Doing Business in Mexico

2009

Contents

1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Mexico has been provided by the office of UHY representatives:

UHY Glassman Esquivel y Cía
Francisco Diaz Covarrubias 5
Col San Rafael
Mexico City
C.P. 6470
Mexico

Tel: +52 55 55661888
Web: www.uhy-mx.com
Email: oge@uhy-mx.com

You are welcome to contact CPA Oscar Gutierrez Esquivel for any inquiries you may have.

UHY Glassman Esquivel y Cía was established in 1989 and specializes in audits. Clients include:

- **Ópticas Devlyn**, the biggest optometrist retail business in Latin America;
- **PROAGRO y Seguros Centauro**, one of the leading insurance companies in Mexico;
- **Mitas Tires**. An important tire distributor in West Europe;
- **KYB Latino Americana,** leader manufacturer on the field of shock-absorbers**;**
- **Gulfmark,** a large scale vessel company and business related service provider.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at March 2009.

We look forward to helping you do business in Mexico.

UHY Glassman Esquivel y Cía is a member of UHY, an international association of independent accounting and consultancy firms, whose organising body is Urbach Hacker Young International Limited, a UK company. Each member of UHY is a separate and independent firm. Services described herein are provided by UHY Glassman Esquivel y Cía and not by Urbach Hacker Young International Limited or any other member of UHY. Neither Urbach Hacker Young International Limited nor any member of UHY has any liability for services provided by other members.

2. Business environment

Introduction

The official name of the country is "United States of Mexico" (AKA Mexico).

Mexico has an area 1, 964, 375 km² comprising:

- 112,000 km of coast
- 3,152 km of border with the USA
- 956 km of border with Guatemala
- 193 km of border with Belize.

Mexico is formed by 32 federal states, one of which is the political and economical capital of the country where the main financial centres of the country are.

Mexico has an approximate population of 106.7 million inhabitants with a 0.85 % annual growth rate.

Currency
Mexican Peso

Language
Spanish

Potential for growth
According to the Ministry of Economy, Investment flows to Mexico have been significantly higher, which have attracted 42.599 million dollars from January 2007 to November 2008, this represents 58% of the Foreign Direct Investment in Latin America.

The updated figure of foreign direct investment for last year was $27,038.9 million dollars.

The most attractive sectors for investors were manufacturing, which received 33.8% of the total, financial services, with 23.1%, the mining industry attracted 21.5%, 9.9% commerce, communications and transport by 4.7% and the remaining 7% for other sectors.

The total of FDI by country of origin was as follows, the United States contributed 48.8%, Spain 13.9%, 9.3% Virgin Islands, Canada 9% United

Kingdom 6.6% Switzerland 2.1%; Korea 2.1% Netherlands 1.9% and the rest came from other nations.

According to the Ministry of Economy, the attraction of FDI shows confidence of investors who have kept their operations in Mexico, and as a consequence of that trust, reinvested in the country 83.6% of their profits.

In the last decade, Mexico has become one of the best destinations to invest foreign owned capital. Of the 500 major companies in Latin America, 241 have become established in Mexico and sales have increased by 58% from $57.8 billion USD to $497.1 billion USD.

Government and political systems

Mexico is a federal republic with thirty-two states and one of them is a federal district. The government is divided into an executive branch, a bicameral legislative branch, and a judicial branch and it is based on the Political Constitution of 1917.

Executive

The executive branch of the government is the administrative branch, which is in charge of the administration of the government. The Federal level has a President and ministers of government (also known as Secretaries of government). The President also has the authority/responsibility of approving the laws passed by the congress (legislative)

The current president is Felipe de Jesus Calderon Hinojosa from the "Partido Acción Nacional" (PAN) which is the Conservative Party in Mexico. On December 1st, 2006, Mr. Calderon Hinojosa became the new President for the period of 2006 to 2012.

Legislative

The legislative branch of government is the law making branch, which is charged with the review and determination of when and where laws are necessary. This branch receives assistance from the Executive branch by its proposal of laws and at times by its rejection of laws passed by the legislative branch.

The legislative body is composed of a chamber of deputies (similar to that of the House of Representatives in the US) and a chamber of senators (similar to that of the senate in the US). The proposals of law must pass both chambers before being brought to the President for his ratification.

Judicial (Courts)

The legal system derives from Spanish civil law with common law influence. The judicial branch is divided into federal and state systems. The highest court is the Supreme Court of Justice, consisting of twenty-one magistrates and five auxiliary judges, all appointed by the president and confirmed by the Senate or the Permanent Committee.

The Supreme Court meets either in joint session or in separate chambers, depending on the type of case being heard. Court rulings are decided on the basis of majority opinion. The full court can overturn rulings by the separate chambers.

Read more:

Mexico Government Profile 2008: Overview of Mexican Political Structure

http://mexico.suite101.com/article.cfm/mexico_government_profile#ixzz0BdjSdTSx

Laws

The legal system in Mexico provides for Federal Laws and State laws. There is a Federal Constitution and a state constitution for each of the states of Mexico. Laws and regulations are created by: (1) decisions made in the legislative branch of government, by decrees of the President and by jurisprudence created by the federal court, and (2) in the case of federal legislation, by 5 consecutive decisions resolved in the same manner by the Supreme Court regarding the same issue.

