



cutting through complexity

MINING

Mexico

Country mining guide

kpmg.com

KPMG INTERNATIONAL

Growth Series



Contents

Executive summary	2
Country snapshot	4
EIU rankings: Ease of doing business	5
Type of government	7
Economy and fiscal policy	7
Fraser Institute rankings	8
Regulatory environment	9
Sustainability and environment	10
Taxation	11
Power supply	12
Infrastructure development	13
Labor relations and employment situation	14
Inbound and outbound investment	16
Key commodities – production and reserves	17
Major mining and companies in Mexico*	20



Executive summary

With a land area among the larger countries of the world, and a temperate year-round climate, Mexico is a trove of accessible mineral wealth. Mexico is the largest producer of silver in the world. The country is also a top 10 world producer of gold, fluorite, bismuth, celestite, sodium sulphate, wollastonite, lead, molybdenum, diatomite, cadmium, graphite, baryte, salt, gypsum, manganese and zinc. Moreover, Mexico has vast reserves of many minerals that remain unexploited.

Mexico plays a key role in the global mining industry, in terms of revenue, production and reserves. So it is no surprise that Mexico is a hotbed for mining investment, ranking only behind the US, Canada and Australia in terms of investment attractiveness. In recent years, Mexico's mining sector has attracted some of the country's largest foreign and domestic investments. In 2011, investment in the sector jumped 69 percent, to reach US\$5.6 billion, which was expected to reach an all-time high in 2012 to US\$7.6 billion. The investment is expected to continue to rise in 2013, despite the swing in international prices for most metals.

MEXICO



1ST

**LARGEST GLOBAL
PRODUCER OF SILVER**

Top 10

**PRODUCER OF GOLD, FLUORITE,
BISMUTH, CELESTITE, SODIUM SULPHATE,
WOLLASTONITE, LEAD, MOLYBDENUM,
DIATOMITE, CADMIUM, GRAPHITE, BARYTE,
SALT, GYPSUM, MANGANESE AND ZINC**

+69%



**IN 2011, INVESTMENT IN THE MEXICAN MINING
SECTOR JUMPED 69%, REACHING \$5.6 BILLION**

\$7.6_B

**INVESTMENT IN 2012 IS
EXPECTED TO REACH AN
ALL-TIME HIGH OF \$7.6 BILLION**



An improving business environment

In recent years, Mexico's business environment has greatly improved. This is primarily due to its privileged access to the US market, an increasing global network of free trade agreements (FTAs), an emerging middle class, and a large domestic market. However, the country's economy still suffers from some fundamental problems, which include

- Inadequate infrastructure
- Over-reliance on the US economy
- High crime rates
- Substandard education system
- Uncompetitive energy and other public sectors
- Inflexible labor markets

In the past, the regulatory framework for the Mexican mining sector has been protectionist and unfriendly to foreign mining investment. However, in the 1980s, Mexico began a wave of significant economic changes that continued over the following decades. The regulatory framework was simplified to attract foreign investment and, as a result, private investment has become the driving force of the Mexican economy.

A mining-friendly jurisdiction

For the mining sector, restrictions on foreign ownership of Mexican companies have been removed. Mining-specific royalties and taxes were revoked in the 1990s to attract international investment in the mining industry. Current law merely requires mining companies to be incorporated under the laws of Mexico, include exploration or exploitation of minerals under their corporate purpose and establish their corporate domicile within the Mexican Republic. The country retains ownership of all mineral resources, and the government grants concessions to private mining companies for exploration and extraction.

In terms of taxation, mining companies in Mexico are treated much the same as companies in other sectors. Corporate income tax is levied at a rate of 30 percent. Unlike other Latin American jurisdictions, Mexico does not currently have any specific mining taxes. There have been proposals of discussion for a new mining tax in Mexico; however, finalization of these rules are in progress at this point in time.¹

Addressing the problems

The Mexican government is now focused on improving infrastructure. The country has many infrastructure opportunities, primarily in the power grid and in road networks. The election of Enrique Peña Nieto as president of Mexico is expected to bring more investment in infrastructure, considering his infrastructure-focused record during his tenure as a state governor.

With an estimated population of approximately 115 million (July 2012), Mexico is the 11th most populated country in the world. A lack of reform in the country's labor laws has often adversely affected the mining industry. Worker unions are strong in the mining sector, and frequently demand better benefits and salary increases. Illegal work stoppages are common. Recently, the Mexican government implemented some changes to labor law that give employers more flexibility in hiring and firing workers. In November 2012, Mexico's Congress approved broad changes to the country's labor law, to encourage small businesses to hire workers.

¹as at May 6, 2013

Country snapshot

Mexico ²	
Geography	<p>Mexico is a federal constitutional republic located in North America. It is the 14th largest country in the world by area.³</p> <ul style="list-style-type: none"> • Located at (23o00N, 102o00W), and spread over 1,964,375 square kilometers, Mexico is bordered by the US to the North, Belize and Guatemala to its south, the Gulf of Mexico to the east, and the North Pacific Ocean to the west.
Climate	<p>The climate in Mexico varies according to the topography, from tropical to desert. It is hot and humid along the coast. Inland communities at higher elevations are much dryer and more temperate.⁴</p>
Population	<p>With an estimated population of approximately 115 million (July 2012), Mexico is the 11th most populated country in the world. Mexico's population is relatively young with a median age of 27.4 years. In terms of demographics, the country's population is a mixture of indigenous groups and early Spanish immigrants.⁵</p>
Currency	<p>The official currency of Mexico is the Mexican Peso (MXN). Banco de Mexico, the country's central bank is responsible for providing domestic currency to the Mexican economy and ensuring the stability of the peso's purchasing power.⁶</p> <p>Average exchange rate in 2012 was:</p> <ul style="list-style-type: none"> • MXN 13.1456: US\$1 • MXN 16.8925 : EUR1.⁷

Source: CIA Factbook and Economic Intelligence Unit (EIU)

²Mexico Country Profile, Foreign & Commonwealth Office, Accessed on December 28, 2012

³CIA: The World Factbook, Accessed on December 28, 2012

⁴Website of Focus on Mexico, accessed on December 28, 2012

⁵Country Profile: Mexico, Foreign and Commonwealth Office, last reviewed on July 4, 2012

⁶Website of Banco de Mexico, accessed on December 28, 2012

⁷Oanda.com, Accessed on January 3, 2012

EIU (Economist Intelligence Unit) rankings: Ease of doing business

Within the EIU business environment ranking for 2007–11, Mexico stood 35th among the 82 countries covered. The country stood second in the regional ranking, which included 12 countries from the South American region. From 2012–16, Mexico is expected to improve its business environment, and climb to 32nd place in the EIU rankings.

