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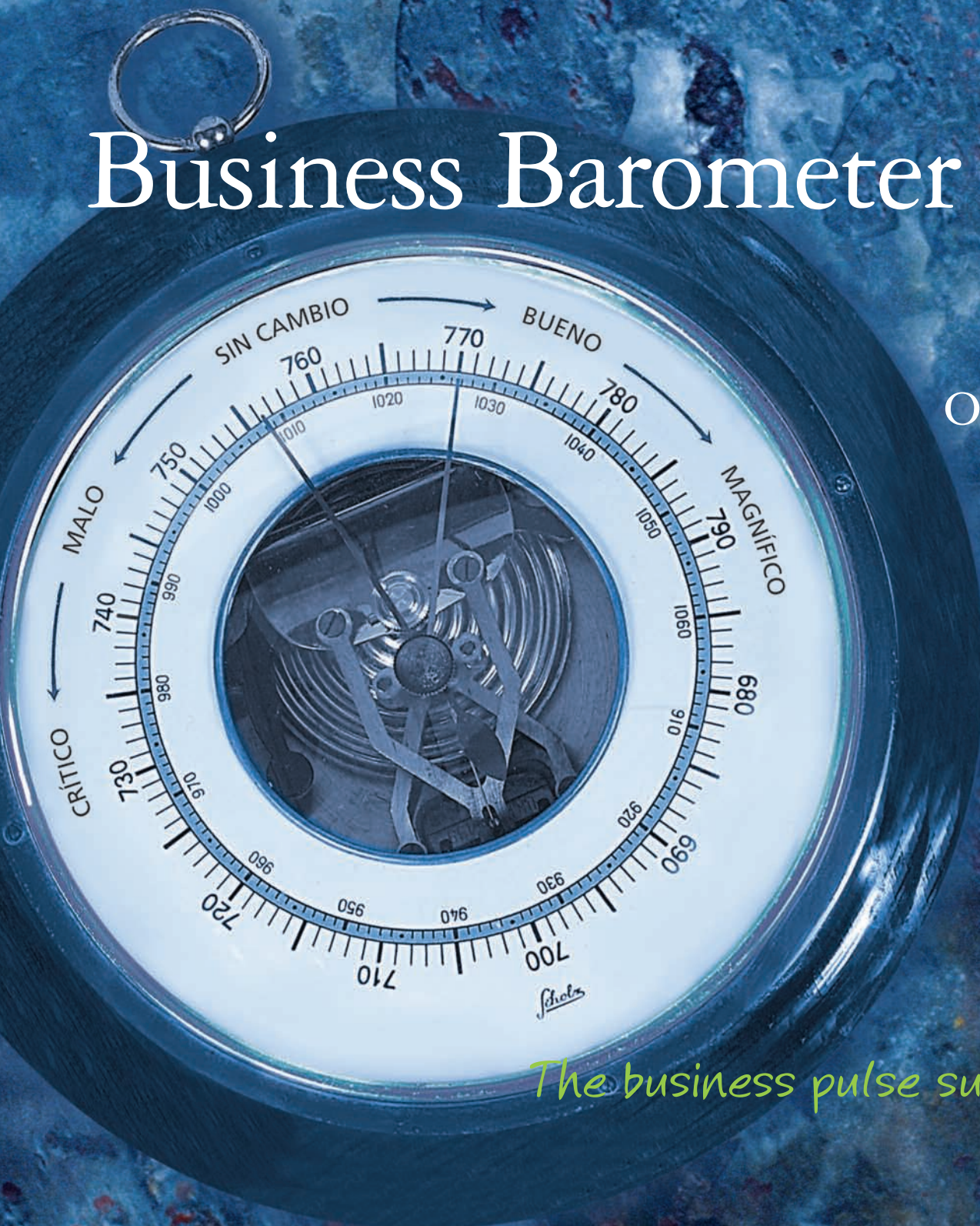


Barómetro  
de empresas

# Business Barometer

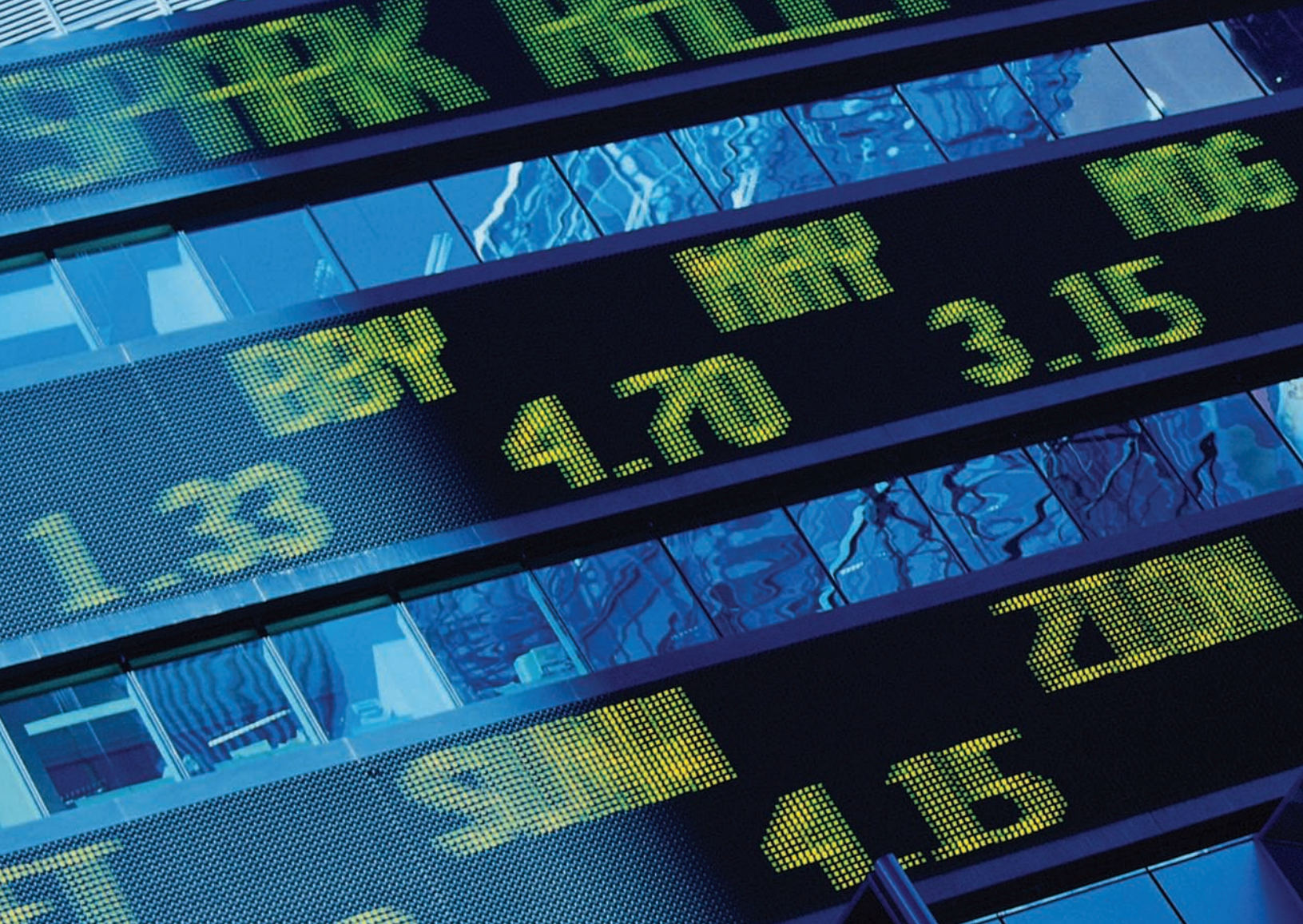
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October 2008



*The business pulse survey*

Audit • Tax & Legal • Consulting • Financial Advisory.



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## Introduction

The seventh Business Barometer Survey results' signal deterioration in the executives' prospects that have moved into a negative territory with regard to the progress in the business environment and the expected results for their companies.

The responses suggest little progress has been made to solve structural issues that hinder Mexico's economic development, such as inflation and exchange rate expectations that were revised upwards, and the assessment of insecurity and economic slowdown in the United States as the leading hurdles in the Mexican economy.

### Additional issues

In the light of the continuous changes in the business environment, special questions were asked about the impact of the surge in food and fuel prices.

An extra poll was carried out with executives of 75 of the most important companies located in Mexico, during the first days of October, regarding the effects of the international financial crisis in Mexican companies.

Their opinions have contributed to understand and assess the possible impacts of the crisis both within the business environment and the companies' expectations in Mexico, since a full 77% of the companies said they have already taken meaningful action steps.

We hope that you find the information included in this edition useful and that it will give you an insight of the executives' prospects in the face of continuous and crushing changes in the business environment.

What does the future hold for companies in Mexico? Economic dark clouds will affect the business environment? Let us wait and see what comes next in our eighth Business Barometer Survey results.

