

MEXICO FUND INC  
Form N-CSR  
December 29, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-02409

**THE MEXICO FUND, INC.**

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(Exact name of registrant as specified in charter)

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WASHINGTON, DC

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(Address of principal executive offices)

(Zip code)

**José Luis Gómez Pimienta**

**77 ARISTOTELES STREET, 3<sup>RD</sup> FLOOR**

**POLANCO D.F. 11560 MEXICO**

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(Name and address of agent for service)

**Copies to: Sander M. Bieber**

**Dechert LLP**

**1775 I STREET, N.W.,**

**WASHINGTON, DC 20006-2401**

Registrant's telephone number, including area code: 202-261-7941

Date of fiscal year end: October 31, 2005

Date of reporting period: October 31, 2005

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office

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of Management and Budget ( OMB ) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

**Item 1. Reports to Stockholders.**

A copy of the Registrant's annual report to stockholders for the period ending October 31, 2005 transmitted to stockholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is provided below.

## **The Mexico Fund, Inc.**

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### **Directors:**

Emilio Carrillo Gamboa Chairman

Philip Caldwell

Eugenio Clariond Reyes-Retana

José Luis Gómez Pimienta

Claudio X. González

Robert L. Knauss

Jaime Serra Puche

### **Officers:**

José Luis Gómez Pimienta President

Samuel García-Cuéllar Secretary

Alberto Osorio Treasurer

Carlos H. Woodworth Corporate Governance

Vice President,

Chief Compliance Officer

Eduardo Solano Investor Relations

Vice President

Sander M. Bieber Assistant Secretary

### **Investment Adviser**

Impulsora del Fondo México, S.C.

**Custodian**

BBVA Bancomer, S.A.

Comerica Bank

**Transfer Agent and Registrar**

American Stock Transfer & Trust Company

**Counsel**

Dechert LLP

Creel, García-Cuéllar y Müggenburg, S.C.

**Independent Registered Public**

**Accounting Firm**

PricewaterhouseCoopers LLP

This report, including the financial statements herein, is transmitted to stockholders of The Mexico Fund, Inc. for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in the report.

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**The Mexico Fund, Inc.**

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Annual Report

October 31, 2005

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[www.themexicofund.com](http://www.themexicofund.com)

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**The Mexico Fund, Inc.**

**Annual Report**

**October 31, 2005**

**Highlights**

- The Fund's fiscal year 2005 ended on October 31, 2005.
- During this period, the Fund's market price and net asset value (NAV) per share registered total returns of 55.6% and 48.6%, respectively, compared with increases of 52.0% and 45.8% registered by the IFCG Mexico and IPC indices, respectively.
- At the end of this period, the discount between the Fund's market price and NAV per share was 11.22%, compared with 14.9% at the end of fiscal 2004.
- We are pleased to announce that the Board of Directors has declared the payment of the Fund's largest cash distribution per share since its inception in June 1981. The Board has declared a cash dividend of \$2.909 per share, payable on January 23, 2006 to stockholders of record on December 21, 2005. The dividend is comprised of \$0.8461 ordinary income, which includes \$0.2213 of short-term capital gains and \$2.0629 of long-term capital gains. This dividend is equivalent to 10.4% of its market price and to 9.2% of its net asset value per share as of October 31, 2005. No Mexican withholding tax will be applied to this dividend.
- The Mexican gross domestic product (GDP) increased 3.3% during the third quarter of 2005, compared with 4.4% during 2004.  
*The Mexico Fund, Inc. is a non-diversified closed-end management investment company with the investment objective of long-term capital appreciation through investments in securities, primarily equity, listed on the Mexican Stock Exchange. The Fund provides a vehicle to investors who wish to invest in Mexican companies through a managed non-diversified portfolio as part of their overall investment program.*

*Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market.*

## The Mexico Fund, Inc.

### To Our Stockholders:

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We are pleased to present to you the Fund's 2005 Annual Report. The Fund's strategy of investing in attractive growth-oriented businesses, including, but not limited to, small- and medium-capitalization companies, produced favorable performance in the Fund's market price and net asset value (NAV) per share. In this Report, we summarize the period's prevailing economic and market conditions in Mexico and outline the Fund's investment strategy and resulting performance. We hope you find this Report useful and informative.

### Economic Environment

According to official sources, Mexico's gross domestic product (GDP) increased 3.3% during the third quarter of calendar 2005, compared with 4.4% during 2004. This lower economic growth was due in part to a less dynamic manufacturing industry, which increased only 0.2%. Nonetheless, during the first quarter of 2005, all sectors of the economy registered positive rates of growth: the primary sector, composed of agriculture, fishery and livestock, increased 10.6%; transportation, 6.6%; financial services, 6.2%; commerce, restaurants and hotels, 3.1%; personal services, 2.3%; construction, 2.1%; mining 1.4%; and electricity, gas and water, 1.0%. Optimistic expectations about the Mexican economic environment continue, despite recent natural disasters and uncertainties concerning the July 2006 Presidential, Congressional and several States elections. Economists surveyed by the Mexican Central Bank currently estimate that the Mexican GDP will increase by approximately 3.29% during 2005 and 3.43% during 2006.

Mexico's inflation rates have declined significantly in recent months. For the year ended November 30, 2005, the Mexican inflation rate amounted to 2.91%, compared with 5.19% at the end of 2004. This decline was generated by the restrictive

monetary policy implemented by the Central Bank, in an effort to reach annual inflation rates of 3% ( $\pm 1\%$  as a margin of error to accommodate external factors). Analysts currently believe that the annual inflation rate for 2005 will be around 3.26% and 3.61% for 2006.

As a consequence of lower inflation rates, domestic interest rates have decreased in recent months. The interest rate of the 28-day Cetes declined from 9.6% at the end of May 2005 to 8.1% at mid December 2005. Similarly, Mexico's country risk, measured by the spread between the yield of Mexican sovereign debt instruments traded abroad and US Treasury bonds, reached a new historical minimum level of 113 basis points (1.13%) on November 30, 2005. Analysts estimate that interest rates will be relatively stable during the rest of 2005 and 2006, projected at 8.61% and 8.13%, respectively, at the end of each year. The interest rate paid by the 20-year bond denominated in Mexican pesos, was 9.2% at the end of October 2005, compared with 10.9% during May 2005. The stable demand for, and long-term maturities of, these instruments continue to reflect the confidence and positive sentiment of domestic and international investors towards Mexican debt instruments.

The Mexican peso remains strong against the US dollar. Several factors including the significant increase of international oil prices, the continued flow of dollars sent by Mexicans living abroad, mostly in the United States, the high levels of domestic interest rates that prevailed during the first half of 2005 and the amounts of direct foreign investment (see paragraph below) have contributed to the strength of the Mexican peso. The Mexican peso revalued 6.5% during the Fund's 2005 fiscal year, from Ps. 11.54 at the end of fiscal 2004 to Ps. 10.79 at the end of October 2005. Since then, the exchange rate has further decreased to Ps. 10.46 as of December 5, 2005. The Central Bank continues implementing a free-floating exchange rate policy, with only minor market interventions aimed at reducing the rate of growth of international

currency reserves, which amounted to a historical maximum level of \$65.5 billion at the end of November 2005. Analysts estimate that the exchange rates will also be relatively stable during 2005 and 2006, estimated at around Ps. 10.81 and Ps. 11.37, respectively, at the end of each year.

Mexico's external accounts registered rates of growth consistent with those of the economic activity, foreign trade and oil prices. According to figures published by the Mexican authorities, during the first nine months of calendar 2005, Mexico's total exports increased 11.8% to \$154.7 billion; non-oil exports increased 8.4% to \$131.7 billion, while oil exports increased 35.5% to \$23.0 billion. The price of the Mexican oil mix increased 47.3%, from \$35.05 per barrel at the end of September 2004 to \$51.62 per barrel one year later. At the same time, total imports increased 11.9% to \$158.9 billion. The resulting balance was a deficit of \$4.2 billion, 17.5% higher than that registered during the same period of 2004. During the first nine months of calendar 2005, remittances sent to Mexico from Mexicans living abroad increased 18.8% to \$14.7 billion, while direct foreign investment increased 25.3% (excluding two extraordinary transactions conducted during the first quarter of 2004) to \$12.89 billion.

### **Management Discussion of Fund's Performance and Portfolio Strategy**

During the first half of this fiscal year, your Fund completed the investment of proceeds obtained from the rights offering transaction concluded at the end of fiscal 2004.

Throughout fiscal 2005, the Mexican equity market provided favorable investment opportunities, allowing the Fund to capitalize on the results of its investment strategy by investing in leading Mexican corporations as well as attractive and growth-oriented small- and medium-capitalization companies. The Fund invested all the proceeds obtained from the rights offering transaction concluded at the end of October 2004 and achieved positive results. For fiscal 2005, the Fund's market price per share registered a total return of 55.6%, increasing to \$28.10, while the NAV per share registered a total return of 48.6%, increasing to \$31.65. These figures compare with 52.0% for the IFCG Mexico Index, 49.5% for the Morgan Stanley Capital International Index, 45.8% for the Bolsa IPC Index and 22.9% for the Bolsa Index of Medium Size Companies.

During the period that covers this Report, Mexican listed companies continued reporting strong financial results. For the first three quarters of calendar 2005, compared with the same period of 2004, sales of listed companies increased 17.1%, EBITDA<sup>1</sup> increased 14.1% and net income grew 30.0%. As a result, the average Price Earnings Ratio (PER) of the market declined from 15.3 times at the end of October 2004, to 13.1 times at the end of October 2005 while the price to book value increased from 2.12 times to 2.43 times during the same period.

