilled workforce, the access to industry-leading technologies present in the country to create the framework to capitalize on this opportunity.

Q: Peñoles recently announced an investment plan of US\$1.1 billion for the coming years. How will these funds be allocated?

A: The Rey de Plata polymetallic mine in Guerrero is currently under construction and should achieve commercial production by the end of 2018. The investment will total US\$387 million and it should be a very profitable asset that produces gold, silver, zinc, lead and copper.

We will also be investing a total of US\$330 million to expand the capacity of our zinc refinery in Torreon by 50 percent to 360,000t/y from 240,000t/y. When completed, this will make Peñoles the sixth-largest zinc producer in the world. Zinc is tremendously important for steel and therefore the construction and automotive sectors but global inventories are going down both in terms of concentrate and finished products. Unlike precious metals, the zinc price is essentially determined by fundamental economics so given the strong demand and supply shortage, I am very bullish on this commodity's performance in the next few years. Once Rey de Plata is operational, we will have a surplus of zinc concentrate and we will then become one of the few companies in the world to own both a zinc mine and a zinc refinery. Coupled with the fact that we are next to the US, which is a huge market with a substantial zinc deficit, this will be an important asset for the company's portfolio going forward.

Q: How much of a boost was the Energy Reform for Peñoles and how are you taking advantage of this opportunity?

A: In 1999, we became concerned about the availability and cost of energy in Mexico and given that energy represented around 40 percent of our expenses, we started to look for ways to lower costs. Industrias Peñoles made a strategic decision to integrate our energy supply and start generating our own electricity. In 2016, a total of 81 percent of the energy we consumed was generated in-house. Most of this comes from the petcoke thermal plant in San Luis Potosi, which generates 230MW, and the two wind plants in Oaxaca that generate over 40MW. We also have natural gas turbines in Laguna del Rey, Coahuila and a steam generator in Torreon.

In April 2017, we also initiated a new wind project with the Portuguese energy company Energias de Portugal Renovables in Coahuila. The facility has an installed capacity of 200MW, which will cover our energy needs for the zinc refinery expansion in Torreon. There is a new energy law in Mexico that will require companies to procure at least 30 percent of their energy from sustainable sources by 2025. Peñoles has already reached that landmark because we are convinced of the need for sustainable development.

Q: What strategies does Peñoles have in place to cement its leadership role within the Mexican mining sector?

A: The future of our company is based on three key strategic areas. The first is sustainable development, which incorporates the economic, social and environmental spheres. The second is human capital; we will continue to invest substantially to recruit, develop and retain the most talented people in Mexico. The third is technology. We have an internal R&D group made up of 35 full-time researchers working at a specialized center in Torreon and we are always looking for innovative methods that can improve our practices.

Industrias Peñoles is a 100 percent owned subsidiary of Grupo BAL. The group is the largest gold and lead producer in Latin America and through its subsidiary Fresnillo, the largest silver producer in the world



BRINGING INDUSTRY, ACADEMIA AND GOVERNMENT CLOSER

JAIME LOMELÍN

President of CLUSMIN

Q: What are CLUSMIN's primary objectives?

A: The goal of the mining cluster is not to promote the sector - the government, the long history of mineral extraction in Mexico and the country's extensive resources act as a natural basis for investment promotion. We are aiming to support the economic development of Zacatecas state through the mining sector. We quickly realized that the main goal should be to play to our strengths and maximize the productivity of the industry in Zacatecas. To achieve this objective, the entire value chain that participates in mining activities in the state needs to take part in and support the cluster.

The cluster is split into four committees. The supplier committee, which is charged with attracting new businesses to Zacatecas; the human capital committee, which focuses on attracting and developing human capital; the science and technology committee that ensures the continued technological development of the industry and finally, the well-being committee, which works to protect the environment and to improve worker safety and health.

Q: What role does the government play in the cluster?

A: Although the cluster operates entirely separately from the state government, the public sector has an extremely important role. Firstly, the government must facilitate the creation of new businesses, which includes reducing waiting times for permits and other qualifications. Secondly, it must create industrial parks where businesses can work together and share knowledge and experience. Thirdly, it has a vital duty to attract new financial institutions to the state that can help SMEs access the capital required to grow and contribute to the local economy.

Q: What training does the cluster provide to the new generation of workers in the mining industry?

The Zacatecas Mining Cluster (CLUSMIN) is a nonprofit civil association formed by industry representatives and academia to strengthen the mining industry through the development of its human capital, as well as the attraction of suppliers to the state

A: We are acutely aware of the need to educate the next generation. To this end, the National Science and Technology Council (CONACYT) funded a study to determine the precise number of workers required to support the industrialization of the state until 2025. The study will be completed during 2H17 and will provide data on the number of metallurgists, geologists, maintenance engineers and technicians needed by the sector for the next 18 years. The state polytechnic university has recently created a course on metallurgical engineering. The course will focus initially on mathematical and scientific theory but second and third-year students will spend at least one week out of every four in the field, at a metallurgical processing plant.

The cluster is focused on the future. The state government has built a science and technology park, which is helping to finance new projects and innovative start-up companies. Minera Frisco set up the Laboratory for Mining Investigation, Development and Training in this park, with an investment of over MX\$50 million. The University of Arizona is also working on an international research center for compatible mining that will focus on sustainable tailings facilities, remediation, forestation and biodiversity.

Q: How does the cluster contribute to the creation of new jobs in Zacatecas?

A: The mining cluster began by creating a supplier committee, whose role is to attract new businesses to the state and create jobs for local workers. We are also working toward bridging the gap between the suppliers and the client, which can reduce costs, improve the level of service and therefore boost productivity.

We are under pressure from the trade unions to create more sources of employment because mining is becoming increasingly digital and mechanized. This is changing the nature of the mining job market, which now requires highly trained but fewer workers, and the industry as a whole has a responsibility to react and continue providing jobs. One of the cluster's main objectives is to attract new companies to Zacatecas that can train the large number of manual workers in the state to use modern industrial equipment.

NEW AIRPORT PROGRESSING ACCORDING TO PLAN

FEDERICO PATIÑO

Director General of the Mexico City Airport Group (GACM)



Q: What progress has been made on NAICM's development?