In recent years, Mexico's business environment has improved rapidly. This is primarily due to privileged access to the US market, an increasing network of global free-trade agreements (FTAs), an emerging middle class, and a large domestic market.

However, the country's economy is still plagued by some problems related to infrastructure, reliance on the US economy, crime rates, education system, uncompetitive energy and other public sectors, and inflexible labor markets.

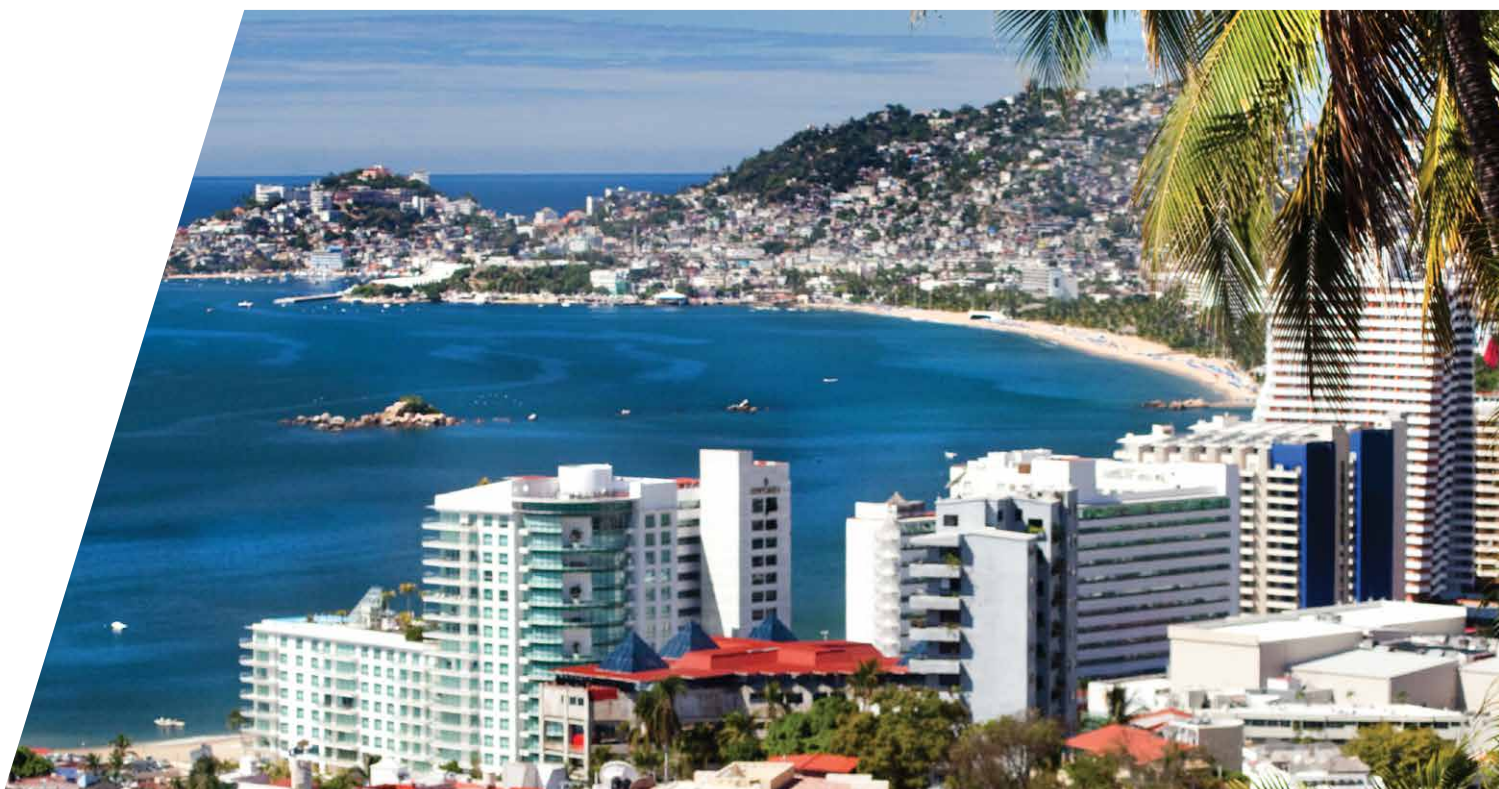
Value of index ^a		Global rank ^b		Regional rank ^c	
2007–11	2012–16	2007–11	2012–16	2007–11	2012–16
6.71	6.97	35	32	2	2

Note a. Out of ten

Note b. Out of 82 countries.

Note c. Out of 12 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Mexico, Peru and Venezuela.

Source: Economist Intelligence Unit





Type of government

Mexico is a federal republic (also called a federation). On the federal level, the Mexican government has three branches: executive, legislative, and judicial.

The president of the country is the head of government, as well as the head of the Armed Forces. The president is elected by direct popular vote for a six-year term and cannot be re-elected. The legislative branch of the Mexican government is bicameral, with the Chamber of Representatives and the Chamber of the Senate consisting of 500 and 128 members respectively. These two houses pass laws, approve spending and budget bills, declare war on other countries, and approve presidential appointments.

Mexico has 31 states and a federal district, which constitute its administrative divisions. The federal district houses the federal government, much like Washington D.C. State governments have structures similar to the federal government. Each state is considered a sovereign entity and is free to make its own constitution, with which it can govern its relations with other Mexican states but not with other countries.^{8,9}

Economy and fiscal policy

Mexico has a free market economy, with a mix of services, industry and agriculture, primarily dominated by the private sector. Currently, Mexico has the second largest national economy in Latin America. The per-capita income of Mexico is nearly one-third of that of US. However, the distribution of wealth is highly uneven, so more than 50 percent of the population lives below the poverty line.

