



**PRACTICAL
HANDBOOK FOR
INVESTING &
DOING BUSINESS
IN MEXICO**



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I. INTRODUCTION

a. General Information on Mexico

Mexico (officially named the "United Mexican States") is situated in North America and is bordered by the United States of America to the north and Belize and Guatemala to the southeast. Mexico's territory is about one-fifth the size of Canada, and is signatory of NAFTA (now, and pending ratification by the member countries' legislative powers, transformed into the so-called "USMCA") among a number of other international treaties and conventions.

Federation System

Mexico is a federal, democratic and representative republic composed by thirty-two sovereign states, all united in a federation established pursuant to the principles set forth by the Mexican Constitution.

Each state of the country has also a number of municipalities. The national sovereignty is exercised by all nationals through the Powers of the Union (Executive, Legislative and Judicial) and through those of each state and municipality in matters related to their local affairs.

Legal System.

The Mexican legal system is based in civil law and is the result of the revolution from the beginning of the twentieth century which led to the current Mexican Constitution, promulgated in 1917. The Mexican legal system contains very unique components, although it is inspired specially by the French legal system, and has also adopted some influences from the legal system of the United States of America.

The Federation's supremacy is recognized by the three supreme branches which represent the entire population: (i) the Executive Branch, in charge of running and managing the country, (ii) the Legislative Branch, who is in charge mainly of the creation and modification of laws, and (iii) the Judicial Branch, responsible of applying and enforcing the law, as well as issuing precedents on the interpretation of the law.

The Executive branch is headed by the President of the Republic, which is directly elected by all citizens of legal age to serve six-year terms without the possibility of reelection, and in a state and municipal levels, by governors and mayors directly elected by the residents of each state and municipality, respectively. The Legislative branch is vested upon the Congress of the Union, which is divided into two chambers: the House of Representatives and the Senate, whose members are also directly elected by the people, and by the local state legislatures. The Judicial branch is the only one which is not comprised by publicly elected individuals, as it is headed by the Supreme Court followed by Circuit Courts, District Courts and the local courts, which vary from jurisdiction to jurisdiction.

Mexican laws are divided by their hierarchic grade and their applicability. The Constitution is the supreme law in Mexico, followed by the federal laws and regulations and by the international treaties which have been approved by Mexico in accordance with Mexican law, and then followed by state codes and municipal regulations.

It is important to point out that despite the federation system and the diversity of the laws and codes, attorneys who have been admitted to practice law in Mexico by the Mexican Ministry of Education are authorized to practice law throughout all of the Mexican territory, regardless of their location or principal place of practice within Mexico.

b. Mexico's International Treaty Network and its importance in Global Business.

Because of its privileged geographical position, Mexico has attracted global attention as the neighbor of the United States of America, which constitutes one of the largest global markets.

Taking advantage of its geographical position and aiming to increase its commercial presence in the world, Mexico has a network of 12 free trade agreements (FTAs) signed with 46 countries, among which are an FTA signed with the European Union and NAFTA (pending ratification by the member countries', expected to be transformed into the USMCA, which was signed on

November 2018 between the USA, Canada and Mexico, with the purpose of updating NAFTA, which was originally signed in 1992).

Among their other benefits, FTAs provide preferential access of goods and services between its members by means of gradual elimination of import duties; simplification of the import and export procedures; creation of new jobs and the foster of state-of-the-art technology among member countries. However, we believe that the main reason why Mexico dedicated so much efforts to building this network is to attract direct foreign investment to compensate a strong indirect foreign "portfolio" investment which by nature is extremely volatile.

The advantages and benefits that FTAs provide to its members are generally similar; we have classified them as follows:

a) Duties. One of the FTA's main objectives is to eliminate the import & export duties' barriers in respect of goods and services, and accordingly, in the best-case scenario import and export transactions among member countries may be accomplished without any duties. Additionally, preferential duties are commonly granted among member countries for those items in which the full duty elimination is not possible.

b) Rules of Origin. The FTAs establish clear rules and simple common proceedings in order to determine which products will be deemed to be "made" within the member countries, and therefore subject to the benefits of the respective FTA.

c) Settlement of Disputes. The main principles and commitments (and in some cases the proceedings) for the resolution of disputes and controversies are typically a part of an FTA, attempting to resolve disputes quickly and fairly, where arbitration is generally the common denominator.

d) Principles. Similarly to most international trade organizations, such as the WTO, FTAs set forth its respective principles and objectives. The principles commonly include criteria or fundamentals seeking fairness and protection among its members, and look after the FTA's accurate fulfillment of such principles.

e) Principle of National Treatment. This principle consists of granting all products, whether nationals or imported, with the same treatment. Once a product has been imported into a member country, it must be considered to be a national product and not be subject to special duties or taxes solely due to its foreign origin.

f) Principle of the Most Favorable Country. Any benefit or special treatment that a member grants to any other country must be extended to the members of the same FTA.

g) Principle of the Minimum Treatment Level. Members of the same FTA must grant to the others members' products and investments an equal treatment to the one that they grant on similar circumstances to others countries' products or investments, whether or not these other countries are members of the respective FTA.

The aforementioned benefits are just a few of those which can be obtained strategically through the Mexican FTAs network. There are many options and means in order to export and import goods and services into Mexico, among which are taking hand of the FTAs and additionally seeking other incentives through the Mexican Programs for the Export Foster (including several temporal import programs).

The USMCA contemplates all the principles set forth above, plus an agreement by Mexico to pass labor laws that will protect workers and target a reduction in their migration, the possibility to apply sanctions between the member countries for labor violations, intellectual property and digital trade regulations, and a sunset clause that will expire the terms of the FTA after a 16-year period. This FTA is currently pending to be approved by the Mexican government, and must be reviewed by the member countries every six years.

Mexico has other international trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (otherwise known as CPTPP), signed by Mexico in March of 2018. The CPTPP has been ratified and approved by the Mexican government and is currently in force, and it creates a free-trade zone between 11 countries of the Asia-Pacific

zone such as Canada, Chile, Australia, Japan, Malaysia, New Zealand and Singapore.

The CPTPP gives Mexico access to new markets, reduces or eliminates import duties in certain cases, facilitates cross-border integration, promotes innovation, productivity and competitiveness between the member countries and provides assistance and guidance for small and medium companies to better understand and profit from the CPTPP benefits.

To conclude, we propose a very simple example of the FTAs network's operation: a Mexican company (MexCo) imports fresh olives from Spain under the benefits of the FTA between Mexico and the European Union, to which no duties (or preferential duties) apply. After the fresh olives are imported into Mexico, the MexCo processes and stuffs the olives with Mexican sweet pepper, and bottles them. Since Mexico substantially changed the product originally imported and such change results in a modification of products international tariff classification in accordance with the rules of origin, the MexCo may then export the processed and bottled olives into any of the countries with which an FTA is available providing benefits for such product.

The options are endless. Through professional legal advice, companies may obtain the greater benefits from the Mexican FTA network.

c. Monterrey: Mexico's Industrial and Financial Capital.

Situated in the northeast of Mexico, and only about 170 kilometers south of the border with the United States, Monterrey has become the industrial capital of Mexico due to its continuously growing industrial, financial and services' sectors, its modern facilities and living conditions, top-quality schools and universities, and the highest per capita income in the nation.

Decades back, Monterrey opened the gap in the country towards the international business practices and standards. The city has been referenced as an example for other cities in the implementation of the best international business practices, and has set a precedent that such kind of performance is directly related to the economic growth.

A good number of global companies have chosen Monterrey as the place to establish their Mexico and Latin America headquarters, mainly as a result of the high range of education found in the city, including manpower, judges, and also influenced by the wide use of the English language in business.

Monterrey broadly offers business and industrial facilities at par with international standards, making it easier to start-up and run an industrial plant, an office, and even a household. The availability of top-level space for conventions and shows is also a key element found in the city. Also important, the city's proximity to the United States, the continuously improving infrastructure of the city, and the ease of its air connections within Mexico and internationally have played a key role in making Monterrey especially suitable for doing business, and turning it into one of the preferred locations to establish headquarters for companies doing business throughout Latin America.

II. FOREIGN INVESTMENT IN MEXICO.

a. Certain Caps & Limitations on Foreign Investments.

Although Mexican law establishes as a general rule that foreign investors may invest in Mexico without the need of any prior authorization, the law reserved certain activities to be conducted by the State and others by Mexican nationals only, and also established certain limitations related to some activities in which foreign investors could only own a specific percentage of the totality of the business.

The investments that should be considered as foreign investments in Mexico are those made in activities with (1) participation by foreign investors in the capital stock of Mexican companies; (2) investments made by Mexican companies in which foreign investors have a majority interest; and (3) participation by foreign investors in other activities described and allowed for them by the foreign investment law.

Even if subject to some restrictions, foreign investors may participate without limitation in the capital stock of Mexican companies, acquire fixed assets, participate in new fields of economic activity or manufacture new product lines and open, operate, expand and relocate existing establishments.

In this regard, the mentioned restrictions consist first of the activities (1) exclusively reserved to the Mexican State, which among others are exploration and extraction of petroleum and other hydrocarbons (except as provided in Section II subsection b of this Handbook), planning and control of the national grid, nuclear energy, radioactive minerals, postal service, bank note issuing, control of ports and airports; (2) exclusively reserved to Mexican nationals and Mexican companies without foreign investment, such as the land domestic passenger, tourism and freight transport, credit unions, and certain professional and technical services; (3) limited for foreign investors to a certain percentage of shareholding, which among others are (a) the cooperative companies for production (up to 10%), (b) among others, newspapers for circulation only within Mexico, certain agricultural and forestry company ownership, certain port administration, supply fuel for ships, airplanes and

railway equipment, certain types of domestic and foreign international air transport services (up to 49%); and (4) that require authorization for foreigners to own more than 49% of shareholding, such as legal services, the concessionaire companies of air fields for public service, shipping companies for the exploitation of ships for high-seas traffic, port services for inland navigation, private education services, among others.

b. Foreign Investment in the Energy Sector.

The Mexican energy sector, subject to some restrictions, allows foreign investment in certain activities such as (1) exploration and extraction of hydrocarbons (upstream activities), (2) oil treatment and refining, (3) natural gas processing, (4) import/export of hydrocarbons, (5) retail sale of gasoline and diesel, (6) storage, transportation and distribution of hydrocarbons, oil products and petrochemicals, (7) purchase, sale, import and export of electricity, among other activities.

Upstream activities in Mexico can be performed by productive state companies such as PEMEX, or by private companies that have participated and won bidding processes to perform such activities by entering into contracts with the National Hydrocarbons Commission. However, only private corporations duly organized and existing under the laws of Mexico, whether with domestic or foreign capital, will be considered as contractors; hence, foreign companies are not able to appear directly as such in the public bids organized by the Mexican government, nor are their Mexican branches, but rather foreign companies need to participate through Mexican subsidiaries incorporated under the Mexican Corporations' Law. Also, upstream contracts need to have the participation of a minimum national content, which started as 25% in 2015 and has been increasing gradually to reach a maximum of at least 35% in 2025.

The range of contracts that may be available through bidding processes include (a) services contracts, paid in cash; (b) profit-sharing contracts, paid with a profit percentage; (c) production-sharing contracts, paid with a percentage of the output production; and (d) license contracts, paid with the transmission of the extracted hydrocarbons' ownership. Aside from the

service contracts, any private company entering into any of the other three contracts will have to pay to the Mexican State: (i) a contractual quote; (ii) royalties; (iii) a fee, determined by a percentage of the operative profit; and (iv) a signing bonus for licenses, which will be determined in the corresponding public bidding.

Midstream and downstream activities such as distribution and sale of hydrocarbons are also open to foreign investment. The participation however is subject to the issuance of a permit by the relevant Mexican authority, and such permit may be obtained upon application and compliance of certain requirements based on the activity intended to be performed as licensee.

