

# MEXICO

# Redefining a Nation

Mexico's outward vision sees it expanding in the U.S. at a rapid pace

## Unprecedented pro-business reforms see Mexico's fortunes soar

**Mexico is poised to become** the true star of Latin America in the short term, and an even bigger global player over the next decade. This is thanks to the hard work of the government that is beginning to pay off with sustainable economic growth for all, coupled with a new generation of entrepreneurs that are taking Mexican companies global, whether through expansion or floating of stocks and bonds. In a fitting tribute to the transforming country's increasingly important profile, the World Economic Forum on Latin America will take place in the beautiful tourist region of Riviera Maya on May 6-8.

Legislative and pro-business reforms are on the table that will see the improvements in productivity, exports and imports made — since the North American Free Trade Agreement (NAFTA) was signed — cemented in place. The recent constitutional amendments allowing for the restructuring of Petróleos Mexicanos (Pemex) will open up Mexican hydrocarbon deposits to the world

for exploration and exploitation. With an estimated investment of some \$50 billion over the next four years, this is a timely boost for what was once Latin America's biggest company.

Until the Peña Nieto administration introduced this legislation in December 2012, Mexico's energy sector was entirely state-owned, leading to a number of inefficiencies. As Secretary of Energy, Pedro Joaquín Coldwell, explains: "For the first time, we were able to overcome political disputes, to achieve substantial reforms that are needed for definitive modernization."

Thanks to its fortuitous geographical location, Mexico has always been a prime destination of capital inflows from businesses looking to expand and increase their operations. As Secretary of Finance Luis Videgaray notes: "We are in a very good neighborhood. We are part of North America, which is becoming already the most competitive region in the world and the fastest-growing region in the world in the next



PHOTO: YANNICK WEGNER

The stunning Soumaya Museum in the heart of Mexico City.

10 years or so. North American integration will continue. It is a process that is driven by people, by companies and by sector, not so much by governments. Actually, North American integration is happening regardless of what people in Washington, Mexico City or Ottawa are thinking or doing."

NAFTA is a key driver of this

growth, as it helped to boost Mexican exports tenfold, with around 80 percent now entering the lucrative U.S. market. The agreement has seen American companies shift production and their attendant value south, while pushing Mexican economic growth north, alongside domestic consumption.

Alvaro Luque, president of Avocados From Mexico, explains

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that the demand for their product has been hugely increased by the opportunities that NAFTA has brought agricultural producers south of the border, via improved access to the U.S. market, and thanks to ease of distribution.

"This not only gives you produce the whole year, but delivers to the U.S. within 48 hours, so it's super fresh. Produce coming from elsewhere can take up to three weeks just to get to market, which makes us unbeatable in the avocado business."

### A Secure Investment

On the question of security, Mexico's Finance Secretary Videgaray and number two in the government exclaims: "It's very clear that as we can foster a better environment, a more secure Mexico will foster investment, jobs and growth. In this sense we acknowledge where we are, progress has been made but certainly this will continue to be the highest priority of this government"

The increased competition between national and international companies has further helped diversify the export portfolio, reducing vulnerability to global volatility. "Our country has adopted reforms to achieve macroeconomic stability, such as providing autonomy to the Central Bank; introducing a legal mandate for fiscal discipline; a free-floating exchange rate; introducing a defined-contribution pension system; and ensuring permanent efforts to maintain a sound regulatory framework for the financial system," Videgaray explains.

Meanwhile, José Oriol Bosch, CEO of the Mexican Stock Exchange explains the need to create more diversified financial products in the exchange, in order to take advantage of the infrastructure and energy sectors that are bringing attention to the country. "There are several products like the Master Limited Partnership that have increased capital flow in the U.S. that we will be looking to bring," he says.

The success of opening up the economy has seen powerful growth in all sectors, with the country's energy sector now offering ripe pickings for local and international companies.

"The Energy Reform creates a new wholesale electricity market and promotes greater private sector participation in the oil, gas and electricity industries—a fundamental step in modernization," Secretary of Energy Coldwell says. "With greater openness, there will be incentives for new power plants with lower costs to be installed in Mexico, improving efficiency and the transition towards cleaner fuels."

Foreign technology offered such important potential gains that President Enrique Peña Nieto was able to marshal a majority in the Mexican congress to amend the constitution and pass legislation to allow foreign energy firms entry into Mexico so it can benefit from gas from the U.S. and Canada, that will lower manufacturing costs by as much as 20 percent.

