

Doing Business in Mexico 2004

I. Introduction

This publication outlines some of the key issues and information required by someone wishing to come to México to set up a business.

Inevitably, the information contained in the following pages is 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. We have included further information in Appendix I for your reference.

This publication

In this publication is current at September 2004.

If you need further advice on doing business in Mexico please contact Glassman Esquivel & Co. at the UHY's Mexico office at (52 55)55.66.18.88 or contacto@uhy-mx.com

Glassman Esquivel y Cía., S.C.
Fco. Díaz Cobarrubias 5, 2nd floor.
Col. San Rafael, C.P. 06470
México D.F.

We look forward to helping you to do business in Mexico.

The Glassman Esquivel office 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 Glassman Esquivel & Co. 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.

II. Economic Environment

Introduction

The official name of the country is "United States of Mexico", and it has 1.9 million sq. Km. from which 112 thousand Km. are coast; 3,152 Km. limits with the USA, 956 Km with Guatemala, and 193 Km. with Belize. It consists of 31 federal states and a federal district, where it can be found the main financial centers of the country.

Mexico has approx. a 101,000,000 population with a 1.9% annual growth rate, the monetary unit is the Mexican Peso, and the official language is the Spanish.

In the latest decade, Mexico became one of the best destinations to invest the foreign owned capital. From the 500 main companies in Latin America, 241 have settled in Mexico, achieving a total sale increase from \$57.8 billion USD to \$497.1 billion USD, this represents a 58% increment.

In spite of the world economy slowdown, particularly talking about the economy of the UNITED STATES as a result of the September 11, 2001 event, the Mexican economy placed the first dropped out in a 0.3% index of the gross domestic product (GDP) after five consecutive years of continuous growth.

The industrial, construction, transformation and mineral exploitation sectors experienced the slowdown, although the agricultural and services sector had a slight growth, it was not enough to compensate a weak industrial activity.

Government and Political System

Mexico is a Federal, Representative and Democratic Republic; it has three levels of government (municipal, state and federal), and it is divided into three independent branches: Executive, Legislative and Judiciary, and it is based on the Political Constitution of 1917.

Executive Power: The Mexican President is chosen for a six year period through the direct vote of the citizens and appointed by a political party. The current President is Vicente Fox Quesada from the "Partido Acción Nacional" (PAN).

Legislative Power: Consists on the Chamber of Deputies and the Senate. The first one is constituted by 300 members elected by relative minority, and 200 deputies elected every three years by proportional representation. The Senate is constituted by four senators from every state; and four from the Federal District. Three of them are elected by relative majority, and one of them is appointed to the first minority. Every six years the senate is reappointed.

Judiciary Power: Consists on the Supreme Court of Justice, The Circuit Courts (Collegial and Unitary), The Federal Council, and The District Courts. The Supreme Court of the Nation has eleven ministers. The minister performs his duties for a period of fifteen years, and might be discharged only at the end of his duties. If someone was a minister, he cannot be elected for a new period, unless he has been a provisional minister. The president of the Supreme Court of Justice is elected every four years for a maximum of one period on duty.

National Elections: President elections were held last July, 2000 (the next will be on 2006). The last elections for senators were on July, 2000, for all positions (the next will be on summer 2006). The last elections for deputies were in July, 2000.

The Central Public Administration is composed by an entity group well known as State Departments.

The Main State Departments are:

- Ministry of the Interior, (Secretaría de Gobernación, SEGOB, by its name and acronym in Spanish).
- Secretary of Foreign Affairs, (Secretaría de Relaciones Exteriores, SRE).
- Ministry of Defense, (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).
- Naval Ministry, (Secretaría de Marina, SM).
- Secretary of Finance and Public Credit, (Secretaría de Hacienda y Crédito Público, SHCP).
- Treasury Department, (Secretaría de Economía, SE).
- Secretary of Communications and Transportation, (Secretaría de Comunicaciones y Transportes, SCT).
- Ministry of Health, (Secretaría de Salud, SS).
- Secretary of Labor and Social Welfare, (Secretaría del Trabajo y Previsión Social, ST y PS)
- Secretary of Energy, (Secretaría de Energía, SENER).
- Secretary 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

Introduction

Moreover the preferential access that Mexico has in the majority of the more important economies, Mexico has strengthened its legal framework in order to give more safety to foreign investors. On the

other hand, Mexico has been negotiating different Investment Promotion Agreements (Acuerdos de Promoción de la Inversión, APRI's, by its name and acronym in Spanish) to promote the Direct Foreign Investment (IED, by its acronym in Spanish). As a result of all these, Mexico is now the fourth IED receiver among the developing economies. It attracted more than \$128 billion dollar in IED during the last nine years.