The Fund's five portfolio holdings that contributed the most to the increase to its NAV during this year were: América Móvil (AMX), Corporación Geo (Geo), América Telecom (Amtel), Wal-Mart de México (Walmex) and Cemex, which together accounted for 38.6% of the Fund's net assets as of the end of this fiscal year. These five issuers provided 47% of the total return of the Fund's NAV during this period. AMX provides telecommunications services in Mexico and Latin America; Geo constructs affordable, middle-income and residential houses; Amtel is the holding company of AMX; Walmex is the Mexican subsidiary of international retailer Walmart and Cemex is one of the world's leading producers of cement, concrete and ready mix. During this fiscal year, the market prices of these five issuers increased 78%, 97%, 65%,

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<sup>1</sup> Earnings before interest, taxes, depreciation and amortization.

49% and 80%, respectively. Two other important contributors to the Fund's NAV performance were Grupo Financiero Banorte (Gfnorte), an important financial group in Mexico, and Urbi Desarrollos Urbanos (Urbi), a company also in the business of constructing affordable and middle-income houses. The market prices of these two issuers increased around 82% and 72%, respectively. The 6.5% revaluation of the Mexican peso against the US dollar, mentioned above, also contributed to the Fund's total return.

During this fiscal year, the following companies were added to the Fund's portfolio: Carso Infraestructura y Construcción (Cicsa), construction of infrastructure projects; and Mexichem (Mexichem), chemical industry. The Fund received shares of Impulsora del Desarrollo y el Empleo en América Latina (Ideal), from the spin-off of Grupo Financiero Inbursa. Ideal is a company specializing in the funding of infrastructure projects.

Of the 32 equity issuers included in the Fund's portfolio at the end of October 2005, only two experienced market price declines. These companies are Grupo Desc (Desc), a conglomerate that represented 0.27% of net assets and whose market price declined 5.7%; and Industrias CH (Ich), a steel producer that represented 0.5% of net assets and whose market price declined 3.1%.

Until recently, companies listed on the Mexican Stock Exchange were organized under Mexican law. Recently, companies organized outside of Mexico have listed on the Mexican Stock Exchange, a consequence of the increasing globalization of the Mexican economy and its securities market. Because the Fund's investment adviser believes some of these issuers may present attractive investment opportunities, the Fund's Board of Directors recently approved permitting the Fund to invest in securities of issuers listed on the Mexican Stock Exchange that are not organized in Mexico, provided that such issuers or their subsidiaries have a business presence in Mexico, and that, in the aggregate, no more than 20% of the Fund's assets are invested in such issuers (based on the initial value of the investment).

The discount between the Fund's market price and NAV ended October 2005 at 11.2%, compared with 14.9% at the end of fiscal 2004. On a regular basis, the Board of Directors closely analyzes the Fund's discount levels. The Board believes that the Fund's periodic in-kind repurchase offers continue to be an effective measure to contain the discount and allow stockholders the opportunity to have additional liquidity at a price near the NAV per share.

At the closing of fiscal 2005, total Fund outstanding shares amounted to approximately 17 million, for total net assets of almost \$535 million, and total number of Fund shares traded on all US consolidated markets was equivalent to 11 million shares.

The following chart shows the Fund's portfolio composition by sector, expressed as a percentage of the Fund's net assets.

**Portfolio Composition by Sector**

**% of Net Assets**

**October 31, 2005**

**Declaration of Dividend**

We are pleased to announce that the Board of Directors has declared the payment of the Fund's largest cash distribution per share since its inception in June 1981. The Board has declared a cash dividend of \$2.909 per share, payable on January 23, 2006 to stockholders of record on December 21, 2005. The dividend is comprised of \$0.8461 ordinary income, which includes \$0.2213 of short-term capital gains and \$2.0629 of long-term capital gains. This dividend is equivalent to 10.4% of its market price and to 9.2% of its net asset value per share as of October 31, 2005. No Mexican withholding tax will be applied to this dividend.

**Elimination of Value Added Taxes**

As of July 1, 2005, as a result of certain changes in the corporate structure of the Fund's investment adviser, the Fund ceased to pay the value added tax (VAT) for services provided by the Fund's investment adviser and administrator. Total VAT saved by the Fund for the period July 1, 2005 to October 31, 2005 amounted to \$257,019.

**Concentration Policy**

The Fund has adopted a concentration policy that permits it to concentrate its investments in any industry or group of industries in the IPC Index (or any successor or comparable index as determined by the Board of Directors to be an appropriate measure of the Mexican market) if, at the time of investment, such industry represents 20% or more of the IPC Index; provided, however, that the Fund will not exceed the IPC Index concentration by more than 5%.

At the end of October 2005, the only industry group that represented 20% or more of the value of the securities included in the IPC Index is the

communications industry group. This industry includes local, long-distance, and cellular telephone companies, as well as broadcast and media companies. Approximately 86.16% of this industry group is comprised of stocks of telecommunications companies. At the end of October 2005, 29.07% of the Fund's net assets were invested in this industry group. This is compared with the communications industry group's weighting of approximately 44.01% of the IPC Index. The Fund's Investment Adviser will continue to evaluate the concentration in this industry and may choose not to concentrate in this industry group in the future or to concentrate in other industries subject to the concentration policy described above.

### **Periodic Repurchase Offer Authority**

On March 6, 2002, the Fund announced the Board's approval of a policy to conduct periodic in-kind repurchase offers at no less than 98% of NAV for up to 100% of the Fund's outstanding shares. This policy is intended to provide additional liquidity to Fund shares and to reduce the discount at which Fund shares have been trading on the NYSE. Under this policy which was approved by stockholders and is the subject of exemptive relief granted by the Securities and Exchange Commission (SEC), the Fund offers to repurchase no less than five percent of the Fund's outstanding shares each fiscal year, based on the number of shares outstanding at the beginning of the fiscal year. Repurchase offers are in-kind and conducted at least once each fiscal year, but not more frequently than quarterly, and are for between one and one hundred percent of the Fund's outstanding shares. The Board can set or reset the periodic interval between repurchase offers at three, six or 12 months.

The Fund has publicly announced that its next repurchase offer shall occur in January 2006. The Fund is offering to repurchase up to five percent of its shares in exchange for a pro-rata portion of the Fund's securities. The repurchase offer will expire on January 13, 2006 at 5:00 p.m., Eastern time. The repurchase pricing date is January 20, 2006. The Fund will repurchase shares at net asset value, reduced by a repurchase price adjustment of 1.25%, for a repurchase price of 98.75% of net asset value. Payment of the repurchase offer proceeds will be made on or before January 27, 2006, provided the stockholder participant's account accepts the proceeds.

**The repurchase offers are not part of a plan to liquidate the Fund. Stockholder participation in the repurchase offers is not mandatory as stockholders can continue to purchase and sell Fund shares in cash transactions on the NYSE. The Fund continues to provide a convenient professionally managed vehicle for investing in Mexico.**

The Board of Directors of the Fund anticipates that the Fund's next repurchase offer will occur during July 2006 for an amount not yet determined.

### **Proxy Voting**

Information is available about how the Fund voted proxies during the twelve-month period ending June 30, 2005, without charge, upon request, by calling collect Mr. Eduardo Solano, the Fund's Investor Relations Vice President, at (52 55) 5280-3247, during Mexico City business hours (10:00 am to 3:00 pm and 5:00 to 7:00 pm ET) and on the SEC's website at [www.sec.gov](http://www.sec.gov). The Fund's and the Fund's Investment Adviser's proxy voting policies and procedures are on the Fund's website, [www.themexicofund.com](http://www.themexicofund.com), or are available without charge, upon request, by calling Eduardo Solano at (52 55) 5280-3247, during Mexico City business hours (10:00 am to 3:00 pm and 5:00 to 7:00 pm ET), and on the Fund's website at [www.themexicofund.com](http://www.themexicofund.com) under the heading Corporate Governance and the SEC's website at [www.sec.gov](http://www.sec.gov).

## Investor Relations; Reports to Stockholders

The Fund's website presents the Fund's market price and NAV per share on a same-day basis, the complete history of dividend distributions made by the Fund and provides a downloadable database containing the most important historical figures for the Fund. Documentation of the Fund's in-kind repurchase offers is available at the website section titled "Shareholder Information". The website section "Insiders Filings" provides direct hyperlinks to filings made by Directors and Officers of the Fund and its Investment Adviser regarding transactions in Fund shares available at the Securities and Exchange Commission's website. The Fund also has placed many Fund governance documents on the website under the section titled "Corporate Governance", including the Fund's Articles and By-laws and committee charters.

Starting with the third quarter in 2004, the Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's complete Schedules of Investment and Statements of Assets and Liabilities for the first and third quarters of its fiscal year are also available electronically on the Fund's website at "Portfolio". The Fund's Form N-Q filings are available on the SEC's website at [www.sec.gov](http://www.sec.gov) or may be reviewed and copied at the SEC's Public Reference Room in Washington, DC (information regarding which may be obtained by calling 1-800-SEC-0330). Electronic versions of the Fund's semi- and annual reports and Monthly Summary Reports are published on the Fund's website at section "Investor Reports". Stockholders will receive printed versions of the Fund's semi- and annual reports. This information is also available on the Fund's electronic Form N-Q filings submitted to the SEC. Stockholders who desire to receive public reports and press releases regarding the Fund electronically upon their dissemination by the Fund should contact the Fund's Investor Relations Office via e-mail (see address below). We hope that the Fund's web site is a useful resource for information and we will continue working to improve it.