The big challenge is that state-run energy firm Pemex has to re-engineer a company of 150,000 employees, \$125 billion in sales with a procurement budget of \$25 to \$30 billion. Pemex has to internally optimize its business practices and processes, and more importantly, make them transversal.

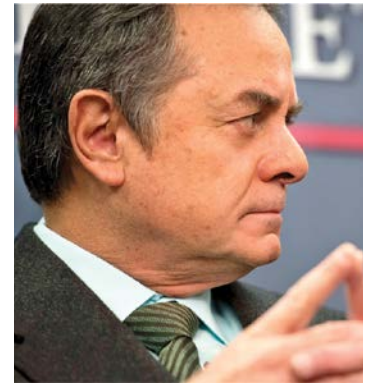
Pemex is also changing the way they buy. Arturo Enriquez Autrey, chief procurement officer at Pemex, says, "We are going to be looking at the most-competitive conditions with a strong emphasis on the total cost of ownership not the lowest price. Those looking to sell to Pemex now need to not only watch the price but also the quality over the lifecycle."

Certain key functions are being centralized, such as with finance. This alteration will simplify whole areas of the business, increasing efficiencies and effectiveness of operations, a boom for what is a key driver of not just the Mexican economy, but of the entire region.

One company that stands to benefit from the increased cooperation and synergies that will be created by opening up the Mexican energy industry is Fermaca, a major player in the industry and a huge transporter of gas throughout the country. Fernando Calvillo Alvarez, president and CEO of Fermaca, sees immense opportunities for his company and the nation in the restructuring of Pemex, because, he explains,



Luis Videgaray Caso, Secretary of Finance



Pedro Joaquín Coldwell, Sec. of Energy

"I expect that we will keep being net importers of gas. There are not enough gathering systems to collect that natural gas, take it to the border and take it to Mexico because the name of the game is shale gas. Condensates are trading at crude oil barrel price so it's the liquids out of the shale gas. There are some production centers and wells where the price of gas is negative. They give you the gas for free if you build a structure to take it away because everybody is selling the condensates, and the

natural gas counts for added value to the chain of shale gas. Gas is easy to transport, while fuel oil is extremely expensive. Natural gas doesn't pollute, fuel oil does.

"Also, we benefit from the gas price today, so why bother trying to produce in Mexico; It's just not competitive. Texas alone has 500,000 miles of pipelines. Mexico has 13,000. We need more interconnections from the north having the assets that we have today. It is a great opportunity for us."

## A New Horizon in the Mexican Energy Sector

**For the first time in Mexico's history, there is a surplus of efficient and economically viable energy sector projects.**

**With respect to the extraction of natural gas, there are many diverse zones yet to be explored, such as the immense Burgos basin in the north, which Mexico and U.S. share geographically. Recently, Pemex Exploration entered into public works contracts with renowned national and foreign companies (multiple supply agreements) to carry out search and exploration of natural gas deposits for later extraction, to help Pemex stop diverting resources to these tasks.**

**This arrangement is supported by Mexican legislation and is an excellent legal instrument that can be perfected to allow Pemex, CFE, or similar authorities to legally get projects off the ground that are essential for the development of the nation. The challenge remains, however, to gear all new projects towards having a positive social impact for Mexican society.**

**Sergio Beristain, managing partner of Beristain + Asociados, has over 35 years of experience, and has established his law firm as the leader in national energy regulation, by providing a comprehensive and personalized service with extreme legal shield to its customers, and by being present in multiple cities throughout Mexico.**

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# Mexican Avocados: A Fresh Approach to Reaching the U.S.

Mexico is a beautiful place, full of heritage and culture, but it is Mexico's rich, volcanic soil and year-round temperate climate that makes it the perfect place to grow delicious avocados.

The U.S. began importing Mexican avocados in 1997, and since then, the fruit has enjoyed a meteoric rise to fame in this country. The creamy, delicious and nutritious fruit has gone from an exotic ingredient to a grocery cart staple.

Mexican avocados are imported from the Michoacan region. In the region, entire towns are focused on the business of growing, harvesting and caring for the only avocado that blooms multiple times a year.

Without the consistent support and partnership of the growers, packers and importers, consumers would not be enjoying guacamole on game day or completing their breakfast with avocado toast.