Economic Structure

National banking activities and The National Banking and Securities Commission, or CNBV (for its acronym in Spanish), set up the operation and accounting rules for banks, in order to support the Mexican Peso stability. The Ministry of Finances, The CNBV, and the Central Bank are the main system regulators of the banking activities. The CNBV has accomplished internal intervention and exercises permanent control over transactions of ten banks.

Stock Market

On the other hand, in the Mexican Stock Market (BVM, by its acronym in Spanish), has been disclosed a market capitalization of approx. \$1.16 trillion Mexican Pesos (\$126.6 billion USD) to December 31, 2001; a decrease of 3.78% of the Mexican Pesos (0.75% in USD) of the 1999 closed. At the end of 2000, 177 issuers were trading in the market. During a volatile year for the world financial markets, the Mexican Stock Market has continue the construction of a solid business infrastructure to introduce new categories in the order and procedure of transaction performance; new communication systems to receive and spread the market information and to adopt security and surveillance measures.

Exports

The majority of Mexican exports are almost the 90% of the flows to the north, to the United States and Canada. Since NAFTA's effective date, Mexican exports have grown in a middle index of 15% annual. Mexico is the most important Latin exporter of America. Nowadays, the full 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 allowed the entrance of new technological information. This entrance of technology increase has been essential for work force skill level improvement, and also has strengthened national productivity and competitiveness.

III. Foreign Investment

Introduction

Talking about productivity, the manufacturer industry development in Mexico has been affected mainly by foreign demand contraction. However, there are other factors that have influenced in the evolution of the exporting sector, for instance, the rivalry that our exports faces as a consequence of Chinas entry into the World Trade Organization.

In this aspect, the federal government is working to get the progression in the process to achieve a structural reform in the different sectors, which allow the increase of the national economy competitiveness. Likewise, different measures have been implemented to promote the geographical advantages of our country and to support the industry competitiveness.

Exchange Control

Mexico canceled the exchange control in 1991, allowing the entry of free market.

Foreign Investment Restrictions

December 8, 1993, effective date of the federal law of foreign investment in Mexico, looks for achieving the following targets:

- Eliminates legal restrictions in foreign investments.
- Set up and simplify the criteria and procedures for foreign investment.

- Set up a legal process that gives certitude, continuance, and safety of long term foreign investment.

Trade Agreements

Incentives for foreign investment have been promoted through different trade agreements; the flow of these agreements achieved the following international alliances:

North America

Up to December 2003, there were 17,125 registered companies with North American capital interest in their capital stock, this means 59.6% of the companies with direct foreign investment (IED) established in Mexico (28.717). Companies with North American investment mainly work in service sector activities (40.7% of the total), and in the manufacturer industry (30.1%); and are located mostly in the Federal District, Baja California, South Baja California and Nuevo León.

Between January 1994 and December 2003, North American capital companies invested for \$85,569 billion USD, amount that represents 67.9% of the total IED that came into the country in that period (\$125,988.6 billion USD). With the above mentioned, North America constitutes the main source of investment for Mexico.

European Union

Up to December 2003, there were 6,060 registered companies with European Union capital interest in their capital stock, this means 21.1% of the companies with direct foreign investment (IED) established in Mexico (28.717). Companies with European Union investment mainly work in service sector activities (41% of the total), and in the manufacturer industry (27.4%); and are located mostly in the Federal District, State of Mexico, Quintana Roo and Jalisco.