Stockholders may contact the Investment Adviser via telephone, in Mexico City, at (+52 55) 5282-8900. Please ask for Mr. Eduardo Solano, the Fund's Investor Relations Vice President. Personnel to answer your questions are regularly available from 10:00 am to 3:00 pm and from 5:00 pm to 7:00 pm ET.

The Fund also offers stockholders and the general public the ability to contact the Fund via e-mail with questions or requests for additional information about the Fund. **Stockholders may also direct any concerns regarding financial information to this e-mail address.** Please direct your e-mail inquiries to:

### Investor Relations Office

[investor-relations@themexicofund.com](mailto:investor-relations@themexicofund.com)

Information on the Fund's NAV and market price per share is also published weekly in The Wall Street Journal, The New York Times and other newspapers in a table called "Closed-End Funds". The Fund's NYSE trading symbol is MXF.

The Fund's Dividend Reinvestment Plan and Transfer Agent is:

**American Stock Transfer & Trust Company**

59 Maiden Lane Plaza Level

New York, NY 10038

(212) 936-5100

**Dividend Reinvestment Plan**

The Fund's Dividend Reinvestment Plan (the "Plan") provides a convenient way to increase your holdings in the Common Stock of the Fund through the reinvestment of net investment income and capital gain distributions. Under the terms of the Plan, Fund shareholders are automatically enrolled.

as participants in the Plan. If you do not wish to participate in the Plan, please contact the Plan Agent. Upon any termination of participation under the Plan, the Plan Agent will cause a share certificate for the appropriate number of full shares to be delivered to the participant, and a cash adjustment for any fractional shares. At a stockholder's request, the Plan Agent will sell the participant's shares and remit any proceeds to the participant, net of brokerage commissions. Stockholders who do not participate in the Plan will receive all distributions in cash.

Under the terms of the Plan, whenever the Fund declares a distribution, Plan participants will receive their distribution entirely in shares of Common Stock purchased either in the open market or from the Fund. If, on the date a distribution becomes payable or such other date as may be specified by the Fund's Board of Directors (the valuation date), the market price of the Common Stock plus estimated brokerage commissions is equal to or exceeds the NAV per share of Common Stock, the Plan Agent will invest the distribution in newly issued shares of Common Stock, which will be valued at the greater of NAV per share or the current market price on the valuation date. If on the valuation date, the market price of the Common Stock plus estimated brokerage commissions is lower than the NAV per share, the Plan Agent will buy Common Stock in the open market. As a participant in the Plan, you will be charged a *pro-rata* portion of brokerage commissions on all open market purchases.

If your shares are registered or will be registered in the name of a broker-dealer or any other nominee, you must contact the broker-dealer or other nominee regarding his or her status under the Plan, including whether such broker-dealer or nominee will participate in the Plan on your behalf. Generally, shareholders receiving Common Stock under the Plan will be treated as having received a distribution equal to the amount payable to them in cash as a distribution had the stockholder not participated in the Plan.

If you have any questions concerning the Plan or would like a copy of the Plan brochure, please contact the Plan Agent:

**American Stock Transfer & Trust Company**

Attention: Dividend Reinvestment Department

59 Maiden Lane Plaza Level

New York, NY 10038

(212) 936-5100

**New York Stock Exchange Certifications**

The Fund is listed on the New York Stock Exchange ( NYSE ). As a result, it is subject to certain corporate governance rules and related interpretations issued by the NYSE. Pursuant to those requirements, the Fund must include information in this report regarding certain certifications. The Fund's President and Treasurer have filed certifications with the SEC regarding the quality of the Fund's public disclosure. Those certifications were made pursuant to Section 302 of the Sarbanes-Oxley Act ( Section 302 Certifications ). The Section 302 Certifications were filed as exhibits to the Fund's annual report on Form N-CSR, which included a copy of this annual report along with other information about the Fund. After the Fund's 2005 annual meeting of stockholders, it filed a certification with the NYSE stating that its President was unaware of any violation of the NYSE's Corporate Governance listing standards.

**Sincerely yours,**

**José Luis Gómez Pimienta**

President

December 27, 2005

**Emilio Carrillo Gamboa**

Chairman of the Board

**Directors and Officers Biographical Data (as of November 1, 2005)**

*Interested Director*

Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length	Principal Occupation	Other Directorships
		of Time Served	for Past Five Years and Other Directorships	Held by Director
José Luis Gómez Pimienta*, Aristóteles 77, 3rd Floor Col. Polanco 11560 México, D.F. México	President of the Fund; Class II Director	Term expires 2007; Director since 1989.	Mr. Gómez Pimienta has over two decades of experience investing in the Mexican securities market. He has been the President of the Fund since its inception and has also served as a Director since 1989. Mr. Gómez Pimienta has been Chairman of the Board of the Fund's investment adviser, Impulsora del Fondo México, S.C., since 1987 and Chief Executive Officer since inception.	Director (since 1997) and member of the Executive Committee (since 1998) and the Audit Committee (since 2003) of the Bolsa Mexicana de Valores (Mexican Stock Exchange).

Age: 66

\* Director is an interested director (as defined in the 1940 Act). Mr. Gómez Pimienta is deemed to be an interested director by reason of his affiliation with the Investment Adviser.  
Alternate member of Valuation Committee.

*Independent Directors\**

Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length	Principal Occupation	Other Directorships
		of Time Served	for Past Five Years and Other Directorships	Held by Director
Philip Caldwell c/o Aristóteles 77, 3rd Floor	Class I Director	Term expires 2006; Director since 1991.	Mr. Caldwell was Chairman and Chief Executive Officer of Ford Motor Company from 1979 to 1985 succeeding Henry Ford II. He was the first non-Ford family member to lead the company. From 1953 to 1990, he served in a wide variety of domestic and international executive positions	None.

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Col. Polanco

11560 México, D.F.

México

Age: 85

at Ford and was Director from 1973 to 1990. From 1985 until 1998, Mr. Caldwell was a Director and Senior Managing Director of Lehman Bros. Inc. and its predecessor, Shearson Lehman Bros. Inc. and its predecessor, Shearson Lehman Brothers Holdings, Inc. From 1986 until 1999, Mr. Caldwell was a Director of American Guaranty & Liability Insurance Company.

Mr. Caldwell was a Director of Mettler-Toledo International, Inc. from 1996 until 2005. He has also served as Director of Waters Corporation (1994-2005) and of Russell Reynolds Associates, Inc. (1984-2005). Mr. Caldwell is currently an Advisory Board member for Russell Reynolds Associates, Inc.

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Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length	Principal Occupation	Other Directorships
		of Time Served	for Past Five Years and Other Directorships	Held by Director
<p>Jaime Serra Puche</p> <p>Edificio Plaza</p> <p>Prolongación Paseo de la</p> <p>Reforma 600-103</p> <p>Santa Fe Peña Blanca</p> <p>01210 México, D.F.</p> <p>México</p> <p>Age: 54</p>	<p>Class I Director</p>	<p>Term expires 2006; Director since 1997.</p>	<p>Dr. Serra is a Senior Partner of the law and economics consulting firm SAI Consultores, S.C.</p> <p>Dr. Serra is a former Secretary of Finance for Mexico and he was the minister in charge of negotiations for NAFTA and trade agreements between Mexico and Chile, Bolivia, Venezuela, Colombia and Costa Rica on behalf of the Mexican government.</p> <p>Formerly, Dr. Serra has served as a Visiting Professor at Princeton University, Stanford University and New York University. He was also Secretary of Trade and Industry (Mexico) and a Distinguished Visiting Associate at the Carnegie Endowment for International Peace. He has a Ph.D. in economics from Yale University.</p>	<p>Director, Vitro, S.A. de C.V. (glass manufacturer); Director, Tenaris (tube producer); Director, Chiquita Brands, Inc. (fruit producer); Director, Grupo Modelo, S.A. de C.V. (beer brewing); Co-Chairman, President's Council on International Activities of Yale University.</p>
<p>Claudio X. González</p> <p>Lagrange 103</p> <p>Polanco</p> <p>Colonia Los Morales</p> <p>México, D.F. 11510</p> <p>México</p> <p>Age: 71</p>	<p>Class II Director</p>	<p>Term expires 2007; Director since 1981.</p>	<p>Mr. González was President of the Business Coordinating Council of Mexico. He has served as Chairman of the Board and Chief Executive Officer of Kimberly-Clark de México S.A. de C.V., a consumer products company, since 1973. Mr. González is also on the Board of Directors of several prominent U.S. and Mexican companies, including General Electric Co.</p>	<p>Chairman of the Board, Chief Executive Officer and Director, Kimberly-Clark de México, S.A. de C.V. (consumer products); Director, Kimberly-Clark Corp. (consumer products); Director, General Electric Co. (industrial and financial products); Director, Investment Company of America (investment fund); Director, Kellogg Co. (food products); Director, Home Depot (home improvement); Director, Grupo Alfa, S.A. de C.V. (conglomerate); Director, Grupo Carso, S.A. de C.V.; Director, Grupo México, S.A. de C.V. (copper mining and rail transportation); Director, America Movil, S.A. de C.V. (telecommunications); Director, Grupo Financiero Inbursa (investment and banking); Director, Televisa (broadcasting).</p>