A: The project was announced in September 2014 by President Peña Nieto. Since then, GACM has hired the best team worldwide. 2014 and 2015 were years dedicated to planning and carrying out the required tests. Several studies were carried out even before this point. An airport is a project that involves complex logistical development and demands a high level of sophistication. We then focused on the design. The project was designed to meet the country's needs, so that it could serve as the gateway from Mexico to the world. Starting in 2016, the construction began with preliminary projects for site preparation, such as the 33km perimeter fence, access roads, construction of the on-site offices, the removal of debris, the temporary sewage and ground leveling. All those projects are now completed. In the same year, we tendered around 65 percent of the project's value, awarding runways 2 and 3, the foundation piles and the electrical substation, among others. In 2017, we started the construction of the terminal foundations, the control tower and runways 2, 3 and 6. The runways are being built simultaneously, starting with 2, 3 and 6 in the first phase and 1, 4 and 5 in the second. This year we started to see the project take shape in a tangible way. We have 7,000 trucks moving material every day and 40,000 people working on the project. By next year, we expect to have generated 160,000 direct and indirect jobs.

Q: What challenges has GACM faced in the initial construction phase and in the creation of the masterplan?

A: For the design and planning of the project, we held over 230 meetings with regulatory and international agencies, national and international airlines, government agencies and service providers, to hear their needs and concerns and take them into account in the design of the master plan. The biggest challenge for me is to prove that Mexico can carry out projects of this magnitude in a transparent and honest way. GACM endeavors to become a reference for projects of this scale. Also, we want to complete the project on time and within budget, especially given its level of complexity. This project involves a series of contingencies and uncertainties, and we constantly encounter surprises that we must solve. The possibility of making a mistake with decisions is always

present, so we try to have the best counseling possible. It is also paramount to have a sense of urgency because often we do not have much time to react to certain situations.

Q: What strategies are being implemented by the different companies involved to optimize processes?

A: Only 6 percent of the megaprojects constructed around the world are finished on time and within budget. We are one of the first projects in Mexico and the first of its kind to use BIM (Building Information Modeling). This methodology helps us use intelligent, connected workflows to help improve predictability and productivity. We also work closely with the project manager, contractors and supervision entities to develop management strategies. NAICM is also a self-financing project. Recently, we issued green bonds for up to US\$4 billion, which gives us a total financing of US\$6 billion. The financing scheme is backed by the current airport's excess cash flows and eventually by the new airport. Fortunately, the financing scheme is based on the TUA that is charged to most passengers, and is charged in dollars. This protects the private financing from the peso's devaluation and volatility in the markets.

Q: What are the expectations for NAICM for the end of 2017 and into 2018?

A: By the end of 2017, we will have already tendered around 85 percent of the project's value with our most important projects awarded. These include the passenger terminal building, the air traffic control tower, runways 2, 3 and 6, the electrical substation and the ground transportation center, among others. The next two years will see the development's consolidation as we will really be constructing these projects simultaneously. We will see harmony among the people, ground and machinery. These years will be the most construction-intensive so NAICM can finish the project by 2020.

GACM is the group that oversees the operation of AICM and the construction of NAICM. It is a government dependency and is charged with ensuring tenders for the new airport are carried out with speed and transparency



CONDITIONS BODE WELL FOR INFRASTRUCTURE DEVELOPMENT

JUAN LEAUTAUD

Managing Director of BlackRock

Q: What progress has been made to bridge the infrastructure gap and what projects are the most critical for the country?

A: I am optimistic about the future of infrastructure in Mexico for a number of reasons. Although we continue to have this gap between our current economic output and our existing infrastructure, there are a number of elements that bode well for infrastructure development. Public finances are pressured because of the international context, the drop in oil prices and the current state of Mexican finances. That scenario creates an environment in which private capital is welcome in infrastructure development. There is a need for private capital to play a role and a wide range of opportunities to address that necessity.

Another reason for optimism is that infrastructure projects are always slow to come to fruition. Assembling a bankable project takes time. In my view, the government has made tremendous strides in identifying and pushing forward a number of projects, whether those are PPPs in the health sector, highway projects released by SCT or state-level projects focused on water and social infrastructure. Although there is a significant gap, there is now a growing number of identifiable projects.

The third reason is the progress on the part of state governments in terms of bringing in private capital to address infrastructure needs. Baja California has released a PPP project for a desalination plant in Rosarito that will provide water for the city of Tijuana at 4.4m³/s. This is a US\$700 million project that is already in the contracting stages and tremendously significant to the state. The state is also tendering a 4.5km bypass for the city of Tijuana valued at MX\$1.5 billion that will improve the connectivity within the city and the surrounding

BlackRock is a global leader in investment and risk management as well as advisory services in more than 30 countries. It has participated in various road, health and penitentiary infrastructure projects in Mexico

areas. Both these projects have been carried out with complete transparency and are a reflection of the fact that state-level participation is increasingly significant. I am optimistic that other states will follow suit in building up an infrastructure pipeline.

Q: What are investors most worried about when investing in new projects?

A: All investors like to see predictability and that translates to contract structures that offer certainty in terms of the scope of activities to be performed and the risk allocation between the parties involved. The health sector and contracts with IMSS and ISSSTE are no exception to this. A clear division of responsibilities regarding the acquisition of land, permitting of that land all the way through to the operation of a hospital, for example, need to be defined from the outset.

Q: What is holding back USPs and how can BlackRock help the players looking to make it happen?

A: The Tijuana bypass undertaken by BlackRock was carried out through the USP framework. We presented different options to the state government and began working in partnership with it to find the necessary structure to make it happen. The government understood the need for this road, launched the bid in accordance with the regulatory framework and BlackRock presented the winning proposal. This is a good example of a system that is working and we are now working on a second USP, which is a federal project.

Q: In which sector do you see the greatest potential for Mexican infrastructure?

A: We have a robust pipeline of investment opportunities spanning energy, midstream oil and gas, transportation, water and power so it is difficult to choose a sector I believe will be the most profitable. We are confident that we can continue to diversify and invest our clients' funds effectively. In 2017 and 2018, BlackRock will come to the end of its investment funds and we will consider raising Fund Three in the near to mid term. Through this, we will continue our trajectory in developing our pipeline.