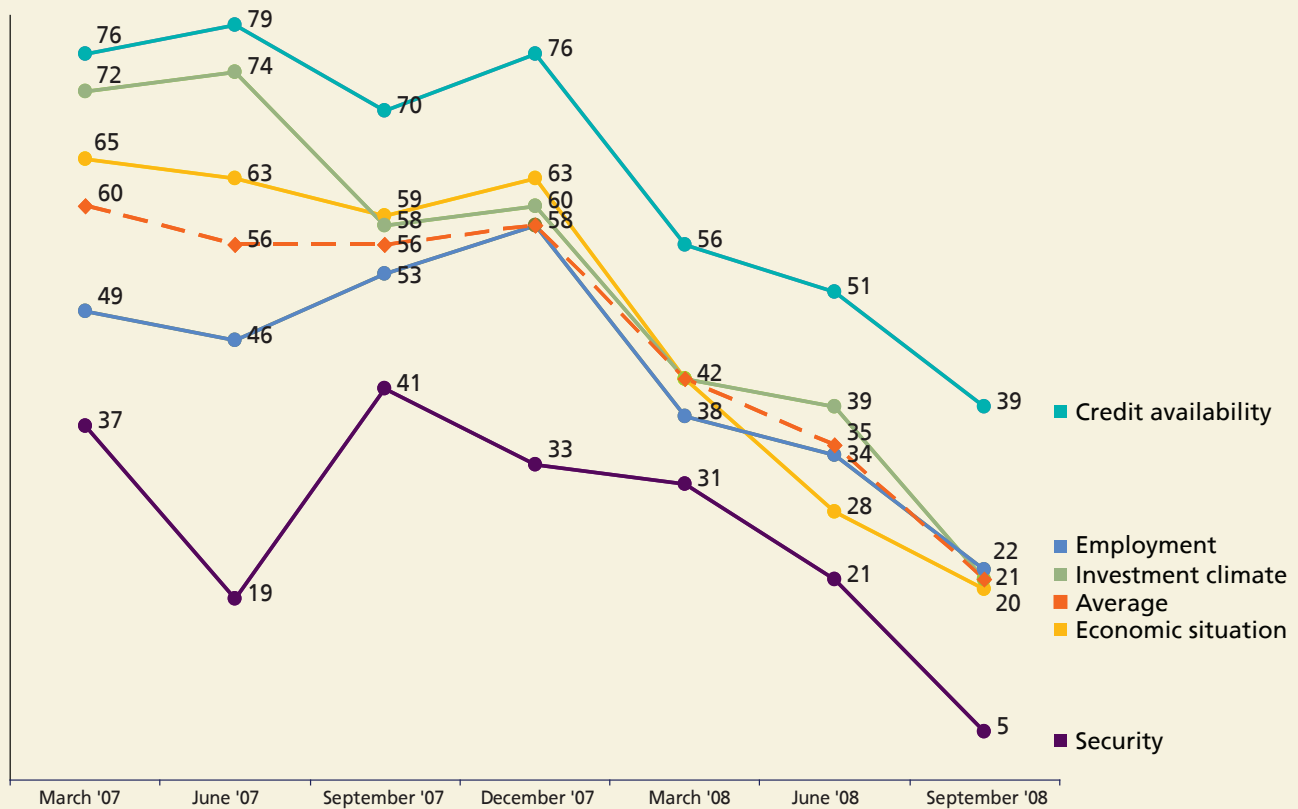
# I. Business environment

## Current

The seventh survey's results evince increased negative sentiments with regard to the business environment compared to one previous year, likely because Mexico has already experienced tangible effects of a downturn in the US economy.

September 2008 evaluation of credit availability, employment, investment climate, average, economic situation and security, has been the lowest of all surveys to date.

Current situation compared to one previous year (Average scores in a 01-100 basis\*)



\* These figures were computed by weighing percentages of responses Better, the Same or Worse by 1, 0.5 and 0.

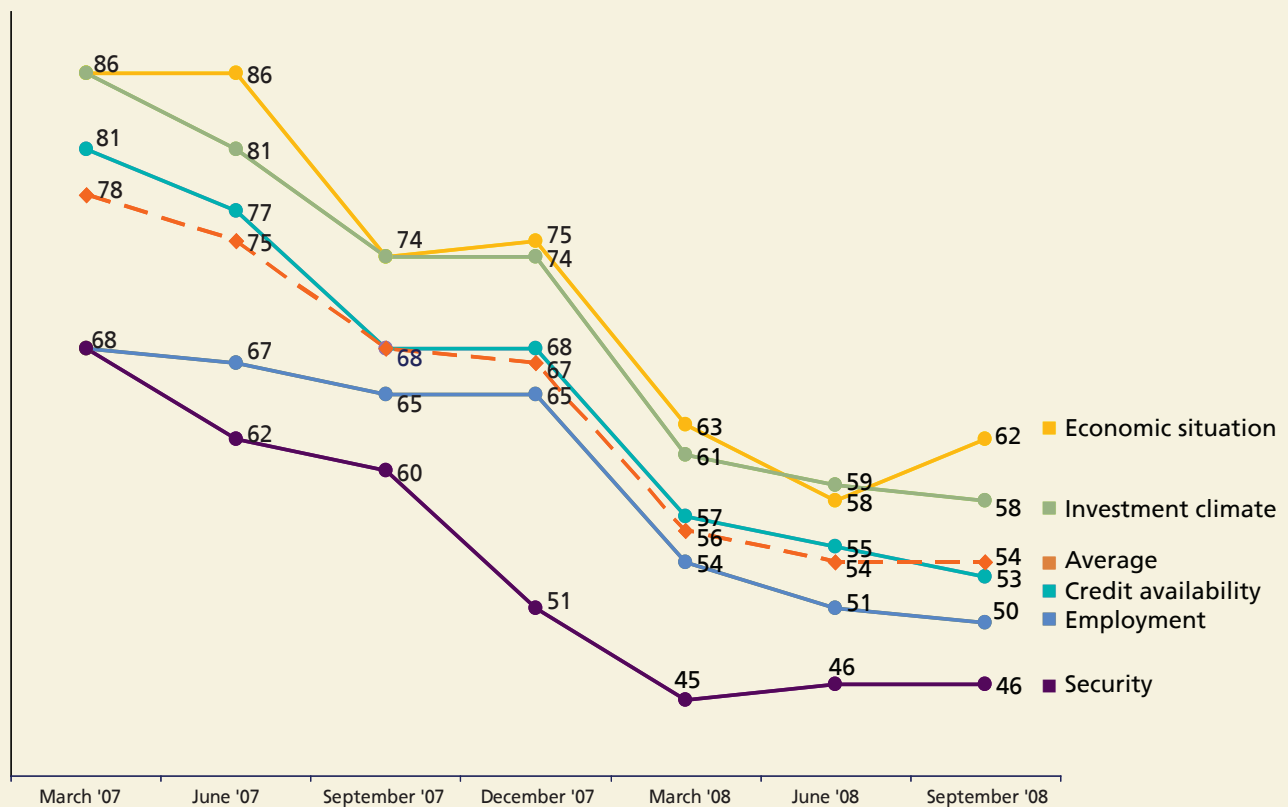
## Future

Respondents to the seventh Barometer Survey were less optimistic than they were in September 2007 about the companies' future environment within a year.

Considering a scale 0 (worse) to 100 (better), the average score of five aspects (investment climate, credit availability, employment, security and economic situation) was 54 in September 2008 versus 68 in September 2007, a 15 points drop in less than a year.

The executives ranked insecurity as the leading threat to the Mexican economy in the incoming months; furthermore, the effectiveness of the government's actions aimed at improving security was the worst evaluated issue.

Future situation within one year (Average scores in a 01-100 basis\*)



\* These figures were computed by weighing percentages of responses Better, the Same or Worse by 1, 0.5 and 0.