In the decade preceding the financial crisis of 2008, Mexico's GDP increased at an average annual rate of 3-4 percent. Although the financial crisis depressed Mexico's economy, it has rebounded. In 2011, the economy grew by 3.9 percent, and growth averaged 4.2 percent year over year during the first three quarters of 2012. Growth is expected to average 3.7 percent per year from 2013-17.

Mexico transformed from a closed to an open economy when it joined the World Trade Organization in 1985. The transformation continued when Mexico became a party to the North American Free Trade Agreement (NAFTA) in 1994. Since then, the country has signed free trade agreements (FTAs) with more than 50 countries worldwide. As an export-oriented economy, more than 90 percent of Mexican trade falls under FTAs. Despite the FTAs, however, Mexico's economy remains heavily reliant on the US market. Eighty percent of exports from Mexico go to the US. The country's economic growth is at risk if the US economy falters, which could suspend Mexico's manufacturing expansion. However, Mexico will continue to benefit from the dynamism of its export-based manufacturing sector if the US stays on track toward economic recovery.

The reform agenda of Mexico's new government will take its final shape in the coming months, with PRI-PAN negotiations in areas such as energy reform. On the monetary front, Banxico (the central bank of Mexico) has room to cut interest rates and maintain a soft stance on inflation to support growth.^{10,11,12,13}

⁸Wise Geek accessed on January 2, 2013

⁹CIA Factbook accessed on January 2, 2013

¹⁰CCIA: The World Factbook, Accessed on December 28, 2012

¹¹Mexico Economy: Economy Watch, March 24, 2010

¹²Country Profile: Mexico, Foreign and Commonwealth Office, last reviewed on July 4, 2012

¹³Mexico Economic Intelligence Unit, December 28, 2012

Fraser Institute rankings

Economic Freedom of the World 2012 Report¹⁴

Among the 144 countries covered by the Fraser Institute's Economic Freedom of the World 2012 Report, Mexico ranked 91st, with a score of 6.66 on a scale of 10.

This annual peer-reviewed report ranks countries, based on their policies that enable 42 different economic measures in the following areas:

- Size of government – expenditures, taxes and enterprises
- Legal structure and security of property rights
- Access to sound money
- Freedom to trade internationally
- Regulation of credit, labor and business

Survey of mining companies 2011/2012¹⁵

Mexico was ranked 8th on Policy/Mineral Potential by the Fraser Institute's Survey of Mining Companies 2011/2012. Mexico's standing in the yearly survey has consistently improved since 2008–09 for the given index. However, the country has slipped down in the rankings on the Current Mineral Potential index.

Figure 1: Mexico's scores, Fraser Institute's Survey Of Mining Companies 2011/2012



Note *: The Policy Potential Index is a composite index that measures the effects on exploration of government policies

Note **: The Current Mineral Potential index, is based on respondents' answers to the question about whether or not a jurisdiction's mineral potential under the current policy environment encourages or discourages exploration. It assumes current regulations and land use restrictions.

Note ***: The Policy/Mineral Potential Index is based on respondents' answers to the question about mineral potential of jurisdictions, assuming their policies are based on "best practices." It assumes no land use restrictions in place and the industry "best practices."

¹⁴Economic Freedom of the World 2012 Annual Report, Free The world, September 2012

¹⁵Survey of Mining Companies: 2011/2012, Fraser Institute, February 2012

Regulatory environment

In Mexico, all mining activities are regulated by Mexican Mining Law, originally published in June 1992. This federal mandate governs the use, expiration and cancellation of mining concessions. Under the law, all minerals found in the Mexican territory are owned by the country, and private parties may exploit these minerals (except oil and nuclear fuel minerals) through a concession granted by the federal government.

The regulatory framework for the Mexican mining sector has undergone some major changes through the years. Under previous mining legislation, mining companies were subjected to a complex web of rules and requirements. In 1961, Article 27 of the constitution — which covered exploration and extraction of mineral resources — was enacted. The law mandated a minimum 51 percent of national ownership for mining companies. This forced foreign investors to either sell their shares or establish themselves as Mexican companies. The law was further tightened in 1975, when in addition to the mandatory 51 percent of national ownership in mining, a minimum 66 percent of national ownership was made mandatory for certain special concessions.

However, in the 1980s, Mexico began a wave of significant economic changes, that would continue over the following decades. In line with the changing economic landscape, the regulatory framework was simplified to attract foreign investments. As a result, private investment has become the driving force of the Mexican economy. For the mining sector, the curbs on foreign ownership of Mexican companies have been removed. Current law merely requires mining companies to be incorporated under the laws of Mexico, to include exploration or exploitation of minerals under their corporate purpose, and to establish their corporate domicile within the Mexican Republic.

The Ministry of the Economy exercises its authority on mining companies through General Coordination of Mines, which in turn relies on the General Bureau of Mines. The Bureau, through its various subordinate agencies, administers the country's mining law, with respect to concessions, allotments and national mining reserves.

The following are key aspects of the Mexican Mining Law:

- Allows direct foreign investment of up to 100 percent ownership of capital stock
- Allows private sector participation in those minerals that were previously considered exclusive for the public sector (sulfur, potassium, iron ore, phosphorus and coal)

These factors, coupled with a stable political structure and a skilled workforce, have made Mexico one of the leading investment destinations for mining companies.^{16,17,18,19,20}

¹⁶Mining Law in Mexico, An Overview, Baker McKenzie, January 11, 2011

¹⁷Mexico – Mexican Market Profile Mining, Ontario.ca

¹⁸An Overview of Mining Law in Mexico

¹⁹Mining sector in Mexico, UK Trade and Investment, November 14, 2012

²⁰Mexican Mining, Global Business Reports

Sustainability and environment

Mexico has balanced environmental policies and well-tested mineral tenure laws. The country's federal government works toward sustainable development and environmental protection through the Ministry of Environment and Natural Resources (SEMARNAT). SEMARNAT aims toward the following targets:

- Conservation of ecosystems and their biodiversity
- Prevention and control of pollution
- Management of water resources
- Actions towards climatic change

In Mexico, mining companies must follow the environment regulations laid out by the Mexican Secretariat of Labor (STPS) and SEMARNAT. SEMARNAT has aligned its policies to internationally accepted standards, so that mining operations have a diminished effect on environments. The industry is committed to developing sustainable projects that prioritize the safety of mine workers and protection of the environment.