National Elections

Presidential elections were last held in July 2006 - the next will be held in 2012.The last elections for senators were held in July 2006 - the next will be held in the summer of 2009. The last elections for deputies were in July 2006.

The central public administration

This comprises a group of state departments. The main ones are:

- Ministry of Internal Affairs (Secretaría de Gobernación, SEGOB)
- Ministry of Foreign Affairs (Secretaría de Relaciones Exteriores, SRE)
- Ministry of Defence (Secretaría de Defensa Nacional, SEDENA)
- Ministry of Agriculture, Cattle, Rural Development, Fishing and, Food (Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación, SAGARPA)

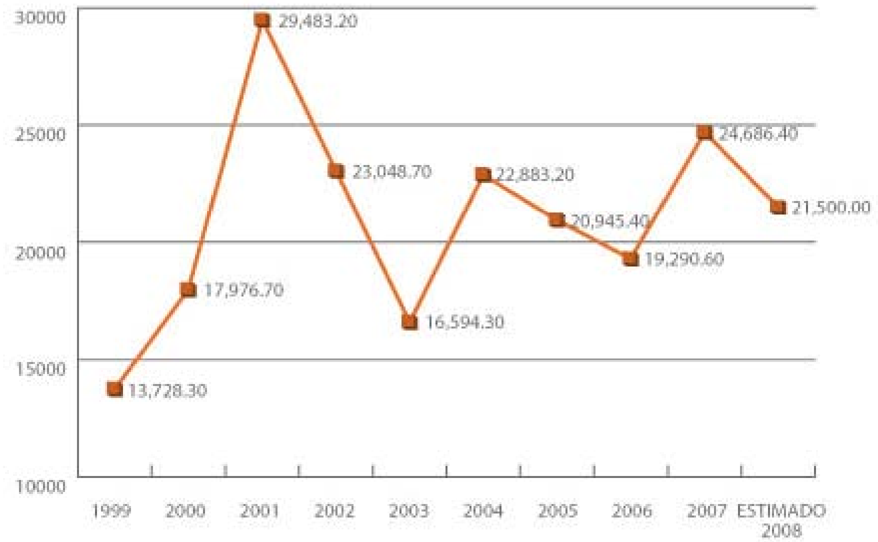
- Ministry of Tourism (Secretaría de Turismo, SECTUR)
- Ministry of Environment and Natural Resources (Secretaría del Medio Ambiente y Recursos Naturales, SEMARNAT)
- Ministry of Marine (Secretaría de Marina, SM)
- Ministry of Treasure (Secretaría de Hacienda y Crédito Público, SHCP)
- Treasury Department (Banco de México, BM)
- Ministry of Economy (Secretaría de Economía, SE)
- Ministry of Finance (Secretaría de Finanzas)
- Ministry of Communications and Transportation (Secretaría de Comunicaciones y Transportes, SCT)
- Ministry of Health (Secretaría de Salud, SS)
- Ministry of Labour and Social Welfare (Secretaría del Trabajo y Previsión Social, ST y PS)
- Ministry of Energy (Secretaría de Energía, SENER)
- Ministry of the Agrarian Reform (Secretaría de la Reforma Agraria, SRA)
- Ministry of Public Education (Secretaría de Educación Pública, SEP)
- Ministry of Social Development (Secretaría de Desarrollo Social, SEDESOL).

Economy

Mexico has preferential access to most important economies and it has strengthened its legal framework to provide more safety for foreign investors.

The Free Trade Agreement for North America (NAFTA) helped to increase the total amount of foreign investment in the country. Before the agreement, the foreign investment in Mexico was around 3 thousand 700 million dollars, the following year when the agreement was already in operation this figure rose to 17 thousand 800 million.

The FDI has increased 4.8 times since the signing of NAFTA, which means better jobs and greater economic growth for Mexico.



Foreign Direct Investment
(Million Dollars)

Mexico has been negotiating Investment Promotion Agreements (Acuerdos de Promoción de la Inversión, APRIs) to promote Direct Foreign Investment (IED). Mexico is now the fourth highest IED receiver among developing economies. It has attracted more than $128 billion dollars in IED during the past nine years.

Economic structure

The National Banking and Securities Commission (CNBV) have set up operation and accounting rules for banks to support stability for the Mexican Peso. The Ministry of Finance, the CNBV and the Central Bank are the main system regulators of banking activities. The CNBV exercises control over the transactions of 10 banks.