"We want the world to know that Mexican avocados are grown according to tradition and with the utmost attention to detail," said Alvaro Luque, president of Avocados From Mexico. "From their humble beginnings as trees,



avocados mature as the plump, delicious, creamy fruits you know and love."

Avocados From Mexico (AFM), is an organization created to market Mexico's delicious produce in the U.S. And, in order to increase demand for the fruit, Avocados From Mexico has adopted a strategy that's unique to the produce category.

The group is committed to deepening the U.S. consumers' emotional connection to the green fruit, which is why they have adopted many consumer packaged goods (CPG) marketing strategies to develop this delicate produce.

From eye-catching in-store promotions to dynamic social media campaigns, Avocados From Mexico is a leader in the produce industry in the way it connects with the consumer. A primetime spot during the United States' biggest night for football and the biggest advertising event of the year, was a defining step.

"We saw the 'Big Game' as a perfect fit because we wanted to display our brand in front of our product, something that only



Avocados From Mexico's "First Draft Ever" was a huge hit on advertising's biggest night.

beer, snack foods and beverage companies can do," said Luque. "Guacamole consumption spikes in January and early February, and nearly all avocados during that time come from Mexico, so it was an ideal opportunity to showcase our brand."

The avocado industry has seen the total volume of avocados sold in the U.S. in 2005 jump from 802,976,829 pounds to 1,856,028,395 pounds in 2014. Today, Mexico is the leading supplier of avocados in the United States, representing nearly 70 percent of all avocado volume.

"The key to our success is that Mexico is the only region that can offer fresh avocados from January to December, and our

distribution system allows us to deliver to the U.S. within a few days, so our avocados are super fresh," said Luque. "Our year-round availability and freshness make us unique within the avocado business."

This is just the beginning for Avocados From Mexico. With the organization's commitment to importing the highest-quality, freshest and most premium avocados to the United States, Americans are sure to continue to find delicious ways to include the nutritious ingredient into more recipes and meal occasions.



## A Healthier America

It's no secret that U.S. consumers should be eating more fruits and vegetables. Avocados From Mexico is committed to being a part of the solution to getting more nutritious foods into the American diet. To that end, the brand pledged its support for a new campaign from the Partnership for a Healthier America (PHA) aimed at increasing consumption of fruits and vegetables. Dubbed "FNV," short for

"fruits and vegetables," the campaign is bringing together celebrities, athletes and produce brands for a marketing blitz to encourage consumption. The goal is to get more fruits and veggies on the plates of Americans and for more kids to fall in love with avocados!

### Five Amazing Facts About AFM:

**1.** Mexico is the leading source of fresh avocados in the U.S. and

the only brand that produces avocados year-round, thanks to Mexico's rich, volcanic soil and unique growing conditions that allow trees to naturally bloom multiple times a year; **2.** Fresh avocados from Mexico contain naturally good fats, no cholesterol and nearly 20 good-for-you nutrients; **3.** Avocados From Mexico go from the tree in Mexico to the United States within days to ensure their

freshness; **4.** Avocados can be stored at room temperature in an area with good circulation to continue their ripening. For speedier ripening, keep them in a closed paper bag. To slow down ripening, refrigerate them until a few days before use; **5.** When saving part of an avocado for later, just put lemon or olive oil on the exposed flesh, and cover with plastic wrap to slow oxidation.

# fermaca

## Energy Spend yours making it.

If you intend to get involved in the rapid expansion of the Mexican energy business, you are going to need a Mexican partner who knows the who, the where, and the how to getting around in Mexico's complex environment. Doing more than 40 years of profitable business with both Mexican and international partners, Fermaca provides all the necessary legwork so that you can spend your energy making it.

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# Mexico Shows Competitors How Advanced Manufacturing is Done

**One of the many competitive advantages Mexico offers investors and traders is a sophisticated production chain in established and lucrative manufacturing sectors such as automotive, aerospace and electronics, as well as the fast-growing pharmaceutical industry.**

Manufacturing now comprises more than a fifth of the country's gross domestic product (GDP) and is one of the most effective areas for attracting foreign investment.

As Francisco González Díaz, CEO of Mexico's investment agency ProMéxico points out, Mexico's percentage of manufacturing exports to GDP is the third-highest in the G20 group of countries after South Korea and Germany.

"The recent growth of the Mexican automotive industry is particularly remarkable," he says.