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Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length  of Time Served	Principal Occupation	Other Directorships
			for Past Five Years  and Other Directorships	Held by Director
Robert L. Knauss  c/o Aristóteles 77, 3rd Floor  Col. Polanco  11560 México, D.F.  México  Age: 73	Class II  Director	Term expires 2007; Director since 1985.	Mr. Knauss served as Chairman of the Board and Principal Executive Officer of Philips Services Corp. (industrial services) (1998-2003) and also served as Chairman of the Board and Chief Executive Officer of Baltic International USA, Inc. (investments) (1995-2003). During the past twenty years Mr. Knauss has served on the Boards of Directors of seven public companies. Mr. Knauss was the former Dean and Distinguished University Professor of University of Houston Law School and was also Dean of Vanderbilt Law School.	Director, Equus II, Inc. (investment company); Director, XO Communications, Inc. (telecommunications); Director, Westpoint International Inc. (home products).
Eugenio Clariond Reyes-Retana  Av. Batallon de San Patricio # 111  Piso 26  Col. Valle Oriente  66269 Garza Garcia, N.L.  Mexico  Age: 62	Class III Director	Term expires 2008, Director since 2005.	Since 2003, Mr. Clariond has been Chairman of the Board and Chief Executive Officer of Grupo IMSA, S.A., a manufacturer of steel, aluminum and plastic products for the construction industry. Prior to that time he was the Chief Executive Officer of Grupo IMSA, S.A. (since 1981). He also acts as Vice Chairman of the World Business Council for Sustainable Development and as Chairman of the Mexico - United States Business Committee of the Mexican Business Council for Foreign Trade, Investment & Technology.	Director, Grupo Industrial Saltillo S.A. (manufacturer of metal products, construction products and cooking materials); Director, Proeza, S.A. (automotive parts and technological services); Director, Chaparral Steel Company (steel producer); Director, Navistar International Corp. (truck and engine manufacturer); Director, Johnson Controls, Inc. (automotive components, air conditioning, controls); Director, Grupo Financiero Banorte S.A. (banking).
			Mr. Clariond additionally  serves on the boards of other U.S. and Mexican corporations, non-profit organizations and educational institutions.	

Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length	Principal Occupation	Other Directorships
		of Time Served	for Past Five Years and Other Directorships	Held by Director
<p>Emilio Carrillo Gamboa</p> <p>Bld. Manuel Avila Camacho No. 1, Ste. 609</p> <p>Polanco 011009 México, D.F.</p> <p>México</p> <p>Age: 68</p>	<p>Chairman of the Board; Class III Director</p>	<p>Term expires 2008; Director 1981-1987 and since 2002.</p>	<p>Mr. Carrillo Gamboa served as a director of the Fund from inception of the Fund in 1981 to 1987. He resigned as director in 1987 to become Mexico's Ambassador to Canada. Mr. Carrillo Gamboa was reelected as a Director of the Fund in 2002.</p> <p>Mr. Carrillo Gamboa is a prominent lawyer in Mexico with extensive business experience and has been a partner of the Bufete Carrillo Gamboa, S.C. law firm since 1989. He has also served or currently serves on the boards of many Mexican charitable organizations.</p>	<p>Chairman of the Board; Holcim - Apasco (cement company); Director, ICA (Sociedad Controladora, S.A. de C.V. (construction company); Director, Grupo Modelo, S.A. de C.V. (beer brewing); Director, Grupo Mexico S.A. de C.V. (copper mining and rail transportation); Director, Kimberly-Clark de México, S.A. de C.V. (consumer products); Director, Sanluis Corporación, S.A. de C.V. (automotive parts); Director, Southern Copper Corporation (copper mining); Director, Gasoductos de Chihuahua, S. de R.L. de C.V. (public utility-gas transportation); Director, Innova, S. de R.L. de C.V. (DTH television); Director, Bank of Tokyo Mitsubishi (Mexico) S.A. (banking).</p>

\* There are no other funds in the Fund Complex. Audit Committee, Contract Review Committee and Nominating and Corporate Governance Committee member. Member or Alternate Member of the Valuation Committee.

*Officers Who Are Not Directors*

Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s)
			During Past Five Years
<p>Samuel García-Cuéllar</p> <p>Creel, García-Cuéllar y Müggenburg, S.C.,</p> <p>Paseo de los Tamarindos 60</p> <p>3er piso</p> <p>Bosques de las Lomas</p> <p>05120 México, D.F.</p> <p>México</p>	<p>Secretary</p>	<p>Since 1981.</p>	<p>Mr. García-Cuéllar is a partner of Creel, García-Cuéllar y Müggenburg, S.C., Mexican counsel to the Fund; Director, MexDer Mercado Mexicano de Derivados (futures and options) (since 2001); Director, GE Capital Bank, S.C. Institución de Banca Múltiple, GE Capital Grupo Financiero (bank) (since 2002); Director, GE Capital Grupo Financiero, S.A. de C.V. (financial group) (since 2002).</p>

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Age: 63

Alberto Osorio Morales

Aristóteles 77, 3<sup>rd</sup> Floor

Col. Polanco

11560 México, D.F.

México

Treasurer

(formerly, Vice  
President of  
Finance)

Since 2002.

From 1999 to  
2002.

Mr. Osorio currently serves as Director of Finance of the Fund's investment adviser, Impulsora del Fondo México, S.C. and has been an employee of the Adviser since 1991.

Age: 37

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Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years
<p>Carlos H. Woodworth Ortiz</p> <p>Aristóteles 77, 3rd Floor</p> <p>Col. Polanco</p> <p>11560 México, D.F.</p> <p>México</p>	<p>Vice-President of Corporate Governance and Chief Compliance Officer</p> <p>(formerly, Treasurer)</p>	<p>Since 2002.</p> <p>From 1992 to 2002.</p>	<p>Mr. Woodworth has served on the Board of Directors of the Fund's investment adviser, Impulsora del Fondo México, S.C., as well as Deputy Director of the Adviser since 1981.</p>
<p>Age: 62</p> <p>Eduardo Solano Arroyo</p> <p>Aristóteles 77, 3rd Floor</p> <p>Col. Polanco</p> <p>11560 México, D.F.</p> <p>México</p>	<p>Investor Relations Vice President</p>	<p>Since 1997.</p>	<p>Mr. Solano has served as Director of Economic Research of the Fund's investment adviser, Impulsora del Fondo México, S.C. since 1997 and has been an employee of the Adviser since 1991.</p>
<p>Age: 37</p> <p>Sander M. Bieber</p> <p>1775 I Street, N.W.</p> <p>Washington, DC 20006</p>	<p>Assistant Secretary</p>	<p>Since 1989.</p>	<p>Partner of Dechert LLP, U.S. counsel to the Fund and the Independent Directors.</p>
<p>Age: 55</p>			

## The Mexico Fund, Inc.

## Schedule of Investments as of October 31, 2005

Industries	Shares Held	Common Stock (96.90%)	Series	Value (Note 1)	Percent of Net Assets
<b>Cement Industry</b>	6,192,152	Cemex, S.A. de C.V.	CPO \$	32,224,658	6.03%
	4,902,900	Grupo Cementos de Chihuahua, S.A de C.V.	*	13,355,387	2.50
				45,580,045	8.53
<b>Communications</b>	15,281,000	América Móvil, S.A. de C.V.	A	19,849,135	3.71
	37,293,300	América Móvil, S.A. de C.V.	L	48,856,757	9.14
	(a) 8,798,100	América Telecom, S.A. de C.V.	A1	35,075,915	6.56
	(a) 5,251,400	Carso Global Telecom, S.A. de C.V.	A1	10,205,118	1.91
	8,542,100	Grupo Televisa, S.A.	CPO	31,164,564	5.83
	10,185,600	Teléfonos de México, S.A. de C.V.	A	10,293,541	1.92
				155,445,030	29.07
<b>Construction</b>	(a) 2,165,305	Carso Infraestructura y Construcción, S.A de C.V.	B-1	1,614,086	0.30
	(a) 47,501,600	Empresas ICA, S.A. de C.V.	*	18,453,295	3.45
				20,067,381	3.75
<b>Financial Groups</b>	2,432,500	Grupo Financiero Banorte, S.A. de C.V.	O	20,739,748	3.88
	8,652,300	Grupo Financiero Inbursa, S.A. de C.V.	O	13,316,538	2.49
				34,056,286	6.37
<b>Food and Beverages</b>	901,700	Coca-Cola Femsa, S.A. de C.V.	L	2,312,416	0.43
	3,186,817	Fomento Económico Mexicano, S.A. de C.V.	UBD	21,639,993	4.05
	5,031,100	Gruma, S.A. de C.V.	B	13,065,551	2.45
	3,159,300	Grupo Bimbo, S.A. de C.V.	A	10,471,733	1.96
	3,209,500	Grupo Modelo, S.A. de C.V.	C	9,852,540	1.84
				57,342,233	10.73
<b>Holding Companies</b>	2,532,700	Alfa, S.A. de C.V.	A	14,718,529	2.75
	(a) 5,803,566	Desc, S.A. de C.V.	B	1,442,054	0.27
	7,870,400	Grupo Carso, S.A. de C.V.	A1	16,805,151	3.14
	2,646,600	Grupo Imsa, S.A. de C.V.	UBC	6,502,582	1.22
	(a) 3,200,000	Mexichem, S.A de C.V.	*	4,005,303	0.75
	(a) 5,174,300	Impulsora del Desarrollo y el Empleo en América Latina S.A. de C.V.	B-1	3,881,073	0.73
				47,354,692	8.86
<b>Housing</b>	2,028,400	Consortio ARA, S.A. de C.V.	*	7,486,821	1.40
	(a) 10,265,700	Corporación Geo, S.A. de C.V.	B	31,751,648	5.94
	(a) 5,195,982	Sare Holding, S.A. de C.V.	B	5,347,395	1.00
	(a) 4,284,000	Urbi Desarrollos Urbanos, S.A de C.V.	*	27,406,288	5.13
				71,992,152	13.47
<b>Mining Industry Pulp and Paper</b>	6,712,353	Grupo México, S.A. de C.V.	B	12,950,858	2.42
	3,292,880	Kimberly-Clark de México, S.A. de C.V.	A	10,932,812	2.04