## II. Company situation

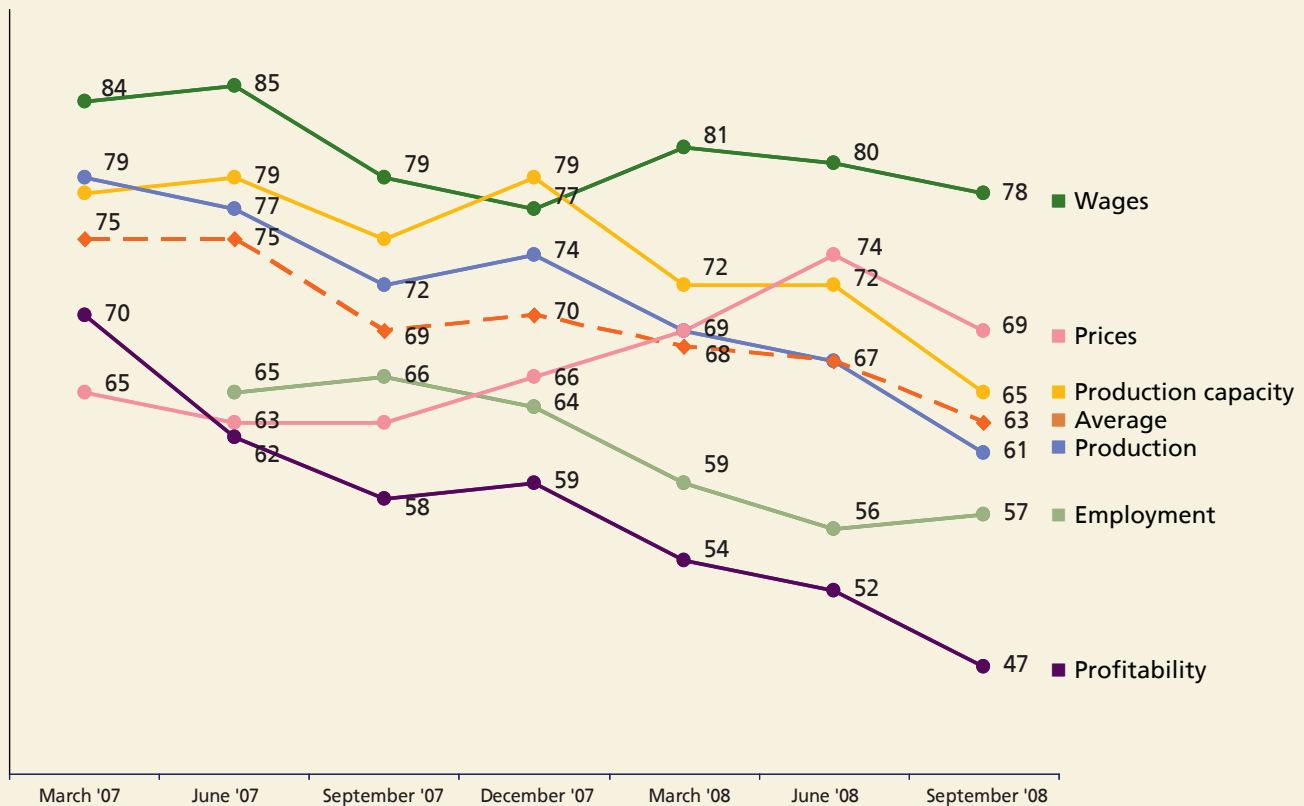
### A. Actual

On a scale 0 (worse) to 100 (better), the average score with regard to the companies' general situation was 61 by September 2008; the lowest of the seven surveys carried out to date.

profitability and wages) the perception regarding their current situation by September 2008 was less optimistic to that of June 2008.

According to 42.7% of the respondents, production in their companies was higher than one previous year and only 29.9% reported increased profitability. Yet considering six enterprise indicators (production capacity, employment, prices, production,

Current Company Situation compared to one previous year (Average scores in a 0-100 scale basis)



\* These figures were computed by weighing percentages of responses Higher, the Same and Lower by 1, 0.5 and 0.

The loss of dynamism of the aggregate demand in Mexico has been gradual and 28.1% of the companies reported high inventories, the biggest number registered since March 2007, while only 22.3% reported high demand. The lowest share so far.

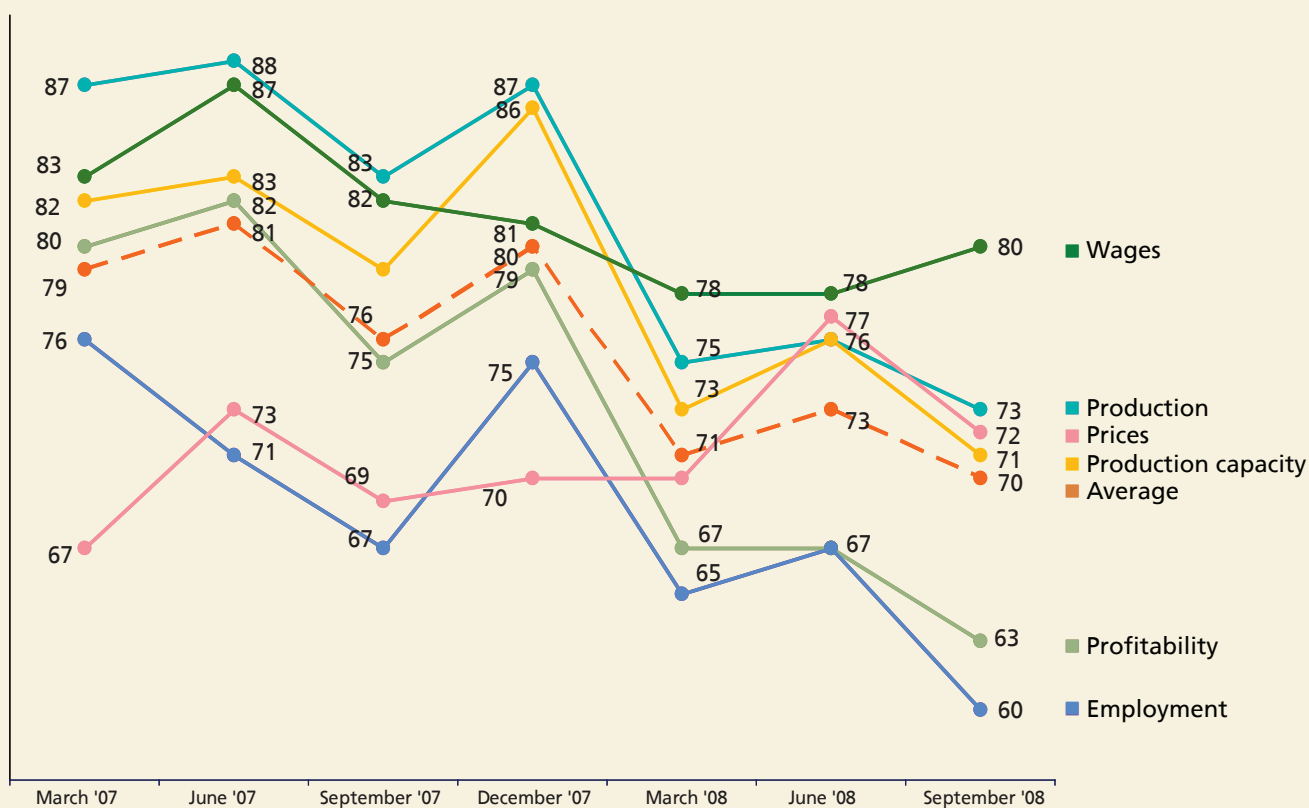
## B. Future

By September 2008, optimism regarding the companies' general situation within a year remained unchanged from that of June (scores: 74 versus 75).

According to the executives' opinion, 53% of the companies expected production to rise over the next 12 months and 33.7% would increase employee numbers. These percentages are somewhat lower than those of three months previous to the survey (56.2% and 40.2%, respectively). Expectations regarding price increasing of goods and services declined

(three months before 58.3% of the companies' would raise them; currently, 50.2% would do so). The executives' estimations regarding the improvement of their companies' profitability within a year decreased from 46.8 in June 2008 to 42.7 in September.

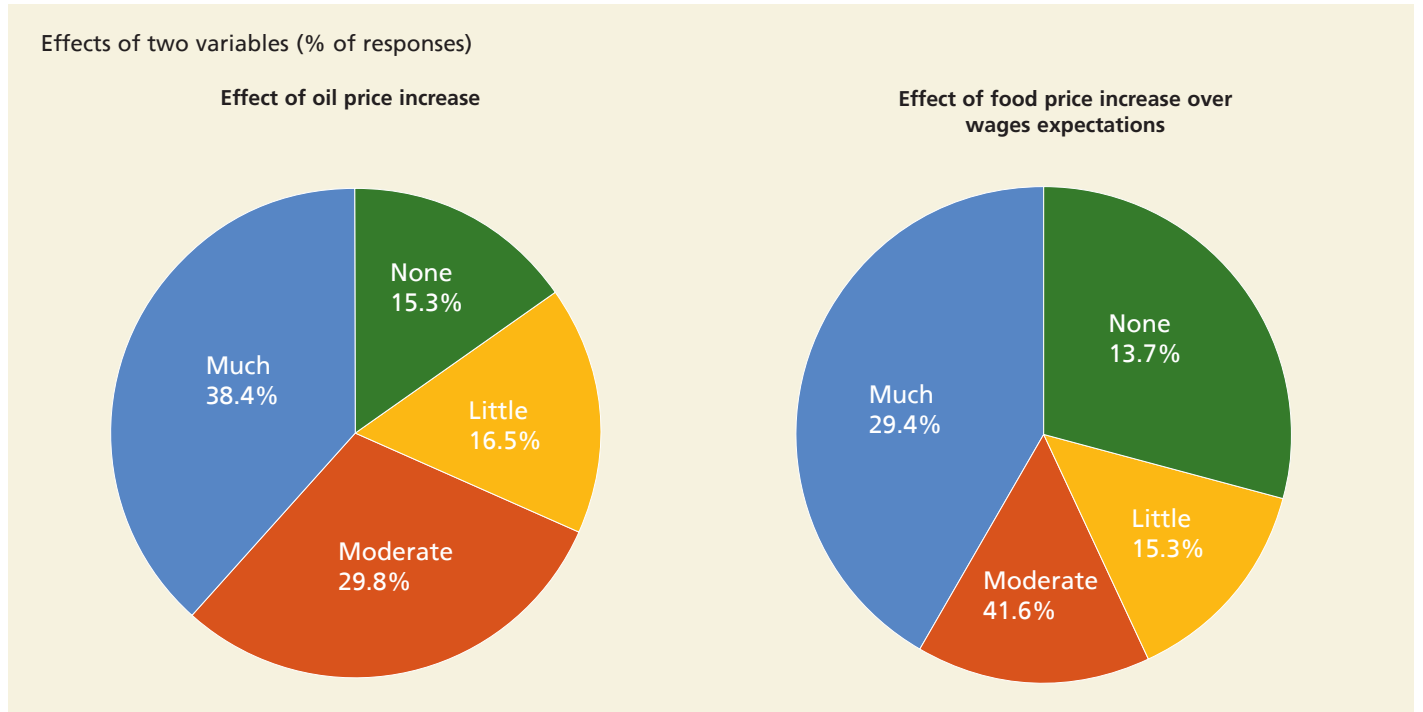
Future situation (within a year) of the companies with regard to the date of the surveys (average scores in the 0-100 scale\*)



\* These figures were computed by weighing percentages of responses Higher, the Same and Lower by 1, 0.5 and 0.