"The country is the world's fourth-largest exporter of new light vehicles, and one in every 10

vehicles sold in the U.S. is made in Mexico. The industry is fully supported by the country's competitiveness and qualified labor force, among other factors," he says.

"In addition, more and more companies settled in Mexico are getting involved in design, research and development projects. With value-added industries and the integration of global value chains now the cornerstones for the growth and development of Mexican industries, there are plenty of opportunities in the production chains of many multinationals."

## Healthy Growth

Mexico's pharmaceutical industry is one area attracting particular attention. After the Calderón administration did away with the mandatory manufacturing requirement in 2008, thus allowing new companies to establish operations in the country, the area

has grown exponentially, with Mexico now ranked number 11 in the world's pharmaceutical industry.

Mexican players who seized the opportunity, such as Genomma Lab, have since experienced substantial growth. Given this heightened competition, local and global players need to modify their strategies and reposition themselves in the market.

With the changing social fabric — better access to health care, the introduction of generic drugs and longer life-expectancies now a reality — industry leaders are looking for new skills to compete in the improved environment.

Today, more than 60 percent of all units sold in the country are generic. In the private market, sales of generic medicines have skyrocketed in the last few years.

## A Lucrative Sector

Mexico's pharma industry generates between 13 and 14 billion dollars a year and the country is the second most important country where sales are concerned after Brazil.

The pharmaceuticals industry makes up 7.2 percent of GDP and is the fourth most important sector in Mexico behind oil, natural gas and automotives. The sector has been traditionally stable with large profit margins, but it is currently undergoing a rapid transformation.

The public sector is responsible for about 50 percent of total units sold in Mexico. Companies that had been reluctant to sell to public entities are now working through distributors and actively participating in public tenders. Specialized distributors work to facilitate negotiations and oversee processes with public institutions.

As Sandra Sánchez y Oldenague, general manager of Probiomed, one Mexico's leading pharma companies and a specialist in R&D, explains: "The Mexican market is different from the global one in that we have two completely different needs here, the public and the private sector:

now we are able to fulfill both requirements."

## Genomma Lab Builds Future


This pharmaceutical revolution has seen the industry gradually consolidate, with many mergers and acquisitions taking place. As Genomma Lab CEO Rodrigo Alonso Herrera Aspra notes:

"It is now evident how powerful the big players are. Meanwhile, there has been an expansion in the points of sale as well. Products were traditionally sold through a few large distributors, which were able to reach thousands of independent drugstores throughout the country, but over the last few years, supermarkets and drugstore chains have been gaining market share and the distributor's role has lessened.

"To remain competitive, some of these distributors are pursuing vertical integration strategies, purchasing local drugstore chains and/or grouping them into purchasing unions. Pharmaceutical companies are now focusing on partnering with these newly organized sales channels, negotiating directly with supermarkets and drugstore chains and focusing efforts on the point-of-sale."

An innovative young company that is proud to be 100 percent Mexican, Genomma Lab is the leading local pharma on the Mexican Stock Exchange. Dedicated to improving the quality of life and wellbeing of the population of Mexico and beyond, Genomma Lab boasts an extensive network of companies and institutions that research, make and then commercialize pharma products and dermo-cosmetics to the highest quality standards.

"Behind our success, is the fact that we have managed to create a link with the brand through a better understanding of the patients' disease," Herrera says. "We are proud to be building the future with our creativity, capacity, efforts and the tenacity of those involved in our projects; between 60 percent and 70 percent of sales are brands that we launched organically."



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# ICA: Building a Dynamic and Sustainable Linked-up Nation

**Sharing a 30,000-kilometer** border with the U.S. with no less than 52 access points, Mexico's logistical set-up and positioning is a prime advantage in trade terms. More than 4.5 million trucks and other load vehicles, as well as 70 million automobiles traverse the border every year, the low-cost transport costs involved giving the North American country a supremely competitive edge.

Under the Mexican government's National Infrastructure Plan (NIP) for 2014 to 2018, transport will be further boosted, with communications, energy, water, health, urban development and housing also receiving strong attention. Major works planned in the north, central and south-east areas will go a long way to improving investor confidence, while injecting optimism within Mexico and outside.