Foreign investors are also allowed to participate and compete in the electricity generation in the Mexican wholesale electricity market operated by the National Center of Energy Control, or CENACE, in which power generators, retailers and qualified consumers may enter into electricity purchase and sale transactions, as well as transactions regarding electricity's services, electric power, import/export of the aforesaid products, financial transmission rights and clean energies certificates. Power plants with a capacity equal to 0.5 megawatts or more will require a permit issued by the Energy Regulatory Commission in order to participate and sell their output on the wholesale market.

Electric supply to Mexican households, who are final basic consumers not able to participate in the wholesale electricity market, is reserved to providers of basic services including the CFE, which in turn may acquire the electricity at the wholesale market through auction processes. In contrast, "qualified consumers", who need to be registered before the Energy Regulatory Commission and comply with certain consumption levels and other requirements, are able to buy electricity directly from the wholesale electricity market from any generator or supplier of qualified services.

The Mexican State preserves its exclusive role as a public service provider of electricity's transmission and distribution, activities that are performed by the Federal Electricity Commission (CFE) in coordination with CENACE. Nevertheless, the State, directly or through the CFE and/or subsidiaries, may

enter into contracts or partnerships with private parties for the financing, installation, maintenance, managing, operation and expansion of the infrastructure needed for the performance of the aforementioned public service.

c. Foreign Investors' Legal Status and Immigration Issues.

Mexican law provides for six different types of visas, classified according to the activity intended to be performed in Mexico by the foreigner applying for each such visa, or the time such foreigner is planning to stay in the country. Such visas will be the only valid document to be issued for foreigners to enter into the country, and are classified as follows:

	Description	Requirements
VISITOR'S VISA NOT ALLOWING THE PERFORMANCE OF ECONOMIC ACTIVITIES	For foreigners entering Mexico for a maximum uninterrupted period of 180 days.	Provide evidence of at least one of the following: <ul style="list-style-type: none"> - The existence of reasons to return to the foreigner's country; - Sufficient solvency to cover the expenses of the stay; or - Invitation letter from a chamber of commerce, association, company or financial institution.
VISITOR'S VISA ALLOWING THE PERFORMANCE OF ECONOMIC ACTIVITIES	For foreigners entering the country for a maximum uninterrupted period of 180 days and who will be performing economic activities.	<ul style="list-style-type: none"> - Application filed by the public or private institution in Mexico employing the foreigner. - The employer will be required to file the necessary documents in order to prove the labor relationship.
VISITOR'S VISA FOR ADOPTION PROCEDURES	For foreigners who will enter the country to perform adoption-related procedures. This visa may only be applied for by nationals of countries that have entered into any agreement or convention with Mexico on the matter.	<ul style="list-style-type: none"> - Evidence of the existence of an international adoption procedure.

<p>TEMPORARY RESIDENT VISA</p>	<p>For foreigners who are planning to stay in the country for more than 180 days and for a maximum period of 4 years.</p>	<p>Provide evidence of at least one of the following:</p> <ul style="list-style-type: none"> - Sufficient solvency to cover the expenses of the stay; - Kinship with a national citizen, temporary or permanent resident; - Invitation from an organization or public or private institution in the country, to participate in non-compensated activities; - Owning real estate in the country with a value that exceeds forty thousand days of the minimum wage in force in the Federal District (as of early 2019, this would amount to approximately US\$169,000); - Having investments in Mexican companies that exceed twenty thousand days of the minimum wage in force (as of early 2019, this would amount to approximately US\$84,500), or employing Mexican individuals.
<p>TEMPORARY STUDENT VISA</p>	<p>For foreign students planning to stay in the country for the duration of their academic studies or investigation projects, lasting at least 180 days.</p>	<p>Provide evidence of at least one of the following:</p> <ul style="list-style-type: none"> - Letter of acceptance to a Mexican academic institution; or - Sufficient solvency to cover the expenses of the stay.
<p>PERMANENT RESIDENT VISA</p>	<p>For foreigners who are planning to stay in the country for an indefinite period of time.</p>	<p>Provide evidence of at least one of the following:</p> <ul style="list-style-type: none"> - Kinship with a national citizen or permanent resident; - Being retired and having enough monthly income to cover its expenses; or - Being granted with political asylum by the Mexican government.

In order to apply for any of the above mentioned visas, in addition to the payment of the applicable fee, foreigners require visiting a Mexican Consulate for an interview and completing and submitting their application for the visa they are requesting, together with their passport and the appropriate supporting documentation. In case the Mexican Consulate considers it appropriate based on the interview and the documentation received, it will issue the corresponding visa within 10 (ten) business days following the date of the interview.

The process to obtain a “visitor’s visa not allowing the performance of economic activities” may be narrowed down to showing the passport and completing a short form stating the purpose of the visit at the port of entry to the country. This will only be applicable for citizens from certain countries as indicated by the National Migration Institute: <https://www.inm.gob.mx/gobmx/word/index.php/paises-no-requieren-visa-para-mexico/>

d. Real Estate Investment Limitations for Foreigners.

The real estate industry in Mexico is regulated at the federal level; however, purchasing a property also involves complying with Mexican laws at the state and municipal levels. Typically, a real estate transaction involves several participants like a notary public, a tax collector, an appraiser and the Public Registry.

There are certain limitations and formalities required for foreigners interested in purchasing real estate in Mexico. First of all, it is important to note that, geographically, the Mexican territory is divided in two zones: the “Restricted Zone” and the “Permitted Zone”. The Constitution defines the Restricted Zone as an area comprising up to 100 kilometers inward anywhere along Mexico’s international borders, as well as an area up to 50 kilometers anywhere along Mexico’s coastline. On the other hand, the Permitted Zone is all the remaining land area located outside the Restricted Zone.

Foreigners are not allowed to own property directly in the Restricted Zone; however, they have been able to indirectly acquire property in the

Restricted Zone by using special investment vehicles, like trusts¹ or companies, designed for such purpose and within the limit of certain conditions, like obtaining a permit from the Mexican Ministry of Foreign Affairs. It is important to note that every time a foreigner wants to acquire real estate property in the Restricted Zone, the Ministry of Foreign Affairs can take up to thirty days after filing the request to issue the acquisition permit that will allow the foreigner to complete the transaction.

For housing purposes, after obtaining the above mentioned permit, foreigners may establish a trust through which the seller transfers the ownership title of the property to a Mexican financial institution that will act as the trustee. Then the foreigner, acting as the beneficiary of the trust, will be able to use the property as an indirect owner. In essence, through the trust agreement the foreigner holds the beneficiary title on the property, while the trustee holds its legal title.

Even though the trustee holds the legal title of the property, per the trust agreement, it cannot restrict the way in which the beneficiary uses the property, and it cannot either dispose, encumber or sell the property without the written consent of the beneficiary. Also, the beneficiary is entitled to sell the beneficial interest in the property to another foreigner, by means of an assignment agreement of the trust rights. If the beneficiary wishes to transfer the beneficial interest to a Mexican person, the trust can then be terminated.

For commercial or industrial purposes only, foreigners may constitute a Mexican company or corporation through which the foreigner can acquire real estate property, after obtaining the relevant permit from the Mexican Ministry of Foreign Affairs. Incorporating and maintaining a Mexican corporation, like in many other countries, does involve a reasonable amount of legal expenses going forward, which often make sense due to the business nature of the entire setup.

An additional formality for completing a real estate transaction in Mexico is the execution of a purchase and sale agreement between the

¹Section IV subsection d of this Handbook provides more information on Mexican trust agreements and their structuring.

parties involved, the legal buyer and the legal seller of the property. Such agreement will have to be signed before a notary public in Mexico, which will then issue and sign the corresponding public deed that originates the real estate ownership rights. Then, the public deed will have to be recorded at the corresponding Public Property Registry at the nearest city location from the property. This two-step process is what guarantees the validity of the property rights against all local and/or international third parties.

Finally, other applicable taxes and fees will have to be paid by both the seller and the buyer during the transaction, such as Income Tax, Real State Property Tax, Value Added Tax, registration fees, appraiser fees, notary fees, advisory fees and those that may be imposed by related local jurisdictions.

III. REGULATIONS ON CORPORATIONS.

a. Most Common Types of Corporations.

In accordance with the Mexican Corporations Law, there are seven different types of companies in Mexico. Two of such corporate forms are more commonly used, due to their operating form and the legal relationship created among their shareholders or members. Those types are the **Sociedad Anonima**, or company limited by shares (hereinafter referred to as the "SA"), and the **Sociedad de Responsabilidad Limitada**, or limited liability company (hereinafter referred to as the "SRL").

Investors participating in the capital stock of a SA are deemed shareholders, while the ones participating in the capital stock of a SRL company are known as members. Those two companies must be composed of at least two shareholders or members, which may be individuals or legal entities, whether foreign or national, and both the SA and the SRL offer limited liability to its members. The companies must be incorporated with a minimum capital stock that shall be stipulated in the incorporation deed, and with the exception of a company that has adopted the modality of variable capital, the capital increases and/or reductions are accomplished through an amendment to the incorporation deed.

The capital of the companies which adopt the variable capital regime have two separate capital accounts: (i) the fixed capital account and (ii) the variable capital account. A SA or SRL company with the variable capital modality will be able to reduce or increase its capital by additional contributions from the existing members or by accepting new shareholders or members and with lesser formalities; those shares or equity interests (as the case may be) representing the variable portion of the capital will be subject to a redemption right. If a company opts for such modality, either at the moment of its incorporation or later during its corporate existence, it is required that the company's corporate name appears followed by the words "**de Capital Variable**" or its abbreviation "**de C.V.**"

A reduction of the capital may be implemented by the repurchase of

the company's shares or equity interests representing the variable capital, or through the exercise of the shareholders' or members' redemption rights. The variable portion of a company's capital may be an unlimited amount, unless it is otherwise limited in its bylaws.

Sociedad Anonima or SA.

The name of every company incorporated under this legal form must be unique within Mexico and authorized by the Mexican Ministry of Economy, followed by the words "**Sociedad Anonima**" or its abbreviation "**S.A.**", and the name could be somehow related to the company's general purpose.

The initial shareholders must agree on the company's bylaws, which will set forth the form of management for the company, the appointment of the initial attorneys-in-fact that will represent the company, the selection of one or more corporate examiners that will oversee the operations executed by the relevant management body, among other matters. The management of the SA must be conducted by one or more revocable and temporary individuals appointed by the general shareholders' meeting to act as directors and which can be related or unrelated to the company and also must have a surveillance body, formed of one or more corporate examiners.

The SA's share capital is formed by registered securities representing the shares. It shall have a minimum share capital stated in the incorporation deed and all shares must be at least partially paid in a minimum of 20% of their face value (if the payment is in cash), or fully paid in the event of shares paid in kind. All shares within the same series must have the same value and grant the same rights to all of its shareholders. Nevertheless, the incorporation deed may stipulate the division of the capital into different series of shares, and each one of them may grant special rights to the relevant shareholders. No shares may be issued under par value.

The SA must keep a share register, which will contain the name, nationality, tax identification number and address of the shareholders, the respective value of the shares each one holds and keep record of any transfers. The company will only recognize the person appearing in its share register as its shareholder. The share register is a very important document as it in itself

guarantees title to the shares. Generally, share transfers may be formalized through (i) the endorsement of the securities in which they are evidenced, (ii) the registration of such transfer in the share register, and (iii) the publication of a notice in the electronic system of "*Publicaciones de Sociedades Mercantiles*", or PSM, of such transfer as recorded in the share register. Any transfers made differently must be duly evidenced to the company's secretary in order for them to be recorded in the register.

Sociedad de Responsabilidad Limitada or SRL.

Unlike the SA, the corporate name of the SRL may be formed by the names of its members or under a name that resembles the purpose of the company, and must be authorized by the Mexican Ministry of Economy. It must be followed by the words "**Sociedad de Responsabilidad Limitada**" or by its abbreviation "**S. de R.L.**"

A SRL may not have more than 50 members, therefore inferring a more personal character to this type of company, and its capital shall be formed by equity interests or quotas. Each member will only have one equity interest, unless equity interests conferring different rights are issued under different series, in which case each member may hold one equity interest of each of the series.