## Situational issues

In the light of the continuous changes in the business environment, special questions were asked about the impact of the surge in food and fuel prices. The responses suggest greater impact of sharp oil price increases over wages expectations (38.4%) than food price increase (29.4%)

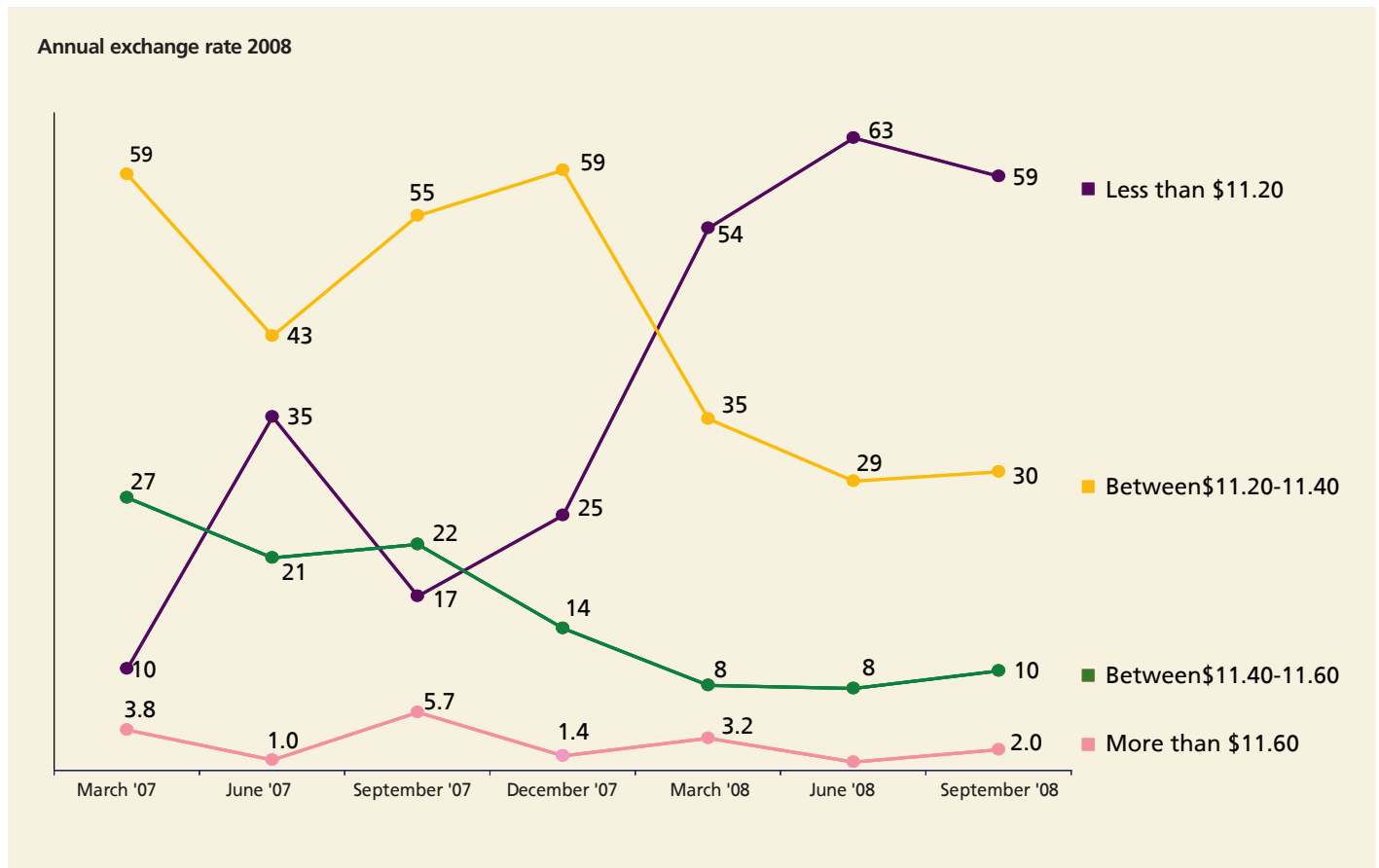


## III. Exchange rate and inflation

### A. Exchange rate within a year (% of total responses)

The three most recent surveys show that the executives have revised their expectations downwards with regard to the exchange rate. The average observed exchange rate within the first semester in 2008 was 10.61 pesos to the dollar. In September 2008 a full 58.7% of respondents forecasted the exchange rate will be less than 11.20 pesos to the dollar within a year.

The expectations of the economic analysts obtained by the Bank of Mexico in September, forecast an average exchange rate of 10.67 pesos to the dollar by the end of 2008, and 11.07 pesos to the dollar within a year.

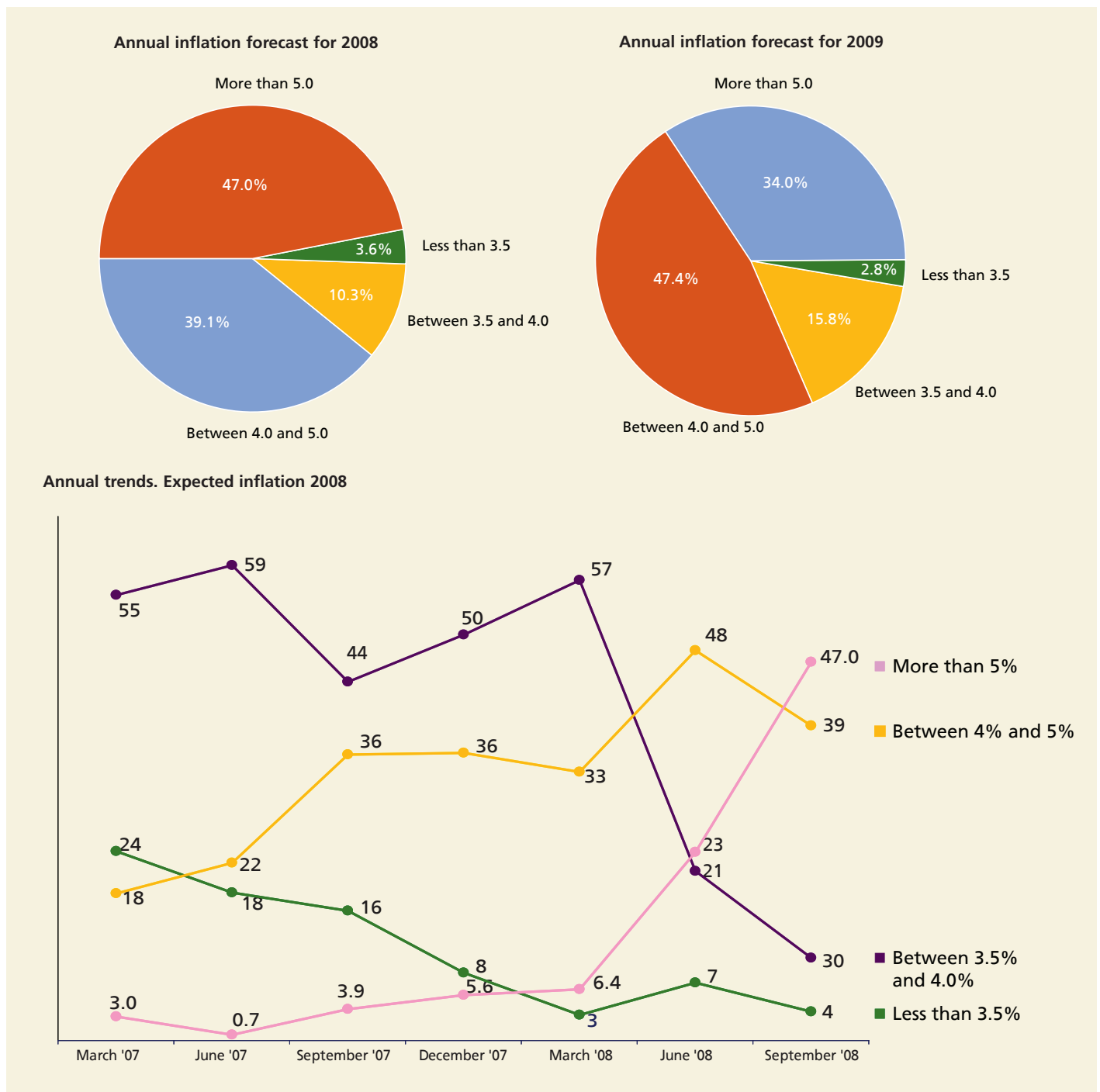


**Note:** While the seventh survey was carried out before financial markets collapse, it does not include the effects over the exchange rate in Mexico. (See the complementary addendum)

## B. Inflation

Expected inflation for 2008 continued to rise. According to September's survey, 47% of the executives forecasted that inflation will be above 5% by the end of 2008, while in June's only 23.4% of respondents believed so. Nevertheless they foresee that inflation rate could slacken in 2009.