Between January 1994 and December 2003, European Union capital companies invested for \$27,810.6 billion USD, amount that represents 22.1% of the total IED that came into the country in that period (\$125,988.6 billion USD). With the above mentioned, the European Union constitutes the second source of investment for Mexico. The main European Union investor countries are: Holland contributes 44%, Spain 30.1%, United Kingdom 12.2%, and Germany 10.2%.

Latin-American Association of Integration (Asociación Latinoamericana de Integración, ALADI, by its name and acronym in Spanish)

Up to December 2003, in Mexico there were 1,729 companies with investment from countries of the Latin-American Association of Integration (ALADI); this number of companies represents 6.02% of the companies with foreign investment established in the country (28.717). Companies with ALADI investment mainly work in trade activities (38.1% of the total); and in services (35.7%), and are located mostly in the Federal District, State of Mexico, Quintana Roo and Jalisco.

Between January 1994 and December 2003, ALADI capital companies invested for \$429.9 billion USD, amount that represents 0.3% of the total IED that came into the country in that period (\$125,988.6 billion USD). The main ALADI investor countries are: Brazil contributes 44%, Uruguay 21.6%, Chile 17.7%, Venezuela 13.9% and Colombia 12.7%.

European Association of Free Trade (Asociación Europea de Libre Comercio, AELC, by its name and acronym in Spanish)

Up to December 2003, there were 406 registered companies with European Association of Free Trade (AELC) capital interest in their capital stock, this means 1.4% of the companies with direct foreign investment (IED) established in Mexico (28.717). Companies with European Association of Free Trade investment mainly work in service sector activities (38.0% of the total), and in the manufacturer industry (33.4%); and are located mostly in the Federal District, State of Mexico, Quintana Roo, and Nuevo León.

Between January 1994 and December 2003, European Association of Free Trade capital companies invested for \$1,593.4 billion USD, amount that represents 1.3% of the total IED that came into the country in that period (\$125,988.6 billion USD). The main AELC investor country is Switzerland and contributes 97.5% of such investment.

MERCOSUR

Up to December 2003, there were in Mexico 836 companies with investment coming from MERCOSUR countries, this company number represents 2.91% of the companies with foreign investment established in Mexico (28,717). Companies with European Association of Free Trade investment mainly work in service activities (38.5% of the total), trade (33.4%), and manufacturer industry (23.3%); and are located mostly in the Federal District, State of Mexico, Quintana Roo, and Baja California.

Between January 1994 and December 2003, MERCOSUR capital companies invested for \$224.8 billion USD, amount that represents 0.18% of the total IED that came into the country in that period (\$125,988.6 billion USD).

North Triangle

Up to December 2003, there were in Mexico 121 companies with investment coming from the North Triangle countries, this means 0.42% of the companies with foreign investment established in Mexico (28,717). Companies with North Triangle investment mainly work in trade sector activities (35.5% of the total), services (32.2%), and manufacturer industry (27.3%); and are located mostly in the Federal District, Chiapas, State of Mexico, and Yucatán.

Between January 1994 and December 2003, North Triangle capital companies invested for \$13.5 billion USD.

Export and Import Policies

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

Customs Duties

Companies can avoid inspections by declaring their merchandise in the customs place of departure, allowing clear and automatic customs declarations on import merchandise. This guarantees the precise and unquestionable payment of tariffs and taxes.

The import and export registry book has been eliminated; now companies must keep an accounting plan, which allows distinguishing between the local and imported stock. Merchandise can be temporarily exported for repair. Registry of importers requirements have been consolidated in one document.

Mexico makes use of the harmonized system in order the merchandise can be classified and codified for selecting tariffs. Tax index rate goes from 0% to 20%, using the medium tariff 11% for "loading-trade". Besides tariffs, the value added tax (IVA) must be imposed in most of the imports, and it is declared at the moment of selling the merchandise at a 15% index.

Documentation

Considering the different ways of transporting merchandise that enter in Mexico, it is important to have the Customs Administration (AGA, by it acronym in Spanish), and Treasury Department support for establishing the merchandise qualities and characteristics, in order to get a peaceful entry that accomplishes the specific trade rules and standards.