## The Mexico Fund, Inc.

## Schedule of Investments as of October 31, 2005 (Continued)

Industries	Shares Held	Common Stock (Continued)	Series	Value (Note 1)	Percent of Net Assets
<b>Retail Stores</b>	2,662,113	Alsea, S.A. de C.V.	* \$	6,669,043	1.25%
	7,934,915	Wal-Mart de México, S.A. de C.V.	V	38,748,711	7.25
				45,417,754	8.50
<b>Service Steel</b>	4,419,200	Grupo Aeroportuario del Sureste, S.A. de C.V.	B	14,385,539	2.69
(a)	1,221,000	Industrias CH, S.A. de C.V.	B	2,547,123	0.47
		<b>Total Common Stock</b> (Identified cost \$250,893,332)		518,071,905	96.90
<b>Securities Repurchase Agreements</b>		<b>Short-Term Securities (3.09%)</b>			
		BBVA Bancomer, S.A., 8.95%, dated 10/28/05, due 11/01/05 repurchase price \$9,744,787, collateralized by Bonos del Gobierno Federal. Value of collateral \$9,742,405		9,735,106	1.82
		BBVA Bancomer, S.A., 8.98%, dated 10/31/05, due 11/04/05 repurchase price \$6,800,130, collateralized by Bonos del Gobierno Federal. Value of collateral \$6,793,352		6,793,352	1.27
		<b>Total Short-Term Securities</b> (Identified cost \$16,528,458)		16,528,458	3.09
		<b>Total Investments</b> (Identified cost \$267,421,790)		534,600,363	99.99
		<b>Other Assets in Excess of Liabilities</b>		53,990	.01
		<b>Net Assets</b> Equivalent to \$31.65 per share on 16,894,668 shares of capital stock outstanding (Note 5)		\$ 534,654,353	100.00%

(a) Shares of these securities are currently non-income producing. Equity investments that have not paid dividends within the last twelve months are considered to be non-income producing.

See Notes to Financial Statements.

**The Mexico Fund, Inc.**

**Statement of Assets and Liabilities as of October 31, 2005**

<b>Assets:</b>		
Investments:		
Securities, at value:		
Common stock (identified cost \$250,893,332)	\$ 518,071,905	
Short term securities (identified cost \$16,528,458)	16,528,458	
	<hr/>	
Total investments (identified cost \$267,421,790)		\$ 534,600,363
Cash		10,324
Receivables from securities sold		582,868
Interest receivable		11,255
Prepaid expenses		84,130
		<hr/>
Total assets		535,288,940
		<hr/>
<b>Liabilities:</b>		
Payable to Investment Adviser (Notes 2 and 3)		434,887
Accrued expenses and other liabilities		199,700
		<hr/>
Total liabilities		634,587
		<hr/>
<b>Net Assets</b> Equivalent to \$31.65 per share on 16,894,668 shares of capital stock outstanding		<b>\$ 534,654,353</b>
		<hr/>
<b>Composition of Net Assets:</b>		
Common Stock		\$ 16,894,668
Additional paid-in capital		208,525,595
Accumulated net investment income		10,556,280
Undistributed net realized gain on investments		31,373,026
Unrealized appreciation of investments and translation of assets and liabilities in foreign currency		267,304,784
		<hr/>
		<b>\$ 534,654,353</b>
		<hr/>

See Notes to Financial Statements.

**The Mexico Fund, Inc.****Statement of Operations For the Year Ended October 31, 2005****Net Investment Income:**

Income:	
Dividends	\$ 8,167,026
Interest	2,436,673
	<hr/>
Total income	\$ 10,603,699
Expenses:	
Investment advisory fee	4,254,429
Administrative services	487,917
Legal fees	474,778
Value-added taxes	465,793
Directors fees	203,500
Insurance	159,143
Audit, tax and consulting fees	140,314
Printing, distribution and mailing of stockholder reports	100,438
Directors and Officers expenses	74,242
Stockholders information	62,919
Miscellaneous	62,603
Custodian fees	52,567
Stock exchange fees	25,000
Transfer agent and dividend disbursement fees	21,000
	<hr/>
Operating expenses	6,584,643
	<hr/>
Net investment income	4,019,056
<b>Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions:</b>	
Net realized gain on investments and foreign currency transactions:	
Net realized gain on investments	65,368,901
Net realized gain from foreign currency transactions	2,396,541
	<hr/>
Net realized gain on investments and foreign currency transactions	67,765,442
Increase in net unrealized gain on investments and translation of assets and liabilities in foreign currency:	
Increase in net unrealized gain on investments	115,761,794
Increase in net unrealized gain on translation of assets and liabilities in foreign currency	136,241
	<hr/>
Increase in net unrealized gain on investments and translation of assets and liabilities in foreign currency	115,898,035
	<hr/>
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 187,682,533</b>
	<hr/>

See Notes to Financial Statements.

**The Mexico Fund, Inc.**

	For the Year Ended October 31, 2005	For the Year Ended October 31, 2004
<b>Statement of Changes in Net Assets</b>		
<b>Increase (Decrease) in Net Assets:</b>		
<b>From Operations</b>		
Net investment income	\$ 4,019,056	\$ 467,781
Net realized gain on investments and foreign currency transactions	67,765,442	24,967,261
Increase in net unrealized gain on investments and translation of assets and liabilities in foreign currency	115,898,035	76,172,014
	<hr/>	<hr/>
Net increase in net assets resulting from operations	187,682,533	101,607,056
Dividends to stockholders from net investment income	(2,493,484)	
Dividends to stockholders from net realized gain on investments	(10,836,920)	(4,755,251)
	<hr/>	<hr/>
	174,352,129	96,851,805
	<hr/>	<hr/>
<b>From Capital Share Transactions:</b>		
Net increase (decrease) in capital stock (Note 5)	(92,437)	74,696,617
Repurchase of stock, at cost (Note 7)	(49,978,588)	(30,937,417)
	<hr/>	<hr/>
	(50,071,025)	43,759,200
	<hr/>	<hr/>
Total increase in net assets	124,281,104	140,611,005
<b>Net Assets:</b>		
Beginning of year	410,373,249	269,762,244
	<hr/>	<hr/>
End of year (including undistributed net investment income of \$10,556,280 and \$0, respectively)	\$ 534,654,353	\$ 410,373,249
	<hr/>	<hr/>

See Notes to Financial Statements.

**The Mexico Fund, Inc.**

For the Year Ended October 31,

**Financial Highlights****Per Share Operating Performance:**

	2005	2004	2003	2002	2001
Net asset value, beginning of period	\$ 21.92	\$ 17.36	\$ 15.46	\$ 18.98	\$ 20.84
Net investment income (Note 1)*	0.23	0.03	0.03	0.15	0.23
Net gain (loss) on investments and translation of foreign currency (Note 1)*	10.20	6.72	3.63	(1.30)	(2.31)
Total from investment operations*	10.43	6.75	3.66	(1.15)	(2.08)
<b>Less Dividends:</b>					
Dividends to stockholders from net investment income	(0.13)		(0.45)	(0.13)	(0.13)
Dividends to stockholders from net realized gain on investments	(0.58)	(0.31)	(1.34)	(2.67)	(0.05)
Total dividends	(0.71)	(0.31)	(1.79)	(2.80)	(0.18)
<b>Capital Share Transactions:</b>					
Effect on NAV of stock repurchased	0.01	0.01	0.06	0.43	0.40
Capital charge resulting from issuance of fund shares		(1.89)	(0.03)		
Total capital share transactions		(1.88)	0.03	0.43	0.40
Net asset value, end of period	\$ 31.65	\$ 21.92	\$ 17.36	\$ 15.46	\$ 18.98
Market value per share, end of period	\$ 28.10	\$ 18.65	\$ 15.36	\$ 14.58	\$ 16.70
Total investment return based on market value per share**	55.64%	27.39%	22.49%	2.14%	6.64%
<b>Ratios to Average Net Assets:</b>					
Gross Expenses	1.38%	1.64%	1.92%	1.46%	1.07%
Expenses, net of reimbursement	1.38%	1.64%	1.92%	1.37%	1.07%
Net investment income, net of expense reimbursement	0.84%	0.15%	0.15%	0.83%	1.12%
<b>Supplemental Data:</b>					
Net assets at end of period (in 000 s)	\$ 534,654	\$ 410,373	\$ 269,762	\$ 308,763	\$ 862,977
Portfolio turnover rate	29.24%	26.84%	28.99%	43.36%	29.69%

\* Amounts were computed based on average shares outstanding during the period.