Stock market

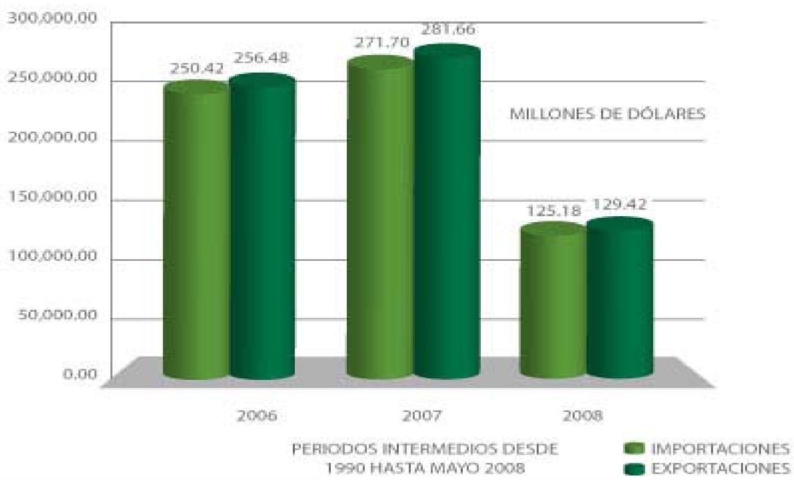
From 2000 to 2007, the value of stock market capitalization in Mexico rose from 1.45 billion pesos to 4.66 billion Mexican Pesos, this means going from 28.89% to 48.31% on the Gross Domestic Product (GDP).

The president of the Mexican Stock Exchange (BMV) said that the Index of Prices and Quotes (CPI) stood 7077.71 points from the first day of trading of 2000 to 32136.76 units to the last close, and the assets in administration of the Investment increased as a proportion of GDP, from 8.0% in 2000 to 21% this year.

As for the debt market in pesos issued by the government, negotiated at the Mexican market, which is referred to reach the two billion pesos, with an average maturity of 1900 days, when in early 2000 this figure was $550,000 million pesos.

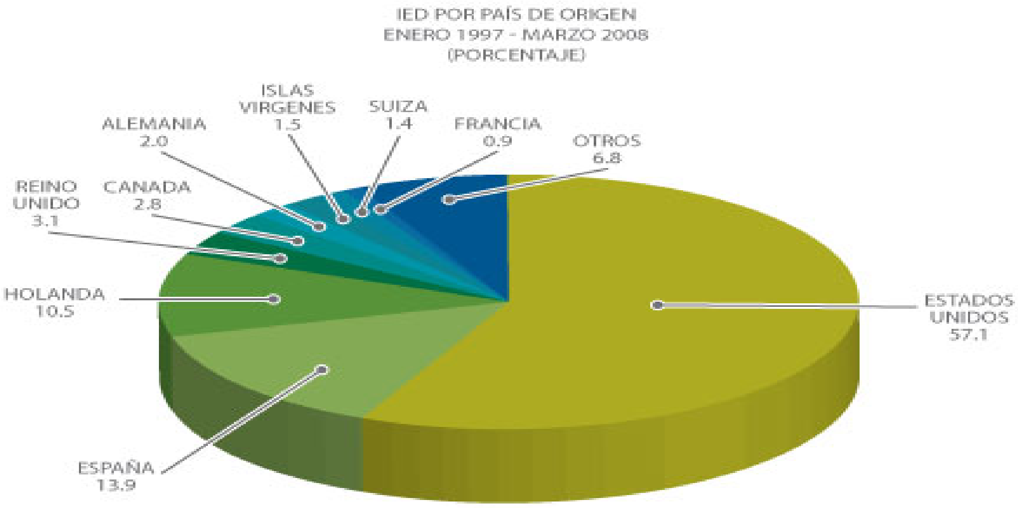
Exports

Almost 90% of Mexican exports are to the United States and Canada. Since the establishment of NAFTA, Mexican exports have grown by 15% annually. Mexico is the most important Latin American exporter to the United States. Bilateral trade with the United States exceeds $200 billion USD annually.



Government attitude towards investment promotion

The IED in Mexico acts as a catalyst for domestic company growth and allows the entry of new technological information. The increased entry of technology has been essential to develop workforce skills and has strengthened national productivity and competitiveness.



3. Foreign investment

Development of manufacturing in Mexico has been influenced mainly by foreign demand. However, other factors have influenced the evolution of the exporting sector, for instance, the competition Mexican exports face as a consequence of China's entry into the World Trade Organisation.

Regarding this, the Federal Government is setting up a process to achieve a structural reform in sectors, which will allow the national economy to compete more effectively. Likewise, different measures have been implemented to promote the geographical advantages of the country and to support industrial competitiveness.

Exchange control
Mexico cancelled its exchange control in 1991, allowing the entry of a free market and entering to free flotation mechanics.

Foreign investment restrictions
Federal law on foreign investment in Mexico, dating from 1993, aims to:

- Eliminate legal restrictions in foreign investments
- Set up and simplify criteria and procedures for foreign investment
- Set up a legal process that ensures continuance, and safety of long-term foreign investment.