Restraints

Some merchandise cannot be imported into Mexico, including merchandise that does not meet legal quality standards. For instance, explosives, pollutant agents, and corrosive, flammable or radioactive products cannot be imported without a corresponding authority license. For assuring effective control quality, and to promote exports, the Treasury Department introduced the Mexican Official Standards (NOM, by its acronym in Spanish). These standards established specifications, tests and techniques; and generally speaking, regulations that must take into account for made in Mexico merchandise.

IV. Starting a Business

The Mexican government has guided a partial privatization policy to redefine the role of the State that plays in the economy. Privatization has been more perceptible amongst the following sectors: banking, air carriage, telecommunications, seaport, iron and steel, and tourism. The government is also privatizing other sectors, including natural gas transport and marketing; airports, railroads, and petrochemical industry.

The number of companies and shares run by the government has notably decreased in the last years. Furthermore, the Mexican government gave to local and foreign investors different infrastructure projects, like: roads, ports, drinking water and sewage systems, cogeneration of electricity; and telecommunications, mobile telephone system particularly.

Foreign Investment Restraints

The 1993 Act, canceled many restraints to promote foreign investment and encourage development. This act allows the participation of foreign investors in several activities, restraining only some specific aspects. Foreign investors can acquire Mexican company shares and fix assets; get in new financial activity fields; produce new product lines; open and close business or offices; and make bigger or replace the current establishments.

The Foreign Investment Act establishes the following areas are reserved exclusively for the State:

- Oil, hydrocarbon, and byproducts (Essential petrochemistry); except transport, storing, and gas distribution related activities, excepting crude.
- Electricity, except consumption and supply energy generating activities, cogeneration or small scale distribution; generation of electricity of independent products for selling to the Federal Commission of Electricity, (C.F.E by its acronym in Spanish); generation of electricity for exportation, derived from cogeneration, independent and small scale production; electricity import 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.
- Winning of radioactive minerals.
- Wireless transmissions.
- Postal service.
- Note issuing, and coining.
- Airports, heliports, ports, and railroads control and supervision.

Economic and business activities are exclusive for Mexican individual or companies' working and management. Certificates of incorporation establish an article referring to the exclusion of foreign people as shareholders of the company:

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

- Credit unions.
- Development bank.

However, the new Foreign Investment Act allows foreign people to have “neutral investments” in these companies and activities. This kind of investment widens equal rights to share profits, but prohibits foreign investors the right to vote in boards of directors, and limits the ability to influence and control the practicing in Mexican companies and economic activities.

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

- Cooperatives of production: 10%
- Domestic air transportation, taxi and specialized: 25%
- Insurance and bonds companies, exchange offices, business, retirement funds, investments trust, and other companies: Changeable.
- “T” series shares of companies that have arable and forest lands.
- Freshwater, coastal, deep-sea fishing, excepting fish farms.
- Printing and issuing of national newspapers.
- Port managing.
- Manufacture and trade of firearms and explosives: 49%

However, the new foreign investment act allows foreigners to have “neutral investments” in these companies and to accomplish activities on the above mentioned surplus percentages.

Foreigners can have more than 49% in the following companies or activities, if they get the previous approval of the National Commission of Foreign Investment:

- Legal services.
- Credit Offices
- Security agencies.
- Pipeline manufacturing for gas oil and byproducts 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 managing.
- Port services like tugging and docking.
- Shipping companies.
- Airports managing.
- Mobile phone services.
- Private schools and universities.

Nevertheless, the new foreign investment act allows foreigners to have “neutral investments” in these companies and to accomplish activities on the above mentioned surplus percentages.

Skipping the above limitations, foreigners can have up to 100% of Mexican companies without any license of the Mexican government. Moreover, investments in manufacturing, assembling or merchandise processing companies, for exporting, do not need such license.

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

Real Property

Generally, there are not restrictions for foreign ownership of Mexican real property. However, under the foreign investment act, foreigners can have the real 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 shall be notified of such acquisitions.

V. Work Environment

Work Visa Request

As part of the process to start a business in Mexico, it is important taking into account several procedures and paying attention to statutes applicable according to the line of business.

Depending on the place of residence, when coming to Mexico it is of great importance to request a "business visa"; this document gives you legal capacity to do business in the country. And can be requested in any Mexican Consulate, where you may consult the requirements and documentation you must present in order to get it.