The minimum capital of the SRL must be stated in the incorporation deed. In this case, all equity interests must be at least partially paid with a minimum of a 50% of the value of each in order for the company to be incorporated. The incorporation deed may stipulate the obligation of the members to make additional contributions to the capital of the company, in accordance with their holdings in the capital of the company.

The SRL will also have a members' register, containing all the general information of the members such as name, address and tax identification number. Equity interests may only be transferred or assigned with the prior approval of the majority of the company's members, unless the incorporation deed requires a higher majority and such consent is not applicable to transfers due to inheritance, and transfers need to be recorded in the members' register and a notice of any transfer must be published in the PSM electronic system.

Foreign Companies' Branches.

Instead of incorporating a Mexican company, a foreign company may engage in commerce through a branch of a foreign company. Such authorization should be requested to the Mexican Ministry of Economy, and is only available for activities with no foreign investment restrictions. Once the approval is obtained, the foreign company must register its bylaws and incorporation documents before the corresponding Public Registry of Commerce, the Mexican tax authorities and the foreign investment registry, at which point it will be generally and for the most part doing business in Mexico very similarly to any other Mexican company.

Other Types of Corporations.

In addition to the corporations above mentioned, there are other types of companies that may be incorporated under Mexican law and may be chosen by any foreigner or national, depending on their needs and objectives. If aiming to be listed in the Mexican Stock Exchange Market one day, companies such as the investment promotion company (SAPI) or a publicly traded company (SAB) may be more suitable. These two companies are regulated by the Mexican Securities Market Law and although very similar to a normal SA company, the SAPIs and SABs provide for a broader corporate governance regulation and a whole new set of obligations related to their public nature.

If looking to be involved in the financial sector, other types of companies may be created by incorporating a SA with certain additional requirements and requesting authorization from the Mexican Banking and Securities Commission to operate whether as (i) a popular financial company (SOFIPO) to provide financial services to their customers and members, (ii) a credit union to facilitate certain economy sectors with access to credit and investment, (iii) a financial technology institution (IFT) to offer services of getting people in touch with the general public for funding or financing, or issue or manage electronic payment funds, or (iv) an investment fund, dedicated to the acquisition and sale of securities with proceeds obtained from placing its own stock in the market.

b. Incorporating a Mexican Company.

The first step to incorporating a Mexican company is to determine which type of company is most suitable for your needs. Once this has been cleared out, a name must be chosen and submitted for authorization of the Mexican Ministry of Economy, through the intervention of a notary public. Next, the future members or shareholders of the company need to agree on the rules and provisions that will govern the new company's corporate existence in accordance with Mexican legislation, this is what is most commonly known as bylaws.

The bylaws must be formalized before a notary public in the majority of the cases and turned into an incorporation deed, which will contain the type of company, the stock share distribution, the bylaws and the general information of the persons who will initially participate as shareholders of the SA or as members of the SRL, or otherwise, as the case may be. The notary public must obtain the prior foreign shareholders' admission status from the Mexican Ministry of Economy.

Once the incorporation deed is formalized and authorized by the notary public, the company must apply for and obtain a federal tax identification number, known as the **Registro Federal de Contribuyentes**. In order to complete the tax registration filing, the company must have a domicile in Mexico. As soon as this tax registration has been accomplished, the notary public will proceed to apply for the company's registration at the Public Registry of Commerce of the company's corporate domicile. The company's corporate domicile refers only to its place of registration, but is not necessarily the domicile in which the company will operate or establish its main place of business. As a consequence of the company's registration at the Public Registry, the incorporation deed is ultimately finalized and effective before third parties, and the new company is deemed to be legally existent.

There may be additional filings or actions related with foreign investment matters which need to be analyzed when incorporating a Mexican company. Most business areas are open for foreign investment pursuant to Mexican law, although certain niches are restricted, others are subject to caps on foreign

investment, and others require additional permits. All Mexican companies with foreign investment need to be registered in the National Registry of Foreign Investment, and need to update such registration in accordance with applicable law. These issues should be analyzed and dealt with on a case-by-case basis.

Additionally, all Mexican companies must be registered before the Mexican System of Company Information, or SIEM. In certain cases, the Mexican Special Sector Importer's Register may be required as well.

Each calendar year, each Mexican company must take a series of legal maintenance actions, in order to keep the company in good standing and in compliance with the Mexican authorities. More information on these legal maintenance actions is included in Section IV subsection I of this Handbook.

c. Different Structural Uses for Mexican Companies: Holding, Operating and Employment Companies.

When looking to have different business units in Mexico, the use of a holding company may be considered to separate each business unit from the other and have a parent company that will control all of them. For example, a company may deem it convenient to have a separate legal entity dedicated to the sale and distribution of vehicles, and a different legal entity in charge of the manufacturing process of said vehicles. Two or more different operating companies may be incorporated under Mexican law to handle each of such businesses, having the holding company as the majority shareholder in both operating companies. Of course, the holding company may also be a foreign company.

A holding company may help consolidate the financial statements and operations of different business units within one company. Under Mexican law, given that all companies require to have at least two shareholders or members, a holding company could not wholly own its operating companies, but it can be their majority shareholder and the bylaws of the operating company may be drafted to enable the holding company to have full control of the operating companies. Having another subsidiary to act as the second

shareholder in the operating company along with the holding company will also help ensure absolute control for the corporate group.

Employment companies are common corporations incorporated with the sole purpose of recruiting, training and hiring personnel for their clients, therefore managing their human resources area. These companies may act as service providers for operating companies, with whom they execute a service agreement to establish the terms of their business relationship, and the payment of a reasonable service fee, among other relevant matters.

The personnel that the employment company hires for an operating company will usually work at the operating company's facilities; however, its employer will be the employment company for all legal purposes. The employment company would be responsible of paying the employees' wages, ensuring their labor rights are complied with, and complying with all labor provisions applicable to Mexican employers.

Having an employment company allows for a better management of the labor risks, given that any complaint or lawsuit filed by the employees would in principle be faced and managed by the employment company. The structure needs to be validated from a business, legal and employment perspective, in accordance with Mexican labor law.

The use of holding, operating and employment companies may provide certain legal and tax benefits to the investors, such as risk diversification, business unit classification, strategic structure for shareholding and dividend distribution, among others. The investor's specific business needs must be taken into account when opting to incorporate a holding and/or an employment company to act along its operating company in Mexico.

d. Corporate Governance.

Shareholders or Members.

The shareholders or members of a Mexican company can exercise their voting rights and participate in corporate decisions through the general shareholders' or members' meeting. In the case of the SRL, each member will

have the right to one vote per peso contributed to the capital of the company. Such general meeting is the supreme authority of the company, and it may ratify and resolve on each and every action performed by the company. Shareholders' or members' meetings must be held within Mexico and precisely at the corporate domicile of the company, which is the company's municipality of registration. Shareholders or members may be represented at the meetings by proxy.

In the case of the SA, the general shareholders' meeting may be ordinary or extraordinary, depending on the subject or matter to be discussed thereat according to Mexican law. Some of the matters to be exclusively discussed at an extraordinary shareholders' meeting are: (1) any amendment to the corporate bylaws; (2) increase of the fixed portion of the capital, and (3) any resolution regarding the merger, dissolution and liquidation of the company. Extraordinary shareholders' meetings may be held at any time in compliance with law for the calling of the meeting and the necessary attendance and voting quorums, which are higher than those required for an ordinary shareholders' meeting.

At least one general ordinary shareholders' meeting must be held every calendar year, before April 30. The meeting must resolve on a number of matters (as long as they are not reserved to an extraordinary meeting). Mandatory matters to be dealt with at such ordinary meetings are (1) resolving on the financial statements of the previous fiscal year of the company; (2) designating or ratifying the sole director or the members of the board of directors and the corporate examiner, as well as their compensation; (3) resolving on the allocation of profits or losses, and (4) declaring dividends (as the case may be).

Mexican corporation law prohibits any agreement within a SA or SRL that would exclude any shareholder or member from participating in the profits or losses of the company.

Management.

The management of the company must be conducted by one or more revocable and temporary individuals appointed by the general shareholders'

or members' meeting to act as directors in the case of the SA and managers in the SRL, and which can be related or unrelated to the company. When management is conferred to two or more directors/managers they will constitute a board of directors/managers. Legal entities are not allowed to act as directors or managers under Mexican law, and there is no Mexican citizenship or residence requirement for the individuals holding director or management positions in Mexican companies.

The directors or managers, as the case may be, will be the legal representatives of the company and will have the ability of delegating their duties and powers to third parties. The delegation of such duties and powers will not restrain the delegating party's ability to act on behalf of the company. Among their responsibilities is the company's compliance with any and all applicable laws, company bylaws, management and accounting, and most importantly with those resolutions adopted by the shareholders' or members' meetings. In the case of the SA, directors are jointly liable with the company regarding actions related to shareholder contributions and dividends. The bylaws may require directors to make a deposit in escrow to guarantee their responsibilities in the performance of their duties. The shareholder or group of shareholders representing 25% of the capital stock of a privately held company, and in the case of public companies the shareholder or group of shareholders representing 5% (or in certain cases 15%) may pursue a civil responsibility claim against directors.

Surveillance.

The SA company must have a surveillance body formed by one or more corporate examiners, which in the case of the SRL is optional. The corporate examiners are appointed by the general shareholders' or members' meeting on a temporary and revocable manner. Corporate examiners must comply with certain legal requirements intended to guarantee their independence from management. The principal duty of the surveillance body is to oversee, with unlimited examination powers, the company's operations performed by the relevant management body.

Directors are commonly appointed for one year and may be either removed or re-elected by the shareholders' or members' meeting. In the

case of public companies, at least 25% of the board shall be 'independent directors'; and the board of directors should consist of a minimum of four and a maximum of 21 members.

The Mexican securities market laws additionally pursues director compliance with fiduciary duties of diligence (which requires directors to act in good faith and in the best interests of the company and the legal entities controlled by the company) and loyalty (which requires director's confidentiality regarding non-public company information), and prevents such individuals from inappropriately obtaining any economic benefit deriving from his or her director position.

e. Shareholders' Liability.

The principle adopted by Mexican law regarding the shareholders' liabilities under a SA company, is that shareholders of such companies are solely responsible to the company or third parties up to the amount of their contributions or committed contributions to the capital of the company. Therefore, the principle is that shareholders' liability is limited.

A number of countries have developed their own exceptions to shareholders' limited liability under different scenarios, generally referred to as "piercing the corporate veil". Although Mexican law has not formally adopted any such concepts or enacted legislation to such effect, there have been a few separate and independent resolutions of the Mexican Supreme Court and of a Federal Collegial Court which have dealt with this issue in a limited manner.

Please note that under the Mexican legal system, only those resolutions of the Supreme Court which resolve similar disputes applying identical principles in five or more uninterrupted cases, constitute what is known in Mexico as "Jurisprudence" which is similar to the case law figure in other countries. Likewise, a Federal Collegial Court may also constitute Jurisprudence following the previously mentioned process, although such Jurisprudence may be modified by the Supreme Court. Jurisprudence constitutes an obligatory precedent under Mexican law, and any other Supreme Court or Federal Collegiate Court resolution not meeting these

criteria (such as the resolutions referred to above) are solely considered as references and are not obligatory precedents in the application of law by any court or governmental agency in Mexico.

Some of the non-obligatory precedents and Mexican legal doctrine coincide in the elements which would be necessary in order to attempt to impose individual liability over a company's acts or obligations to the company's shareholders. Those elements are:

- (a) The company must be or have been engaged in illegal activities, and
- (b) A cause-effect relationship must have been duly proven between the shareholder's control of the company and the illegal activities of the company.

In the event that both elements were present, and only if the competent Federal Courts were to resolve in the lines of the resolutions referenced above, then only the controlling shareholder(s) of the relevant company may result individually liable for the company's acts or obligations, and in any such case, the company will be primarily liable before third parties, and only to the extent that the company is insolvent, the controlling shareholder(s) may be deemed to be individually and unlimitedly liable.

Based in the same above mentioned elements, there is an obligatory precedent, issued by a Federal Collegiate Court, which has authorized the piercing of the corporate veil with a limited scope, given that it solely applies to investigations on monopolistic practices, which constitute illegal activities.