\*\* Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the last business day of each period reported. Dividends and distributions, if any, are assumed to be reinvested at the lower of the net asset value or the closing market price on the dividend/distribution day. If the fiscal 2003 distribution were taken in stock, which was issued at \$12.08 per share, the total return would have been 20.99% for that year. For fiscal 2004, the total return was calculated assuming a sale of the rights received on September 22, 2004 and reinvested in stock at the closing market price of that date.

See Notes to Financial Statements.

**The Mexico Fund, Inc.**

**Notes to Financial Statements**

**October 31, 2005**

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**1. Operations and Significant Accounting Policies:**

The Mexico Fund, Inc. (the Fund) is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a closed-end management investment company. On October 16, 2000, the Fund received stockholder approval to convert from a diversified to a non-diversified investment company under the 1940 Act. The investment objective of the Fund is to seek long term capital appreciation through investment in securities, primarily equity, listed on the Mexican Stock Exchange.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund.

*Valuation of investments* Investments traded on the Mexican Stock Exchange are valued at the closing price reported by the Mexican Stock Exchange. The closing price represents the weighted average for the last ten minutes of operations in any business day. Short-term securities are carried at cost, plus accrued interest, which approximates market value. All other securities are valued in accordance with methods determined by the Board of Directors. If the Board of Directors believes that the price of a security obtained under the Fund's valuation procedures does not represent the amount that the Fund reasonably expects to receive on a current sale of the security, the Fund will value the security based on a method that the Board believes accurately reflects fair value.

*Security transactions and investment income* Security transactions are recorded on the date which the transactions are entered into (the trade date). Dividend income is recorded on the ex-dividend date and interest income is recorded as earned.

*Foreign Currency* The market value of Mexican securities, currency holdings and other assets and liabilities denominated in Pesos ( Ps. ) was recorded in the financial statements after being translated into U.S. dollars based on the open market exchange rate prevailing in Mexico City at the end of the period. The open market exchange rate at October 31, 2005 was Ps. 10.7857 to \$1.00.

The identified cost of portfolio holdings is translated at approximate rates prevailing when acquired. Income and expense amounts are translated at approximate rates prevailing when earned or incurred.

The Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities during the year. Accordingly, the net realized and unrealized gain on investments presented in the accompanying financial statements include the effects of both such changes.

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Reported net realized foreign exchange gains or losses arise from sales of short-term securities in exchange of cash, payment of services or foreign currency denominated assets, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded by the Fund, and the U.S. dollar equivalent of the amount actually received or paid.

Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in common stocks, resulting from changes in the exchange rate.

*Repurchase Agreements* The Fund enters into repurchase agreements with approved institutions. The Fund's repurchase agreements are fully collateralized by Mexican or U.S. Government securities. The Fund takes possession of the collateral and the Fund's investment advisor monitors the credit standing of repurchase agreement counterparties. It is the Fund's policy that the fair value of the collateral is at least equal to the principal amount of the repurchase transaction, including accrued interest, at all times. If the counterparty defaults, and the fair value of the collateral declines, realization of the collateral by the Fund may be delayed or limited.

*Realized gains and losses on investments* Realized gains and losses on investments are determined on the identified cost basis.

*Taxes* No provision has been made for U.S. income or excise taxes for the year ended October 31, 2005 on net investment company taxable income or net long-term capital gains as defined by the Internal Revenue Code (the Code), since the Fund intends to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of such income to its stockholders.

Dividends to stockholders from net investment income are determined based on Federal income tax regulations, whereas the corresponding net investment income as reflected in the accompanying financial statements, is presented in accordance with accounting principles generally accepted in the United States. Net realized gains from security transactions, are distributed annually to stockholders.

The provision for value-added taxes represents Mexican value-added tax on certain services rendered by Mexican corporations to the Fund. Most of these taxes were originated from the services received by the Fund from its Investment Adviser and Administrator. As a result of certain changes in the corporate structure of the Fund's investment Adviser, since July 2005 the Fund ceased to pay the value added tax on such services.

*Dividends to stockholders* Cash dividends are recorded by the Fund on the ex-dividend date. Dividends paid to stockholders may be subject to Mexican withholding taxes.

*Risks of Investment in Mexican Securities* Investing in Mexican securities involves certain considerations not typically associated with investing in securities of U.S. issuers, including (1) lesser liquidity and smaller market capitalization of the Mexican securities markets, (2) currency fluctuations; (3) higher rates of inflation and domestic interest rates and (4) less stringent disclosure requirements, less available information regarding Mexican public companies and less active regulatory oversight of Mexican public companies.

The Mexican Stock Exchange is a concentrated market. A large percentage of the value of the Mexican securities market is currently represented by certain industry sectors, in particular, the communications industry. Also, a certain individual has a controlling interest in companies representing over 30% of the market capitalization of the Mexican Stock Exchange. The value of the Mexican Stock Exchange may be subject to greater volatility than markets that are less concentrated. Any factors or events

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which impact this individual could have negative repercussions for the issuers in which he holds a controlling interest, including certain Fund investments and the Mexican Stock Exchange as a whole.

**2. Investment Advisory Agreement:**

The Fund has a management contract with Impulsora del Fondo México, S.C. (the Adviser), a Mexican company registered under the U.S. Investment Advisers Act of 1940. The Adviser furnishes investment research and portfolio management services consistent with the Fund's stated investment policies. The Fund pays to the Adviser a monthly fee at the annual rate of 1.00% on the first \$200 million of average daily net assets, 0.90% on the excess over \$200 million up to \$400 million and 0.60% on the excess over \$400 million.

**3. Administrative Services Agreement:**

The Fund has entered into an Administrative Services Agreement with the Adviser, which provides for certain services to be performed by the Adviser, including among other administrative activities, the determination and publication of the net asset value of the Fund, the maintenance of the Fund's books and records in accordance with applicable U.S. and Mexican Laws and assistance in the preparation and filing of annual reports and tax returns. Prior to March 9, 2005, the Fund paid to the Adviser a monthly fee at the annual rate of 0.07% of average daily net assets, with a minimum amount of \$350,000 per year. On March 9, 2005 the Fund's Board of Directors approved a modification in the fee structure of the contract with the Adviser. Accordingly, starting March 9, 2005, the Fund pays to the Adviser a monthly fee at the annual rate of 0.11% of average daily net assets, with a minimum amount of \$450,000 per year. Additionally, the Adviser receives a fee of \$75,000 per repurchase offer made by the Fund under the program, which are recorded as part of the total expenses of each offer. See Note 7.

**4. Purchases and Sales of Investments:**

Purchases and sales of investments, excluding short-term securities, for the year ended October 31, 2005 were as follows:

Purchases	
Common Stock	\$ 134,441,838
<b>Total Purchases</b>	<b>\$ 134,441,838</b>
Proceeds from Investments Sold	
Common Stock	\$ 131,034,971
<b>Total Sales</b>	<b>\$ 131,034,971</b>

Included in proceeds from investments sold, is \$45,067,907 representing the value of securities disposed of in payment of redemptions in-kind, resulting in realized gains of \$23,518,649. Pursuant to a private letter ruling from the Internal Revenue Service, granted to the Fund, these gains are not recognized by the Fund for tax purposes. As a result, net realized gains differ for financial statement and tax purposes. These realized gains have been reclassified from undistributed realized gains on investments to additional paid in capital in the accompanying financial statements.

**5. Capital Stock:**

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At October 31, 2005, there were 150,000,000 shares of \$1.00 par value common stock authorized, of which 16,894,668 shares were outstanding.

The Fund offers a Dividend Reinvestment Plan ( Plan ) to its stockholders. Fund stockholders are automatically enrolled as participants in the Plan unless they notify the Fund s transfer agent otherwise.

In connection with a rights offering by the Fund, stockholders of record on September 24, 2004 were issued one transferable right for each share of common stock owned. The rights entitled the holders to purchase one new share for every three rights held at a subscription price equal to 90% of the lower of (i) the average of the last reported sale prices of a share of the Fund s common stock on the NYSE on the expiration date (October 22, 2004)

and the four preceding trading days and (ii) the net asset value per share on the expiration date. On October 29, 2004, the Fund issued 4,694,962 shares of common stock at \$16.65 per share. Rights offering costs of \$590,000 (\$0.03 per share) and dealer manager commissions of \$2,933,245 (\$0.16 per share) were charged to paid in capital of common stockholders during 2004, resulting in net proceeds to the Fund of \$74,696,617. Additional rights offering costs of \$92,437 were charged to paid in capital during 2005. The net asset value per share of the Fund's common stockholders was reduced by approximately \$1.89 per share as a result of this issuance, which includes the effect of the dealer manager commissions and rights offering costs.

## 6. Distributions to Stockholders:

The tax character of distributions paid during the fiscal year ended October 31, 2005 and October 31, 2004 were as follows:

	2005	2004
Distributions paid from:		
Ordinary income	\$ 2,493,484	\$
Long term capital gains	10,836,920	4,755,251
	<u>                    </u>	<u>                    </u>
Total distributions paid	<u>\$ 13,330,404</u>	<u>\$ 4,755,251</u>

As of October 31, 2005, the components of accumulated earnings (deficit) on a tax basis were as follows:

Accumulated capital gains	\$ 34,851,533
Undistributed ordinary income	14,294,756
Unrealized appreciation	260,087,801
	<u>                    </u>
Total accumulated earnings	<u>\$ 309,234,090</u>

At October 31, 2005, the cost of investments for federal income tax purposes was \$274,638,773. Gross unrealized appreciation of investments was \$260,776,720 and gross unrealized depreciation of investments was \$815,130 resulting in net unrealized appreciation on investments of \$259,961,590 excluding foreign currency transactions. The difference between book-basis and tax basis unrealized appreciation/(depreciation) is attributable primarily to different book and tax treatment on corporate reorganizations to securities held by the Fund.