Under the Mexican Mining Law, concessionaires must adhere to federal environmental regulations, and their activities are subject to an environmental review. All mining companies are required to prepare and file an environmental impact statement for all extractive operations as well as for non-standard exploration work. This environmental impact statement must be approved by regulatory authorities.

With environmental issues taking center stage in the mining sector, SEMARNAT is introducing environment-friendly policies for the industry. Major mining companies in Mexico have started to invest in auxiliary areas of environmental responsibility, such as reforestation projects, environmental audits and certification, and residual management systems, among others.^{21,22,23, 24}

²¹Website of Semarnat, accessed on December 31, 2012

²²Mexico – Mexican Market Profile Mining, Ontario.cam accessed on December 31, 2012

²³Website of First Majestic Silver Corp accessed on December 31, 2012

²⁴Mexican mining, digging its way in the world, Promexico

Taxation

In terms of taxation, mining companies in Mexico are treated in same manner as companies in other sectors. Corporate income tax is levied at a rate of 30 percent. In addition, a single rate business tax (SIRABUT), enacted in 2008, is levied to help prevent the use of tax havens and discourage tax planning for evasion purposes. Unlike other Latin American jurisdictions, Mexico does not currently have any specific mining taxes. The mining specific royalties and taxes were revoked in the 1990s to attract international investment in the mining industry.

The only special tax payment for mining is the “Duty on Mining Concessions” that ranges from a minimum of MXN5 per hectare, up to a maximum of MXN124.74 per hectare depending on the area held in concession and the number of years the concession is in effect. For companies granted concessions, concession duties are payable in advance every six months.

Under current tax legislation, companies in Mexico are subject to the following taxes:

- Corporate income tax (IT): 30 percent in 2011-2013, 29 percent for 2014, and 28 percent in 2015 going forward.
- Flat rate business tax known as “Impuesto Empresarial a Tasa Única” (IETU): Set at 17.5 percent since 2011.
- Employee statutory profit sharing (ESPS): set at 10 percent.

Companies pay the greater of IT or IETU. If IETU is payable, the payment will be considered final ie. not subject to recovery in subsequent years.

Incentives for the mining sector include tax regulations adjusted to international standards, access to capital sources through lines of credit, and efficient processing of exploration and development claims. Sixteen percent value added tax has been eliminated in all stages of gold commercialization.²⁵

²⁵Mexico – Mexican Market Profile Mining, Ontario.ca

Power supply

Owing to a sustainable development strategy adopted for the National Development Plan 2006-12, the Mexico power sector has undergone considerable change. There has been more focus on development of renewable sources of energy. At the beginning of 2012, Mexico signed the Mexican Global Climate Change Program, pledging US\$70 million over the next five years in cooperation with the US to stimulate the development of renewable energy.

Most of Mexico's electricity sector is controlled by the Federal Electricity Commission (CFE), which has a stranglehold on power generation, transmission and distribution. However, of late, there has been room in the market for private producers. Major international companies, such as Mitsubishi, Intergen, AEC, Iberdrola, Transalta and Union Fenosa, are now participating as independent power producers (IPPs) in Mexico. By 2013, the Mexican power market is expected to reach total output of 881.7 TWh, a 135 percent increase over 2008.

Mexico also has a tremendous potential for harnessing wind power. The country has 40,000 MW of wind power potential, of which only 6,507 MW is expected to be utilized by 2014. Mexico's plan to significantly ramp up its wind power capacity makes it the fastest growing wind energy market among the top 20 economies of the world. A major source of wind energy will be the Isthmus of Tehauntepec, the narrowest point between the Pacific Ocean and the Gulf of Mexico. Spanish conglomerate Acciona is planning a US\$600 million project that will generate 306 MW with 204 turbines. Furthermore, there is a strong potential in Mexico to generate hydro electric power, which currently only generates 36TWh of energy, equivalent to just 13 percent of the country's total energy consumption. By 2014, hydro power generation is expected to grow to 39TWh.^{26, 27, 28}

²⁶Mexico has the Fastest Growing Wind Power Sector

²⁷Power Sector in Mexico, UK Trade and Investment, August 29, 2012

²⁸Renewable Energy Sector in Mexico, UK Trade and Investment, November 14, 2012

Infrastructure development

The Mexican government is focused on improving infrastructure. The country has many infrastructure opportunities, primarily in power and road networks. In 2007, the government instituted the National Infrastructure Program (NIP), to address transport challenges and many other infrastructure needs in the country. In January 2012, a groundbreaking law on public-private partnerships (PPPs) was enacted — aimed at regulating the formation of partnerships between the public and private sectors — in an effort to provide services and build infrastructure to improve social welfare and increase investment levels in Mexico.

Further economic growth and financial stability could help Mexico boost infrastructure investment by as much as two percentage points of gross domestic product, from the current level of US\$45 billion to US\$50 billion a year. This is according to Mr. Quintana, CEO of Empresas ICA SAB (ICA), a Mexico-based construction and infrastructure operations company. In addition, the election of Enrique Peña Nieto in 2012 as president of Mexico is expected to bring more investment in infrastructure, considering his infrastructure-focused policies during his tenure as governor of the state of Mexico. The president, through his Thirteen Presidential Decisions, announced a National Infrastructure and Transport Program that includes projects to expand the country's highways, railways and ports as well as facilities that connect and integrate Southern Mexico with the global economy.