Trade agreements

Incentives for foreign investment have been promoted through various trade agreements. These agreements achieved the following international alliances:

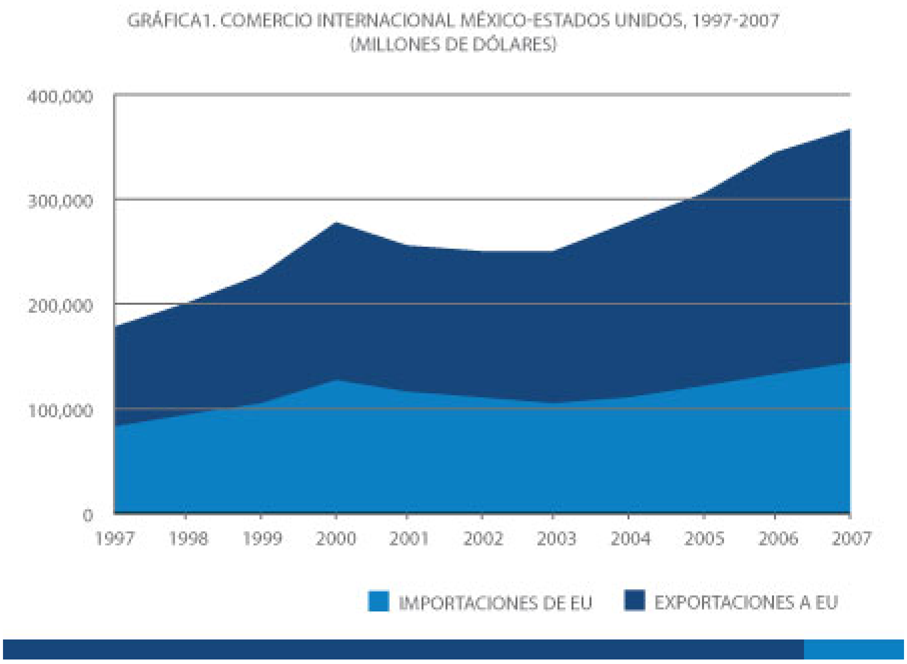
North America
The total FDI in Mexico during 2006 was more than 19 billion dollars, of which 10,300 million came from the United States. In 2007, Foreign Direct Investment (FDI) in Mexico reached 23 billion 230.2 million dollars, representing a growth of 20.8 % compared to 2006, when it was 19 thousand 200 million dollars. The United States currently generates 50% of FDI in Mexico. There are 18,629 Mexican companies which benefit from direct investment from the United States. This represents 52.9% of all companies receiving FDI.

The amount of FDI in 2007 is the second highest in the country, exceeded only in 2001 when Citigroup purchased Banamex for 12,500 million dollars.

Foreign Direct Investment in 2007 was up 43.8 % on new investments (10 billion 163.6 million dollars), 38.5 % for negotiations between companies (eight thousand 949.2 million dollars) and 17.7% by reinvestment of profits (four thousand 117.4 million dollars).

Regarding the distribution of FDI flows last year, manufacturing industry was the most active, with 49.7 %, followed by services with 33.2 %, Commerce with 5.3 %, communications and Transport with 3.5 % and Others Sectors with 8.3 %.

He stressed that the United States of North America continued as the largest investor in Mexico in 2007 with 47.3% of FDI in the country, followed by Holland with 15.1%, Spain with 9.6%, France with 7.2%, with 4.0% in Canada, Belgium and Luxembourg with 2.4%.



European Union (EU)

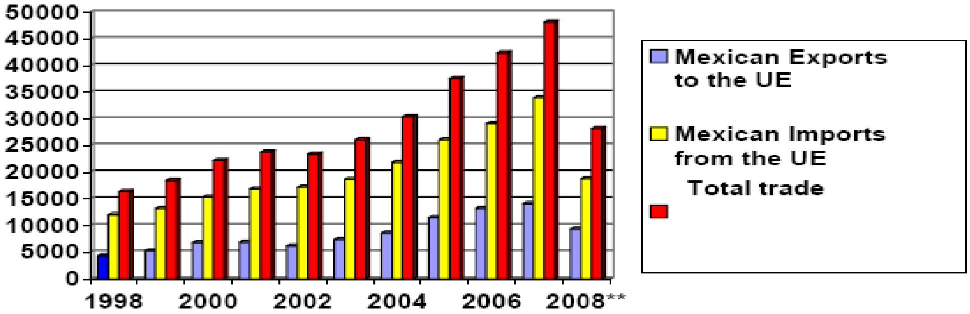
Upon entry of the Free Trade Agreement between Mexico and the European Union (TLCUEM) on July 1, 2000, trade between Mexico and the European Union (EU) has presented particular dynamism. In 1999, one year prior the agreement, bilateral trade registered 18.4 billion dollars for 2007, these exchanges, According to figures for imports of both parties, exceeded 48 billion dollars, which represents a growth of 162%.

Exports of Mexican products to the EU have also grown. A year before the agreement amounted to 5.2 billion dollars, while for 2007 had increased by almost 174%, surpassing the 14 billion dollars.

As for their part, Mexican imports of EU products joined 34 billion U.S. dollars in 2007, representing an increase of 157% over the previous year to the entry into force of TLCUEM. On the other hand, in the first half of 2008, total trade with the EU registered 28 billion dollars, 24% more than the same period last year, with 9.3 billion to Exports and 18.8 billion imports.