## 7. Stock Repurchase Program:

On March 6, 2002, the Board of Directors of the Fund announced a policy contemplating in-kind repurchase offers at no less than 98% of net asset value for up to 100% of the Fund's outstanding shares.

The repurchases carried out by the Fund during the years ended October 31, 2004 and 2005 were as follows:

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An offer for up to 5% of the Fund's outstanding shares commenced on December 19, 2003 and expired on January 13, 2004. The amount paid for redeemed shares was 98% of the Fund's net asset value on January 20, 2004 and was paid on January 27, 2004. A total of 1,765,196 shares participated in the offer, of which 777,001 were repurchased by the Fund equivalent to a total repurchase price of \$15,589,528, including \$235,000 of expenses related to the offer.

An offer for up to 5% of the Fund's outstanding shares commenced on July 13, 2004 and expired on August 3, 2004. The amount paid for redeemed shares was 98.25% of the Fund's net asset value on August 10, 2004 and was paid on August 17, 2004. A total of 2,295,107 shares participated in the offer, of which 738,148 were repurchased by the Fund equivalent to a total repurchase price of \$15,347,889, including \$237,925 of expenses related to the offer.

An offer for up to 5% of the Fund's outstanding shares, commenced on December 22, 2004 and expired on January 18, 2005. The amount paid for redeemed shares was 98.75% of the Fund's net asset value on January 24, 2005 and was paid on January 31, 2005. A total of 5,453,298 shares

participated in the offer, of which 935,990 were repurchased by the Fund equivalent to a total repurchase price of \$22,864,927, including \$203,251 of expenses related to the offer.

An offer for up to 5% of the Fund's outstanding shares, commenced on July 6, 2005 and expired on August 3, 2005. The amount paid for redeemed shares was 98.75% of the Fund's net asset value on August 10, 2005 and was paid on August 17, 2005. A total of 5,079,741 shares participated in the offer, of which 889,190 were repurchased by the Fund equivalent to a total repurchase price of \$27,113,661 including \$261,132 of expenses related to the offer.

The Fund has publicly announced that its next repurchase offer shall occur in January 2006.

**8. Investments:**

Certain members of the Board of Directors of the Fund are also members of Boards of Directors of certain companies held in the Fund's portfolio.

**9. Commitments and Contingencies:**

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties or which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

## **Report of Independent Registered Public Accounting Firm**

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To the Board of Directors and Stockholders of

The Mexico Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Mexico Fund, Inc. (the Fund ) at October 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the four years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements ) are the responsibility of the Fund s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion. The financial highlights for the year ended October 31, 2001, were audited by other independent auditors who have ceased operations. Those independent auditors expressed an unqualified opinion on those highlights in their report dated November 16, 2001.

**PricewaterhouseCoopers LLP**

**New York, New York**

**December 6, 2005**

**Tax Information (Unaudited)**

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In order to meet certain requirements of the Internal Revenue Code, we are advising you that the Fund designates \$11,929,779 as long term capital gain distributions made during the fiscal year ended October 31, 2005, subject to the maximum tax rate of 15%. Of this amount \$10,835,957 was attributable to gains from the fiscal year ended October 31, 2004.

Under Section 854(b)(2) of the Internal Revenue Code (the Code), the Fund designates 100% of the ordinary income dividends as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended October 31, 2005. The information reported herein may differ from the information and distributions taxable to the shareholders for the calendar year ending December 31, 2005. The information necessary to complete your income tax returns will be included with your Form 1099-DIV to be received under separate cover in January 2006.

**Item 2. Code of Ethics.**

(a) The Board of Directors of the Registrant adopted a Code of Ethics on September 17, 2003 applicable to the principal executive officer and senior financial officers of the Registrant which is designed to deter wrongdoing and to promote:

(A) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(B) full, fair, accurate, timely and understandable disclosure in reports and documents the Registrant files with, or submits to, the SEC or in other public communications made by the Registrant;

(C) compliance with applicable governmental laws, rules and regulations;

(D) prompt internal reporting of violations of the Code of Ethics to an appropriate person or persons identified in the Code of Ethics; and

(E) accountability for adherence to the Code of Ethics.

(c) During the period covered by this report, no amendments were made to the code of ethics adopted in 2(a) above.

(d) During the period covered by this report, no implicit or explicit waivers to the provisions of the code of ethics adopted in 2(a) above were granted.

(e) Not applicable.

(f) The Registrant has posted the text of the code of ethics adopted in 2(a) above on its Internet website at [www.themexicofund.com](http://www.themexicofund.com) under the heading Corporate Governance.

**Item 3. Audit Committee Financial Expert.**

The Board of Directors of the Registrant has determined that Robert L. Knauss qualifies as the Registrant's audit committee financial expert as such term is interpreted in the Instructions to this Item 3. Mr. Knauss is a member of the Registrant's audit committee and is an independent director as interpreted under this Item 3.

**Item 4. Principal Accountant Fees and Services.**

(a) - (d) Below is a table reflecting the fee information requested in Items 4(a) through (d).

	<u>Audit Fees</u>	<u>Audit-Related Fees</u>	<u>Tax Fees</u>	<u>All Other Fees</u>
Fiscal Year 2004	\$ 147,500(1)	\$ 0	\$ 17,500	\$ 0
Fiscal Year 2005	\$ 105,000	\$ 0	\$ 19,000	\$ 0

(1) Includes \$45,000 relating to the Fund's rights offering.

All fees described above were pre-approved by the Registrant's Audit Committee.

(e)(1) Below are the Registrant's Pre-Approval Policies and Procedures.

**PRE-APPROVAL POLICIES AND PROCEDURES**

as adopted by the

**AUDIT COMMITTEE**

of

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**THE MEXICO FUND, INC. ( FUND )**

The Sarbanes-Oxley Act of 2002 ( Act ) and rules adopted by the Securities and Exchange Commission ( SEC ) require that the Fund s Audit Committee pre-approve all audit services and non-audit services provided to the Fund by its independent accountant ( Auditor<sup>1</sup> The Act and such SEC rules also require that the Fund s Audit Committee pre-approve all non-audit services provided by the Auditor to (i) the Fund s investment adviser, and (ii) any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the Fund (these entities are known as Service Affiliates ) if the engagement for such entities relates directly to the operations and financial reporting of the Fund ( Covered Non-Audit

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<sup>1</sup> The term Auditor, as used in these procedures, means the firm engaged to provide the Fund with services listed in Appendix A.

Services <sup>3</sup>. At this time, the Fund has only one Service Affiliate, Impulsora del Fondo México, SC ( Impulsora ) so references to Service Affiliates throughout the procedures encompasses only Impulsora at this time.

The following policies and procedures govern the ways in which the Fund's Audit Committee will consider the pre-approval of audit and non-audit services that the Auditor provides to the Fund, and Covered Non-Audit Services that the Auditor proposes to provide to Service Affiliates.<sup>2</sup> These policies and procedures do not apply in the case of audit services that the Auditor provides to Service Affiliates, nor do they apply to any services that an audit firm other than the Auditor provides to such entities.

These policies and procedures comply with applicable legal requirements for pre-approval, and also provide a mechanism by which management of the Fund and any Service Affiliates may request and secure pre-approval of audit and non-audit services in an orderly manner with minimal disruption to normal business operations.

The following policies and procedures are adopted by the Audit Committee of the Fund.

**A. General**

1. The Audit Committee must pre-approve all audit services and non-audit services that the Auditor provides to the Fund.
2. The Audit Committee must pre-approve any engagement of the Auditor to provide Covered Non-Audit Services to any Service Affiliate during the period of the Auditor's engagement to provide audit services to the Fund.

**B. Pre-Approval of Audit Services to the Fund**

1. The Audit Committee shall approve the engagement of the Fund's Auditor for each fiscal year (the Engagement). The approval of the Engagement shall not be delegated to a Designated Member. (See Section D below.) In approving the Engagement, the Audit Committee shall obtain, review and consider information concerning the proposed Auditor sufficient to enable the Audit Committee to make a reasonable evaluation of the Auditor's qualifications and independence. The Audit Committee also shall consider the Auditor's proposed fees for the Engagement, in light of the scope and nature of the audit services that the Fund will receive.

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<sup>2</sup> Examples of types of non-audit services that may be provided to the Fund or a Service Affiliate are listed in Appendix B. **Note that** applicable law also prohibits the provision of certain services by the Auditor to entities in the investment company complex. The investment company complex includes Service Affiliates and other entities. These prohibited services are listed in Appendix C. Investment Company Complex Entities are also listed in Appendix C.

<sup>3</sup> Unless otherwise indicated by the context, the term non-audit services herein includes Covered Non-Audit Services for Impulsora, as well as non-audit services for the Fund.