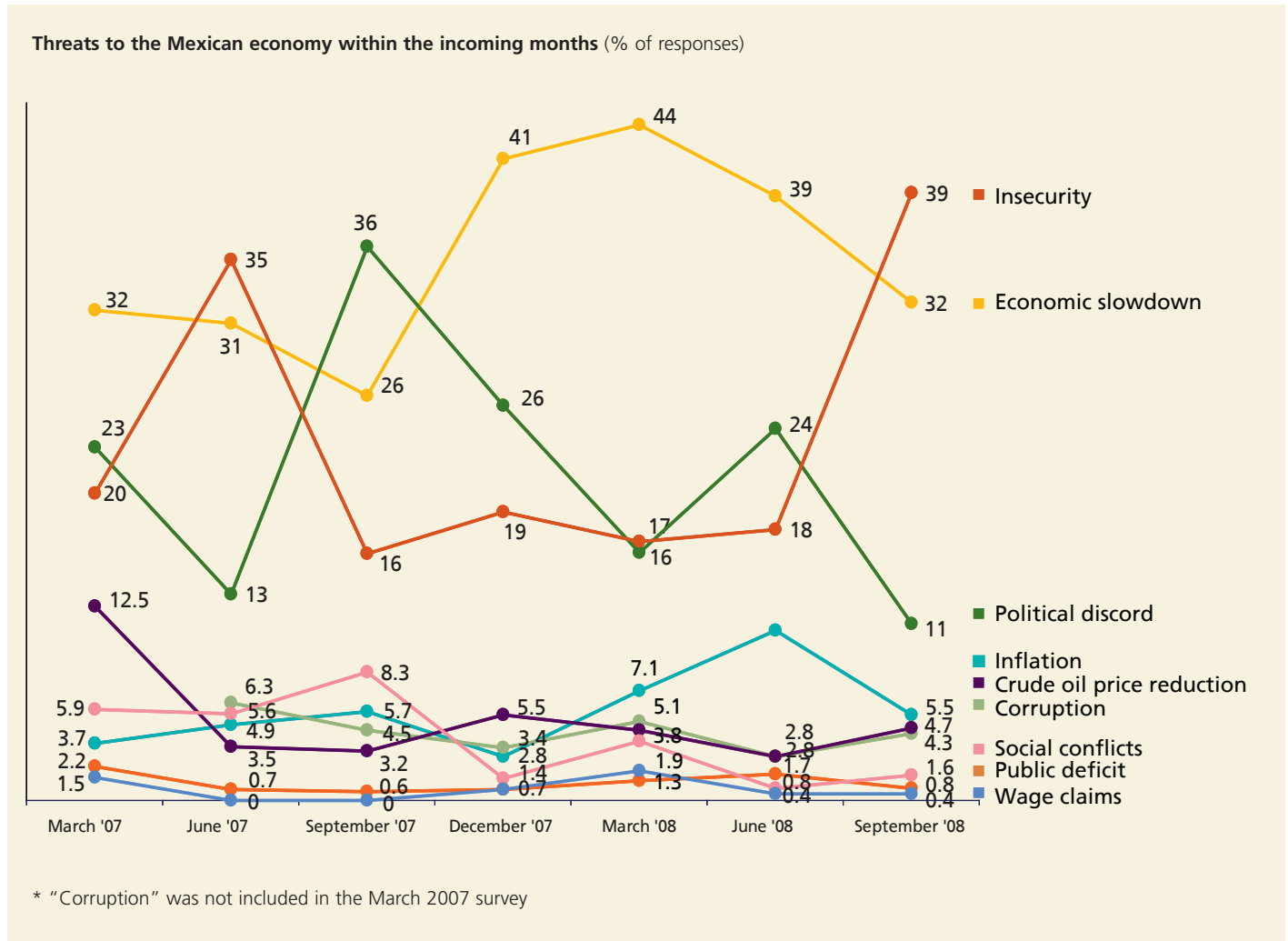
The economic analysts' prospects obtained by de Bank of Mexico changed in the same direction: the expected inflation for 2008 was 5.6%, and 4.1% for 2009.



## IV. Threats to the economy

According to the surveyed executives in September 2008, the main hurdles to the Mexican economy in the incoming months are insecurity (an increasingly important issue) and the US economic slowdown.

And even though the effectiveness of the government's performance aimed at controlling inflation has been the best evaluated issue, September's score was the lowest of all surveys to date.

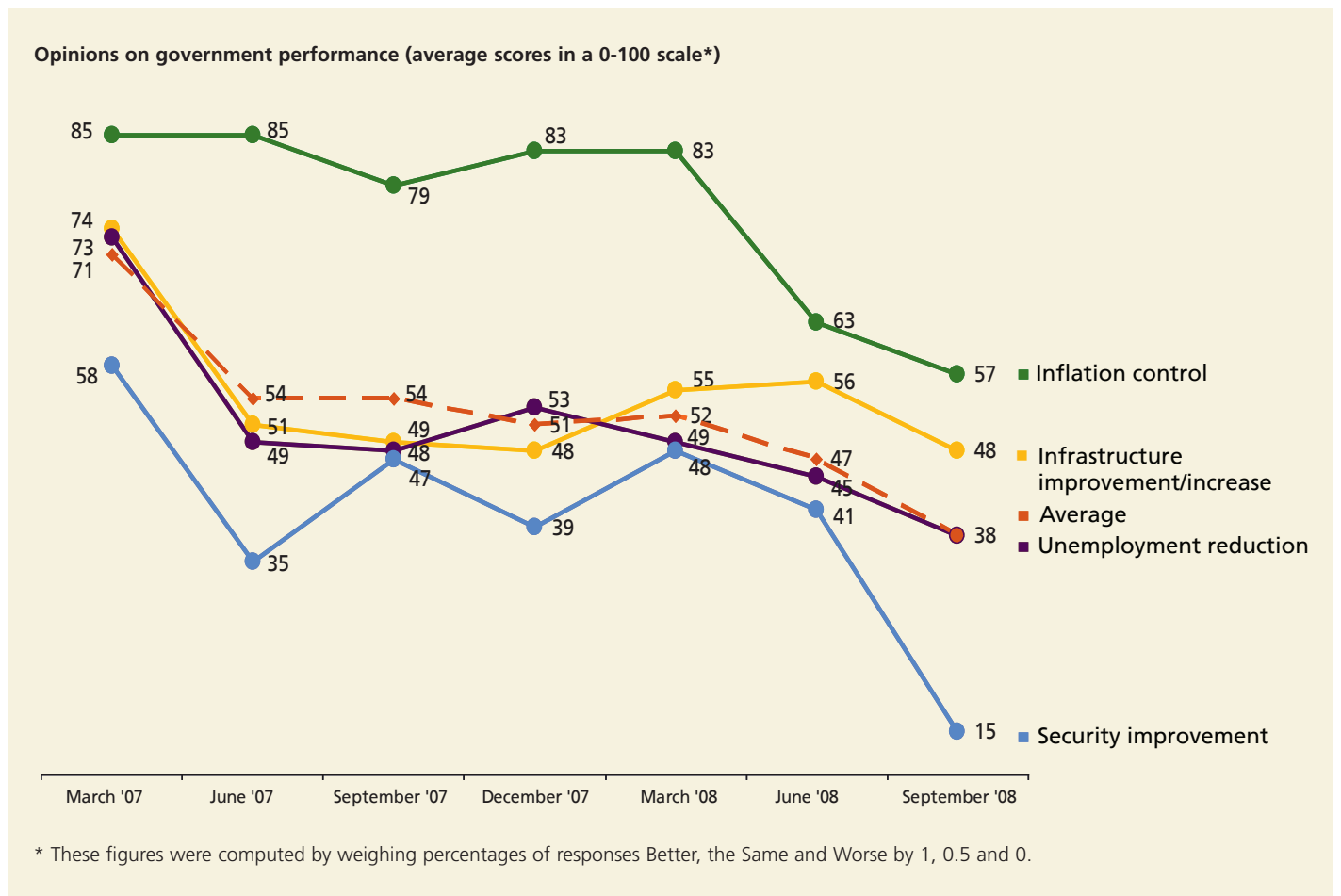


## Government Administration

As results shown, September survey respondents were more pessimistic about the government's effectiveness in order to keep the economy's growth pace, and thus to reduce unemployment and poverty.