A CLEAN FUTURE FOR THE INDUSTRY

RENÉ SCHLEGEL

President of Robert Bosch México



Q: How are you reacting to changes in the automotive industry and new trends favoring mobility alternatives?

A: The idea that the car industry is changing is wrong. What is evolving is the transport and mobility industry; the automotive industry is an important part of that. Companies that cannot identify this wider framework are doomed to stagnate or even disappear. The car is just a means to an end, to transport people and goods from one place to another. The real concern facing the industry is how to improve mobility by transforming existing solutions or by developing new ones. Companies must identify client needs and react to them, offering the fastest, most convenient and cost-efficient solution that damages the environment the least. We want to provide important input to drive such solutions.

Q: How is Bosch working to develop cleaner and environmentally friendly solutions for its clients?

A: Developing cleaner products has been one of our core values since the company was created. Bosch strives for safer, cleaner and more comfortable solutions across all the industries we serve. These three factors are driving innovation in the mobility sector too and we assign considerable resources to develop technology around them. We spend approximately 10 percent of our turnover on R&D activities, which amounts to nearly US\$10 billion per year.

Q: What opportunities do you see for Bosch in alternative powertrain applications?

A: There has been tremendous progress in electrification and how energy is being produced. But getting your energy from a plug does not mean using clean power. There are still challenges the industry must address including making electrical energy storage and charging more efficient, lighter, faster and cheaper. But the fact that these challenges exist represents a great opportunity for the industry to meet considerably more challenging standards. There are plenty of energy alternatives the industry could embrace, used individually or in combination. Some players are still interested in hydrogen. Chemically, this substance is one of the simplest molecules available in abundance, which is precisely what makes it interesting. But we don't think there is just one solution. Gasoline, natural gas and electric engines

all have their merits. We must only consider issues such as effectivity, efficiency, availability and ease of distribution to determine how best we can apply each of these alternatives to transport people or cargo. We still see great potential for the internal combustion engine too, mainly because of the energy density in carbon-based fuels. Further improvements in terms of efficiency and cleanliness for this type of powertrain remain promising options for many applications.

Q: How has Bosch's R&D initiative in Guadalajara evolved and what has been your experience concerning Mexican talent?

A: The project has been a success although it was not easy at the beginning. The center in Guadalajara is heavily oriented toward development, which is still not common in Mexico, and we had a hard time selling the idea internally in the beginning. We developed the project in collaboration with Bosch India starting with 11 people in 2014. Today, we have 280 engineers working at the site and we have proven that there are very skilled and talented people in the country, capable of delivering projects on time, on cost and on spec. Our employees in Guadalajara come from different STEM backgrounds (science, technology, engineering and mathematics), creating an interdisciplinary environment that fosters innovation. Our demand for R&D projects in Mexico is now booming, both from internal and external customers domestically and internationally.

Q: In what ways do you see the automotive industry being affected by external influences?

A: During uncertain times, companies and investors need to separate the wheat from the chaff, reinforcing calm among investors, associates, academia and politicians where possible. Companies must keep advancing, cautiously maybe, but never stop innovating or offering the best possible value to their customers and stakeholders. Standing still because of uncertainties is not an option, prudence is.

Robert Bosch is a leading supplier of automotive components, including gasoline and diesel systems, electrical drives, starter motors and generators. The company generated US\$82.4 billion in sales in 2016 and US\$3.7 billion in EBIT



IMPROVING SALES, CUSTOMER SERVICE

HORACIO CHÁVEZ

Managing Director of Kia Motors México

Q: After growing over 400 percent in 2016, how confident is Kia about reaching its 80,000-unit sales target for 2017?

A: Between January and September 2017, we achieved 55.7 percent growth in sales. Local operations have also strengthened since we started producing the Forte locally in May 2016. This model was previously imported from Korea and so was subject to import tariffs. In 2017, the most important factor to increase our sales volume will be national production of the Rio. We started production in January with the Rio Hatchback and we have also launched the Rio Sedan. Locally producing 100 percent of the units that we sell in Mexico will help us reach our target of 80,000 units sold.

Q: How did the company successfully penetrate the market and grow sustainably?

A: We implemented an aggressive growth strategy following four pillars. The first was launching the brand with attractive products to position ourselves well from the outset. Sportage, Sorento and Forte are our high-end models, which we launched initially. Then we brought the more economical Rio and Soul. The second pillar of our strategy was boosting brand awareness through marketing. We broke many rules about how brands should start in a new country. We had a strong presales campaign with the “Kia on Tour” events, visiting all cities where we planned to work and scheduling test drives.

Our third pillar of growth is based on developing our distribution network. We selected the best in terms of customer service, managerial and financial capabilities to create a network of 73 dealerships that opened in just 12 months. We added 12 more sales points in July 2017, which will take us to 97 percent national coverage. Each dealership on average costs US\$3.5 million to build. The final pillar in our strategy refers to our differentiating policies. We created Kia Finance, our financing arm that works in collaboration with BNP Paribas, the largest bank in Europe. Along with

Kia Motors was founded in December 1944 as Kyungsoong Precision Industry, initially manufacturing bicycles. The company began producing cars in the 1970s. It has since joined forces with Hyundai to create the Hyundai-Kia automotive group

financing, the most attractive factor that helps garner trust from our customers is having the most extensive warranty in the Mexican market of seven years or 150,000km.

Q: How is Kia positioned among its competitors in terms of sales and aftersales services?

A: We use studies by J.D. Power as a reference. In 2017, Kia occupied the sixth position among non-premium brands. We are not yet participating in J.D. Power’s aftersales studies because the volume of repairs and maintenance we manage is still too low. Our cars are still relatively new compared to other brands and need few services but we will participate in 2018. By 2019, we hope to be rated among the top three companies with the best levels of satisfaction in the country.

Aftersales services offer the greatest opportunity in Mexico. People always doubt whether repairs made to their vehicle were necessary or not, so Kia developed a global tool called Customer Value Innovation System (CVIS) that personalizes the service. When a new vehicle is sold, the sales representative must download an application to the client’s smartphone, which generates dates for maintenance and reminders for services. Drivers can schedule appointments or reschedule, and the application shows the car’s status and when it will be ready after servicing. Even the payment can be handled through the application. We started implementing this innovation in 2016 with 30 dealerships and Mexico will be the first country where 100 percent of the dealerships will integrate the application.