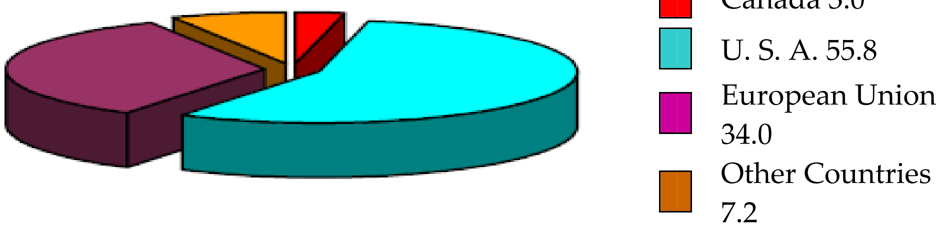
Type of operation	1999	2007	2008**	Growth % 99-07
Mexican Exports*	5.2	14.1	9.3	174%
Mexican Imports	13.2	34.0	18.8	157%
Total Trade	18.5	48.2	28	162%
Trade Balance	-8.2	-19.8	-9.5	147%

**Corresponds to the value of EU imports from Mexico*
***Figures for the first half with a data bank and Eurostat.*



***Investment from the European Union in Mexico, following the signing of TLCUEM.**

The EU is the second largest source of foreign direct investment in Mexico, only surpassed by U.S. community investment from the UE accumulated from 1999 to June 2008, reached 67.7 billion dollars, which represented 34.0% of total FDI received by Mexico in this period.



Latin-American Association of Integration (Asociación Latinoamericana de Integración, ALADI)

In the first nine months of 2008, Mexico's foreign trade was characterized by significant growth in both exports (15.3%) and imports (15.4%) compared to the same period last year.

In relation to the same period of 2007, oil exports grew by 44.1%, while the non-oil increased by 10.1%. Among the first, the sales of crude oil grew 42.6% and petroleum products and petrochemicals 54.1%. Considering non-oil exports, the development was as follows: agriculture 18.7%, 16.7% and quarrying and manufacturing 9.8%.

On the other hand, the increase in imports was extended to all categories of goods: consumer (19.2%), intermediate (14.1%) and capital (18.6%). This increase happened in a context of moderate growth in economic activity (GDP grew 2.7% in the first half of 2008)

Mercosur

In 2007 Latin America registered more than 100,000 million U.S. dollars in inflows of foreign direct investment (FDI), the highest in its history.

At the same time, countries such as Brazil and Mexico experienced a boom of its own flows of direct investment abroad, which in some cases exceeded inflows of foreign capital. The emergence of Latin American transnational competing with larger conglomerates in the developed world in terms of its industrial and financial power is growing. According to ECLAC (Economic Commission for Latin America and the Caribbean), only in 2007 the Brazilian direct investment abroad reached close to $ 35,000 millions in Mexico.

Export and import policies

Mexico has amended its foreign trade policies since the General Agreement on Tariffs and Trade (GATT) consolidation in 1986. Through this agreement, the country changed its trade system from a virtually closed system to an open one.

Customs duties

Companies can avoid inspections by declaring their merchandise at Customs at the point of departure – which allows clear and automatic customs declarations when importing merchandise into Mexico, guaranteeing a precise payment of tariffs and taxes.

An import and export registry book has been eliminated. Companies must now keep an accounting plan that allows local and imported stock to be differentiated. Merchandise can be temporarily exported for repairing. A registry of importer requirements has been consolidated into one document.

Mexico uses a harmonised system whereby merchandise is classified and codified for selected tariffs. The tax index rate is from 0% to 20%, with an average tariff of 11% for "loading-trade". Besides tariffs, value added tax (IVA) is imposed on most imports. It is applied at 15% at the time of selling the merchandise.

Documentation

It is important to have Customs Administration (AGA) and Treasury Department support when transporting merchandise into Mexico. Merchandise quality and characteristics must be established for a smooth entry that meets trade rules and standards.

Restraints

Some merchandise cannot be imported into Mexico. This includes merchandise that does not meet legal quality standards. For instance, explosives, polluting agents, corrosive substances, and flammable or radioactive products cannot be imported without a licence.

To ensure effective quality control and to promote exports, the Treasury Department introduced Mexican Official Standards (NOM). These standards, established specifications, tests, techniques and regulations must be adhered to any merchandise made in Mexico.

4. Setting up a Business

The Mexican government has introduced a partial privatisation policy to redefine the role of the state in the economy. Privatization has been more noticeable among the following sectors: banking, air carriage, telecommunications, seaports, iron and steel manufacturing, and tourism.

The government is also privatising other sectors, including natural gas and transport, and is marketing airports, railroads and the petrochemical industry.

The number of companies ran by the government and the volume of government shareholdings have significantly decreased in recent years. Furthermore, the Mexican government has enabled local and foreign investors to invest in different infrastructure projects, e.g. roads, ports, drinking water and sewage systems, generation of electricity and telecommunications - particularly mobile telephone systems.