They believe little progress has been made to solve structural issues that hinder Mexico's economic development, especially in the case of insecurity, the most sensitive issue.

The executives' responses evinced strong disapproval of government performance at insecurity control with the lowest scores of all surveys carried out to date: 15 in a 0-100 scale. A substantial drop certainly.

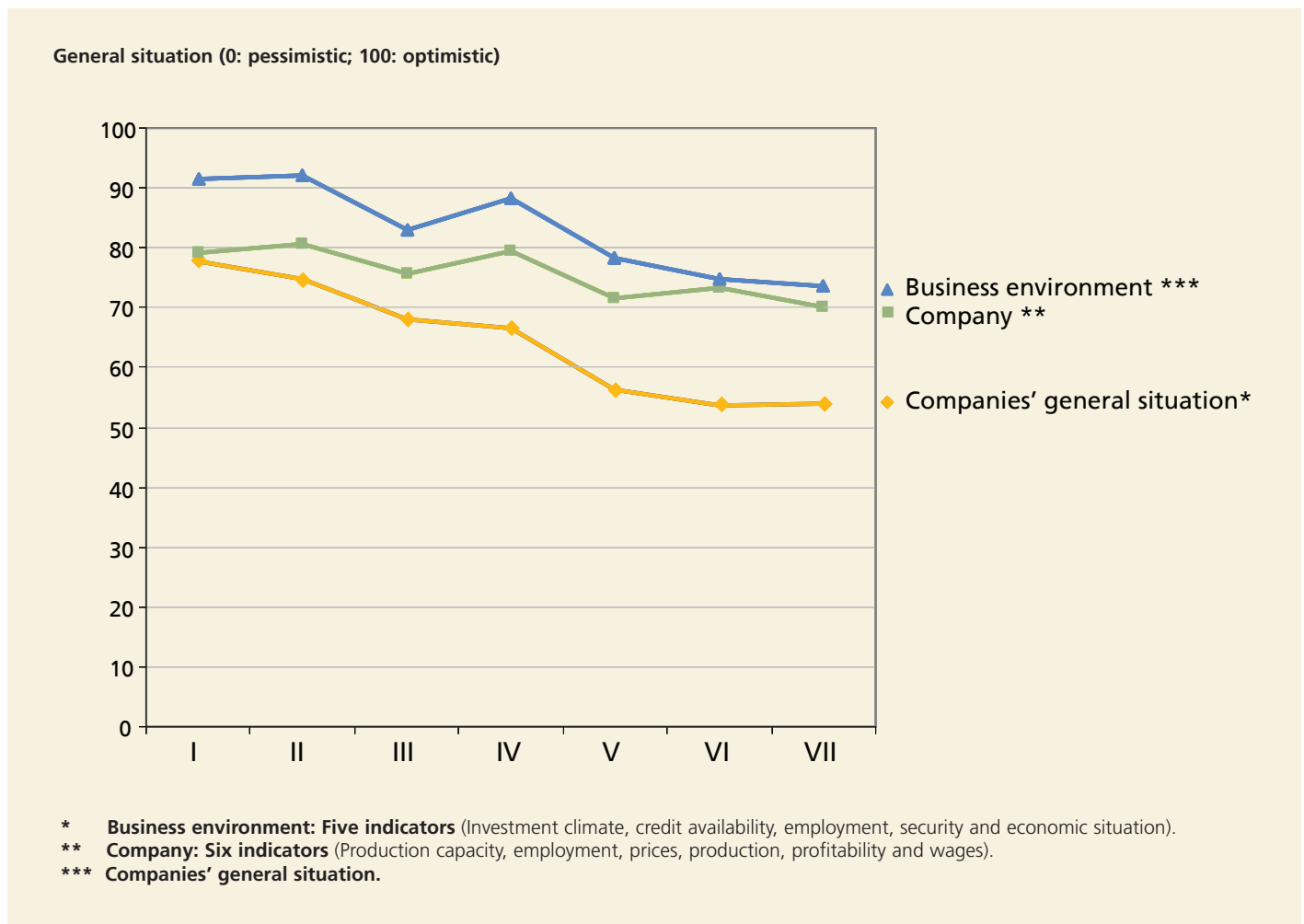


## V. Conclusions

Survey results show a negative outlook regarding security in Mexico. In the view of the respondents, the prevailing insecurity rose above all other sensitive issues and became the crucial deterrent for economic growth, likely influenced by recent uncommon violence against civil society as well as the perception that organized crime is growing stronger than the government's institutions.

Yet a tough business environment is forecasted, the results of our extra poll carried out in October 2008, show that companies are already taking appropriate actions steps.

According to the executives' opinion, the economic downturn in the United States is the second major concern for the Mexican economy.



# Complementary addendum

## Special sounding

An extra poll was carried out with executives of 75 of the most important companies located in Mexico, during the first days of October regarding the effects of the international financial crisis in Mexican companies.

## Expected profitability

“How do you expect profitability will evolve in the incoming months?”

A full 65% of respondents forecast profit decline. Exporting companies to the USA report a bigger share (76%) (Figure 1) Only 28% of exporting companies foresee to increase sales in Q4 2008. (Figure 2)

The expected decrease in exports would vary between 2% and 20%, due to the USA demand shortfall. Three executives that did not foresee changes in Q3 2008 stated:

- a) “Profit margin is what really matters due to high volatility of commodities and raw materials”;
- b) “We assume that we will be asked to hold prices down in order to promote sales”;
- c) “It will decrease considerably in 2009, because we also sell and export empty containers; consumption will decline due to unemployment increase.

Figure 1. Surveyed companies distribution according to three scenarios

Companies	They are taking different action steps than those targeted		Q4 2008 profitability		
			Will increase	Same	Will decrease
Exporting 39%	Yes	81%	1	4	18
	No	19%	0	2	4
Non exporting 61%	Yes	76%	2	11	22
	No	24%	0	6	5
Overall 100%	Yes	77%	3	15	40
	No	23%	0	8	9
			4%	31%	65%

Figure 2. Surveyed exporting companies distribution, according to two indicators in Q4, 2008

Exports in USD		Profitability		
		Will increase	Same	Will decrease
Will increase	28%	4%	0%	24%
Same	27%	0%	10%	17%
Will decrease	45%	0%	10%	35%
Total	100%	4%	20%	76%

The executives' expectations are influenced by an overall reason (the effects of financial problems in the economic growth of the United States) and two particular reasons (the enterprise strategies and the characteristics of the economic activities in which they are involved). According to the surveyed execu-

tives, the most frequent reasons of their companies' profit decrease in Q4 2008, are less demand than expected and costs increase (See figures 3 and 4).

Figure 3. Export companies: Reasons for profit variation. A few examples

Expected profitability in Q4 2008			
Will increase	Same	Will decrease	
Market penetration	We expect to keep profitability due to new projects and new market entry.	We are a heavy automotive exporter to the USA, and this trend will decrease	Fuel price and exchange rate will increase, and sales will decrease.
	Most of our transactions are international.	We are providers for the automotive industry (60%) and in-house appliances (40%); over 90% of our production is exported directly or indirectly. Both industries had significant decrease in sales, which hits us directly.	High costs of raw materials, labor and freight expenditures.
		As money supply and spending decrease, remittances inflows will decline. The US real estate market will contract also, and lower exports and a recessive domestic market will prevail.	Operational and financial costs will increase and income will decrease.
		Decreasing demand	Credit will contract and economic activity will decline due to uncertainty.
		Our products are part of the industrial supply chain, which has already shown early contraction symptoms.	

Figure 4. Non export companies: Reasons for profit variation. A few examples

Will increase	Same	Will decrease	
70% of our customers export fruit & vegetables to the USA; home demand will increase for the winter season and will compensate fruit and vegetables' low demand in restaurants.	Because our current position is sound, it will hardly affect us.	Lower demand of banking services.	Sales reduction due to economic contraction. Increase of credit insurances' expense due to breach rates.
Corn demand	We have not been affected. There is no variation in our kind of business	People are afraid to buy.	Financial markets' volatility and capital markets' losses.
	Fewer deals and somewhat better profit for each one of them.	The downturn in the United States will impact companies in Mexico, they will reduce expenses.	Lower profit in the Financial Stock Exchange. Mexico: inflation with lower growth.
	Some financial products compensate others, such as transactions and exchange rate.	Restricted credit	Losses on overdue accounts receivables, lower credit demand and banking services.
	By experience, in crisis scenarios the insurance sector tends for a fair ROI, due to a lower sinistrality.	Remittances and exports to the United States will decrease affecting local consumption.	Because the exchange rate increase and due to lack of consumers.
	The market niches we serve are relatively protected (government)	As expenditure decreases in the United States, tourism will decline and will affect mostly hotels, bars and restaurants.	Exchange rate will increase and production will decrease.
	Due to our kind of business, the US downturn effect will not show until next year.	Construction will slacken and supply will increase.	Due to high impact on prices and interest rate increase.
	The impact on the real estate sector will not be strongly felt.	Sales have decreased importantly in the past months, and will likely keep that slope.	Because people will tend to doubt on the insurance companies' credibility.
		General consumption will decrease and market contraction will prevail.	Reduced market liquidity.