There are a number of other considerations to be analyzed on a case by case basis in order to attempt to determine any additional shareholders' liability in Mexico. We have no knowledge of any initiative or intended initiative from the Mexican congress to enact legislation regarding this matter. As of early 2019, the general rule is that as long as the Mexican companies are involved in legal activities, their shareholders' liability will be limited to their contributions or committed contributions to the capital of the SA company.

f. Minority Shareholder Rights.

In the case of the Mexican public companies which shares are publicly traded in Mexico, minority shareholders are entitled to the following protection rights in accordance with the Mexican securities regulations:

1. The holders of shares representing at least 5% of the company's capital stock have the right to initiate direct legal action against the members and the secretary of the board of directors of the company, subject to applicable law.

2. The holders of voting shares and limited-voting shares representing at least 10% of the company's capital stock have the right to:

a) Designate and/or remove through a general shareholders' meeting at least one member of the board of directors of the company, with the possibility for the remaining shareholders to revoke such designation or removal solely if the totality of the members of the board of directors of the company is removed.

b) Request the company's officers (or failing such company officers, a judge) to call or convene a general shareholders' meeting.

c) Request that the voting of any matter in which they are entitled to vote in a shareholders' meeting and of which they have not been duly informed, be postponed or delayed in the terms of applicable law.

3. Shareholders representing at least 20% of the capital stock of the company have the right to legally oppose to resolutions made in a shareholders' meeting in violation of the company's bylaws, provided that the relevant holders were entitled to vote in such matter.

In turn, minority shareholders of privately-held Mexican companies such as the SA and SRL have the following main protection rights in accordance with the Mexican companies' regulations:

1. The holder of one share may call a shareholders' meeting in the following cases: (a) when no annual shareholders' meeting has been held for two consecutive years, or (b) when the annual shareholders' meetings held in the preceding two-year period have not addressed the following issues: (i) discussion and approval of the annual report of the company; (ii) appointment or ratification of the company's directors and corporate examiners; (iii) determination of the compensation of the directors and

corporate examiners, if any, and (iv) allocation of profits or losses.

2. The holders of shares representing at least 25% of the company's capital stock have the right to:

a) Designate at least one member of the board of directors of the company and one corporate examiner.

b) Request that the voting of any matter in which they are entitled to vote in a shareholders' meeting and of which they have not been duly informed, be postponed or delayed in the terms of applicable law.

c) Initiate direct legal opposition action in the terms of applicable law against a resolutions adopted through a shareholders' meeting, provided that the relevant holders were entitled to vote in such matter.

3. The holders of shares representing at least 33% of the company's capital stock have the right to request the company's officers (or failing such company officers, a judge) to call or convene a general shareholders' meeting.

g. Powers of Attorney.

In order to legally represent a company in Mexico, a power of attorney ("POA" or "POAS") must be granted in writing and may be conferred through several means, depending on the act or acts for which it is intended. Similarly to most legal systems based on civil law as opposed to common law, Mexican law does not accept the theory of apparent authority. Therefore, in the case of legal entities, a person may not perform acts or activities on behalf of such entity unless such person is expressly authorized in writing, regardless of such person's position or title within a legal entity.

Depending on their nature and value of the business for which they are granted, POAS may be conferred through (i) a public deed granted before a notary public; (ii) a private document granted in the presence of two witnesses and ratified before a notary public, or under specific conditions, before judicial or administrative officials; or (iii) through a letter executed before two witnesses without ratification.

The following are the POAS generally accepted in Mexico: (a) POA for Litigation and Collections; (b) POA for Management Acts; (c) POA for Management Acts in Tax Matters; (d) POA for Management Acts in Import

and Export Matters (e) POA for Ownership Acts; (f) POA for the Delegation or Substitution of Powers of Attorney; (g) POA for Labor Representation; and (h) POA for the Execution of Negotiable Instruments.

The types of POAS set forth above may be general or special. A special POA shall be granted for the performance of a specific act or series of acts and will cease to be effective upon the completion of such act or acts. If granted without limitations and in accordance with applicable law and formalities, a POA will be deemed to be general and without a specific term of effectiveness. Any limitations to a POA must be specifically set forth in the POA itself, in which case the POA will be deemed to be limited. Both general and special POAS may be granted independently or granted in the same instrument jointly with other POAS.

Types of Powers of Attorney.

a) The **POA for Litigation and Collection** is required in order to duly represent an individual or legal entity in any judicial, arbitral or collection process. This POA is typically granted to the grantor's legal counsel for day-to-day representation, and to the operating managers of each client. It may be tailor-made to suit the specific needs of each client or business and may be as broad or as limited as desired.

b) The **POA for Management Acts** generally includes all authority required for the day-to-day operation of any business. Through a general POA of this type, most agreements and documents of any nature in the grantor's ordinary course of business may be executed, and additionally the grantor may be represented in certain government and administrative proceedings and filings. If the management acts that will be carried out are solely related to tax matters, the power of attorney described in paragraph c) below is granted instead. This type of POA is recommended for high-ranking officers, managers, and in limited form for certain consultants and business advisors.

c) The **POA for Management Acts in Tax Matters** is derived from the power of attorney described before in the paragraph b), and is granted specifically to empower a person to prepare, sign and file all types of

documents (including tax statements) and to perform all kinds of filings before the tax authorities, as well as to appear before such authorities in the name and on behalf of the grantor. This type of POA is recommended for the person or persons who will act as the accountants of the grantor, in order for them to have the powers they need to fulfill their duties. It is important to note that the persons to which this POA is granted must need to be registered in the Mexican Taxpayer's Registry (*Registro Federal de Contribuyentes*), therefore it is best to grant this POA solely to Mexican individuals.

d) The **POA for Management Acts in Import and Export Matters** is also derived from the power of attorney described before in the paragraph b), it grants powers to represent the grantor before customs authorities, as well as to carry out all types of applications and filings before such authorities and sign all kinds of documents related with import and export activities of the grantor. This POA is recommended only when the grantor will perform import or export activities. It is important to note that the persons to which this POA is granted must need to be registered in the Mexican Taxpayer's Registry, therefore it is best to grant this POA solely to Mexican individuals.

e) The **POA for Ownership Acts** entitles the attorney-in-fact to sell, transfer, encumber, pledge or mortgage the grantor's real estate and personal property within or outside the ordinary course of grantor's business. Although it may be granted to any individual, due to the relevance of this POA and the consequences of any potential unlawful use thereof, it is usually recommended to only be exercised by the shareholders' meeting and/or the board of directors, who may delegate it when and as required, or granted to key officers or representatives, preferably and in the best interests of the grantor, acting jointly.

f) The **POA for Delegation or Substitution of POAS** should, when applicable, be granted jointly with or in connection with any other of the POAS described above. Through such POA, the attorney-in-fact can delegate, in whole or in part, the powers thereby vested to a third party, without losing its powers through the delegation act. This POA is commonly granted under general POAS intended for on-going business purposes.

g) The **POA for Labor Representation** is a combination of the POA for Management Acts and the POA for Litigation and Collections. Due to the strict Mexican labor regulations, this POA is extremely important and a number of specific requirements and formalities must be met for its proper formalization. The holder of a POA for Labor Representation may be empowered to, among other things: hire and terminate personnel, represent the grantor before any labor union, enter into individual or collective labor negotiations and agreements, and defend the grantor of any third party before the Mexican labor courts, which serve a jurisdictional function but are a part of the administrative branch of government. This type of POA is generally granted to specific managers of a company, such as the human resources manager, as well as to the grantor's legal counsel and specifically, to the grantor's labor legal counsel, when applicable.

h) The **POA for the Execution of Negotiable Instruments** is required for the opening and management of bank and investment accounts, as well as for the execution of any type of negotiable instruments (promissory notes, letters of exchange and certain types of guarantees, among others). This POA is commonly granted to high ranking officers, such as the CEO and the treasurer, among others. We recommend that this type of POA be granted solely to specially loyal and trustworthy individuals, and limited in its validity only if exercised by any two of the attorneys-in-fact acting jointly. Any additional limitations may be tailor-made to each client's specific needs, such as limitations as to the value of the negotiable instruments in question. In order for this POA to be valid, it must be registered in the Public Registry of Commerce after being formalized by a notary public.

Unless expressly granted for the performance of a specific act or series of acts, a POA will be in full force and effect for an indefinite period of time, until the occurrence of any of the following: (i) its revocation; (ii) the resignation of the attorney-in-fact; (iii) the attorney-in-fact's or the grantor's death (in the event the grantor is an individual); (iv) the completion of the activity for which the POA was originally granted, if the POA is special and/or limited; (v) the expiration of its expressly agreed effective term, if any; or (vi) by judicial decree against the attorney-in-fact, or the grantor, when the grantor is an individual.

h. Mergers and Acquisitions.

Mexican law allows for businesses to combine as a result of asset or share purchase transactions; company mergers through which one of the merging companies survives, or in which a new one is created as a result of the business combination; tender offers; public offers; and joint ventures.

Financial institutions, private lenders, funds, bank syndicates and the stock market greatly support fund access for these transactions. Merger and acquisition transactions among private companies are commonly governed only by the interests of the parties; while on the other hand transactions involving publicly held companies (companies with shares registered at the Mexican Stock Exchange) are subject to some restrictions overseen by the Mexican Banking and Securities Commission.

Mergers and acquisitions are nowadays very common among Mexican businesses. There are two different scenarios for mergers under Mexican law, either (1) one company merges into another, and the first company would cease to exist, or (2) two or more companies merge and cease their independent existence, creating a new entity as a result of the merger, with its own assets and resources.

The following general steps and actions need to be followed for the merger of two or more Mexican companies:

1. Each of the merging companies needs to formalize an extraordinary shareholders or members' meeting (hereinafter referred to as the "Merger Resolution"), which, among other actions, should resolve on the merger with the other company or companies, the approval of its last balance sheet and the basis and terms in which the merger will take place. The Merger Resolution must also include the financial terms of the merger and the capital structure of the resulting company, as a result of the capital and net worth of the merging companies. Each Merger Resolution needs to be protocolized before a Mexican notary public and duly registered before the relevant Public Registry of Commerce where each of the companies is registered.

2. After the formalization of the Merger Resolution within the companies participating in the merger and the approval of the terms for the merger,

the companies need to execute an agreement with the other company or companies involved, containing the basis and terms they previously approved in the Merger Resolution (hereinafter referred to as the "Merger Agreement"). The companies are required to register the Merger Agreement before the relevant Public Registry of Commerce and publish it in the PMS electronic system, together with their last balance sheet (hereinafter referred to as the "Publication"). Additionally, the company or companies that will cease to exist after the merger must publish the procedure agreed for the extinction of its liabilities.

3. The Publication will mark the start of a three-month period, during which any creditor of the merging companies (including without limitation the Mexican tax authorities) can file a judicial opposition to the merger, in which case the merger will be postponed until a judicial ruling declares the opposition is groundless. If no opposition is filed during such three-month period, the merger can take place and the procedures set forth in the Merger Agreement will be followed to complete the process of merging the companies. It is therefore critical, in a pre-negotiated or intercompany merger, that all liabilities of the companies are previously analyzed and appropriately managed to avoid any delays as a result of any opposition. The companies' tax advisors' input regarding any tax liabilities is critical for the success of this stage of the process.

4. The merger can be effective on the date of the Publication (without needing to wait for the expiration of the three-month's term) only if (1) the payment of all the merging companies' debts is previously agreed, (2) a payment deposit for the amount of its debts is formalized at a banking institution, or (3) the consent of all the companies' creditors is obtained. Once the merger has become effective, the company acquiring the other company or companies in the merger will acquire its rights and obligations.

5. Within one month after the merger has become effective, the company that survived needs to file several notices before different Mexican authorities, such as the Ministry of Economy, the Tax Administration Service, the National Foreign Investment Registry, in order to cancel the registrations of the merged companies, and inform about the merger and the companies acquired by the surviving entity for that reason.

i. Dissolution and Liquidation.