Foreign investment restraints
A 1993 Act cancelled many restraints on promoting foreign investment and encouraged development. The Act allows foreign investors to take part in several activities, with restraints on only some specific aspects. Foreign investors can acquire Mexican company shares and fixed assets; enter into new financial activity fields; produce new lines of product; open and close businesses or offices; and increase or replace current establishments.

The Foreign Investment Act however confirms that the following areas are reserved exclusively for the state:

- Oil, hydrocarbon, and by-products (essentially petrochemicals); except transporting, storing, and gas distributing related activities, excepting crude oil;
- Electricity, except consumption and energy supply generating activities, co-generation or small-scale distribution; generation of electricity for independent products sold to the Federal Commission of Electricity (CFE) generation of electricity for export derived from co-generation, independent and small-scale production; electricity imported by individuals or companies exclusively for private use; generation of electricity for emergency use as a result of an electricity cut;
- Generation of nuclear energy;
- Radioactive minerals;
- Wireless transmissions;

- Postal service;
- Note issuing and coining;
- Airports, heliports, ports, and railroads control and supervision.

Some economic and business activities are reserved exclusively for Mexican individuals or companies. The Certificate of Incorporation of a company includes an article referring to the exclusion of foreigners as shareholders if the company is concerned with:

- Domestic land passenger transportation, tourism and freight, except parcel and courier services
- Sale and distribution of retail petrol
- Liquefied gas distribution
- TV and radio broadcasting, except cable television
- Credit unions
- Development banking.

However, the new Foreign Investment Act allows foreigners to have "neutral investments" in these companies and activities. This kind of investment broadens equal rights to share profits, but prohibits foreign investors the right to vote on a board of directors, and limits the ability to influence and control practice in Mexican companies and economic activities.

This Act also restricts foreign investment in some activities and companies to the following maximum percentages:

- Production co-operatives – 10%
- Domestic air transportation, taxi and specialised transport – 25%
- Insurance and bonds companies, exchange offices, business retirement funds, investments trusts, and other companies – variable %
- "T" series shares of companies that have arable and forest lands – 49%
- Freshwater, coastal, deep-sea fishing, except fish farms – 49%
- Printing and issuing of national newspapers – 49%
- Port management – 49%
- Manufacture of and trading in firearms and explosives – 49%.

Foreigners may have more than 49% in the following types of company or activity, but must have the approval of the National Commission of Foreign Investment:

- Legal services
- Credit offices

- Security agencies
- Pipeline manufacturing for gas, oil and products, transportation; except duct construction, operation and ownership; natural gas transportation, and facilities and equipment for its distribution
- Oil and gas-well drilling
- Railway construction and management
- Port services, such as tugging and docking
- Shipping companies
- Airports management
- Mobile phone services
- Private schools and universities.

Except for the limits stated above, foreigners can own up to 100% of Mexican companies without any licence from the Mexican government. Moreover, investments in manufacturing, assembling or merchandise processing companies, for exporting purposes, do not need a licence at all.

All Mexican companies that have foreign-owned capital must be in the National Register of Foreign Investments. No conditions apply to this register, except ownership restrictions mentioned above. Each year the register is renewed by an annual financial report.

Property

Generally, there are no restrictions on foreign ownership of Mexican property. However, under the Foreign Investment Act, foreigners can own property located in restricted areas (coasts, or border zones) for non-residential purposes only if that property is acquired with the ownership of the equity interests in Mexican companies. The National Commission of Foreign Investment must be notified of such acquisitions.

5. Labour

Work visa requests

As part of the process to start a business in Mexico, it is important to take into account several procedures and statutory requirements that may be applicable according to the line of business.

Depending on your place of residence, when coming to Mexico it is important to request a "business visa". This document gives you legal capacity to do business in the country. A business visa can be requested at any Mexican consulate. The list of requirements and documentation you must present to receive a visa can also be viewed at the consulate.

Once you have obtained a business visa, it is important to assess procedures and requirements of the federal entities where the business is to be based. The procedures and requirements must be negotiated through the different federal offices, depending on the procedure in question – registering the company's name; registering before the Secretary of Finance; work, property and patent and royalties register proceedings.

Social security

The employee index on social security contribution is 3.90% of salary. It is withheld from the employee's salary by the employer. The employer index contribution is 39.30%. The annual maximum contribution for employees is $19,502 Mexican pesos, and for employers $196,520 Mexican pesos per employee.

Housing fund contributions

Employers must contribute 5% of salaries (restricted to 25 times the minimum salary at present) to the coverage fund, which provides funds for employees' housing acquisition, remodelling and/ or construction. The maximum annual contribution is $24,988.8 Mexican pesos per employee.

Retirement fund

Employers must contribute 2% of salaries (restricted to 25 times the minimum salary) to a pension fund managed by a bank on behalf of the employee. The maximum annual contribution is $9,995.52 Mexican pesos per employee.