## Most frequent answer: costs reduction

“ Is your company undertaking different action steps to face the current environment?”

The survey results show a 77% of businesses are undertaking special action steps, most of them regarding financial issues (cost reduction, delaying investments, credit restrictions, among others), and some are changing their commercial strategy.

Table 5. Action steps undertaken by companies. A few examples.

Non exporting companies	Exporting companies
We are reviewing the investment rate for our customers.	Raw material price fixing.
Handling negative price issues. Forecasting interest rate changes.	To guarantee price and supply of raw materials. Review routings.
Review investments and related effects between businesses.	Increasing inventory levels.
Hold on cash.	Improve cash flow. Produce best selling items only.
Better control on financial resources.	Optimize inventories, reduce management expenses.
Market and products revaluation to pinpoint impacts and opportunities.	Do not authorize any new debt.
Higher restriction on credit policies and lines of credit.	Improve risk management and expense control.
Increase caution, risk and cash control.	Initiate austerity plans. Delay investment plans.
Postpone investments and employee benefits.	Reduce production, headcount and costs.
Possible stock positions sell out.	New product development.
At a global level we have implemented a cost reduction plan and transfer cash to corporate office to buy out leaving partners.	Budget for 2009 is being reviewed. We have to revise our sales forecast downwards. Most of budget issues are directly related with our forecast.
Cost reduction and gross margin improvement. Price increase strategy on some product lines. Freeze hiring. Austerity plans on operating expenses and sales.	Direct and indirect personnel reduction plans and no permanent placements. Search for local providers to reduce raw material costs.
Restructure in a different way to reduce number of employees.	Rationalization of expenses. Effectiveness and productivity intense search.
Search for an alternate business plan, as new contingencies arise. Reduction of services offered and reviewing the services price mix.	Benefits plan reduction, such as new car every 4 years instead of every 3. Change to low fare airline travel, permanent placement reduction regarding manufacturing indirect personnel.
Reduction of business expenses, travel and personnel transport, etc.	Address other markets, increase projects for a more efficient resource management.
Review annual forecast. Search for efficiency in costs, new market opportunities to compensate lower demand.	Production volume reduction, structure tune-up, search for alternate markets other than the USA.
Strengthen brand image amongst vegetable producers in local markets.	
Sales strategies on how to address the market.	
Faster recovery of account receivables, and precise inventory control.	
Budget cut down. More aggressive sales.	
More careful CRM process.	

## Uncertainty and caution

Additional comments were included at the end of the questionnaire. Two words summarize the executives' expectations: uncertainty and caution.

One of the executives stated: "It would be irresponsible to think that the Mexican market could remain unaffected by the economic crisis in the United States. Businessmen and managers must react in order to prevent a large impact in our industries and take precautionary action steps."

Some other respondents proposed different measures, such as:

- a) "Watch your cash flow; reduce only the necessary personnel to prevent generalized unemployment."
- b) "Take action steps to help to counterbalance this situation, particularly increasing our number of clients."
- c) "We will be monitoring. The United States had been stroke, but Mexico has not been deeply impacted."

The financial problems in the United States were not unknown for the Mexican executives, as well as the actions proposed by competent authorities and the predicted impact for Mexico.

Figure 6. Additional comments. A few examples

Expectations	Uncertainty
Mexico will be impacted by the United States' financial crisis. I believe this crisis will last until 2009 and recovery will likely begin in 2010.	Remittances might be affected by uncertainty.
Anti cyclic measures implemented by the Mexican government will help to compensate the external market decline.	It is extremely difficult to make medium and short run forecasts at the moment.
Companies will run up against difficulties; those engaged in credit loans might face risks.	We must wait and see how the whole situation evolves.
2009 will be a challenging year, but it will not be impossible to manage. We ought to be more creative and innovative with our products, services and price plans.	We must wait and see how much financial markets can reel from this crisis before taking extreme decisions and affecting the economy.
Our major client is experiencing a downturn and the rest of the European potential clients are in trouble.	The real enigma is how deep and long the crisis will be.
Mexico will be experiencing a contracted economic activity in 2009.	It is difficult to measure the economic impact of the crisis because there are continuous overnight changes.

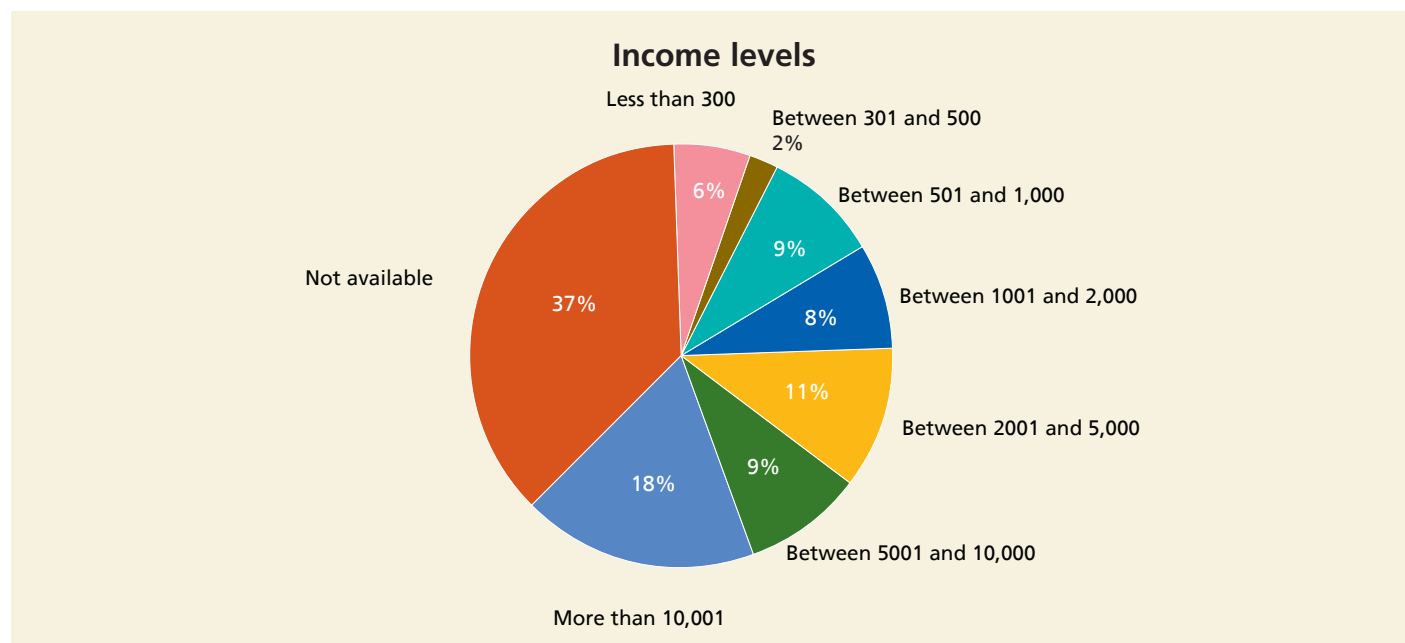
## VI. About the survey

Deloitte's seventh Business Barometer survey was carried out in September (3-24) 2008, and included 256 executives of the most prominent companies located in Mexico.

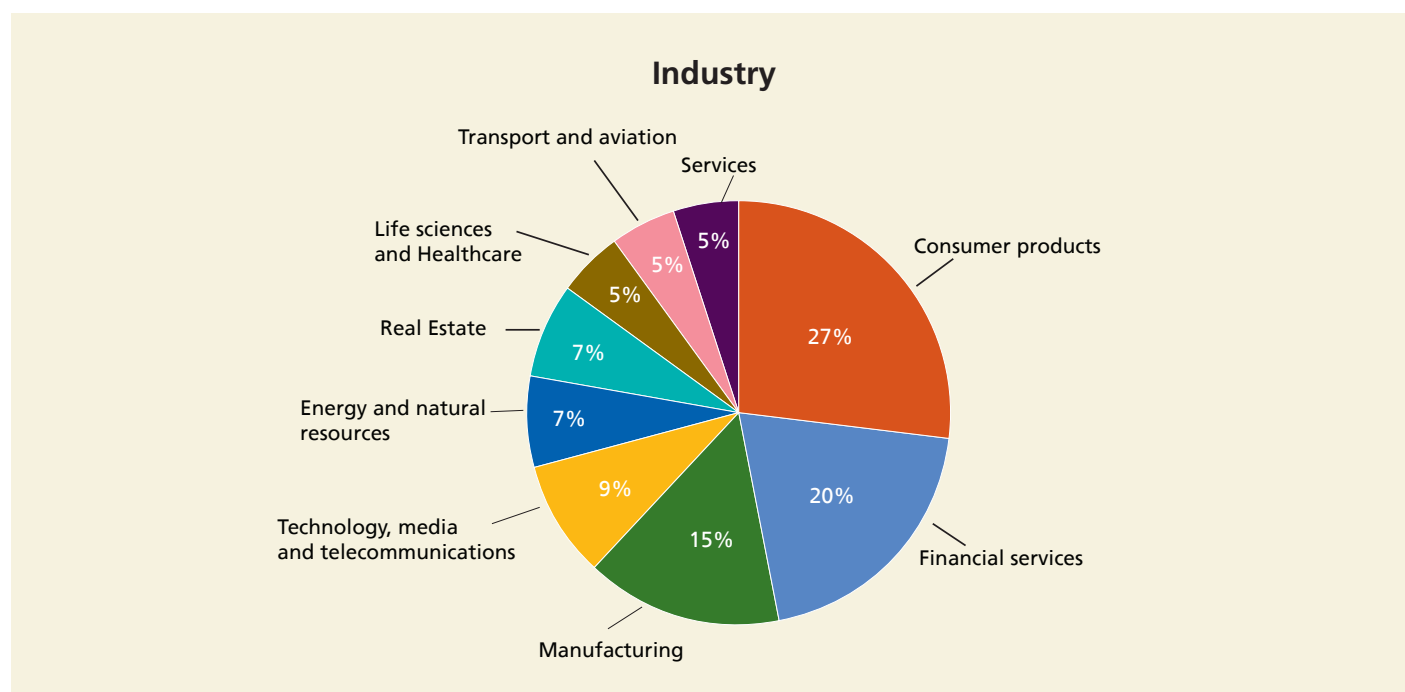
The special sounding for the Complementary Addendum was carried out in October 1-3.