Q: How do you expect your participation in the hybrid vehicle market to grow, especially in Mexico?

A: During 2016, we were less confident about introducing a hybrid vehicle to Mexico but after the environmental contingencies in Mexico City, we saw sales of hybrid vehicles from competitors dramatically increased. We have seen there are great opportunities to launch greener vehicles here. Kia had considered launching a global product in Mexico, which could have important differentiators from a traditional car. The Niro is a special vehicle designed from the beginning as a hybrid. It is the first light SUV born as a hybrid, designed to be aerodynamic and avant-garde.

DEVELOPING DIGITAL OPPORTUNITIES IN MEXICO

MARÍA TERESA ARNAL

CEO of Google Mexico



Q: What opportunities does the Mexican market offer to the development of Google's business?

A: The word that defines my administration in Google is "opportunity." Mexico is the 15th-largest economy in the world, meaning that there are great opportunities in many different sectors, including digital transformation, an area into which many companies are now venturing. Digital transformation does not only entail reaching consumers through the internet but also through every process within the company. The way companies think, understand and approach consumers is changing and Google can play a central role in this process. We can help companies change the way in which they develop products to allow them to reach more consumers. This is the opportunity we see with big companies. An interesting example is Nestlé México. Together, we developed a project to analyze the searches related to baby food and what parents search for. With this data, they were able to revamp and launch a new product in just nine months, shortening the process by over half the time.

We also see many opportunities with SMEs. The internet has no borders and Google allows SMEs to do business all around the world. There are many stories of Mexican SMEs working alongside Google that have managed to do business abroad. We estimate that Google has contributed MX\$24 billion to the Mexican economy.

The education ecosystem has a big opportunity for renewal in Mexico. In general, education is an area in which we will see great technological disruption. We want to bring technology closer to the people and for technology to become an enabler for new learning and collaboration tools. Knowledge per se will not be the main driver, since the data is available in Google; being able to learn and work collaboratively will be the main drivers. Another important segment is related to empowering companies to be more productive. We see opportunities in helping companies improve its internal business processes and in the generation of intelligence from all their data.

Q: How does Google contribute to the expansion of digital skills in Mexico?

A: It is an interesting challenge. We work alongside different players in Mexico to push and see through the country's connectivity and digital skills education agenda. We engage on projects that seek to reduce the country's digital gap and empower those who seek to use technology to find solutions to everyday problems. We must play a significant role and help ensure that as many people as possible have internet access and the possibility to make the most out of these tools.

Google products are developed with billions of people in mind. We want our products to be as universal and inclusive as possible; however, this does not mean that we neglect characteristics inherent to particular groups. We take in consideration the most important particularities of each group and then try to compile those up in a single product. Mexico is part of an initiative called Next Billion Users (NBU). Technology empowers people to solve problems, but problems are completely different in developing countries like Mexico, India, Brazil and some others that are part of NBU. This initiative analyzes the problems we share and are inherent to our developing nature.

Q: What does the country need to do to develop more gender parity in the technology sector?

A: The problem in the technology world is the pipeline, something that does not happen in other fields. Part of it is that when girls reach a certain age they start losing interest in science-related subjects. This is the first hurdle we must overcome: we must find a way to show girls that science, technology, engineering, and math are fun. At Google, we partner with organizations such as Epic Queen and offer camps where girls can encounter fun ways to approach math and coding. This way you start generating an interest that leads to less desertion rates. We also need role models, and show them that the technology world includes us all.

Google is a global technology leader, which focuses on improving the way people connect with information. Its innovations on internet search and online advertising have made its website a top internet product



MEXICO A MAJOR CONTRIBUTOR TO 'QUETZALCÓATL' DEVELOPMENT

DONNA HRINAK

Vice President of Boeing and President of Boeing Latin America

Q: How do you see the aerospace sector developing in Mexico and Latin America?

A: The country has tremendous potential for Boeing's three sectors: commercial aviation, supply chain, and lastly, defense, space and security. Our participation in the supply chain is of great importance to us. It represents about US\$1 billion annually both in terms of direct purchases and those of our direct suppliers. Mexico is our largest supply base in Latin America. The 787-9 "Quetzalcoatl" for example is visibly a Mexican plane due to its patterned paintwork, but its interior is also Mexican. Its wire harnesses, landing gear and doors are made in Mexico. The 787-9 is our most modern and high-tech aircraft and Mexico is contributing in major ways to its development.

We anticipate that Latin America will need 2,960 new aircraft by 2035. Mexico is the second-largest market in the region, so we expect many of these aircraft to come to the country. Of those, 70 percent will be part of fleet expansions, not replacing existing airplanes. Airlines will continue expanding their fleets to potentially double in size by 2035.

We expect single-aisle aircraft will be most in demand in Latin America, such as the 737 MAX, the fastest-selling aircraft in Boeing's aviation history. Aeroméxico has already ordered 60 and will begin receiving them in the first quarter of 2018. This type of aircraft will continue to grow in Latin America and we expect a total of 2,530 will be needed by 2035. Small wide bodies will also be acquired for certain flight routes, such as the 787, also flown by Aeroméxico. It is true that orders for wide bodies have dropped but the market for the single aisle has remained strong.

We have to listen closely to know what airlines want and what their passengers will pay for. There are many innovative technologies that could be used today, such as supersonic flight, but not at a price that everyone can afford. For the market to remain strong as the middle-class grows and more people fly, we have to make sure innovations match market demand. The price of fuel also

influences all airlines. We can collaborate with Mexico on the development of alternative fuels and biofuels, which is one of the reasons Aeroméxico is working with us.

Q: How do you expect Boeing's US\$1 billion yearly investment in the supply chain to grow in the next few years?

A: This depends mostly on our suppliers' ability to expand in the country and to develop the workforce to continue meriting support from federal and state governments. Our suppliers mostly manufacture components but we expect to move Mexico up the value chain by requesting more design and engineering-based jobs here.

Q: What are the main reasons behind the increased demand in single-aisle aircraft in Mexico?