Once you get the "business visa", it is suitable to assess procedures and requirements of the federative entities where it is seek to settle the business. These must be negotiated through the different federal offices, depending on the topic, which goes from the companies name register, its register before the Secretary of Finance, as well as work, real property, patent and royalties register proceedings.

Social Security

The employee index on the Social Security contribution is 3.735% of the integrated salary that is withheld from its salary by the employer. The employer index contribution is 28.44%. The annual maximum contribution for employees is \$12, 258 Mexican Pesos, and for employers \$42, 454 Mexican Pesos (including the minimum percentage of risk in the work) per employee.

Housing Fund Contributions

Employers must contribute the 5% of the salaries (restricted to 20 times the minimum salary; this scale increases annually, from 15 times since 1997 until it reaches 25 times in 2007) to the coverage fund, which gives the funds for employees housing construction. The maximum annual contribution is \$ 15,003 Mexican Pesos per employee.

Retirement Fund

Employers must contribute 2% of an employee remuneration (restricted to 25 times the minimum salary) for the pension rate managed by a bank on behalf of the employee. The maximum annual contribution is \$ 7,692 Mexican Pesos per employee.

Health Benefits

The Mexican Social Security System gives the following benefits:

Medical help for illness, maternity cares, and accidents; medical support for temporary disability; pension, and medical benefits extended to the employees' relatives, including the married couple, parents, and children.

Work Authorization

Work authorization is commonly granted for periods of one year; however, it can be extended. Usually, a foreign employee must show the documentation that proves he/she has a social status in Mexico and has enough incomes while working there. This documentation could be a labor contract or an employer's letter. Also, the employee must give a passport Xerox copy, and any official identification. This information is referred to immigration department where the employee is going to live. Nationalized foreigners are independents in Mexico.

Permanent Immigrants

Immigrants, who have been legal residents in Mexico, for a minimum period of five years, can request to the Secretary of Foreign Affairs to settle their residence as permanent within their migratory position, or request the Mexican nationality.

Special Considerations and Relatives

It is possible to give separate visa to each member of the family. Due to register forms are included with the ones of the employee, with the purpose of processing the information at the same time, if a member of the family wants to work, he/she must request by separate a work license.

Driving License

If a foreigner living in Mexico wants to get a Driving license for using in Mexican territory, he/she must present the following documentation:

Birth certificate (original and copy); driving test; Identification; blood type; sight test; written test; migratory position certificate of the person; and passport.

VI. Taxes

According to The Tax Law, there are in Mexico two kinds of taxes that encumber companies' business activities:

1st THE VALUE ADDED TAX

The Value Added Tax (IVA, by its acronym in Spanish), is fixed based on the cash flow, this is, by the difference between the Sales actual collection minus effective paid expenses during the month; if collected incomes were higher there is going to be a payable IVA, on the other hand there is going to be an IVA on behalf of, that will compensate in the subsequent months until it comes to an end.

For this tax determination there is going to take into account the bank statement registered transactions of the corresponding month.

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

There is no annual calculation for this tax, because the monthly payments are considered as definitive.

Export sales exempt the payment of this tax.

2nd INCOME REVENUE TAX and TAX ON ASSETS

According to The Income Revenue Tax (ISR, by its acronym in Spanish), in Mexico each company is subject to the ISR or Tax on Assets (IA, by it acronym in Spanish) payment, depending on the tax result of the previous year: If there were profits the ISR must be paid, if there were losses the IA must be paid.

The ISR is paid monthly, and it is determined by applying a profit percentage to all incomes of the month, a 33% rate of the ISR will be imposed to the result (it is the tax rate for the year 2004), and the result is going to be the month payable tax.

Such profit percentage can be obtained by dividing tax profits by Incomes total corresponding to the subsequent year.