Around \$600 billion has been earmarked by the government to fund 743 projects. More than half will be concentrated on the energy sector (with 42.57 percent directed to Pemex), with urban development and housing, and communications and transport being the next big recipients. Energy alone will account for 262 of the projects, and Mexico's largest construction company, ICA, is lining up to take the lead in powering up the Mexican territory so it can be fully charged to receive more foreign direct investment.

With 11 subsidiaries and a portfolio that cuts across all aspects of the infrastructure chain, ICA provides unrivalled solutions to the most complex challenges for its clients and partners. From water to highways, industry and oil and gas, its specialist team of engineers use the most state-of-the-art technology to provide reliable and innovative developments in both civil and industrial builds.

Due to the long-term commitment of such works, ICA is also adept in managing funding from

both international and domestic sources, ensuring some remain in the pot for future developments. The firm prides itself on applying the same work ethos to every market in which it operates — currently Mexico, the U.S., Costa Rica, Panama, Columbia and Peru.

ICA's CEO Alonso Quintana, speaks about the exciting times ahead for the ICA empire.

"Everything certainly seems to be falling into place as Mexico

**"Everything is falling into place now as Mexico has a better understanding of globalization."**

Alonso Quintana  
CEO, ICA

has a better understanding of globalization to really push forward," he says.

"An example of this is just how fast the reforms and secondary laws went through Congress. Mexico has changed from being a country where the government solved everything for you to one where you can become part of the growing economy.

"There has been a lot of progress in the Mexican infrastructure market. Around 10 years ago, we realized we needed to be involving the private sector in the infrastructure business, through PPPs, concessions, and the like. There's an urgency to do the same with energy. There's a benefit to involving private money into the energy business. It is big budget, but we have come a very long way.

"A few years ago, Mexico achieved a level of infrastructure investment equal to 4.5 percent of GDP not the 6 or 7 percent we are looking at today. This higher figure is only possible with the Energy Reform."

ICA has many projects underway. Two of the largest awarded in 2014 are in the energy sector: the construction of a new processing unit at the Tula refinery to increase the yield of high-value refined products and the Ramones II Sur natural gas pipeline.

This is part of a new transportation backbone to bring natural gas from the Texas border to the industrial areas of central Mexico.

"We have another new water

project in Mexico City, the Churubusco – Xochiaca drainage tunnel. The government will be building a new airport a few miles north of the current airport, which presents some challenges for water management and drainage. We have a great deal of experience in working with the Mexico City soil types and using tunnel boring machines (TBMs)."

While still heavily involved in the domestic market, ICA remains confident that the international market will provide a valuable complement to its Mexican operations.

"We witnessed it this year in our results in Peru, Panama, Colombia and Costa Rica. Particularly noteworthy was the progress of our mining services subsidiary, San Martín, which exceeded our projections for both operating income and EBITDA," Quintana says.

ICA's strategy for increasing its international operations clearly includes the U.S. Quintana and the

ICA board acquired Facchina Construction Company last year, one of Washington Metropolitan area's most respected providers of superior construction services.

Facchina has a strong presence in the Washington, D.C. metropolitan area and southern Florida. Landmark projects in the Washington, D.C. metropolitan area include the 11th Street Bridge reconstruction project, the Maryland Intercounty Connector highway project, and the U.S. Capitol Visitor Center. In Florida, landmark projects include the American Airlines Arena, and residential high-rise developments such as the Grove at Grand Bay.

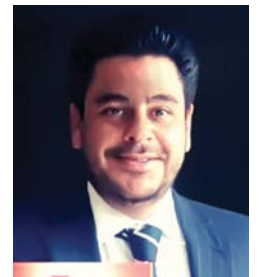
An award-winning, socially responsible company, which is listed on the NYSE and the Dow Jones Sustainability Indices, ICA is proud to deliver work on time and within budget to exceed the expectations of all its clients. It works hard to be an example of dedication and excellence.

## Logistical Excellence, Worldwide

**Cargo Group International Logistics (CGI Logistics) has re-acquired its shares from former JV partner, BDP International, to diversify its portfolio away from mainly petrochemicals and towards a vast array of products and services. CGI is a trusted partner for logistics services worldwide, and its strengths lie in its Mexican roots, understanding of the country and its industries.**

**CGI has offices in key cities in Mexico, the U.S. and Canada to provide solutions to the NAFTA market; branches in Brazil, Argentina, as well as Peru, Colombia and Chile to serve the Pacific Alliance; and Hong Kong and China for the Trans-Pacific Partnership.**

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# Local Firms are a Credit to Improving Socioeconomic Landscape

**As Mexico takes its standard** of living and business-friendly status up a level, its population is beginning to feel the benefits. Affordable housing has become accessible on an unprecedented scale, while reduced trading tariffs are seeing productivity go through the roof.

