

International Metalworkers' Federation
Route des Acacias 54 bis
1227 GENEVA

To the attention of
Mr Marcello MALENTACCHI, General Secretary

Date Geneva, August 3, 2007
CPI/cst

Re **SNTMMS / Special review on the use of funds received from Grupo Mexico**

Dear Sir,

You have represented to us that SNTMMS, member of IMF has encountered some difficulties with the Mexican Government, accusing SNTMMS's executive committee of improper use of funds received from Grupo Mexico, as part of a settlement in the acquisition, by the latter, of 3 mines belonging to the Mexican Government.

You have instructed us to perform all necessary investigation and review available documentation to understand how the funds received, amounting to US\$ 55 million, were spent. Following several months of preliminary requests, preparation of data room and review of documentation made available to us, we have achieved our investigation and present hereafter our findings.

1. Movements of funds can be summarised in the following way :

a.	Funds received	\$	55'000'000
b.	Funds blocked by Government	\$	20'492'990
c.	Funds paid to Union's workers	\$	21'832'081
d.	Funds reimbursed to the Union	\$	1'000'000
e.	Funds invested/used by SNTMMSRM	\$	<u>11'666'876</u>
	Balance (unexplained)	\$	8'113

2. Our audit work has evidenced the following :
 - a. No documents were made available to us proving that several bank accounts were indeed blocked. We have received a public notification of the blockage of funds, corresponding approximately to the above reported amount but no official correspondence from the authorities to SNTMMS was available.
 - b. Funds paid to Union's workers were traced to checks issued and bank statements on a test basis. No discrepancies were noticed. However we were not provided with the Board decisions on the allocation of funds and amounts to be paid individually.
 - c. There is no supporting evidence for the amount of \$ 1 million reimbursed to the Union for their expenses incurred during several years to obtain the payment of funds. From the discussions we had in Mexico City, the amount was estimated by the Committee as a lump sum.
 - d. Of the total of \$ 11'666'876, an amount of \$ 3'983'000 represent lawyers fees in relation with the legal proceedings to obtain the funds from Grupo Mexico; \$ 1'760'000 were spent in improving the Union's buildings in Mexico City (hotel and properties owned by the Union and used to facilitate its activities); \$ 2.9 million and \$ 2.1 million were invested in 2 lots of land in Monterrey area and finally \$ 924'000 were used mainly for media communications of the Union against the Government accusations.
 - e. Invoices, bank transfers and contracts in front of notaries, proving purchases and expenses incurred were made available to us. We did not however receive supporting evidence showing that such investments/expenses were duly discussed and approved by the Committee and were in line with approved investments criteria.

Conclusions

Based on the work performed, exchange of correspondence locally and between our colleagues from Horwath Castillo Miranda, phones conversations we had before our trip and discussions during our visit, we can conclude the following :

1. Payments were in most cases traced to supporting invoices.
2. Background information, preliminary studies and minutes of Committee meetings for such payments or investments lack in most cases, apparently due to the habit of the Committee of working in a "friendly atmosphere" and not always documenting their decision process.
3. In this respect, impossibility to prove at once how money was spent (refurbishing of Union's buildings in Mexico City) or why some investments were decided (purchase of lots of land in Monterrey area) is not in line with standard internal control procedures (Company's governance).





4. Although the Statutes of SNTMMSRM clearly state that the Committee has all freedom on how to run the Union's operations and how to invest available funds, we believe such decisions must be duly documented and the Committee must always be transparent with its actions and decision. As reported above, this was not the case in some circumstances.

Yours sincerely,

HORWATH BERNEY AUDIT S.A.

A handwritten signature in black ink, appearing to read 'Lucien ZANELLA', written over a light blue horizontal line.

Lucien ZANELLA
Director

A handwritten signature in black ink, appearing to read 'Cosimo PICCI', written over a light blue horizontal line.

Cosimo PICCI
Director