Mexican law acknowledges the following causes for dissolution of a company: (1) expiration of the company's effective term stipulated in the incorporation deed, if not agreed to be indefinite; (2) fulfillment of the company's main corporate purpose or the company's impossibility to comply with its; (3) shareholders' or members' consent, granted in accordance with the company's bylaws and applicable law; (4) failure to comply with the obligation to have at least two members, (5) loss of two thirds of the company's capital stock, or (6) judicial or administrative resolution issued by the competent courts in accordance with the aforementioned causes.

If a cause for dissolution has been identified, the company has two options: (1) to call for a shareholders' or members' meeting in order to take the necessary measures to eliminate such cause for dissolution, or (2) acknowledge the existence of a cause for dissolution and agree on the company's dissolution and start of its liquidation process.. If the first option is chosen, the minute of such meeting will need to be formalized before a notary public and registered in the Public Registry of the company's domicile, and the company will continue to exist.

Under Mexican law, the dissolution of a Mexican company is accomplished through the completion of two stages: (a) the dissolution of the company agreed through a shareholders' or members' meeting or resolution (hereinafter referred to as the "Dissolution Resolution"), and (b) the liquidation of the company, in which liquidators carry out several actions with the purpose of ending all corporate actions and obligations and liquidating the company's assets..

The liquidation of the company will be managed by one or more liquidators, who must be appointed in the Dissolution Resolution and who will act as attorneys-in-fact of the company during such period. The liquidators will be personally liable for any acts executed by them in accordance with this capacity and which exceed their respective powers, and will have the following duties: (1) conclude all pending operations of the company; (2) collect all debts that are owed to the company; (3) sell all the company's

assets and distribute any remaining assets among the shareholders or members of the company in proportion to their respective holdings in the company; (4) prepare the company's final balance sheet, which must be approved by the shareholders or members of the company, and (5) once all other steps have been finalized, apply for and obtain the deregistration of the company from the Public Registry of Commerce.

The dissolution and liquidation of a Mexican company would result in the company to be deregistered and cease to exist for all legal purposes and would involve the following general steps and actions:

1. Before formally starting the dissolution and liquidation process, the company would need to be in good standing in respect of all mandatory corporate proceedings and filings under Mexican law, including without limitation (a) annual shareholders' or members' meetings; (b) foreign investment matters; (c) import export matters, and (d) tax matters.

2. To formally commence the liquidation process, the company would require to formalize the abovementioned Dissolution Resolution, and among other actions, such Dissolution Resolution should approve the company's dissolution and start of its liquidation process, appoint one or more liquidators, and grant to such liquidator(s) the relevant general powers required to complete the liquidation process. The Dissolution Resolution should also set forth the basis for the company's liquidation and the distribution of the company assets, taking into account the provisions of the company's bylaws and applicable law.

3. The Dissolution Resolution would need to be protocolized before a Mexican notary public and duly registered before the relevant Public Registry of Commerce where the company is registered.

4. Immediately upon the liquidator(s)' appointment becoming effective, all corporate books, accounts and records of the company shall be handled over to the custody of the liquidator(s), and an inventory thereof, and particularly regarding the company's assets and liabilities, shall be prepared.

5. The company would need to negotiate and reach agreements with the tax authorities and each of its creditors, suppliers and service providers, pursuant to which the company would terminate each such relationship and settle any pending amounts and obligations.

6. Based on the implementation of the termination and settlement

arrangements briefly described above, and considering the liquidator(s)' proposal for the distribution to the company's shareholders or members of the remaining assets of the company (including the company's equity) in the lines of the Dissolution Resolution, applicable law and the company's bylaws, the liquidator(s) should prepare and execute a final balance sheet.

7. Next, the liquidator(s) should convene and formalize an additional shareholders' or members' meeting of the company, in which, among other related actions, the final balance sheet would be submitted for its approval by the shareholders or members. This would be the final shareholder or member's meeting of the company.

8. The company will also require to coordinate, process and obtain evidence of its tax deregistration, effectively removing the company from the Mexican Federal Taxpayers' Records.

9. Lastly, and as soon as all other actions have been completed and within one month from the date in which the company's tax and Public Registry's deregistration is obtained, a final liquidation notice must be submitted before the Mexican Ministry of Economy.

Once all the actions listed above have been completed, the liquidation process will be over and the company will cease to exist.

IV. OPERATIONS AND COMPLIANCE.

a. Import & Export Incentive Programs.

Being so close to the U.S. and Canada, Mexico is interested in designing vehicles to support the export of items produced by companies established in Mexico (hereinafter referred to as the "Products"). The incentives may be on a tariff or tax basis, regarding the easiness in certain administrative proceedings and in connection with other business issues. For that reason the Mexican government created incentive programs for companies established in Mexico for the import and export of goods (hereinafter referred to as the "I&E Programs") from which the most relevant are the following: (1) the Program for the Development of the Maquiladora Manufacturing and Services' Export Industry (commonly known as the "IMMEX Program"), and (2) the several Sector Foster Programs (commonly known as the "PROSEC Program").

Any Mexican or foreign legal person or company residing in Mexico, having a Mexican tax identification number and importers' registration may be the beneficiary or holder of an I&E Program, provided that it fulfills the requirements and conditions contained in the applicable decrees and rules. Through the I&E Programs, a company may temporarily import raw materials, containers, tools, machinery and equipment, among other items, subject to the benefits, incentives and obligations provided under each relevant I&E Program.

Under the terms and conditions of the I&E Programs, the beneficiary may change its I&E Program from time to time, according to its needs, or may have two or more I&E Programs authorized simultaneously in connection with the different sections of its operation, such as its manufacturing plants, Products or specific projects.

The competent authority for the administration of the I&E Programs is the Mexican Ministry of Economy. Such authority is in charge of analyzing and authorizing, as the case may be, the applications regarding the I&E Programs and of overseeing the companies' appropriate compliance with the terms and conditions established through them. Said Ministry also works

in coordination with the Ministry of Treasury and Public Finance in order to authorize, manage, suspend and cancel (if necessary) any of the I&E Programs.

The Mexican Ministry of Economy has a 20 business-day term to respond to an application for an I&E Program, except for the IMMEX program, in which the SE has a 15 business-day term to resolve. In the event that the applicable term has expired and the authority has not issued a resolution authorizing or denying the application, the application will be deemed to have been accepted and the I&E Program will be deemed to be authorized. The authority has provided an online customer service system, in order to facilitate the submission of applications and filings and to speed-up the authority's response terms. The use of this platform is optional, and it reduces the waiting period for the approval to a 10 business-day term for all I&E Programs.

Please note that in order to maintain the effectiveness of an I&E Program, the company should comply with certain ongoing requirements and general provisions set forth in the applicable decrees and the specific terms and conditions of each authorization, as the case may be. Among others, the company shall submit an annual report informing on its import and export transactions on or before the applicable deadline established in the relevant I&E Program. Likewise, the company should submit the notices that from time to time become necessary to report any change to the information previously submitted before the Ministry of Economy in order to obtain the authorization of any I&E Program.

IMMEX PROGRAM.

The purpose of this program is to promote manufacturing and exporting companies in order to facilitate their industrial process for the export of their products and the performance of their export services. A company must be exporting at least U.S.\$500,000.00 per year (or its equivalent in other currencies) or 10% of its total production in order to be authorized under this program.

The main benefit under the IMMEX Program is that the company may import temporarily, exempt from the payment of taxes, those goods that will be incorporated to the production process of the products to be exported

by such company. The beneficiaries of this program are also authorized to perform services regarding such exported products, according to the specific provisions issued by the Mexican Ministry of Economy.

The products are classified in (1) products that can be imported under this program for a maximum of 18 months, such as raw materials, components and parts, packaging and packing materials, fuels and lubricants, labels and brochures used for the manufacturing process of the goods to be exported; (2) products that can be imported for a maximum of 2 years, such as containers and dry-vans; and (3) products that can be imported under the program throughout its term of effectiveness, such as machinery, tools, equipment, molds and spare parts destined to a production process; equipment and machinery for pollution control, training and research, industrial safety, computers and communication, quality and product testing, management development, among others.

PROSEC PROGRAM.

In order to apply for a PROSEC Program, the company shall be in one of the industrial sectors included in the PROSEC Program's decree, and the assets temporarily imported by the company must be destined to manufacture the products contemplated under the specific industrial branch of the PROSEC Program's decree in which the company is registered.

The PROSEC Program allows the company to import specific goods subject to a preferential General Import Tax, which in most cases may be 0%. Under the PROSEC Program, the company would be permitted to sell a portion of its manufactured products within the Mexican market, provided that in such case, the company shall pay the permanent import duties of the raw materials and components originally introduced into Mexico on a temporary basis.

The specific goods and products provided under the PROSEC Program are classified on a wide range of industrial sectors which range from electronics, furniture, capital assets, mining, iron and steel, wood and leather, automobiles and automobile parts, textile, rubber and plastic, chemical and pharmaceutical, coffee among others.

In the past, a third program, known as the ALTEX Program, was also available. The ALTEX Program was targeted to companies which exported between 40% and 50% of their total sales, and is not available for new companies since 2010. However, companies operating under an ALTEX Program before 2010 may continue to do so as long as they continue complying with the requirements set forth by the Ministry of Economy.

b. Antitrust Issues – Merger & Acquisitions Notices.

Mexican law provides for three main tests to run in order to require that a merger, acquisition or other business combination transaction be notified to and authorized by the Mexican Federal Competition Commission before its formalization. These three tests are:

I. That the Mexican portion of the transaction involves direct or indirect consideration in excess of 18 million times the general minimum wage applicable in Mexico (the "Minimum Wage"), which as of early 2019 would amount to approximately U.S.\$76,040,000.00;

II. That the transaction results in the direct or indirect consolidation of 35% or more of the capital stock or assets of a Mexican entity whose assets or sales in the Mexican territory exceed 18 million times the Minimum Wage, which as of early 2019 would amount to approximately U.S.\$76,040,000.00; or

III. That the transaction involves the consolidation in Mexican territory of assets or capital stock which value exceeds 8.4 million times the Minimum Wage, which as of early 2019 would amount to approximately U.S.\$35,490,000.00, and the transaction is entered into by two or more entities which jointly or individually have assets or sales exceeding 48 million times the Minimum Wage, which as of early 2019 would amount to approximately U.S.\$202,780,000.00.

The Commission has a 60-day term to either authorize or deny the transactions after a notification has been made, during which term the transaction shall not be recorded in the companies' corporate books, formalized through a public deed, or registered at the Public Registry of Commerce.

Independently from and in addition to the notification obligation set forth above, the competition authorities may request information or start an investigation over a transaction that could be deemed to imply or result in a monopolistic practice. The Mexican antitrust law contains a number of specific cases in which a monopolistic practice is presumed to exist; the evaluation of each of them in detail results only necessary if as a result of the acquisition transaction, the purchaser will obtain a "substantial power" over the relevant market.

The elements considered to determine the existence of "substantial power" are:

- (a) Market share;
- (b) Ability to fix prices unilaterally;
- (c) Ability to restrict the entry of similar or substitute products into the relevant market;
- (d) The existence of entry barriers for the relevant products;
- (e) The existence of competitors in the market, and their respective power;
- (f) The relevant entity's access possibilities to raw materials or components, compared to that of its competitors, and
- (g) Other recent actions of the relevant entity.

In connection therewith, the following information may be also submitted by the buyer to the Commission so that such authority may be able to preliminarily analyze and evaluate any potential Mexican antitrust effects:

1. Information on any other companies, facilities or entities owned, operated or controlled by the buyer and the targets in Mexico, including in each case the products they manufacture, sell or distribute, and their asset value, sales amount, and market;
2. For each entity and product detailed in number 1 above, the current market share thereof (before giving effect to the transaction), and their estimated aggregate market share after giving effect to the transaction;
3. Information on the existence of any competitors operating in Mexico that are known to the buyer; and
4. Any other information which in the reasonable judgment of the buyer may influence any of the elements set forth above for the purposes of

determining the existence of a "substantial power" by buyer as a result of the transaction.