A: The country has 46 free trade agreements reflecting Mexicans' interest in traveling. This offers the possibility of opening new routes from Mexico. A similar trend is emerging throughout Latin America. Aeroméxico opened a route from Tijuana to Shanghai that is encouraging many US citizens to cross the border into Mexico to fly from Tijuana. This direct flight is possible thanks to Aeroméxico's 787. This Mexican airline is one of a handful of all-Boeing fleets in the region, including Copa Airlines and Gol Airlines.

Q: How will the 787-10 change the aviation market?

A: The 787 has opened 160 new routes to date. It has the size and range to be suitable to open many new routes and the 787-10 extends that range to allow the generation of more direct routes. While there are larger aircraft in the market, there may not be enough travelers to fill them. Instead of having one aircraft with 500 passengers making a single flight, it might be more convenient for passengers and airlines to fly two 250-seat aircraft twice a day. This aircraft has the capacity and the same range as larger aircraft, offering significant flexibility to open new routes.

Another characteristic of the 787 might be best understood by quoting one of our executives: "Airplanes are cool but flying sucks." This refers to the fact that passengers can find the experience uncomfortable. As an OEM, one way

we can improve the passenger experience is varying the temperature ranges in an aircraft. The 787 incorporates our Sky Interior, which creates a more welcoming environment. The lighting can be changed depending on the time zone while larger windows let in more natural light. The aircraft is also much quieter and its humidity level is higher. This is because it is made of composites instead of aluminum and is pressurized at lower altitudes.

Q: What other initiatives is Boeing developing to improve passenger experience?

A: The best way to improve this area is by talking to passengers. We have two locations with an aircraft cabin that can simulate the conditions of a real flight, one is in Germany and the other at Brazil's University of Sao Paulo. In Brazil, we recently asked for volunteers to test the conditions of a "flight" to measure preferences. For passengers with physical limitations, we have developed ways to make their experience smoother and easier, such as luggage storage that can be pulled down to an accessible height.

It is amazing how passengers around the world state the same needs. The main differences between passengers can be classified by age. Millennials, for instance, want internet access so they can message fellow passengers. They are willing to pay for that but are unwilling to pay for what they do not use, including food or drinks. This is one of the reasons low-cost carriers are growing so much in Mexico and other countries in Latin America. While these carriers charge for everything, passengers who do not use most of these services and are willing to pay when they do need something.

Q: What are Boeing's recommendations to keep the Mexican industry growing?

A: So far, we have seen an excellent partnership between the Mexican government and the industry via organizations such as ProMéxico and FEMIA. The third vertex of that triangle, academia, is just starting to come on board. We need to ensure the labor force is adequate, in quantity of people and skillset, to be able to build the aircraft and satellites of the future. Mexico produces a vast number of engineers but what the sector needs now is technicians.

Technical schools have to train their students not just on how the factory works but on relationship management because an instrumental part of the supply chain relies on good working relationships between Tier 1s and OEMs. We want partners that are willing to develop long-term partnerships and understand the changing needs and

demands of the market, something graduates can learn through relationship management before rising in the ranks to manage supplier companies. The companies that successfully incorporate this ability stand out in the sector.

To better understand how to work with suppliers in Mexico, I reached out to an executive in France. We consider that country to be the model on how to interact with suppliers. He said, "here in France our suppliers are French companies. In Mexico, our suppliers are French companies," meaning that Mexican companies are not yet big players and they will not be able to start at the level of Safran and Latécoère. But they can start as Tier 2 or 3 companies and supply to Tier 1s. That is what Mexican companies should focus on. Mexican companies are very resourceful and are quick to bring new ideas to the table so the country is in a good position to enter the Top 10 in the aircraft industry, building on its competitive supply chain with innovation.

Q: What initiatives is Boeing developing to make aircraft environmentally friendly in the long term?

A: Boeing has a project called ecoDemonstrator, in which we take one of our aircraft and fill it with environmental experiments. We have run this experiment three times in the US using Boeing's aircraft and in 2016 we ran it for the first time in Brazil, using an Embraer E-170. This was a joint project aimed at addressing the industry's ambitious goals to reduce gas emissions. Some experiments included changing the paint of the aircraft to one that prevents ice accumulating on the surface and insects from sticking to the airplane. This reduces drag and fuel consumption. Other tested areas included controlled noise pollution, air safety and flying and landing techniques to reduce fuel consumption. The industry's goal to reduce fuel consumption can be met partly by improving pilot training and partly by improving engines. The next ecoDemonstrator, to fly in 2018, is still under development and might happen through another partnership with Embraer.

On the commercial side, our top priority is getting the 737 MAX to our local customers, including Aeroméxico, Copa Airlines and Gol Airlines. The second will be to continue improving the added value of the supply chain.

US\$1 billion
Amount Boeing's supply chain division buys annually from Mexico

Boeing is a multinational company and one of the largest aircraft manufacturers worldwide. The OEM manufactures the fastest-selling commercial aircraft in the world, the 737 MAX, and reported revenue of US\$94.57 billion in 2016



INTERNAL POLITICS ABROAD COULD OPEN DOOR TO COMPETITORS

LUIS LIZCANO

Director General of FEMIA

Q: What are the most influential trends affecting the aerospace sector?

A: Commercial aviation is being led by Boeing and Airbus, for commercial aircraft, and Bombardier and Embraer, for regional jets. These companies and their suppliers constantly work to optimize their manufacturing practices to reduce costs as the market demands, which often leads them to outsource processes and services from their home countries. There are concerns that this trend will reverse due to internal policies in certain countries but any policy that prevents companies complying with market demands will impact manufacturers' competitiveness, creating an opportunity for OEM competitors from other countries, including China and Russia, to enter the North American market. Regardless of the policies, in the long-term the market will always correct itself.

There are two situations to consider. The first is the global market, which is growing especially for the commercial aviation segment. Globally, passengers prefer flying over other methods of transportation. This trend will continue unimpeded unless there is another global crisis. To address the needs for this large number of passengers, airlines must grow and update their fleets.

Aircraft are part of a complex supply chain that incorporates companies all over the world and the market is pressuring manufacturers to reduce costs. This may lead them to best-cost countries where they can outsource quality processes and services. The second aspect of the economy which could impact the aerospace industry is seen in specific trade scenarios, but uncertainty at this point means it is not possible to determine how the wind will blow. We are assessing different scenarios and constant analysis should help us to react and prepare for evaluated events.