For instance:

Monthly ISR Payment Resolution	
January 2003 Sales Income	\$5,049,236.99
Exchange rate profit	48,300.00
Interests on behalf of	2,197.46
Other incomes	857.00
 Monthly total incomes	 \$5,100,591.45
By	
Profit percentage	<u>0.0396</u>
 Base of the tax	 \$201,983.42
 Rate tax (for 2003 was 34%)	 <u>34%</u>
 January 2003 payable ISR	 \$68,674.36

This tax is set annually, and it is compared with the total of the monthly payments done during the year, the difference can be in favor or on behalf of, depending on the circumstances.

In case of obtaining a balance on behalf of, this will compensate with the ISR monthly payments the following year until it comes to an end.

TAX ON ASSETS

In case of having losses the previous year, the company shall pay Tax on Assets during the following year, (our case).

This tax is set on the total value of the company's assets, reducing to it only Mexican Pesos debts. All based on previous year figures and using the 1.8% tax rate.

The obtained tax is divided by 12, and the result will be the amount monthly paid during the subsequent year.

The total monthly payments is considered as well as on behalf of the ISR Annual Tax, and may be set against the payable ISR or IA the year, depending on the case.

Exemption from Payment of the Tax

Mexican residents can exempt the following income points: indemnity for accident and illness; benefits and retirement pensions given by public institutions (private retirement plans are partially exempted); medical dental, hospital services refunds, and funerary costs; Social Security benefits paid by public institutions; saving funds, traveling and transport expenses; and social aid payments.

Some exemptions are in accordance with limitations and specific requirements.

Legal Entity Deductible

Standard costs, including salaries, fees, rent, depreciation, interest, and other general costs, are deductible of the gross interest net amount to calculate the taxable income. Instead of reducing actual costs, individuals with an income can deduct an equal amount up to 35% of income.

Losses Compensation

Compensation for business and professional activities losses can be carried on for 10 years against profits of the same kind of income.

Other Taxes

This tax is not fixed on business activity natural person or employees. However, a minimum tax is fixed, 1.8%, to business assets and rented real property for economic activities. This tax can be reduced or eliminated assuring the paid income revenue tax against the debt minimum tax.

VII. Accounting and Reports

International Accounting Standards

Mexican Institute of Public Accountant (IMPC, by its acronym in Spanish) is the founder of the International Accounting Standards Committee (IASC). The IASC accounting principles are studied by the Institute and compared with Mexican accounting principles for identifying material conflict areas, and opportunities for their occasional solution.

Although, Mexican GAAP generally agrees on international standards, there are some differences. If Mexican accounting principles are quiet in a particular topic, accountants and Mexican companies must see the IASC's statements for the management of the proper accounting promotion. If Mexican GAAP and IASC statements do not discuss the topic, then GAAP in other countries can be followed. In such circumstances, UNITED STATES GAAP is the source that replaces more frequently Mexican GAAP.

Essential Concepts

Some general principles are used for financial statements. Assets are presented at a lower cost or it causes net proceeds, excepting non financial assets that must be exposed in a modified way. According to the accrual method, interests are recognized when they are accomplished, and costs are considered when they are liable. Accounting policies must be constantly put on practice from one period to another; if not, the change should be spread. Material accounting concepts for investors are described as follows:

Leasehold

Leases that substantially transfer the advantages and risks of the property are considered as acquired assets and becoming liable. Other leases are considered as operating leases. Accounting rules for lease are similar to those of UNITED STATES GAAP.

Intangible Assets

Acquired intangible assets costs are register as assets and are amortized on the assets period estimating its useful life, which now represents an important difference of UNITED STATES GAAP. The maximum period of amortization for the will under Mexican GAAP is 20 years.

Development and Research Costs

Research and development costs are imposed to the income when they are liable, similar to UNITED STATES GAAP. However, different form UNITED STATES GAAP, in some aspects, starting costs cannot be considered, there is no need to register them as assets and amortized on their useful lives.

Consolidations

A company that has a big interest in controlling another company, normally more than 50%, must work out consolidated financial statements, and include the investor's financial statements. This principle is similar to UNITED STATES GAAP. An equity interest that represents the significant influence in the investor, demands generally 10% or more, needs the use of the equity method, while UNITED STATES GAAP, demands 20%.

Exchange System

Transactions of foreign currency are expressed according to the currency exchange date of transaction. Assets and liabilities denominated in foreign currency are expressed in Mexican Pesos at the exchange rate prevailing at the date of balance. Exchange differences are reflected in the net income.