Mexican antitrust law is complex and a number of competition issues may arise in Mexico when attempting to enter into certain transactions, just as in most any other jurisdiction. Specific legal advice is always required when a company anticipates, or becomes in any way involved, with competition and antitrust issues.

c. Industrial and Intellectual Property Protection.

Trademarks and patents, among other registrations, are part of what under Mexican law is known as industrial property, and represents one of the two parts in which intellectual property is classified. The term industrial property specifically refers to inventions, utility models, industrial designs, patents, industrial secrets, trademarks, trade names, licenses and denominations of origin (jointly referred to as "Industrial Property"). The other part of the intellectual property concept pursuant to Mexican law refers to copyrights.

Trademarks.

According to the law, a trademark is a sign perceptible by the senses and susceptible of being represented in a way that allows the determination of the clear and precise object of the protection, that distinguishes products or services from others of its kind or class in the market (hereinafter, a "Trademark") and through the registration of a Trademark before the Mexican Institute of Industrial Property (the "IMPI") an individual or legal entity may obtain the exclusive right to use and exploit such Trademark within Mexico, protecting its title and rights in connection with such Trademark before third parties, and creating legal effects against them.

There are several types of Trademarks in Mexico, some of them are collective trademarks, certification trademarks, trade names or corporate names, figures, designs, holograms or logos without words, three-dimensional bottles or packages, sounds, scents, or any combination of the previous. All Trademarks should be registered within one or several classes

considering the products and services offered by the Trademark and which are listed in the International Classification of Products and Services for the Trademarks' Registration established in connection with the Nice Agreement and which is effective as of the date hereof.

The Mexican Industrial Property Law also expressly provides what cannot be subject to Trademark registration, which are the commonly used names; isolated letters, digits or colors; translation to other languages; official shields, flags, seals, awards or other symbols of any country, state or government; nicknames, signatures and pictures of individuals without their express consent; signs that are similar to registered trademarks; among others.

A Trademark registration could be requested before the IMPI either by physical submission or online, following the payment of the applicable fees or specifying previous registrations in other countries in order to obtain recognition of any available priority rights. Following the receipt of any application, the IMPI must publish it in the Industrial Property Gazette and will grant all third parties a term of one month following such publication, to oppose to the Trademark registration. At the end of such term, and after the analysis of the IMPI and once they confirmed that the legal requirements are duly fulfilled and no opposition was filed, a Trademark title will be issued in favor of the applicant granting full legal ownership on the Trademark within Mexico.

The effective term of the Trademark's registration in Mexico is of ten years, and this term may be renewed for successive equal periods of time. However, all Trademark owners in Mexico must evidence the real and effective use of their trademark before the IMPI within the three months that follow the third anniversary of the Trademark's registration. Failure to comply with such obligation will result in the expiration of the Trademark registration even before its 10-year effective term ends. Such evidence of real and effective use must also be evidenced when requesting the renewal of a Trademark.

Patents.

A patent is the exclusive right that an individual or legal entity may have in order to exploit an invention, and such term is also used to identify the

document in itself issued by the IMPI to protect such right (hereinafter referred to as the "Patent"). The Patent will entitle the applicant to use and exploit the patented product or process as well as to its fabrication and distribution.

In accordance with the Mexican Industrial Property Law, an invention is any human creation that allows the transformation of matter or energy existing in nature, for its use by humanity and for the satisfaction of specific human needs (hereinafter referred to as an "Invention"). The Inventions which are new, suitable for an industrial application, and were created as a result of an inventive activity may be duly protected through a Patent.

The law provides a list of the items that are not considered inventions and therefore may not be patented, which among others are technical or scientific principles, discoveries revealing something that already exists in nature, diagrams, plans, rules and methods to perform mental activities, as well as mathematical methods, computer programs (even though applicable law expressly mentions that computer programs are not patentable, there are different interpretations which could permit its patentability), esthetic creations and art or literature.

The process to obtain a Patent should be conducted before the IMPI through the submission of an application, enclosing the fee payment receipt and the description of the Invention aiming to be patented and the information required thereof, and, if applicable, the date in which the Patent was registered in another country in order to obtain the recognition of any priority rights.

Upon the finalization of its analysis, the Patent application will be published in the Industrial Property Gazette, granting third parties a two-month term to oppose to such patent registration. If no opposition is filed, the IMPI will continue with its analysis and will communicate its resolution to the applicant.

The effective term of the Patent in Mexico is of 20 years and is not subject to renewals.

Among other rights and obligations, the beneficiary holder of either a Trademark or a Patent:

1. Has the obligation to exploit it; such registrations may be canceled if they are not used during their effective term or in the event that they are never exploited during the terms established by the Industrial Property Law (three successive years for Trademarks and three to four years for Patents);
2. May confer exploitation licenses to third parties through license or franchise agreements, provided that such licenses are registered before the IMPI in order to have legal effects against third parties, and
3. Has the option to submit the registration of a Patent in other countries when applying in Mexico.

d. Trusts and their Structuring.

Under Mexican law, by virtue of a trust, a person, named **fideicomitente** or settlor, transfers to a trustee, the entitlement to one or more assets or rights to be destined to a licit and determined purpose, the fulfillment of which is entrusted to the trustee. The formation of a trust must always be evidenced in writing. Once an asset is contributed to a trust, such asset ceases to be the property of the settlor and becomes the property of the trust, forming part of the trust's assets.

Parties.

In order to incorporate a Mexican trust, a settlor and trustee are required. A Mexican trust may be valid even if no beneficiary is named in the act of its incorporation, as long as the trust's purpose is lawful and determined. The role of each of these parties may be described in further detail as follows:

a) Settlor is the party, which can either be an individual or a legal entity, who incorporates the trust and contributes the assets which will become a part of the trust's assets. In certain cases the judicial or administrative authorities may act as settlors. Generally, the settlor designates the beneficiaries as well as the members of the technical committee of the trust (both figures will be described in further detail below).

b) Trustee is the party responsible for receiving the trust assets, and has the obligation to maintain and use them for the sole purpose or purposes for which the trust was incorporated. As opposed to other trust systems in the

world, Mexican law reserves this capacity exclusively to banking institutions, and in certain cases, to other financial institutions which are entitled to act as trustee under Mexican law.

c) Beneficiary is the individual or legal entity having the right to receive the product of, and be benefited by, the trust. The settlor and beneficiary may be the same person; however, and except for the guaranty trusts, the trustee may never act simultaneously as beneficiary and trustee.

In addition to the parties set forth above, there are two figures which play certain operating roles in a Mexican trust: the trustee delegates and the technical committee.

Since the trustees are legal entities, they may not personally carry out their responsibilities, and such responsibilities necessarily have to be performed through a representative. Such representative of the trustee is known as trustee delegate. The trustee delegates are responsible for performing the actions necessary to fulfill the purpose of the trust in the name and on behalf of the trustee. Trustee delegates must additionally comply with certain requirements set forth by law for their appointment.

The technical committee is the management body of the trust. Generally the technical committee is appointed by the settlor for the purpose of following-up and instructing the trustee in connection with the purposes of the trust. However, occasionally such committee is appointed by the beneficiary, depending on the nature of the trust.

Generalities.

There are certain types of trusts expressly forbidden by law, such as: (a) secret trusts; (b) trusts which benefit different persons successively by substitution upon the death of the previous beneficiary, except when such trust is made in favor of people living or conceived at the time of death of the settlor; and (c) except in certain cases, the trusts with a duration of more than fifty years.

A trust is extinguished upon the occurrence of any of the following events: (a) the fulfillment of its purpose; (b) when it has become impossible

for the trust to achieve its purpose; (c) when it has become impossible for the trust to fulfill the condition precedent to which its effective term is subject; (d) upon the fulfillment of the condition subsequent to which it was subject to; (e) upon the express agreement among the settlor, the trustee and the beneficiary; (f) upon its revocation by the settlor, as long as it reserves itself such right at the time of formation of the trust; (g) when it has been determined that it was formed fraudulently against the interests of third parties; and (h) when no compensation has been paid to the trustee during a period greater or equal to three years. Additionally, if the trustee concludes the exercise of its duties due to its resignation or dismissal, and its substitution is not possible, the trust will be considered to be extinguished.

Upon extinction of a trust, all the assets contributed to it and that continue to be part of the trust assets will be distributed in accordance with the terms agreed by the parties in the trust agreement. If no express provision exists, they will be distributed in accordance with the legal provisions in effect.

Nature of the Trust Estate.

At the time a trust is incorporated, the trustee becomes legally entitled to the trust assets, which ceases to be property of the settlor. This transfer takes place even in such cases in which the settlor and beneficiary is the same person, given the fact that the trustee is considered the entitled party to such assets during the term of the trust.

Mexican law grants the trust assets an autonomous nature; such trust assets are considered different and segregated from the assets of the trust parties, and even if in accordance with the trust, the trust assets are under the control of the trustee, they are not deemed to be part of its assets because they are destined to a determined purpose pursuant to the trust.

Neither the trustee nor the settlor may individually perform acts of ownership with respect to the trust assets, being able to act only within the limits which have been set forth in the corresponding trust agreement. Contrary to the civil property concept in which a party has the right to freely enjoy and dispose of its assets, under the trust entitlement such right does

not exist since the parties may not dispose of the possession and the assets to their benefit.

Types of Trusts.

Mexican law does not limit the types of trusts which may exist, given that each of them may have distinct and specific characteristics. Below are the four most commonly used types of trusts:

a) Guaranty Trust, formed for purposes of guaranteeing the fulfillment of a payment obligation in favor of the beneficiary or beneficiaries. The same guarantee trust may be used to simultaneously or successively guarantee obligations of the settlor with different creditors. Only in this type of trust may the trustee simultaneously act as trustee and beneficiary, as long as the purpose of such trust is to guarantee obligations in its favor. In any event, the person having the physical possession of the assets will be responsible for the loss, damage or detriment of the trust assets.

b) Management Trust, in which certain goods are contributed to the trust with the purpose of being managed by the trustee. Among this type of trusts are the trusts for resource management, for representation, for social assistance or welfare, or the most common of them, the trust for testamentary purposes, which operates similarly to a will. In this type of trust, the settlor will determine which assets will be transferred to the trust at the time of his or her death, the trust's purposes and the beneficiary or beneficiaries.

c) Investment Trust, in which certain assets are contributed to the trust for their investment. In this type of trusts generally the settlor and beneficiary is the same person, although in some cases (for example, the trust of retirement plans or savings) in which the settlor and beneficiary are different persons. The trusts established for the acquisition by foreigners of real estate property within the Mexican Restricted Zone is an example of an investment trust.

d) Public Trust, a trust formed by a branch of government or one of its entities for purposes of promoting areas for development, and it has an organizational structure similar to that of other government entities. This type of trust generally is formed for specific developments and projects, or for the development of certain activities. These trusts are not subject to the maximum duration of fifty years set forth by law.

e. Labor Implications & Mandatory Profit Sharing.

Mexican labor law has always been an important factor to consider when doing business in Mexico, mainly due to its historic tendency to favoring the employees in an employment relationship, and imposing employers with strict principles and formalities in order to be appropriately protected in the event of a conflict.

When starting a business from scratch it's very important for foreigners to receive assessment on the labor relationships since the moment they start hiring workers. Also in acquisition transactions in Mexico, a very specific labor analysis is mandatory to ensure that no undisclosed or material labor liabilities would result to be assumed as a result of such transaction.

In an acquisition by shares, the most important aspect from a labor standpoint would be that the acquiring company will be assuming all the labor liabilities of the acquired company, including the seniority bonus, which is an on-going bonus based on the seniority of each employee, and which is paid through a bullet payment upon retirement or employment termination. In certain cases, these amounts add up to considerable and material liabilities, so calculating the employees' severance and seniority payments as part of the labor due diligence for the acquisition is critical.

When an asset acquisition takes place, and if the acquirer company is interested in continuing to use the same workforce used by the seller, it may act as the substitute employer in the employment relationship, assuming the employees of the seller and becoming their new employer. There are normally certain payments to be made to employees in a termination and it will be necessary to review all collective bargaining agreements, the fulfillment of the reporting and payment obligations at the Mexican Social Security Institute, and any special salary policies that the employees have enjoyed during the employment relationship.