FEMIA represents the Mexican aerospace industry with the goals of promoting it internationally and attracting FDI. It represents the industry's interests and helped to create the Pro-Aéreo plan to position Mexico as the 10th aerospace supplier globally

Q: How could Mexico benefit if it successfully adapts to changing policies abroad?

A: The global market for aerospace products is strong, thus many international companies have a positive outlook. Mexico has one of the most open economies in the world, counting trade agreements with 46 countries. A climate of uncertainty may cause an economic slowdown as companies become increasingly cautious to expand or invest. Many are waiting to see what happens before they commit to any changes in strategy.

Q: How is FEMIA supporting the development of the aerospace supply chain?

A: Our supply chain development program is collecting a significant amount of technical data and information about core competencies of every company in the industry. This data will facilitate the identification of sector needs and what can be done to promote and support individual companies. We are studying the market to determine how many companies have the AS 9100 certification and estimate those to hold it at 60 to 70 percent of Mexican aerospace companies. There are also many other companies that have sufficient personnel and core competencies but have not entered the aerospace sector as they lack the certifications or equipment to do so. This study is a long-term process to create awareness, of which the first phase will be finished by September 2017.

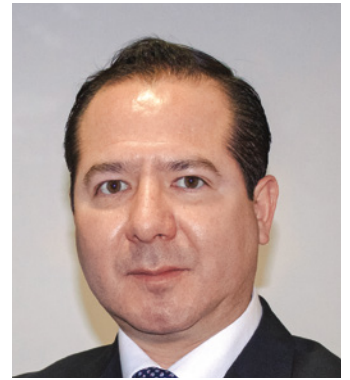
Q: How can Mexican aerospace reach new markets and which areas should the industry turn to?

A: The Mexican aerospace industry is still young. While a few companies have existed for over 40 years, the sector only started to take shape about 13 years ago. To convince foreign companies to invest in Mexico we are reaching out through events and investment seminars all over the world. We have to look toward the European Union and Asia. Europe is a great ally. We estimate that approximately 25 percent of FDI for the aerospace sector comes from this region and the rest comes mainly from the US and Canada. Working with Asian companies is a possibility but it is necessary to take into account the fact that business practices vary widely between countries.

DYNAMIC CHANGES PROPEL MEXICO TO WORLD STAGE

JULIO SÁNCHEZ Y TÉPOZ

Commissioner of the Federal Commission for the Protection against Sanitary Risks (COFEPRIS)



Q: What are the most important advances COFEPRIS has made in the past year?

A: We have made great strides on ethics and transparency, we have become an institution that is much closer to citizens and we have put 10 catalogues of open data at their disposal. These are registers of licenses, permissions and other types of information that was previously requested of us. We have also installed a telephone service that receives 16,000 calls per month.

COFEPRIS regularly removes patents from groups of medicines to allow for the production of generics. In 2016, we released Group #14 because in February 2016 there was an issue with influenza and the active substance to treat it, oseltamivir, was only produced by one laboratory and manufactured in Switzerland. In May 2016, we liberated Group #14 and there are now three generics available for oseltamivir. In total, 37 active substances have been liberated through our generics strategy, producing 491 generics, which represent MX\$25 billion (US\$1.4 billion) in savings while an extra two million people can be treated thanks to these savings. In 2017, we continued this strategy and more than 40 new molecule authorizations were announced.

In 2016, Mexico was named Vice President of the International Coalition of Medicines Regulatory Authorities (ICMRA), an international association that unites the 14 most important regulatory agencies, for two years. We are a leader due to our generics strategy, innovation, reduced processing times for protocols and special pathways for administrative forms, which can now be obtained in 15 days instead of two years as it was five years ago.

Q: How is COFEPRIS working on bringing more knowledge to Mexico?

A: One of the most important themes internationally is the creation of the COFEPRIS Center of Excellence. We began working on this idea around two years ago with the aim of closing the knowledge gap because knowledge is not shared in the pharmaceutical sector. Those that have money, like large companies with the capacities to invest in R&D, do so in specific areas. But there is a gigantic difference

between the amount of R&D that goes on in developed countries compared to less developed economies. A first gap is created here. A second gap occurs because of the difference in technical knowledge. They want to protect knowledge and for this reason it is not transmitted. Secondly, knowledge only reaches those countries that collaborate and that offer assurances.

As an example, it is doubtful that Brazilian research centers share their knowledge quickly, efficiently and transparently with Nigeria because standards are asymmetrical. We need to improve the flow so that every country can benefit quickly and efficiently from knowledge. We aim to contribute to reducing these gaps as much as possible through a center of excellence. This was an idea of the WHO and APEC and they should compile information and generate joint public and private actions so that knowledge can be shared. Our center has several research and training projects underway in areas in which it is difficult to find an expert. There are few other centers but those that exist are linked. Japan, the US and Brazil each have one.

Q: According to ProMéxico, Mexico carries out only 1 percent of global clinical trials. How will you boost this number?

A: In January 2017, we signed an agreement to promote clinical research that simplifies processes and integrates them. To meet all requirements and obtain all permits used to take 365 days but we are reducing this to 45 days. Our goal is to triple the investment in clinical research in Mexico and we hope to see US\$600 million over the next two years, up from under US\$200 million. An agreement has been reached with IMSS and ISSSTE will soon join the program. We are working on another agreement with the national health institutions and with UNAM.

COFEPRIS is a regulating authority responsible for 44 cents of every peso spent by Mexican household. It is in charge of regulating everything that could have a risk for consumers. 9.8 percent of GDP and 10.9 percent of foreign trade



DIVERSE PORTFOLIO ENSURES GROWTH

RODRIGO PUGA

President and Country Manager of Pfizer Mexico

Q: Generic medicines are becoming more popular in Mexico and innovator patents are expiring. What is Pfizer's strategy to deal with this?