Health benefits

The Mexican Social Security system also gives the following benefits:

- medical help for illness, maternity care and accidents
- medical support for temporary disability
- pensions and medical benefits extended to employees' relatives, including spouses, parents and children.

Work permits

Work permits are commonly granted for periods of one year. However, this may be extended. Usually a foreign employee must show documentation that proves he/she has gained employment in Mexico and has sufficient income to sustain him/her whilst working there. This documentation could be a contract of employment or an employer's letter. The employee must provide a passport and any official identification. This information is referred to the immigration department in the state where the employee will be living. Foreign nationals can be independents in Mexico.

Permanent immigrants

Immigrants who have been legal residents in Mexico for a minimum period of five years can request that the Secretary of Foreign Affairs make their residency permanent or request Mexican nationality.

Special and family considerations

Each family member must apply for their own separate visa. However, registration forms for family members are often processed alongside those of the employee. If a family member wants to work, he/she must apply for their own separate work permit.

Driving licence

If a foreigner living in Mexico wants to obtain a driving licence for use in Mexican territory, he/she must present the following documents:

- birth certificate (original and Xerox copy)
- driving test
- identification
- blood type
- sight test
- written test
- certification of migratory status
- passport.

6. Taxation

Two taxes affect company business activities in Mexico:

Value added tax

VAT (IVA) is a fixed rate and based on cash flow. It is calculated from the difference between the actual values of sales less expenses. If incomes are higher than expenses then VAT is payable. In the opposite scenario, VAT is credited. For this tax calculation, bank statements showing registered transactions for the corresponding month are taken into account.

Due to tax control complexity, it is necessary to open several asset and liability accounts.

There is no annual calculation for this tax and export sales are exempt from VAT.

Income revenue tax and Flat-Rate Business Tax

Every company is subject to income revenue tax (ISR) or Flat-Rate Business Tax (FRBT), depending on previous year results. Where there are profits, ISR must be paid; where there are losses, FRBT must be paid.

ISR at a rate of 29% is paid monthly and is determined by applying a profit percentage to all incomes for the month. This rate will be diminishing in 1 percentage unit every year, up to 28 % in 2007 and on.

The profit percentage is calculated by dividing profits by total income, corresponding to the subsequent year.

This tax is set annually, and is compared with total monthly payments transacted during the year.

The Flat-Rate Business Tax (FRBT) Law was published on the Official Gazette on October 1st, 2007; this law became effective as of January 1st, 2008 and abolished the Asset Tax Law.

Currently, FRBT it is computed by applying the 17.5% rate (16.5% for 2008 and 17% for 2009) to income determined on the basis of cash flow, net of authorized credits.

FRBT credits result mainly from the unamortized negative FRBT base, salary and social contribution credits resulting from the deduction of certain investments, such as those made in the inventories and fixed assets during the transition period as of the date on which the FRBT became effective.

FRBT will be payable only to the extent of exceeding income tax during the same period. To determine payable FRBT, income tax in a given period will first be subtracted from the FRBT on the same period and the difference shall be the payable FRBT.

Should a negative FRBT base be determined because deductions exceed taxable income, they will not be payable FRBT. The amount of the negative base multiplied by the FRBT rate results in a FRBT credit which may be applied against income tax for the same year or, if applicable, against FRBT payable during the next ten years.

For instance:

January 2008 sales income	$5,049,236.99
Exchange rate profit	48,300.00
Interest	2,197.46
Other incomes	857.00
Monthly total income	$5,100,591.45
By	
Profit percentage	0.0396
Base of the tax	**$201,983.42**
Tax rate	28%
January 2006 payable ISR	**$56,555.36**

Monthly ISR payment resolution

Exemption from payment of tax

For Mexican residents, the following items are tax exempt:

- indemnity for accident and illness
- benefits and retirement pensions given by public institutions (private retirement plans are partially exempt)
- reimbursement of medical, dental, hospital and funeral costs
- social security benefits paid by public institutions
- saving funds, travelling and transport expenses
- social aid payments.

Some exemptions are limited and subject to specific requirements.

Legal entity deductibles

Standard costs, including salaries, fees, rent, depreciation, interest and other general costs are deducted from the gross interest net amount to calculate the taxable income. Instead of reducing actual costs, individuals with an income can deduct an equal amount of up to 28% of their income.

Losses compensation

Compensation for business and professional activity losses can be claimed for 10 years against profits from the same kind of income.

7. Accounting & reporting

International accounting standards

For more than 30 years, the Commission of Accounting Principles of the Mexican Institute of Public Accountants A. C. was the one in charge to issue the Accounting Regulations in our country; but from 1st June 2004, the Mexican Council for the Investigation and Development of Norms of Financial Information (CINIF), which is an independent organization that, as to be consistent with the world-wide tendency, takes over the function and the responsibility of the issuing the countable regulations in Mexico.

In order to achieve this, the CINIF carries out it processes of study and research between the financial and businesses community, and other interested sectors, giving as a result of this, the issuing of documents called "Norms of Financial Information (NIF)". The philosophy of the NIF is to obtain, on the one hand, the harmonization of the local norms used by diverse sectors of our economy, and on the other hand, to converge in the greater possible degree, with the international Norms of Financial Information (IFRS) emitted by the Council of International Norms of Accounting (IASB).