Considered among the most important companies in Mexico, their added income rose to \$207 billion dollars, according to the last reported period.

### Average annual income of companies



### Industry participation:



## Participating Companies

The following companies have authorized the publication of their names in the list of participants

- ACCEL
- Acco Mexicana
- Accor Servicios Empresariales
- Ace Seguros
- Acremex
- Actinver
- Adhesivos de Jalisco
- Administradora Energía Azteca
- Advent International Corporation
- Aerolíneas Mesoamericanas
- Aeropuerto Internacional de la Ciudad de México
- AES Mérida LII
- Afianzadora Insurgentes
- Afore Bancomer
- Afore Santander
- Agropecuaria Sanfandila
- Agroproductos Bunge
- AIG México Compañía de Seguros de Vida
- Aisa Constructora de Puebla
- Alcatel México
- Alden Servicio Irapuato
- Alden
- Alfa Corporativo
- Alimentos Del Fuerte
- Allianz de México
- Almacenadora Mercader
- Almacenes Zaragoza
- Almidones Mexicanos
- Alstom México
- Alta Dirección Hemex
- Alucaps Mexicana
- American Chamber of Commerce
- American Industries International
- ANA Compañía de Seguros
- Ansul México
- Areva T&D
- Arvin Meritor Comercial Vehicle Systems de México
- Asociación Nacional de Concesionarios del Grupo Volkswagen
- Astrazeneca
- Atla Tec México
- Axtel
- Bachoco
- Banca Afirme
- Banco del Bajío
- Banco Inbursa/Grupo Financiero Inbursa
- Banco Interacciones/Grupo Financiero Interacciones
- Banco Invex
- Banco Mercantil del Norte
- Banco Nacional de México
- Banco Ve Por Más
- Banco Wal Mart de México Adelante
- BCBA Impulse Ingeniería Inmobiliaria
- BDF México
- Becton Dickinson de México
- Benavides de Monterrey
- Benteler de México
- Beta San Miguel
- Bioenergía de Nuevo León
- BMW de México
- Boehringer Ingelheim Promeco
- Bristol Myers Squibb de México
- Calefacción y Ventilación
- Carhartt de México
- Carrier México
- Carvajal
- Cementos Moctezuma
- Centro Mexicano para La Filantropía
- Cervecería Cuauhtémoc Moctezuma
- Church & Dwight
- Cía. Embotelladora Herdomo
- Ciudad de París
- Coca-Cola Femsa
- Combustión Industrial y Control
- Comercializadora Atlética
- Comercializadora Farmacéutica de Chiapas
- Comisión Federal de Electricidad
- Compo Fertilizantes de México
- Compusoluciones y Asociados
- Consorcio Ara
- Copachisa
- Copamex
- Corporación Durango
- Corporación Mexicana de Restaurantes
- Corporativo Dac
- Crédito Familiar
- Crédito Inmobiliario
- Cydsa Corporativo
- Dacomsa
- Dal-Tile Industrias
- Danisco México Delphi Asesores
- Delphi Diesel Systems Service México
- Desarrolladora Homex
- Despacho Castro, Elías, Reynoso y Asociados
- Devilbiss Ransburg de México
- Diageo México
- Dodge de México
- Domino Printing México
- DSM Nutritional Products México
- Earth Tech México
- Editora Paso del Norte
- Edoardos Martin
- EMC Computer Systems México
- Escuela Bancaria y Comercial
- Evenflo México
- Exportadora de Sal
- Farmacias de Similares
- Farmacias Esquivar
- Femsa Empaque
- Fiberweb Nonwovens de México
- Finaccess México
- Firmenich de México
- Flextronics Manufacturing Aguascalientes
- Fomento Económico Mexicano
- Fresenius Medical Care Compañía de Servicios
- G. Acción
- Ganaderos Productores de Leche Pura
- Ge Seguros
- General de Seguros
- General Motors Corporation
- Global Star de México
- Grupo Aéreo Monterrey
- Grupo Aeroportuario del Centro Norte
- Grupo Aeroportuario del Pacífico
- Grupo American Industries
- Grupo Bimbo
- Grupo Burlpark.
- Grupo Celanese
- Grupo Cementos de Chihuahua,

- Grupo Embotelladoras Unidas
- Grupo Fila Dixon
- Grupo Financiero Banorte
- Grupo Financiero Santander Serfin
- Grupo Financiero Scotiabank Inverlat
- Grupo Gigante
- Grupo Helvex
- Grupo ICA Grupo Industrial Trébol
- Grupo Industrial Zapata
- Grupo Jumex
- Grupo México
- Grupo Minsa
- Grupo Nacional Provincial
- Grupo PI Mabe
- Grupo Posadas
- Grupo Primex
- Grupo Radio Centro
- Grupo Sanborns
- Grupo Simec
- Grupo Villacero
- Hipotecaria Su Casita
- Honda de México
- HSBC México/Grupo Financiero HSBC
- Imerys
- Impulsa Infraestructura
- Inditex
- Industrias Ideal
- Ing. Hipotecaria
- Ingenio Presidente Benito Juárez
- Instant Storage de México
- Instituto del Fondo Nacional de la Vivienda para los Trabajadores
- Intermec Technologies de México
- Intermex Parques Industriales
- JDA Software de México
- JDS y Compañía
- Kimex
- Laboratorios Senosiain
- Litoprocess
- Luismin
- Manpower Corporativo
- Mapfre Fianzas
- Maquinaria Diesel
- Masari Casa de Cambio
- Mastercard México
- Maxcom Telecomunicaciones
- Mecalux México
- Metlife México
- Metropolitana Compañía de Seguros
- Mexichem Fluor
- Minsa
- Monex Casa de Bolsa
- Monex Grupo Financiero
- Mueller Montaña de México
- Multisistemas de Seguridad Del Valle de México
- MVS Televisión
- Nacional de Acero
- Nacional Monte de Piedad
- NEC de México
- Nevada Chemicals
- No Sabe Fallar
- Novartis Farmacéutica
- Nueva Wal-Mart de México
- Nutrisa
- Operadora Turística y Hotelera Playa
- Sábalo Ópticas Devlyn
- Panasonic de México
- Parfumerie Versailles
- Plasencia Guadalajara
- Playas de Occidente
- Procter & Gamble International Operations
- Productora de Papel
- Productos de Consumo Electrónico – Philips Productos
- Metálicos Steele
- Pronósticos para la Asistencia Pública
- Puig México
- Qualtia Alimentos Operaciones
- Química Franco Mexicana Nordin
- Quimi-Kao
- Reaseguradora Patria
- Refrescos Victoria del Centro
- Regio Empresas
- Restaurantes California
- Roto Cristales y Partes
- RR Donnelley Servicios
- RTC Industrias de México
- Sabritas
- Sanmina-SCI Systems de México
- Santamarina y Steta
- Satélites Mexicanos
- Scotiabank Inverlat
- Sears Roebuck de México
- Seguros Argos
- Seguros Atlas
- Sertigamex
- Servicio Panamericano de Protección
- Servicios Cablevisión
- Servicios Empresariales Zimag
- Sigma Alimentos
- Skandia Operadora de Fondos/Sociedad Operadora de Sociedades de Inversión
- Sociedad Mexicana de Productores de Fonogramas, Videogramas y Multimedia SGC
- Sukarne
- Sun Microsystems de México
- Techint
- Toshiba de México
- Toyota Motor Sales de México
- Tractebel DGI
- Transformadores I.G. Irapuato
- Transportes Pitic
- Troqueladora Batesville de México
- Unicar Plastics
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