However, infrastructure development in Mexico is faced with a few serious impediments. One such obstacle is the variable creditworthiness of state governments, which discourages investors from participating in PPP projects. Another major issue is the lack of multi-annual budgets, which affects PPP contracts at the local level.^{29, 30, 31, 32}

²⁹Bureaucratic regulations hinder infrastructure development, BN Americas, September 12, 2012

³⁰ICA CEO Sees Mexico Infrastructure Spending Rising by 56 percent, Bloomberg, September 18, 2012

³¹Mexico's Focus on Infrastructure Development, NuWire, April 17, 2012

³²Infrastructure in Mexico, first steps of the new federal government, Lexology, December 20, 2012

Labor relations and employment situation

Social and economic rights for workers were written directly into Mexico's constitution of 1917. Labor issues in Mexico are governed by the Federal Labor Law and the Federal Social Security Law, which set forth the rules for labor relations, labor unions and labor courts.

Although the labor laws – on paper – provide protection for workers and unions, their enforcement has been questionable. Historically, labor unions and their negotiations have been controlled by the government as part of a larger strategy for economic development. This has often resulted in clashes between the government and labor unions, due to the government's focus on competition and foreign investment which often comes at the cost of labor rights and working conditions.

In the Mexican mining sector, labor unions are strong, and frequently demand better benefits and salary increases. A lack of reforms in the country's labor laws has often adversely affected the mining industry. Illegal work stoppages are common in mining, which in the past has led to unemployment and uncertainty.

In spite of these factors, the Mexican mining sector continues to be a prime target for foreign investment. Mexico is a hotbed for mining investment, ranking only behind the US, Canada and Australia in terms of investment attractiveness. Moreover, the country has vast reserves of various minerals that remain unexploited. These factors are bound to increase the demand for skilled workforce in the sector.

In Mexico, nearly eight million young people are unemployed. The unemployment rate for the month of November 2012 stood at 5.12 percent, higher than the historic average of 3.68 percent for 2000–12. Recently, the Mexican government implemented some changes in labor law to give employers more flexibility in hiring and firing workers. In November 2012, Mexico's Congress approved broad changes to the country's labor law, to encourage small businesses to hire more workers.^{33, 34, 35, 36, 37, 38}

³³ Relations in Mexico, Website of Mexicolaw accessed on January 2, 2013

³⁴ Comparative Labor Relations, Website of McGraw Hill Education accessed on January 3, 2013

³⁵ The Mexican Legal System – The University of Arizona

³⁶ Mexican Lawmakers Allow Changes in Labor Law, The NY Times, November 14, 2012

³⁷ Mexico Unemployment Rate, Trading Economics.com

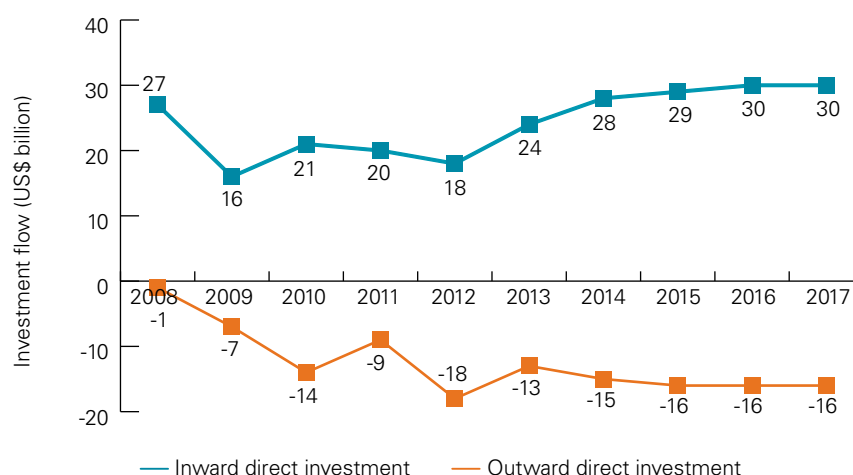
³⁸ Crime pays? Mexico's unemployed youth a driving factor in organized crime, The CS Monitor, August 23, 2012



Inbound and outbound investment

In recent years, Mexico has witnessed a significant rise in foreign investment activity, particularly from US investors. Most investors prefer Mexico over Brazil, due to its geographical proximity to the US market, low manufacturing costs, extensive global network of FTAs, emerging middle class and growing domestic market. However, according to the EIU, current account deficit as a percentage of GDP is expected to increase in the next five years, because of an increase in the merchandise trade deficit. Services, particularly in the tourism sector, are expected to slightly improve, helping to stabilize the deficit to some extent.^{39,40,41}

Figure 2: Trend for inward and outward direct investment in Mexico



Source: Economist Intelligence Unit

In recent years, the mining sector in Mexico attracted some of the largest foreign and domestic investments. In 2011, investment in the sector jumped 69 percent, to reach US\$5.6 billion, and was expected to reach an all-time high in 2012 of US\$7.6 billion. Mining investment is expected to continue rising in 2013, despite the decline in international prices for most metals.^{42,43}

The Mexican mining equipment segment is dominated by foreign companies, led by two Swedish players — Sandvik and Atlas Copco. Sweden is the second-largest supplier, after the US, of machinery used to extract or to perforate land and minerals in Mexico.⁴⁴

³⁹Mexico Country Profile, EIU, Accessed on January 2, 2013

⁴⁰Sorry Brazil, Investors Prefer Mexico, July 10, 2012

⁴¹Mexico Ousts Brazil as Investors' Top Choice in Latin America, CoHa.org, August 9, 2012

⁴²Mexican Mining Investments Seen Reaching Record \$7.6 Billion in 2012, 4-traders.com, October 30, 2012

⁴³Mexico Mining Investment Jumped 69 percent to \$5.6 Billion in 2011, Bloomberg, July 26, 2012

⁴⁴Mexican Mining Sector Pre-Study- Executive Summary, Export Radat, 2012

Key commodities – production and reserves

Production level of key commodities in Mexico

Mexico plays a key role in the global mining industry, in terms of revenue, production and reserves. The country is a top 10 world producer of silver, fluorite, gold, bismuth, celestite, sodium sulphate, wollastonite, lead, molybdenum, diatomite, cadmium, graphite, baryte, salt, gypsum, manganese and zinc. Over the past few years, the sector has recorded healthy growth and is expected to continue this trend in the future.^{45, 46}

- Mexico is the world's largest producer of silver with production of 4,278 tonnes in 2011 (18 percent of global production of 23,689 tonnes).
- The country's coal production is expected to accelerate to a CAGR of 8.71 percent for the period 2012–16 to reach a projected value of 42.5 million tonnes in 2016.
- Iron ore production registered a CAGR of 3.93 percent for the period 2007–11.