If a new company is incorporated derived from a merger, the combined parties would decide to opt for the employer substitution or for the termination of employment. On the other hand, when the merger does not

imply the creation of a new legal entity and rather one of the companies absorbs the other, the employees will be absorbed just as any other liability.

The labor union relationships and collective bargaining agreements are material matters that should be addressed in most cases, with due anticipation, when coming to Mexico to do business. Labor liabilities may result to be material even in a company with a small number of workers.

One labor obligation to be considered when incorporating a Mexican company, is the mandatory profit sharing imposed on all employers, exempted only during their first year or two of incorporation. Such obligation states that companies must share a percentage of their profits with their employees within the 60 days that follow the date in which the annual tax must be paid, which ends around the month of May. The percentage of the company's profits to be shared is determined by a special Commission for the Profit Sharing, which as of early 2019 is of 10%.

Said percentage of the company's profits is shared between the employees in proportion of the number of days they worked during the year in which such profits were made. All workers, except for directors, managers and occasional employees working for less than sixty days a year, have the right to receive a percentage of the company's profits. The amount of profits that each employee will receive must be determined by a commission created within every company, comprised of representatives of both the employer and the employees, and this amount of profit sharing does not constitute part of the employees' salaries.

f. Data Protection and Privacy.

Data protection and privacy in Mexico is regulated by the Federal Law for the Protection of Personal Information in Possession of Individuals and its corresponding regulations and guidelines (collectively referred to herein as the "DP Law"), and it is generally binding in Mexico for every national or foreign person, whether an individual or an entity (referred to as the "Controller"), that receives, uses, discloses or stores (any or all such acts are hereinafter jointly or individually referred to as the "Processing") personal

information from any individual, defined herein as the "Data Owner". Credit bureau companies and those individuals that process data for personal use are exempt from complying with the Law.

The DP Law is applicable to the Processing of personal information when (a) it is carried out by the Controller in an establishment located in the Mexican territory; (b) it is carried out by a third-party on behalf of a Controller established in the Mexican territory, notwithstanding its location; (c) the Controller, even if it is not established within the Mexican territory, is bound by Mexican laws in terms of an agreement or through the application of international law; or (d) the Controller is not established in the Mexican territory but uses personal information generated in Mexico, except if such personal information is intended to be used for transfer purposes only, which do not involve Processing.

The information of legal entities, individuals acting in a business or professional capacity, and individuals providing services to or representing a legal entity or a business individual, solely in respect to such individuals' name, last name and position, as well as his/her address, email and phone used for business' purposes, is not deemed as personal information under the DP Law, provided that such information will only be processed for legal representation purposes.

The main obligations of a Controller under the DP Law are to:

- (a) Prepare a privacy policy statement (hereinafter the "Policy"), and deliver it to any and all Data Owners;
- (b) Process the personal information pursuant to the principles set forth in the DP Law, and in accordance with the Policy;
- (c) Obtain the Data Owner's consent, prior to the Processing of his/her information, in the understanding that if "sensitive information" is being collected, the Data Owner's consent must be obtained in writing and approved through his/her signature by hand. "Sensitive information" is such personal information that may affect the most intimate sphere of the Data Owner, or which, if misused, may lead to discrimination or generate a significant risk to the Data Owner. Particularly, information related to racial or

ethnic origin, current or future health condition, genetic information, religious, philosophical or moral beliefs, labor union affiliation, political opinions, and sexual preferences is considered to be "sensitive";

(d) Make its best efforts to verify that the personal information to be processed is correct and updated, and to delete such information when the purposes of its collection have expired or concluded;

(e) Establish and maintain the administrative, physical and technical security measures that may be required to ensure the protection of the personal information from any damage or unauthorized processing; and

(f) Guarantee the rights of the Data Owners, as set forth in the DP Law, and which mainly consist in the so-called "ARCO rights" (for Access, Rectification, Cancellation and Opposition) to which any Data Owner is entitled, as well as the rights to revoke a consent previously granted, and the right to limit the use or disclosure of the personal information.

The DP Law requires that three different types of Policies be prepared and implemented: (i) a full version, delivered to the Data Owner when the personal information is collected from him or her, in person; (ii) a simplified version, to be used when the personal information is collected directly or indirectly from the Data Owner; and (iii) a short version, which must be used when the information and space used for the collection of personal information (for example, an electronic or physical form) from the Data Owner is limited.

In addition to complying with the above, Mexican companies must appoint a person or create a department which will be responsible of processing any requests made by Data Owners in terms of the DP Law and the Policy, and of appropriately storing the personal information in secured databases, including the Data Owners acknowledgments of the existence of the Policy, and generally implementing, the actions that may be needed to ensure the duly protection of all personal information received.

g. Operational Permits and Related Items.

Aside from the corporate and government requirements already mentioned in this Handbook, certain Mexican companies may also need to obtain other permits depending on the nature of their operations in Mexico

and the activities they will be carrying out in the country. The need for any additional permits may vary depending on the company's corporate domicile's local laws and regulations.

Some of these additional operational permits are briefly described below, based in federal and state laws and regulations in force in the Mexican State of Nuevo Leon.

Land Use Permit.

This permit is granted by local municipal authorities with the purpose of determining the land use of a property in accordance with the municipal urban development plans, and establishing the rules for urban planning or urban restrictions, as well as other natural preservation and environmental protection restrictions that will be applicable on the property.

Every piece of land in Mexico must have a land use permit allowing the owner to use such land for a specific purpose, whether residential or business. When applying for a land use permit, the applicant must provide evidence of the title and ownership of the land, submit the plans of the land's location, and indicate the use pretended for such land, among other requirements.

Construction Permit.

Mexican companies intending to construct a new plant or expand or modify an existing one, must request a construction permit before the local authorities of the Mexican State in which the construction will take place. Such permit in most cases serves as a follow-up to the land use permit, and its granting by the correspondent authority is subject to the construction plan's compliance with several zoning, urban and environmental rules.

When applying for a construction permit, the applicant must evidence the title and ownership of the land in which the construction will take place, file the architectonic, structural and other related projects and plans, submit a copy of its respective land use permit, and in certain cases, accompany other documents such as an environmental impact assessment.

Environmental Permits.

Companies that will perform certain constructions or activities require to obtain specific environmental permits for their rightful operation in Mexico. One of these permits is the one resulting from carrying out an environmental impact assessment, also known as MIA, to evaluate the possibilities of any potential damages to the environment with certain constructions or activities.

The MIA is mandatory for companies (a) that will construct hydraulic works, general means of communication, oil or gas pipelines, hazardous waste treatment plants, industrial parks, among others, and (b) involved in the oil, petrochemical, chemical, steel, cement, electric, sugar, mineral exploration and exploitation and other industries.

An operation permit or license must be requested to the correspondent local environmental authority by all companies that are stationary sources generating emissions such as odors, gases or polluting liquid or solid particles to the atmosphere. Other environmental permits may be applicable depending on a company's operations, such as a registry to dispose of wastewater, authorization for final disposal of special handling waste, handling of hazardous waste.

Sanitary Permits.

Companies involved in the human health sector may need to obtain a sanitary permit or license for their operation. These permits are granted by the Mexican Ministry of Health. The following are some of the industrial, commercial or services establishments that need to have a sanitary permit:

- (a) State and municipal transportation;
- (b) Hotels, motels and guest houses;
- (c) Vacant lots and abandoned houses;
- (d) Public restrooms;
- (e) Pools;
- (f) Hair salons and massage businesses;
- (g) Dry cleaning; and
- (h) Cinemas and theaters.

When obliged to have a sanitary permit or license, a company must show evidence of their compliance with such obligation in a visible site of their establishment.

h. Public Procurement.

Mexican authorities such as State Ministries, administrative units of the Mexican Presidency, state-owned companies, and federal and local government authorities, may require to hire the services of private companies with the purpose of obtaining any goods or services needed for their operations. When hiring such services, the authorities need to choose the procedure that in each case is most likely to guarantee they will obtain the best available prices, quality, financing options and other relevant circumstances. The procedures available are invitation made to at least three participants, direct public award, and the most common: public tenders.

Public Tenders.

The acquisitions, leases and services will be hired by authorities through the public tender procedure, by issuing a public bidding call so companies and individuals may present their proposals in sealed envelopes that will be opened publicly. There are three types of public tenders in Mexico depending on who they are directed to:

1. National, where only Mexican nationals may participate offering goods manufactured in Mexico with at least a 50% of national content,
2. International under treaties, where Mexicans and foreigners of countries with which Mexico has an FTA in force with government procurement provisions may participate, and
3. International open tenders, where Mexicans and foreigners of any country may participate, whatever the origin of the goods may be, solely when a national public tender was declared deserted, or it was agreed to be international for procurements financed with credits granted to the Federal government.

The United States, Canada, and certain countries of the Asian Pacific region are among those that have an FTA in force with Mexico contemplating government procurement provisions. Therefore, nationals of such countries

may participate in public tenders directly when Mexican authorities launch an international public tender.

Public tenders in Mexico are called for through an electronic system named CompraNet, and a summary of every public tender is always published in the Mexican Official Gazette, containing all the specific requirements and needs of the procuring Mexican authority.

Public-Private Partnerships.

Public-private partnerships (hereinafter referred to as "PPP") constitute a different mean of public procurement. PPP establish a long-term contractual relationship between entities of the public and private sectors, with the purpose of rendering services to the public sector, wholesalers, intermediaries or final users by using infrastructure provided wholly or partially by the private sector.

PPP are commonly sought by the public sector entities or authorities. However, any company interested in creating a PPP with an entity of the Mexican public sector, may file a proposal to the relevant federal entity or authority, which must comply with the following requirements:

- a) Attach the preliminary feasibility study which must include the description of the project being proposed and the authorizations that may be needed for such project, the legal feasibility and social profitability of the project, the reasons why the PPP is convenient in such case, among other information required;
- b) The proposal is within the range of proposals that the public entity had previously listed as those it would be willing to receive, and
- c) A proposal of such kind has not been previously proposed and solved.

If a proposal is accepted, a PPP will be created through the execution of a long-term agreement that will contain the rights and obligations of the procuring public entity and the private company, and when necessary, the public entity may need to grant the company with one or more permits, licenses or authorizations for the use and exploitation of public property and the rendering of the services for which the PPP is created.

i. Getting Credit and Securing Transactions.

Getting credit may be needed for companies to fund their day-to-day operations, and sometimes the easiest way to obtain it is to grant the creditor with some type of guarantee that will ensure them the payment of such credit by the company. The most common legal figures used in Mexico to secure transactions are non-possessory pledges, mortgages and guaranty trusts.

Non-Possessory Pledges.

These type of pledges constitute a right on movable properties with the purpose of guaranteeing the fulfillment of an obligation and a payment preference. All kinds of rights and movable properties may be pledged under this legal figure, except for those deemed by the law to be strictly personal of their owner. The debtor remains in possession of the pledged property at all times, being able to use it and profit from any products derived from such property, but obliged to allow the creditor the inspection of the pledged property from time to time.

The granting of a non-possessory pledge must be agreed in writing, and in certain cases such agreement must be ratified before a notary public. In order for the pledge to be effective against third parties, the creditor must register the pledge in the Mexican Registry of Guaranteed Personal Property, or RUG, and once the debtor's obligation has been fulfilled to the creditor's satisfaction, the pledge must be cancelled and removed from the RUG electronic website.

Mortgages.

A mortgage is a guaranty over real estate properties that are not transferred to the creditor and provides the creditor the right to, in case of default in the payment of the guaranteed obligation, fulfill payment with the value of the mortgaged property. Basically, it is a non-possessory pledge for real estate only.

Companies that own real estate property in Mexico can create mortgages over such property to guarantee any of their payment obligations. However, certain accessories of a property cannot be mortgaged, such as lease

payments received from such property, movable objects placed over the property (unless the mortgage specifically includes them), easements, among others.