A: Access to health services is an important challenge. Mexico spends 6 percent of its GDP on health, the lowest expenditure of all OECD member countries, as others spend an average of 9 percent on health. Pfizer has launched its first biosimilar, a product for rheumatoid arthritis that IMSS is providing, and we are developing biosimilar versions of its five most-sold biotech medicines to be launched over the next four or five years. Pfizer's strategy is to participate in attractive segments and to target growth above the market rate. To achieve that goal, we must compete in innovation. The company has 90 projects globally and over US\$7 billion invested in R&D. It also has a business base of patent-expired drugs that are still successful due to our quality prestige. We are successful in emerging markets because, although regulations have improved, physicians and patients do not trust all generics. However, we have also launched a generics line, a segment in which Pfizer enjoys an average growth of 35 to 40 percent annually.

Q: On what pathologies is your pipeline going to focus?

A: The five main areas in which Pfizer is working are oncology, central nervous system, cardiovascular, rare diseases and biosimilar drugs. It is hard to say where the best results will be, because out of every 100 projects that start in the clinical phase, only one will reach the market. We invest about US\$7-8 billion per year and launch one or two new products per year.

Q: What is Pfizer's strategy to sell innovative drugs to the Mexican public sector?

A: The arthritis biotech product Pfizer introduced to IMSS already existed and we developed the biosimilar version. In innovators, the challenge is showing public health institutions the cost/effectiveness ratio of products,

starting with the CSG, IMSS, ISSSTE and decentralized agencies. A new drug has a patent with 15 years of exclusivity from when the molecule is discovered. It takes eight to 10 years to gain approval and introduce the drug into a market and in Mexico four to five years for the product to be available to the public sector.

Q: What is Pfizer's approach to personalized medicine?

A: Pfizer already has some personalized products in the market; for example, our therapy for patients with ALK-positive non-small cell lung cancer. In immunotherapy, especially oncology, the objective is to strengthen the immune system to combat cancer. Most cancer treatments use biological and chemical compounds but this Pfizer treatment could help the immune system target tumor cells directly. In oncology, it is difficult to decide when to launch a product because it does not follow the same cycle as other products. Pfizer's acquisition of Medivation will enable us to strengthen our clinical research into prostate, breast and blood cancer.

Q: What are Pfizer Mexico's priorities in a short term?

A: Along with Brazil, Pfizer Mexico is a priority subsidiary. Pfizer Mexico's commercial objective is growing above the market growth of 5 percent. The company will continue launching innovative medicines, biosimilars and high-quality generics. We want to continue working closely with AMIIF to demonstrate that investing in health is one of the best investments in terms of economic impact. We also want to work on innovative access strategies.

Pfizer Mexico will also continue innovating in clinical research. With 121 million inhabitants, excellent professionals and a decent level of infrastructure, there should be much more clinical research in Mexico. This does not happen because administrative processes and institutions delay procedures more than they should. The company has over 400 research centers in Mexico, although it is still an incipient process. According to AMIIF, Mexico could be looking at a US\$500 million investment in clinical research in the near future. Pfizer invested US\$16 million in Mexico in research in 2017.

Pfizer is a US-based global pharmaceutical company present in over 180 countries with a strong research focus. It works in a variety of therapeutic areas including oncology, cardiovascular health, vaccines, ophthalmology and infectious diseases

TECHNOLOGY TO BOOST THE FINANCIAL ECOSYSTEM

IGNACIO ALDONZA

Lead Partner for Financial Services at EY Mexico



The structural reforms implemented during Enrique Peña Nieto's administration have elevated optimism about Mexico, despite the economic and political uncertainty in some of the world's most influential countries, says Ignacio Aldonza, Lead Partner for the Financial Services Office at EY Mexico. "There are so many reasons for confidence as the structural reforms move forward. Although the expected level of growth and investment varies according to sector, in the financial segment we see a clear bet in favor of Mexico."

That bet is heavily favoring digital technology and leading to the rise of a fintech ecosystem with the potential to reach segments of the population that until now have had little or no access to banking services, including loans. Smaller companies and startups are spearheading the fintech push, supported by private capital funds. "Companies like Clip, kubo.financiero, Konfio and Kuspit have received funding valued at around MX\$88 million. Investors look for two things: a capable management team and an idea that is viable," Aldonza says, adding: "We want Mexico to become a fintech development hub."

“ In the digital world, everyone has access to information and the customer is king”

Technology is revolutionizing industries, including the financing segment, and creating significant cost reductions, accessibility and an undeniable focus on the client. "In the digital world, everyone has access to information and the customer is king. What companies are doing to remain competitive is to lower their prices, transforming into businesses with low profit margins where volume plays a larger role," says Aldonza.

Recognizing the impact that digitalization and an expanding fintech market will inevitably have on the sector, the bigger banks are also putting their money where their ideas are. In the early months of 2017, Aldonza says that BBVA Bancomer

had invested US\$3.5 billion and will invest another US\$1.5 billion, Citibanamex is committing US\$1.5 billion to renovate its infrastructure and Banorte will invest US\$1 billion, all aimed at strengthening their digital strategy. "Banks are committing a significant amount of resources to enter the digital world."

To fully develop this emerging market, the government must do its part to ensure a level playing field for the new players going up against their established counterparts. "The government must play a role in the development of the fintech ecosystem. It must help these new companies to compete fairly with banks but also to provide them with a legal framework that protects users," Aldonza says.

The nascent focus on technology is bound to provide the system with one element it currently lacks: dynamism. In addition, new players will boost competition and force those already entrenched here to improve their services. Aldonza says that promoting competition is one reason behind the creation of BIVA, the second Mexican stock exchange. In his view, the world is moving toward digitalization and the further use of technologies to reduce costs, a message the current stock exchange needs to hear. "Perhaps the purpose of BIVA is to encourage the Mexican Stock Exchange to incorporate technological tools and become more competitive," he adds.

While market players across industries remain jittery about the nationalistic rhetoric coming from the administration of US President Trump, Aldonza says investments already made in Mexico will remain and some sectors will be relatively unaffected, regardless of how that rhetoric plays out. "The US business community will avoid any direct challenge to their president but they will not pull out investment already committed to Mexico." Besides, even if the US were to pull back, for instance in the automotive industry, others would be more than happy to step in. "Mexico is not a fiscal paradise. This means that companies established in the country have not followed the logic of paying less taxes. Companies with operations in the country are here because the country offers significant and real competitive advantages." In the end, Aldonza says, US consumers will not be willing to finance their president's patriotism.