Audit Requirement

Mexican publicly held corporations, governmental companies, and finance sector companies that are regulated by the CNBV or the National Security and Linking Commission, such as banks and brokerage firms, need independent investor carry out annual auditing of their financial statements. Furthermore, companies meeting any of the requirements following the threshold must have annual auditing of the investors independent behavior and a file of the tax report.

Annual audits are necessaries the subsequent year a company accomplishes any of the above mentioned characteristics. Audited financial statements are presented at the annual stockholders meeting to the Secretary of Finances authorities, and are taken to the public sector companies, to the CNBV.

Deferred Income Taxes

Effective in 2000, deferred income taxes must be exhibited in all temporary differences after a UNITED STATES GAAP similar rule (financial accounting standards are raising or FASB 109). Under the before mentioned rules, deferred income taxes were published under the pension distribution and liability partial method. Different form UNITE STATES GAAP, the new standard excludes the compulsory employee benefits distribution, (PTU) of the late period of the appointment requirement.

Worker Fringe Benefits

Under the Mexican Labor Law, companies must pay indemnity to employees who voluntarily or none voluntarily stop working after 15 years of services, or because of personnel loss. This pension liability, if applicable, increases during the service years the employee worked. Liabilities are based usually on studies made by an actuary. In most labor layoff cases, indemnities and compensations must be paid to employees who were noticed of termination of their employment. Current accounting practices identified these payments as contingency remuneration; these do not increase until the time of termination of employment.

Profit Allotment

Costs for benefits distribution are recognized in a similar way than income revenue taxes after the pre tax income, while UNITED STATES GAAP manages total amounts as working expenses. Access and spread requirements, as well as filing are essential elements for Mexican corporations that need working out annual financial statements, which must be approved by stockholders.

Audits

Access requirements for Mexican companies must work out financial statements; also, Mexican GAAP needs a tax return of financial position changes, instead of a tax return of the cash movements.

Mexican publicly held corporations; governmental companies; finance sector companies, and insurance sectors; and the majority of other companies that exceeds certain minimum size, must work out their annual financial statements.

Spread requirements

Financial statements must be shown in the stockholder annual meeting, and approved by them. Each company have to choose a statutory controller (corporation official), this person is generally an independent public accountant, and usually an independent office agent from the company that inspects the firm.

During July to September, companies that accomplish the requirements must display an annual "tax return" to authorities for the last annual fiscal period. Companies that show this tax return are subject or not to an external audit by Mexican authorities. Also it is important to bring the consolidated and audited financial statements.

VIII. UHY firm in México

Glassman Esquivel y Cía., S.C.
Fco. Díaz Cobarrubias 5, 2nd floor.
Col San Rafael, C.P. 06470
México D.F.
Tel. (52 55) 55.66.18.88
contacto@uhy-mx.com

IX. Appendix

Glassman Esquivel. <http://www.uhy-mx.com>

- **Mexican Presidency**
(Presidencia de la República)
<http://www.presidencia.gob.mx>
- **Ministry of the Interior,**
(Secretaría de Gobernación, SEGOB, by its name and acronym in Spanish):
<http://www.segob.gob.mx>
- **Secretary of Finance and Public Credit,**
(Secretaría de Hacienda y Crédito Público, SHCP).
<http://www.shcp.gob.mx>
- **Treasury Department,**
(Secretaría de Economía, SE)
<http://www.se.gob.mx>
- **Secretary of Foreign Affairs,**
(Secretaría de Relaciones Exteriores, SRE)
<http://www.sre.gob.mx>
- **Ministry of Tourism,**
(Secretaría de Turismo, SECTUR)
<http://www.sectur.gob.mx>
- **Mexico's National Bank**
(Banco Nacional de México)
<http://www.banamex.com.mx>

- **Mexican Stock Market**
(**Bolsa Mexicana de Valores, BMV**)
<http://www.bmvcp.com.mx>
- **Federal Telecommunications Comisión**
(Comisión Federal de Telecomunicaciones, COFETEL).
<http://www.cofetel.gob.mx>