Figure 3: Production level and percent share of global reserves of key commodities in Mexico



Source: Production Data: Thomson Reuters, Datastream

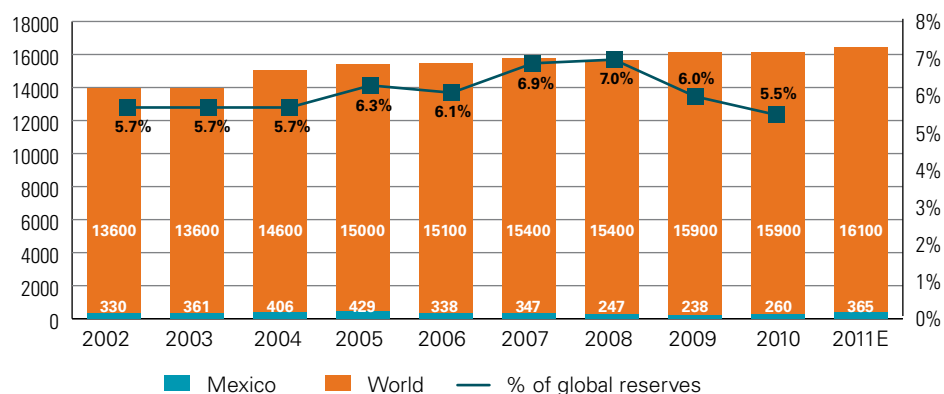
⁴⁵Mexico Mining Industry Outlook – Market Opportunities and Entry Strategies, Analyses and Forecasts to 2016

⁴⁶Mining sector in Mexico, UK Trade & Investment, November 14, 2012

in thousand tonnes

Copper production

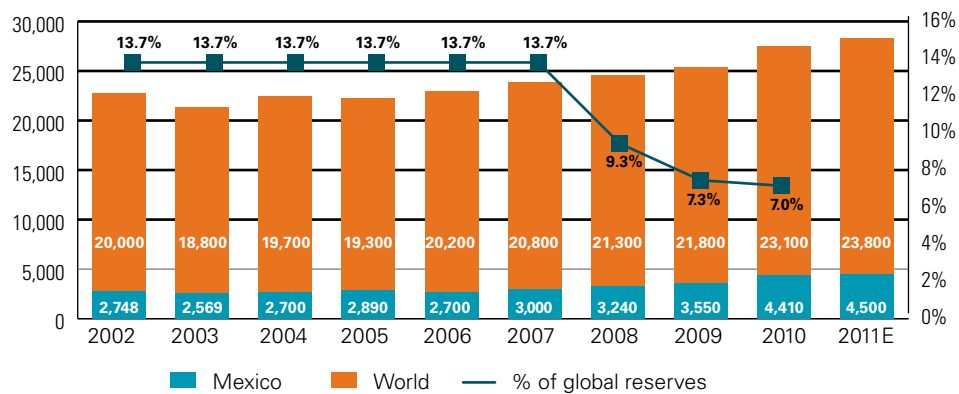
% share of global reserves



in tonnes

Silver production

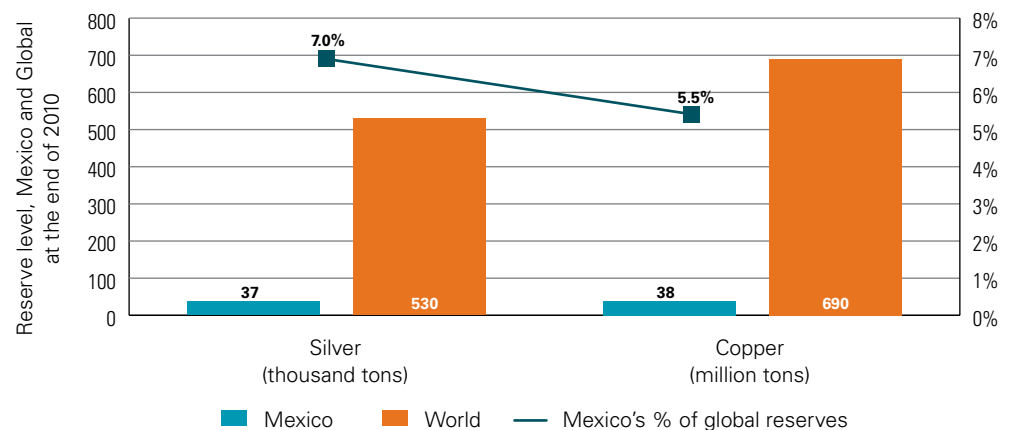
% share of global reserves



Mexico's share in global reserves of key commodities

In 2011, Mexico was the largest producer of silver in the world. According to the US Geological Survey 2012, as of 2010, Mexico had estimated reserves of approximately 37,000 tonnes of silver. In addition, Mexico is a hotbed for investment in the mining sector, primarily due to its favorable geology, and the presence of a skilled mining workforce.⁴⁷