2. The Audit Committee shall report to the Fund's board of directors ( Board ) regarding its approval of the Engagement and of the proposed fees for the Engagement, and the basis for such approval.
3. Unless otherwise in accordance with applicable law, the Engagement, in any event, shall require that the Auditor be selected by the vote, cast in person, of a majority of the members of the Board who are not interested persons of the Fund (as defined in Section 2(a)(19) of the Investment Company Act of 1940) ( Independent Directors ).

**C. Pre-Approval of Non-Audit Services to the Fund and to Service Affiliates by Types or Categories of Services**

1. The Audit Committee may pre-approve the provision of types or categories of non-audit services for the Fund and Covered Non-Audit Services for Service Affiliates pursuant to this Section C.
2. Annually, at such time as the Audit Committee considers the Engagement of the Auditor, management of the Fund and of any Service Affiliates, in consultation with the Auditor, shall provide to the Audit Committee, for its consideration and action, the following: (a) a list of those types of non-audit services, if any, that the Fund expects to request from the Auditor during the fiscal year; and (b) a list of those types of Covered Non-Audit Services that Services Affiliates expect to request from the Auditor during the fiscal year.
3. The lists submitted to the Audit Committee shall describe the types of non-audit services in reasonable detail and shall include an estimated budget (or budgeted range) of fees where possible and such other information as the Audit Committee may request.
4. The Audit Committee, after appropriate consideration of such information as it deems relevant, may pre-approve a non-audit service that is not a prohibited service (see Appendix C) if it specifically finds that the provision of such service is consistent with, and will not impair, the ongoing independence of the Auditor (the Standard for Pre-Approval ). In connection with any such pre-approval, the Audit Committee may set such limits on fees and other conditions as it believes to be appropriate.
5. The Audit Committee's pre-approval of the types of non-audit services submitted pursuant to this Section C shall constitute authorization for management of the Fund to utilize the Auditor for services qualifying within the types of non-audit services so pre-approved, if needed or desired during the fiscal year, subject to such conditions as may have been set by the Audit Committee.
6. Fund management will distribute a list of the types of non-audit services pre-approved by the Audit Committee pursuant to this Section C to management of the Service Affiliates and the appropriate partners of the Auditor. Periodically, the Auditor will discuss with the Audit Committee those non-audit services that have been or are being provided pursuant to this Section C.

**D. Pre-Approval of Non-Audit Services to the Fund and to Service Affiliates Project-by-Project Basis**

1. Non-audit services may be pre-approved on a project-by-project basis pursuant to this Section D, subject to the Standard for Pre-Approval in Section C.

2. The Audit Committee, from time to time, may, by resolution, designate one or more of its members who are Independent Directors (each a Designated Member ) to consider, on the Audit Committee s behalf, (i) any non-audit services proposed to be provided to the Fund that have not been pre-approved in accordance with these Procedures, (ii) any Covered Non-Audit Services proposed to be provided to any Service Affiliate, that have not been pre-approved in accordance with these Procedures and (iii) any proposed material change in the nature or cost of any non-audit service, including any Covered Non-Audit Service, previously approved. The authority delegated to the Designated Member shall be subject to such conditions as the Audit Committee may specify by resolution from time to time.
3. Management of the Fund or of Impulsora, in consultation with the Auditor, may submit either to the Audit Committee or to a Designated Member for its consideration and action, a pre-approval request identifying one or more non-audit service projects for the Fund or Covered Non-Audit Service projects for Impulsora, as well as any material changes proposed in a service that has been pre-approved. Any request so submitted shall describe the project or projects in reasonable detail and shall include an estimated budget (or budgeted range) of fees and such other information as the Audit Committee or Designated Member shall request. For any material change in the nature or cost of a pre-approved service, the request shall also describe reasons why the change is requested.
4. The Audit Committee or Designated Member, as applicable, will review the requested non-audit service or proposed material change in such service in light of the Standard for Pre-Approval in Section C. If the review is by a Designated Member, such Designated Member will either:
  - (a) pre-approve, pre-approve subject to conditions, or disapprove any such requested service, or any proposed material change in such service, whether to the Fund or to Impulsora; or
  - (b) refer such matter to the full Audit Committee for its consideration and action.

In considering any requested non-audit service or proposed material change in such service, the Designated Member shall take into account any restrictions placed by the Audit Committee on his pre-approval authority.

5. The Designated Member s pre-approval (or pre-approval subject to conditions) of a requested non-audit service or proposed material change in service pursuant to this Section D shall constitute authorization for the management of the Fund or Impulsora, as the case may be, to utilize the Auditor for the non-audit service so pre-approved. Any action by the Designated Member in approving a requested non-audit service shall be presented for ratification by the Audit Committee not later than at its next regularly scheduled meeting.

**E. Covered Non-Audit Services Provided to Covered Entities Pursuant to Waiver**

**Note: It is generally expected that non-prohibited non-audit services, even when they do not involve significant fees, will be pre-approved in accordance with Section C or D.**

1. The Act provides a limited exception to the requirement that non-audit services (that are not prohibited services) must be pre-approved. This exception is designed to prevent the disqualification of the Auditor due to a minor oversight and is to be used only rarely and only if each of the following conditions is satisfied:
  - (a) The aggregate fees and costs of all non-audit services (including Covered Non-Audit Services) that, but for the limited exception provided by this Section E, would require pre-approval by the Audit Committee constitutes no more than five percent of the total fees and costs paid by the Fund and Service Affiliates to the Auditor during the fiscal year during which such non-audit services are provided;
  - (b) At the time of the engagement for such services, the Fund did not recognize that the services were non-audit services that required pre-approval; and
  - (c) Each such service is (i) brought promptly to the attention of the Audit Committee, (ii) is approved prior to the completion of the audit by the Audit Committee or a Designated Member, in accordance with the Standard for Pre-Approval set forth in Section C and (iii) is approved based upon a determination that the service is eligible for the waiver provided by this Section E.

**F. Amendment; Annual Review**

1. The Audit Committee may amend these procedures from time to time.
2. These procedures shall be reviewed annually by the Audit Committee.

**G. Recordkeeping**

1. The Fund shall maintain a written record of all decisions made by the Audit Committee or by a Designated Member pursuant to these procedures, together with appropriate supporting material.
2. In connection with the approval of any non-audit service pursuant to the *de minimis* exception provided in Section E of these procedures, a record shall be made indicating that each of the conditions for this exception has been satisfied.
3. A copy of these Procedures and of any amendments to these Procedures shall be maintained and preserved permanently in an easily accessible place. The written records referred to in paragraph 1 and 2 of this Section G shall be maintained and preserved for six years from the end of the fiscal year in which the actions recorded were taken, for at least the first two years in an easily accessible location.

As amended and restated through September 20, 2005

**AUDIT SERVICES**

For purposes of these Procedures, audit services include the following activities:

1. Annual audit of the Fund's financial statements and quarterly reviews.
2. Other procedures, including review of tax provisions, that need to be performed by the Auditor in order to provide an opinion on the Fund's financial statements, including tests performed to evaluate the Fund's internal control systems, review of information systems and procedures.
3. Preparation of the Auditor's report on the Fund's internal controls for financial reporting, and related procedures.
4. Services that generally only the Auditor can provide, such as consents, comfort letters, assistance with and review of documents filed with the SEC, and statutory audits.

**NON-AUDIT SERVICES**

For purposes of these Procedures, the following services are non-audit services. If the services would be provided to a Service Affiliate and the engagement would relate directly to the operations and financial reporting of the Fund, these services would be Covered Non-Audit Services and, if not prohibited, are subject to the pre-approval requirements of these Procedures.

Audit-Related Services (traditionally performed by the firm engaged as Auditor)

1. Audit of an employee benefit plan.
2. Due diligence procedures related to mergers and acquisitions.
3. Review of internal controls.
4. Consultations concerning financial accounting and reporting standards.

Tax Services

1. Tax compliance services, including preparation of tax returns.
2. Tax planning and advice.

Other Non-Audit Services

1. Advisory and consultation services.
2. Other non-audit services not listed above.

**PROHIBITED SERVICES**

In considering whether to pre-approve a service, the Audit Committee should be aware that the Auditor is prohibited from providing certain services to any Investment Company Complex Entity, subject to limited exceptions noted below. Investment Company Complex Entities include:

1. The Fund, its investment manager and investment adviser;
2. Any entity controlling, controlled by the Fund's investment manager or investment adviser, and any entity under common control with the Fund's investment manager or investment adviser if such entity (a) is an investment manager or investment adviser, or (b) is in the business of providing administrative, custodian, underwriting, or transfer agent services to any investment company or investment adviser; and
3. Any investment company (including entities that would be investment companies but for the exclusions provided by Section 3(c) of the Investment Company Act of 1940) advised by the Fund's investment manager or investment adviser or by an entity in paragraph 2, above.

Note: The term "investment adviser" for this purpose does not include a sub-adviser whose role is primarily portfolio management and that is subcontracted with or overseen by another investment adviser.

The following entities are Investment Company Complex Entities.

Impulsora del Fondo México, SC

The following services may not be provided by the Fund's Auditor to an Investment Company Complex Entity, subject to the exceptions noted:

1. **Bookkeeping or other services related to the accounting records or financial statements of an Investment Company Complex Entity, including;**

Maintaining or preparing the accounting records for an Investment Company Complex Entity;

Preparing an Investment Company Complex Entity's financial statements that are filed with the Securities Exchange Commission (SEC), or that form the basis that form the basis for such financial statements; or

Preparing or originating source data underlying an Investment Company Complex Entity's financial statements.