Mortgages over real estate properties with a value of less than 365 times the general minimum wage applicable in Mexico, which as of early 2019 would amount to approximately U.S.\$1,550 can be granted through private document signed by the parties involved before two witnesses and a notary public. If the property to be mortgaged is worth more than such amount, the mortgage needs to be granted through a public deed before a notary public. In both cases, the mortgage needs to be registered in the Public Registry of Commerce in order to be valid and enforceable against third parties.

Guaranty Trust.

A company may create a guaranty trust for purposes of guaranteeing the fulfillment of a payment obligation in favor of the beneficiary or beneficiaries they designate. In this type of trust, the only entities authorized to act as trustees in charge of the administration of the trust are credit, insurance and bond institutions, brokerage firms, multiple object financial companies, general deposit warehouses, credit unions and companies operating investments funds. In these cases, trustees may simultaneously act as both trustees and beneficiaries, as long as the purpose of such trust is to guarantee obligations in their favor.

All kinds of rights and movable properties may be transferred to a guaranty trust, except for those deemed by the law to be strictly personal of their owner. The creation of a trust must always be evidenced in writing, and must be duly recorded in the Public Registry of Commerce in case of real estate properties, or in the RUG Registry in any other case.

j. Anticorruption Matters.

The Mexican General Law of Administrative Liabilities, or Anticorruption Law, among other things, provides a list of conducts deemed as corrupt practices and administrative violations that can be carried out by public servants and/or private parties (individuals and legal entities). Such conducts

include bribery, illegal participation in administrative proceedings, influence-peddling, falsification of information, collusion, misappropriation of public funds, and wrongful hiring of former public servants.

Sanctions for such violations include fines of up to twice the amount of the obtained benefits or around U.S.\$6 million, debarment from public procurement, suspension of activities from three months to three years, dissolution of the company and/or the payment of compensatory damages.

The Mexican Anticorruption Law, parallel to the U.S. Foreign Corrupt Practices Act of 1977 (FCPA) and taking a similar approach to the U.S. Department of Justice guidelines, sets forth that companies can mitigate their liabilities if they have in place an "integrity policy", which is essentially a compliance program. There are seven key elements which are expected of an acceptable compliance program under the Anticorruption Law:

1. A clear and complete Organization and Procedures Manual that outlines responsibilities of every area and the chain of command of the company and leadership structure;
2. A Code of Conduct duly published within the company and/or organization;
3. Adequate and effective supervision, audit and control systems that periodically examine compliance with anticorruption provisions throughout the organization;
4. Internal whistleblower and reporting systems, along with corrective procedures for individuals who violate the company's policies or the law;
5. Training programs and systems for compliance of the anticorruption policies;
6. Nondiscriminatory human-resources policies which may prevent the hiring of individuals who could compromise the company's integrity; and
7. Mechanisms to ensure transparency.

In addition to the above, self-reporting and cooperation with authorities during investigations can qualify as mitigating factors in the applications of penalties.

Having an integrity policy based on the seven elements above is the best starting point for complying with the Mexican Anticorruption Law, although it is recommended to go a step further to ensure better results and reduce the exposure to liabilities under this framework and of course, under any other global anti-corruption framework which may be applicable in each case.

k. Anti-Money Laundering Regulations.

Mexican Anti-Money Laundering law and regulations (hereinafter referred to as the "AML Law") are designed to detect and investigate those acts and transactions that involve illegally obtained resources, and applies restrictions to some commercial and financial transactions that may be frequently used as a cover up for money laundering.

The AML Law lists seventeen activities that are identified as "Vulnerable Activities", and imposes certain obligations to those that perform such types of activities either regularly or professionally. Some of those Vulnerable Activities are:

1. Activities related to lotteries, gambling and raffles;
2. Commercialization of credit or prepaid cards that are not issued by an approved financial institution;
3. Loans or credits offered by private parties, other than an approved financial institution;
4. Construction, development, purchase and/or sale of real estate;
5. Commercialization of art works, jewelry and gemstones;
6. Commercialization and/or distribution of ground, air and sea transportation vehicles;
7. Rendering of professional services in an independent manner, without any labor relationship with the respective client, in certain cases; and
8. Rendering of notary public services.

The companies that perform any of the Vulnerable Activities either regularly or professionally, have the obligation to (a) verify the identity of their clients based on official documentation, (b) create and maintain up-to-date a unique identification file for every client for which they perform a Vulnerable Activity, (c) request their client information on the final beneficiary of the

Vulnerable Activity, and (d) when applicable, file notices before the Mexican Ministry of Finance and Public Credit, among other obligations.

All companies need to duly review the complete description of all the Vulnerable Activities in order to determine if they have an obligation under the AML Law. Fines will apply for those who fail to give the required notices to the authorities, in those case when such notice is mandatory under the AML Law, and such fines may be equal to the full value of a specific activity or transaction.

Criminal sanctions are also contemplated in the AML Law for those who provide notices to the Mexican Ministry of Finance and Public Credit with false information or for those who misuse the information collected in compliance with this law. Criminal charges may be brought in these cases with prison terms ranging from two to ten years.

I. Annual Legal Maintenance Obligations.

Mexican companies must comply with certain annual legal maintenance obligations within the first months of each calendar year in order to remain in good standing from a legal corporate standpoint. The main legal actions required are the following:

SIEM.

The Mexican System of Company Information, commonly known as SIEM, is an electronic database of all companies operating in Mexico, with the purpose of connecting clients and service providers. To fulfill such purpose, all companies with operations in Mexico must register themselves in the SIEM upon their incorporation, and such registration must be renewed within the first two months of each calendar year.

Renewal of such registration involves payment of the corresponding fee to an authorized Chamber of Commerce in Mexico, and completing an application with general information of the company.

Foreign Shareholders' or Members' Notice.

Mexican companies with foreign investment must submit a notice in the Mexican tax authorities' official website on or before March 31 of each calendar year, in order to notify the names, nationalities, tax addresses and tax identification numbers of all their foreign shareholders or members.

Given that foreign shareholders or members are not obliged to be registered in the Mexican Taxpayers' Registry, the Mexican tax authorities request the filing of such notice as proof that those shareholders or members have a tax identification number in their respective countries of origin.

Annual Shareholders' or Members' Meeting.

Every company must hold at least one shareholders' or members' meeting or resolution on or before April 30 of each calendar year. Such meeting must be held at the company's corporate domicile and deal with and resolve, as a minimum, on the following matters:

1. Discussion and approval of the company's annual report, including its financial statements of the previous tax year;
2. Discussion and approval of the allocation of the company's profits or losses of the previous tax year;
3. Designation or ratification of the board of directors or sole director (as the case may be), and the corporate examiner, in the case of SA companies; and
4. Determination of the compensation to be paid to the members of the board of directors or the sole director (as the case may be), and the corporate examiner, if any.

Foreign Investment Annual Report.

All Mexican companies with foreign investment must be registered in the National Foreign Investment Registry, commonly known as the RNIE, which obtains information of all investments entering the country and generates all investment statistics.

In addition to being registered in the RNIE, companies that have an amount greater than approximately U.S.\$5,500,00 in a year's initial or final assets, initial or final liabilities, income and/or expenses, must file an annual

economic report before the RNIE within the months of May and June of the following year. Such annual report consists of the company's general and financial information, and must be accompanied by the financial statements of the corresponding year.

Quarterly reports must also be filed solely if the following occurs:

- a) Change of corporate name, tax address or business activity of the company;
- b) Modifications to the corporate structure that imply a change in the participation of foreign persons or entities in the capital stock of the company for an amount that is greater than approximately U.S.\$1 million; or
- c) Modifications greater than U.S.\$1 million in the following items:
 - a. Accounts receivable or accounts payable to foreign residents that are part of the same corporate group as the company
 - b. Contributions for future capital investments
 - c. Capital reserves
 - d. Results of previous fiscal years

In case any of the above mentioned scenarios occurs within a year's quarter, the company must file a quarterly report before the RNIE within 10 business days following the end of the quarter in which any of the foregoing occurred. Failure to timely comply with this filing will result in penalties to the company.

V. CONCLUSIONS AND OPPORTUNITIES.

Mexico is in a privileged position as an international destination for business. Even though there are always uncertainties when doing business abroad, the experience developed through years of welcoming foreign investment, and the availability of top-level service providers and overall advisors are always a key element to the success of any project.

This Handbook has been updated as of March 31, 2019, and intends to provide only a brief overlook of the most common questions and topics which need to be considered when doing business, or planning to start a business, in Mexico. There are a number of other options and business forms available, and our team of expert attorneys would be glad to work with you and provide you personalized attention and legal advice for your business needs.

Important Note: The information contained in this handbook is provided for informational purposes only, and should not be construed as legal advice on any subject matter. The information contained in it is protected as property of our firm. No recipient of this handbook, clients or otherwise, should act or refrain from acting on the basis of any content included in the handbook without seeking the appropriate legal or other professional advice on the particular facts and circumstances at issue from an attorney licensed in the relevant jurisdiction. This handbook contains general information and may not be updated nor reflect current legal developments, verdicts or settlements. The Firm expressly disclaims all liability in respect to actions taken or omitted based on any or all of the contents of this handbook.

VI. WHO IS JATA?

With offices in Monterrey and Houston, JATA is the best-positioned corporate law firm in Mexico devoted to advise foreign companies in their legal needs. Our firm is integrated by attorneys licensed to practice in Mexico who also have a valuable bi-cultural background. Our clients are foreign investors & companies doing business in Mexico, and Mexican companies with cross-border operations. Our practice areas include Corporate and Contracts, Energy, Financing, Mergers & Acquisitions, Business Start-up and International Trade, Real Estate, Labor Law, Intellectual Property, and Civil and Commercial Litigation.

Some of the most prestigious global law firms also trust our legal team for their clients' transactions in Mexico.

Designated in multiple occasions as one of the top Latin American destinations for business, Monterrey is also considered the financial and business capital of Mexico. Our main office is located in Monterrey, and since 1997 we are assisting our clients in their business needs throughout Mexico. Our Monterrey office is located at:

J.A. Treviño Abogados S.A. de C.V.
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Email: jata.mty@jata.mx

Houston is a major business and financial center in the U.S.A. It houses multiple global business headquarters, and is a natural base for companies doing business in Mexico and worldwide. Our Houston office is strategically located to provide our clients better, convenient and more comfortable access to our services. Designed to coordinate matters with our main office in Monterrey, it also provides an excellent link to the major global law firms with which we team-up to represent their clients in Mexico as a part of the global transactions on which they are advising. Attorneys in our Houston office are authorized to practice law in Mexico only. Our Houston office is located at:

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1700 Post Oak Blvd.
2 BLVD Place.
Suite 600.
Houston, Texas 77056.
Tel +1 (713) 963-3677.
Email: jata.houston@jata.mx

We have been internationally recognized for our work and the top quality of our services. JATA has received the Mexico Cross-Border Law Firm of the Year Award seven years in a row by M&A Today and ACQ Global Awards, in addition to multiple awards and recognitions, including most recently:

- Leading Complex M&A Equity and Asset Transactions Lawyer of the Year, Mexico, by 2019 Leading Adviser Awards.
- Mexico Debt Restructuring Law Firm of the Year, by M&A Today – Global Awards, 2019.
- Most Trusted Corporate Law Firm - Mexico, by DealMakers Country Awards 2019.
- Best Corporate Law Firm - Mexico, Complex Transactions Lawyer of the Year 2018 - Mexico, by Acquisition International.
- Corporate Finance Law Firm of the Year - Mexico, by DealMakers Global Awards 2018.
- Best M&A Law Firm, 2018 - Mexico, by AI Excellence Award in Financing Transactions Law.
- Cross-Border Law Firm of the Year - Mexico, by Corporate USA Today – Law Awards – 2018.
- Mexico Debt Restructuring Law Firm of the Year, by Corporate USA Today – Law Awards – 2018.
- Nominated for Deal of 2018 Award, Loan to Novelis, by International Financial Law Review.
- Best Corporate Law Firm 2018 - Mexico, & Recognized Leader in Foreign Investment Advice - Mexico, by Latin America News.
- Security Structures Law Firm of the Year – Mexico, by DealMakers Country Awards 2018.

CONTACT INFORMATION

MONTERREY



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