

April 30, 2019



CHANGES TO THE IEPS CREDIT AND THE IMPACT ON FUEL COSTS

Dear Customer,

The amended Rule 9.15 of the 2019 Tax Bulletin (Note 1) was published yesterday in the Government of Mexico's Official Federal Gazette, resulting in an immediate and significant impact on railroad fuel costs.

Prior to this amendment, the IEPS credit incentive allowed Mexico's diesel prices to be similar to the international market. Even so, the per liter diesel price in Mexico net of IEPS was 10% higher than the international price. With the elimination of this incentive, the real cost of diesel in Mexico will now be 57% more expensive than international prices.

This action significantly increases the cost of one of Ferromex's leading inputs that accounts for approximately one third of our total costs. As a result, we are forced to immediately change the application of the "Temporal Discount Adjustment to the Rates Filed with the Ministry of Transportation and Communications", according to the table posted on our website (ferromex.mx).

We are actively reviewing the criteria for application with the Mexican Tax Service to find a way for our locomotives to continue to access diesel at competitive prices. If we are successful, we will explore alternatives to provide you a credit for future services.

We appreciate your understanding and we remain open to exploring ways to reduce the impact of this action through joint efficiencies.

As always, we remain at your service. Please contact us should you have any questions or comments.

Regards,

Note 1

https://www.dof.gob.mx/nota_detalle.php?codigo=5558929&fecha=29/04/2019