NEW OPPORTUNITIES IN A CHANGING MEXICO

ROBERTO CABRERA

Managing Partner at Industries and Markets of KPMG

Q: What does Mexico offer to international investors interested in entering the country, given the US political climate?

A: Even though the environment is challenging, it is bringing us a historic opportunity to move out of the comfort zone we have been settled in for years. Several factors led us to this comfort zone. First, through NAFTA we took the risk of selling 80 percent of our exports to one country. Second, through the migration of 11 million Mexicans we assumed the idea that it was not Mexico's responsibility to provide them opportunities. That comfort zone has also made us tolerate situations like bad administrations and corruption, so the current scenario is full of opportunities.

Q: How is Mexico positioned compared with emerging economies competing for the same markets?

A: Mexico is in a great position because it is a competitive economy. A KPMG study says that we are 12.5 percent cheaper and we have more effective corporate income tax rates than other economies. Plus, with or without a free trade agreement with the US and Canada, we are still neighbors of the most important economy and owners of a strategic logistical location. We have a very health macroeconomy and even though debt has grown, it is better than that in other countries. We also have great human capital with a lot of potential to keep improving. In addition, Mexico's demographic is a bonus and domestic consumption is growing. That is why someone can come and invest in Mexico, not necessarily thinking about selling to the US.

Q: What are the expectations for the Hecho en México program?

A: There are certain priorities the government should address to make Mexico more competitive. First, continue the fight against corruption because a country cannot be

competitive with the corruption levels that exist in Mexico. Second, increasing public security is a must. In many other countries companies do not need to invest in security to protect their operations. Third, upgrade the local image. Mexico has a lot to brag about and our manual labor is very qualified, as we have seen in the aerospace industry. Universities are also improving their development of talent so promoting the brand *Hecho en Mexico* is a great idea.

With this order of priorities, the main objective is to increase our macroeconomic levels by battling corruption and improving security. We are going in the right direction but at the wrong speed. The anticorruption law is a very good norm but it took years to approve and we are still discussing it. The US situation will pressure us to speed up our actions.

Q: On which countries and industries should the Mexican economy focus its efforts?

A: The first and simplest approach should be Latin America. According to our KPMG survey *Senior Management Perspectives in Mexico 2017*, top managers are considering investments in countries that economically are well-positioned, such as Colombia, Peru, Chile and Argentina. There are also good opportunities in Central America. A second target should be Europe because of its economic potential and size. We have not given Europe the importance it deserves and it could be a great destination for Mexican products. Finally, a third target could be Asia. Countries such as China are complicated to do business with; however, the current situation is making China look at us.

Q: What changes are required for Mexican industry to compete efficiently on cost and quality in international markets?

A: Mexican companies have to realize that innovation has become a must in their activities. In the last two to three years, the market has experienced many changes and the only way to keep up is through innovation. If companies do not innovate they will not survive. The biggest goal for Mexican companies must be investing in technology and innovation to become economically sustainable.

KPMG is a global consulting firm that offers audits and advisory of financial and legal affairs. Its network of independent member firms helps clients mitigate risks and grasp opportunities

THINKING AHEAD OF THE CURVE

REYNALDO VIZCARRA-MÉNDEZ

National Managing Partner of Baker McKenzie



Q: What is your perception of the development and implementation of the structural reforms by the present administration?

A: The approval of structural reforms has been one of the greatest achievements of the present administration, without them we would not have such a positive growth outlook. Among those, the new anticorruption laws are one of the most significant legislative changes. Despite being overshadowed by a number of factors, this will have an important impact on the perception of the country, both nationally and internationally in a short and medium term.

Q: What changes are needed for Mexico to continue being competitive and attractive to foreign investors?

A: The government is doing what needs to be done. Although the country's economic growth is not as stellar as we would like, we are still experiencing growth. At a macroeconomic level, certain elements like inflation, that could be considered negative, are being contained by the actions enforced by Banxico. When it comes to managing macroeconomic foundations of the country, authorities are doing a good job. Banxico is taking appropriate measures, and the management of public finances is under control.

We want to attract more foreign investment, but to do this we need to work on changing many perceptions. This will be achieved only through having a strong SNA and ensuring that laws are enforced.

Q: How can investment in strategic industries such as energy be reconciled with populist demands arising from nationalistic tendencies?

A: We must be aware that in the world we are living, we are no longer only competing with our next-door neighbor, we are competing with foreign companies that are better than Mexican companies at what they do. I think that in certain sectors, we have not taken on the responsibility of being innovative and creating competitive processes. More than the conditions imposed by a system or a government, and instead of trying to close the door to international participation, you need to step up and offer better services.

Q: What must companies keep in mind when deliberating their potential participation in the federal ZEEs program?

A: For them, the most important thing is to understand the country's business culture. Doing business in Monterrey is not the same as doing business in Tijuana or Juarez City. A ZEE in the southern part of the country where people and businesses are not accustomed to international connection, will require a period of understanding and communication, because people can be very protectionist. Certainly, the creation of these zones will help to open the country to international companies; the states in the south will be forced to receive the operations of a number of companies.

Q: Baker McKenzie created an innovation committee that will incorporate tools like design thinking. What spurred the firm to apply design thinking on a global scale?

A: At Baker McKenzie, we like to think ahead of the curve. We try to be strategic partners for our clients, but we cannot be considered strategic partners if we only act as reactive advisers. Therefore, our approach to our clients has been through industry knowledge. If, for example, we want to provide the best possible services to our clients in the pharmaceutical industry, we need to become experts in the field from different approaches.

We have achieved a high level of expertise in every one of our practices through an innovation committee that helps us to be on the front lines when it comes to providing what is required in any particular industry. The automotive industry in Mexico, for example, is enjoying rapid development. So, our questions are: what does the automotive industry need to experience even more growth? What does the industry need to stay ahead of the renegotiation of NAFTA? How do we anticipate the coming discussion of rules of origin? We must innovate and prepare ourselves to answer these questions.

Baker McKenzie is an international law firm that has been operating in Mexico for over 50 years in the main economic sectors. The firm has offices in Mexico City, Monterrey, Guadalajara, Juarez City and Tijuana

MEXICO

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