Since 1972, the National Workers' Housing Fund Institute (Infonavit) has been bringing the dream of home ownership to ordinary households through loans, but, as Juan Carlos Braniff, the CEO of Capital Inmobiliario, explains, it has made its most impressive impact on social housing purchases within the last 15 years.

"At the turn of this century, Infonavit appointed a new CEO who completely changed the way things were run and in the space of six years gave more credit out than in the previous 30 year lifespan of the organization," says Braniff.

CEO, Alejandro Murat Hinojosa, gives a sense of what is happening following Infonavit's mandate of diversification and other new ventures.

"The social housing sector is entering a critical stage," he says. "The government has published a new housing policy that links the housing model to the city infrastructure model which is built

on the principles of productivity, competitiveness and sustainability. This has had a direct impact on our claimants.

"So far in 2015, we are seeing a 15 percent increase in mortgage production on last year with more than 60,000 houses being bought. We have been able to subsidize 2,200 million pesos as well as better understand the specific demand needs in order to offer a more diversified credit portfolio."

This year, Secretary of Finance Luis Videgaray further changed the game and boosted the industry by offering VAT exemptions to suppliers involved in home building. "Two years ago, we made it possible for claimants to ask for a second credit and raise the credit limit from 640,000 pesos to 850,000 pesos," Murat says. "It was very important to do this. The commercial banks have only 6 percent of mortgages under that range, so we needed to close the gap. The nature of Infonavit is to look after the low-income workers in order to provide them appropriate housing.

"Today, people also want money for second homes for renting, renovations and improvements. Our credit portfolio needs to respond to that."

With Mexico currently enjoying record highs in its international reserves, and the renewal of the

IMF's Flexible Credit Line, the situation for Mexico looks promising, with the country able to mitigate any external shocks.

## Promoting credit

On the credit-lending front, Mexico is witnessing the rise of companies bridging the gap left by banks.

One such firm is UNIFIN, a Mexican company that has weathered the shocks of the past 20 years with aplomb by offering quality financial instruments "to investors and borrowers.

With positive results from Fitch Ratings HR Ratings and Standard & Poor's, UNIFIN has been growing by 50 percent year-on-year and offers leases mainly in the automotive sector but also providing for insurances, factoring and credit.

As Luis Barroso, the company's director general, explains: "2006 was a crucial year for the company when it issued the first structured bond in Mexico. This made UNIFIN stand out as a success case on Mexico's Stock Exchange. Since then, UNIFIN has had a good reputation in the financial sector.

"When an operation like this has 70 bids firmly placed, it is successful. We had triple — we had 216 offers, and as well as the bids in America and Europe, we also had interest from Asia, where we were offered \$200 million."

UNIFIN has successfully put \$400 million in the New York Stock Exchange and they were

oversubscribed nine times, finally raising \$2.5 billion. It is expecting growth of 50 percent.

## Making Trade Work

Meanwhile, in a bid to get business moving, Mexico — one of the world's most open countries to international trade, with access to more than a billion potential consumers — is continuing to reduce its tariffs to increase profitability for businesses that are established in Mexico.

One entity facilitating the increased commercial activity is Coatzacoalcos, an industrial port in the Gulf of Mexico, which is one of the logistic bases for Pemex operations.

As Ovidio Noval Nicolau, director general of API Coatzacoalcos, explains: "We have 97.5 percent of all petrochemical industry in the country; 22 percent of all petroleum and derivatives passes through here. We have a good share of wind energy; 90 percent of wind parks are near the port's location so I believe we have a lot to offer in Coatzacoalcos.

"Our most important project at the moment is the Trans-isthmus railway, which will connect the narrowest part of the country by creating a pathway from the Atlantic waters of the Gulf of Mexico to the Pacific Ocean in the South."

Housing, energy, infrastructure, fresh produce and manufacturing — the list of buzzing sectors just seems to keep on growing in Mexico. Who knows what the next five years will bring?

**"2006 was a crucial year for the company, when it issued the first structured bond in Mexico."**

Luis Barroso  
Director General, UNIFIN



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