Despite the information just given, there are Companies in Mexico that draw their financial information up based on the IFRS due to their controllers demands and/or subsidiary companies, to which we provide with professional services.

Basic concepts

Some general principles are followed for financial statements. Assets are presented at a fair value or net resale value, with the exception of non-financial assets which must be presented in a specific way.

According to the accrual method, yields are recognised when they are made and costs are considered when they are incurred. Accounting policies must be applied from one period to another. All reasons for non-compliance must be divulged. Accounting concepts relevant to investors are described below:

Leasehold

Leases that substantially transfer the advantages and risks of the property are considered as acquired assets and become liable. Other leases are considered as operating leases. Accounting rules for leases are similar to those of United States GAAP.

Intangible assets
Acquired intangible assets costs are registered as assets and are amortised on the estimated period of the assets' useful life - an important difference from United States GAAP. The maximum period of amortisation under Mexican GAAP is 20 years.

Research and development costs
Research and development costs are imposed on income where liable, similar to United States GAAP practice. However (and this differs from the United States GAAP), in some instances start-up costs are not taken into account.

Consolidations
A company with more than a 50% interest in another company must provide consolidated financial statements, and include the investor's financial statements. This principle is similar to provisions in the United States GAAP.

Exchange system
Foreign currency transactions are filed using the exchange rate on the day the transaction took place. Assets and liabilities expressed in foreign currency are converted into Mexican pesos at the exchange rate prevailing at the time of reporting. Exchange differences are reflected in the net income.

During the second semester of 2008, the economic crisis of the United States of North America has shot up, generating the first rise in the exchange rate due to the excessive demand of North American currency around the month of October; thus, by the end of year 2008 the exchange rate closed in $13.77 Pesos per Dollar, with a devaluation of 8.42% and one parity of exchange of $12.61 per Dollar.

Provided that there is a free flotation market in Mexico and the parity of exchange is governed by supply and demand, by the end of January the parity of exchange closed at $14.20 Pesos per Dollar and the devaluation increased to 11.34%, therefore, and as long as the parity of exchange does not become stabilized, the companies with debts or credits in foreign currency will face negative financial results.

Audit requirements
Mexican publicly quoted corporations, governmental companies and finance sector companies regulated by the CNBV or the National Security and Linking Commission, such as banks and brokerage firms, must have an independent inspector carry out annual auditing of their financial statements.

Annual audits are carried out the year after a company achieves any of the previously mentioned criteria. Audited financial statements are disclosed at the annual stockholders meeting; to the Treasury authorities, and in the public sector to the CNBV.

Deferred income taxes
NIF D-4 replaces bulleting D-4, Countable treatment of income tax, Flat-Rate Business Tax and the employee's profit sharing, thus, eliminating the concept of permanent difference since the assets and liabilities method established in this NIF requires the recognition or deferred taxes to profit by the total of the differences between the financial and the fiscal value of assets and liabilities. The NIF establishes the re-classification of retained profits of the accrued effect of the adoption of the predecessor bulletin D-4, unless it is identified with accounts recognized in the shareholders equity and that they comprise with the integral profit (loss) and which they have not been reclassified to income statement.

Worker fringe benefits
Under Mexican Labour Laws, companies must pay indemnity to employees with 15 years service who cease employment voluntarily, involuntarily or due to death. This requirement – and any pension requirement where applicable - increases with length of service. In most dismissal cases, indemnities and compensations must be paid to dismissed employees given that current accounting practices identify these payments as contingency remuneration.

Allocation of profits
The costs associated with profit distribution are recognised (in a similar way to income taxes) after the pre tax income. Companies must provide annual financial statements approved by stockholders.

Audits
Mexican companies must prepare financial statements. Furthermore, Mexican GAAP requires a report on changes in the financial position, rather than one on cash flow.

Mexican publicly quoted corporations, governmental companies, finance sector companies, insurance sectors and most other companies that exceed a certain minimum size must present annual financial statements.

Reporting requirements
Financial statements must be presented at the annual stockholder meeting and approved by them. All companies must have a statutory inspector (corporation official) assigned to this position by the stockholders. This

person is generally an independent public accountant and is usually from the accountancy firm that carries out inspections/audits.

Companies meeting certain criteria must file an annual tax return with the authorities for the last annual fiscal period. Companies filing a tax return may or may not be subject to an external audit by Mexican authorities. Consolidated and audited financial statements must be presented alongside this tax return.

8. UHY firms in Mexico

UHY Glassman Esquivel y Cía., S.C.
Paeo de la Reforma 195
Piso 16, 17 y PH
Col. Cuauhtemoc
Delegación Cuauhtemoc
México D.F.

Phone	+52 55 5566 18 88
Email	contacto@uhy-mx.com
Website	www.uhy-mx.com
Contact	Oscar Gutiérrez Esquivel

9. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com