Figure 4: Reserve level of silver & copper in Mexico, end of 2010



Source: US Geological Survey, Mineral Commodity Summaries

⁴⁷Mining sector in Mexico, UK Trade and Investment, November 14, 2012

Major mining and metal companies in Mexico^{48*}

Key domestic players

- Gd Affiliates, S. de R.L. de C.V.
- Grupo México, S.A.B de C.V.
- Minera Frisco, S.A.B. de C.V.
- Consorcio Industrial Valsa, S.A. de C.V.
- Estampados y Electrosoldados, S.A. de C.V.
- Imsa Acero, S.A. de C.V.
- Revcor de México, S. de R.L. de C.V.
- Industrias CH, S.A.B. de C.V.
- Mexicana de Cobre, S.A. de C.V.
- Fresnillo, PLC
- Minera Capela, S.A. de C.V.
- Conductores Monterrey, S.A. de C.V.
- Tubos Iusa, S.A. de C.V.
- Galvak, S.A. de C.V.
- Quimicos Industriales Peñoles, S.A. de C.V.
- Industrias Bago, S.A. de C.V.
- Tubería Laguna, S.A. de C.V.
- Industrias, Peñoles S.A.B. de C.V.
- Manufacturas Cifunsa, S.A. de C.V.
- Altos Hornos de México, S.A.B. de C.V.
- Electrónica Pantera, S.A. de C.V.
- Met-Mex Peñoles, S.A. de C.V.
- Grupo Simec, S.A.B. de C.V.
- Industrias Nucleares Anodrac, S.A. de C.V.
- IUSA, S.A. de C.V.
- Minera Penmont, S. de R.L. de C.V.
- Cía. Minera El Cacho de Oro, S.A. de C.V.
- Plasver De Mexico, S.A de C.V.
- ArcelorMittal Las Truchas, S.A. de C.V.

Foreign companies with operations in Mexico^{49,50}

- Agnico Eagle Mines Ltd.
- Aura Minerals Inc.
- Argonaut Gold Inc.
- Aurcana Corporation
- AuRico Gold Inc.
- Brigus Gold Corp.
- Capstone Mining Corp.
- Cardero Resource Corp.
- Castle Resources Inc.
- Coeur D'Alene Mines Corporation
- Sierra Metals Inc. (formerly Dia Bras)
- Elgin Mining Inc. (formerly Phoenix Coal)
- Endeavour Silver Corp.
- First Majestic Silver Corp.
- First Quantum Minerals Ltd.
- Formation Metals Inc. (formerly Formation Capital Corp.)
- Fortuna Silver Mines Inc.
- Goldcorp Inc.
- Gold Resource Corporation
- GoGold Resources Inc.
- Great Panther Silver Limited
- Helca Mining Company
- IMPACT Silver Corp.
- Kimber Resources Inc.
- Lake Shore Gold Corp.
- McEwen Mining
- Mercator Minerals Ltd.
- New Gold Inc.
- Newmont Mining Inc.
- Nystar NV
- Pan American Silver Corp.
- Primero Mining Corp.
- Quaterra Resources Inc.
- Red Tiger Mining Inc. (Formerly Zaruma Resources Inc.)
- Scorpio Mining Corp.
- Silver Standard Resources Inc.
- SilverCrest Mines Inc.
- Southern Copper Corporation
- Starcore International Mines Ltd.
- Sutter Gold Mining Inc.
- Teck Resources
- Timmins Gold Corp.
- Torex Gold Resources Inc.
- Yamana Gold Inc.

* Note: Methodology used for identification of mining companies:

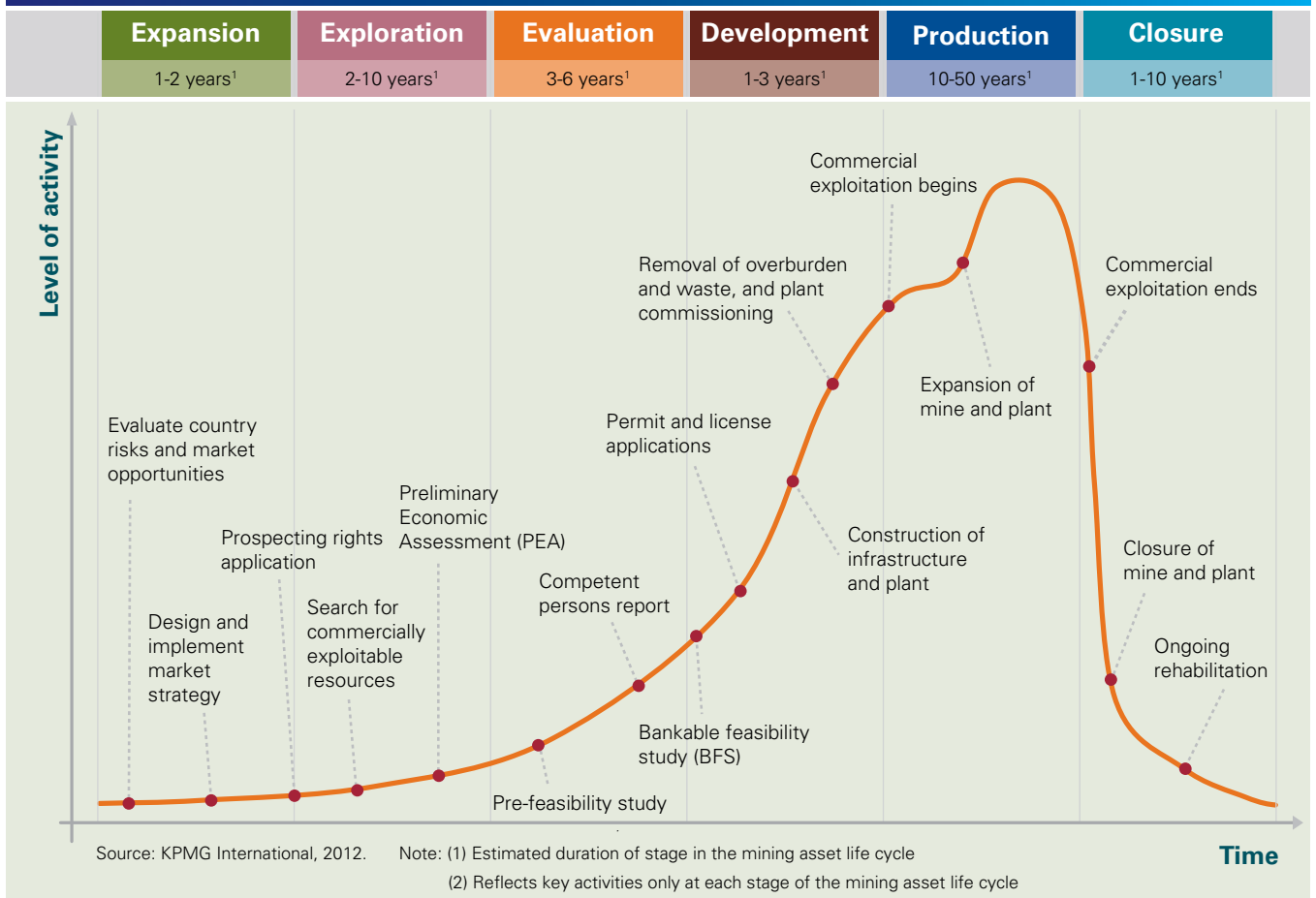
- For the identification of top mining sector companies in Mexico, we accessed Capital IQ to generate the list of companies operating in Mexico in the following industry sectors: aluminium, coal and consumable fuels, diversified, metals and mining, gold and steel.
- The list was then filtered to exclude domestic Mexican corporations with revenue less than US\$500 million in 2011
- The list of foreign companies with operations in Mexico includes companies whose ultimate parent company was headquartered outside Mexico.

⁴⁸Capital IQ, Accessed on November 25, 2011

⁴⁹Canadian & American Mines Handbook 80th edition 2011-2012

⁵⁰Listing selected based on Exploration companies with YTD activity > US\$10M; or Producing companies with Mining Assets & PPE > US\$50M.

Mining asset life cycle – your challenges



KPMG mining growth solutions: How KPMG can help you



Further insight

Growth Series



Growth in a time of scarcity: Managing transactions in the mining sector.

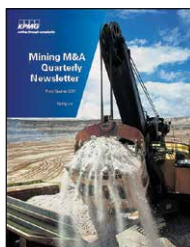
A combination of demand from the East, dwindling mineral resources and rising costs is reshaping the mining sector. As mining companies attempt to manage their asset life cycles in this new landscape, their three main strategic priorities are growth, performance and compliance. Whether organically or (increasingly) through mergers and acquisitions, growth is a perennial objective in an industry where assets continually erode. This guide is the first in a series that discuss how mining companies can best navigate the asset life cycle, and covers the five key elements of the transaction phase: geographic expansion, financing and mergers and acquisitions, tax structuring, due diligence and integration.



Commodity Insights Bulletins – Quarterly Report

Our series of bulletins focus on key mining commodities. Each bulletin aims to provide insight into trends, issues and changes within the key mining commodity sectors.

The series currently includes Aluminum, Copper, Gold, Iron Ore, Metallurgical Coal, Nickel, Platinum, Thermal Coal and Platinum.



Mining M&A Quarterly Newsletter

This quarterly publication provides a current snapshot of the M&A market by reviewing select key transactions while focusing on the rationale behind those deals as trends take shape.



Investment in Brazil

KPMG in Brazil launches the 11th edition, expanded and updated, of the Investment in Brazil guide. This publication, in English, gathers essential data for the foreign investor who is interested in doing business in the country. The information promotes a better understanding of the Brazilian economy, legislation, internal market and tax system, and other important categories.

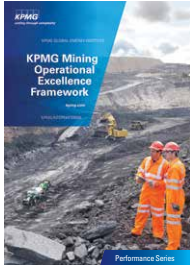
Its 14 chapters cover the following topics: investing in Brazil; how to invest; setting up a business in Brazil; controls on foreign trade; corporate taxation; incentives; international tax issues; commerce and customs; accounting; work; taxes on individuals; other legal aspects; sustainability; and KPMG in Brazil.



Brazil – Country mining guide

A guide with relevant facts and information on various aspects of doing business in Brazil relevant to the mining industry.

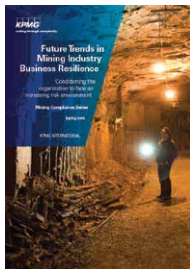
Performance Series



KPMG Mining Operational Excellence Framework

KPMG member firms have developed their own operational excellence framework over the last several years of association with leading mining companies. The framework launches an organization on a journey of efficiency and then over time embeds characteristics that makes the change sustainable over business cycles. This puts together all the capabilities necessary to ensure that the CEO will be able to adapt to support their hunt for the next opportunity, whatever its nature.

Compliance Series



Business resilience in the mining industry: conditioning the organization to succeed in an increasing risk environment

With uncertainty on all sides, mining organizations have to re-evaluate their approaches to organizational resilience. KPMG International examined a number of existing and emerging risks faced by mining organizations around the world and identified the attributes of the more resilient organizations. This paper moves ahead of those findings and looks at some practical solutions that can be employed by mining executives to increase resilience and provide a platform on which sustainable, profitable growth can continue.



Mining Financial Reporting Survey 2012

This publication conveys the results of a survey of financial reporting under IFRS by 20 major mining companies. The information builds on KPMG's previous Global Mining Reporting Surveys. The 2012 survey focuses on some of the key issues currently facing mining companies in an increasingly challenging operating environment.

KPMG's Global Mining practice

The mining clients of KPMG member firms operate in many countries and have a diverse range of needs. In each of these countries, we have local practices that understand the mining industry's challenges, regulatory requirements and preferred practices.

It is this local knowledge, supported and coordinated through KPMG's regional mining centers, which helps ensure that our clients consistently receive high-quality services and the best available advice tailored to their specific challenges, conditions, regulations and markets. We offer global connectivity through our 13 dedicated mining centers in key locations around the world, working together as one global network. They are a direct response to the rapidly evolving mining sector and the resultant challenges that industry players face.

Located in or near areas that traditionally experience high levels of mining activity, we have centers in Melbourne, Brisbane, Perth, Rio de Janeiro, Santiago, Toronto, Vancouver, Beijing, Moscow, Johannesburg, London, Denver and Mumbai. These centers support mining companies around the world, helping them to anticipate and meet their business challenges.

For more information, visit
www.kpmg.com/mining



Contact us

Eduardo Salgado

Partner & National Industry Leader, Mining

KPMG in Mexico

T: 52 55 5246 8833

E: esalgado@kpmg.com

Gabriel Andrade

Partner, Tax

KPMG in Mexico

T: 52 81 8122 1849

E: gabrielandrade@kpmg.com.mx

Ruben Cruz

Director, Corporate Finance

KPMG in Mexico

T: 52 55 5246 8880

E: rubencruz@kpmg.com

kpmg.com